Report and financial statements (Un audited)
For three months period ended
31 March 2007

Registered office and principal place of business:

Bank Dhofar Building
Bank Al Markazi street
Post Box 1507,Ruwi
Postal Code 112
Sultanate of Oman

BANK DHOFAR SAOG

Report and financial statements
For three months period ended 31 March 2007

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BANK DHOFAR SAOG

THE BOARD OF DIRECTORS' REPORT

Dear Shareholders,

On behalf of the Board of Directors of Bank Dhofar (SAOG), I am pleased to present to you the Bank's financial statements for three months period ended 31 March 2007.

The total assets at the end of March 2007 reached RO 751.50 million as compared with RO 624.63 million at the end of March 2006, representing a growth of 20.31%. Net Loans and Advances to customers increased by RO 90.74 million or 19.14% to RO 564.91 million in March 2007 from RO 474.17million at the end of March 2006. The customers' deposits grew by RO 105.77 million or 23.55% to reach RO 554.99 million in March 2007 from RO 449.22 million in March 2006.

The shareholders' equity increased by 14.23% to RO 89.90 million as of March 31, 2007, from RO 78.70 million at the end of March 2006. The shareholders of the bank in the General Assembly held on March 28, 07, approved issuance of bonus shares to the shareholders at the rate of 15% of share capital of the bank. The issuance of bonus shares will take place in the month of April 2007.

The net profit for three months ended 31 March 2007 grew by RO 388K or 10.59% to RO 4,052K as compared with RO 3,664K for the same period last year.

On behalf of the Board, I would like to thank our valuable customers for their patronage and confidence they have reposed in the Bank. I also thank our shareholders for their continuous support and the Bank's staff and management, whose commitment to the Bank is highly appreciated.

The Board of Directors also wishes to thank the Central Bank of Oman for its guidance to the Bank.

Finally, on behalf of the Board of Directors, I would like to express our most sincere gratitude to His Majesty Sultan Qaboos Bin Said for his wise leadership.

Eng. Abdul Hafidh Salim Rajab Al-Aujaili
Chairman

BANK DHOFAR SAOG

Balance sheet (Un audited)
at 31 March 2007

	Notes	2007 RO'000	2006 RO'000
ASSETS			
Cash and cash equivalents	**3**	**128,839**	45,237
Treasury bills	**4**	**5,730**	-
Loans and advances to banks	**5**	**19,293**	46,704
Loans and advances to customers	**6**	**564,905**	474,168
Financial instruments at fair value through profit or loss	**7**	**7,790**	13,382
Available-for-sale investments	**8**	**11,729**	33,040
Intangible assets	**9**	**3,971**	3,808
Property and equipment		**4,190**	3,784
Other assets		**5,055**	4,508
Total assets		**751,502**	624,631
LIABILITIES			
Due to banks	**10**	**69,567**	68,885
Deposits from customers	**11**	**554,994**	449,216
Other liabilities		**29,680**	20,470
Subordinated bonds	**12**	**7,362**	7,362
Total liabilities		**661,603**	545,933
SHAREHOLDERS' EQUITY			
Share capital	**13**	**53,082**	46,158
Share premium		**5,429**	5,429
Legal reserve	**14**	**9,870**	7,857
Subordinated bond reserve	**14**	**5,888**	4,416
Investment revaluation reserve	**14**	**1,721**	4,114
Retained earnings		**13,909**	10,724
Total shareholders' equity		**89,899**	78,698
Total liabilities and shareholders' equity		**751,502**	624,631
Contingent liabilities and commitments	**22**	**125,487**	109,439
Net assets per share (Rials Omani)		**0.169**	0.170

The accompanying notes form an integral part of these financial statements.

BANK DHOFAR SAOG

Income statement (Un audited)
For three months period ended 31 March 2007

	Notes	2007 RO'000	2006 RO'000
Interest income		**11,466**	9,912
Interest expense		**(4,696)**	(3,517)
Net interest income	**17**	**6,770**	6,395
Other income	**18**	**1,970**	1,288
Operating income		**8,740**	7,683
Staff and administrative costs		**(3,551)**	(3,272)
Depreciation		**(329)**	(259)
Operating expenses		**(3,880)**	(3,531)
Profit from operations		**4,860**	4,152
Provision for loan impairment	**6**	**(494)**	(271)
Recoveries from allowance for loan impairment	**6**	**240**	281
Bad debts written-off		**(5)**	(2)
Impairment of financial instruments at fair value through profit or loss			-
Profit from operations after provision		**4,601**	4,160
Income tax expense		**(549)**	(496)
Profit for the period		**4,052**	3,664
Earning per share (Basic) - annualized (Rials Omani)	**15**	**0.035**	0.035

The accompanying notes form an integral part of these financial statements.

