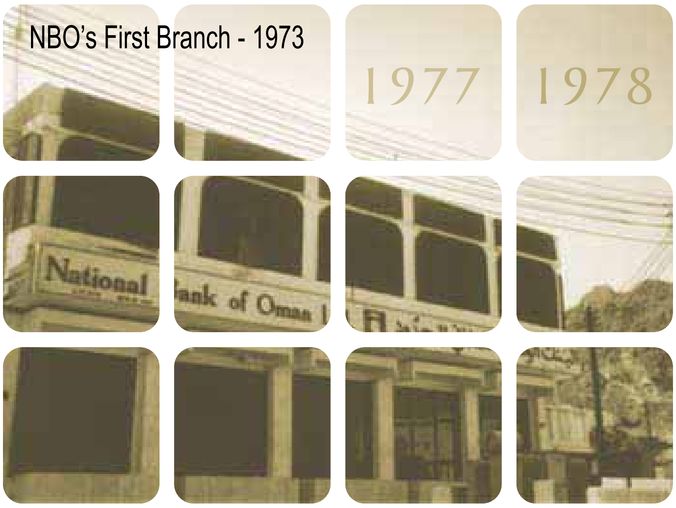
Annual Report 2007



NBO's First Branch - 1973

1973 1974 1975 1976 1977 1978 1983 1984 1987 1988 1989 1993 1994 1995 1996 1997 1998 2001 2002 2003 2004 2005 2006 2007

NBO

البنك الوطني العُماني (ش.م.ع.ع.)

National Bank of Oman (S.A.O.G.)

HIS MAJESTY SULTAN QABOOS BIN SAID

CONTENTS

Our people are
the key to our success,
whether they are
serving customers or
reaching out
to the community.

BOARD OF DIRECTORS

Sheikh Suhail Salim Bahwan

Chairman

Sheikh Suhail Salim Bahwan is the founder of the Suhail Bahwan Group which is a major domestic and regional conglomerate comprising more than 30 companies with business interests including manufacturing fertilizers and petrochemicals, power projects, constructions, marine terminals, telecommunications, consumer durables, building materials, information technology, healthcare, travel and tourism, shipping and transportation and is at the forefront of the Sultanate's privatization initiatives.

Sayyidah Rawan Al Said

Deputy Chairperson

Director since April 2005. Chairperson of the Audit Committee and Risk Committee of the Board. Member of the Credit Committee of the Board.

Deputy Chairperson of Oman National Investment Corporation Holding and Oman Oil Marketing Co. SAOG. Director of Research and Investments in The State General Reserve Fund.

Sayyidah Rawan has a Masters Degree in Economics and Finance and Investment Analysis.

Abdul Hameed Bin Ahmed Al Balushi

Director

Director since 1999. Member of the Board Credit and Board Audit Committees. Expert and Head of the Minister's Office , Ministry of Civil Services.

Brigadier Khalid Bin Mohammed Al Sulaimi

Director

Elected as Director in April 2002. Represents the Ministry of Defence Pension Fund. Member of the Executive Committee, Credit Committee and the Board Risk Committee.
Director General, Purchasing & Contracts of the Ministry of Defence;
Director, National Investing Fund Company.

Anil Nahar

Director

Appointed as Director in November 2003. Member of the Executive Committee, Credit Committee, and Board Audit Committee, and also Director of AES Barka SAOG., Oman Dental College (SAOC) and Sharqiyah Desalination Co. SAOC.
Financial Advisor, Bahwan Engineering Company, which is part of the Suhail Bahwan Group (Holding) LLC

Imad Kamal Sultan

Director

Director since June 2004. Member of the Credit Committee and the Board Risk Committee.
Director, W. J. Towell & Co (LLC); Muttrah Cold Stores LLC; Towell Auto Centre; Nestle Oman Trading LLC; and PWC Oman (Global Logistics) LLC
Director, Oman Tennis Association.

Sheikh Abdullah Ali Al Thani

Director

Director since July 2005. Represents The Commercial Bank of Qatar.
Deputy Chairman of The Commercial Bank of Qatar.

