BOARD OF DIRECTOR'S REPORT

It is an honour for me to present to you the results achieved by the Bank during its first full year of operations. Since opening officially for business in May 2007, the Bank has consolidated its experiences of the early months and has made significant strides in the different areas of its activity.

ECONOMY

Clear strategy and determined focus have enabled Oman to achieve enormous progress through every one of the last few years. Economic diversification has led to sustainable growth, created increased employment avenues, opened up new opportunities and transformed the entire country. With much work still to be done, the country is now watching the unpredictable developments that have enveloped entire nations and whole economies. The liquidity crisis in the global financial markets has undermined business and consumer confidence all around the world.

The global crisis has had indirect effects on the liquidity situation in many countries. Oman has also experienced these effects but is to a considerable extent more fortunate. During the year 2008, there was marked increase in oil production and oil revenues. The nominal Gross Domestic Product growth as at June 2008 was 46.4 per cent while the total trade by the Sultanate grew 54 per cent between June 2007 and June 2008. The trade surplus also grew by 48 per cent in the same period.

At the end of November 2008, the total assets of commercial banks in the country increased by 39 per cent to reach RO 13.7 billion as compared to its level in the previous year. The total credit expanded by 50.9 per cent indicating the availability of financing to meet all non-oil economic activities to sustain growth of the Gross Domestic Product. At the end of November 2008, the aggregate deposits of commercial banks increased by 38.7 per cent to RO 8.6 billion. The core capital increased by 30 per cent to RO 1.49 billion more than meeting the Basel II capital adequacy requirements. Provisional figures for the net profits of commercial banks in the country for the year 2008 show an increase over the previous year. It is from this position that the country is now watching the unpredictable crisis in the global financial markets that has undermined business and consumer confidence.

FINANCIAL OVERVIEW 2008

The Bank achieved an Operating profit of OMR 5.15 Million for the year ended 31st December'08 which is 80% higher than the operating profit last year. The net loss for the current year stood at OMR 2.26 million compared to a net loss of RO 2.48 last year. The increase in operating profits has been achieved due to strong contributions being made by all segments of our business. As a result of the increase in the loan portfolio during the year the total charge of non-specific provisions amounted to OMR 5.16 Million compared to OMR 4.40 Million last year. As per the Central Bank of

Oman guideline diminution in market value of investments more than 35% has been provided as a 'Provision for Impairment in Investments' and an amount of RO 2.39 has been provided in the Income Statement.

During the year, the Bank built a total customer credit exposure of OMR 644 million and customer deposits of OMR 638 million servicing a total of 42,571 customers. The savings deposits have built up to OMR 74 million. The Bank was able to increase its market share consistently during the year and has closed the year with 6.64 per cent of private sector credit and 6.77 per cent of private sector deposits as computed with reference to industry data of November' 2008.

Bank Sohar had issued 100 million shares of RO 1/- each to the public in December 2006. An amount of RO 0.500 was payable on application and the balance RO 0.500 per share was to be paid by the shareholders within a period not exceeding three years from the date of incorporation. The call for the balance capital was made in May 2008 and the paid up capital of the bank increased to RO 100 million. The nominal value of the Bank's share was split from RO 1 per share to 100 baiza per share.

FUTURE PLANS

The new economic realities have compelled both governments and businesses all over the world to re-examine their positions, adjust their assumptions and then with an abundance of wisdom respond to an environment where uncertainty is likely to be a constant for some time.

The Government of Oman in formulating its plans has taken the approach that investing in infrastructure, in skills, and in innovation will be the best response to move through an uncertain phase. It has taken into account how the global circumstances will affect capital markets, labour markets and the country's growth. While continuing the focus on diversifying growth, the Government has announced mega infrastructure projects totaling RO 18.5 billion over the next five years. The State General Budget for 2009 has also outlined the new projects that will be implemented in 2009. New airports, a recycling plant for the dry dock, a gas-fired power plant, an iron pelletising plant, a potable water system, steam sub-station etc. are some of the projects that are already in the pipeline or being planned. The government has constituted an investment fund to boost investor confidence in the Muscat Securities Market and the apex bank has taken measures to improve liquidity in the market. These measures are certain to provide the necessary impetus to grow the economy.

The year ahead will have its share of variables and uncertainties. New types of businesses that are being planned or that are now on stream will require an addition to the knowledge base to allow for financial intermediation and participation as knowledge partners. The year ahead is also certain to provide its share of opportunities for new learning and new ways of doing business.

While the global economy goes through the correction phase, there is likely to be an increase in competitiveness and an opportunity for banks with focus on excellence and service to get an improved share of business. The banking sector in Oman is sure to emerge healthier and stronger and in the long run contribute more to future progress.

The Bank's approach to business in the coming year will be to consolidate the gains it has made in the business since inception and adopt a balanced and comprehensive approach to future growth. The strategies of the Bank will include efforts to identify those segments of the business that will remain resilient and will provide a platform for sustained growth. The Bank will continue to align its future plans with the national goals and avail of all the opportunities that arise during the year. The Bank will also continue to play a pivotal role in partnering all sectors of the market.

COMMUNITY INVOLVEMENT

The Bank's involvement in and investments into the community began soon after the Bank opened for business. This involvement has continued in the present year as well specially in the areas of community health, sports, education, employment and business. The Bank lent wholehearted support to national programmes by sponsoring the Muscat Festival for the first time and being once again present at the Salalah Festival. The Bank's involvement at each of these events has provided opportunities to inform the community about the Bank's value base and at the same time showcase the Bank's products and services.

CORPORATE GOVERNANCE

In the Bank's first Annual Report, we provided the assurance that the Bank will adhere to stringent corporate governance measures where disclosure and accountability have paramount importance. We have honoured that assurance during the current year. A detailed report on the implementation of corporate governance appears as a part of this Annual Report.

ON RECORD

In November 2008 and consequent to his promotion, Sheikh Hilal bin Hamoud bin Hamad Al Mamary, the first Chairman of the Board of Directors of Bank Sohar resigned from his post. The Board appointed Dr. Mohamed Abdul Aziz Kalmoor, the Deputy Chairman, as the Acting Chairman of the Board of Directors. The Board of Directors record its appreciation to Sheikh Hilal bin Hamoud bin Hamad Al Mamary, for his pioneering leadership and contribution to the Bank from its inception and for the period he was with the Bank.

We acknowledge that our progress during the year has been made possible by the spirit of enterprise ensured by the outlook and vision of His Majesty Sultan Qaboos bin Said. His presence at the helm of affairs has and is guiding the country through one of the most difficult periods in its economic history.

Some of the regulatory measures that may have been irksome in the course of doing business are possibly the very same that have afforded protection to Oman's banking system. We appreciate the work of the Central Bank of Oman, the Capital Markets Authority and the Muscat Securities Market all of whom join to provide an excellent environment for businesses to operate.

During the year, our management team and every one of the members of the staff have contributed in abundant measure to the goals set out for the Bank. The achievements of the Bank would not have been possible but for their dedication and cooperation. We hope they will continue to be with the Bank and serve the Bank with the same spirit. In its second year, the Bank has reached out to more customers and they have responded with faith and trust. We hope they will stay with us as the Bank grows and continues to be a part of their lives.

Abdulla Humaid Said Al Mamary
Chairman

BANK SOHAR SAOG

FINANCIAL STATEMENTS

For the year ended 31 December 2008

Registered office and principal place of business:

Bank Sohar Building
Post Box 44, PC 114
Sultanate of Oman

DRAFT FOR APPROVAL

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BANK SOHAR SAOG

Report on the financial statements
We have audited the financial statements of Bank Sohar SAOG ("the Bank") set out on pages 2 to 46, which comprise the balance sheet as at 31 December 2008, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements
The Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the disclosure requirements of the Capital Market Authority and the Commercial Companies Law of 1974, as amended. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Bank's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the Bank's Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2008 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other Legal and Regulatory requirements
In our opinion, the financial statements of the Bank as at and for the year ended 31 December 2008, in all material respects, comply with:

- the relevant disclosure requirements of the Capital Market Authority; and
- the Commercial Companies Law of 1974, as amended.

BALANCE SHEET
As at 31 December 2008

31 December 2007 USD'000	***31 December 2008 USD'000***		*Notes*	***31 December 2008 RO'000***	*31 December 2007 RO'000*
		ASSETS			
53,057	**243,927**	Cash and balances with Central Bank	*B1*	**93,912**	20,427
95,881	**179,782**	Due from Banks and other money market placements	*B2*	**69,216**	36,914
776,457	**1,647,442**	Loans and advances (net)	*B3*	**634,265**	298,936
142,857	**66,982**	Available-for-sale investments	*B4*	**25,788**	55,000
12,044	**35,662**	Property, equipment and fixture	*B5*	**13,730**	4,637
11,501	**15,584**	Other assets	*B6*	**6,000**	4,428
1,091,797	**2,189,379**			**842,911**	420,342
		LIABILITIES			
74,322	**234,374**	Due to Banks and other money market deposits	*B7*	**90,234**	28,614
236,623	**234,026**	Certificates of deposit	*B8*	**90,100**	91,100
630,706	**1,423,151**	Customers' deposits	*B9*	**547,913**	242,822
-	**18,182**	Deferred income	*B10*	**7,000**	-
22,162	**29,031**	Other liabilities	*B11*	**11,177**	8,532
963,813	**1,938,764**			**746,424**	371,068
		SHAREHOLDERS' EQUITY			
129,870	**259,740**	Share capital	*B12*	**100,000**	50,000
4,571	**4,496**	Legal reserve	*B13*	**1,731**	1,760
-	**(1,283)**	Fair value losses	*B14*	**(494)**	-
(6,457)	**(12,338)**	Accumulated losses		**(4,750)**	(2,486)
127,984	**250,615**			**96,487**	49,274
1,091,797	**2,189,379**			**842,911**	420,342
127.984	**250.615**	**Net assets per share (in baizas)**	***B15***	**96.487**	49.274
69,943	**176,810**	**CONTINGENT LIABILITIES**	*B16*	**68,072**	26,928
140,810	**433,797**	**COMMITTMENTS**	*B16*	**167,012**	54,212

The financial statements were approved and authorized for issue by the Board of Directors on **27 January 2009** and signed on their behalf by:

Chairman *Deputy Chairman*

The attached notes A1 to D6 form an integral part of these financial statements
The report of the auditors is set forth on page 1.

