



Board of Directors Report

Dear Shareholders,

I am privileged to share with you the results achieved by your Bank in the second quarter of its operations and for the period ended September 30, 2007.

The bank's operating profit increased from RO 455K for the quarter ended June 2007 to RO 1,128K for the quarter up to September 2007 due to an increase in business volumes. The bank was able to increase its market share of total private sector credit to 3.15% (2.2% in June 2007) and of private sector deposits to 4.53% (2.5% in June 2007). As a result of this increase in loan book, the general provision charge increased to RO 2.718 million as at 30 September 2007 as compared to RO 1.704 million as on 30 June 2007. As a result of the above factors, the net loss for the six months up to September 2007 only increased marginally to RO 2,526K from RO 2180K for the quarter ended June 2007.

Net Loans and Advances have grown by 64% to reach RO 164 Million as compared to RO 100 Million as at June 30, 2007. Customer deposits grew by 79% from RO 117 million to RO 209 million as at 30th September, 2007. The total income consequently increased from RO 1,653K to RO 4,085K registering an impressive growth of 147% in the second quarter.

Bank Sohar's Al Mumayaz Account gives customers access to the entire range of the Bank's products and services with a single documentation policy. The 'Al Mumayaz' Saving Scheme developed with maximum benefits for those wanting to save money has received wide-spread acceptance in a very short period of time. Bank Sohar has also commenced efforts to inculcate the savings habit in children from an early age by introducing "Al Mumayaz" children's savings account.

Keeping in mind the country's continuing requirements for trained personnel and the ambitions of Omani students and professionals keen to invest in higher learning both in Oman and abroad. Your Bank has developed the 'Al Mumayaz' Educational Service Scheme. The features of the Educational Service Scheme are the low rate of interest being offered by the Bank and the fact that only fifty per cent of the interest amount needs to be paid during the period of study. To add value to the Scheme, the Bank has tied up with educational consulting firms for providing Bank's customers with consultancy services that will enable them to evaluate the options for higher learning anywhere in the world.



In line with the social relevance of the need for housing, your Bank will very soon be introducing an appropriate product tailored to meet the specific requirements of customers wishing to own their homes.

The Bank opened its second branch in Sohar in August 2007 and in Nizwa in September 2007. Two new branches in Seeb and in Qurum in Capital area were also recently opened. The Bank has its own ATMs in the CBD area, at the Safer Hypermarket at Azaiba, at Al Hail (South) and at all the new branches. Bank Sohar is also a part of the Oman Switch and by virtue of this the Bank's customers have 24/7 free-of-charge access to over 480 ATMs all over Oman and the ATMs forming part of the GCC Net.

Your Bank places utmost importance on service to customers and customer relationships. The approach to banking is customer-centric and the objective is to service customers both efficiently and in the most cost-effective manner. Your Bank has taken several steps to implement the smart use of technology. Shortly, customers will have comfort and 24/7 convenience with the introduction of electronic banking. Facilities for customers will include internet banking, SMS banking and the availability of additional functions at the ATMs.

Your Bank is fully aware that small and medium enterprises need support to make their contribution to the national economy. Bank Sohar sees the SME sector both as an avenue for business and a means for achieving economic diversification by supporting greenfield projects of Omani businesses. In the last six months, your Bank has covered several SME business sectors such as Industrial, Real Estate, Contracting, Health, Technology, Tourism, Services and other related sectors. Your Bank provides short and long term business loans and working capital facilities. In addition, the Bank has provided consulting services to its clients and assisted them with their business plans.

Corporate banking has in the quarter under review worked on establishing a foothold in blue chip companies. The unit has also focused its sights on developing structured finance, investment and broking capabilities. The Unit has also expanded the base for business in the government and public sectors. Corporate banking units are also in operation at the new branches at Sohar and Nizwa. The bank plans to set up similar units in the new branches in order to provide better customer service.

Since inception in April 2007, your Bank has implemented the regulatory guidelines including the BASIL II Standardized Approach for Credit Risk, Basic Indicator Approach for Operational Risk and Market Risk Management guidelines. Your Bank is committed to put in place internationally accepted best practices in Risk Management policies and procedures.



As a result of the steep growth in the loan portfolio and the necessity to comply with the lending and liquidity requirements, the bank has issued RO 20 million of Certificate of Deposits during the quarter ended 30 September 2007. The Central Bank of Oman has approved a CD issue of RO 100 million available on tap.

