Bank Sohar SAOG

BOARD OF DIRECTORS REPORT

Dear Shareholders,

I am glad to share with you the results achieved by your Bank in the first quarter of its operation for the period ended June 30th, 2007.

The Bank was incorporated in March'2007 after the initial public offering in December'2006. On 9th April'2007, within 40 days of incorporation, the Bank had a soft launch with limited products. This was followed by a formal inauguration of the Bank on 9th May 2007 by His Excellency Dr Ali Mohammed Moosa, Deputy Chairman, Central Bank of Oman and Minister of Health.

The net loss for the period ended 30th June' 2007 is OMR 2180 K. This is arrived at after non-specific credit loss provisioning of OMR 1704K and write off of pre-incorporation and pre-commencement expenses amounting to OMR 931K. However, I am delighted to point out that, before the above adjustments, the Bank has made an operating profit of OMR 455K. This has been achieved primarily by fast ramp up in growth of customer credit arising from strategic segmentation and equal focus on lending and fee based services. Despite the sharp growth in business, the Bank managed to contain operating expenses (before pre-incorporation and pre-commencement expenses) to 72.5% of total income for the period

With only one operational branch, in a span of 80 days, the Bank built a total customer credit exposure of OMR 105.3 Mio and a customer deposit of OMR 117.6 Mio, servicing a total of 3556 customers with 5990 accounts. The savings deposits have built up by an impressive OMR 6.4 Mio. This performance translates to a market share of 2.2 % of total customer credit exposure in the private sector and 2.5 % of deposits in the private sector.

The end of the quarter also saw the launch of *Al Mumayaz* prize scheme for savings bank account holders and *Al Mumayaz* educational loans providing an opportunity for meritorious students to pursue their goals and objectives. In a bid to develop its distribution network, and get closer to its customers, during the quarter the Bank inaugurated two offsite ATM's. The Bank will be introducing four branches and two offsite ATM's in the course of next three months. The bank will continue to introduce a number of products to cater to both corporate and retail customers.

The vision of our founders is to develop a one stop financial super mall offering a wide range of products and services across various segments, each with a unique set of propositions. In order to achieve this, Bank Sohar will focus on three main pillars: People, Technology and Efficiency. The Bank has been successful in recruiting some the most talented professionals, and, as can be seen, their contribution has already started bearing fruits. The Bank has also partnered with the world's best names in technology and will benchmark themselves with the best in the world. This technology will allow the Bank to deliver the cutting edge in products and service delivery. This will enable the Bank to achieve its objective of a '*Full Service Universal Bank*'. The substantial investment in technology will be leveraged to provide best-in-class service and support, along with a wide range of innovative products across customer segments.

The immediate and aftermath of Gonu has been devastating. The total loss to the economy is estimated at OMR 1.5 Billion. The resilience of the Nation was tested and the Government and people came out in flying colours restoring the infrastructure in such a short time. The Bank in its own limited way tried to mitigate the effect on its consumers by deferring the installment payable on the personal loans by two installments. The Bank has reviewed its portfolio from a risk perspective does not anticipate any material effect on its portfolio from the cashflow and business perspective.

In catering to the needs of individuals, the underpinning strategy of retail banking is to harness technology to offer comfort through classic branch banking and reach through the most advanced interactive internet, SMS, and mobile banking facilities. The product offering will range from transaction banking and savings to asset finance, financial planning and wealth management. The Bank will focus its best efforts to make doorstep banking a reality through a hub and spoke strategy, making the customers feel the difference in the quality of service. The operational standards would beef up service level efficiencies of all the Bank's functions.

The Bank's corporate banking division has some of the most highly qualified and experienced persons in the market. The emphasis will be to partner the customers to achieve an improvement in their long term sustainable cashflow through industry expertise, supported by finance and treasury management services. The Bank would focus on the Small and Medium size segment, which has been underserved for too long. A venture funding approach would be followed and the Bank would try to channel resources from other Institutions like Specialized Banks and Pension funds into the SME sector by offering its reach and expertise.

