Board of Directors Report for the Quarter Ended 31 March 2008

I am privileged to share with you the results achieved by the Bank in the first quarter of its operations in 2008, for the period ending March 31, 2008.

The Bank achieved an Operating Profit of OMR 356 K in the first quarter of the current year. This has been achieved mainly on account of continuous growth in the loan portfolio driven by the bank's strategic segmentation with an equal focus on lending and fee based activities. As a result of the increase in the loan portfolio, the total charge of General Provisions amounted to OMR 1.215 Mio. The Net Loss for the first quarter of 2008 amounted to OMR 943 K.

During the period, the bank was able to grow its loan portfolio to OMR 382.656 Mio and total Customer Deposits of OMR 318.094 Mio, which reflects the positive response the bank received from its customers, and the trust of the community in the bank. The customer base has increased to more than 15,400 customers. Total Savings deposits reached OMR 32.361 Mio as at 31 March 2008. Latest statistics published by the Central Bank of Oman reveal that the bank was able to achieve a market share of 5.43% of Private Sector Credit and 5.89% of Private Sector Deposits.

The Bank has continued its strategy to get closer to customers and to provide them with both reach and richness in banking. Customers now have a growing basket of lifecycle banking solutions, access to an expanding branch and ATM network with the addition of two new branches in Ibra and Athaiba increasing the branch network to seven. To give customers greater accessibility, a single point contact with the Bank is possible through our website. It gives us immense pleasure to record that the Bank's website (www.banksohar.net) has recently won the Gold Award in the Oman Web Awards in the Banking and Financial Institutions category.

The Al Mumayaz Consumer Internet Banking was launched in February to meet customer's expectations for real-time information from their bank accounts and to provide both convenience and comfort. Corporate customers will also soon have the facility to access internet banking. The Bank is committed to providing internet banking without compromise on data privacy and security of transactions. I am pleased to mention that Bank Sohar is the first Bank in the Sultanate to achieve ISO 27001:2005 certification for the complete Information Technology Service. The ISO 27001:2005 certification provides assurance that the organization has implemented an Information Security Management System on par with global standards.

The Bank's Al Mumayaz Savings Scheme continues to help inculcate and encourage the savings habit among the Bank's customers. At the end of last year, the Bank launched the Al Bait Al Mumayaz Home Solutions and to support the lifestyles of all segments of society. In January 2008, the Bank introduced a range of Excel Credit Cards packaged with special benefits for the customer which will also carry an attractive interest rate during the first year.

Corporate banking provides the full range of services to large, small and medium enterprises (SME) and the government sector. Bank Sohar continues its commitment to support and grow the SME sector which forms a key role in the growth of the economy. The Bank has initiated major strategies in value chain financing and financing to the local community contractors who are suppliers to established corporates. The Bank has also been active in financing a number of infrastructure projects. During the quarter under review, the Bank has also been able to close syndicated deals through local and regional banks. In facilitating trade finance, the Bank has made special efforts to move away from traditional document processing to providing structured and custom-developed facilities. The Bank recently signed a Memorandum of Understanding with the Export Credit Guarantee Agency that will be beneficial to both the Bank and the customers.

The Banks' staff have continued to deliver dedicated service which enabled the Bank to achieve its planned goals. Training for staff, both in-house and through external programs has been the area of focus for the Bank. Training at Bank Sohar emphasizes service to customers and knowledge of the Bank's products and services. This is complemented by compliance training covering disciplines like branch banking, banking applications, information security awareness and anti-money laundering. The total staff strength of the Bank is now 282 and the Omanisation level is at 87.8%, well above that projected for the year.

The Capital Adequacy of the Bank as on 31st March 2008 stands at 12.96% against a regulatory requirement of 10%. Given the growing market potential and the need to maintain a healthy Capital Adequacy Ratio, the Board of Directors had approved the calling of the balance 50% of the Capital. This will enhance the capacity of the Bank to write more business and consequently play a larger role in the growing Omani economy. At the EGM held on 26th of April 2008, the shareholders had approved the splitting of the shares from Ro 1 per share to Baiza 100 per share. This will widen our shareholder base and help smaller shareholders to contribute in the banks shareholder base.

During the quarter under review, we are pleased to confirm that the Bank has complied with the respective internal regulations and control systems as specified by the Central Bank of Oman.