The commitment to provide the right career development and training environment for the bank's employees remains at the core of your Bank's people policy. By the end of the year, the Bank's Training Centre will be set up with state-of-the-art technology and facilities. Your Bank believes that training holds the key for continuous enhancement and upgrading of professional knowledge, skills and behaviour. The HR department continues its efforts to make the Bank, "the Employer of Choice."

The Bank's website was launched in July and has since helped customers get information they need regarding both the products and services offered by the Bank. Later this year, the bank will launch the e-banking services.

Private sector deposits in commercial banks in Oman have shown a steady increase during 2007. For the January – July 2007 period, there has been an increase of 32.1 % as compared with the same period for 2006. Total credit for the period has increased by 25.2%. Gross Domestic Product (Current Prices) also shows a robust increase in the non-petroleum activities, agriculture and fisheries and the services sector. The liquidity in the market has continued to remain strong even after banks met the enhanced cash reserve requirement laid down by the Central Bank of Oman.

The Bank has every intention of being an integral part of the national economy both through its corporate objectives as also by partnering banking activities that contribute in full measure to the development of the economy. In this regard, the Bank plans to closely monitor the economic environment through careful study of economic indicators and would take proactive steps to ensure a sustainable momentum for business.

During the last quarter, banks in North America, Europe, Britain and the Asia-Pacific, have been witness to the fall-out of the defaults on sub-prime mortgages in the United States. The rush of foreclosures began in the closing months of 2006 and is still continuing. Monetary and financial conditions in Oman continued to remain robust despite these global trends. Your Bank however will continue to monitor these developments.

At the close of the second quarter of its operations we can confidently say that the products and services that your Bank has introduced has evoked a positive response in the market. Your Bank will continue to focus on the customer and his banking needs. This



growth and performance has been possible due to the untiring effort put in by the entire team of employees at Bank Sohar to whom a tribute and thanks is extended.

On behalf of the Board of Directors and staff of Bank Sohar, I would like to record our appreciation to His Majesty Sultan Qaboos bin Said for continually initiating measures for the prosperity and growth of the nation and the happiness of the people.

Hilal Hamood Al Mamary
Chairman



Bank Sohar SAOG

UNAUDITED FINANCIAL STATEMENTS

For the period ended 30th September 2007

Registered office and principal place of business:

Bank Sohar Building
Post Box 44
Hai Al-Mina
Postal Code 114
Sultanate of Oman



Bank Sohar SAOG

UNAUDITED BALANCE SHEET As at 30 September 2007

	<i>Notes</i>	<i>RO'000</i>
ASSETS		
Cash and balances with Central Banks	B1	3,753
Due from banks and other money market placements	B2	47,418
Loans and advances (net)	B3	163,839
Non-Trading Investments	B4	57,448
Equipment & fixtures	B5	3,443
Deferred tax asset	C7	0
Other assets	B6	1,956
		<hr/>
		277,857
		<hr/> <hr/>
LIABILITIES		
Due to banks and other money market deposits	B7	14,800
Certificates of deposits	B8	20,000
Customers' deposits	B9	188,639
Other liabilities	B10	5,186
Taxation	C7	-
		<hr/>
		228,625
		<hr/>
SHAREHOLDERS' EQUITY		
Share capital	B11	50,000
Legal reserve	B12	1,758
Retained earnings		(2,526)
		<hr/>
		49,232
		<hr/>
		277,857
		<hr/> <hr/>
CONTINGENT LIABILITIES	B13	21,007
COMMITMENTS		
	B13	
Forward Sales		26,720
Forward Purchases		26,653
Capital commitments		1,903
Credit Related Commitments		63,823
RELATED PARTY INFORMATION		
	D1	
Due from related parties		1561
Due to related parties		21,097

The financial statements were approved and authorized for issue by the Board of Directors on 21 October 2007 and signed on their behalf by:

Chairman

Deputy Chairman

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



Bank Sohar SAOG

UNAUDITED INCOME STATEMENT

Period ended 30 September 2007

	<i>Notes</i>	<i>Sep 2007</i> <i>RO'000</i>
Interest income	C1	4,469
Interest expense	C2	(2,311)
Net interest income		2,158
Other operating income	C3	1,927
OPERATING INCOME		4,085
OPERATING EXPENSES		
Staff costs		(1,506)
Other operating expenses	C4	(1,300)
Depreciation	B5	(151)
		(2,957)
OPERATING PROFIT		1,128
Net Pre incorporation expense	C5	(683)
Net Pre operating expense	C6	(253)
Specific Provision for credit losses	B3	-
Non-specific provision for credit losses	B3	(2,718)
Recoveries and releases from provision for credit losses	B3	-
Recoveries from debts written off		-
Provision for impairment in investments		-
(LOSS) / PROFIT FROM OPERATIONS		(2,526)
AFTER PROVISIONS AND RECOVERIES		
Taxation	C7	-
NET (LOSS) / PROFIT FOR THE PERIOD		(2,526)
Basic loss per share for the period (in baizas)	C8	25.26

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



Bank Sohar SAOG

UNAUDITED CASH FLOW STATEMENT

Period ended 30 September 2007

	Sep 2007 RO'000
OPERATING ACTIVITIES	
Net (loss) / profit after taxation	(2,526)
Adjustments for:	
Depreciation	154
Provision for credit losses (net)	2,718
Investment (income)	(481)
Operating (loss) / profit before changes in operating assets and liabilities	(135)
Due from banks and other money market placements	(47,418)
Loans and advances (Gross)	(166,557)
Other assets	(1,956)
Issue of Certificate of deposits	20,000
Customers' deposits	188,639
Due to banks and other money market deposits	14,800
Other liabilities	5,186
Cash (used in) / from operations	12,559
Taxes paid	-
Net cash (used in) / from operating activities	12,559
INVESTING ACTIVITIES	
Purchase of non-trading investments	(57,448)
Proceeds from sale of non-trading investments	
Purchase of premises and equipment	(3,597)
Interest received on Certificates of deposits and Treasury Bills	481
Net cash (used in) / from investing activities	(60,564)
FINANCING ACTIVITIES	
Share capital issue through private placement	50,000
Legal reserve	1,758
Net cash from financing activities	51,758
INCREASE IN CASH AND CASH EQUIVALENTS	3,753
Cash and cash equivalents at the beginning of the period	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	3,753
REPRESENTING	
Cash and balances with Central Banks	3,753
Translation differences in investments	
Deposits and balances with other banks and financial institutions (net)	-
	3,753

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



Bank Sohar SAOG

UNAUDITED STATEMENT OF CHANGES IN EQUITY

Period ended 30 September 2007

<i>(RO'000)</i>	<i>Share capital (Note B10)</i>	<i>Legal reserve (Note B11)</i>	<i>Change in fair value of Investments Available for Sale (Note B4)</i>	<i>Retained earnings</i>	<i>Total</i>
Issue of shares	50,000				50,000
Change in fair value of Investment available for sale					
Net profit for the period				(2,526)	(2,526)
Legal reserve collected for issue expenses		2,000			2,000
Issue expenses		(242)			(242)
Balance as at 30 September 2007	50,000	1,758	-	(2,526)	49,232

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



Bank Sohar SAOG

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS

At 30 September 2007

A1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

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

The bank employed 200 employees as of 30 September 2007.

A2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are as follows:

Basis of preparation

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

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

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

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

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

The accounting policies have been applied consistently by the Bank.

Acceptances

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

Cash and cash equivalents

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

Financial Assets at fair value through income statement

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



Bank Sohar SAOG

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS

At 30 September 2007

SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and advances

Loans and advances are carried at amortized cost less specifically identified and collective provisions for impairment. Specific provisions are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce those loans and advances to their recoverable amounts. Collective impairment provisions are maintained in respect of incurred losses, which have not yet been specifically identified within the portfolio of loans and advance. The recoverable amount of loans and advances is calculated at the present value of the expected future cash flows discounted at the original effective interest rate. Short-term balances are not discounted.

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

Non specific Provision

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

Non-trading investments

These are classified as follows:

Available for sale

Held to maturity

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

Available for sale

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

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

Held to maturity

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

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



Bank Sohar SAOG

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS

At 30 September 2007

SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values

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

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

Due from banks and other money market placements

These are stated at cost less any provisions for impairment.