BANK DHOFAR SAOG

Statement of Changes in Shareholders’ Equity (Un audited)
For three months period ended 31 March 2007

	Notes	Share capital RO’000	Share premium RO’000	Legal reserve RO’000	Subordinated bond reserve RO’000	Investment revaluation reserve RO’000	Retained Earnings RO’000	Total RO’000
1 January 2006		41,962	5,429	7,857	4,416	4,289	15,452	79,405
Profit for the 31st March 2006				-			3,664	3,664
Fair value increase				-	-	-	-	-
Total recognised income for 2006				-		4,289	3,664	3,664
Net transfer to income statement on sale of available-for-sale investments		-	-	-	-	(175)		(175)
Dividend paid for 2005				-	-	-	(4,196)	(4,196)
Bonus issue for 2005		4,196	-	-	-	-	(4,196)	-
Transfer to legal reserve	**14**	-	-	-	-	-	-	-
31 March 2006		46,158	5,429	7,857	4,416	4,114	10,724	78,698

The accompanying notes form an integral part of these financial statements.

BANK DHOFAR SAOG

Statement of Changes in Shareholders' Equity (Un audited)
For three months period ended 31 March 2007 (continued)

	Notes	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Subordinated bond reserve RO'000	Investment revaluation reserve RO'000	Retained Earnings RO'000	Total RO'000
1 January 2007		**46,158**	**5,429**	**9,870**	**5,888**	**2,231**	**23,705**	**93,281**
		-	-	-	-	-	-	
Profit for the as 31st March 2007		-	-	-	-	-	**4,052**	**4,05**
Fair value decrease								
Total recognised income for 2007		-	-	-	-	-	**4,052**	**4,05**
Net transfer to income statement on sale of available-for-sale investments		-	-	-	-	**(510**	-	**(51**
Dividend paid for 2006		-	-	-	-	-	**(6,924)**	**(6,924)**
Bonus issue for 2006		**6,924**	-	-	-	-	**(6,924)**	
31 March 2007		**53,082**	**5,429**	**9,870**	**5,888**	**1,721**	**13,909**	**89,899**

The accompanying notes form an integral part of these financial statements.

Cash Flow Statement (Un audited)
For three months period ended 31 March 2007

	2007 RO'000	2006 RO'000
Operating activities		
Interest and commission receipts	**13,113**	10,928
Interest payments	**(3,965)**	(2,600)
Cash payments to suppliers and employees	(193)	(1,386)
	8,955	6,942
(Increase) decrease in operating assets	**(21,355)**	(4,269)
Increase (decrease) in operating liabilities	**56,590**	5,946
Net cash from operating activities	**44,190**	8,619
Income tax paid	**(1,715)**	(1,583)
Cash flow from operating activities	**42,475**	7,036
Net cash used in investing activities	**(417)**	(22,101)
Net cash used in financing activities	**(6,924)**	(4,196)
Net cash (decrease) increase in cash and cash equivalents	**35,134**	(19,261)
Cash and cash equivalents at 1 January	**108,127**	102,489
Cash and cash equivalents at 31 March	**143,261**	83,228
Cash and cash equivalents	**128,839**	45,237
Loans and advances to banks due within 90 days	**15,453**	38,928
Due to banks	**(531)**	(437)
Capital Deposit with Central Bank of Oman	**(500)**	(500)
Cash and cash equivalents for the purpose of cash flow statement	**143,261**	83,228

The accompanying notes form an integral part of these financial statements.

1. Legal status and principal activities

Bank Dhofar SAOG (the Bank) is incorporated in the Sultanate of Oman as a public joint stock company and is principally engaged in corporate, retail and investment banking activities. The Bank has a listing on Muscat Securities Market (MSM) and its principal place of business is its Head Office, Capital Business District (CBD), Ruwi , Sultanate of Oman.

2. Principal accounting policies

2.1. *Basis of preparation*

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

The financial statements have been prepared on historical cost basis except for derivative financial instruments, financial instruments at fair value through profit and loss and available for sale financial assets which are measured at fair value.