INCOME STATEMENT

Year ended 31 December 2008

From 9 April 2007 up to 31 December 2007 USD'000	***31 December 2008 USD'000***		*Notes*	***31 December 2008 RO'000***	*From 9 April 2007 up to 31 December 2007 RO'000*
24,294	**85,740**	Interest income	*C1*	**33,010**	9,353
(14,642)	**(57,665)**	Interest expense	*C2*	**(22,201)**	(5,637)
9,652	**28,075**	**Net interest income**		**10,809**	3,716
12,231	**17,974**	Other operating income	*C3*	**6,920**	4,709
21,883	**46,049**	**OPERATING INCOME**		**17,729**	8,425
		OPERATING EXPENSES			
(7,680)	**(18,335)**	Staff costs		**(7,059)**	(2,957)
(5,886)	**(11,665)**	Other operating expenses	*C4*	**(4,491)**	(2,266)
(878)	**(2,678)**	Depreciation	*B5*	**(1,031)**	(338)
(14,444)	**(32,678)**			**(12,581)**	(5,561)
7,439	**13,371**	**OPERATING PROFIT**		**5,148**	2,864
(1,774)	**-**	Net pre-incorporation expense	*C5*	**-**	(683)
(686)	**-**	Net pre-operating expense	*C6*	**-**	(264)
-	**(6,203)**	Impairment on investments		**(2,388)**	-
(11,436)	**(14,018)**	Impairment for credit losses	*B3*	**(5,397)**	(4,403)
(6,457)	**(6,850)**	**(LOSS) FROM OPERATIONS AFTER PROVISIONS**		**(2,637)**	(2,486)
-	**969**	**Deferred tax income**	*C7*	**373**	-
(6,457)	**(5,881)**	**NET (LOSS) FOR THE YEAR**		**(2,264)**	(2,486)
(6.457)	**(5.881)**	Basic (loss) per share for the year - **in baizas**	*C8*	**(2.264)**	(2.486)
(7.945)	**(5.881)**	(Loss) per share for the year (annualised) - **in baizas**	*C8*	**(2.264)**	(3.059)

The attached notes A1 to D6 form an integral part of these financial statements
The report of the auditors is set forth on page 1.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 200

	Share capital	*Legal reserve*	*Fair value losses*	*Accumulated losses*	*Total*
	(Note B12)	*(Note B13)*	*(Note B14)*		
	RO'000	*RO'000*	*RO'000*	*RO'000*	*RO'000*
Issue of shares	50,000	-	-	-	50,000
Net loss for the period	-	-	-	(2,486)	(2,486)
Share issue expenses collected	-	2,000	-	-	2,000
Issue expenses	-	(240)	-	-	(240)
Balance as at 31 December 2007	50,000	1,760	-	(2,486)	49,274

	RO'000	***RO'000***	***RO'000***	***RO'000***	***RO'000***
Balance as at 1 January 2008	**50,000**	**1,760**	**-**	**(2,486)**	**49,274**
Final call on issued shares	**50,000**	**-**	**-**	**-**	**50,000**
Cumulative fair value reserve	**-**	**-**	**(494)**	**-**	**(494)**
Transfer to legal reserve	**-**	**-**	**-**	**-**	**-**
Issue expenses	**-**	**(29)**	**-**	**-**	**(29)**
Net loss for the year	**-**	**-**	**-**	**(2,264)**	**(2,264)**
Balance as at 31 December 2008	**100,000**	**1,731**	**(494)**	**(4,750)**	**96,487**

	USD'000	*USD'000*	*USD'000*	*USD'000*	*USD'000*
Issue of shares	129,870	-	-	-	129,870
Net loss for the period	-	-	-	(6,457)	(6,457)
Share issue expenses collected	-	5,194	-	-	5,194
Issue expenses	-	(623)	-	-	(623)
Balance as at 31 December 2007	129,870	4,571	-	(6,457)	127,984

	USD'000	***USD'000***	***USD'000***	***USD'000***	***USD'000***
Balance as at 1 January 2008	**129,870**	**4,571**	**-**	**(6,457)**	**127,984**
Final call on issued shares	**129,870**	**-**	**-**	**-**	**129,870**
Cumulative Fair Value Reserve	**-**	**-**	**(1,283)**	**-**	**(1,283)**
Transfer to legal reserve	**-**	**-**	**-**	**-**	**-**
Issue expenses	**-**	**(75)**	**-**	**-**	**(75)**
Net loss for the year	**-**	**-**	**-**	**(5,881)**	**(5,881)**
Balance as at 31 December 2008	**259,740**	**4,496**	**(1,283)**	**(12,338)**	**250,615**

The attached notes A1 to D6 form an integral part of these financial statements
The report of the auditors is set forth on page 1.

CASH FLOW STATEMENT

Year ended 31 December 2008

From 9 April 2007 up to 31 December 2007 USD'000	***2008 USD'000***		***2008 RO'000***	*From 9 April 2007 up to 31 December 2007 RO'000*
		OPERATING ACTIVITIES		
(6,458)	**(6,849)**	Net loss for the year before tax	**(2,637)**	(2,486)
		Adjustments for:		
886	**2,678**	Depreciation	**1,031**	341
11,437	**14,018**	Impairment for credit losses	**5,397**	4,403
-	**94**	Reserve interest on loans	**36**	-
-	**(3)**	Profit on sale of property, equipment and fixtures	**(1)**	-
(231)	**-**	Profit on sale of investment securities	**-**	(89)
(2,626)	**(2,286)**	Interest on investment	**(880)**	(1,011)
3,008	**7,652**	**Operating profit before changes in operating assets and liabilities**	**2,946**	1,158
(787,894)	**(885,096)**	Changes in loans and advances (gross)	**(340,762)**	(303,339)
(11,501)	**(3,192)**	Changes in other assets	**(1,229)**	(4,428)
236,623	**(2,597)**	(Repayment) issue of certificates of deposit	**(1,000)**	91,100
630,706	**792,445**	Changes in customers' deposits	**305,091**	242,822
52,727	**(32,987)**	Changes in due to banks and other money market deposits	**(12,700)**	20,300
22,161	**6,869**	Changes in other liabilities	**2,645**	8,532
145,830	**(116,906)**	**Net cash (used in)/from operating activities**	**(45,009)**	56,145
		INVESTING ACTIVITIES		
(445,696)	**(44,979)**	Purchase of investments (net)	**(17,317)**	(171,593)
432,940	**12,987**	Proceeds from sale / redemption of investments	**5,000**	166,682
(12,930)	**(8,127)**	Purchase of property, equipment and fixtures	**(3,129)**	(4,978)
2,626	**2,286**	Interest received on investments	**880**	1,011
-	**16**	Proceeds from sale of property, equipment and fixtures	**6**	-
(23,060)	**(37,817)**	**Net cash used in investing activities**	**(14,560)**	(8,878)
		FINANCING ACTIVITIES		
129,870	**129,870**	Receipts from final call on shares	**50,000**	50,000
4,571	**(75)**	Share issue expenses (paid) collected	**(29)**	1,760
134,441	**129,795**	**Net cash from financing activities**	**49,971**	51,760
257,211	**(24,930)**	**NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS**	**(9,598)**	99,027
-	**257,213**	**CASH AND CASH EQUIVALENT AT BEGINNING OF THE YEAR**	**99,027**	-
257,211	**232,283**	**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**	**89,429**	99,027
		REPRESENTING:		
53,057	**243,927**	Cash and balances with Central Banks	**93,912**	20,427
95,881	**179,782**	Due from Banks and other money market placements	**69,216**	36,914
129,870	**23,208**	Available-for-sale investments	**8,935**	50,000
(21,597)	**(214,634)**	Due to Banks and other money market deposits	**(82,634)**	(8,314)
257,211	**232,283**		**89,429**	99,027

The attached notes A1 to D6 form an integral part of these financial statements
The report of the auditors is set forth on page 1.

NOTES TO FINANCIAL STATEMENTS
At 31 December 2008

A1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Sohar SAOG ("the Bank") was established in the Sultanate of Oman on 4 March 2007 as a joint stock company and is primarily 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 Bank started commercial operations from 9 April 2007. The registered address of the Bank is PO Box 44, Hai Al Mina, Postal Code 114, Muscat, Sultanate of Oman.

The Bank employed **400** employees as of 31 December 2008 (2007:219).

A2 BASIS OF PREPARATION

A2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) requirements of the Oman Commercial Companies Law of 1974, as amended and the disclosure requirements of the Capital Market Authority and the applicable regulations of the Central Bank of Oman.

The financial statements were approved by the Board of Directors on **27 January 2009**.

A2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention except for the following:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through income statement are measured at fair value
- available for sale financial assets are measured at fair value

A2.3 Functional and presentation currency

These financial statements are presented in Rials Omani rounded, except as indicated, to the nearest thousand Rials Omani. The functional currency of the Bank's operations is Rial Omani.

A2.4 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that effect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are based on industry data 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.

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 consist of the provision for impairment of loans and advances.

NOTES TO FINANCIAL STATEMENTS

At 31 December 2008

A3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the Bank to all periods presented in these financial statements.

A3.1 Foreign currency translation

Transactions denominated in foreign currencies are translated into Rial Omani and recorded at rates of exchange ruling at the value dates of the transactions. 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. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period.

A3.2 Revenue & expense recognition

A3.2.a Interest income & expense

Interest income and expense is recognised in the income statement using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset/liability and is not revised subsequently. Interest Income and expense presented in the income statement include:

- Interest on financial assets and liabilities at amortised cost on an effective interest rate basis.
- Interest on available for sale investment securities on an effective interest basis.
- Fair value changes in qualifying derivatives (including hedge ineffectiveness) and related hedged items when interest rate risk is the hedged risk.

A3.2.b Fair value gains and losses

Fair value changes on derivatives held for risk management purposes, and financial assets other than loans and advances are carried at fair value through profit or loss, are presented in 'net income on other financial instruments carried at fair value' in the income statement.

Net Income from financial instruments at fair value relates to non-qualifying derivatives held for risk management purposes and financial assets designated at fair value through income statement, and include all realised and unrealised fair value changes interest, dividend and foreign exchange differences.

A3.2.c Dividend income

Dividend income is recognized when the right to receive income is established.

A3.2.d Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

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

A3.2.e Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are equivalent to the amortised value of the future liabilities.

A3.2.f Offsetting of income & expense

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Banks trading activity

NOTES TO FINANCIAL STATEMENTS

At 31 December 2008

A3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A3.3 Financial Assets and Liabilities

A3.3.a Recognition

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through income statement) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

Where assets are received without consideration these are accounted at ‘fair value’ in the balance sheet under the appropriate classification and consequently ‘deferred income’ is created and disclosed as ‘other liabilities’. Deferred income is recognized as ‘other income’ based on the encumbrance stipulated or usage of the asset.

A3.3.b Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flow from the asset expire, or its transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

A3.3.c Offsetting of assets and liabilities

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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A3.3.d Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using effective interest method of any difference between the initial amount recognised and the maturity amount , minus any reduction for impairment.

A3.3.e Fair value measurement

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. Investments having short term maturities are not discounted.

A3.3.f Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Bank does not intend to sell immediately or in the near term. Loans and advances are carried at amortized cost less specifically identified after collective allowance 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 the impaired loans and advances to their recoverable amounts.

A3.3.g Identification and measurement of impairment

Collective impairment provisions are maintained in respect of incurred losses, which have not yet been specifically 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 to income statement.

Non Specific provisions are established to meet the credit risks inherent within the loans and advances portfolio. This provision has been made to cover potential impairment which although not specifically identified, are to be present in the Bank’s portfolio of financial assets based on industry data.

A3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A3.3 Financial Assets and Liabilities *(continued)*

A3.3.h Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, unrestricted balances held with central Banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in management of its short term commitments. Cash and cash equivalents are carried at amortised cost in the balance sheet.

A3.3.i Balances due from Banks and other money market placements

These are stated at amortized cost less any allowance for impairment.

A3.3.j Designation at fair value through income statement

This category includes those assets and liabilities, 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.

A3.3.k Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as a portfolio that is managed together for short term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the balance sheet with transaction costs taken directly to income statement. All changes in fair value realised or unrealised are recognised as a part of net trading income in income statement. Trading assets and liabilities are not reclassified subsequent to their initial recognition. Interest earned or dividends received are included in the interest and dividend income respectively.

A3.3.l Non-trading investments

These are classified as follows:

- Available for sale
- Held to maturity

All non –trading 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 income statement, 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 through equity'. 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 income 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

Held-to-maturity investments are non derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold financial assets to maturity; they are stated at amortized cost using the effective interest rate method less impairment losses. Any sale or re-classification of a significant amount of held-to-maturity investments not close to their maturity would result in the re-classification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and following two financial years.

NOTES TO FINANCIAL STATEMENTS

At 31 December 2008

A3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A3.3.m 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.

A3.3.n Acceptances

Acceptances are disclosed on the balance sheet under other assets with corresponding liability disclosed under other liabilities. Therefore, there is no off balance sheet commitment for acceptances.

A3.3.o Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets and liabilities. Derivative held for risk management purposes are measured at fair value in the balance sheet. The treatment of changes in their fair value depends on their classification into the following categories:

Fair value hedge

When a derivative is designated as a hedge of the change in fair value of a recognised asset or liability or a firm commitment, changes in the fair value of the derivative are recognised immediately in income statement together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the derivative expires or is sold, terminated, or exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

Cash flow hedge

When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or a liability or a highly probable forecast transaction that could affect income statement, the effective portion of changes in the fair value of the derivative are recognised directly in equity. The amount recognised in equity is removed and included in income statement in the same period as the hedged cash flows affect profit or loss under the same income statement line item as the hedged item. Any ineffective portion change in the fair value of the derivative is recognised immediately in income statement.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then the hedge accounting is discontinued and the amount recognised in equity, remains in equity until the forecast transaction affects income statement. If the forecast transaction is no longer expected to occur, then the hedge accounting is discontinued and the balance in equity is recognised immediately in income statement.