The banking business is essentially about successfully warehousing risk. The Bank would address its risk assertion in the context of the market opportunities and its risk preference. It would be the Bank's endeavor to continually improve its capital efficiency by focusing on risk management techniques on one hand and developing learning systems for people, using robust processes and better product structuring on the other hand. The Bank would progressively implement the most modern practices in risk management. The Bank will focus its energies to ensure that the available credit is used for productive purposes which apart from mitigating risk would have an multiplier effect on the economy. The Bank will make endeavors to shore up risk mitigants at credit, market and operational levels for driving up capital efficiencies thereby improving shareholder value.

The Bank aspires to be a socially aware organization driving domestic and institutional savings to the large and small scale industrial sectors to provide the growth impetus. The Bank would also like to focus its energies on the general debt levels of the personal and small business sector. The bank will employ debt counselors to help manage individual debt levels of small business and individuals.

The performance of the Bank has been achieved in the backdrop of a robust and growing economy. The government budget surplus was around OMR 380 Mio in 2006 and which has been consistently at about 2.5% of the GDP for the last three years. With an endeavour to reduce dependency on Oil, the fledging industrial areas in the Sultanate are increasingly contributing towards an economy with a high growth trajectory. The government and private consumption saw a substantial increase in the last year. This also fuelled an increase of 24% in growth of imports. The private sector workforce increased by 19.4% increasing the spending power of the economy as a whole.

The liquidity in the economy remains strong. The growth in M2 in 2006 was more than 21%. The surge in liquidity is primarily being driven by earnings growth in the corporate and household sectors. The investments by the Government in infrastructure continue to support the growth impetus

The real cost of credit declined to 3.8% in 2006. This will continue to fuel the growth in the economy. The country achieved a GDP growth of 15.6% in 2006 with strong foreign reserves, which will provide a strong platform for an accelerated growth in 2007. The primary pillars of growth were transport and communication sector 25.4% and wholesale and retail trade grew by 19.2% Production of Basic Chemicals grew by 74% and manufacturing as a whole grew by more than 10%. The Bank looks upon Manufacturing, Trade, Services and Retail as the broad market segments to provide the impetus to its growth.

I would like to conclude by assuring you that we are committed to building a robust Financial Institution providing value added end-to-end service to its customers and building a long term sustainable business model. We acknowledge the immense help, support and guidance received from the Central Bank of Oman and the Capital Market Authority without which it would have been impossible for us to commence operations in such a short span of time. We are also thankful to the banks that have supported us in our early days and continue to collaborate with us. A very special thanks to all our staff who have worked tirelessly to achieve these results.

On behalf of the Board of Directors, I would like to express our gratitude to His Majesty Sultan Qaboos bin Said for his inspired leadership and progressive vision that continues to lead the country along the path of continued prosperity.

Hilal Hamood Al Mamary
CHAIRMAN

Bank Sohar SAOG

UNAUDITED BALANCE SHEET
As at 30 June 2007

	Notes	2007 RO'000
ASSETS		
Cash and balances with Central Banks	B1	**29,855**
Due from banks and other money market placements	B2	**21,057**
Loans and advances (net)	B3	**100,333**
Non-Trading Investments	B4	**18,809**
Equipment & fixtures	B5	**2,318**
Deferred tax asset	C7	**-**
Other assets	B6	**1,022**
		173,394
LIABILITIES		
Due to banks and other money market deposits	B7	**3,925**
Customers' deposits	B8	**117,593**
Other liabilities	B9	**2,298**
Taxation	C7	**-**
		123,816
SHAREHOLDERS' EQUITY		
Share capital	B10	**50,000**
Legal reserve	B11	**1,758**
Retained earnings		**(2,180)**
		49,578
		173,394
CONTINGENT LIABILITIES	B12	**3,258**
COMMITMENTS	B12	
Forward Sales		**10,780**
Forward Purchases		**10,783**
Capital commitments		**1,847**
Credit Related Commitments		**12,434**
RELATED PARTY INFORMATION	D1	
Due from related parties		**929**
Due to related parties		**45,436**

The financial statements were approved and authorized for issue by the Board of Directors on 22 July 2007 and signed on their behalf by:

Chairman **Deputy Chairman**

The attached notes A1 to D5 form part of these financial statements

Bank Sohar SAOG

UNAUDITED INCOME STATEMENT
Period ended 30 June 2007

	Notes	2007 RO'000
Interest income	C1	1,138
Interest expense	C2	(335)
Net interest income		803
Other operating income	C3	850
OPERATING INCOME		1,653
OPERATING EXPENSES		
Staff costs		658
Other operating expenses	C4	483
Depreciation	B5	57
		1,198
OPERATING PROFIT		455
Net Pre incorporation expense	C5	(683)
Net Pre operating expense	C6	(248)
Specific Provision for credit losses	B3	-
Non-specific provision for credit losses	B3	(1,704)
Recoveries and releases from provision for credit losses	B3	-
Recoveries from debts written off		-
Provision for impairment in investments		-
(LOSS) / PROFIT FROM OPERATIONS AFTER PROVISIONS AND RECOVERIES		(2,180)
Taxation	C7	-
NET (LOSS) / PROFIT FOR THE PERIOD		(2,180)
Basic loss per share for the period (in baizes)	C8	21.8

The attached notes A1 to D5 form part of these financial statements

UNAUDITED CASH FLOW STATEMENT

Period Ended 30 June 2007

	2007 RO'000
OPERATING ACTIVITIES	
Net (loss) / profit after taxation	**(2,180)**
Adjustments for:	
Depreciation	**60**
Provision for credit losses (net)	**1,704**
Translation differences on investments, equipment & fixtures	**(2)**
Investment (income)	**(129)**
Operating (loss) / profit before changes in operating assets and liabilities	**(547)**
Due from banks and other money market placements	**(21,057)**
Loans and advances (Gross)	**(102,037)**
Other assets	**(1,022)**
Customers' deposits	**117,593**
Due to banks and other money market deposits	**3,925**
Other liabilities	**2,298**
Cash (used in) / from operations	**(847)**
Taxes paid	**-**
Net cash (used in) / from operating activities	**(847)**
INVESTING ACTIVITIES	
Purchase of non-trading investments	**(18,809)**
Proceeds from sale of non-trading investments	
Purchase of premises and equipment	**(2,378)**
Interest received on Certificates of deposits and Treasury Bills	**129**
Net cash (used in) / from investing activities	**(21,058)**
FINANCING ACTIVITIES	
Share capital issue through private placement	**50,000**
Legal reserve	**1,758**
Net cash from financing activities	**51,758**
INCREASE IN CASH AND CASH EQUIVALENTS	**29,853**
Cash and cash equivalents at the beginning of the period	**-**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**29,853**
REPRESENTING	
Cash and balances with Central Banks	**29,855**
Translation differences in investments	**(2)**
Deposits and balances with other banks and financial institutions (net)	**-**
	29,853

UNAUDITED STATEMENT OF CHANGES IN EQUITY
Period Ended 30 June 2007

(RO'000)	*Share capital (Note B10)*	*Legal reserve (Note B11)*	*Change in fair value of Investments Available for Sale (Note B4)*	*Retained earnings*	*Total*
Issue of shares	**50,000**				**50,000**
Change in fair value of Investment available for sale					**-**
Net profit for the period				**(2,180)**	**(2,180)**
Legal reserve collected for issue expenses		**2,000**			**2,000**
Issue expenses		**(242)**			**(242)**
Balance as at 30 June 2007	**50,000**	**1,758**	**-**	**(2,180)**	**49,578**

The attached notes A1 to D5 form part of these financial statements.

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS
At 30 June 2007

A1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Sohar SAOG ("Bank Sohar", "the bank") was established in the Sultanate of Oman in 2007 as a joint stock company and is engaged in corporate and retail banking activities within the Sultanate of Oman. The bank operates in Oman under a banking licence issued by the Central Bank of Oman and is covered by its deposit insurance scheme. The registered address of the bank is PO Box 44, Hai Al Mina, Postal Code 114, Muscat, Sultanate of Oman.

The bank employed 154 employees as of 30 June 2007.

A2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are as follows:

Basis of preparation
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standards Board (IASB), requirements of the Oman Commercial Companies Law of 1974, as amended and the disclosure requirements of the Capital Market Authority.

The financial statements are prepared under the historical cost convention. These financial statements are presented in Rials Omani rounded, except as indicated, to the nearest thousand Rials Omani. The functional currencies of the bank's operations is Rial Omani

The preparation of financial statements requires management to make adjustments, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed by the bank to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Estimates considered by the bank to have a significant risk of material adjustment in subsequent periods primarily comprise provisions for impairment of loans and advances.

