BOARD OF DIRECTOR'S REPORT

13th January, 2008

Dear Shareholders

It is a privilege for me to present to you the results achieved by the Bank for the period March 2007 to December 2007.

The Bank was incorporated in March 2007 following an initial public offering in December 2006. Business commenced with a soft launch in April 2007 and the formal inauguration took place in May 2007.

ECONOMY

The monetary and financial prospects of the country during the first nine months of 2007 remained positive owing to high oil prices and improvements of the non-oil sector's performance. The country has taken advantage of the revenue from high oil prices to build up its stock of foreign exchange reserves. The part of the enhanced revenues have also been used in infrastructure projects essential to complement the new sectors of economic activity.

Gross Domestic Product of oil and non-oil sectors in the Sultanate during the first half of 2007 has reached about OMR 7,266.4 million as against OMR 6,708.1 million for the same period in 2006. This is an 8.3 per cent growth during the first half of 2007, over the same period in 2006. These developments also reflected on commercial banks in the country.

The combined balance sheet of commercial banks in Oman as at the end of the first nine months of 2007 has shown growth in all the major banking aggregates. In the combined balance sheet of banks at the end of September 2007, assets stood at OMR 8,983 million, a growth of 34%. Credit for the same period increased by 28.6% to touch OMR 5,707.3 million. The combined foreign assets portfolio increased by 35.8% to touch OMR 1,869.7 and combined total deposits scaled to OMR 5,944.1, a growth of 31.8%. The combined core capital and reserves stood at OMR 900.4 million.

Credit to the private sector in Oman has been increasing rapidly and has at times been growing faster than deposits during the last few years. This will continue to be an area for close monitoring to avoid widening gaps. In this context, some numbers provide a picture of the profitability of companies in the private sector. The collection of corporate income tax for the period January to September 2007 shows a figure of OMR 170.5 million as compared to OMR 77.1 million for the same period in the previous year. This indicates an increase in revenue of 121.2% for the period January to September 2007 as compared with the same period for 2006.

FINANCIAL OVERVIEW 2007

I am delighted to point out that the Bank has made an operating profit of OMR 2.864 million in the first nine months of operations. This has been achieved primarily by a fast ramp up in growth of customer credit arising from strategic segmentation with an equal focus on lending and fee based activities. Consequent to the increase in customer credit, the non-specific credit loss provisioning for the period amounted to OMR 4.403 million. The pre-incorporation and pre-commencement expenses together amounted to OMR 0.947 million have also been written off in arriving at the net loss for the period 31st December 2007 amounting to OMR 2.486 million.

In this period the Bank built a total customer credit exposure of OMR 303.339 million and customer deposits of OMR 333.922 million servicing a total of 12,544 customers. The savings deposit have built up to OMR 26.094 million. The bank was able to increase its market share consistently during the year and has closed the year with 4.03% of private sector credit and 4.12% of private sector deposits, as computed with reference to industry data of November 2007.

In the Prospectus of the Bank, we had projected a net loss of OMR 2.9 million in the first year of operations. During the year, the Bank informed the Capital Markets Authority that the projection for loss in the Prospectus would need to be revised upward to accommodate an anticipated higher loss due to lower business margins. However, with overwhelming support from our customers our business volumes have soared resulting in a remarkable improvement in performance. The Bank plans to continue with its branch expansion plans during 2008. Though this will put a significant strain on the Bank's investment, cost structure and profit, it is vital in accelerating our distribution and reach for the convenience of our customers.

FUTURE PLANS

The recent move to set up an array of capital-intensive industries in Oman has resulted in huge opportunities to banks for both funded and non-funded business. It is estimated that an investment of $12 billion is committed for setting up various industries in Sohar alone. These industries are in different stages of implementation. The companies, in the supply chain loop are also in need of funds for their working capital requirements.

While there are increasing opportunities for business in the coming years there are several challenges as well. Another commercial bank plans to enter the business arena in Oman and an existing specialised bank will widen its operations to cover the entire spectrum of banking activities. In addition, Oman's entry into the World Trade Organisation is likely to bring in foreign banks with sophisticated products that will increase competition for the domestic banks. We are taking proactive steps to meet these challenges.

In its Business Plan for the future, the Bank among other things is aligning with the Oman Vision 2020 goals and the growth plan of the country's economy as spelt out in the Seventh Five Year Plan. The Bank plans to fulfill the aspirations of the youth and focus their energies to grow the economy. A highly trained and motivated workforce is a necessity. Bank Sohar will play an active role in fulfilling the higher education needs of the youth and thereby also fulfill the Bank's social responsibilities.

The Bank seeks to be a vibrant, young financial services organization with high levels of customer service and speed in delivery. The Bank's product and services will range from transaction banking and savings to asset finance, financial planning and wealth management. In catering to the needs of individuals, the underpinning approach is to harness technology to offer reach through classic branch banking and richness through the most advanced interactive internet, SMS, mobile banking facilities. The product offering will range from transaction banking and savings to asset finance, financial planning and wealth management. We will focus our best efforts to make doorstep banking a reality to our valued customers and feel the difference in the quality of our services

In the growth trajectory, the Bank's emphasis will also be to partner institutions to achieve their corporate goals. As a knowledge driven bank, we understand the needs of emerging sectors and are in a position to offer customized products and service offerings.

As a partner to Small and Medium Enterprises we understand their financial challenges and can offer greater flexibility in their dealings with us. With a special focus on the Small and Medium Enterprise segment, the Bank intends to channel resources into the SME sector and adding its reach and expertise.

COMMUNITY INVOLVEMENT

The Bank since inception has contributed to a number of social events that has allowed it to establish a distinct presence in the market. To highlight the importance of creating awareness about cancer, the Bank sponsored the 5th Annual National Association for Cancer Awareness Walkathon. It also participated in two programmes organised for the SME sector both of which provided opportunities to reach out to this segment. In addition, the Bank sponsored the Khareef Festival 2007 and also participated in several educational, professional and social programmes directed at different segments of the community.

DIVIDEND POLICY

The key factors that will decide the dividend policy will be the level of expected future earnings, the stability of these earnings and the plans to effectively use retained earnings to boost future profits. Working around these parameters, it will be the intent of the Board of Directors to pay a stable and sustainable dividend in due course in line with statutory requirements and regulatory approvals.

CORPORATE GOVERNANCE

Knowledge, Information symmetry and Trust are the pillars of banking and the basis of sound corporate governance. These principles have been adopted by us in the way that we conduct our business with equity, transparency and accountability. We undertake to go a step further and equip stakeholders with the knowledge and information appropriate to make informed judgments. We will adhere to stringent corporate governance measures whereby disclosure and accountability have paramount importance. The Bank's philosophy on corporate governance and a detailed report on the implementation of corporate governance appear separately in the Annual Report 2007.

ON RECORD

On behalf of the Board of Directors, I would like to place on record our thanks to His Majesty Sultan Qaboos bin Said whose foresight and vision have enabled the business community to focus on clear objectives and pioneer ventures that will culminate in the realisation of those objectives. We record our appreciation to the Central Bank of Oman, the Capital Markets Authority and the Muscat Securities Market who have all played a partnering role in enabling Bank Sohar to set up and start business. Bank Sohar's achievements in the first year of doing business have been the result of strong management supporting teamwork from the staff of the Bank. We record our thanks to them and hope that they will continue to serve the Bank and its customers just as well as they have done in the first year of business. It is essential to mention that our debut and reception in the market would not have been possible but for the people who gave us a warm reception and walked into our offices to start what we always hope will be a lasting relationship.

Hilal Hamood Hamed Al Mamary
Chairman.

INDEPENDENT AUDITOR'S 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 34, which comprise the balance sheet as at 31 December 2007, and the income statement, the statement of changes in equity and the cash flow statement for the period 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 Bank Sohar SAOG as at 31 December 2007 and its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards.

Report on other Legal and Regulatory Requirements

In our opinion, the financial statements of Bank Sohar SAOG as at and for the period ended 31 December 2007, in all material respects:

- Have been properly prepared in accordance with the disclosure requirements of the Capital Market Authority; and
- Comply with the Commercial Companies Law of 1974, as amended.

13 January 2008 KPMG

BANK SOHAR SAOG

FINANCIAL STATEMENTS

For the period ended 31 December 2007

Registered office and principal place of business:

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

BALANCE SHEET
As at 31 December 2007

	Notes	2007 RO'000
ASSETS		
Cash and balances with Central Bank	B1	**20,427**
Due from Banks and other money market placements	B2	**36,914**
Loans and advances (net)	B3	**298,936**
Available-for-sale investments	B4	**55,000**
Equipment & fixtures	B5	**4,637**
Other assets	B6	**4,428**
		420,342
LIABILITIES		
Due to Banks and other money market deposits	B7	**28,614**
Certificates of deposit	B8	**91,100**
Customers' deposits	B9	**242,822**
Other liabilities	B10	**8,532**
		371,068
SHAREHOLDERS' EQUITY		
Share capital	B11	**50,000**
Legal reserve	B12	**1,760**
Accumulated losses		**(2,486)**
		49,274
		420,342
Net assets per share (in baizas)	**B14**	**492.74**
CONTINGENT LIABILITIES	B15	**26,928**
COMMITTMENTS	B15	**54,212**

The financial statements were approved and authorized for issue by the Board of Directors on 13 January 2008 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
For the period from 9 April 2007 to 31 December 2007

	Notes	*2007* *RO'000*
Interest income	*C1*	**9,353**
Interest expense	*C2*	**(5,637)**
Net interest income		**3,716**
Other operating income	*C3*	**4,709**
OPERATING INCOME		**8,425**
OPERATING EXPENSES		
Staff costs		**(2,957)**
Other operating expenses	*C4*	**(2,266)**
Depreciation	*B5*	**(338)**
		(5,561)
OPERATING PROFIT		**2,864**
Net Pre incorporation expense	*C5*	**(683)**
Net Pre operating expense	*C6*	**(264)**
Impairment allowance on portfolio basis	*B3*	**(4,403)**
LOSS FROM OPERATIONS AFTER PROVISIONS		**(2,486)**
NET LOSS FOR THE PERIOD		**(2,486)**
Basic loss per share for the period - in baizas	*C8*	**(24.86)**
Loss per share for the period (annualised) - in baizas	*C8*	**(30.51)**

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

For the period from 9 April 2007 to 31 December 2007

	Share capital (Note B11)	*Legal reserve (Note B12)*	*Accumulated losses*	*Total*
	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**

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
For the period from 9 April 2007 to 31 December 2007

	2007
	RO'000
OPERATING ACTIVITIES	
Net loss for the period	**(2,486)**
Adjustments for:	
Depreciation	**341**
Impairment allowance on portfolio basis	**4,403**
Profit on sale of investment securities	**(89)**
Interest on investment	**(1,011)**
Operating profit before changes in operating assets and liabilities	**1,158**
Loans and advances (gross)	**(303,339)**
Other assets	**(4,428)**
Issue of Certificates of deposit	**91,100**
Customers' deposits	**242,822**
Due to Banks and other money market deposits	**20,300**
Other liabilities	**8,532**
Net cash from operating activities	**56,145**
INVESTING ACTIVITIES	
Purchase of investments	**(171,593)**
Proceeds from sale / redemption of investments	**166,682**
Purchase of equipments & fixtures	**(4,978)**
Interest received on Certificates of deposit and Treasury Bills	**1,011**
Net cash used in investing activities	**(8,878)**
FINANCING ACTIVITIES	
Share capital issue	**50,000**
Share issue expenses collected (net)	**1,760**
Net cash from financing activities	**51,760**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**99,027**
REPRESENTING:	
Cash and balances with Central Banks	**20,427**
Due from Banks and other money market placements	**36,914**
Available-for-sale investments	**50,000**
Due to Banks and other money market deposits	**(8,314)**
	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.

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 219 employees as of 31 December 2007.

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.

In preparing these financial statements, the Bank has adopted IFRS 7 Financial Instruments: Disclosures. The adoption of IFRS 7 impacted the type and amount of disclosures made in these financial statements, but had no impact on the reported profits or financial position of the Bank.

The financial statements were approved by the Board of Directors on **13 January 2008** .

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 currencies 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 consists of the provision for impairment of loans and advances.

A3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the Bank.

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

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.

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.

A3.3.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 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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.

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

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.

A3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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 Equipment and Fixtures

Items of 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 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.

A3.3.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, recognised in the income statement.