Omar Hussain Al Fardan
Director

Director since July 2005. Chairman of the Executive Committee of the Board. Director, Commercial Bank Group; Director, United Arab Bank; Director, Orient 1 Limited - Bermuda; Director, United Development Co; President, Al Fardan Group Holding Co.; President, Al Fardan Properties & Management LLC; President, Al Fardan Motors; and Chairman of Qatar District Cooling Co.

Andrew Charles Stevens
Director

Director since July 2005. Member of the Executive Committee of the Board. Group Chief Executive Officer, The Commercial Bank of Qatar; Director, United Arab Bank; Chairman, Diners Club Services, Egypt; Chairman, Diners Club Services, Bahrain; Chairman, Orient 1 Limited; and Member of Diners Club International Global Advisory Board.

Hugh Edward Thompson
Director

Director since July 2005. Member of the Audit Committee and Risk Committee of the Board.
EGM and Group Chief of Legal and Corporate Affairs Officer; The Commercial Bank of Qatar; Director, Orient I Limited; Diners Club Services, Egypt; and Diners Club Services, Bahrain.

Dr Younis Khalfan Al Akhzami
Director

Director since April 2006. Member of the Audit Committee of the Board . Director General, Planning and Development in the Ministry of Manpower.

CHAIRMAN'S REPORT

To Our Esteemed Shareholders

Omani Economy

Oman experienced robust Economic Growth in 2007 in concert with both regional and global markets with a GDP growth of 8.3% during the third quarter of 2007. The energy sector led the growth with average price of exported oil of USD 64.30 per barrel which significantly exceeded budget forecasts of USD 40 per barrel. Most asset classes, particularly real estate and listed equities rose significantly during the year. Investment levels are running at record levels with local private companies and industries such as contracting benefitting from the high levels of investment.

The thrust of Oman's 2008 Budget follows the previous year in encouraging sustainable and broad based economic development which should act as a catalyst for a positive environment for the expansion of financial services in 2008. Fiscal expenditure is expected to jump 19% to RO 5.8 billion as a year on year comparison, with major beneficiaries being energy, infrastructure, education, tourism and general industry which uses natural gas as either feedstock or an energy source. There appears little downside on the budget as the average price of Oman oil exports has been forecast at USD 45 per barrel.

Financial Performance

The Bank's net profit of RO 44.6 million exceeded last years record net profit of RO 30.42 million by 46%.

Profit from operations increased by 26% from RO 29 million to RO 36 million reflecting the robustness and positive outlook for the economy as well as our clear emphasis on sustainable growth.

Diversification of revenue streams continued to improve with the ratio of other operating income to total income improving from 33 % in 2006 to 40 % in 2007.

Business efficiency remained an important focus. Despite increased spending, particularly in training and development and higher wage costs, the cost to income ratio has improved year on year. The Bank is committed to further improvement of this ratio.

NBO again experienced a positive cost of credit in 2007 through collection of non performing loans previously provisioned. Recoveries and releases of provisions totaled RO 21.84 million against new provisions of RO 7.86 million. Of the new provisions established 36% are formula driven general provisions against new business growth and not for impaired assets. Worthy of special mention is a recovery of RO 4.1 million being an amount receivable from BCCI Holdings, Luxembourg. This finally concludes this long running litigation with the liquidators of BCCI.

Total Assets ended the year at RO 1.48 billion which is 36.4 % higher than the end of 2006 and of this net advances grew by RO 203 million or 28.9%. The asset expansion was funded by growth in deposits of RO 119 million (14.62%), retained earnings and increase in share capital and medium term borrowings.