The accounting policies have been applied consistently by the Bank.

Acceptances
Under IAS 39 (revised) acceptances are disclosed on the balances sheet under other assets with corresponding liability disclosed under other liabilities. Therefore, there is no off balance sheet commitment for acceptances.

Cash and cash equivalents
Cash and cash equivalents consist of cash on hand, balances with banks and other financial institutions.

Financial Assets at fair value through income statement
This category includes those investments, which are initially recognized at cost and re-measured at fair value. All related realized and unrealized gains or losses are included in the income statement in the period in which they arise. Interest earned or dividends received are included in the interest and dividend income respectively.

Loans and advances
Loans and advances are carried at amortized cost less specifically identified and collective provisions for impairment. Specific provisions are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce those loans and advances to their recoverable amounts. Collective impairment provisions are maintained in respect of incurred losses, which have not yet been specifically

SIGNIFICANT ACCOUNTING POLICIES (continued)

identified within the portfolio of loans and advance. The recoverable amount of loans and advances is calculated at the present value of the expected future cash flows discounted at the original effective interest rate. Short-term balances are not discounted.

When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly.

Non specific Provision

Non Specific provisions are established to meet the credit risks inherent within the loans and advances portfolio.
In the absence of any past history the Bank has adopted the CBO norms for making the provision against loans and advances which represents the possible loss. Once the provision for losses would be made on the actual basis, non-specific provision would be adjusted.

Non-trading investments

These are classified as follows:
- Available for sale
- Held to maturity

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs.

Available for sale
Available-for-sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held to maturity or loans and advances. They may be sold in response to liquidity needs or changes in market conditions. They include equity instruments, money market papers and other debt instruments.

After initial measurement, available for sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity in the 'Available for sale reserve.' When the security is disposed off, the cumulative gain or loss previously recognised in equity is recognised in the income statement in 'Net gains or loss from financial investments'. Where the Bank holds more than one investment in the same security they are deemed to be disposed of on a first-in-first-out basis. Interest earned whilst holding available for sale financial investments are reported as interest income using the effective interest rate. Dividends earned whilst holding available for sale financial investments are recognised in the income statement as 'Other operating income' when the right of payment has been established. The losses arising from impairment of such investments are recognised in the income statement in 'Impairment losses on financial investments.'

Held to maturity
Where the bank has the positive intent and ability to hold financial assets to maturity, they are stated at amortized cost less impairment losses.

Premiums and discounts on held to maturity investments are amortized using the effective interest rate method and taken to interest income.

Fair values
For investments traded in organized financial markets, fair value is determined by reference to quoted market prices at the close of business on the balance sheet date.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of a similar investment, or is based on the expected discounted cash flows.

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS
At 30 June 2007

SIGNIFICANT ACCOUNTING POLICIES (continued)

Due from banks and other money market placements

These are stated at cost less any provisions for impairment.

Equipment & Fixtures

Equipment & fixtures are initially recorded at cost or deemed cost.

Depreciation is provided on a straight-line basis over the estimated useful lives of equipment & fixtures at the rates of depreciation stated below:

Motor vehicles	3 years
Furniture & fixtures	3 years
Office Equipment	6-7 years
Production Software	6-7 years

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each balance sheet date.

Deposits
All money market and customer deposits are carried at amortised cost.

Taxation
Taxation is provided for based on the tax laws of Sultanate of Oman. Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Derivatives
Derivatives are used in the bank's non-trading activities to reduce exposures to fluctuations in interest and exchange rates, including forward foreign exchange contracts and interest rate swaps. Derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Unrealised gains or losses are included in the income statement.

Fiduciary assets
Assets held in trust or in a fiduciary capacity are not treated as assets of the bank and accordingly are not included in these financial statements.

Offsetting
Financial assets and financial liabilities are only offset and the net reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and the bank intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Pre-incorporation expense

The expenses incurred, net of interest income, prior to incorporation of the Bank up to 3rd March 2007, has been classified as pre-incorporation expenses and has been written off in the Income Statement.

Pre-operating expense

The expenses incurred, net of interest income, after incorporation of the Bank on 4th March 2007 upto commencement of business on 9th April 2007, has been classified as pre-operating expenses and has been written off in the Income Statement.