A3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 was registered with Ministry of Commerce on 4 March 2007. Therefore, there are no comparative figures of corresponding prior period for comparison except for audited pre-incorporation figures up to 11 January 2007 which are as given below:

	RO'000
Interest income	**204**
Expenses	**(839)**
Net pre-operating expense	**(635)**
Total assets	**158,956**
Liabilities	**(107,143)**
Net assets	**51,813**
Represented by:	
Share capital	**50,000**
Legal reserve	**1,813**
	51,813

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2007

B1 CASH AND BALANCES WITH CENTRAL BANK

	2007
	RO'000
Cash	**1,296**
Insurance deposit with Central Bank of Oman	**5**
Capital deposit with Central Bank of Oman	**50**
Unrestricted balances with Central Banks	**19,076**
	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

	2007
	RO'000
Local Currency:	
Due from other Banks	**16,475**
	16,475
Foreign Currency:	
Due from other Banks	**9,867**
Nostro balances abroad	**10,572**
	20,439
Total	**36,914**

B3 LOANS AND ADVANCES

	2007
	RO'000
Corporate loans	**166,439**
Personal loans	**136,900**
Gross loans and advances	**303,339**
Impairment allowance on portfolio basis	**(4,403)**
Net loans and advances	**298,936**

Personal loans include RO 5,714,902 provided to staff on concessional terms.

B3 LOANS AND ADVANCES *(continued)*

Loans and advances comprises:

	2007
	RO'000
Loans	**273,562**
Overdrafts	**26,819**
Loan against trust receipts	**2,562**
Bills discounted	**396**
Gross loans and advances	**303,339**
Impairment allowance on portfolio basis	**(4,403)**
Net loans and advances	**298,936**

The movement in the impairment allowance is as analysed below:

Loan Loss Provision	*2007*
	RO'000
Impairment allowance on portfolio basis	
Balance at beginning of period	-
Provided during the period	**4,403**
Balance at end of period	**4,403**

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

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

	2007
	RO'000
Agriculture	**652**
Government	**24,082**
Construction	**23,102**
Financial institutions	**17,000**
Import trade	**17,602**
Export trade	**383**
Manufacturing	**12,042**
Personal	**136,900**
Services	**7,362**
Non-resident	**14,971**
Mining & Quarrying	**509**
Others	**48,734**
	303,339

B4 AVAILABLE-FOR-SALE INVESTMENTS

	Carrying/ Fair value 2007 RO'000	*Cost 2007 RO'000*
Unquoted investments		
Certificate of Deposit - OMR	**55,000**	**55,000**
Balance as at 31 December 2007	**55,000**	**55,000**

Treasury bills and Certificates of Deposit were earlier shown as held to maturity and valued at amortised cost. During the period 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.

B5 EQUIPMENT AND FIXTURES

	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:						
Additions	**2,502**	**336**	**858**	**145**	**1,137**	**4,978**
Depreciation	**(210)**	**(61)**	**(48)**	**(22)**	**-**	**(341)**
Net carrying value at 31 December 2007	**2,292**	**275**	**810**	**123**	**1,137**	**4,637**

Depreciation of RO 340,799 includes RO 3,414 which has been charged to Net Pre operating expense and RO 337,385 charged to Income statement as part of current operating expense.

B6 OTHER ASSETS

	2007 RO'000
Interest receivable	**2,225**
Prepayments and deposits	**540**
Acceptances	**1,417**
Others	**246**
	4,428

B7 DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

	2007
	RO'000
Local Currency:	
Money market borrowings	**28,600**
	28,600
Foreign Currency:	
Vostro balances	**14**
	14
Total	**28,614**

B8 CERTIFICATES OF DEPOSIT

The Bank had received necessary approvals from Central Bank of Oman to issue Certificates of Deposits (CDs) up to RO 100 million. The approval was received on 1 July 2007 and remained valid till 31 December 2007.

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

B9 CUSTOMERS' DEPOSITS

	2007
	RO'000
Current accounts	**12,027**
Current call accounts	**21,930**
Savings accounts	**26,094**
Term deposits	**182,611**
Margin accounts	**160**
	242,822

	2007
	RO'000
Retail customers:	
Current deposits	**2,157**
Saving deposits	**26,094**
Corporate customers:	
Term deposits	**182,611**
Current deposits	**9,870**
Call deposits	**21,930**
Others	**160**
	242,822

B10 OTHER LIABILITIES

	2007
	RO'000
Interest payable	**3,164**
Staff entitlements*	**548**
Acceptances	**1,417**
Accounts Payable in suspense	**13**
Other accruals and provisions	**3,390**
	8,532

** Staff entitlements include RO 26,288 in respect of employee terminal benefits charged to the income statement. No payments have been made towards employee terminal benefits during the period.*

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 expenses of RO 0.020 was payable on application. The balance RO 0.500 per share would be payable by the shareholders within a period not exceeding 3 years from the date of incorporation.

As of 31 December 2007, the following shareholders held 10% or more of the Bank's capital, either individually or together with family members.

	Number of shares	*% Holding*
Royal Court Affairs	**14,569,034**	**14.57%**
Al Ghadeer Al Arabiyah LLC	**12,000,000**	**12%**

B12 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. No appropriation has been made during the period as the Bank has not made a net profit. The legal reserve includes 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.

B13 FAIR VALUE RESERVE

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

B14 NET ASSETS PER SHARE

The calculation of net assets per share is based on net assets as at 31 December 2007 attributable to ordinary shareholders of RO 49,274,000 and on 100,000,000 ordinary shares, being the number of shares outstanding as at 31 December 2007.

B15 CONTINGENT LIABILITIES AND COMMITTMENTS

B15.1 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.

	2007
	RO'000
Guarantees	**11,991**
Documentary letters of credit	**14,937**
	26,928

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

	2007
	RO'000
Government	**8,616**
Construction	**7,990**
Import trade	**786**
Export trade	**999**
Manufacturing	**2,984**
Transport and communication	**4,595**
Services	**106**
Others	**852**
	26,928

B15.2 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.

	2007
	RO'000
Capital commitments	**216**
Credit related commitments	**53,996**
	54,212

B16 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:

	2007 *RO'000*
A) Loans and Advances	
Loans issued during the period	**14,484**
Loans repayment during the period	**(7,775)**
Balance as on 31 December 2007	**6,709**
B) Deposits	
Deposits received during the period	**64,457**
Deposits repaid during the period	**(48,070)**
Balance as on 31 December 2007	**16,387**
C) Income Statement	
Interest income	**101**
Interest expense	**(313)**
D) Senior Management compensation	
Salaries and other short term benefits	**1,052**
E) Directors sitting fees	**62**

B17 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.

B17 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

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 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 cash equivalents	**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 deposits	**-**	**-**	**91,100**	**-**	**91,100**	**91,100**
Deposit from customers	**-**	**-**	**242,822**	**-**	**242,822**	**242,822**
Total	**-**	**-**	**362,536**	**-**	**362,536**	**362,536**

B18 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:

B18.1 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.

B18 DERIVATIVES *(continued)*

B18.2 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. 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.

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. Positive and negative fair values on derivatives do not differ significantly from each other and hence are not disclosed in the financial statements.

		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**

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

C1 INTEREST INCOME

	2007
	RO'000
Due from Banks	**938**
Loans and advances to customers	**7,404**
Investment securities	**1,011**
	9,353

C2 INTEREST EXPENSE

	2007
	RO'000
Deposits from Banks	**525**
Deposits from customers	**5,112**
	5,637

C3 OTHER OPERATING INCOME

	2007
	RO'000
Net gain from foreign exchange dealings	**31**
Fees and commission	**4,589**
Gains from financial investments through equity	**74**
Realised gains on financial investments through income statement	**15**
	4,709

C4 OTHER OPERATING EXPENSES

	2007
	RO'000
Establishment costs	**321**
Operating and administration costs	**1,895**
Directors sitting fees	**50**
	2,266

C5 NET PRE-INCORPORATION EXPENSES

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

C6 NET PRE-OPERATING EXPENSES

	For the period from 4 March 2007 to 8 April 2007
	RO'000
Establishment costs	**22**
Operating and administration costs	**148**
Staff cost	**210**
Depreciation	**3**
	383
Less: Interest income	**(119)**
	264

C7 TAXATION

The Bank is liable to income tax at 12% of taxable income in excess of RO 30,000. The Bank is not liable to tax 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. The annualised loss per share of 30.51 baizes for the period is the summation of pre-incorporation and pre-operative expenses per share and annualised loss per share for the period (without pre-incorporation and pre-operative expenses).

	2007
	RO'000
Loss for the period	**(2,486)**
Weighted average number of shares outstanding during the period	**100,000**
Loss per share for the period - in baizes	**(24.86)**
Loss per share for the period (annualised) - in baizes	**(30.51)**

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.

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.

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 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.
- 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 gradings in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The current risk grading framework is in line with Central Bank guidelines and the best practices followed by the banking system.
- 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 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:

	Gross Loans and advances to Customers RO' 000	*Placements with Banks RO' 000*	*Investment securities RO' 000*
Carrying amount	**303,339**	**36,914**	**55,000**
Past due but not impaired			
0 -30 days	**254**	**-**	**-**
Carrying amount	**254**	**-**	**-**
Neither past due nor impaired	**303,085**	**36,914**	**55,000**

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.

No specific allowances for impairment established during the reporting period.

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.

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

	Gross Loans and advances RO'000
Against past due but not impaired	
Property	**387**
Fixed deposits	**10**
	397
Against neither past due nor impaired	
Property	**72,055**
Fixed deposits	**5,644**
Equity	**10,104**
	87,803
Total	**88,200**

D1.5 Settlement Risk

The Banks activities may give rise at the time of settlement of transactions and trades. 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.

Where no such settlement risk exists, as is commonly the case with the foreign exchange trades, the simultaneous commencement of the payment and the delivery parts of the transaction is common practice between trading partners (free settlement). In these cases, the settlement risk shall be mitigated through the execution of bilateral payment netting agreements.

To avoid settlement risks, all control systems are necessitated to keep the errors to a minimum as any of them could result in huge losses for the respective counterparties. However, everyone in the Bank involved in the Treasury work are constantly on alert, to ensure against potential errors.

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:

	Gross Loans and advances to Customers RO' 000	***Placements with Bank RO' 000***	***Investment securities RO' 000***
Concentration by sector			
Corporate	**166,439**	**-**	**-**
Personal	**136,900**	**-**	**-**
Sovereign	**-**	**-**	**55,000**
Banks	**-**	**36,914**	**-**
	303,339	**36,914**	**55,000**
Concentration by location			
Middle east	**298,168**	**30,031**	**55,000**
Europe	**-**	**266**	**-**
North America	**-**	**6,610**	**-**
South Asia	**4,760**	**-**	**-**
Central Asia	**411**	**7**	**-**
	303,339	**36,914**	**55,000**

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.

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.

Central Treasury 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. The liquidity requirements of business units and subsidiaries are met through short-term loans from Central Treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements. 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.

D FINANCIAL RISK MANAGEMENT *(continued)*

D2 LIQUIDITY RISK *(continued)*

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 2007 were as follows:

	Lending ratio	*Liquid ratio*
Average for the period	**73.25%**	**40.11%**
Maximum for the period	**87.5%**	**86.12%**
Minimum for the period	**0%**	**26.73%**

<u>Residual contractual maturities of financial liabilities</u>

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.

	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	**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**
Other Liabilities	**8,532**	**8,532**	**8,532**	**-**	**-**
Total	**371,068**	**392,752**	**129,334**	**132,047**	**131,371**

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 on month. The gap shall be 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.

D3 MARKET RISK

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's /issuers credit standing) will affect the Banks income or the value of its holdings of financial instruments. 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 07 and is presently engaged in simple treasury business involving Spots, Forwards and Currency swaps. Since the positions are only taken for customer transactions, the complexity is further reduced. In view of above, the Bank measures the risk only through sensitivity analysis. 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.

D FINANCIAL RISK MANAGEMENT *(continued)*

D3 MARKET RISK *(continued)*

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).

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 re-pricing of 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 given on the following page:

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 2007 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 Banks	-	-	-	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
Investments	50,000	5,000	-	-	55,000
Equipment & 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
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	-	-

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 is furnished below:

Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07
3.63%	3.63%	3.59%	3.29%	3.15%	3.10%	2.70%	2.15%	1.95%

A steep declining trend is seen in the benchmark due to high liquidity prevailing in the market. The declining trend is also seen in the international market with rate cuts by Central Banks in many countries. The Bank is of the view that the high liquidity position is likely to continue in the next year and consequently the trends in interest rates are likely to remain soft.

In a reduced interest rate scenario, the Bank having loans with long tenor, mostly with fixed interest rates, may not face the risk of loss of revenue. At the same time, the Bank will have the opportunity to favourably re price the liabilities on maturity.

D FINANCIAL RISK MANAGEMENT *(continued)*

D3 MARKET RISK *(continued)*

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 regular monitoring by Risk Management, 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 positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits. The Bank had the following net exposures denominated in foreign currencies:

	Assets RO'000	*Liabilities RO'000*	*Net Assets RO'000*
US Dollar	**74,574**	**75,919**	**(1,345)**
Saudi Rial	**7,011**	**-**	**7,011**
EUR	**493**	**400**	**93**
UAE Dirhams	**6,549**	**50**	**6,499**
Japanese Yen	**2,421**	**2,417**	**4**
Pound Sterling	**28**	**10**	**18**
Indian Rupee	**7**	**-**	**7**
Others	**73**	**-**	**73**

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.