Other non-trading derivative

When a derivative is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in income statement as a component of net income on other financial instruments carried at fair value.

A3.3.p Property, equipment and fixtures

Items of property, equipment and fixtures are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that are directly attributable to the acquisition of the asset. Depreciation is provided on a straight-line basis over the estimated useful lives of property, equipment and fixtures. The estimated useful lives for the current period are as follows:

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

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

A3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A3.3.q Deposits, debt securities issued and subordinated liabilities
All money market and customer deposits are carried at amortised cost. Deposits, debt securities issued and subordinated liabilities are measured at their amortized cost using the effective interest method. The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

A3.3.r Impairment of financial assets and provisions
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 or fair value, recognised in the income statement.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from the contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. The Bank also recognises any impairment loss on the asset associated with the contract before establishing a provision.

A3.4 Taxation

Taxation is provided for based on the tax laws of Sultanate of Oman. Income tax comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in 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 substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

A3.5 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.

A3.6 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.

A3.7 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.

A3.8 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 or sell 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.

A3.9 Leases
Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

NOTES TO FINANCIAL STATEMENTS
At 31 December 2008

A3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A3.10 Financial Guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment, when due in accordance with the terms of a debt instrument.
Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). The unamortized value or present value of the expected payment arising from the financial guarantee as the case may be is included in the other liabilities.

A3.11 Employee benefits

A3.11.a Terminal benefits
The terminal benefits for Omani employees are provided in accordance with the Sultanate of Oman's Social Insurance Law of 1991, and are recognised as an expense in the income statement as incurred.

The Bank's obligation in respect of non Omani terminal benefits, which is an unfunded defined benefit retirement plan, is amount of future benefit that such employees have earned in return for their services in the current and prior periods. The obligation is calculated using the project unit credit methods and is discounted to its present value.

A 3.11.b Short term benefits
Short term benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.
A provision is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

A3.12 Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Annualised EPS is calculated by annualizing the basic EPS for the whole year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes or similar instruments.

A3.13 Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing products or services (business segment) which is subject to risks and rewards that are different from those of other segments. The Bank's primary format for segment reporting is based on responsibility centres for customer focus.

A3.14 Comparative figures

The Bank commenced operations on 9th April 2007. The balance sheets as of the end of the current period ending 31 December 2008 and a comparative balance sheet as of the end of the immediately preceding fiscal year ending 31 December 2007 have been presented.

Comparative figures have been provided for the period from 9 April 2007 to 31 December 2007 due to non-availability of comparative data for twelve months of 2007 as the Bank commenced its operations only on 9 April 2007.

The statement showing changes in equity cumulatively for the current financial year to date 31 December 2008, with a comparative statement for the comparable year-to-date period from 9 April 2007 to 31 December 2007 have been presented.

A 3.15 New standards and interpretations not yet adopted

- IFRS 8 Operating Segments introduces the "management approach" to segment reporting. IFRS 8, which would become mandatory for the Bank's 2009 financial statements. This will require a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Bank's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. Currently the Bank presents segment information in respect of its business segments (see note A3.13). This standard will have no effect on the Bank's reported total profit or loss or equity. The Bank is currently in the process of determining the potential effect of this standard on the Bank's segment reporting.

A3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

A 3.15 New standards and interpretations not yet adopted *(continued)*

- Revised IAS 1 Presentation of Financial Statements (2007) introduces the term "total comprehensive income", which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Bank's 2009 financial statements, is expected to have a significant impact on the presentation of the financial statements as the Bank plans to provide total comprehensive income in a single statement of comprehensive income for its 2009 financial statements.

- Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Revised IAS 23 will become mandatory for the Bank's 2009 financial statements and will constitute a change in accounting policy for the Bank. In accordance with the transitional requirements, the Bank will apply the revised IAS 23 to qualifying assets for which capitalization of borrowing costs commences on or after the effective date. Therefore there will be no impact on prior periods in the Bank's 2009 financial statements.

- Amended IAS 27 Consolidated and Separate Financial Statements (2008) requires accounting for changes in ownership interests in a subsidiary that occur without loss of control, to be recognized as an equity transaction. When the Bank loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in profit or loss. The amendments to IAS 27, which become mandatory for the Bank's 2010 financial statements, are not expected to have a significant impact on the financial statements.

- Amendments to IAS 32 and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation require puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Bank's 2009 financial statements with retrospective application required, are not expected to have any significant impact on the financial statements.

- The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Bank's 2009 financial statements. The Bank does not expect these amendments to have any significant impact on the financial statements.

- Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Bank's 2010 financial statements, with retrospective application required. The Bank is currently in the process of evaluating the potential effect of this amendment.

- IFRIC 16 - Hedges of a Net Investment in a Foreign Operation clarifies that:
    - net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation
    - the hedging instrument may be held by any entity within the Bank except the foreign operation that is being hedged
    - on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss.

- The Interpretation allows an entity that uses the step-by-step method of consolidation an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation had been used. IFRIC 16, which becomes mandatory for the Bank's 2009 financial statements, applies prospectively to the Bank's existing hedge relationships and net investments. The Bank does not expect these amendments to have any significant impact on its financial statements.

NOTES TO FINANCIAL STATEMENTS

At 31 December 2008

B1 CASH AND BALANCES WITH CENTRAL BANK

31 December 2007 USD'000	**31 December 2008 USD'000**		**31 December 2008 RO'000**	31 December 2007 RO'000
3,366	**10,403**	Cash	**4,005**	1,296
13	**13**	Insurance deposit with Central Bank of Oman	**5**	5
130	**1,091**	Capital deposit with Central Bank of Oman	**420**	50
49,548	**232,420**	Unrestricted balances with Central Banks	**89,482**	19,076
53,057	**243,927**		**93,912**	20,427

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

B2 DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS

31 December 2007 USD'000	**31 December 2008 USD'000**		**31 December 2008 RO'000**	31 December 2007 RO'000
		Local Currency:		
42,792	**7,792**	Due from other Banks	**3,000**	16,475
42,792	**7,792**		**3,000**	16,475
		Foreign Currency:		
25,629	**165,419**	Due from other Banks	**63,686**	9,867
27,460	**6,571**	Nostro balances abroad	**2,530**	10,572
53,089	**171,990**		**66,216**	20,439
95,881	**179,782**	Total	**69,216**	36,914

B3 LOANS AND ADVANCES

31 December 2007 USD'000	**31 December 2008 USD'000**		**31 December 2008 RO'000**	31 December 2007 RO'000
432,309	**846,304**	Corporate loans	**325,827**	166,439
355,584	**826,686**	Personal loans	**318,274**	136,900
787,893	**1,672,990**	Gross loans and advances	**644,101**	303,339
(11,436)	**(24,836)**	Impairment allowance on portfolio basis	**(9,562)**	(4,403)
-	**(712)**	Impairment allowance on specific basis	**(274)**	-
776,457	**1,647,442**	Net loans and advances	**634,265**	298,936

Personal loans include RO 12,346,914 provided to staff on concessional terms (2007: RO 5,714,902).

NOTES TO FINANCIAL STATEMENTS
At 31 December 2008

B3 LOANS AND ADVANCES *(continued)*

Loans and advances comprise:

31 December 2007 USD'000	***31 December 2008 USD'000***		***31 December 2008 RO'000***	*31 December 2007 RO'000*
710,549	**1,533,824**	Loans	**590,522**	273,562
69,660	**101,761**	Overdrafts	**39,178**	26,819
6,655	**29,940**	Loan against trust receipts	**11,527**	2,562
1,029	**7,465**	Bills discounted	**2,874**	396
787,893	**1,672,990**	Gross loans and advances	**644,101**	303,339
(11,436)	**(24,836)**	Impairment allowance on portfolio basis	**(9,562)**	(4,403)
-	**(712)**	Impairment allowance on specific basis	**(274)**	-
776,457	**1,647,442**	Net loans and advances	**634,265**	298,936

As per the CBO requirements, the movement in the impairment allowance is as analysed below:

31 December 2007 USD'000	***31 December 2008 USD'000***	**Loan Loss Provision**	***31 December 2008 RO'000***	*31 December 2007 RO'000*
		Impairment allowance on portfolio basis		
-	**11,436**	Balance at beginning of year	**4,403**	-
11,436	**13,400**	Provided during the year	**5,159**	4,403
11,436	**24,836**	Balance at end of year	**9,562**	4,403
		Specific Provision		
-	**-**	Balance at beginning of year	**-**	-
-	**618**	Provided during the year	**238**	-
-	**618**	Balance at end of year	**238**	-
		Reserve Interest		
-	**-**	Balance at beginning of year	**-**	-
-	**94**	Reserved during the year	**36**	-
-	**94**	Balance at end of the year	**36**	-

Impairment allowance on portfolio basis is established to meet the credit risks inherent within the loans and advances on portfolio basis.

All loans and advances require payment of interest, some at fixed rates and others at rates that reprice prior to maturity. Interest reserve account is maintained by the Bank to comply with rules, regulations and guidelines issued by CBO against loans and advances which are impaired. As of 31 December 2008, loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 772,436 (2007: Nil).

NOTES TO FINANCIAL STATEMENTS
At 31 December 2008

B3 LOANS AND ADVANCES *(continued)*

The table below analyses the concentration of loans and advances by economic sector:

31 December 2007 USD'000	***31 December 2008 USD'000***		***31 December 2008 RO'000***	*31 December 2007 RO'000*
1,694	**4,948**	Agriculture	**1,905**	652
62,551	**94,096**	Government	**36,227**	24,082
60,005	**167,712**	Construction	**64,569**	23,102
44,156	**53,491**	Financial institutions	**20,594**	17,000
45,719	**89,086**	Import trade	**34,298**	17,602
995	**2,468**	Export trade	**950**	383
31,278	**51,800**	Manufacturing	**19,943**	12,042
355,584	**826,538**	Personal	**318,217**	136,900
19,122	**36,784**	Services	**14,162**	7,362
38,886	**62,016**	Non-resident	**23,876**	14,971
1,322	**8,444**	Mining and Quarrying	**3,251**	509
126,581	**275,607**	Others	**106,109**	48,734
787,893	**1,672,990**		**644,101**	303,339

B4 AVAILABLE-FOR-SALE INVESTMENTS

	Carrying/ Fair value 31 December 2008	***Cost 31 December 2008***	*Carrying/ Fair value 31 December 2007*	*Cost 31 December 2007*
	RO'000	***RO'000***	*RO'000*	*RO'000*
Unquoted investments	**20,629**	**20,889**	55,000	55,000
Quoted investments	**5,159**	**7,781**	-	-
Balance at end of year	**25,788**	**28,670**	55,000	55,000
	USD'000	***USD'000***	*USD'000*	*USD'000*
Unquoted investments	**53,582**	**54,257**	142,857	142,857
Quoted investments	**13,400**	**20,210**	-	-
Balance at end of year	**66,982**	**74,467**	142,857	142,857

Treasury bills and Certificates of Deposit were earlier shown as held to maturity and valued at amortised cost. During the previous year, a significant amount of treasury bills were sold before maturity and accordingly under IAS 39 these are classified as available-for-sale investments and valued at fair value.