BANKING / ECONOMY

Oman's banking sector has begun the first quarter on the back of the strong growth recorded in 2007. The combined balance sheet of commercial banks has registered a 46.7 per cent year-on-year growth of RO 10.9 billion in total assets at the end of February 2008. Credit accounting for 64.3% of the total assets, increased by 45% to reach RO 7,032.2 million, while deposits increased by 39.6 per cent to reach RO 6,840.2 million in the period under review. The core capital and reserves of commercial banks at the end of February amounted to RO 1455.8 million constituting 13.3 per cent of the total asset base.

The State General Budget for 2008 estimates that the national economy will achieve a growth of 11.6 per cent. The non-oil activities are expected to grow by 17 per cent during the year. The budget expectations for foreign trade in the State General Budget for 2008 are promising. Non-oil exports of Omani origin are expected to increase by 9 per cent and the proceeds from re-export operations are expected to increase by 18 per cent. The value of imports is also expected to increase due to increased consumption, domestic demand and higher import prices. The main areas of growth will be in refined oil products, mining and quarries, wholesale and retail trade, transportation, warehousing and communications and construction. Moody's Investor Service in its new sovereign credit report on Oman mentions that the country's investment grade A2 - foreign and local currency government bond ratings reflect strong public finances, a wide fiscal surplus and ongoing accretions to net official assets resulting from buoyant oil receipts.

The opportunities for business and the mood of economic optimism will go a long way in enabling the Bank to maintain its growth momentum.

COMMUNITY

As part of its social commitment to partner and provide support to events that bolster national objectives, Bank Sohar participated as a sponsor of the Muscat Festival 2008. The Bank also sponsored the Royal Oman Police Symposium for Security of Vital Installations. In addition to these, the Bank has been involved with several other local community events.

I thank both the Central Bank of Oman and the Capital Market Authority for their continued guidance. On behalf of the Board of Directors, I would like to record our appreciation to His Majesty Sultan Qaboos bin Said, for providing leadership with prudence and perception and doing everything to take the country forward.

Hilal Hamood Al Mamary,
Chairman

BANK SOHAR SAOG

UNAUDITED FINANCIAL STATEMENTS

For the period ended 31 March 2008

Registered office and principal place of business:

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

UNAUDITED BALANCE SHEET
As at 31 March 2008

	Notes	***31 March 2008 RO'000***	*31 December 2007 RO'000*
ASSETS			
Cash and balances with Central Bank	*B1*	**54,560**	20,427
Due from Banks and other money market placements	*B2*	**53,720**	36,914
Loans and advances (net)	*B3*	**382,656**	298,936
Available-for-sale investments	*B4*	**5,000**	55,000
Equipment & fixtures	*B5*	**11,973**	4,637
Other assets	*B6*	**4,630**	4,428
		512,539	420,342
LIABILITIES			
Due to Banks and other money market deposits	*B7*	**36,050**	28,614
Certificates of deposit	*B8*	**92,100**	91,100
Customers' deposits	*B9*	**318,094**	242,822
Other liabilities	*B10*	**17,964**	8,532
		464,208	371,068
SHAREHOLDERS' EQUITY			
Share capital	*B11*	**50,000**	50,000
Legal reserve	*B12*	**1,760**	1,760
Accumulated losses		**(2,486)**	-
Profit/(Loss) for the period		**(943)**	(2,486)
		48,331	49,274
		512,539	420,342
Net assets per share (in baizas)	***B14***	**483.31**	492.74
CONTINGENT LIABILITIES	*B15*	**39,174**	26,928
COMMITTMENTS	*B15*	**50,666**	54,212

The financial statements were approved and authorized for issue by the Board of Directors on 26th April 2008 and signed on their behalf by:

Chairman

Deputy Chairman

The attached notes A1 to D4 form an integral part of these financial statements

UNAUDITED INCOME STATEMENT
Period ended 31 March 2008

	Notes	*2008* *RO'000*
Interest income	*C1*	**6,376**
Interest expense	*C2*	**(4,954)**
Net interest income		**1,422**
Other operating income	*C3*	**1,246**
OPERATING INCOME		**2,668**
OPERATING EXPENSES		
Staff costs		**(1,208)**
Other operating expenses	*C4*	**(936)**
Depreciation	*B5*	**(168)**
		(2,312)
OPERATING PROFIT		**356**
Impairment allowance on portfolio basis	*B3*	**(1,215)**
Specific Provision on loans	*B3*	**(84)**
LOSS FROM OPERATIONS AFTER PROVISIONS		**(943)**
NET LOSS FOR THE PERIOD		**(943)**
Basic loss per share for the period - in baizas	*C6*	**(9.43)**
Loss per share for the period (annualised) - in baizas	*C6*	**(37.82)**