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS
At 30 June 2007

SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition
Interest income and expense is recognised in the income statement using the effective interest rate method. The effective interest rate is established on initial recognition of the financial asset/liability and is not revised subsequently. Commission and fees are recognised as the related services are performed. Income from investments is accrued on notification of entitlement. Dividend income is recognized when the right to receive payment is established.

Fees and commission

Fees and Commission income includes account servicing fees, credit related fees, advisory fees and other management fees, sales commission, placement fees and syndication fees. These are recognised as the related services are performed.

Foreign currencies

i. Transactions denominated in foreign currencies are translated into Rial Omani and recorded at rates of exchange ruling at the value dates of the transactions.

ii. Monetary assets and liabilities denominated in foreign currencies are translated into Rial Omani at exchange rates ruling at the balance sheet date. Realised and unrealised gains and losses are dealt with in the income statement.

iii. The financial statements of overseas branches are translated into Rial Omani for aggregation purposes at the year-end rates of exchange. Any translation difference arising from the application of year-end rates of exchange to the opening net assets of overseas branches are taken directly to reserves.

Repurchase and resale agreements
Assets sold with a commitment to repurchase (repos) at a specified future date are recognised in the balance sheet and are measured in accordance with accounting policies for trading securities or investment securities. The counter party liability for amounts received under these agreements is included in due to banks and other financial institutions. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repo agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the balance sheet and the amounts paid under these agreements are included in deposits with banks and other financial institutions. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repo agreement.

Impairment and uncollectibility of financial assets
An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, recognised in the income statement.

Trade and settlement date accounting
All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the entity commits to purchase the asset. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Leases
Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Staff terminal benefits
The terminal benefits for Omani employees are provided in accordance with the Sultanate of Oman's Social Insurance Law of 1991. Provision for ex-patriate staff terminal benefits is the amount of future benefit that employees have earned in return for their service in the current period.

A3 COMPARATIVE FIGURES

The bank was registered with Ministry of Commerce on 4 March 2007. Therefore, there are no comparative figures of corresponding prior period for comparison.

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS
At 30 June 2007

SIGNIFICANT ACCOUNTING POLICIES (continued)

Fees and commission

Fees and Commission income includes account servicing fees, credit related fees, advisory fees and other management fees, sales commission, placement fees and syndication fees. These are recognised as the related services are performed.

Foreign currencies

i. Transactions denominated in foreign currencies are translated into Rial Omani and recorded at rates of exchange ruling at the value dates of the transactions.

ii. Monetary assets and liabilities denominated in foreign currencies are translated into Rial Omani at exchange rates ruling at the balance sheet date. Realised and unrealised gains and losses are dealt with in the income statement.

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A3 COMPARATIVE FIGURES

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UNAUDITED NOTES TO THE FINANCIAL STATEMENTS
At 30 June 2007

B1 CASH AND BALANCES WITH CENTRAL BANKS

	2007
	RO'000
Cash	**674**
Insurance deposit with Central Bank of Oman	**5**
Capital deposit with Central Bank of Oman	**50**
Other balances with Central Banks (net)	**29,126**
	29,855

The capital and insurance deposits with the Central Bank of Oman cannot be withdrawn without the approval of the Central Bank of Oman.

Other balances with Central Banks is being adjusted for the cheques and pay orders issued but uncleared amounting to RO 505 K.

B2 DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS

	2007
	RO'000
Local Currency:	
Due from other banks	**6,121**
Nostro balances	**24**
	6,145
Foreign Currency:	
Due from other banks	**14,271**
Nostro balances abroad	**641**
	14,912
Total	**21,057**

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS
At 30 June 2007

B3 LOANS AND ADVANCES

	2007 ***RO'000***
Corporate loans	**33,688**
Personal loans	**68,349**
Housing loans	**-**
Gross loans and advances	**102,037**
Specific Provision for credit losses*	**-**
Non specific Provision for credit losses**	**(1,704)**
Reserved interest	**-**
Net loans and advances	**100,333**

** Specific provisions are established after considering security on a case by case basis in respect of specific loan and advances where recovery appears doubtful*

*** Non specific provisions are established to meet the credit risks inherent within the loans and advances portfolio..*

All loans and advances require payment of interest based on agreed tenors, some at fixed rates and others at rates that re-price prior to maturity.