NOTES TO FINANCIAL STATEMENTS
At 31 December 2008

B5 PROPERTY, EQUIPMENT AND FIXTURES

	Freehold Land RO 000	*Production Software RO 000*	*Furniture & fixtures RO 000*	*Office Equipments RO 000*	*Motor Vehicles RO 000*	*Capital Work in progress RO 000*	*Total RO 000*
At cost:							
1 January 2008	**-**	**2,502**	**336**	**858**	**145**	**1,137**	**4,978**
Additions*	**7,000**	**1,020**	**1,053**	**736**	**202**	**118**	**10,129**
Disposals	**-**	**-**	**-**	**-**	**(6)**	**-**	**(6)**
Transfers	**-**	**1**	**-**	**1,008**	**-**	**(1,009)**	**-**
Carrying Value at Cost	**7,000**	**3,523**	**1,389**	**2,602**	**341**	**246**	**15,101**
Accumulated Depreciation:							
1 January 2008	**-**	**(210)**	**(61)**	**(48)**	**(22)**	**-**	**(341)**
Depreciation	**-**	**(431)**	**(238)**	**(278)**	**(84)**	**-**	**(1,031)**
Disposals	**-**	**-**	**-**	**-**	**1**	**-**	**1**
Total Depreciation	**-**	**(641)**	**(299)**	**(326)**	**(105)**	**-**	**(1,371)**
Net carrying value at 31 December 2008	**7,000**	**2,882**	**1,090**	**2,276**	**236**	**246**	**13,730**
Net carrying value at 31 December 2007	-	2,292	275	810	123	1,137	4,637
Net carrying value at 31 December 2008 – USD'000	**18,182**	**7,486**	**2,831**	**5,912**	**613**	**639**	**35,662**
Net carrying value at 31 December 2007 – USD'000	-	5,953	714	2,104	319	2,953	12,044

*Bank Sohar has received three plots of land as grant from the Government of Sultanate of Oman, one plot is in Sohar and two plots are in Muscat region. The Bank has recorded the land based on the average valuation of the two professional valuators. The valuation was conducted on an estimated market value basis assuming a willing buyer and seller acting prudently, knowledgeably and assuming the price is not affected by extraneous circumstances. An amount equivalent to the value of the land has also been recorded as deferred income and disclosed as a separate liability.

B6 OTHER ASSETS

31 December 2007 USD'000	***31 December 2008 USD'000***		***31 December 2008 RO'000***	*31 December 2007 RO'000*
5,779	**7,952**	Interest receivable	**3,062**	2,225
1,403	**1,322**	Prepayments and deposits	**509**	540
3,680	**1,956**	Acceptances	**753**	1,417
21	**1,795**	Fair value receivables – forward exchange contracts	**691**	8
-	**969**	Deferred tax asset *(Note C7)*	**373**	-
618	**1,590**	Others	**612**	238
11,501	**15,584**		**6,000**	4,428

B7 DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

31 December 2007 USD'000	***31 December 2008 USD'000***		***31 December 2008 RO'000***	*31 December 2007 RO'000*
		Local Currency:		
74,286	**25,974**	Money market borrowings	**10,000**	28,600
74,286	**25,974**		**10,000**	28,600
		Foreign Currency:		
-	**208,400**	Money market borrowings	**80,234**	-
36	**-**	Nostro credit balances	**-**	14
36	**208,400**		**80,234**	14
74,322	**234,374**	Total	**90,234**	28,614

B8 CERTIFICATES OF DEPOSIT

The Bank had received approval from Central Bank of Oman to issue Certificates of Deposits (CDs) up to RO 100 million in 2007, which expired on 31 December 2007. The CD was denominated in Rial Omani with a maturity ranging from 2-5 years and with a fixed rate of interest. A fresh approval was obtained from Central Bank of Oman to raise CDs up to RO 200 million during the year 2008. The CDs are to be denominated in Rial Omani and US Dollars. The approval was valid up to 31 December 2008.

B9 CUSTOMERS' DEPOSITS

31 December 2007 USD'000	***31 December 2008 USD'000***		***31 December 2008 RO'000***	*31 December 2007 RO'000*
31,239	**86,138**	Current deposits	**33,163**	12,027
56,961	**60,039**	Call deposits	**23,115**	21,930
67,777	**191,351**	Savings deposits	**73,670**	26,094
474,313	**1,084,036**	Term deposits	**417,354**	182,611
416	**1,587**	Margin accounts	**611**	160
630,706	**1,423,151**		**547,913**	242,822

		Retail customers:		
5,603	**7,408**	Current deposits	**2,852**	2,157
67,777	**191,351**	Saving deposits	**73,670**	26,094
		Corporate customers:		
474,313	**1,084,036**	Term deposits	**417,354**	182,611
25,636	**78,730**	Current deposits	**30,311**	9,870
56,961	**60,039**	Call deposits	**23,115**	21,930
416	**1,587**	Others	**611**	160
630,706	**1,423,151**		**547,913**	242,822

NOTES TO FINANCIAL STATEMENTS

At 31 December 2008

B10 DEFERRED INCOME

31 December 2007 USD'000	***31 December 2008 USD'000***		***31 December 2008 RO'000***	*31 December 2007 RO'000*
-	**18,182**	Deferred income on grants received from the Government in the form of freehold land	**7,000**	-
-	**18,182**		**7,000**	-

B11 OTHER LIABILITIES

31 December 2007 USD'000	***31 December 2008 USD'000***		***31 December 2008 RO'000***	*31 December 2007 RO'000*
8,218	**15,722**	Interest payable	**6,053**	3,164
1,423	**2,400**	Staff entitlements	**924**	548
3,681	**1,956**	Acceptances	**753**	1,417
34	**3**	Accounts payable in suspense	**1**	13
-	**239**	Fair value payables – forward exchange contracts	**92**	-
8,806	**8,711**	Other accruals and provisions	**3,354**	3,390
22,162	**29,031**		**11,177**	8,532
		Staff entitlements are as follows:		
68	**210**	End of service benefits	**81**	26
1,355	**2,190**	Other liabilities	**843**	522
1,423	**2,400**		**924**	548

Movements in the end of service benefits liability are as follows:

-	**68**	Liability as at 1 January	**26**	**-**
68	**145**	Expenses recognized in the income statement	**56**	26
-	**(3)**	End of service benefits paid	**(1)**	-
68	**210**	Liability as at end of the year	**81**	26

B12 SHARE CAPITAL

The authorised, issued and paid up share capital of the Bank is 1,000,000,000 shares of RO 0.100 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 expenses of RO 0.020 was payable on application. Each RO 1 share was split into 10 shares of RO 0.100 each in an extraordinary general meeting held on 26 April 2008. Consequently the balance callable amount was reduced to RO 0.050 per share. The balance RO 0.050 per share was called upon to be paid by the shareholders on 10 May'08. The Bank has received the call money on the issued shares.

As of 31 December 2008, the following shareholders held 10% or more of the Bank's capital, either individually or together with family members.

	Number of shares	***% Holding***
Al Ghadeer Al Arabiyah LLC	**160,000,000**	**16.00%**
Royal Court of Affairs	**145,690,340**	**14.57%**

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B13 LEGAL RESERVE

In accordance with the Commercial Companies Law of Oman of 1974, an annual appropriation of 10% of the net profit for the year is required to be made to legal reserve until such time that the accumulated reserve is equal to at least one third of the Bank's issued share capital which has been complied with. The legal reserve also include issue expenses of RO 0.020 per share which were collected from the shareholders of the Bank net of issue expenses. The movement in the reserve has been disclosed in the statement of changes in equity.

B14 FAIR VALUE LOSSES

The fair value losses include the cumulative net change in the fair value of the available-for-sale investments until the investment is derecognised or impaired.

B15 NET ASSETS PER SHARE

The calculation of net assets per share is based on net assets of RO 96,487,000 as at 31 December 2008 attributable to ordinary shareholders on 1,000,000,000 ordinary shares, being the number of shares outstanding as at 31 December 2008 (RO 49,274,000 as at 31 December 2007).

B16 CONTINGENT LIABILITIES AND COMMITTMENTS

B16.1 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.

31 December 2007 USD'000	***31 December 2008 USD'000***		***31 December 2008 RO'000***	*31 December 2007 RO'000*
31,145	**131,901**	Guarantees	**50,782**	11,991
38,798	**44,909**	Documentary letters of credit	**17,290**	14,937
69,943	**176,810**		**68,072**	26,928

The table below analyses the concentration of contingent liabilities by economic sector:

31 December 2007 USD'000	***31 December 2008 USD'000***		***31 December 2008 RO'000***	*31 December 2007 RO'000*
22,379	**19,958**	Government	**7,684**	8,616
20,753	**63,621**	Construction	**24,494**	7,990
2,042	**24,353**	Import trade	**9,376**	786
2,595	**216**	Export trade	**83**	999
7,751	**4,143**	Manufacturing	**1,595**	2,984
11,935	**3,761**	Transport and communication	**1,448**	4,595
275	**52,491**	Services	**20,209**	106
2,213	**8,267**	Others	**3,183**	852
69,943	**176,810**		**68,072**	26,928

NOTES TO FINANCIAL STATEMENTS
At 31 December 2008

B16 CONTINGENT LIABILITIES AND COMMITTMENTS*(Continued)*

B16.2 Commitments

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 expiry 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.

31 December 2007 USD'000	***31 December 2008 USD'000***		***31 December 2008 RO'000***	*31 December 2007 RO'000*
561	**2,273**	Capital commitments	**875**	216
140,249	**431,524**	Credit related commitments	**166,137**	53,996
140,810	**433,797**		**167,012**	54,212

B17 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 specific 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 are as follows:

31 December 2007 USD'000	***31 December 2008 USD'000***		***31 December 2008 RO'000***	*31 December 2007 RO'000*
		A) Loans and Advances		
-	**17,426**	Opening Balance	**6,709**	-
37,621	**85,800**	Loans issued during the year	**33,033**	14,484
(20,195)	**(64,810)**	Loans repayment during the year	**(24,952)**	(7,775)
17,426	**38,416**	Closing balances for the year	**14,790**	6,709
		B) Deposits		
-	**42,564**	Opening Balance	**16,387**	-
167,421	**410,600**	Deposits received during the year	**158,081**	64,457
(124,857)	**(398,979)**	Deposits repaid during the year	**(153,607)**	(48,070)
42,564	**54,185**	Closing balances for the year	**20,861**	16,387
		C) Income Statement		
262	**1,439**	Interest income	**554**	101
(813)	**(3,629)**	Interest expense	**(1,397)**	(313)
		D) Senior Management compensation		
2,732	**3,878**	Salaries and other short term benefits	**1,493**	1,052
161	**169**	**E) Directors sitting fees**	**65**	62

NOTES TO FINANCIAL STATEMENTS

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B18 FAIR VALUE OF FINANCIAL INSTRUMENTS

It is the Bank's intention to hold loans and advances to customers to maturity. As a result the fair value of performing loans is arrived at using the discounted cash flow analysis based on a discount rate equal to the prevailing market rates of interest for loans having similar terms and conditions. The Bank considers that the fair value of financial instruments is not significantly different to their carrying value at each of those dates.