The attached notes A1 to D4 form an integral part of these financial statements

UNAUDITED STATEMENT OF CHANGES IN EQUITY

Period ended 31 March 2008

	Share capital (Note B11)	*Legal reserve (Note B12)*	*Accumulated losses*	*Total*
	RO'000	*RO'000*	*RO'000*	*RO'000*
Balance as at 1 January 2008	**50,000**	**1,760**	**(2,486)**	**49,274**
Net loss for the period	-	-	(943)	(943)
Balance as at 31 March 2008	**50,000**	**1,760**	**(3,429)**	**48,331**

The attached notes A1 to D4 form an integral part of these financial statements

UNAUDITED CASH FLOW STATEMENT
Period ended 31 March 2008

	31 March 2008 RO'000
OPERATING ACTIVITIES	
Net loss for the period	**(943)**
Adjustments for:	
Depreciation	**168**
Impairment allowance on portfolio basis	**1,215**
Specific provision on loans	**84**
Profit on sale of investment securities	**-**
Interest on investment	**(270)**
Operating profit before changes in operating assets and liabilities	**254**
Loans and advances (gross)	**(85,019)**
Due from banks	**(11,553)**
Other assets	**(202)**
Issue of Certificates of deposit	**1,000**
Customers' deposits	**75,272**
Due to Banks and other money market deposits	**4,650**
Other liabilities	**2,432**
Net cash from operating activities	**(13,166)**
INVESTING ACTIVITIES	
Purchase of investments	**-**
Proceeds from sale / redemption of investments	**-**
Purchase of equipments & fixtures	**(504)**
Interest received on Certificates of deposit and Treasury Bills	**270**
Net cash used in investing activities	**(234)**
FINANCING ACTIVITIES	
Share capital issue	**-**
Share issue expenses collected (net)	**-**
Net cash from financing activities	**-**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(13,400)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**99,027**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**85,627**
REPRESENTING:	
Cash and balances with Central Banks	**54,560**
Due from Banks and other money market placements	**42,167**
Available-for-sale investments	**-**
Due to Banks and other money market deposits	**(11,100)**
	85,627

The attached notes A1 to D4 form an integral part of these financial statements

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS
At 31 March 2008

A1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Bank Sohar SAOG ("the Bank") was established in the Sultanate of Oman on 4 March 2007 as a joint stock company and is primarily engaged in corporate and retail banking activities within the Sultanate of Oman. The Bank operates in Oman under a banking licence issued by the Central Bank of Oman and is covered by its deposit insurance scheme. The Bank started commercial operations from 9 April 2007. The registered address of the Bank is PO Box 44, Hai Al Mina, Postal Code 114, Muscat, Sultanate of Oman.

The Bank employed 282 employees as of 31 March 2008.

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 **26th April 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.

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

A3.3.b Derecognition
The Bank derecognises a financial asset when the contractual rights to the cash flow from the asset expire, or its transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

A3.3.c Offsetting of assets and liabilities
Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.
.
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 disclosure of comparative figures are in accordance with IAS 34. The Bank commenced operations on 9th April 2007 and hence no comparative data is available in the income statement for the quarter ended 31st March 2007 except for unaudited pre-incorporation and pre-operative figures up to 31st March 2007 which are as given below:

	RO'000
Interest Income	544
Expenses	(1,369)
Pre-incorporation & Pre-operative expenses	(825)

Pre-incorporation expenses related to expenses up to 3rd March 2007 amounting to RO 683K and pre-operating expenses related to expenses from 4th March 2007 to 8th March 2007 amounting to RO 142K.

	RO'000
Total Assets	52,070
Liabilities	(311)
Net Assets	51,759
Represented by:	
Share capital	50,000
Legal reserve	1,759
	51,759

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS

At 31 March 2008

B1 CASH AND BALANCES WITH CENTRAL BANK

	31 March 2008 RO'000	*31 December 2007 RO'000*
Cash	**2,331**	1,296
Insurance deposit with Central Bank of Oman	**5**	5
Capital deposit with Central Bank of Oman	**420**	50
Unrestricted balances with Central Banks	**51,804**	19,076
	54,560	20,427

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

B2 DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS

	31 March 2008 RO'000	*31 December 2007 RO'000*
Local Currency:		
Due from other Banks	**-**	16,475
	-	16,475
Foreign Currency:		
Due from other Banks	**38,090**	9,867
Nostro balances abroad	**15,630**	10,572
	53,720	20,439
Total	**53,720**	36,914

B3 LOANS AND ADVANCES

	31 March 2008 RO'000	*31 December 2007 RO'000*
Corporate loans	**214,287**	166,439
Personal loans	**174,071**	136,900
Gross loans and advances	**388,358**	303,339
Impairment allowance on portfolio basis	**(5,618)**	(4,403)
Specific provision on loans	**(84)**	-
Net loans and advances	**382,656**	298,936

Personal loans include RO 7,022,121 provided to staff on concessional terms.