Currency	**Position FCY'000**	**% Max change in 2007**	**Apply rate shock**	**+ bp change FCY'000**	**Equivalent RO'000**	**- bp change FCY'000**	**Equivalent 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 having an exposure as on 31 December 2007 is SAR. 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 incur results which comply within Central Bank of Oman limit of 40% as well as the internal limit of 35%. 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 Bank also does not project a change in the pegging.

D FINANCIAL RISK MANAGEMENT *(continued)*

D4 OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the 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 for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions
- Requirements for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified.
- Requirements for the reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where this is effective

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.

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.

D FINANCIAL RISK MANAGEMENT *(continued)*

D5 CAPITAL MANAGEMENT *(continued)*

D5.1 Regulatory capital *(continued)*

- 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 3 quarters, being the first nine months of operations and 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 period. There have been no material changes in the Bank's management of capital during the period.

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.

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:

	2007
	RO'000
Tier I capital	
Ordinary share capital	**50,000**
Legal reserve	**1,760**
Accumulated losses	**(2,486)**
Total	**49,274**
Tier 2 capital	
Impairment allowance on portfolio basis	**4,403**
Total	**4,403**
Total regulatory capital	**53,677**
Risk-weighted assets	
Retail Bank, corporate Bank and market risk	**357,408**
Operational risk	**15,630**
Total risk-weighted assets	**373,038**
Capital adequacy ratio	
Total regulatory capital expressed as a percentage of total risk-weighted assets	**14.39%**
Total tier I capital expressed as a percentage of total risk-weighted assets	**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.

D FINANCIAL RISK MANAGEMENT *(continued)*

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.

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:

For the period ended 31 December 2007	***Retail RO'000***	***Corporate RO'000***	***Others RO'000***	***Total RO'000***
Operating income	**6,924**	**1,501**	**-**	**8,425**
Operating expense	**(4,627)**	**(934)**	**-**	**(5,561)**
Operating profit	**2,297**	**567**	**-**	**2,864**
Net pre-incorporation expense	**-**	**-**	**(683)**	**(683)**
Net pre-incorporating expense	**-**	**-**	**(264)**	**(264)**
Impairment allowance on portfolio basis	**(2,738)**	**(1,665)**	**-**	**(4,403)**
Segment net loss for the period	**(441)**	**(1,098)**	**(947)**	**(2,486)**
Segment assets	**141,142**	**279,200**	**-**	**420,342**
Segment liabilities	**144,991**	**275,351**	**-**	**420,342**

Report to the Shareholders of Bank Sohar SAOG ("the Bank") of Factual Findings in connection with the Corporate Governance Report of the Bank and application of the Corporate Governance practices in accordance with Capital Market Authority Code of Corporate Governance

We have performed the procedures prescribed in the Capital Market Authority ("CMA") Circular No. 16/2003 dated 29 December 2003 with respect to the Corporate Governance Report of the Bank ("the Report") and its application of the Corporate Governance practices in accordance with the CMA Code of Corporate Governance ("the Code") issued under Circular No. 11/2002 dated 3 June 2002, as amended. The Report is set out on pages 1 to 13.

Our engagement was undertaken in accordance with the International Standards on Auditing applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the Report.

We found the Report reflects, in all material respects, the Bank's application of the provisions of the Code and is free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing, we do not express any assurance on the Bank's Corporate Governance Report. Had we performed additional procedures or had we performed an audit or review of this Report in accordance with International Standards on Auditing, other matters might have come to our attention that would have been reported to you.

This report is solely for the purpose set forth in the second paragraph above, and for inclusion, with the Report, in the Bank's annual report, and is not to be used for any other purpose. This report relates only to the Report included in the Bank's annual report for the period ended 31 December 2007 and does not extend to the financial statements or any other reports of Bank Sohar SAOG, taken as a whole.

13 January 2008 KPMG

CORPORATE GOVERNANCE REPORT

The first Corporate Governance Report of Bank Sohar highlights the Bank's Philosophy on Corporate Governance, the norms that were adhered to during the incorporation of the Bank together with a statement of its implementation in the first year of the Bank's existence.

1. PHILOSOPHY ON CORPORATE GOVERNANCE

Organizations are known to work within a governance framework. The framework is established by law, by regulations, by the organization's own articles of incorporation, by those who pioneer the organizations and by the expectations of those whom the organization serves. The framework of Bank Sohar's Corporate Governance Philosophy has been developed within the directives and guidelines of the Central Bank of Oman (CBO), the Capital Market Authority (CMA) and the Commercial Companies Law of Oman (CCL). The four universal values synonymous with corporate governance – accountability, fairness, responsibility and transparency are an integral part of it.

Corporate governance is the collection of processes, customs, policies, laws and practices affecting the manner in which the organization – namely Bank Sohar is directed, administered or controlled. Corporate governance also covers the relationships between the many individuals involved in the Bank and the aims and objectives for which the Bank is governed. The principal relationships at Bank Sohar are between the shareholders of the Bank, the management and the Board of Directors. Other relationships include the customers, employees of the Bank, regulators, suppliers, the environment and the community in which the Bank exists. An additional aspect of governance is that of an economic efficiency view, through which the governance system of the Bank also aims to optimize economic results, thereby placing emphasis on the shareholder's welfare.

Good corporate governance requires that the Board of Directors and managers shall:

- Strive continuously to achieve higher levels of corporate governance
- Promote transparency, accountability, responsiveness and social responsibility
- Conduct its affairs with its stakeholders, customers, employees, investors, vendors, government and the society at large in all fairness and in an open manner.
- Create an image of the Bank as a legally and ethically compliant entity and
- Ensure compliance with regulations and its reporting

2. BOARD OF DIRECTORS

At Bank Sohar, the Board of Directors ensures that the Bank conducts itself in accordance with its core values and develops them further on a continuous and sustainable basis. The Board is broad-based, consists of professionals from various fields and professions and gives representation to the stakeholders, administrators and independent directors in the process of decision making. The predominance of independent directors has enabled the board to have meaningful discussions and take an unbiased and qualitative view on matters placed before it. There is a clear segregation between the ownership of the Bank and the management.

2.1 Composition & Classification of the Board

There are seven directors on the Board of Bank Sohar and all of them are non-executive directors.

Table 1: Composition & Classification of the Board		
Name of Director	**Category**	**Represents**
Sheikh Hilal Hamood Al Mamary, Chairman	Non-Executive	Independent
Dr. Mohamed Abdulaziz Kalmoor, Deputy Chairman	Non-Executive	Independent
Mr. Abdulla Humaid Said Al Mamary	Non-Executive	Independent
Dr. Hamed Salim Al Rawahi	Non-Executive	Independent
Mr. Hussain Yousuf Dawood Al Shalwani	Non-Executive	Al Ghadir Al Arabia
Mr. Tahir Salim Al Amry	Non-Executive	Independent
Mr. Salim Mohammed Al Mashaiky	Non-Executive	Independent

2.2 Profile of Directors

Sheikh Hilal Hamood Al Mamary : Chairman since inception

MBA from University of Lincolnshire and Humberside, UK. Bachelor in Behaviour of Human Sciences from University of Southwester, Louisiana, USA. Member, Board of Directors of Royal Office Pension Fund and Chairman, Board of Trustees of Al Sahwa Schools.

Dr. Mohamed Abdulaziz Kalmoor : Deputy Chairman

Ph.D in Economics from University of Colorado. Bachelor in Economics from University of Essex. Chief Executive Officer, Oman Investment and Finance Company. Executive Vice President of the Central Bank of Oman until year 2000. Chairman, Board Credit & Risk Committee. Member, Board Executive Committee.

Mr. Abdullah Humaid Said Al Mamary : Director

MBA from University of Lincolnshire and Humberside, UK, Bachelor's Degree in Business Administration from the International University, London. Director, SSF Pension Fund. Vice Chairman, Hotel Management Company International, Member, Board of Middle East College of Information Technology, Member of the Board Omani-Qatari Telecommunications Company. Chairman, Board Executive Committee, Member, Board Credit & Risk Committee and Human Resources Committee.

Dr. Hamed Salim Al Rawahi – Director

Ph.D. and M.Phil. from Cranfield University, U.K. and B. Sc. from University of Salford, UK, Chartered Engineer (C.Eng) and Chartered IT Professional (CITP), both from UK, Board Member of the Information Technology Authority (ITA) and the Chairman of various other committees within the ITA. Chairman, IT Committee. Member, Board Executive Committee, Audit Committee and Human Resources Committee.

Mr. Hussain Yousuf Dawood Al Shalwani**:** Director

Bachelor's Degree from Beirut University. Member, Board Credit & Risk Committee, IT Committee and Audit Committee.

Mr. Taher Salim Al Amry – Director

Bachelor of Finance and Accounting from Salford University, UK. Head of the Office of H.E. The Minister of National Economy, Supervisor of the Ministry of Finance. Director, Board of Qalhat LNG S.A.O.C and Oman LNG LLC. Chairman, Board Audit Committee. Member, Board Credit & Risk Committee and IT Committee.

Mr. Salim Mohammed Al Mashaikhy**:** Director

Bachelor's Degree in Mathematics. Currently with Royal Court Affairs. Chairman, Board Human Resources Committee. Member, Board Audit Committee.

2.3 Board of Directors – Executive Powers

Bank Sohar's Board of Directors:

- Is vested with the powers of general superintendence, direction and management of the affairs and business of the Bank.
- Has the ultimate responsibility for the overall management of the Bank
- Guides the Bank to achieve its objectives in a prudent and efficient manner.
- Is primarily responsible for ensuring that all financial transactions are legal and that all disclosures are made as per regulations.
- Lays down a comprehensive code of conduct for all Board Members and Senior Management of the Bank, to be followed under all circumstances.
- Approves the delegation of power to the executive management as well as nominee members of the sub-committees and specify their roles, responsibilities and power.
- Authorises the management to implement the strategy for the Bank that is designed to deliver increasing value to the shareholders.
- Develops strategies for managing risks associated with the business and for meeting challenges posed by competitors.

- Develops vision to anticipate crisis and to act proactively when necessary.
- Ensures that information flows upward and that authority flows downward and thus the Bank is under their control, direction and superintendence.

During the year under review, the Board has:

- Reviewed and approved the Bank's financial objective, plans and actions
- Reviewed the Bank's performance
- Evaluated whether the business is properly managed according to the Bank's objectives
- Ensured compliance with laws and regulations through proper internal control systems

The Board of Directors has affirmed Bank Sohar's Code of Conduct for the year 2007 including the Code of Conduct for the Senior Management of the Bank.

The Board has approved the two quarterly reports and the annual financial statements and report to the shareholders on the annual report about the ongoing concern status of the Bank with supporting assumptions and qualifications as necessary.

The Board has taken steps to comply with rules and regulations and reviewed compliance reports, prepared by the Bank's management of all applicable provisions of the law.

Bank Sohar's Board of Directors has exercised all such powers and performed all such acts as the Board is authorized to exercise and do.

2.4 Meetings and Remuneration of the Board

The Board of Directors meet regularly, monitors the executive management, and exercises necessary control over the Bank's functioning. The Board conducts its business in formal meetings. In Board meetings, the "majority" is computed as the absolute majority of the directors present in person or proxy, whether or not they participate in the voting process. A sitting fee is paid to the Directors for attending the Board or its sub-committee meetings. The fee is within the limits stipulated by the Commercial Companies Law and the directives of the Capital Markets Authority.

Table: 2 Board Meetings held in 2007 and dates on which they were held

Meeting Dates of the Board of Directors in 2007			
No	Date	No	Date
1	February 28, 2007	7	June 12, 2007
2	March 10, 2007	8	July 22, 2007
3	March 26, 2007	9	October 21, 2007
4	April 7, 2007	10	October 25, 2007
5	April 29, 2007	11	November 26, 2007
6	May 9, 2007		

Table:3 Attendance & Remuneration – Board of Directors						
Name of Director	**No. of Board Meetings Attended**	**Board Sub-Committees Membership**	**No. of Sub-committee Meetings Attended**	**Total Sitting Fees (Board & Sub-committee) RO'000**	**Travel Expenses RO'000**	**Total RO'000**
Sheikh Hilal Al Mamary, Chairman	11		-	5	-	5
Dr. Mohamed Kalmoor, Deputy Chairman	11	2	14	9	1	10
Mr. Abdulla Al Mamary	10	3	17	10	-	10
Dr. Hamed Al Rawahi	9	4	15	10	-	10
Mr. Hussain Al Shalwani	11	3	22	10	-	10
Mr. Tahir Al Amry	9	3	16	10	1	11
Mr. Salim Al Mashaiky	10	2	10	8	-	8
				62	**2**	**64**

This being first year of operations no remuneration is paid to the Board members. Sitting fees for Board meetings is RO 500 per meeting per member and sitting fees for all Board sub-committee meetings is RO 400 per meeting per member

A special meeting of the shareholders was held on February 28, 2007 to incorporate the bank and appoint the first Board of Directors. All the directors were present at this meeting. Since this is the first year of Bank's operations the annual general meeting is yet to be held.