The table below sets out the classification of each class of financial assets and liabilities, and their fair values (excluding accrued interest) as at 31 December 2008:

As at 31 December 2008	***Cash***	***Loans and receivables***	***Amortised cost***	***Available for sale***	***Total carrying amount***	***Fair value***
	RO 000	***RO 000***	***RO 000***	***RO 000***	***RO 000***	***RO 000***
Cash and balances with Central Bank	**4,005**	**89,907**	**-**	**-**	**93,912**	**93,912**
Due from banks and other money market placements	**-**	**69,216**	**-**	**-**	**69,216**	**69,216**
Loans and advances	**-**	**634,265**	**-**	**-**	**634,265**	**634,265**
Investments	**-**	**-**	**-**	**25,788**	**25,788**	**25,788**
Total	**4,005**	**793,388**	**-**	**25,788**	**823,181**	**823,181**
Due to banks and other money market deposits	**-**	**-**	**90,234**	**-**	**90,234**	**90,234**
Certificates of deposit	**-**	**-**	**90,100**	**-**	**90,100**	**90,100**
Customers' deposits	**-**	**-**	**547,913**	**-**	**547,913**	**547,913**
Total	**-**	**-**	**728,247**	**-**	**728,247**	**728,247**

As at 31 December 2007	*Cash*	*Loans and receivables*	*Amortised cost*	*Available for sale*	*Total carrying amount*	*Fair value*
	RO 000	*RO 000*	*RO 000*	*RO 000*	*RO 000*	*RO 000*
Cash and balances with Central Bank	1,296	19,131	-	-	20,427	20,427
Due from Banks and other money market placements	-	36,914	-	-	36,914	36,914
Loans and advances	-	298,936	-	-	298,936	298,936
Investments	-	-	-	55,000	55,000	55,000
Total	1,296	354,981	-	55,000	411,277	411,277
Due to Banks and other money market deposits	-	-	28,614	-	28,614	28,614
Certificates of deposit	-	-	91,100	-	91,100	91,100
Customers' deposits	-	-	242,822	-	242,822	242,822
Total	-	-	362,536	-	362,536	362,536

NOTES TO FINANCIAL STATEMENTS

At 31 December 2008

B18 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

As at 31 December 2008	***Cash***	***Loans and receivables***	***Amortised cost***	***Available for sale***	***Total carrying amount***	***Fair value***
	USD'000	***USD'000***	***USD'000***	***USD'000***	***USD'000***	***USD'000***
Cash and balances with Central Bank	**10,403**	**233,524**	**-**	**-**	**243,927**	**243,927**
Due from banks and other money market placements	**-**	**179,782**	**-**	**-**	**179,782**	**179,782**
Loans and advances	**-**	**1,647,442**	**-**	**-**	**1,647,442**	**1,647,442**
Investments	**-**	**-**	**-**	**66,982**	**66,982**	**66,982**
Total	**10,403**	**2,060,748**	**-**	**66,982**	**2,138,133**	**2,138,133**
Due to banks and other money market deposits	**-**	**-**	**234,374**	**-**	**234,374**	**234,374**
Certificates of deposit	**-**	**-**	**234,026**	**-**	**234,026**	**234,026**
Customers' deposits	**-**	**-**	**1,423,151**	**-**	**1,423,151**	**1,423,151**
Total	**-**	**-**	**1,891,551**	**-**	**1,891,551**	**1,891,551**

As at 31 December 2007	*Cash*	*Loans and receivables*	*Amortised cost*	*Available for sale*	*Total carrying amount*	*Fair value*
	USD'000	*USD'000*	*USD'000*	*USD'000*	*USD'000*	*USD'000*
Cash and balances with Central Bank	3,366	49,691	-	-	53,057	53,057
Due from Banks and other money market placements	-	95,881	-	-	95,881	95,881
Loans and advances	-	776,457	-	-	776,457	776,457
Investments	-	-	-	142,857	142,857	142,857
Total	3,366	922,029	-	142,857	1,068,252	1,068,252
Due to Banks and other money market deposits	-	-	74,322	-	74,322	74,322
Certificates of deposit	-	-	236,623	-	236,623	236,623
Customers' deposits	-	-	630,706	-	630,706	630,706
Total	-	-	941,651	-	941,651	941,651

NOTES TO FINANCIAL STATEMENTS
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B19 DERIVATIVES

In the ordinary course of business the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. The derivative financial instruments used by the Bank are described below:

B19.1 Derivative product types

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counter parties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity, foreign currency or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Bank transacts only in currency options for its customers. The Bank does not engage in the writing of options.

B19.2 Derivatives held or issued for hedging purposes

As part of its asset and liability management the Bank uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. Hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall balance sheet exposures achieve this.

The Bank uses forward foreign exchange contracts, options and currency swaps to hedge against specifically identified currency risks. The Bank uses forward foreign exchange contracts to hedge against exposures in various currencies to meet the net open position limit of 40% as mandated by the Central Bank of Oman.

In addition, the Bank uses interest rate swaps to hedge against the cash flow risks arising from certain fixed interest rate loans and deposits.

For interest rate risk strategic hedging is carried out by monitoring the re-pricing of financial assets and liabilities and entering into interest rate swaps to hedge a proportion of the interest rate exposure. As strategic hedging does not qualify for special hedge accounting, the related derivatives are accounted for as trading instruments.

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B19.2 Derivatives held or issued for hedging purposes (continued)

The table below shows the notional amounts of derivative financial instruments as on the reporting date, which are the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

As at 31 December 2008

		Notional amounts by term to maturity		
	Notional amount	***Within 3 months***	***3 - 12 months***	***1 - 5 years***
	RO'000	***RO'000***	***RO'000***	***RO'000***
Forward foreign exchange purchase contracts	**33,935**	**30,120**	**3,815**	**-**
Forward foreign exchange sales contracts	**56,446**	**29,526**	**26,920**	**-**
	USD'000	***USD'000***	***USD'000***	***USD'000***
Forward foreign exchange purchase contracts	**88,143**	**78,234**	**9,909**	**-**
Forward foreign exchange sales contracts	**146,613**	**76,691**	**69,922**	**-**

As at 31 December 2007

		Notional amounts by term to maturity		
	Notional amount	*Within 3 months*	*3 - 12 months*	*1 - 5 years*
	RO'000	*RO'000*	*RO'000*	*RO'000*
Forward foreign exchange purchase contracts	10,292	2,116	8,176	-
Forward foreign exchange sales contracts	33,328	2,116	8,112	23,100
	USD'000	*USD'000*	*USD'000*	*USD'000*
Forward foreign exchange purchase contracts	26,732	5,496	21,236	-
Forward foreign exchange sales contracts	86,566	5,496	21,070	60,000

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C1 INTEREST INCOME

From 9 April 2007 Up to 31 December 2007 USD'000	***31 December 2008 USD'000***		***31 December 2008 RO'000***	*From 9 April 2007 Up to 31 December 2007 RO'000*
2,436	**3,730**	Due from Banks	**1,436**	938
19,232	**79,724**	Loans and advances to customers	**30,694**	7,404
2,626	**2,286**	Investment securities	**880**	1,011
24,294	**85,740**		**33,010**	9,353

C2 INTEREST EXPENSE

From 9 April 2007 Up to 31 December 2007 USD'000	***31 December 2008 USD'000***		***31 December 2008 RO'000***	*From 9 April 2007 Up to 31 December 2007 RO'000*
1,364	**7,356**	Deposits from Banks	**2,832**	525
13,278	**50,309**	Deposits from customers	**19,369**	5,112
14,642	**57,665**		**22,201**	5,637

C3 OTHER OPERATING INCOME

From 9 April 2007 Up to 31 December 2007 USD'000	***31 December 2008 USD'000***		***31 December 2008 RO'000***	*From 9 April 2007 Up to 31 December 2007 RO'000*
81	**371**	Net gain from foreign exchange dealings	**143**	31
11,919	**17,351**	Fees and commission	**6,680**	4,589
192	**-**	Gains from financial investments through equity	**-**	74
39	**252**	Realised gains on financial investments through income statement	**97**	15
12,231	**17,974**		**6,920**	4,709

NOTES TO FINANCIAL STATEMENTS

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C4 OTHER OPERATING EXPENSES

From 9 April 2007 Up to 31 December 2007 USD'000	***31 December 2008 USD'000***		***31 December 2008 RO'000***	*From 9 April 2007 Up to 31 December 2007 RO'000*
834	**2,488**	Establishment costs	**958**	321
4,922	**9,008**	Operating and administration costs	**3,468**	1,895
130	**169**	Directors sitting fees	**65**	50
5,886	**11,665**		**4,491**	2,266

C5 NET PRE-INCORPORATION EXPENSES

For the period ended on 3 March 2007 USD'000	***31 December 2008 USD'000***		***31 December 2008 RO'000***	*For the period ended on 3 March 2007 RO'000*
221	**-**	Establishment costs	**-**	85
2,099	**-**	Operating and administration costs	**-**	808
569	**-**	Staff cost	**-**	219
2,889	**-**		**-**	1,112
(1,114)	**-**	Less: Interest income	**-**	(429)
1,775	**-**		**-**	683

C6 NET PRE-OPERATING EXPENSES

For the period from 4 March 2007 to 8 April 2007 USD'000	***31 December 2008 USD'000***		***31 December 2008 RO'000***	*For the period from 4 March 2007 to 8 April 2007 RO'000*
57	**-**	Establishment costs	**-**	22
384	**-**	Operating and administration costs	**-**	148
545	**-**	Staff cost	**-**	210
8	**-**	Depreciation	**-**	3
994	**-**		**-**	383
(309)	**-**	Less: Interest income	**-**	(119)
685	**-**		**-**	264

NOTES TO FINANCIAL STATEMENTS
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C7 DEFERRED TAX INCOME

The Bank is liable to income tax for the year 2008 in accordance with the income tax laws of the Sultanate of Oman at the rate of 12% on taxable profits in excess of RO 30,000. The following is a reconciliation of income taxes calculated at the applicable tax rate with the income tax expense:

31 December 2007 USD'000	***31 December 2008 USD'000***		***31 December 2008 RO'000***	*31 December 2007 RO'000*
(6,458)	**(6,850)**	Accounting loss for the year	**(2,637)**	(2,486)
-	**(673)**	Non deductible expenses	**(259)**	-
-	**23**	Tax exempt revenue	**9**	-
-	**797**	Previously unrecognized tax losses now recognized	**307**	-
-	**821**	Effect of tax losses of current year	**316**	-
-	**968**	Deferred tax income	**373**	-

The deferred tax asset comprises the following temporary differences:

31 December 2007 USD'000	***31 December 2008 USD'000***		***31 December 2008 RO'000***	*31 December 2007 RO'000*
-	**891**	Tax losses	**343**	-
-	**78**	Fair value adjustment on unquoted investments	**30**	-
-	**969**		**373**	-

NOTES TO FINANCIAL STATEMENTS
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C8 BASIC EARNINGS/(LOSS) PER SHARE

Earnings/(loss) per share is calculated by dividing the net profit/(loss) for the year by the weighted average number of shares outstanding during the year.

From 9 April 2007 up to 31 December 2007 USD'000	***31 December 2008 USD'000***		***31 December 2008 RO'000***	*From 9 April 2007 up to 31 December 2007 RO'000*
(6,457)	**(5,881)**	Net profit/(loss) for the year	**(2,264)**	(2,486)
1,000,000	**1,000,000**	Weighted average number of shares of RO 0.100 each outstanding during the year (in thousands) **	**1,000,000**	1,000,000
(6.457)	**(5.881)**	Net earnings/(loss) per share for the year (in baizas)	**(2.264)**	(2.486)
(7.945)	**(5.881)**	Net earnings/(loss) per share for the year (annualised - in baizas)	**(2.264)**	(3.059)

No figure for diluted earnings per share has been presented, as the Bank has not issued any convertible instruments, which would have an impact on earnings per share when exercised.

** Weighted average number of shares for 2007 has been restated to that of 2008 taking into effect the split and for comparability.

D FINANCIAL RISK MANAGEMENT

The primary objective of the risk management system is to safeguard the Bank's capital, its financial resources and from various risks. The Bank has exposure to the following risk from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability Committee (ALCO), Credit and Risk committee, which are responsible for developing and monitoring Bank's risk management policies in their specified areas. All Board committees report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management polices and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management procedures, aims to develop a constructive control environment, in which all employees understand their roles and obligations.

D FINANCIAL RISK MANAGEMENT (continued)

The Bank Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

D1 CREDIT RISK

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other Banks and investment securities. For risk management reporting purposes the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk)

D1.1 Management of credit risk

The Board of Directors has delegated responsibility for the monitoring of credit risk to its Credit & Risk Committee. A separate Risk Management Department, reporting to the CEO, is responsible for following:

- Formulating credit risk policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorization structure for the approval and renewal of credit facilities.
- Reviewing and assessing credit risk. The Board Credit & Risk Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process. The process also includes approval by Risk of borrower ratings arrived at by the business units.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, market liquidity and country (for investment securities).
- Developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Ensuring always to be with in the single obligor limit and also within the concentration risk limit, for various sectors, which are continuously monitored.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Each business unit is required to implement Bank's credit risk policies and procedures, with credit approval authorities delegated from the Bank's Credit & Risk Committee. Business units have their counter parts in Risk Management, having specialised expertise in managing risks typical to these business units. Regular audits of business units and Bank's Credit processes are undertaken by Internal Audit.