Equipment & Fixtures

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

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

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

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

Deposits

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

Taxation

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

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

Derivatives

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

Fiduciary assets

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



Bank Sohar SAOG

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS

At 30 September 2007

SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting

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

Pre-incorporation expense

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

Pre-operating expense

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

Revenue recognition

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

Fees and commission

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

Foreign currencies

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

Repurchase and resale agreements

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



Bank Sohar SAOG

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS

At 30 September 2007

SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectibility of financial assets

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

Trade and settlement date accounting

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

Leases

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

Staff terminal benefits

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

A3 COMPARATIVE FIGURES

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



Bank Sohar SAOG

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS

At 30 September 2007

B1 CASH AND BALANCES WITH CENTRAL BANKS

	<i>Sept 2007</i> <i>RO'000</i>
Cash	809
Insurance deposit with Central Bank of Oman	5
Capital deposit with Central Bank of Oman	50
Other balances with Central Banks (net)	2,889
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	3,753
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The capital and insurance deposits with the Central Bank of Oman cannot be withdrawn without the approval of the Central Bank of Oman.

Other balances with Central Banks are being adjusted for the cheques and pay orders issued but uncleared amounting to RO 2,094 K.

B2 DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS

	<i>Sept 2007</i> <i>RO'000</i>
<u>Local Currency:</u>	
Due from other banks	4,273
Nostro balances	24
	<hr/>
	4,297
	<hr/>
<u>Foreign Currency:</u>	
Due from other banks	40,464
Nostro balances abroad	2,657
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	43,121
	<hr/>
Total	47,418
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Bank Sohar SAOG

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS

At 30 September 2007

B3 LOANS AND ADVANCES

	<i>Sept 2007</i>
	<i>RO'000</i>
Corporate loans	61,390
Personal loans	105,167
Housing loans	-
	<hr/>
Gross loans and advances	166,557
Specific Provision for credit losses*	-
Non specific Provision for credit losses**	(2,718)
Reserved interest	-
	<hr/>
Net loans and advances	<u>163,839</u>

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

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

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

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



Bank Sohar SAOG

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS

At 30 September 2007

B4 NON-TRADING INVESTMENTS

	<i>Carrying/Fair value Sept 2007</i>	<i>Cost Sept 2007</i>
	<i>RO'000</i>	<i>RO'000</i>
A) Available for sale	74	74
B) Held to maturity -		
Treasury Bills -FCY	37,374	37,374
Certificate of Deposit - OMR	20,000	20,000
Total Non Trading Investments	57,448	57,448



Bank Sohar SAOG

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS At 30 September 2007

B5 EQUIPMENT AND FIXTURES

	<i>Production Software</i> <i>RO'000</i>	<i>Furniture & fixtures</i> <i>RO'000</i>	<i>Office equipments</i> <i>RO'000</i>	<i>Motor vehicles</i> <i>RO'000</i>	<i>Capital Work in progress</i> <i>RO'000</i>	<i>Total</i> <i>RO'000</i>
Reconciliation of carrying amount:						
Additions	2,094	34	511	101	857	3,597
Disposals	-	-	-	-	-	0
Transfers	121	-	(121)	-	-	0
Depreciation	(120)	(5)	(17)	(12)	-	(154)
Balance as at 30 September 2007, net of accumulated depreciation	2,095	29	373	89	857	3,443
At cost	2,215	34	390	101	857	3,597
<u>Accumulated depreciation</u>	(118)	(5)	(16)	(12)	-	(151)
Apportioned as depreciation for the period	(2)	0	(1)	0	-	(3)
Net carrying value at 30 September 2007	2,095	29	373	89	857	3,443



Bank Sohar SAOG

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS

At 30 September 2007

B6 OTHER ASSETS

	<i>Sept 2007</i> <i>RO'000</i>
Interest receivable	315
Prepayments and deposits	573
Positive fair value of derivatives	0
Acceptances	823
Accounts receivable in suspense	7
Others	238
	<hr/>
	1,956
	<hr/> <hr/>

B7 DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

	<i>Sept 2007</i> <i>RO'000</i>
<u>Local Currency:</u>	
Money market borrowings	14,800
Vostro balances	-
	<hr/>
	14,800
	<hr/>
<u>Foreign Currency:</u>	
Money market borrowings	0
Vostro balances	0
	<hr/>
	0
	<hr/>
Total	14,800
	<hr/> <hr/>

B8 CERTIFICATES OF DEPOSITS

Bank has received necessary approvals from Central Bank of Oman to issue Certificates of Deposits (CDs) upto RO 100 million. The Bank proposes to avail this facility on tap and issue will remain open for a period of six months from 1st July 2007.