2.5 Committees of the Board

To ensure more focused and specialized attention to specific issues related to the Bank's governance, the Board of Directors have constituted various committees for specific purposes with clearly defined terms of reference and responsibilities. The various sub-committees of the Board together with the Internal Audit and Compliance department form an important tool in the process of corporate governance.

The Committees of the Board meet as often as required under the circumstances but not less than as required by statutes. The Meetings of the Board/Committees are held at the Head Office of the Bank, or at a pre-planned location which the Board/Committee may decide. All information relevant to the agenda of the Meeting is distributed in advance in writing, or electronically to all participants to facilitate informed discussions at the meeting.

2.5a Executive Committee

The main objective of the Board Executive Committee (Excom) is to ensure implementation of the Business Strategy and Policies and Procedures of the Bank. The committee ensures implementation of appropriate codes of business conduct to nurture ethical behavior to protect the bank's integrity and that of its shareholders.

Table: 4 Executive Committee	
Name of Members	No. of Meetings Attended
Mr. Abdulla Al Mamary Chairman	3
Dr. Mohamed Kalmoor,	3
Dr. Hamed Al Rawahi	3
Total number of meetings held during the year: ***4***	

The compliance officer reports to the Executive Committee and his role is to ensure that the Bank complies with all the rules and regulations as applicable under the regulatory framework in Sultanate of Oman.

2.5b Audit Committee

The main functions of Audit Committee are to assess and review the financial reporting system of the Bank to ensure that the financial statements are correct, sufficient and credible. The committee reviews with the Management the quarterly / annual financial statements before their submission to the Board for adoption. The Committee also reviews the adequacy of regulatory compliance, regulatory reporting, internal control systems, structure of internal audit department, its staffing and holds discussions with the internal auditors / external auditors on significant finding and the control environment.

Table: 5 Audit Committee	
Name of Director	No. of Meetings Attended
Mr. Tahir Al Amry Chairman	8
Mr. Hussain Al Shalwani	8
Mr. Salim Al Mashaiky	6
Dr. Hamed Al Rawahi	6
Total no. of meetings held during the year: ***8***	

The Internal Auditor reports to the Audit Committee and his role is to ensure the adequacy and efficacy of the internal control systems.

2.5c Credit & Risk Committee

The main objective of the Board Credit Committee is to ensure that the Bank has in place Strategy, Policies, Procedures and a framework to manage credit product portfolio and related risk as per the directives of the board and to ensure its directives are implemented to optimize the quality of assets and return on its deployment.

Table 6: Credit & Risk Committee

Name of Director	No. of Meetings Attended
Dr. Mohamed Kalmoor Chairman	11
Mr. Abdulla Al Mamary	10
Mr. Hussain Al Shalwani	11
Mr. Tahir Al Amry	6
Total no. of meetings held during the year: ***11***	

The committee has comprehensive terms of reference that, inter-alia includes, policies and procedures to manage the bank's credit risk portfolio, strategy and framework to maintain the quality of credit portfolio and optimize return on assets, and ensure systems are in place to measure and monitor the performance of credit portfolio, risk anomalies and exceptions to standards and guidelines.

2.5d Human Resources Committee

The main function of the committee is to focus on strategic areas such as having the right CEO and Senior Management team, a compensation and benefits scheme to attract and retain talented and committed staff, and inculcate a customer centric culture with integrity and high ethical standards amongst the staff.

Table: 7 Human Resources Committee

Name of Director	No. of meetings Attended
Mr. Salim Al Mashaiky Chairman	4
Dr. Hamed Al Rawahi	3
Mr. Abdulla Al Mamary	4
Total no. of meetings held during the year: ***4***	

2.5e Information Technology Committee

The main function of the committee is to focus on technology strategy to deliver value added services to clients in a secure and controlled environment that enables the bank to gain a competitive edge and keeping abreast of technological developments that have the potential to positively impact service delivery and customer experience.

Table: 8 Information Technology Committee

Name of Director	No. of Meetings Attended
Dr. Hamed Al Rawahi Chairman	3
Mr. Hussain Al Shalwani	3
Mr. Tahir Al Amry	2
Total no. of meetings held during the year: ***3***	

3. MANAGEMENT TEAM

The management of the Bank has been entrusted by the Board to a Management Team. The top management team has over 175 years of banking expertise between them. The top management keeps the Board of Directors informed on all issues concerning the operations of the Bank and takes directions from the Board on matters that concern and affect the business of the Bank and the objectives it should pursue. In the interest of good governance, the top management places all the key information before the Board, where it forms part of the agenda papers.

3.1 Profile Senior Management Team

Nani B. Javeri is the first CEO of Bank Sohar. Prior to joining Bank Sohar, Javeri was the CEO of Birla Sun Life Insurance in India for 5 years. Nani B. Javeri has spent 32 years with ANZ Grindlays Bank. Javeri has also worked with Oman International Bank, Muscat as General Manager for 2 years. Nani Javeri holds a Bachelors Degree in Economics.

H.V. Sheshadri heads the Risk Management Division at Bank Sohar. Sheshadri was Managing Director and CEO of the Development Credit Bank, India, Country Manager of Mashreq Bank, India. He has 16 years with ANZ Grindlays Bank. Sheshadri is an MBA from the Asian Institute of Management, Manila.

Khalfan Rashid Al Tal'ey : heads the Retail Banking Division at Bank Sohar. Khalfan is a well known banker in Oman with over 30 years of experience. He has worked with British Bank of Middle East and Oman International Bank. Khalfan holds a Diploma in Executive Management from the University of Virginia.

Raman Kaicker is the Chief Financial Officer at Bank Sohar. He was CFO of ANZ Grindlays Bank, India; Chief Strategist of Times of India Group; Vice Chairman of Times Guaranty,India; Group CEO of ONIC Holding SAOG, Oman and Proprietary Consultant in the area of Organisational Design and Effectiveness. Raman is a Fellow of the Institute of Chartered Accountants of England and Wales.

Shantanu Ghosh heads the Operations, Information Technology and e-Channels divisions at Bank Sohar. Shantanu has worked for over 19 years in various senior capacities with ANZ Grindlays Bank, India and Standard Chartered Bank, India. He was Country head of Retail Banking in ING Vysya Bank, India. Shantanu holds a Masters Degree in Economics and PG Diploma in International Trade from the Indian Institute of Foreign Trade.

Munira Macki heads the Human Resources and Training Division at Bank Sohar. She was the Head of Corporate Affairs at Alliance Housing Bank. Prior to this she was Deputy Director – Educational Activities at Ministry of Education. Munira holds a Bachelors degree in Philosophy & Psychology from Beirut Arab University Lebanon.

3.2 Remuneration of Senior Managers for the year 2007

The remuneration including all sums obtained by the top six senior managers as wages, fees, or remuneration and the sums paid as travel and transport expenses inside the Sultanate of Oman or abroad, during the year under report was RO 534K out of which remuneration was RO 523K and travel expenses was RO 11K. The top six senior managers include Chief Executive Officer, DGM Risk Management, DGM Retail Banking, DGM & Chief Financial Officer, DGM Operations, Information Technology and E-channels and AGM Human Resource & Training.

4. PROCEDURES FOR STANDING AS CANDIDATE FOR THE BOARD OF DIRECTORS

The following is the eligibility criteria and procedures for standing as a candidate for the Board of Director as per the Articles of Association and the rules issued by the Capital Markets Authority.

- No employee of the Bank may be a member of the Bank's Board of Directors.

- A minimum of one third of the Board Members must be independent directors. That is to say, such directors or any of their first degree relatives should not have occupied any senior post (such as that of a Chief Executive Officer, General Manager or similar post in accordance with the Bank's organizational structure) over the last two years. Additionally, such independent Board Members should not have had any relations with the Bank, its parent company or its affiliates resulting in financial transactions with such companies other than as permitted by the Capital Market Authority rules and the Central Bank of Oman Regulations applicable to related party transactions entered into with banking companies.

- A juristic person shall not be represented on the Board by more than one director.

- Without Prejudice to Article 95 of the Commercial Companies Law and the Bank's Articles of Association, a nominee for election to the Board of Directors must:

  a) Be of good conduct and sound reputation.
  b) Be at least 30 years old.
  c) Not be unable to settle his indebtedness to the bank when he submits his application for nomination.
  d) Not be declared insolvent or bankrupt unless the state of insolvency or bankruptcy has ceased pursuant to law.
  e) Not have been convicted of felony, or a dishonorable crime unless he has been rehabilitated.

f) Not be a member or represent a juristic person, on the boards of more than four public joint stock companies based in the Sultanate of Oman or be a chairman of more than two such companies.
g) Be authorized to nominate himself to the membership of the Board of Directors by the juristic person if he is nominated by a juristic entity.
h) Not be a member of the board of directors of a public or a closed joint stock company based in the Sultanate of Oman, which carries on commercial activities similar to those of the Bank;
i) Present an acknowledgement which contains a statement of the number of shares owned by him in the Bank, if he is a Shareholder, with an undertaking that he will not dispose off such shares to the extent that he shall cease to be a shareholder in the Bank, throughout the term of his office.

Those who wish to nominate themselves for election to the Bank's Board of Directors must submit an application form as per the pro-forma of the CMA during the specified period which shall expire 10 days before the date fixed for the General Meeting for election of the Board Members.

The Bank shall review the nomination application forms to ensure that the candidates satisfy the required conditions. The Bank shall lodge the forms with the CMA at least 4 days before the expiry of the term mentioned above provided that, the same have been certified by the Bank's legal advisor. All nominations shall be subject to approval by the CBO as per CBO regulations.

The directors shall be elected to the Bank's Board of Directors by secret ballot by the shareholders of the Bank. Each shareholder shall have a number of votes equal to that of the shares held by him. A shareholder shall have the right to use the entirety of his votes in support of one nominee or divide his shares among other nominees of his choice through the voting card. The total number of votes cast by a shareholder in support of the nominees standing for election to the Bank's Board of Directors may not exceed the number of shares owned by such shareholder.

5. STATEMENT ON COMPLIANCE

The Board of Directors of the Bank have been appointed in line with the guidelines of the Commercial Companies Law of Oman (1974) and in accordance with the regulations of the Central Bank of Oman. The Board of Directors has complied with all the guidelines for the appointment of directors prescribed by the Companies Law of Oman (1974) and the Central Bank of Oman's regulations with reference to eligibility.

The Board of Directors of the Bank consists of a minimum of 7 directors from among shareholders and non-shareholders.

No member of the Board of Directors is an employee of Bank Sohar or an employee of any other bank in Oman. No member of Bank Sohar's Board of Directors is on the Board of any other Bank registered in Oman. No member of the Board sits on the Board of more than four joint stock companies registered in Oman. No member of the Board is Chairman of more than two joint stock companies registered in Oman.

The Director's term of office shall not exceed three years subject to re-election more than once. An interim vacancy of the Board shall be filled only for the remaining period. Directors who are shareholders of the Bank hold a minimum number of shares as stated in the Articles of Association of the Bank.

During the year under report, Bank Sohar has complied with the directives of the Central Bank of Oman, Rules and Guidelines on Disclosure by Issuer of Securities and Insider Trading, the Code of Corporate Governance of the Capital Markets Authority for listed companies and the Guidelines of the Commercial Companies Law.

The Board is not aware of any non-compliance with the law, regulation, or any other requirement of a statutory authority, nor has it been subject to penalty for any such non-compliance.

6. CHANNELS OF CONTACT WITH SHAREHOLDERS AND INVESTORS

Bank Sohar has complied with the guidelines laid down at the time of incorporation of the Bank and at the time of listing with regard to channels of contact with shareholders and for the objectives of maintaining investor relations.

The Report of the Board of Directors with the Financial Results of the Bank for the first quarter of operations ended June 30, 2007 and for the second quarter ended September 2007 have been published in the local media in Arabic and in English and also sent to the Central Bank of Oman and Muscat Securities Market. The text of the same has been placed on the website of the Bank and MSM.

Bank Sohar has endeavored to establish meaningful relations with its shareholders and investors. Bank Sohar has provided investor related information in the two quarterly reports and in this Annual Report as per the statutory guidelines and the terms of the Bank's listing agreement.

The Annual Report includes interalia, the report of the Board of Directors, corporate governance report, management discussion and analysis report and the audited financial results. The management has taken the responsibility for the preparation, integrity and fair presentation of the financial statements and other information in the Annual Report of the Bank. The Annual Report will be sent to all shareholders of the Bank in line with the rules for the same as stipulated by the Capital Markets Authority.