UNAUDITED NOTES TO THE FINANCIAL STATEMENTS
At 31 March 2008

B3 LOANS AND ADVANCES *(continued)*

Loans and advances comprises:

	31 March 2008 RO'000	31 December 2007 RO'000
Loans	**358,139**	273,562
Overdrafts	**24,316**	26,819
Loan against trust receipts	**4,749**	2,562
Bills discounted	**1,154**	396
Gross loans and advances	**388,358**	303,339
Impairment allowance on portfolio basis	**(5,618)**	(4,403)
Specific provisions	**(84)**	-
Net loans and advances	**382,656**	298,936

The movement in the impairment allowance is as analysed below:

Loan Loss Provision	31 March 2008 RO'000	31 December 2007 RO'000
Impairment allowance on portfolio basis		
Balance at beginning of period	**4,403**	-
Provided during the period	**1,215**	4,403
Balance at end of period	**5,618**	4,403
Specific Provision		
Balance at beginning of period	**-**	-
Provided during the period	**84**	-
Balance at end of period	**84**	-

Impairment allowance is established to meet the credit risks inherent within the loans and advances on portfolio basis.
As at 31 March 2008, loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 290,553 (31 December 2007: Nil).

B4 AVAILABLE-FOR-SALE INVESTMENTS

	Carrying/ Fair value 31 March 2008 RO'000	Cost 31 March 2008 RO'000	Carrying/ Fair value 31 December 2007 RO'000	Cost 31 December 2007 RO'000
Unquoted investments				
Certificate of Deposit - OMR	**5,000**	**5,000**	55,000	55,000
Balance at end of period	**5,000**	**5,000**	55,000	55,000

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

	Freehold Land	*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:							
Opening Balance as on 1st Jan 2008	**-**	**2,502**	**336**	**858**	**145**	**1,137**	**4,978**
Additions *	**7,000**	**29**	**12**	**399**	**64**	**-**	**7,504**
Transfers	**-**	**98**	**-**	**-**	**-**	**(98)**	**-**
Carrying Value at Cost	**7,000**	**2,629**	**348**	**1,257**	**209**	**1,039**	**12,482**
Accumulated Reserve for Depreciation:							
Opening Balance as on 1st Jan 2008	**-**	**(210)**	**(61)**	**(48)**	**(22)**	**-**	**(341)**
Depreciation	**-**	**(96)**	**(27)**	**(33)**	**(12)**	**-**	**(168)**
Reserve for Depreciation	**-**	**(306)**	**(88)**	**(81)**	**(34)**	**-**	**(509)**
Net carrying value at 31 March 2008	**7,000**	**2,323**	**260**	**1,176**	**175**	**1,039**	**11,973**
Net carrying value at 31 December 2007	-	2,292	275	810	123	1,137	4,637

*Bank Sohar has received three plots of land as grant from the Sultanate of Oman, one in Sohar and two in the Muscat region. The Bank approached two valuators for valuation and has taken the average of the two valuations. The valuation was conducted on an estimated market value basis assuming a willing buyer; a buyer and seller acting prudently, knowledgeably and assuming the price is not affected by extraneous circumstances. An amount equivalent to the value of the land has been recorded as deferred income and disclosed under other liabilities.

B6 OTHER ASSETS

	31 March 2008 RO'000	*31 December 2007 RO'000*
Interest receivable	**2,589**	2,225
Prepayments and deposits	**665**	540
Acceptances	**1,051**	1,417
Others	**325**	246
	4,630	4,428

B7 DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

	31 March 2008 RO'000	*31 December 2007 RO'000*
Local Currency:		
Money market borrowings	**24,500**	28,600
	24,500	28,600
Foreign Currency:		
Money market borrowings	**11,550**	-
Vostro balances	**-**	14
	11,550	14
Total	**36,050**	28,614