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and will cause the other party to incur a financial loss. The bank manages credit risk by setting limits for individual borrowers, groups of borrowers and for geographical and industry segments. The bank also monitors credit exposures and, continually assesses the creditworthiness of counter parties. In addition, the bank obtains security where appropriate, enters into collateral arrangements with counter parties, and limits the duration of exposure.

B4 NON-TRADING INVESTMENTS

	Carrying/Fair value 30/06/2007 RO'000	***Cost 30/06/2007 RO'000***
A) Available for sale	-	-
B) Held to maturity -		
Treasury Bills -FCY	**13,809**	**13,809**
Certificate of Deposit - OMR	**5,000**	**5,000**
Total Non Trading Investments	**18,809**	**18,809**

B5 EQUIPMENT AND FIXTURES

	Production Software	*Furniture & fixtures*	*Office equipments*	*Motor vehicles*	*Capital Work in progress*	*Total*
	RO'000	*RO'000*	*RO'000*	*RO'000*	*RO'000*	*RO'000*
Reconciliation of carrying amount:						
Additions	1,315	32	511	58	462	2,378
Disposals	-	-	-	-		-
Transfers	-	-	-	-		-
Depreciation	(37)	(3)	(15)	(5)		(60)
Balance as at 30 June 2007, net of accumulated depreciation	**1,278**	**29**	**496**	**53**	**462**	**2,318**
At cost	1,315	32	511	58	462	2,378
Accumulated depreciation						
Apportioned as depreciation for the period	(35)	(3)	(14)	(5)		(57)
Apportioned as Pre-operating	(2)	(0)	(1)	(0)		(3)
Net carrying value at 30 June 2007	**1,278**	**29**	**496**	**53**	**462**	**2,318**

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS
At 30 June 2007

B6 OTHER ASSETS

	2007
	RO'000
Interest receivable	**609**
Prepayments and deposits	**214**
Positive fair value of derivatives	**-**
Accounts receivable in suspense	**2**
Others	**197**
	1,022

B7 DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

	2007
	RO'000
Local Currency:	
Money market borrowings	**2,000**
Vostro balances	**-**
	2,000
Foreign Currency:	
Money market borrowings	**1,925**
Vostro balances	**-**
	1,925
Total	**3,925**

B8 CUSTOMERS' DEPOSITS

	2007
	RO'000
Current accounts	**16,252**
Current call accounts	**12,363**
Savings accounts	**6,358**
Term deposits	**82,362**
Certificates of deposits	**-**
Margin accounts	**258**
	117,593

B9 OTHER LIABILITIES

	2007
	RO'000
Interest payable	228
Staff entitlements*	56
Negative fair value of derivatives	-
Accounts payable in suspense	13
Other accruals and provisions	2,001
	2,298

* Staff entitlements are as follows:	
End of service benefits	
Opening balance	-
Closing balance	11
Charge to income statement	11
Other liabilities	45
Total	56

B10 SHARE CAPITAL

The authorised share capital of the bank is 100,000,000 shares of RO 1/- each.
The issued and paid up capital of the bank is 100,000,000 shares of RO 0 .500 each.

The bank issued 100,000,000 shares of RO 1/- each to the public in December'2006. An amount of RO 0.500 with the issue charges of RO 0.020 was payable on application. The balance RO 0.500 per share would be payable by the shareholders within a period not exceeding 3 years from the date of incorporation.

As of 30 June 2007, the following shareholders held 10% or more of the bank's capital, either individually or together with family members.

	Number of shares	*% Holding*
Royal Court Affairs	**14,569,034**	**14.57%**
Al Ghadeer Al Arabiyah LLC	**10,000,000**	**10.00%**

B11 LEGAL RESERVE

The annual appropriation from net profits must not be less than 10% of the net profit for the year until such time that the reserve amounts to at least one third of share capital in Oman.

The legal reserve accumulated also includes issue charges of RO 0.020 per share which were collected from the shareholders of the Bank net of utilisations. The movement in legal reserves have been disclosed in the Statement Of Changes In Equity.

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS
At 30 June 2007

B12 COMMITMENTS AND CONTINGENT LIABILITIES

Standby letters of credit and guarantees commit the bank to make payments on behalf of customers' contingent upon the failure of the customer to perform under the terms of the contract.