6.1 Bank Sohar Shares - Market Price

Table:10 Bank Sohar Shares - Market Price				
Month 2007	**Bank Sohar share price Rial Omani**			**MSM Banks & Investment Index Closing**
	High	**Low**	**Closing**	
January				7,445.20
February				7,368.76
March	0.778	0.561	0.692	7,278.52
April	0.852	0.677	0.817	7,382.60
May	0.999	0.793	0.962	8,026.03
June	1.099	0.875	1.082	8,382.87
July	1.443	1.080	1.438	8,641.69
August	1.490	1.310	1.337	9,230.98
September	1.470	1.350	1.444	9,679.39
October	1.653	1.430	1.595	10,434.32
November	1.79	1.58	1.703	11,352.96
December	1.728	1.60	1.669	12,312.80

6.2 Distribution of share ownership

Bank Sohar is incorporated with a capital of RO 100 million and a paid up capital of RO 50 million. Major shareholders of Bank Sohar comprise a team of founders who own 60% of the share holding. The shareholders holding more than 5% is given in the table.

Name of the Shareholder	Per cent of shareholding
The Royal Court Affairs	14.57
Al Ghadeer Al Arabia	12.00
Oman Investment Fund	5.00

7. STATUTORY ACCOUNTS

Bank Sohar has adopted the International Financial Report Standards ("IFRS") in the preparation of its accounts and financial statements. The bank has also adopted IFRS 7 and the disclosures as mandated by the IASB under IFRS 7.

8. AUDITOR'S PROFILE

KPMG Oman was appointed as the external auditors of the Bank for the financial year ending 31 December 2007 after an elaborate assessment process. KPMG is a global network of professional firms providing Audit, Tax, and Advisory services. They operate in 148 countries and have more than 113,000 professionals working in member firms around the world. Their offices in Oman have a staff complement in excess of 100 employees.

The Board of Directors acknowledge that the preparation of the Annual Report of the Bank together with the Management Discussion and Analysis Report, the Corporate Governance Report and the audited Balance Sheet has been done with their full knowledge and in line with the standards for accounting and the statutory rules governing disclosure by the Capital Markets Authority and the Central Bank of Oman.

The Board of Directors also acknowledge that there is no material information and material things that will in any way affect the continuation of the business of the Bank in the coming financial year.

9. DETAILS OF MATERIAL INFORMATION

This being the first year of operations of the bank, the entire assets and liabilities, as stated in the financial statements, has been acquired during the year in the normal course of carrying out the banking business. The bank offers the normal suite of banking products and services to its clients.

Bank Sohar was incorporated as a commercial banking company under the Banking Laws of Oman in March 2007, with an authorised capital of RO 100 million and a paid up capital of RO 50 million. After the initial public offering in December 2006, the Bank commenced business with a soft launch in April 2007 and the formal inauguration in May 2007.

Bank Sohar's mission is to be an integral part of the banking scene and a lead player in the national economy both through its corporate objectives and by partnering activities that contribute in full measure to the development of the economy. This approach has helped the Bank in its first year of doing business to understand areas where there is potential for growth and areas that have traditionally been underserved by the banking sector.

1. BUSINESS ENVIRONMENT

As a new commercial entity, the Bank has been sensitive to the economic environment and business opportunities in Oman. The Bank has aligned its activities to the objectives of the Oman Vision 2020 Plan formulated in 1995 which continues to provide the direction for economic thrust. The salient features of Oman's Seventh Five Year Plan which will take the country to the year 2010, also provide the platform for strong economic growth through further liberalisation and the progress of development at an accelerated pace.

All through the year, the country watched the fall in the value of the US dollar and the rise in inflation at home. The fall in the value of the US dollar, the far reaching global repercussions of the sub-prime mortgage crisis and the threat of inflation will continue to determine the way banks do business.

For some time now, the country has placed emphasis on its non-oil exports especially from gas-based industries coming up in Sohar and Salalah. At the same time, the statistics point to the continued dominance of the oil sector in the country's economy. Exports of oil and gas contributed 81% of all export earnings during the year 2006. While providing impetus to the non-oil sector, the government is also moving to open up new licensing concessions for oil and gas exploration. These efforts are key to boosting oil output from the present estimate of 738,000 barrels per day to one million bpd by the year 2012. The cost of extracting oil from the new concessions may not be the same as from the existing fields. The Omani economy will continue to remain sensitive to the global price movements in the hydrocarbons sector.

There has been a strong growth in the exports of non-oil products both in the year 2006 and in 2007. Non-oil exports that stood at RO 420.3 million in 2004 reached RO 812.5 million at the end of 2006. The items in the non-oil export basket have been changing due to various factors and a careful track of these becomes important for business. The Omani Centre for Investment Promotion & Export Development is targeting non-oil exports to touch RO 2,750 million by the year 2010, a seven-fold increase from the levels of 2004. These targets for export have been placed in four categories. They are the high-value products, medium-value products, low-value products and lastly a special category of items that have been identified as having good growth potential. Large scale industries with major foreign capital have already set up business in Sohar and will take up the figures for non-oil exports. However, it is the medium-value and two lower-value categories that will need to receive the stimulus to perform.

Privatisation and disinvestment programmes of the government have also moved ahead during 2007. There have been concerted efforts to develop infrastructure that will complement and speed up economic diversification. Large budgets have been earmarked for expanding airports, developing the existing and building new seaports, maritime facilities, building new power projects, desalination plants, setting up sewage networks and increasing the road network.

The climate for investment has energised an impressive array of world class companies to converge on Oman. This list is set to increase as opportunities for investment keep opening. Construction work on the infrastructure requirements for the cache of new maritime, petrochemical, and other industrial and tourism facilities being developed in the Al Wusta region has already started. The socio-economic potential of these developments during the project implementation phase and in the long term thereafter are both exciting and challenging.

2. BANKING INDUSTRY

Banks have witnessed significant growth in all important areas, including credit, foreign assets, deposits, capital, reserves and operating profit. They have seen phenomenal growth in non-interest incomes, partly as a result of a marked increase in letters of credit, letters of guarantee and other service-oriented activities. The volume of business has been moving up, thanks to an overall growth in economic activity. This has helped commercial banks to enhance their net earnings this year.

The total assets of commercial banks shot up by 34 per cent to RO 8,983 million by end-September 2007. Credit which accounts for 64% of total assets of banks increased by 28.6 per cent to reach RO 5707.3 million. In response to the short-term interest rate differential in favour of the US dollar as well as easy domestic liquidity conditions, commercial banks increased their foreign assets portfolio from RO 1,376.5 million by end-September 2006 to RO 1,869.7 million for the same period this year. Total deposits held with commercial banks increased by 31.8 per cent to RO 5,944.1 million by end-September 2007. The growth in private sector deposits, which constituted over 80 per cent of total deposits, was broad-based with demand, savings and time deposits increasing by 45.2 per cent, 32.9 per cent and 16.9 per cent respectively. The provisional figures of net profit of commercial banks in the Sultanate (after provisions and taxes) stood at RO 145.4 million for the first nine months of 2007, a growth of 27.1 per cent over the same period in 2006.

3. INVESTMENT OPPORTUNITIES AND CHALLENGES

The year 2008 shows every promise of being one of increased economic activity. Initial statistics issued by the Ministry of National Economy for the first six months of 2007 show that the Gross Domestic Product of oil and non-oil sectors in the Sultanate at current prices has reached about RO 7,266.4 million as against RO 6,708.1 million for the same period in 2006. This constitutes an 8.3 % rise.

There has also been an increase in the GDP of the agricultural and fisheries sector during the first six months of 2007 reaching RO 89.2 million against RO 84.4 million during the same period in 2006. The services sector has also shown an increase in GDP in the first half of 2007 reaching RO 2,923 million against RO 2,500 million during the first half of 2006.

The increase in the GDP of non-oil activities for the first half of 2007 is up 16.9 % reaching RO 3,983.5 million against RO 3,408.2 for the first six months of 2006. Industrial activity for the same period has risen 17.9% to reach RO 971.3 million as against RO 823.8 million in the first half of 2006.

More banks are opening for business in Oman. More banks mean increased competition. Increased competition is healthy and provides more choices for the customer. Competition also results in innovation in products, services and delivery channels. All of this will be to the benefit of the customer.

Attracting and retaining talented professionals at affordable cost and with long term commitment has become increasingly difficult because of several factors. The Bank will have to develop clear strategies to meet the requirements of qualified personnel. At the same time, the Bank has to develop methodologies to retain human resources. This will include offering exciting career options, competitive salary packages, attractive benefit schemes, abundant growth potential and professional training and development programs.

4. BUSINESS OPERATIONS

The Bank commenced operations in a highly competitive market and alongside banks that had several years of operational experience and strong brand presence. From the start, the focus was on three main areas - People, Technology and Efficiency. The clear strategies and targeted positioning of products and attention to customer service and deliveries, enabled the Bank to create a positive impression in the market and among customers even in the first year of operations. It is the same focus that will set the Bank apart in the coming years as well and give us the edge in the Omani banking industry.
The Bank has a clear understanding of the sectors of the economy that are in need of support for growth and the sectors that are going to drive our future business.

4.1 Retail Banking

Bank Sohar's strategy for retail banking is to cater to and meet the expectations of all its customers through products and services that complement life's milestones and meet individual lifestyle requirements. Customers in Oman are gradually being introduced to ‘lifecycle’ financial solutions. Within a short span of time, the products of the Retail Banking Division have become well recognised in the market. In the coming year, the Retail Banking Division will continue to increase its market share for deposits and introduce more lifecycle financial solutions and new deposit products.

The Bank has established five branches – three in the capital area and one each in the Batinah and Dakhiliya region. Even with a limited branch network, customers of Bank Sohar have easy access to money and enjoy a special nationwide privilege. They have free-of-fee access to over 480 OmanSwitch ATMs located all over the country. In the coming year, the Bank plans to extend the branch network further to cover areas that are important for business.

We experienced a most satisfying growth in consumer lending. The Bank has seen the tendency for customers to aggregate their loans with one or more entities and move their multiple borrowing to Bank Sohar. Within the competitive market environment, the Bank sees the customer as the primary beneficiary for the manner in which these products and services are delivered.

Within the first quarter of its operations, Bank Sohar was able to attract the attention of customers with the launch of its products viz. the Al Mumayaz Accounts. 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 host of benefits that come with the Al Mumayaz Saving Scheme has provided customers a new experience in retail banking. The product has been well received in the market. The Bank also commenced efforts to inculcate the savings habit in children from an early age with the Al Mumayaz Children’s Saving Account.

The Bank has developed the Al Mumayaz Educational Service Scheme 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.

The Excel Prepaid Card was introduced by the Bank in the third quarter and was well received in the market. The prepaid card is a global card, accepted all over the world for making payments.

4.2 Corporate Banking

The Corporate Banking Group is geared to play a key role in the development of the financial ecosystem of Oman. The Bank’s product offerings and financial solutions are built upon a solid foundation of knowledge, accountability, ethics, respect for individuals, social responsibility, teamwork and above all a passion for innovation and excellence.

Bank Sohar’s Corporate Banking Group has some of the most highly qualified and experienced persons in the industry. The emphasis in the first year of business has been to help our customers improve their long-term sustainable cash flow through industry expertise. This is supported by finance and treasury management services. The Bank has focused on the Small and Medium Enterprise segment, which has been underserved for a long time. The Bank's success will be in our approach – becoming partners rather than just bankers. We are determined to script many success stories in the SME segment in the coming years.

Since inception, the Corporate Banking Group has worked on establishing a foothold in blue chip companies. The Group has worked to create a base for business in the government and public sectors. Corporate banking units at the newly opened branches similarly have focused on such entities in their territories.

The key focus area of corporate banking is the Small and Medium Enterprise business which is central to the Bank's operations. The Bank has devoted much of its energies in the current year to understand and service the financial requirements of SMEs. The SME business will be an area of long term focus. The Bank will develop sectoral expertise and have sectoral specialists based on the nature of the entity – large, medium, small. The sectoral specialists will be the knowledge partners to the SME businesses. The Bank's clear objective is to create SME successes all over Oman. 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 first nine months of business the Bank has covered several SME sectors such as Industrial, Real Estate, Contracting and Support Infrastructure, Health, Technology, Tourism Services, their supply chain industries and other developing sectors. Efforts are also being made to diversify the SME business to mitigate risks and enhance the profitability of the Bank. Better pricing, along with a knowledge based approach and giving SMEs the right advice and partnership, will be the differentiator in the market.

The Trade Finance Department at Bank Sohar has adopted some novel steps to further business. As part of a proactive initiative to keep customers abreast of global developments in trade practices, the Trade Finance Department has begun organising on site seminars and other facilities for customers. These initiatives will continue to be replicated at several corporate locations in the coming year.