The policies have been consistently applied in dealing with items that are considered material in relation to the Bank's financial statements to all the years presented.

The preparation of financial statements in conformity with IFRS requires use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 32.

At the date of authorisation of these financial statements the following standards were in issue but not yet effective:
IFRS 7: Financial Instruments: Disclosures
IFRIC 9 : Reassessment of Embedded Derivatives
IFRIC 10 : Interim Financial Reporting and Impairment

The management anticipates that the adoption of the standard will have no material impact on the financial statements of the Bank.

2.2. *Foreign currency translations*

2.2.1. *Functional and presentation currency*

Items included in the Bank’s financial statements are measured using Rials Omani which is the currency of the primary economic environment in which the Bank operates, rounded off to the nearest thousand.

2. Principal accounting policies (continued)

2.2. *Foreign currency translations (continued)*

2.2.2. *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

2.3. *Financial instruments*

2.3.1. *Classification*

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

2.3.1.1. *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is held in this category if acquired principally for the purpose of short-term profit taking or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

2.3.1.2. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They can be originated or acquired by the bank with no intention of trading the receivable and comprise loans and advances to banks and customers other than bonds purchased at original issuance.

2.3.1.3. *Available-for-sale*

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

2.3.2. *Recognition and derecognition*

The Bank recognises financial assets at fair value through profit or loss and available-for-sale assets on the trade date, the date it commits to purchase or sell the asset. From this date any gains and losses arising from changes in fair value of the assets are recognised. Loans and receivables, deposits and subordinated liabilities are recognised on the date they are originated.

2. Principal accounting policies (continued)

2.3. *Financial instruments (continued)*

2.3.2. *Recognition and derecognition (continued)*

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. A financial liability is derecognised when it is extinguished.

2.3.3. *Measurement*

Financial assets are measured initially at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Subsequent to initial recognition all financial assets at fair value through profit or loss and all available-for-sale assets are measured at fair value, except equity instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities and loans and receivables are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

2.3.4. *Fair value measurement principles*

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counter-parties.

2.3.5. *Gains and losses on subsequent measurement*

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

2. Principal accounting policies (continued)

2.4. *Cash and cash equivalents*

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash on hand, non-restricted cash deposited with the Central Bank of Oman, amounts due from other banks and eligible treasury bills and certificate of deposits.

2.5. *Treasury bills*

Treasury bills issued for a term longer than three months are classified separately as assets available-for- sale.

2.6. *Offsetting*

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

2.7. *Impairment of financial assets*

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) the disappearance of an active market for that financial asset because of financial difficulties; or

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
– adverse changes in the payment status of borrowers in the group; or
– national or local economic conditions that correlate with defaults on the assets in the group.

2. Principal accounting policies (continued)

2.7. *Impairment of financial assets (continued)*

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

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 against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

2. Principal accounting policies (continued)

2.7. *Impairment of financial assets (continued)*

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets, other than investments at fair value through profit and loss, is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

2.8. *Property and equipment*

Items of property and equipment are stated at cost less accumulated depreciation and impairment loss. Depreciation is calculated so as to write off the cost of property and equipment, other than freehold land and capital work-in-progress, by equal instalments over their estimated economic useful lives from the date the asset is brought into use, as follows:

	Years
Buildings	7-25
Furniture and fixtures	3-7
Motor vehicles	3-5
Computer equipment	4

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expense is incurred. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

2.9. *Intangible assets*

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets acquired at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

2. Principal accounting policies (continued)

2.10. *Provisions*

A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

2.11. *Dividends*

Dividends are recognised as a liability in the year in which they are declared.

2.12. *Interest income and expense*

Interest income and expense are recognised in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.13. *Fees and commission income*

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionment basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

2. Principal accounting policies (continued)

2.14. *Taxation*

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly 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 substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes (the tax base). The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. The principal temporary differences arise from depreciation of property and equipment and provisions.

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 utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.15. *Employee benefits*

End of service benefits are accrued in accordance with the terms of employment of the bank's employees at the balance sheet date, having regard to the requirements of the Oman Labour Law. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the balance sheet date.

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 and its subsequent amendments are recognised as an expense in the income statement as incurred.

2.16. *Derivative financial instruments*

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises profits on day 1.