D FINANCIAL RISK MANAGEMENT *(continued)*

D1 CREDIT RISK *(continued)*

D1.2 Exposure to credit

The credit exposure of the Bank as on the reporting date is as follows:

	31 December 2008			31 December 2007		
	Gross Loans and advances to Customers RO'000	Placements with Banks RO'000	Investment securities RO'000	Gross Loans and advances to Customers RO'000	Placements with Banks RO'000	Investment securities RO'000
Carrying amount	**644,101**	**69,216**	**25,788**	303,339	36,914	55,000
Past due but not impaired						
0 -30 days	**9,892**	**-**	**-**	254	-	-
31-60 days	**2,531**	**-**	**-**	-	-	-
61-89 days	**173**	**-**	**-**	-	-	-
	12,596	**-**	**-**	254	-	-
Past due and impaired	**772**	**-**	**-**	-	-	-
Neither past due nor impaired	**630,733**	**69,216**	**25,788**	303,085	36,914	55,000

	31 December 2008			31 December 2007		
	Gross Loans and advances to Customers USD'000	Placements with Banks USD'000	Investment securities USD'000	Gross Loans and advances to Customers USD'000	Placements with Banks USD'000	Investment securities USD'000
Carrying amount	**1,672,990**	**179,782**	**66,982**	787,894	95,881	142,857
Past due but not impaired						
0 -30 days	**25,694**	**-**	**-**	660	-	-
31-60 days	**6,574**	**-**	**-**	-	-	-
61-89 days	**449**	**-**	**-**	-	-	-
	32,717	**-**	**-**	660	-	-
Past due and impaired	**2,005**	**-**	**-**	**-**	**-**	**-**
Neither past due nor impaired	**1,638,268**	**179,782**	**66,982**	787,234	95,881	142,857

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D FINANCIAL RISK MANAGEMENT *(continued)*

D1.3 Impaired Loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all the principal and interest due according to the contractual terms of the loan /securities agreement.

D1.3.a Past due but not impaired

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security /collateral available and /or the stage of collection of amounts owed by the Bank.

D1.3.b Loans with negotiated terms

Loans with negotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

D1.3.c Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are specific loss components that relates to individually significant exposures, and a collection loan loss allowance established for Banks of homogenous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

D1.3.d Write off policy

The Bank writes off a loan /security balance (and any related allowances for impairment losses) when the Bank determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower /issuer's financial position such that the borrower issuer can no longer pay the obligation, or that proceeds from the collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge off decisions generally are based on a product specific past due status.

Set out below is an analysis of gross and net (of allowances for impairment) amounts of individually impaired assets by risk classification.

	31 December 2008		*31 December 2007*	
	Loans and Advances		*Loans and Advances*	
Particulars	***Gross***	***Net***	*Gross*	*Net*
	RO'000	***RO'000***	*RO'000*	*RO'000*
Sub-standard	**415**	**302**	-	-
Doubtful	**341**	**196**	-	-
Loss	**16**	**-**	-	-
	772	**498**	-	-
	USD'000	***USD'000***	*USD'000*	*USD'000*
Sub-standard	**1,078**	**785**	-	-
Doubtful	**886**	**509**	-	-
Loss	**42**	**-**	-	-
	2,006	**1,294**	-	-

NOTES TO FINANCIAL STATEMENTS

At 31 December 2008

D FINANCIAL RISK MANAGEMENT *(continued)*

D1 CREDIT RISK *(continued)*

D 1.4 Collateral securities

The Bank holds collateral against the loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing and updated once in three years, except when a loan is individually assessed as impaired. The shares of MSM listed companies which are taken as securities are valued on daily basis to manage the risks of extreme volatility.

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

31 December 2007 Gross loans and advances USD'000	***31 December 2008 Gross loans and advances USD'000***		***31 December 2008 Gross loans and advances RO'000***	*31 December 2007 Gross loans and advances RO'000*
		Against past due but not impaired		
1,005	**22,234**	Property	**8,560**	387
26	**1,782**	Fixed deposits	**686**	10
-	**608**	Equity	**234**	-
1,031	**24,624**		**9,480**	397
		Against past due and impaired		
-	**423**	Property	**163**	-
-	**423**		**163**	397
		Against neither past due nor impaired		
187,156	**301,842**	Property	**116,209**	72,055
14,660	**14,974**	Fixed deposits	**5,765**	5,644
26,244	**56,574**	Equity	**21,781**	10,104
-	**36,026**	Guarantees	**13,870**	-
228,060	**409,416**		**157,625**	87,803
229,091	**434,463**	**Total**	**167,268**	88,200

D1.5 Settlement Risk

Settlement risk is the risk of loss due to the failure of a company to honour its obligations to delver cash, securities or other assets as contractually agreed on the day of settlement

In foreign exchange trades, though there is fulfilment of both the legs of the transaction on the settlement date as is common practice between trading partners (free settlement), there will be risk on account of different time zones. In these cases, the settlement risk is mitigated through the execution of bilateral payment netting agreements.

D FINANCIAL RISK MANAGEMENT *(continued)*

D1 CREDIT RISK *(continued)*

D1.6 Concentrations

The Bank monitors concentration of credit risk by sector and by geographic location. An analysis of concentration of credit risk at the reporting date is shown below:

	31 December 2008			*31 December 2007*		
	Gross loans and advances to customers RO'000	***Placements with Bank RO'000***	***Investment securities RO'000***	*Gross loans and advances to customers RO'000*	*Placements with Bank RO'000*	*Investment securities RO'000*
Concentration by sector						
Corporate	**325,827**	**-**	**3,134**	166,439	-	-
Personal	**318,274**	**-**	**-**	136,900	-	-
Sovereign	**-**	**-**	**22,654**	-	-	55,000
Banks	**-**	**69,216**	**-**	-	36,914	-
	644,101	**69,216**	**25,788**	303,339	36,914	55,000
Concentration by location						
Middle east	**639,866**	**63,137**	**16,632**	298,168	30,031	55,000
Europe	**-**	**569**	**8,414**	-	266	-
North America	**-**	**1,454**	**742**	-	6,610	-
South Asia	**2,310**	**4,022**	**-**	4,760	-	-
Australia	**-**	**33**	**-**	-	-	-
Central Asia	**1,925**	**1**	**-**	411	7	-
	644,101	**69,216**	**25,788**	303,339	36,914	55,000
	USD'000	***USD'000***	***USD'000***	*USD'000*	*USD'000*	*USD'000*
Concentration by sector						
Corporate	**846,304**	**-**	**8,140**	432,309	-	-
Personal	**826,686**	**-**	**-**	355,584	-	-
Sovereign	**-**	**-**	**58,842**	-	-	142,857
Banks	**-**	**179,782**	**-**	-	95,881	-
	1,672,990	**179,782**	**66,982**	787,893	95,881	142,857
Concentration by location						
Middle east	**1,661,990**	**163,991**	**43,200**	774,461	78,003	142,857
Europe	**-**	**1,478**	**21,855**	-	691	-
North America	**-**	**3,777**	**1,927**	-	17,169	-
South Asia	**6,000**	**10,447**	**-**	12,364	-	-
Australia	**-**	**86**	**-**	-	-	-
Central Asia	**5,000**	**3**	**-**	1,068	18	-
	1,672,990	**179,782**	**66,982**	787,893	95,881	142,857

Concentration by location for loans and advances is measured based on the location of the Bank entity holding the asset, which has a high correlation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security.

The Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risk with Banks or customers in specific currency. It also obtains security when appropriate.

NOTES TO FINANCIAL STATEMENTS

At 31 December 2008

D FINANCIAL RISK MANAGEMENT *(continued)*

D2 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial obligations.

D2.1 Management of liquidity risk

The Banks approach to managing liquidity is to ensure , as far as possible , that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Banks reputation.

Liquidity risk is managed by the bank through closely monitoring the liquidity gap against the limit fixed.

Adequate liquidity is ensured by Central Treasury, which receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Central Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to Banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. In this process due care is taken to ensure that the Bank complies with all the Central Bank regulations.

All liquidity policies and procedures are subject to review and approved by ALCO.

D2.2 Exposure to liquidity risk

The lending ratio, which is the ratio of the total loans and advances to customer deposits and capital, is monitored on a daily basis in line with the regulatory guidelines. Internally the lending ratio is set at a more conservative basis than required by regulation. The Bank also manages its liquidity risk on a monthly basis monitoring the liquid ratio which is a ratio of net liquid assets to total assets. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market.

Details of the reported lending and liquid ratio as at 31 December 2008 were as follows:

	31 December 2008		*31 December 2007*	
	Lending ratio	***Liquid ratio***	*Lending ratio*	*Liquid ratio*
Average for the year	**81.67%**	**21.37%**	73.25%	40.11%
Maximum for the year	**85.20%**	**33.17%**	87.50%	86.12%
Minimum for the year	**73.00%**	**16.59%**	-	26.73%

Residual contractual maturities of financial liabilities

The table below summarises the maturity profile of the Bank’s liabilities as on the reporting date 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.

NOTES TO FINANCIAL STATEMENTS

At 31 December 2008

D FINANCIAL RISK MANAGEMENT *(continued)*

D2 LIQUIDITY RISK *(continued)*

D2.2 Exposure to liquidity risk *(continued)*

As at 31 December 2008:

	Carrying amount	***Gross Nominal Outflow***	***Within 3 months***	***3 - 12 months***	***Over 1 year***
	RO'000	***RO'000***	***RO'000***	***RO'000***	***RO'000***
Non-derivative liabilities					
Due to banks and other money market deposits	**90,234**	**91,630**	**83,554**	**1,662**	**6,414**
Certificates of deposits	**90,100**	**96,829**	**144**	**59,076**	**37,609**
Customers' deposits	**547,913**	**568,121**	**341,362**	**139,313**	**87,446**
Deferred income	**7,000**	**7,000**	**-**	**-**	**7,000**
Other liabilities	**11,177**	**11,177**	**11,177**	**-**	**-**
Total	**746,424**	**774,757**	**436,237**	**200,051**	**138,469**
	USD'000	***USD'000***	***USD'000***	***USD'000***	***USD'000***
Non-derivative liabilities					
Due to banks and other money market deposits	**234,374**	**238,000**	**217,023**	**4,317**	**16,660**
Certificates of deposits	**234,026**	**251,504**	**374**	**153,444**	**97,686**
Customers' deposits	**1,423,151**	**1,475,639**	**886,655**	**361,852**	**227,132**
Deferred income	**18,182**	**18,182**	**-**	**-**	**18,182**
Other liabilities	**29,031**	**29,031**	**29,031**	**-**	**-**
Total	**1,938,764**	**2,012,356**	**1,133,083**	**519,613**	**359,660**

As at 31 December 2007:

	RO'000	*RO'000*	*RO'000*	*RO'000*	*RO'000*
Non-derivative liabilities					
Due to banks and other money market deposits	28,614	29,469	8,354	19,548	1,567
Certificates of deposits	91,100	102,868	579	4,408	97,881
Customers' deposits	242,822	251,883	111,869	108,091	31,923
Deferred income	-	-	-	-	-
Other liabilities	8,532	8,532	8,532	-	-
Total	371,068	392,752	129,334	132,047	131,371
	USD'000	*USD'000*	*USD'000*	*USD'000*	*USD'000*
Non-derivative liabilities					
Due to banks and other money market deposits	74,322	76,543	21,699	50,774	4,070
Certificates of deposits	236,623	267,190	1,504	11,449	254,236
Customers' deposits	630,706	654,242	290,569	280,756	82,917
Deferred income	-	-	-	-	-
Other liabilities	22,161	22,161	22,161	-	-
Total	963,812	1,020,136	335,933	342,979	341,223

The Bank prepares a liquidity gap report to monitor the Banks short term liquidity position on the Rial denominated assets and liabilities in a time horizon spanning one month. The gap is adjusted for availability of instruments for repo or refinance and also for unavailed committed lines of credit, if any. This Statement of short term liquidity is to be reported to the ALCO every month and onward reported to Credit & Risk Committee.