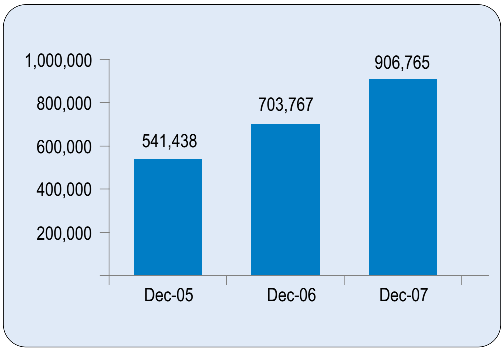
The Bank was successful in further diversifying its funding sources by procuring a USD 325 million 5 year syndicated loan facility from international banks which was closed at competitive pricing prior to the general increase in market pricing experienced in the latter half of the year. The transaction was finalised in August 2007 and drawdown of the funds completed in October 2007.

Capital

The regulatory capital of the Bank now stands at RO 221 Million returning a healthy BIS capital adequacy ratio of 15.66%.

The share price moved up by 32% from RO 5.7 to RO 7.5 and the return on capital stood at 20.7% as against 16.31% in 2006.

NET ADVANCES



Corporate Responsibility

NBO is committed to community involvement through its corporate citizenship programmes. In addition to donations to various local charities and financial support to various sports associations (list provided in Corporate Governance Report), the Bank also earmarked RO 1 million towards unfavourable weather conditions relief to be paid over 2007 and 2008.

The Bank's sustained effort to incorporate corporate social responsibility in every aspect of business was rewarded by the Bank being selected as the "Best in Corporate Social Responsibility in Oman for 2007" by World Finance Magazine, U.K .

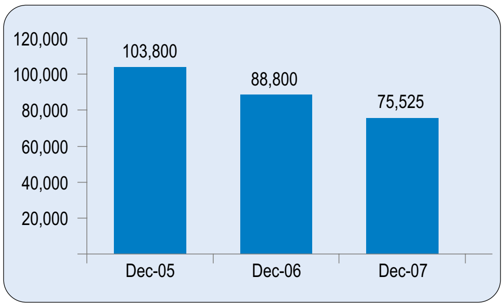
Corporate Governance, External Auditors and Dividend Policy

In accordance with the directives of the Code of Corporate Governance promulgated by the Capital Market Authority we continue to include a separate report on the bank's Corporate Governance policies within this Annual Report.

As is required by the provisions of the code, this Corporate Governance report has been reviewed by the bank's external auditors.

During the Annual General Meeting your Board of Directors intends to propose for Shareholders's approval the appointment of new external Auditors for 2008 as per statutory requirements. (existing auditors KPMG have completed their four years term as prescribed by CMA.)

NON PERFORMING LOANS



We appreciate the valuable contributions made by the KPMG, during their tenure with the bank.

The Board has recommended that the dividend to be paid this year will be cash dividend of RO 0.175 per share and stock dividend of RO 0.175 per share. This is based on the policy of the Board of Directors regarding Dividends, which is to declare a moderate and consistent level of dividend within the overall regulatory framework. The dividend payout of the Bank for the last five years is covered under the Corporate Governance report.

Board of Directors and Senior Management

There were no changes to the Board composition during the year. Changes in Senior Management during 2007 have been fully covered under Corporate Governance report.

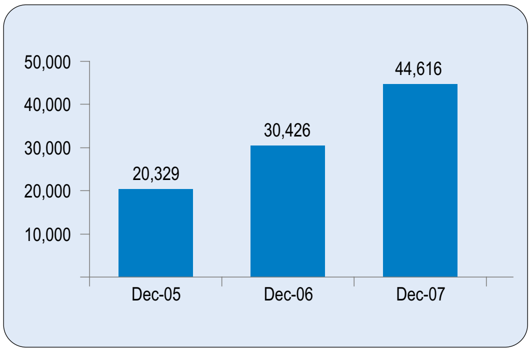
In 2008, as required by the prevailing regulations, the election of all the members of the Board of Directors is required to be held. The election of Directors for a new term will be proceeded with in line with the requirements of the prevailing laws and regulations.

The Year Ahead

There is clear evidence of continuing resilience and buoyancy in the domestic and regional economies. 2008 promises to be even more exciting year as the country continues to reap the benefit of the high energy prices and sustained development.

The well publicised credit problems of the bank of several years ago are now well resolved and the Bank in conjunction with its strategic partner, Commercial Bank of Qatar (Cb), is poised to embark on a period of rapid expansion and growth to the benefit of its customers.