2. Principal accounting policies (continued)

2.16. *Derivative financial instruments (continued)*

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Although the Bank enters into derivative instruments for hedging purposes, certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

2.17. *Sale and repurchase agreements*

Securities sold subject to repurchase agreements (repos) are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

2.18. *Borrowings*

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

2.19. *Segment reporting*

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank currently operates only in the Sultanate of Oman. The Bank’s primary format for reporting segmental information is business segments, based upon management and internal reporting structure. The Bank’s main business segments are corporate and retail banking.

2.20. *Directors’ remuneration*

Directors’ remuneration is calculated in accordance with the Commercial Companies Law of Sultanate of Oman.

3. Cash and cash equivalents

	2007 RO'000	2006 RO'000
Cash on hand	**6,027**	5,049
Balances with the Central Bank of Oman	**47,812**	4,188
Certificate of deposits	**75,000**	36,000
	128,839	45,237

At 31 March 2007, cash and cash equivalents included balances with the Central Bank of Oman approximately RO 500,000 (2006 - RO 500,000) as minimum reserve requirements. These funds are not available for the Bank's daily business.

4. Treasury bills

	2007 RO'000	2006 RO'000
Treasury bills	**5,730**	**-**

5. Loans and advances to banks

	2007 RO'000	2006 RO'000
Placements with other banks	**17,740**	45,491
Current clearing accounts	**1,553**	1,213
	19,293	46,704

At 31 March 2007, placement with two local banks individually represented 20% or more of the Bank's placements.
At 31 March 2006, no placement with any individual bank represented 20% or more of the Bank's placements.

6. Loans and advances to customers

	2007 RO'000	2006 RO'000
Overdrafts	**63,386**	68,997
Loans	**491,507**	413,306
Loans against trust receipts	**36,988**	21,761
Bills discounted	**1,993**	3,149
Advance against credit cards	**3,962**	4,059
Others	**10,517**	7,893
Gross loans and advances	**608,353**	519,165
Less: Impairment allowance	**(43,448)**	(44,997)
Net loans and advances	**564,905**	474,168

6. Loans and advances to customers (continued)

The movement in impairment allowance and reserved interest is analysed below:

	2007	2006
	RO'000	**RO'000**
(a) Allowance for loan impairment		
1 January	**29,170**	30,106
Allowance made during the period	**494**	272
Released to the income statement during the period	**(240)**	(281)
Written off during the period	**(1,151)**	(1)
31 March	**28,273**	30,096
(b) Reserved interest		
1 January	**16,727**	14,258
Reserved during the period	**823**	829
Released to the income statement during the period	**(74)**	(152)
Written-off during the period	**(2,301)**	(34)
31 March	**15,175**	14,901
Total impairment allowance	**43,448**	44,997

As a matter of policy, the Bank considers waiver/write-off or settlement only in such cases where the Bank is satisfied that the recovery of the full outstanding liabilities from the borrower is not possible in the normal course of business or out of the securities realisation or through enforcement of the guarantee (wherever available) and that legal action will not yield higher recoveries after considering time and costs involved.

Proposals for waivers/write-off are not formula driven and are decided on a case by case basis after weighing all pros and cons. The rationale is invariably documented. In all cases, the Bank aims to recover maximum value through enforcement of collaterals/guarantees of guarantors, etc.

Interest is reserved by the Bank against loans and advances which are impaired, to comply with the rules, regulations and guidelines issued by the Central Bank of Oman.

Under the Central Bank of Oman's guidelines for provision against classified loans and advances, at 31 March 2007, out of the total provisions of approximately RO 43,448,000(2006 – RO 44,997,000) the provision made on non classified Loan and advances was approximately RO 7,817,000 (2006 - RO 8,052,000).

At 31 March 2007, impaired loans and advances on which interest has been reserved amount to approximately RO 35,675,000 (2006 - RO 33,555,000) and loans and advances on which interest is not being accrued amount to approximately RO 2,930,000 (2006 - RO 6,118,000).