B8 CERTIFICATES OF DEPOSIT

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

B9 CUSTOMERS' DEPOSITS

	31 March 2008 RO'000	*31 December 2007 RO'000*
Current accounts	**14,135**	12,027
Current call accounts	**51,594**	21,930
Savings accounts	**32,361**	26,094
Term deposits	**219,873**	182,611
Margin accounts	**131**	160
	318,094	242,822

	31 March 2008 RO'000	*31 December 2007 RO'000*
Retail customers:		
Current deposits	**3,669**	2,157
Saving deposits	**32,361**	26,094
Corporate customers:		
Term deposits	**219,873**	182,611
Current deposits	**10,466**	9,870
Call deposits	**51,594**	21,930
Others	**131**	160
	318,094	242,822

B10 OTHER LIABILITIES

	31 March 2008 RO'000	*31 December 2007 RO'000*
Interest payable	**6,251**	3,164
Staff entitlements*	**173**	548
Acceptances	**1,051**	1,417
Accounts Payable in suspense	**-**	13
Deferred income on Land from Government Grants	**7,000**	-
Other accruals and provisions	**3,489**	3,390
	17,964	8,532

** Staff entitlements include RO 12,007 in respect of employee terminal benefits charged to the income statement. RO 2,640 was paid 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 March 2008, 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**	**12.00%**

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 March 2008 attributable to ordinary shareholders of RO 48,331,000 and on 100,000,000 ordinary shares, being the number of shares outstanding as at 31 March 2008 (RO 49,274,000 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.

	31 March 2008 RO'000	*31 December 2007 RO'000*
Guarantees	**23,262**	11,991
Documentary letters of credit	**15,912**	14,937
	39,174	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.

	31 March 2008 RO'000	*31 December 2007 RO'000*
Capital commitments	**499**	216
Credit related commitments	**50,167**	53,996
	50,666	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:

	31 March 2008 RO'000	*31 December 2007 RO'000*
A) Loans and Advances		
Opening Balance	**6,709**	-
Loans issued during the period	**2,609**	14,484
Loans repayment during the period	**(3,103)**	(7,775)
Closing balances for the period	**6,215**	6,709
B) Deposits		
Opening Balance	**16,387**	-
Deposits received during the period	**97,464**	64,457
Deposits repaid during the period	**(91,371)**	(48,070)
Balance as on 31 March 2008	**22,480**	16,387
C) Income Statement		
Interest income	**190**	101
Interest expense	**(757)**	(313)
D) Senior Management compensation		
Salaries and other short term benefits	**327**	1,052
E) Directors sitting fees	**24**	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.

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.

B18.2 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.

As at 31 March 2008

		Notional amounts by term to maturity		
	Notional amount	***Within 3 months***	***3 - 12 months***	***1 - 5 years***
	RO'000	***RO'000***	***RO'000***	***RO'000***
Forward foreign exchange purchase contracts	**11,233**	**6,717**	**4,516**	**-**
Forward foreign exchange sales contracts	**33,694**	**8,476**	**2,118**	**23,100**

As at 31 December 2007

		Notional amounts by term to maturity		
	Notional amount	*Within 3 months*	*3 - 12 months*	*1 - 5 years*
	RO'000	*RO'000*	*RO'000*	*RO'000*
Forward foreign exchange purchase contracts	10,292	2,116	8,176	-
Forward foreign exchange sales contracts	33,328	2,116	8,112	23,100

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C1 INTEREST INCOME

	2008
	RO'000
Due from Banks	**413**
Loans and advances to customers	**5,693**
Investment securities	**270**
	6,376

C2 INTEREST EXPENSE

	2008
	RO'000
Deposits from Banks	**525**
Deposits from customers	**4,429**
	4,954

C3 OTHER OPERATING INCOME

	2008
	RO'000
Net gain from foreign exchange dealings	**42**
Fees and commission	**1,191**
Gains from financial investments through equity	**-**
Realised gains on financial investments through income statement	**13**
	1,246

C4 OTHER OPERATING EXPENSES

	2008
	RO'000
Establishment costs	**191**
Operating and administration costs	**721**
Directors sitting fees	**24**
	936

C5 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.

C6 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.

	2008
	RO'000
Loss for the period	**(943)**
Weighted average number of shares outstanding during the period (in thousands)	**100,000**
Loss per share for the period - in baizes	**(9.43)**
Loss per share for the period (annualised) - in baizes	**(37.82)**

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

D1 Exposure to liquidity risk

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.