As a result of the steep growth in the loan portfolio and the necessity to comply with the lending and liquidity requirements, Bank Sohar has issued RO 91.1 million of Certificate of Deposits during the second and third quarter. The Central Bank of Oman has approved a CD issue of RO 100 million available on tap until 31st December, 2007

4.3 Finance

The Finance Team at Bank Sohar provides the Board of Directors and the Management Team with essential information to make informed decisions pertaining to the business of the Bank. The Bank's Management Information

Systems enable the Finance Team to function proactively. Their analytical inputs help the Bank both in the launch of new business activities and in the assessment of profitability of existing products. The Finance Team facilitates integration and develops the policy framework incorporating business units and support units to create the delivery platform.

4.4 Human Resources

The Bank recognises that the only source of sustainable competitive advantage for an organisation is its people. With this conviction, the Bank has invested in highly qualified and experienced people to manage the Bank. Bank Sohar has a distinct and well qualified management team. At the top decision making level, the Bank has a resource pool of over 170 years of international experience available to it to draw upon. Approach to business, solutions being considered and decisions taken at all levels are supported by this depth of experience complemented by sector knowledge, research and analysis. The Bank's Human Resource policy is based on global best practices customised to provide an excellent tool for people management

The Human Resources team at Bank Sohar is committed to providing support and tools to nurture individual talents and dynamic teams. The Bank believes that training holds the key for continuous enhancement and upgrading of professional knowledge, skills and behaviour. With this objective, the Bank's Training Centre has been set up with state-of-the-art technology and facilities.

The Bank has a team of 219 qualified and talented professionals and with an Omanisation level of 84.02% it has exceeded its internal targets for Omanisation required for the first year of operations. With the growth in competition and the requirements of maintaining Omanisation levels, there will be an increased demand for qualified Omani banking professionals. The Bank is committed to continually train personnel to meet its requirements and simultaneously develop a strong culture of retention of human resources in its full-fledged training centre being setup at Qurum. With time, we aim to be the Employer of Choice in the Omani banking industry.

The core values in people management are fairness, transparency, honesty, trust and loyalty. The Bank's Human Resources policy is based on global best practices customised to provide the tools for people management and to meet the long term aspirations of the staff. The work ethic at Bank Sohar is moving to a culture with focus on delivery and commitment. At Bank Sohar, the commitment for delivery to the customer is non-negotiable and is drawn from individual voluntary commitment and accountability to each other.

4.5 Information Technology & Operations

Information Technology is today central to banking and operational excellence is a key factor in effective differentiation from the competition. Technology at Bank Sohar is positioned to be the driver for business. Bank Sohar has no inherited systems and has employed 'best-of-breed' technology to drive its network and operations. Turn around times for retail and corporate transactions are about the best in the country and amongst the most cost efficient.

It is important to mention that the Bank's aim is to use technology that is meaningful for the customer – intuitive technology. It is our experience that banks offer a full range of products and services yet the majority of customers are unaware of products other than the ones they regularly use. It is Bank Sohar's intent to use technology to also capture more mindshare and to make the customer's banking experience more convenient, efficient and effective. In a short while customers will be provided with SMS banking facilities, be able to view their account statements on-line and be able to send secure e-mails. The mobile phone will become the hub of financial life for Bank Sohar's customers.

Bank Sohar has adopted an information protection and perimeter security strategy known as 'Defense-in-Depth' (D-in-D). 'D-in-D' strategies allow IT managers to tie in their network strategies into the overall organisational "information stewardship" policy. In a short while customers will be provided with SMS banking facilities, be able to view their account statements on-line and be able to send secure e-mails.

Bank Sohar has in the first year of business offered a relationship oriented model of operations focusing on customer-centric services. Within the competitive market environment, the Bank sees the customer as the primary beneficiary for the manner in which these products and services are being and continue to be developed and delivered. A customer will always be the Bank's customer rather than just a customer of a branch. In the coming years too, the Bank intends to focus on operational excellence, understanding the customer and developing a rapport with the customer. This will ensure that the customer always comes back to the Bank. In addition to good customer retention rates, this approach will also provide better income generation capability.

The Bank has been able to acquire top end technology to drive retail delivery, cement customer relationships, provide comfort and convenience to customers and to provide management information. In the coming years, information technology will enable the Bank to leverage its business, attract the unbanked digital generation, ensure speedy turn around time and remain cost effective.

Technology complements Bank Sohar's privacy policy. This ensures that personal information remains confidential and non-public information remains private. The Bank will ensure that customer information is safe at all times by taking appropriate steps to prevent its misuse or unauthorised access.

The Bank has constituted a cross functional BCP team to ensure customer service is not affected due to any unforeseen circumstances and the DRP site will be operational by January 2008 in Knowledge Oasis Muscat.

5 CAPITAL STRUCTURE

Bank Sohar 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 would be payable by the shareholders within a period not exceeding 3 years from the date of incorporation. 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.

6 FINANCIAL RISK MANAGEMENT

The Bank has a well established Risk Management Unit with a team of experienced and competent professionals. The Bank recognises the function of Risk Management as an "Enterprise-wide Risk Management" whose primary responsibility is to ensure the existence of, and compliance with, and effective risk management framework in the context of the Bank's business and operating environment. It involves identification, measurement, mitigation and monitoring of various risks in such a way as to consistently meet the objective of maximising risk-adjusted returns within the defined risk appetite set by the Board of Directors. The Risk Management Unit sets limits which are consistent with the Bank's risk appetite, monitors and reports on compliance with those limits and generally provides an oversight role in relation to the management of risk. However, prime responsibility for managing risk, and for ensuring controls are put in place in respect of risk, lies with the business units within the Bank. The Bank has a documented approach to the management of risk which is detailed in the risk policy statements. These statements are reviewed annually by the management committees mentioned below and by the Board to be in tune with economic trends and the operating environment. Risk appetite is implemented through risk limits.

The structure for Risk Management consists of the Board of Directors, the Credit & Risk Committee of the Board, Assets and Liabilities Committee (ALCO), which has responsibility for market and liquidity risk and the Risk Management Unit. The Board of Directors has the overall responsibility for the establishment and oversight of the risk management framework in the Bank.

6.1 Capital Risk

The Bank has a strong and diverse shareholder profile gives the Bank the necessary confidence in its ability to raise capital when it is needed.

6.2 Credit Risk

Credit risk is the risk that a customer or counterparty will fail to meet their obligations to us as they become due. Credit risk arises primarily from loans and other credit based products such as current account facilities and credit cards) available to our retail customers, loans to our commercial customers and from the liquid and investment assets held by our Treasury division. Credit Risk is managed at three stages - at the Origination stage, Approval stage and at the Transaction/ Portfolio Monitoring stage. Bank's credit policy has been approved by the Board of

Directors. This policy has laid down a Credit Approval structure with specific delegated authorities.

In compliance with guidelines issued by the Central Bank of Oman, on the implementation of BASEL II recommendations, in the case of Credit Risk the Bank follows the Standardised Approach with 100% risk weights for all assets and comprehensive risk mitigation approach. The Bank is in the process of acquiring a standard credit rating model recognised by the Central Bank of Oman to be used as a first step credit filter and indicator of individual asset quality and also of portfolio quality.

The core banking software in use at the Bank has the capability to carry out asset classification on a daily basis. In accordance with this, specific provisioning is made as per the guidelines of the Central Bank of Oman. Non-specific standard asset provisioning is made as per the guidelines of the Central Bank of Oman The Bank is now in the process of building up a strong Management Information System from the core banking software which will provide proactive credit risk management.

6.3 Market Risk

Market risk is the risk that the value of, or income arising from, the Bank's assets and liabilities changes as a result of changes in interest rates or exchange rates. Market risk incorporates a range of risks, but the principal elements are interest rate risk and foreign currency risk.

Interest rate risk arises from the mortgage, savings and other financial services products that we offer. The varying interest rate features and maturities on these products and the use of wholesale funds to support these products, create interest rate risk exposures due to the imperfect matching of interest rates between different financial instruments and the timing differences on the re-pricing of assets and liabilities. This risk is managed through the use of appropriate financial instruments, including derivatives.

Foreign currency risk arises as a result of activity undertaken by the Bank when raising and investing funds in currencies other than Sterling which is done in order to manage wholesale funding costs and the returns on liquid assets and to provide diversity in funding and investment markets. Currency risk is managed primarily through the use of currency swaps and forward foreign exchange contracts. The risk is also managed, where appropriate, by foreign exchange currency liabilities being matched with assets denominated in the same foreign currency.

In compliance with guidelines issued by the Central Bank of Oman on the implementation of BASEL II recommendations, in the case of Market Risk the Bank follows the established approach and techniques as per the guidelines.

The Assets and Liability Committee (ALCO) meets on a fortnightly basis to discuss the maturity mismatches and the liquidity risks that Bank Sohar is exposed to, so as to take steps to unwind from such risks. ALCO also discusses and finalises action plans to manage interest rate risks. With the guidance of ALCO, The Bank's Treasury manages interest rate and foreign exchange risk, adhering to the treasury policy guidelines, which stipulates appropriate limits.

6.4 Liquidity Risk

Liquidity Risk is the risk that the Bank is not able to meet its financial obligations as they fall due, or can do so only at excessive cost. The objective of our liquidity policy is therefore to enable us to maintain sufficient liquid assets to cover cash flow imbalances and fluctuations in funding, to maintain full public confidence in our business and to enable us to meet all our financial obligations.

The day-to-day management of liquidity is the responsibility of the Treasury Division, which manages our portfolio of liquid assets and our contingency funding plans. Our liquidity risk policy is monitored by ALCO, which receives regular reports on our liquidity position. We also comply with regulatory guidelines which govern the scope and nature of the Bank's holding of liquid assets. The Treasury Policy stipulates broad guidelines in respect of liquidity risk management such as gap limits and minimum liquidity ratio. Dynamic liquidity is tracked by advanced inputs from business units on disbursements and the availing of credit.

6.5 Operational Risk

Operational risk is the risk of a loss arising from inadequate or failed internal processes or systems, human error or external events. We manage operational risk through the Bank's business units, with senior management having responsibility for understanding how operational risk impacts on their business unit and for putting in place the appropriate controls or other mitigation actions, for example, insurance. The business units are supported by the Risk Management Division. The Bank is in the process of improving its Operational Risk framework, so as to capture data and track the risk and migrate up from the Basic Indicator Approach for capital provisioning, as per BASEL II guidelines.

6.6 Internal Control

The presence of satisfactory internal controls contribute to effective management by both the Board of Directors and the Management of the Bank. At Bank Sohar, Internal Control is a key component of Risk Management. The management of the Bank recognises that sound internal controls are essential to the prudent operation of the Bank and through it to the stability in the banking system as a whole. As a new banking entity, Bank Sohar has put in place a mechanism to control the activities both at the central level and at the unit levels with the following objectives:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

Internal Control for effectiveness and efficiency of operations addresses the Bank's basic business objectives including performance and profitability goals and the safeguarding of the Bank's resources. A key component of the Bank's Internal Control
system is the operation of a solid accounting and information system and includes the preparation of reliable financial statements and other financial information. The Internal Controls for compliance are in place to ensure that the Bank adheres to the laws and regulations and by doing so avoids damages and negative consequences.

Internal Controls at Bank Sohar have been designed with all the controls necessary to provide reasonable assurance about the achievement of the objectives. As a new entity the Bank followed a roadmap to evaluate the design and operating effectiveness of its Internal Control systems:

Objective, Risks and Control Identification and Assessment

- Process objectives and sub-objectives identified and assessed
- Risks impacting the achievement of objectives identified and assessed
- Existing controls, to mitigate the risks identified, mapped to the corresponding risks

Process Documentation

- Identification and documentation of key financial accounts and key business units of the Bank
- Identification and documentation of all processes and sub-processes related to key accounts

Monitoring Risks

- Design and operating effectiveness tested and gaps identified
- Mitigation plans for gaps drawn
- Design and operating weakness escalated and reported to the Board of Directors
- Changes in processes, risks and controls identified and reported to the Board

7 FINANCIAL REVIEW 2007

The net loss for the period ended 31st December, 2007 is OMR 2.486 million. This is arrived at after non-specific credit loss provisioning for the period amounted to OMR 4.403 million and pre-incorporation and pre-commencement expenses together amounted to OMR 0.947 million. However, before the above adjustments, the Bank has made an operating profit of OMR 2.864 million. This has been achieved primarily by a fast ramp up in growth of customer credit arising from strategic segmentation with an equal focus on lending and fee based activities.

In this period the Bank built a total customer credit exposure of OMR 303.339 million and customer deposits of OMR 333.922 million servicing a total of 12,544 customers. The savings deposit have built up to OMR 26.094 million. The Bank was able to increase its market share consistently during the year and has closed the year with 4.03% of private sector credit and 4.12% of private sector deposits, as computed with reference to industry data of November 2007.