7. Financial instruments at fair value through profit or loss

	Fair value 2007 RO'000	Fair value 2006 RO'000	**Carrying amount 2007 RO'000**	Carrying amount 2006 RO'000
Debt Instruments held for Trading				
Government Development Bonds	**7,763**	13,370	**7,760**	13,382

8. Available-for-sale investments

	2007 RO'000	2006 RO'000
Equity instruments		
- Quoted	**7,914**	7,287
- Unquoted	**3,815**	3,753
	11,729	11,040

8. Available-for-sale investments (continued)

		Market value		Carrying amount	
	Cost	2007	2006	2007	2006
	RO'000	RO'000	RO'000	RO'000	RO'000
Quoted on the Muscat Securities Market (by sector)					
Investments	**1,954**	**1,517**	2,648	**1,517**	2,174
Insurance	**582**	**967**	1,169	**967**	1,097
Services	**3,151**	**3,294**	3,730	**3,294**	3,118
Industrial	**2,079**	**2,218**	1,077	**2,136**	898
	7,766	**7,996**	8,624	**7,914**	7,287
Unquoted					
Unquoted Omani company				**2,592**	2,547
Unquoted foreign equities				**1,223**	1,206
				3,815	3,753
				11,729	11,040

At 31 March 2007, the investments are carried at the fair value. The market value in certain cases is higher than the carrying amount. However, the Board of Directors believe that due to non-liquidity of certain shares, the market value of the quoted securities is not representative of the fair value and hence appropriate adjustments have been made to the market value to reflect the fair value.

9. Intangible assets

	2007	2006
	RO'000	RO'000
Goodwill		
1 January	**3,971**	3,971
Impairment charge for the year	**-**	(163)
31 March	**3,971**	3,808

10. Due to banks

Syndicated borrowing	**67,375**	67,375
Other borrowings	**138**	138
Payable on demand	**2,054**	1,372
	69,567	68,885

In Feb 2006 the Bank entered into a mid-term syndicated loan agreement for US $ 100,000,000 with three years maturity. The lead arrangers for the loan were Dresdner Kleinwort Wassertein and ING Bank. This was second loan the Bank raised from the international market bringing the total international borrowing to US $175,000,000 (2005: $ 150,000,000). The rates of interest are linked to three month LIBOR subject to competitive margin.

At 31 March 2007, no borrowing from a bank individually represented 20% or more of the Bank's borrowings (2006 - Nil). The Bank has not had any defaults of principal, interest or other breaches during the year on its borrowed funds (2006 - Nil).

11. Deposits from customers

	2007 RO'000	2006 RO'000
Current accounts	**173,861**	122,857
Savings accounts	**97,039**	72,556
Time deposits	**282,058**	251,502
Margin accounts	**2,036**	2,301
	554,994	449,216

Current accounts and time deposits include deposits from the Government of the Sultanate of Oman amounting to RO 146,132,000 (2006 - RO 97,142,000).

12. Subordinated bonds

Pursuant to a 'merger agreement' between the Bank and Majan International Bank SAOC (MIB) dated 28 March 2002, on 31 March 2003 the Bank issued 7,361,767 subordinated bonds of RO 1 each with a tenure of 5 years and 1 day to the former shareholders of MIB. These bonds carry a coupon rate of 7% per annum payable annually. The bonds are listed at Muscat Securities Market.

13. Share capital

The authorised share capital consists of 1,000,000,000 shares of RO 0.100 each At 31 March 2007 the issued and paid up share capital comprised 530,817,000 shares of RO 0.100 each.
(2006 – 461,580,000 shares of RO 0.100 each)

On 28 March 2007 the shareholders of the bank in the annual General meeting approved distribution of bonus shares at the rate of 15% of the share capital of the bank amounting to RO 6,923,700 (69,237,000 shares of RO 0.100 each).

13. Share capital (continued)

Shareholders

The following shareholders of the Bank own 10% or more of the Bank's shares, in their own name or through a nominee account:

	2007 No of shares	**%**	2006 No of shares	%
Dhofar International Development and Investment Company SAOG	**138,473,997**	**30.00%**	138,473,995	30.0%
Eng. Abdul Hafidh Salim Rajab Al Aujaili	**46,806,415**	**10.14%**	40,743,370	8.83%
Civil Service Employees' Pension Fund	**46,157,991**	**10.00%**	46,157,991	10.0%

14. Reserve

	2007 RO,000	2006 **RO,000**
(a) Legal reserves	**9,870**	**7,857**

Legal reserve
In accordance with Article 106 of the Commercial Companies Law of 1974, annual appropriations of 10% of profit are made to the legal reserve until the accumulated balance of the reserve is equal to one-third of the Bank's paid up share capital. This reserve is not available for distribution.

(b) Subordinated bond reserve

	2007 RO,000	2006 **RO,000**
Subordinated bond reserve	**5,888**	**4,416**

The Bank transfers an amount equivalent to 20% of the value of the subordinated bonds each year to the subordinated bond reserve until the bonds mature.