D FINANCIAL RISK MANAGEMENT *(continued)*

D3 MARKET RISK

Market risk is the exposure to loss resulting from the changes in the interest rates, foreign currency exchange rates, equity prices and commodity prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return to risk.

D3.1 Measurement of market risk

The Bank commenced its operations in April 2007 and is presently engaged in simple treasury business involving Spots, Forwards and Currency swaps. Since the positions are taken mainly for customer transactions, the complexity is further reduced. In view of above, the Bank measures and controls the risk by using a limit framework. As and when the Bank enters into complex transactions like derivatives, it will have more sophisticated models and techniques to measure market risk, supported by suitable mechanism.

D3.2 Management of market risks

The Bank separates its exposure to market risk between trading and non trading portfolios. Trading portfolios include all positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

All foreign exchange risk within the Bank is transferred by Central Treasury to the trading book. Accordingly, the foreign exchange position is treated as a part of the Banks trading portfolio for risk management purpose.

Overall authority for market risk is vested in ALCO. The Risk Management function is responsible for development of detailed risk management policies (subject to approval by ALCO and Credit & Risk Committee of the Board).The Market Risk Policy is periodically reviewed to keep it up to date with the market developments.

D3.3 Exposure to interest rate risk – non trading portfolios

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 and re-pricing tenure of rate sensitive assets and liabilities.

The effective interest rate (effective yield) of a monetary financial instrument is the rate used in a present value calculation which 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 principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolios is provided in note D3.3.

NOTES TO FINANCIAL STATEMENTS
At 31 December 2008

D FINANCIAL RISK MANAGEMENT *(continued)*

D3 MARKET RISK (continued)

D3.3 Exposure to interest rate risk – non trading portfolios *(continued)*

The Bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2008 was as follows:

	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 Bank	-	-	-	93,912	93,912
Due from Banks and other money market placements	69,216	-	-	-	69,216
Loans and advances	168,505	33,062	441,762	498	643,827
Available-for-sale investments	8,935	-	16,853	-	25,788
Property and equipment	-	-	-	13,730	13,730
Other assets	-	-	-	6,000	6,000
Total assets	246,656	33,062	458,615	114,140	852,473
Due to Banks and other money market deposits	82,634	7,600	-	-	90,234
Certificates of deposit	-	58,100	32,000	-	90,100
Customers' deposits	207,980	131,902	78,083	129,948	547,913
Deferred Income	-	-	-	7,000	7,000
Other liabilities	-	-	-	11,177	11,177
Impairment allowance on portfolio basis	-	-	-	9,562	9,562
Shareholders' equity	-	-	-	96,487	96,487
Total liabilities and shareholders' equity	290,614	197,602	110,083	254,174	852,473
Total interest rate sensitivity gap	(43,958)	(164,540)	348,532	(140,034)	-
Cumulative interest rate sensitivity gap	(43,958)	(208,498)	140,034	-	-

	USD'000	*USD'000*	*USD'000*	*USD'000*	*USD'000*
Cash and balances with Central Bank	-	-	-	243,927	243,927
Due from Banks and other money market placements	179,782	-	-	-	179,782
Loans and advances	437,675	85,875	1,147,434	1,294	1,672,278
Available-for-sale investments	23,208	-	43,774	-	66,982
Property and equipment	-	-	-	35,662	35,662
Other assets	-	-	-	15,584	15,584
Total assets	640,665	85,875	1,191,208	296,467	2,214,215
Due to Banks and other money market deposits	214,634	19,740	-	-	234,374
Certificates of deposit	-	150,909	83,117	-	234,026
Customers' deposits	540,208	342,603	202,813	337,527	1,423,151
Deferred Income	-	-	-	18,182	18,182
Other liabilities	-	-	-	29,031	29,031
Impairment allowance on portfolio basis	-	-	-	24,836	24,836
Shareholders' equity	-	-	-	250,615	250,615
Total liabilities and shareholders' equity	754,842	513,252	285,930	660,191	2,214,215
Total interest rate sensitivity gap	(114,177)	(427,377)	905,278	(363,724)	-
Cumulative interest rate sensitivity gap	(114,177)	(541,554)	363,724	-	-

NOTES TO FINANCIAL STATEMENTS
At 31 December 2008

D FINANCIAL RISK MANAGEMENT *(continued)*

D3 MARKET RISK (continued)

D3.3 Exposure to interest rate risk – non trading portfolios *(continued)*

As at 31 December 2007	*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 Bank	-	-	-	20,427	20,427
Due from Banks and other money market placements	36,914	-	-	-	36,914
Loans and advances	163,291	140,048	-	-	303,339
Available-for-sale investments	50,000	5,000	-	-	55,000
Property, equipment and fixtures	-	-	-	4,637	4,637
Other assets	-	-	-	4,428	4,428
Total assets	250,205	145,048	-	29,492	424,745
Due to Banks and other money market deposits	8,314	18,800	1,500	-	28,614
Certificates of deposits	-	-	91,100	-	91,100
Customers' deposits	38,444	114,055	30,272	60,051	242,822
Deferred income	-	-	-	-	-
Other liabilities	-	-	-	8,532	8,532
Impairment allowance on portfolio basis	-	-	-	4,403	4,403
Shareholders' equity	-	-	-	49,274	49,274
Total liabilities and shareholders' equity	46,758	132,855	122,872	122,260	424,745
Total interest rate sensitivity gap	203,447	12,193	(122,872)	(92,768)	-
Cumulative interest rate sensitivity gap	203,447	215,640	92,768	-	-

	USD'000	*USD'000*	*USD'000*	*USD'000*	*USD'000*
Cash and balances with Central Bank	-	-	-	53,057	53,057
Due from Banks and other money market placements	95,881	-	-	-	95,881
Loans and advances	424,132	363,761	-	-	787,893
Available-for-sale investments	129,870	12,987	-	-	142,857
Property, equipment and fixtures	-	-	-	12,044	12,044
Other assets	-	-	-	11,501	11,501
Total assets	649,883	376,748	-	76,602	1,103,233
Due to Banks and other money market deposits	21,595	48,831	3,896	-	74,322
Certificates of deposits	-	-	236,623	-	236,623
Customers' deposits	99,855	296,247	78,629	155,975	630,706
Deferred income	-	-	-	-	-
Other liabilities	-	-	-	22,162	22,162
Impairment allowance on portfolio basis	-	-	-	11,436	11,436
Shareholders' equity	-	-	-	127,984	127,984
Total liabilities and shareholders' equity	121,450	345,078	319,148	317,557	1,103,233
Total interest rate sensitivity gap	528,433	31,670	(319,148)	(240,955)	-
Cumulative interest rate sensitivity gap	528,433	560,103	240,955	-	-

NOTES TO FINANCIAL STATEMENTS
At 31 December 2008

D FINANCIAL RISK MANAGEMENT *(continued)*

D3 MARKET RISK (continued)

D3.3 Exposure to interest rate risk – non trading portfolios *(continued)*

The Bank's present business is being done with basic products. The risk is managed by taking views on interest rate movements for the year and realigning the portfolios and covenants of lending, so as to be proactive and minimize any adverse effects. The benchmark presently available in Oman is the 28-day Central Bank of Oman CD rate. The statistics on movement of the rate in CDs and weighted average cost of deposits and the interest on loans are furnished below:

	Jan 2008	**Feb 2008**	**Mar 2008**	**Apr 2008**	**May 2008**	**Jun 2008**	**Jul 2008**	**Aug 2008**	**Sep 2008**
CD Rate	**1.49%**	**0.80%**	**0.75%**	**0.67%**	**0.76%**	**0.73%**	**0.76%**	**0.77%**	**0.79%**
Deposit Rate	**2.22%**	**2.09%**	**1.86%**	**1.83%**	**1.82%**	**1.81%**	**1.89%**	**1.91%**	**2.05%**
Lending Rate	**6.80%**	**6.51%**	**6.30%**	**6.16%**	**5.99%**	**5.83%**	**5.80%**	**5.77%**	**5.79%**

	Apr 2007	May 2007	Jun 2007	Jul 2007	Aug 2007	Sep 2007	Oct 2007	Nov 2007	Dec 2007
CD Rate	3.63%	3.63%	3.59%	3.29%	3.15%	3.10%	2.70%	2.15%	1.95%
Deposit Rate	2.51%	2.43%	2.51%	2.52%	2.56%	2.55%	2.48%	2.42%	2.36%
Lending Rate	7.09%	7.10%	7.10%	7.10%	7.07%	7.06%	7.00%	6.94%	6.97%

The effect of adverse conditions in global financial market is expected to cause some impact on the liquidity and interest rate. An increase in interest rate can also been viewed from the increasing tendency in CD rates, average cost of deposits and lending in market from the month of August 2008.

The management of interest rate risk is one of the critical components of market risk management in banks. Interest rate risk primarily arises on account of mismatch of the Bank's assets with its liabilities that fund the assets. There are basically two approaches to management of interest rate risk in banks, namely "Earnings Approach" and "Economic Value Approach". The interest rate risk is assessed based on the impact of interest rate shock on the bank's earnings and capital.

The focus of earnings approach is understanding the impact of interest rate changes (shock) of assets and liabilities on the Net Interest Income of the Bank. It measures the extent of capability of the bank to absorb decline in net interest income caused by interest rate changes.

Interest rate risk also influences the present value of bank's asset and liabilities. Economic value perspective considers the present value of banks assets and liabilities and assesses the potential longer term impact of interest rates on the bank. This perspective focuses on how the economic value of bank's assets, liabilities, change with movements in interest rates and it reflects the impact of fluctuation in the interest rates on the economic value of the institution.

NOTES TO FINANCIAL STATEMENTS

At 31 December 2008

D FINANCIAL RISK MANAGEMENT *(continued)*

D3 MARKET RISK (continued)

D3.3 Exposure to interest rate risk – non trading portfolios *(continued)*

Basel-II Accord has recommended for assessing the impact of interest rate risk by applying 200 bps interest rate sensitivity and accordingly the impact of 200 bps interest rate shock on bank's earnings and capital is provided.

31 December 2007 USD'000	***31 December 2008 USD'000***		***31 December 2008 RO'000***	*31 December 2007 RO'000*
9,652	**28,075**	**Net interest income**	**10,809**	3,716
12,870	**28,075**	**Annualized net interest income**	**10,809**	4,955
139,421	**274,482**	**Capital**	**105,676**	53,677
		Based on 50 bps interest rate shock		
984	**764**	Impact of 50 bps interest rate shock	**294**	379
7.65%	**2.71%**	Impact as % to net interest income	**2.71%**	7.65%
0.71%	**0.28%**	Impact as % to capital	**0.28%**	0.71%
		Based on 100 bps interest rate shock		
1,969	**1,525**	Impact of 100 bps interest rate shock	**587**	758
15.30%	**5.43%**	Impact as % to net interest income	**5.43%**	15.30%
1.41%	**0.55%**	Impact as % to capital	**0.55%**	1.41%
		Based on 200 bps interest rate shock		
3,938	**3,050**	Impact of 200 bps interest rate shock	**1,174**	1,516
30.60%	**10.86%**	Impact as % to net interest income	**10.86%**	30.60%
2.83%	**1.11%**	Impact as % to capital	**1.11%**	2.83%

D3.4 Exposure to other market risks – non-trading portfolios

Credit spread risk on debt securities held by Central Treasury and equity price risk is subject to review by the bank, but is not currently significant in relation to the overall results and financial position of the Bank.