The Basic Loss per share was Baiza 24.86 per share.

7.1 Net Interest Income

Net interest income of OMR 3.716 million was primarily due to rapid growth in loan book. This has been achieved primarily by fast ramp up in growth of customer credit arising from new products which were actively taken up by the market. After obtaining the Central Bank of Oman's approval for the issue of Certificate of Deposits of RO 100 million the Bank has issued OMR 91 million as on 31 December 2007. The Bank's average total asset was OMR 207 million. The average net interest margin was 2.40% with the average interest yield of 6.02% and gross average interest expense of 4.73%.

7.2 Non-interest income

Non-interest income was OMR 4.709 million. Fees and commission include account servicing fees, credit related fees, advisory fees and other management fees, sales commission, placement fees and syndication fees. The Bank's focus is to significantly increase its fee based income.

7.3 Operating expenses

The Bank's operating expenses were OMR 5.561 million in 2007. Operating expenses include the cost of Bank's network of five operational branches, four of which were launched during the quarter ended 30 September 2007. Operating expenses is primarily due to the staff cost, depreciation and other administrative costs. Average staff strength between April 2007 and December 2007 was 178. Other administrative costs are primarily due to advertisement, communication, recruitment and information technology initiatives. The Bank's cost to income ratio was 66% in 2007.

7.4 Provisions

The Bank made non specific provisions of OMR 4.403 million for possible credit losses inherent within the loans and advances portfolio in 2007. In the absence of any past history the Bank has adopted the Central Bank of Oman's norms for making the provision against loans and advances which represents the possible loss.

7.5 Assets

Total assets at 31 December 2007 were OMR 420.342 million. It mainly consists of cash and Central Bank of Oman balance, placements and balances with other banks, loans and advances and fixed assets. Net loans and advances as at 31 December 2007 was OMR 298.936 million.

7.6 Capital Adequacy

The Bank's capital adequacy ratio, calculated according to guidelines set by the Bank of International Settlements (BIS) was 14.39% as at 31 December, 2007. While the international requirement as per BIS is 8%, the Central Bank of Oman's regulations stipulate that local banks maintain a BIS ratio of 10%.

Tier 1 capital was OMR 49.274 million and Tier 2 capital was OMR 4.403 million due to non-specific loan loss provision.

7.7 Liquidity Management

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.

Cash and balances with Central Banks, treasury bills, certificates of deposits issued by CBO and placements with banks accounted for 26.73 % of total assets and 33.64% of total deposits at 31 December 2007. A detailed note on maturity of liability is disclosed in section D2 of the financial statements.

7.8 Interest Rate Risk Management

The Asset and Liability Committee (ALCO) manages the Bank's interest rate risk exposure. The Bank is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities. The Bank manages the liquidity risk by appropriately sourcing funding requirements to match the maturity buckets. A detailed note on interest risk management is disclosed in section D3 of the financial statements.

Report to the Board of Directors of Bank Sohar SAOG
in respect of the Basel II – Pillar III Disclosures

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman ("CBO") Circular No. BM 1027 dated 4 December 2007 ("the Procedures") with respect to the Basel II – Pillar III disclosures ("the Disclosures") of Bank Sohar SAOG ("the Bank") set out on pages 1 to 12 as at and for the period ended 31 December 2007. The Disclosures were prepared by the Management in accordance with the CBO's Circular No. BM 1009 dated 13 September 2006 and Circular No. BM 1027 dated 4 December 2007. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The Procedures were performed solely to assist you in evaluating the Bank's compliance with the disclosure requirements set out in CBO's Circular No. BM 1009 dated 13 September 2006.

We report our findings as follows:

Based solely on performance of the Procedures, we found no exceptions which require to be reported herein.

Because the Procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the Disclosures.

Had we performed additional procedures or had we performed an audit or review of the Disclosures in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties other than Central Bank of Oman; and we accept no liability to any third party. This report relates only to the Bank's Disclosures and does not extend to the financial statements of the Bank taken as a whole or to any other reports of the Bank.

13 January 2008 KPMG

STATUTORY DISCLOSURES UNDER BASEL II FRAMEWORK
As at 31 December 2007

1. INTRODUCTION

The following disclosures are being made in accordance with the revised capital adequacy rules under the Basel II framework issued by the Central Bank of Oman in September 2006 (BM 1009). These disclosures aim to provide market participants material qualitative and quantitative information about Bank Sohar's risk exposures, risk management strategies and processes of capital adequacy.

2. SUBSIDIARIES AND SIGNIFICANT INVESTMENTS

Bank Sohar is not part of any Group either as a member or as the top corporate entity in the Group.

3. CAPITAL STRUCTURE

Bank Sohar 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 would be payable by the shareholders within a period not exceeding 3 years from the date of incorporation. 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 Bank has a diverse shareholder profile providing the Bank the necessary opportunity to raise additional capital upon necessity.

Capital Structure	RO'000
Tier 1 Capital	
Paid up share capital	50,000
Legal reserve	1,760
Accumulated losses	(2,486)
Minority interests in the equity of subsidiaries	-
Innovative instruments	-
Other Capital instruments	-
Regulatory calculation differences deducted from Tier 1 capital	-
Other amounts deducted from Tier 1 capital, including goodwill, deferred tax and investments	-
Total amount of Tier 2 Capital	4,403
Total amount of Tier 3 Capital	-
Total amount of Tier 2 Capital and Tier 3 Capital	**4,403**
Other deductions from capital	-
Total eligible capital	**53,677**

4. CAPITAL ADEQUACY

The Bank's capital adequacy ratio, calculated according to guidelines set by the Bank of International Settlements (BIS) as adopted by CBO was 14.39%. While the international requirement as per BIS is 8%, the Central Bank of Oman's regulations stipulates that local banks maintain a Minimum Capital Adequacy ratio of 10%.

The Banks strategy is to maintain adequate capital to allow the bank to operate under adverse market conditions and which can absorb unforeseen losses.

The Bank has a capital adequacy assessment process through which senior management assesses the Banks capital against its risk profile. Asset Liability Committee (ALCO) is the forum in which the capital adequacy is assessed, based on the next quarter's business forecast and the risk profile envisaged. The management believes to be proactive and therefore, have decided to initiate the process of adding further capital when the capital adequacy ratio is expected to reach 12%. This enables senior management to ensure that the Bank has adequate capital to support all material risks it is exposed to, while achieving the desired business growth.

The Bank has adopted the Standardized approach, under the Basel II regulations, as prescribed by the Central Bank of Oman for all Banks operating in Oman with effect from 1 January 2007.

Total and Tier 1 Capital Ratio, Risk Weighted Assets **(RO'000)**

SI No	Details	Gross Balances (Book Value)	Net Balances (Book Value)*	Risk Weighted Assets
1	On-balance sheet times	424,745	420,342	313,880
2	Off - balance sheet items	81,140	81,140	26,141
3	Derivatives	33,328	33,328	1,412
4	**Total for Credit Risk**	**539,213**	**534,810**	**341,433**
5	**Risk Weighted Asset for Market Risk**			**15,975**
6	**Risk Weighted Asset for Operations Risk**			**15,630**
7	**Total Risk Weighted Assets**			**373,038**
8	Tier 1 Capital		49,274	-
9	Tier 2 Capital		4,403	-
10	Tier 3 Capital		-	-
11	**Total Regulatory Capital**		**53,677**	**-**
11.1	Capital requirement for credit risk			**34,143**
11.2	Capital requirement for market risk			1,598
11.3	Capital requirement for operational risk			1,563
12	**Total required capital**			**37,304**
13	**Tier 1 Ratio**			**13.21%**
14	**Total Capital Ratio**			**14.39%**
*	**Net of provisions**			

5. RISK EXPOSURE AND ASSESSMENT

5.1 Approach and Policy

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

Credit risk is the risk that a customer or counterparty will fail to meet their obligations to us as they become due. Credit risk arises primarily from loans and other credit based products such as current account facilities and credit cards) available to our retail customers, loans to our commercial customers and from the liquid and investment assets held by our Treasury division. Credit Risk is managed at three stages - at the Origination stage, Approval stage and at the Transaction/ Portfolio Monitoring stage. Bank's credit policy has been approved by the Board of Directors. This policy has laid down a Credit Approval structure with specific delegated authorities.

In compliance with guidelines issued by the Central Bank of Oman, on the implementation of BASEL II recommendations, in the case of Credit Risk the Bank follows the Standardised Approach with risk weights as recommended by Central Bank of Oman.

The core banking software in use at the Bank has the capability to carry out asset classification on a daily basis. In accordance with this, specific provisioning is made as per the guidelines of the Central Bank of Oman. Non-specific standard asset provisioning is made as per the guidelines of the Central Bank of Oman

5.2 Credit Risk Measurement

The Bank measures credit risk in terms of asset quality using two primary measures- the provisioning ratio and the non performing loans ratio. The provisioning ratio is the annual charge for provisions as a percentage of total loans. The non performing loans ratio is the ratio of non performing loans as a percentage of total loans. Further, the risk movement is tracked through portfolio analysis with focus on concentrations. These are detailed out in the following tables.

5.3 Definitions of past due and impaired

The classification of credit exposures is considered by the bank for identifying impaired credit facilities, as per CBO Circular BM 977 dated 25 September 2004.

5.4 Total gross credit risk exposures, plus average gross exposure over the period broken down by major types of credit exposure

			RO'000
Sl No	**Type of Credit Exposure**	**Average Gross Exposure Current Period**	**Total Gross Exposure 31 Dec 2007**
1	Overdrafts	11,697	26,819
2	Personal Loans excluding Overdrafts	78,981	136,075
3	Loans against Trust Receipts	555	2,562
4	Other Loans	43,496	137,487
5	Bills Purchased / Discounted	108	396
6	Any Other	-	-
7	**Total**	**134,837**	**303,339**

5.5 Geographic distribution of exposures, broken down in significant areas by major type of credit exposure.

RO' 000

Sl No	Type of Credit Exposure	Oman	Other GCC countries	OECD countries	India	Pakistan	Others	Total
1	Overdrafts	26,819	-	-	-	-	-	26,819
2	Personal Loans (excluding overdrafts)	136,075	-	-	-	-	-	136,075
3	Loans against Trust Receipts	2,562	-	-	-	-		2,562
4	Other Loans	122,306	10,010		4,760		411	137,487
5	Bills Purchased / Discounted	396	-	-	-	-	-	396
6	Any Other	-	-	-	-	-	-	-
7	**Total**	**288,158**	**10,010**	**-**	**4,760**	**-**	**411**	**303,339**

5.6 Industry or counter party type distribution of exposures, broken down by major types of Credit exposure

RO' 000

Sl No	Economic Sector	Overdraft	Loans	Bills purchased / Discounted	Others	Total	Off - balance sheet exposure
1	Import Trade	42	17,437	-	123	17,602	786
2	Export Trade	383	-	-	-	383	999
3	Wholesale & Retail Trade	-	-	-	-	-	-
4	Mining & Quarrying	-	509	-	-	509	-
5	Construction	1,404	19,910	321	1,467	23,102	7,990
6	Manufacturing	548	11,442	-	52	12,042	2,984
7	Electricity, gas and water	-	-	-	-	-	-
8	Transport and Communication	-	-	-	-	-	4,595
9	Financial Institutions	-	17,000	-	-	17,000	-
10	Services	5,854	1,508	-	-	7,362	106
11	Personal Loans	825	136,075	-		136,900	-
12	Agriculture and Allied Activities	-	-	-	652	652	-
13	Government	-	24,082	-		24,082	8,616
14	Non - Resident Lending	-	14,971	-		14,971	-
15	All Others	17,763	30,628	75	268	48,734	852
16	**Total**	**26,819**	**273,562**	**396**	**2,562**	**303,339**	**26,928**

5.7 Residual contractual maturity breakdown of the whole portfolio, broken down by major types of credit exposures

RO'000

Sl No	Time Band	Overdraft	Loans	Bills purchased / Discounted	Others	Total	Off - balance sheet exposure
1	upto 1 month	26,819	30,682	396	2,562	60,459	1,110
2	1 - 3 months	-	4,896	-	-	4,896	8,174
3	3 - 6 months	-	3,238	-	-	3,238	697
4	6 - 9 months	-	8,808	-	-	8,808	611
5	9 - 12 months	-	46,620	-	-	46,620	3,752
6	1 - 3 years	-	37,965	-	-	37,965	12,584
7	3 - 5 years	-	24,299	-	-	24,299	-
8	Over 5 years	-	117,054	-	-	117,054	-
9	**Total**	**26,819**	**273,562**	**396**	**2,562**	**303,339**	**26,928**