(c) Investment revaluation reserve

The movements on this undistributable reserve are as follows:

	2007 RO'000	2006 RO'000
1 January	**2,231**	4,289
(Decrease) / increase in fair value		-
Net transfer to income statement on sale of available for sale investment	**(510)**	(175)
31 March	**1,721**	4,114

15. Earnings per share - Basic

The calculation of basic and diluted earnings per share is based on profit for the year attributable to ordinary shareholders as follows:

	2007	2006
Profit for the period (RO)	**4,052,000**	3,664,000
Weighted average number of shares outstanding during the period	**463,887,900**	423,814,362
Earnings per share basic and diluted	**0.035**	0.035

16. Capital adequacy

The ratio of equity to risk weighted assets, as formulated by the Basle Committee, for the year ended 31 March 2007 is 13.26% (2006 – 15.86%

17. Net interest income

	2007 RO'000	2006 RO'000
Loans and advances to customers	**10,434**	9,106
Debt investments	**597**	380
Money market placements	**404**	399
Others	**31**	27
Total interest income	**11,466**	9,912
Deposits from customers	**(3,688)**	(2,788)
Money market deposits	**(1,008)**	(729)
Total interest expense	**(4,696)**	(3,517)
Net interest income	**6,770**	6,395

18. Other income

Fees and commissions (net)	**579**	394
Foreign exchange	**226**	168
Investment income	**782**	342
Others	**383**	384
	1,970	1,288

The fees and commissions shown above are net of fees and commissions paid of RO 95,000 (2006 -RO 160,000).

19. Impairment of financial assets

	2007 RO'000	2006 RO'000
Provision for loan impairment	**494**	271
Bad debts and dues written-off	**5**	2
	499	273
Recoveries from provision for loan impairment	**(240)**	(281)
Net impairment change of financial assets	**259**	(8)

20. Transactions with related parties and holders of 10% or more of the Bank's shares

In the ordinary course of business, the Bank conducts transactions with certain of its Directors, shareholders and companies over which they are able to exert significant influence. The aggregate amount of balances with such related parties are as follows:

	2007 RO'000	2006 RO'000
Loans and advances		
Directors and shareholders holding less than 10% interest in the Bank	**17,678**	14,108
Directors and shareholders holding 10% or more interest in the Bank	**5,511**	4,430
	23,189	18,538
Deposits and other accounts		
Directors and shareholders holding less than 10% interest in the Bank	**58,536**	59,344
Directors and shareholders holding 10% or more interest in the Bank	**17,085**	16,197
	75,621	75,541
Contingent liabilities and commitments		
Directors and shareholders holding less than 10% interest in the Bank	**1,473**	2,310
Directors and shareholders holding 10% or more interest in the Bank	**74**	64
	1,547	2,374

20. Transactions with related parties and holders of 10% or more of the Bank's shares (continued)

	2007 RO'000	2006 RO'000
Remuneration paid to Directors		
Chairman		
– remuneration proposed	**9**	10
– sitting fees paid	**3**	2
Other Directors		
– remuneration proposed	**94**	104
– sitting fees paid	**13**	17
	119	133
Other transactions		
Rental payment to a related party	**13**	11
Other transactions	**8**	8

21. Senior Member

Total exposure:		
Direct	**23,530**	19,410
Indirect	**1,547**	2,374
	25,077	21,784
Number of members	**16**	20

Excess over limits as specified by the Central Bank of Oman for Senior Members are secured by cash collaterals, pledge of Government Development Bonds or risk participation arrangements with other commercial banks.

22. Contingent liabilities and commitments

(a) Credit related contingent items

Letters of credit, guarantees and other commitments for which there are corresponding customer liabilities:

	2007 RO'000	2006 RO'000
Letters of credit	**34,127**	39,778
Acceptances	**16,491**	11,285
Guarantees and performance bonds	**36,934**	22,786
Advance payment guarantees	**21,400**	18,953
Payment guarantees	**13,027**	14,103
Others	**3,508**	2,534
	125,487	109,439