CD issue will be open to all individual and corporate investors. The CD will be denominated in Rial Omani and will have maturity ranging from 2-5 years and will carry a fixed rate of interest.



Bank Sohar SAOG

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS

At 30 September 2007

B9 CUSTOMERS' DEPOSITS

	<i>Sept 2007</i> <i>RO'000</i>
Current accounts	4,855
Current call accounts	21,952
Savings accounts	13,530
Term deposits	148,179
Margin accounts	123
	<hr/>
	188,639
	<hr/> <hr/>

B10 OTHER LIABILITIES

	<i>Sept 2007</i> <i>RO'000</i>
Interest payable	1,427
Staff entitlements*	149
Negative fair value of derivatives	-
Acceptances	823
Other accruals and provisions	2,787
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	5,186
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* Staff entitlements are as follows:

End of service benefits	
Opening balance	-
Closing balance	<u>19</u>
Charge to income statement	19
Other liabilities	130
	<hr/>
Total	149
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B11 SHARE CAPITAL

The authorised share capital of the bank is 100,000,000 shares of RO 1/- each. The issued and paid up capital of the bank is 100,000,000 shares of RO 0.500 each.

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



Bank Sohar SAOG

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS

At 30 September 2007

B11 SHARE CAPITAL (continued)

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

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

B12 LEGAL RESERVE

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

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

B13 COMMITMENTS AND CONTINGENT LIABILITIES

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

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

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

C1 INTEREST INCOME

Interest bearing assets earned interest at an overall rate of 6.05% for the period ended 30 September 2007.

C2 INTEREST EXPENSE

The average overall cost of funds for the period ended 30 September 2007 was 4.59%.



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UNAUDITED NOTES TO THE FINANCIAL STATEMENTS

At 30 September 2007

C3 OTHER OPERATING INCOME

	<i>April to Sept 2007 RO'000</i>
Net gains from foreign exchange dealings	20
Fees and commissions	1,907
Dividend income	-
Profit on sale of investments	-
Miscellaneous income	0
	<hr/>
	1,927
	<hr/> <hr/>

C4 OTHER OPERATING EXPENSES

	<i>April to Sept 2007 RO'000</i>
Establishment costs	162
Operating and administration costs	1,100
Directors Remuneration & sitting fees	38
	<hr/>
	1,300
	<hr/> <hr/>

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

C5 NET PRE-INCORPORATION EXPENSES

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



Bank Sohar SAOG

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS

At 30 September 2007

C6 NET PRE-OPERATING EXPENSES

	<i>For the period from 4 March 2007 to 8 April 2007 RO'000</i>
Establishment costs	22
Operating and administration costs	137
Staff cost	210
Depreciation	3
	<hr/>
	372
Less: Interest income	(119)
	<hr/>
	253
	<hr/> <hr/>

C7 TAXATION

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

C8 BASIC LOSS PER SHARE

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

	<i>April to Sept 2007 RO'000</i>
Loss for the period	(2,526)
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Weighted average number of shares outstanding during the period	100,000
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Loss per share for the period (in baizas)	25.26
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Bank Sohar SAOG

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS

At 30 September 2007

D1 RELATED PARTY TRANSACTIONS

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

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

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

	<i>April to Sept 2007 RO'000</i>
A) Loans and Advances	
Loans issued during the period	12,910
Transferred out during the period	
Loans repayment during the period	(11,349)
Other advances	
Loans outstanding at 30 September	<u><u>1,561</u></u>
B) Deposits	
Deposits received during the period	85,303
Transferred out during the period	-
Deposits repaid during the period	(64,206)
Deposits at 30 September 2007	<u><u>21,097</u></u>
C) Contingent liabilities	
Documentary letters of credit	-
Guarantees	-
Others	-
	<u><u>-</u></u>
D) Income Statement	
Interest income	31
Interest expense	(216)
	<u><u>-</u></u>
E) Senior Management compensation	
Salaries and other short term benefits	
-Fixed	545
-Discretionary	59
	<u><u>604</u></u>