5.8 By major industry or counter party type

RO'000

Sl No	Economic Sector	Gross Loans	Of which, NPLs	General Provisions held	Specific Provisions held	Reserve interest	Provisions made during the period	Advances written off during the period
1	Import Trade	17,602	-	176	-	-	-	-
2	Export Trade	383	-	4	-	-	-	-
3	Wholesale & Retail Trade	-	-	-	-	-	-	-
4	Mining & Quarrying	509	-	5	-	-	-	-
5	Construction	23,102	-	231	-	-	-	-
6	Manufacturing	12,042	-	120	-	-	-	-
7	Electricity, gas and water	-	-	-	-	-	-	-
8	Transport and Communication	-	-	-	-	-	-	-
9	Financial Institutions	17,000	-	170	-	-	-	-
10	Services	7,362	-	74	-	-	-	-
11	Personal Loans	136,900	-	2,738	-	-	-	-
12	Agriculture and Allied Activities	652	-	7	-	-	-	-
13	Government	24,082	-	241	-	-	-	-
14	Non- Resident Lending	14,971	-	150	-	-	-	-
15	All Others	48734	-	487	-	-	-	-
16	**Total**	**303,339**	**-**	**4,403**	**-**	**-**	**-**	**-**

5.9 Amount of impaired loans and, if available, past due loans provided separately broken down by significant geographic areas including, if practical, the amounts of specific and general allowances related to each geographical area

RO' 000

Sl No	Economic Sector	Gross Loans	Of which, NPLs	General Provisions held	Specific Provisions held	Reserve interest	Provision made during the period	Advances written off during the period
1	Oman	288,158	-	4,251	-	-	-	-
2	Other GCC Countries	10,010	-	100	-	-	-	-
3	OECD Countries	-	-	-	-	-	-	-
4	India	4,760	-	48	-	-	-	-
5	Pakistan	-	-	-	-	-	-	-
6	Others	411	-	4	-	-	-	-
7	**Total**	**303,339**	**-**	**4,403**	**-**	**-**	**-**	**-**

5.10 Movements of Gross Loans

RO' 000

Sl No	Details	Performing Loans		Non - Performing Loans			
		Standard	Special Mention	Sub- standard	Doubtful	Loss	Total
1	Opening Balance	-	-	-	-	-	-
2	Migration / changes (+/-)	-	-	-	-	-	-
3	New Loans	372,373	-	-	-	-	372,373
4	Recovery of Loans	69,034	-	-	-	-	69,034
5	Loans written off	-	-	-	-	-	-
6	Closing Balance	303,339	-	-	-	-	303,339
7	Provisions held	-	-	-	-	-	-
8	Reserve Interest	-	-	-	-	-	-

6 CREDIT RISK: DISCLOSURES FOR PORTFOLIOS SUBJECT TO THE STANDARDISED APPROACH

6.1 Qualitative Disclosures

For portfolios under standardised approach:
The Bank is following Standardised Approach in assessing regulatory capital for credit risk. For sovereign risk, zero risk weight is applied, as permitted under this approach, whereas for exposures on Banks, the risk weight applied depends on the rating of the banks by Moody's, subject to the respective country rating. In the absence of external ratings for most of the Corporates, the Bank treats all Corporates as unrated and apply 100% risk weight on their funded exposures. On the off balance sheet exposures, the relevant credit conversion factors are applied and aggregated to Banks or the Corporates, as the case may be, and then the risk weight is applied as stated above.

6.2 Quantitative Disclosures

The Bank is following an uniform approach of considering all corporates as unrated and applying 100% risk weights.

7 CREDIT RISK MITIGATION: DISCLOSURE FOR STANDARDISED APPROACH

The Bank does not make use of netting whether on or off-balance sheet. The Bank's credit policy specifies the acceptable types of collateral, source of valuation and frequency of revaluation as once in three years for mortgaged properties. The main types of acceptable collaterals are cash deposits, equity shares listed in the Muscat Securities Market and Mortgages. The main type of guarantors is individuals and corporates. The Bank is taking only the cash deposits and equity shares for the purpose of risk mitigation, but presently has not considered this collateral to arrive at the risk weighted assets, under standardised approach.

RO'000

	Gross credit Exposure before CCF, CRM and provisions	Eligible financial Collateral (after Application of Haircuts)	Eligible guarantees
1.Claims on Sovereigns	69,116	-	-
2.Claims on Banks	36,915	-	-
3.Claims on Corporates	160,939	-	-
4. Retail	136,900	-	-
5.Other Exposures	135,343	-	-
Total	**539,213**	-	-

8 MARKET RISK IN TRADING BOOK

Market risk is the risk that the value of, or income arising from, the Bank's assets and liabilities changes as a result of changes in interest rates or exchange rates. Market risk incorporates a range of risks, but the principal elements are interest rate risk and foreign currency risk.

Interest rate risk arises from the mortgage, savings and other financial services products that we offer. The varying interest rate features and maturities on these products and the

use of wholesale funds to support these products, create interest rate risk exposures due to the imperfect matching of interest rates between different financial instruments and the timing differences on the re-pricing of assets and liabilities. This risk is managed through the use of appropriate financial instruments, including derivatives.

Foreign currency risk arises as a result of activity undertaken by the Bank when raising and investing funds in currencies other than Omani Riyals which is done in order to manage wholesale funding costs and the returns on liquid assets and to provide diversity in funding and investment markets. Currency risk is managed primarily through the use of currency swaps and forward foreign exchange contracts. The risk is also managed, where appropriate, by foreign exchange currency liabilities being matched with assets denominated in the same foreign currency.

In compliance with guidelines issued by the Central Bank of Oman on the implementation of BASEL II recommendations, in the case of Market Risk the Bank follows the established approach and techniques as per the guidelines.

The Assets and Liability Committee (ALCO) meets on a fortnightly basis to discuss the maturity mismatches and the liquidity risks that Bank Sohar is exposed to, so as to take steps to unwind from such risks. ALCO also discusses and finalises action plans to manage interest rate risks. With the guidance of ALCO, The Bank's Treasury manages interest rate and foreign exchange risk, adhering to the treasury policy guidelines, which stipulates appropriate limits.

The capital charge for the applicable market risk is furnished below:

RO' 000

Interest rate position risk	-
Equity position risk	-
Foreign exchange risk	1,598
Commodity risk	-

9 INTEREST RATE RISK IN BANKING BOOK

The Asset and Liability Committee (ALCO) manages the Bank's interest rate risk exposure. The Bank is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities. The Bank manages the liquidity risk by appropriately sourcing funding requirements to match the maturity buckets. The statement on sensitivity of assets and liabilities has been prepared in accordance with guidelines provided in circular BM 955 dated May 7, 2003. Computation of rate sensitive asset liability gap and the sensitivity of income to a 200 bps shock is enclosed in Annexure 1. The impact of the sensitivity to income is within 20% of regulatory capital. However the sensitivity to income as a % of net interest income is higher due to Bank Sohar being a new Bank there was a skewness in build up of assets towards the end of the year.

10 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.

Central Treasury 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. The liquidity requirements of business units are met through short-term loans from Central Treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements. 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. Computation of liquidity gap on maturity of assets and liabilities is provided in Annexure 2. The computation has been prepared in accordance with guidelines provided in Circular BM 955 dated May 7, 2003.

11 OPERATIONAL RISK

Operational Risk Management is covered in note D4 to the Financial Statements.

STATUTORY DISCLOSURES UNDER BASEL II FRAMEWORK

As at 31 December 2007

Statement on Sensitivity of Assets and Liabilities (SAL)

Annexure 1
RO'000

	Up to 1 month	1 -3 months	3 – 6 Months	6 – 12 months	1 -3 years	Over 3 years	Non sensitive	Total
Cash on Hand	-	-	-	-	-	-	1,296	1,296
Deposits with CBO	-	-	-	-	-	-	19,126	19,126
Balances due from other banks	33,875	3,039	385	-	-	-	-	37,299
Investments	45,000	5,000	5,000	-	-	-	-	55,000
Bills of exchange and promissory notes	-	396	-	-	-	-	-	396
Overdrafts	26,817	-	-	-	-	-	-	26,817
Loans and advances	-	136,078	-	139,664	-	-	-	275,742
Fixed Assets	-	-	-	-	-	-	4,637	4,637
Accrued interest	-	-	-	-	-	-	2,225	2,225
Other Assets	-	-	-	-	-	-	791	791
Total assets	**105,692**	**144,513**	**5,385**	**139,664**	**-**	**-**	**28,075**	**423,329**
Demand deposits	-	-	-	-	-	-	33,957	33,957
Saving deposits	-	-	-	-	-	-	26,094	26,094
Time deposits	11,568	26,716	53,038	61,017	25,022	5,250	-	182,611
Other deposits	160	-	-	-	-	-	-	160
Balances due to other banks	5,314	3,000	8,000	10,800	1,500	-	-	28,614
Certificate of deposits	-	-	-	-	91,100	-	-	91,100
Interest payable	-	-	-	-	-	-	3,013	3,013
Provision & other liabilities	-	-	-	-	-	-	4,103	4,103
Capital	-	-	-	-	-	-	50,000	50,000
Reserves	-	-	-	-	-	-	6,163	6,163
Retained earnings	-	-	-	-	-	-	(2,486)	(2,486)
Total capital and liabilities	**17,042**	**29,716**	**61,038**	**71,817**	**117,622**	**5,250**	**120,844**	**423,329**
Gap	**88,650**	**114,797**	**(55,653)**	**67,847**	**(117,622)**	**(5,250)**	**(92,769)**	**-**
Sensitivity on income to a 200 bps shock	**71**	**367**	**401**	**970**	**3,852**	**322**	**-**	**5,983**

Bank Sohar SAOG

STATUTORY DISCLOSURES UNDER BASEL II FRAMEWORK

As at 31 December 2007

Statement on Maturity of Assets and Liabilities (MAL) **Annexure 2**

RO'000

	Up to 1 month	1 -3 months	3 – 6 Months	6 – 9 months	9 – 12 months	1 -3 years	Over 3 years	Total
Cash on Hand	1,296	-	-	-	-	-	-	1,296
Deposits with CBO	19,076	-	-	-	-	-	50	19,126
Balances due from other banks	33,875	3,039	385	-	-	-	-	37,299
Investments	45,000	5,000	5,000	-	-	-	-	55,000
Bills of exchange and promissory notes	-	396	-	-	-	-	-	396
Overdrafts	1,341	1,341	1,341	1,341	1,341	6,704	13,408	26,817
Loans and advances	57,261	7,191	9,173	3,370	7,895	27,254	163,598	275,742
Fixed Assets	-	-	-	-	-	-	4,637	4,637
Accrued interest	2,225	-	-	-	-	-	-	2,225
Other Assets	791	-	-	-	-	-	-	791
Swaps	-	-	-	-	2,401	21,693	-	24,094
Spot & forward purchase	1,441	675	5,775	-	-	-	-	7,891
Letters of credit / guarantees and acceptances	4,683	3,484	1,860	1096	12,020	5202	-	28,345
Total assets	**166,989**	**21,126**	**23,534**	**5,807**	**23,657**	**60,853**	**181,693**	**483,659**
Current deposits	6,791	6,791	5,094	3,396	3,396	-	8,489	33,957
Saving deposits	1,305	1,305	1,305	1,305	1,305	6,524	13,045	26,094
Time deposits	11,889	32,264	37,526	16,451	32,699	23,929	27,853	182,611
Other deposits	160	-	-	-	-	-	-	160
Balances due to other banks	5,314	3,000	8,000	2,700	8,100	1,500	-	28,614
Certificate of deposits	-	-	-	-	-	91,100	-	91,100
Interest payable	3,013	-	-	-	-	-	-	3,013
Provision & other liabilities	4,103	-	-	-	-	-	-	4,103
Swaps	-	-	-	-	2,349	23,100	-	25,449
Spot & forward purchase	1,443	674	5,762	-	-	-	-	7,879
Letters of credit / guarantees and acceptances	4,683	3,484	1,860	1096	12,020	5202	-	28,345
Capital	-	-	-	-	-	-	50,000	50,000
Reserves	-	-	-	-	-	-	6,163	6,163
Retained earnings	-	-	-	-	-	-	-2,486	-2,486
Total capital and liabilities	**38,701**	**47,518**	**59,547**	**24,948**	**59,869**	**151,355**	**103,064**	**485,002**
Cumulative capital and liabilities	**38,701**	**86,219**	**145,766**	**170,714**	**230,583**	**381,938**	**485,002**	**-**
Gap	**128,288**	**(26,392)**	**(36,013)**	**(19,141)**	**(36,212)**	**(90,502)**	**78,629**	**-1,343**
Cumulative Gap	**128,288**	**101,896**	**65,883**	**46,742**	**10,530**	**(79,972)**	**(1,343)**	**-**
Cumulative Gap as a % of Cumulative Liabilities	**331**	**118**	**45**	**27**	**5**	**(21)**	**-**	**-**