23. Analysis of significant assets and liabilities

(a) Maturity profile of assets and liabilities

	Due on demand and up to 30 days RO'000	2 months to 6 months RO'000	7 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
31 March 2007						
Cash and cash equivalents	**128,339**	**-**	**-**	**-**	**500**	**128,839**
Tresury bills	**1,910**	**3,820**	**-**	**-**	**-**	**5,730**
Loans and advances To banks	**19,293**	**-**	**-**	**-**	**-**	**19,293**
Loans and advances to customers	**107,556**	**81,016**	**35,444**	**244,194**	**96,695**	**564,905**
Financial instruments at fair value through profit or loss	**-**	**-**	**5,502**	**2,288**	**-**	**7,790**
Available-for-sale investments	**-**	**-**	**9,348**	**-**	**2,381**	**11,729**
Intangible assets	**-**	**-**	**-**	**-**	**3,971**	**3,971**
Property and equipment	**-**	**-**	**-**	**-**	**4,190**	**4,190**
Other assets	**1,111**	**240**	**6**	**44**	**3,654**	**5,055**
Total assets	**258,209**	**85,076**	**50,300**	**246,526**	**111,391**	**751,502**
Due to banks	**2,054**	**-**	**-**	**67,513**	**-**	**69,567**
Deposits from customers	**112,533**	**150,553**	**147,016**	**77,123**	**67,769**	**554,994**
Other liabilities	**14,177**	**3,938**	**3,981**	**6,310**	**1,274**	**29,680**
Subordinated bonds	**-**	**-**	**-**	**7,362**	**-**	**7,362**
Shareholders' equity	**-**	**-**	**-**	**-**	**89,899**	**89,899**
Total liabilities and shareholders' equity	**128,764**	**154,491**	**150,997**	**158,308**	**158,942**	**751,502**

23. Analysis of significant assets and liabilities (continued)

(a) Maturity profile of assets and liabilities

	Due on demand and up to 30 days RO'000	2 months to 6 months RO'000	7 months to 12 months RO'000	More than 1 year to 5 years RO'000	Over 5 years RO'000	Total RO'000
31 March 2006						
Cash and cash equivalents	44,737	-	-	-	500	**45,237**
Loans and advances to banks	38,971	1,958	1,925	3,850	-	**46,704**
Loans and advances to customers	66,123	57,324	35,278	233,307	82,136	**474,168**
Financial instruments at fair value through profit or loss	-	4,208	1,309	7,865	-	**13,382**
Available-for-sale investment	-	22,000	8,494	-	2,546	**33,040**
Intangible assets	-	-	-	-	3,808	**3,808**
Property and equipment	-	-	-	-	3,784	**3,784**
Other assets	961	80	5	114	3,348	**4,508**
Total assets	**150,792**	**85,570**	**47,011**	**245,136**	**96,122**	**624,631**
Due to banks	1,372	-	-	67,513	-	**68,885**
Deposits from customers	108,594	121,184	72,060	98,491	48,887	**449,216**
Other liabilities	8,893	2,983	3,029	4,553	1,012	**20,470**
Subordinated bonds	-	-	-	7,362	-	**7,362**
Shareholders' equity	-	-	-	-	78,698	**78,698**
Total liabilities and shareholders' equity	**118,859**	**124,167**	**75,089**	**177,919**	**128,597**	**624,631**

23. Analysis of significant assets and liabilities (continued)

(b) Interest sensitivity gap

Sensitivity to interest rates arises from mismatches in the period to repricing of assets and that of the corresponding liability funding. The Bank manages these mismatches by following policy guidelines and reduces risk by matching repricing of assets and liabilities through various means including monitoring by the Asset Liability Committee of the bank. Significant changes in gap positions can be made to adjust the profile as market outlook changes.