Bank Sohar SAOG

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS

At 30 September 2007

D2 CAPITAL ADEQUACY

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

	<i>Sept 2007</i> <i>RO'000</i>
Capital base	
Tier 1 - shareholders' funds	49,232
Tier 2 - subordinated loan, private placement and collective impairment provisions	2,718
Total capital base	<u>51,950</u>
Risk weighted assets	
Balance sheet items	215,651
Off balance sheet items	5,122
Total risk weighted assets	<u>220,773</u>
Risk asset ratio	<u>24%</u>



Bank Sohar SAOG

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS

At 30 September 2007

D3 CONCENTRATIONS

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

	RO RO'000	USD RO'000	SAR RO'000	EUR RO'001	Others RO'000	Total RO'000
Cash and balances with Central Banks	3,749	4				3,753
Due from banks and other money market placements	4,297	42,775	119	94	133	47,418
Loans and advances (net)	163,615	224				163,839
Non-trading investments	20,074	19,250	9,959	8,165		57,448
Equipment & Fixtures	3,443					3,443
Deferred tax asset						0
Other assets	1,956					1,956
Total assets	197,134	62,253	10,078	8,259	133	277,857
Due to banks and other money market	14,800					14,800
Certificates of deposits	20,000					20,000
Customers' deposits	138,553	50,055		7	24	188,639
Other liabilities	4,722	303	102	59		5,186
Taxation						0
Subordinated funds						0
Shareholders' equity	49,232					49,232
Liabilities and shareholders' equity	227,307	50,358	102	66	24	277,857
Contingent Liabilities	13,689	6,186		960	172	21,007

D4 MARKET RISK

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

(A) INTEREST RATE RISK

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

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



Bank Sohar SAOG

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS

At 30 September 2007

(A) INTEREST RATE RISK (continued)

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

	<i>Average effective Interest rate</i>	<i>On demand within 3 months RO'000</i>	<i>3 to 12 months RO'000</i>	<i>Over 1 year RO'000</i>	<i>Non interest sensitive RO'000</i>	<i>Total RO'000</i>
Cash and balances with Central Banks					3,753	3,753
Due from banks and other money market placements	3.87%	35,948	6,850	4,620		47,418
Loans and advances	7.50%	56,352	2,958	107,247		166,557
Non-trading investments	4.01%	52,448	5,000			57,448
Equipment & Fixtures					3,443	3,443
Deferred tax asset						0
Other assets					1,956	1,956
Total assets		144,748	14,808	111,867	9,152	280,575
Due to banks and other money market deposits	3.38%	10,800	4,000			14,800
Customers' deposits & CDs	4.78%	127,148	56,481	25,010		208,639
Other liabilities					5,186	5,186
Taxation						0
Subordinated fund					2,718	2,718
Shareholders' equity					49,232	49,232
Total liabilities and shareholders' equity		137,948	60,481	25,010	57,136	280,575
Total interest rate sensitivity gap		6,800	(45,673)	86,857	(47,984)	0
Cumulative interest rate sensitivity gap		6,800	(38,873)	47,984	0	



Bank Sohar SAOG

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS

At 30 September 2007

(B) CURRENCY RISK

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

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

	<i>Assets</i> <i>RO'000</i>	<i>Liabilities</i> <i>RO'000</i>	<i>Net Assets</i> <i>RO'000</i>
US Dollar	62,253	50,358	11,895
Saudi Rial	10,078	102	9,976
EUR	8,259	66	8,193
Others	133	24	109

D5 LIQUIDITY RISK

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

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



Bank Sohar SAOG

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS

At 30 September 2007

D5 LIQUIDITY RISK (continued)

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

	On demand to within 3 months	3 to 12 months	Over 1 year	Total
	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	3,753			3,753
Due from banks and other money market placements	35,948	6,850	4,620	47,418
Loans and advances *	56,352	2,958	107,247	166,557
Non-trading investments	52,448	5,000		57,448
Equipment & Fixtures			3,443	3,443
Deferred tax asset				0
Other assets	1,380	416	160	1,956
Total assets	149,881	15,224	115,470	280,575
Due to banks and other money market deposits	10,800	4,000		14,800
Customers' deposits & CDs	127,148	56,481	25,010	208,639
Other liabilities	5,186			5,186
Taxation				0
Subordinated funds			2,718	2,718
Shareholders' equity			49,232	49,232
Total liabilities and shareholders' equity	143,134	60,481	76,960	280,575
Gap	6,747	(45,257)	38,510	NIL

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