Residual contractual maturities of financial liabilities

As at 31 March 2008:

	Carrying amount RO'000	*Gross Nominal Outflow RO'000*	*Within 3 months RO'000*	*3 - 12 months RO'000*	*Over 1 year RO'000*
Non-derivative liabilities					
Due to Banks	**36,050**	**37,172**	**11,404**	**13,733**	**12,035**
Certificates of deposits	**92,100**	**104,011**	**1,586**	**932**	**101,493**
Customers' deposits	**318,094**	**333,105**	**158,569**	**107,664**	**66,872**
Other Liabilities	**17,964**	**17,964**	**17,964**	**-**	**-**
Total	**464,208**	**492,252**	**189,523**	**122,329**	**180,400**

As at 31 December 2007:

	Carrying amount RO'000	*Gross Nominal Outflow RO'000*	*Within 3 months RO'000*	*3 - 12 months RO'000*	*Over 1 year 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

D2 Exposure to interest rate risk – non trading portfolios

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

	On demand within 3 months	*3 to 12 months*	*Over 1 year*	*Non interest sensitive*	*Total*
	RO'000	*RO'000*	*RO'000*	*RO'000*	*RO'000*
Cash and balances with Central Banks	**-**	**-**	**-**	**54,560**	**54,560**
Due from Banks and other money market placements	**42,168**	**11,552**	**-**	**-**	**53,720**
Loans and advances	**145,664**	**28,389**	**214,221**	**84**	**388,358**
Investments	**-**	**5,000**	**-**	**-**	**5,000**
Equipment & Fixtures	**-**	**-**	**-**	**11,973**	**11,973**
Other assets	**-**	**-**	**-**	**4,630**	**4,630**
Total assets	**187,832**	**44,941**	**214,221**	**71,247**	**518,241**
Due to Banks and other money market deposits	**11,100**	**24,950**	**-**	**-**	**36,050**
Certificates of deposits	**-**	**-**	**92,100**	**-**	**92,100**
Customers' deposits	**58,953**	**116,405**	**44,646**	**98,090**	**318,094**
Other liabilities	**-**	**-**	**-**	**17,964**	**17,964**
Impairment allowance on portfolio basis	**-**	**-**	**-**	**5,702**	**5,702**
Shareholders' equity	**-**	**-**	**-**	**48,331**	**48,331**
Total liabilities and shareholders' equity	**70,053**	**141,355**	**136,746**	**170,087**	**518,241**
Total interest rate sensitivity gap	**117,779**	**(96,414)**	**77,475**	**(98,840)**	-
Cumulative interest rate sensitivity gap	**117,779**	**21,365**	**98,840**	**-**	-

As at 31 December 2007	*On demand within 3 months*	*3 to 12 months*	*Over 1 year*	*Non interest sensitive*	*Total*
	RO'000	*RO'000*	*RO'000*	*RO'000*	*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	-	-

D3 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:

	31 March 2008			*31 December 2007*		
	Assets RO'000	***Liabilities RO'000***	***Net Assets RO'000***	*Assets RO'000*	*Liabilities RO'000*	*Net Assets RO'000*
US Dollar	**111,034**	**110,997**	**37**	74,574	75,919	(1,345)
Saudi Rial	**18,253**	**-**	**18,253**	7,011	-	7,011
EUR	**388**	**378**	**10**	493	400	93
UAE Dirhams	**65**	**45**	**20**	6,549	50	6,499
Japanese Yen	**2,692**	**2,687**	**5**	2,421	2,417	4
Pound Sterling	**83**	**144**	**(61)**	28	10	18
Indian Rupee	**7**	**-**	**7**	7	-	7
Others	**159**	**-**	**159**	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.

D4 CAPITAL MANAGEMENT

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

	31 March 2008 RO'000	*31 December 2007 RO'000*
Tier I capital		
Ordinary share capital	**50,000**	50,000
Legal reserve	**1,760**	1,760
Accumulated losses	**(3,429)**	(2,486)
Total	**48,331**	49,274
Tier 2 capital		
Impairment allowance on portfolio basis	**5,159**	4,403
Total	**5,159**	4,403
Total regulatory capital	**53, 490**	53,677
Risk-weighted assets		
Retail Bank, corporate Bank and market risk	**381,338**	357,408
Operational risk	**31,368**	15,630
Total risk-weighted assets	**412,706**	373,038
Capital adequacy ratio		
Total regulatory capital expressed as a percentage of total risk-weighted assets	**12.96%**	14.39%
Total tier I capital expressed as a percentage of total risk-weighted assets	**11.71%**	13.21%

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