D3.5 Exposure to 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 the overall open position and for open position for each currency. The open position limits include overnight open position and intraday open position. Open 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:

	31 December 2008			*31 December 2007*		
	Assets RO'000	***Liabilities RO'000***	***Net Assets RO'000***	*Assets RO'000*	*Liabilities RO'000*	*Net Assets RO'000*
US Dollar	**163,533**	**186,160**	**(22,627)**	74,574	75,919	(1,345)
Saudi Rial	**12,356**	**-**	**12,356**	7,011	-	7,011
EUR	**3,242**	**3,233**	**9**	493	400	93
UAE Dirhams	**4,617**	**115**	**4,502**	6,549	50	6,499
Qatari Rial	**586**	**-**	**586**	-	-	-
Kuwaiti Dinar	**21**	**-**	**21**	-	-	-
Japanese Yen	**-**	**-**	**-**	2,421	2,417	4
Pound Sterling	**8,769**	**8,772**	**(3)**	28	10	18
Indian Rupee	**10**	**-**	**10**	7	-	7
Others	**78**	**-**	**78**	73	-	73

NOTES TO FINANCIAL STATEMENTS
At 31 December 2008

D FINANCIAL RISK MANAGEMENT *(continued)*

D3 MARKET RISK *(continued)*

D3.5 Exposure to currency risk *(continued)*

	31 December 2008			*31 December 2007*		
	Assets USD'000	***Liabilities USD'000***	***Net Assets USD'000***	*Assets USD'000*	*Liabilities USD'000*	*Net Assets USD'000*
US Dollar	**424,761**	**483,532**	**(58,771)**	193,699	197,192	(3,493)
Saudi Rial	**32,094**	**-**	**32,094**	18,210	-	18,210
EUR	**8,421**	**8,397**	**24**	1,281	1,039	242
UAE Dirhams	**11,992**	**299**	**11,693**	17,010	130	16,880
Qatari Rial	**1,522**	**-**	**1,522**	-	-	-
Kuwaiti Dinar	**55**	**-**	**55**	-	-	-
Japanese Yen	**-**	**-**	**-**	6,288	6,278	10
Pound Sterling	**22,777**	**22,784**	**(7)**	73	26	47
Indian Rupee	**26**	**-**	**26**	18	-	18
Others	**203**	**-**	**203**	190	-	190

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

	FCY'000	**% Max change**	**Apply rate shock**	**+ bp change FCY'000**	**RO'000**	**- bp change FCY'000**	**RO'000**
SAR	**120,346**	**2.725%**	**+/- bp 100**	**121,549**	**12,479**	**119,143**	**12,232**
					12,479		**12,232**
Net open position (NOP)					**38.89%**		**38.65%**

NOP of 38.77% as on 31 December 2008 is effected by the +/- bp change as shown above.

	FCY'000	% Max change	Apply rate shock	+ bp change FCY'000	RO'000	- bp change FCY'000	RO'000
SAR	68,281	0.8597%	+/- bp 100	68,964	7,081	67,598	6,941
					7,081		6,941
Net open position (NOP)					30.61%		30.33%

NOP of 30.47% as on 31 December 2007 is effected by the +/- bp change as shown above.

The major currency exposure in the Bank book as on 31 December 2008 is SAR and USD. Based on the movement of the currencies for the past year we observe the maximum change in the SAR rates has been 100 bp. Applying the same rate shocks to our current position we observe that the net open position would still comply within Central Bank of Oman limit of 40%. Exposures in USD and AED have not been considered for sensitivity as the currencies have been pegged to USD and no changes have been observed in the past years. The exposure in other currencies are not material to cause major changes in NOP.

D FINANCIAL RISK MANAGEMENT *(continued)*

D4 OPERATIONAL RISK

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational Risk arises due to variety of causes associated with the bank's processes, personnel, technology and infrastructure and from external events and to include risks other than credit, market and liquidity risks.

Bank's objective is to manage operational risk to avoid /reduce financial losses to the bank by establishment of necessary controls, systems and procedures. Bank recognises that over controlled environment will affect bank's business and earnings, besides adding to costs. Therefore bank aims at effective management of operational risk through control optimisation and well established systems, methods and governance framework.

The primary responsibility for development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall bank standards in the following areas for management of operational risk:

- Clear reporting lines
- Proper delegation of powers
- Appropriate segregation of duties and authorisation of transactions through a maker checker system and authorisation matrix
- Ownership. reconciliation and monitoring of accounts
- Documentation of controls and processes
- Compliance with regulatory and other legal requirements
- Periodic assessment of the operational risks faced and evaluating the adequacy of controls and procedures to address the risks identified
- Reporting of Operational Losses and incidents triggering operational losses and remedial action
- Development of contingency plans
- Training, skill up gradation and professional development
- Ethical and business standards
- Risk mitigation through insurance, wherever desirable

Compliance with Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

D5 CAPITAL MANAGEMENT

D5.1 Regulatory capital

The Bank's lead regulator, Central Bank of Oman (CBO), sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements Central Bank of Oman requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. The Bank calculates capital requirements for market risk and operational risk based upon the model prescribed by Central Bank of Oman as follows:

- Sovereign entities – NIL
- Banks – Risk weightage based upon ratings by Moody's.
- Retail and Corporate loans – In the absence of credit rating model 100% risk weightage is taken.
- Off Balance Sheet items – As per credit conversion factors and risk weightage prescribed by Central Bank of Oman.

NOTES TO FINANCIAL STATEMENTS
At 31 December 2008

D FINANCIAL RISK MANAGEMENT *(continued)*

D5 CAPITAL MANAGEMENT *(continued)*

D5.1 Regulatory capital *(continued)*

The Bank's regulatory capital is analysed into three tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative Tier 1 securities), retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealized gains or equity instruments classified as available-for-sale.
- Tier 3 capital, which includes short term subordinated debts which if circumstances demand would be capable of becoming the Bank's permanent capital.

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There are also restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of Banks and certain other regulatory items.

Banking operations are categorized as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. To compute the capital charge for operational risk the Bank has considered the gross income for seven quarters, being the period since the commencement of operations, due to non-availability of data for previous three years as required under basic indicator approach for computation of capital for operational risk. The Bank's policy is to maintain a strong capital base as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Bank and its individually regulated operations have complied with all externally imposed capital requirements throughout the year. There have been no material changes in the Bank's management of capital during the year.

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.

NOTES TO FINANCIAL STATEMENTS

At 31 December 2008

D FINANCIAL RISK MANAGEMENT *(continued)*

D5 CAPITAL MANAGEMENT *(continued)*

D5.1 Regulatory capital *(continued)*

The risk asset ratio calculated in accordance with the capital adequacy guidelines of the Bank for International Settlement is as follows:

31 December 2007 USD'000	***31 December 2008 USD'000***		***31 December 2008 RO'000***	*31 December 2007 RO'000*
		Tier I capital		
129,870	**259,740**	Ordinary share capital	**100,000**	50,000
4,571	**4,496**	Legal reserve	**1,731**	1,760
(6,457)	**(12,338)**	Accumulated losses	**(4,750)**	(2,486)
-	**(969)**	Deferred tax asset	**(373)**	-
127,984	**250,929**	Total	**96,608**	49,274
		Tier 2 capital		
11,436	**24,836**	Impairment allowance on portfolio basis	**9,562**	4,403
-	**(1,283)**	Fair value losses	**(494)**	-
11,436	**23,553**	Total	**9,068**	4,403
139,420	**274,482**	**Total regulatory capital**	**105,676**	53,677
		Risk-weighted assets		
928,332	**1,913,665**	Retail Bank, corporate Bank and market risk	**736,761**	357,408
40,597	**73,647**	Operational risk	**28,354**	15,630
968,929	**1,987,312**	Total risk-weighted assets	**765,115**	373,038
		Capital adequacy ratio		
14.39%	**13.81%**	Total regulatory capital expressed as a percentage of total risk-weighted assets	**13.81%**	14.39%
13.21%	**12.63%**	Total tier I capital expressed as a percentage of total risk-weighted assets	**12.63%**	13.21%

The capital adequacy ratio is calculated in accordance with the Basel II norms as adopted by Central Bank of Oman.

D5.2 Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes.

Although maximization of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives.

D6 SEGMENTAL INFORMATION

Segment information is presented in respect of the Bank's business segments. The primary segmentation is based on the Bank's management and internal reporting structure. Interest expense is allocated to business segments on the basis of the Bank's average cost of funds.

NOTES TO FINANCIAL STATEMENTS

At 31 December 2008

D FINANCIAL RISK MANAGEMENT *(continued)*

D6 SEGMENTAL INFORMATION *(continued)*

Business segments

The Bank comprises the following main business segments:

- Corporate Banking - Includes loans, deposits and balances with corporate customers. The unit also undertakes funding through borrowings, issues of debt securities, use of derivatives for risk management purposes and on behalf of customers and invest surplus funds in liquid assets such as short-term placements, business corporate and government debt securities. Corporate banking also undertakes non funding activities for its customers.
- Retail Banking – Includes loans, deposits and other transactions and balances with retail customers.

Segment information is as follows:

	31 December 2008				*From 9 April 2007 up to 31 December 2007*			
	Retail	***Corporate***	***Others***	***Total***	*Retail*	*Corporate*	*Others*	*Total*
	RO'000	***RO'000***	***RO'000***	***RO'000***	*RO'000*	*RO'000*	*RO'000*	*RO'000*
Operating income	**13,480**	**4,249**	**-**	**17,729**	6,924	1,501	-	8,425
Operating expense	**(10,250)**	**(2,331)**	**-**	**(12,581)**	(4,627)	(934)	-	(5,561)
Operating profit	**3,230**	**1,918**	**-**	**5,148**	2,297	567	-	2,864
Net pre-incorporation expense	**-**	**-**	**-**	**-**	-	-	(683)	(683)
Net pre-incorporating expense	**-**	**-**	**-**	**-**	-	-	(264)	(264)
Impairment on investments	**-**	**(2,388)**	**-**	**(2,388)**	-	-	-	-
Impairment allowance on portfolio basis	**(3,519)**	**(1,640)**	**-**	**(5,159)**	(2,738)	(1,665)	-	(4,403)
Specific Provisions	**(186)**	**(52)**	**-**	**(238)**	-	-	-	-
Segment loss for the year	**(475)**	**(2,162)**	**-**	**(2,637)**	(441)	(1,098)	(947)	(2,486)
Segment assets	**329,566**	**513,345**	**-**	**842,911**	141,142	279,200	-	420,342
Segment liabilities	**180,137**	**662,774**	**-**	**842,911**	144,991	275,351	-	420,342

	31 December 2008				*From 9 April 2007 up to 31 December 2007*			
	Retail	***Corporate***	***Others***	***Total***	*Retail*	*Corporate*	*Others*	*Total*
	USD'000	***USD'000***	***USD'000***	***USD'000***	*USD'000*	*USD'000*	*USD'000*	*USD'000*
Operating income	**35,013**	**11,036**	**-**	**46,049**	17,984	3,899	-	21,883
Operating expense	**(26,623)**	**(6,055)**	**-**	**(32,678)**	(12,018)	(2,426)	-	(14,444)
Operating profit	**8,390**	**4,981**	**-**	**13,371**	5,966	1,473	-	7,439
Net pre-incorporation expense	**-**	**-**	**-**	**-**	-	-	(1,774)	(1,774)
Net pre-incorporating expense	**-**	**-**	**-**	**-**	-	-	(686)	(686)
Impairment on investments	**-**	**(6,203)**	**-**	**(6,203)**	-	-	-	-
Impairment allowance on portfolio basis	**(9,140)**	**(4,260)**	**-**	**(13,400)**	(7,112)	(4,325)	-	(11,437)
Specific provisions	**(483)**	**(135)**	**-**	**(618)**	-	-	-	-
Segment loss for the year	**(1,233)**	**(5,617)**	**-**	**(6,850)**	(1,146)	(2,852)	(2,460)	(6,458)
Segment assets	**856,015**	**1,333,364**	**-**	**2,189,379**	366,603	725,195	-	1,091,798
Segment liabilities	**467,888**	**1,721,491**	**-**	**2,189,379**	376,600	715,198	-	1,091,798