	Effective average interest rate %	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-bearing interest RO'000	Total RO'000
31 March 2007								
Cash and cash equivalents	**3.67**	**75,000**	**-**	**-**	**-**	**500**	**53,339**	**128,839**
Tresury bills	**4.91**	**1,910**	**3,820**	**-**	**-**	**-**	**-**	**5,730**
Loans and advances to banks	**5.15**	**19,293**	**-**	**-**	**-**	**-**	**-**	**19,293**
Loans and advances to customers	**7.63**	**162,816**	**74,677**	**33,230**	**230,667**	**58,559**	**4,956**	**564,905**
Financial assets at fair value through profit or loss	**4.72**	**-**	**-**	**5,502**	**2,288**	**-**	**-**	**7,790**
Available-for-sale investments		**-**	**-**	**-**	**2,381**	**-**	**9,348**	**11,729**
Intangible assets		**-**	**-**	**-**	**-**	**-**	**3,971**	**3,971**
Property and equipment		**-**	**-**	**-**	**-**	**-**	**4,190**	**4,190**
Other assets		**-**	**-**	**-**	**-**	**-**	**5,055**	**5,055**
Total assets		**259,019**	**78,497**	**38,732**	**235,336**	**59,059**	**80,859**	**751,502**
Due to banks	**5.63**	**1,593**	**67,513**	**-**	**-**	**-**	**461**	**69,567**
Deposits from customers	**2.82**	**182,924**	**79,995**	**102,537**	**28,606**	**48**	**160,884**	**554,994**
Other liabilities		**-**	**-**	**-**	**-**	**-**	**29,680**	**29,680**
Subordinated bonds	**7.00**	**-**	**-**	**-**	**7,362**	**-**	**-**	**7,362**
Shareholders' equity		**-**	**-**	**-**	**-**	**-**	**89,899**	**89,899**
Total liabilities and shareholders' equity		**184,517**	**147,508**	**102,537**	**35,968**	**48**	**280,924**	**751,502**
On-balance sheet gap		**74,502**	**(69,011)**	**(63,805)**	**199,368**	**59,011**	**(200,065)**	
Cumulative interest sensitivity gap		**74,502**	**5,491**	**(58,314)**	**141,054**	**200,065**	**-**	

23. Analysis of significant assets and liabilities (continued)

(b) Interest sensitivity gap (continued)

	Effective average interest rate %	Due on demand and within 30 days RO'000	Due within 1 to 6 months RO'000	Due within 7 to 12 months RO'000	Due within 1 to 5 years RO'000	Due after 5 years RO'000	Non-bearing interest RO'000	Total RO'000
31 March 2006								
Cash and cash equivalents	3.93	36,000		-	-	500	8,737	**45,237**
Loans and advances to banks	4.19	38,971	1,958	1,925	3,850	-	-	**46,704**
Loans and advances to customers	7.87	126,800	50,424	36,107	211,908	44,060	4,869	**474,168**
Financial assets at fair value through profit or loss	4.17	-	4,208	1,309	7,865	-	-	**13,382**
Available-for-sale Investment	3.93	-	22,000	-	2,546	-	8,494	**33,040**
Intangible assets		-		-	-	-	3,808	**3,808**
Property and equipment		-		-	-	-	3,784	**3,784**
Other assets		-		-	-	-	4,508	**4,508**
Total assets		**201,771**	**78,590**	**39,341**	**226,169**	**44,560**	**34,200**	**624,631**
Due to banks	4.71	1,372	28,875	38,638	-	-	-	**68,885**
Deposits from customers	2.47	145,306	70,930	40,233	62,213	32	130,502	**449,216**
Other liabilities		-		-	-	-	20,470	**20,470**
Subordinated bonds	7.0	-		-	7,362	-	-	**7,362**
Shareholders' equity		-		-	-	-	78,698	**78,698**
Total liabilities and shareholders' equity		**146,678**	**99,805**	**78,871**	**69,575**	**32**	**229,670**	**624,631**
On-balance sheet gap		**55,093**	**(21,215**	**(39,530**	**156,594**	**44,528**	**(195,470)**	
Cumulative interest sensitivity gap		**55,093**	**33,878**	**(5,652**	**150,942**	**195,470**	**-**	

23. Analysis of significant assets and liabilities (continued)

(c) Customer concentrations

	Assets			Liabilities		
	Loans and advances to banks RO'000	**Gross loans and advances RO'000**	**Investment securities RO'000**	**Deposits from customers RO'000**	**Deposits from banks RO'000**	**Contingent liabilities RO'000**
31 March 2007						
Personal	**-**	**234,317**	**-**	**182,648**	**-**	**948**
Corporate	**19,293**	**325,527**	**11,729**	**226,214**	**69,567**	**122,485**
Government	**-**	**48,509**	**7,790**	**146,132**	**-**	**2,054**
	19,293	**608,353**	**19,519**	**554,994**	**69,567**	**125,487**
31 March 2006						
Personal	-	208,889	-	148,060	-	492
Corporate	46,704	291,090	11,040	204,014	68,885	108,458
Government	-	19,186	35,382	97,142	-	489
	46,704	519,165	46,422	449,216	68,885	109,439

(d) Foreign currency exposures

	2007 RO'000	2006 RO'000
Net assets denominated in US Dollars	**14,195**	13,135
Net assets denominated in other foreign currencies	**780**	776
	14,975	13,911