Contractual obligation including contracts for purchase and sale of foreign exchange are stated at fair value as commitments.

Credit related commitments include commitments to extend credit, standby letters of credit and guarantees, which are designed to meet the requirements of the bank's customers. Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses and require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

C1 INTEREST INCOME

Interest bearing assets earned interest at an overall rate of 6.09% for the period ended 30 June 2007.

C2 INTEREST EXPENSE

The average overall cost of funds for the period ended 30 June 2007 was 3.87%.

C3 OTHER OPERATING INCOME

	2007 ***RO'000***
Net gains from foreign exchange dealings	**2**
Fees and commissions	**848**
Dividend income	**-**
Profit on sale of investments	**-**
Miscellaneous income	**-**
	850

C4 OTHER OPERATING EXPENSES

	2007 ***RO'000***
Establishment costs	**99**
Operating and administration costs	**348**
Directors Remuneration & sitting fees	**36**
	483

No remuneration has been paid to the Director's during the period. The amounts paid to Director's were on account of sitting fees**.**

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS
At 30 June 2007

C5 NET PRE-INCORPORATION EXPENSES

	For the period ended on 3 March 2007 RO'000
Establishment costs	**85**
Operating and administration costs	**808**
Staff cost	**219**
	1,112
Less: Interest income	**(429)**
	683

C6 NET PRE-OPERATING EXPENSES

	For the period from 4 March 2007 to 8 April 2007 RO'000
Establishment costs	**22**
Operating and administration costs	**132**
Staff cost	**210**
Depreciation	**3**
	367
Less: Interest income	**(119)**
	248

C7 TAXATION

The bank is liable to income tax at 12% of consolidated taxable income in excess of RO 30,000. The Bank is not liable to taxation due to losses incurred during the period.

C8 BASIC LOSS PER SHARE

Loss per share is calculated by dividing the net loss for the period by the weighted average number of shares outstanding during the period as below. No figure for diluted earnings per share has been presented, as the bank has not issued any instruments, which would have an impact on earnings per share when exercised.

	2007 RO'000
Loss for the period	**(2,180)**
Weighted average number of shares outstanding during the period	**100,000**
Loss per share for the period (in baizas)	**21.80**

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS
At 30 June 2007

D1 RELATED PARTY TRANSACTIONS

In the ordinary course of business the bank conducts transactions with certain of its directors, shareholders, senior management and companies in which they have a significant interest. These transactions are conducted on an arms length basis and are approved by the bank's management.

No provision has been recognised in respect of the loans given to related parties.

The aggregate amount of balances and the income and expenses generated with such related parties is as follows:

	2007 *RO'000*
A) Loans and Advances	
Loans issued during the period	**912**
Transferred out during the period	
Loans repayment during the period	
Other advances	**17**
Loans outstanding at 30 June	**929**
B) Deposits	
Deposits received during the period	**45,436**
Transferred out during the period	**-**
Deposits repaid during the period	**-**
Deposits at 30 June 2007	**45,436**
C) Contingent liabilities	
Documentary letters of credit	
Guarantees	
Others	
	NIL
D) Income Statement	
Interest income	**12**
Interest expense	**134**
E) Senior Management compensation	
Salaries and other short term benefits	
-Fixed	**338**
-Discretionary	-
	338

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS
At 30 June 2007

D2 CAPITAL ADEQUACY

The international standard for measuring capital adequacy is the risk asset ratio, which relates capital to balance sheet assets and off balance sheet exposures weighted according to broad categories of risk. The risk asset ratio calculated in accordance with the capital adequacy guidelines of the Bank for International Settlement is as follows:

	2007 *RO'000*
Capital base	
Tier 1 - shareholders' funds	**49,578**
Tier 2 - subordinated loan, private placement and collective impairment provisions	**1,704**
Total capital base	**51,282**
Risk weighted assets	
Balance sheet items	**137,047**
Off balance sheet items	**3,258**
Total risk weighted assets	**140,305**
Risk asset ratio	**36%**

D3 CONCENTRATIONS

The bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risk with individuals or groups of customers in specific currency. It also obtains security when appropriate. The distribution of assets, liabilities and off balance sheet items by currency as of **30 June 2007** was as follows:

	RO *RO'000*	*USD* *RO'000*	*SAR* *RO'000*	*Others* *RO'000*	*Total* *RO'000*
Cash and balances with Central Banks	29,854	1			29,855
Due from banks and other money market placements	6,145	14,453	430	29	21,057
Loans and advances (net)	99,571	762			100,333
Non-trading investments	5,000	3,850	9,959		18,809
Equipment & Fixtures	2,318				2,318
Deferred tax asset					
Other assets	1,022				1,022
Total assets	143,910	19,066	10,389	29	173,394
Due to banks and other money market deposits	2,000	1,925			3,925
Customers' deposits	102,815	14,778			117,593
Other liabilities	2,128	61	109		2,298
Taxation					
Subordinated funds					
Shareholders' equity	49,578				49,578
Liabilities and shareholders' equity	156,521	16,764	109	-	173,394
Contingent Liabilities	908	2282		68	3,258

D4 MARKET RISK

Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The bank has set up Assets and Liabilities Committee to monitor these risks through ALCO policy.

(A) INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The bank is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities.

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

The bank's interest sensitivity position based on contractual re-pricing arrangements at **30 June 2007** was as follows:

	Average effective Interest rate	*On demand within 3 months RO'000*	*3 to 12 months RO'000*	*Over 1 year RO'000*	*Non interest sensitive RO'000*	*Total RO'000*
Cash and balances with Central Banks					**29,855**	**29,855**
Due from banks and other money market placements	**4.72%**	**21,057**				**21,057**
Loans and advances	**7.75%**	**11,172**	**30,889**	**59,976**		**102,037**
Non-trading investments	**3.83%**	**5,000**	**13,809**			**18,809**
Equipment & Fixtures					**2,318**	**2,318**
Deferred tax asset						
Other assets					**1,022**	**1,022**
Total assets		**37,229**	**44,698**	**59,976**	**33,195**	**175,098**
Due to banks and other money market deposits	**4.86%**	**1,925**	**2,000**			**3,925**
Customers' deposits	**3.78%**	**44,985**	**72,598**	**10**		**117,593**
Other liabilities					**2,298**	**2,298**
Taxation						
Subordinated fund					**1,704**	**1,704**
Shareholders' equity					**49,578**	**49,578**
Total liabilities and shareholders' equity		**46,910**	**74,598**	**10**	**53,580**	**175,098**
Total interest rate sensitivity gap		**(9,681)**	**(29,900)**	**59,966**	**(20,385)**	
Cumulative interest rate sensitivity gap		**(9,681)**	**(39,581)**	**20,385**		

D4 MARKET RISK (continued)

(B) CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

The bank had the following net exposures denominated in foreign currencies:

	Assets *RO'000*	*Liabilities* *RO'000*	*2007* *RO'000*
US Dollar	**19,066**	**16,764**	**2,302**
Saudi Rial	**10,389**	**109**	**10,280**
Others	**29**	**-**	**29**

D5 LIQUIDITY RISK

Liquidity risk is the risk that the bank will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis.

The table below summarises the maturity profile of the bank's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the bank's deposit retention history and the availability of liquid funds.

The maturity profile of the assets and liabilities at **30 June 2007** was as follows:

	On demand to within 3 months *RO'000*	*3 to 12 months* *RO'000*	*Over 1 year* *RO'000*	*Total* *RO'000*
Cash and balances with Central Banks	**29,855**			**29,855**
Due from banks and other money market placements	**21,057**			**21,057**
Loans and advances *	**11,172**	**30,889**	**59,976**	**102,037**
Non-trading investments	**5,000**	**13,809**		**18,809**
Equipment & Fixtures			**2,318**	**2,318**
Deferred tax asset				
Other assets	**693**	**214**	**115**	**1,022**
Total assets	**67,777**	**44,912**	**62,409**	**175,098**
Due to banks and other money market deposits	**1,925**	**2,000**		**3,925**
Customers' deposits	**44,985**	**72,598**	**10**	**117,593**
Other liabilities	**2,139**	**148**	**11**	**2,298**
Taxation				
Subordinated funds			**1,704**	**1,704**
Shareholders' equity			**49,578**	**49,578**
Total liabilities and shareholders' equity	**49,049**	**74,746**	**51,303**	**175,098**
Gap	**18,728**	**(29,834)**	**11,106**	**NIL**

*Loan and advances has been bifurcated at the gross level.