NET PROFIT AFTER TAX



In particular, the Bank will be expanding its consumer banking franchise with new products and services together with modernisation and aggressive expansion of its branch network and ATM's throughout Oman to provide better access and service to customers. The Bank is also establishing its first "Corporate only" branch in Ruwi and more will follow in selected centres. Considerable investment in new technology is underway which will also improve product offerings and the customer experience in 2008. A number of projects are being planned in conjunction with strategic partner, Cb, which are aimed at producing business efficiency through the synergistic nature of both banks operations. This will provide NBO with a competitive advantage in the Oman market leading to improved financial performance and again an improved customer experience in dealing with NBO.

People and their development will continue to be a key focus in 2008. NBO is committed to developing Omani talent and has commenced a management trainee programme with an initial intake of 23 graduates and this will be expanded in 2008. With growth and expansion plans, the Bank will be recruiting considerable numbers of fresh talent in 2008 and to this end the Bank has already held a very successful Job Fair which received wide publicity. Training and development has been enhanced for existing staff along with the introduction of individualised personal development plans to guide their future careers.

We are confident that the Bank will continue to grow in a prudent and profitable manner by targeting quality assets in Oman and UAE with the overall objective of enhancing Shareholder value.

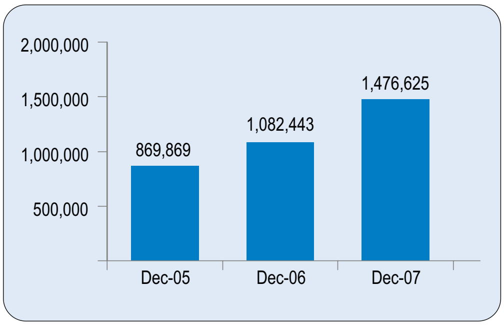
Appreciation

On behalf of all the members of the Board of Directors, I would like to acknowledge and thank our valued Customers, Correspondent Banks and Shareholders for the confidence, which they continue to repose in the Bank.

We thank their Excellencies, the Ministers and their Officials for their continued guidance and encouragement. In particular we express our appreciation to the Ministry of Finance, the Central Bank of Oman and the Capital Market Authority for their ever-wise guidance and support for our endeavors.

We thank the Bank's Management and Staff for their dedication and commitment.

TOTAL ASSETS



Above all we pay tribute to His Majesty, Sultan Qaboos Bin Said, for his inspiring leadership and vision under whose wise guidance all of us in Oman will assuredly remain on the path towards continued successful development.

Sheikh Suhail Salim Bahwan
Chairman

KPMG
4th floor, HSBC Bank Building
MBD
P.O. Box 641
P.C. 112
Sultanate of Oman

Tel 968 24709181
Fax 968 24700839

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

We have performed the procedures prescribed in the Capital Market Authority ("CMA") Circular No. 16/2003 dated 29 December 2003 with respect to the Corporate Governance Report of the Bank ("the Report") and its application of the Corporate Governance practices in accordance with the CMA Code of Corporate Governance ("the Code") issued under Circular No. 11/2002 dated 3 June and the CMA Rules and Guidelines on disclosure, issued under CMA Administrative Decision 5/2007, dated 27 June 2007. The Report is set out on pages 9 to 18.

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

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

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

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

19 February 2008

KPMG

KPMG, a branch office established under the laws of Oman,
is a member of KPMG International, a Swiss cooperative

C.R. No. 1/30936/6


National Bank of Oman
البنك الوطني العماني
NBO

CORPORATE GOVERNANCE REPORT

Corporate Governance deals with the way companies are managed and led, defines the roles of the Directors and formalizes the internal control process within the institution.

The Board of Directors of National Bank of Oman (the Bank) supports the fostering of a healthy governance culture at the Bank. Accordingly, the Board and its Committees continuously evaluate and improve their governance practices, policies and procedures and confirm that the Bank applies the principles set out in the Capital Market Authority (CMA) Code of Corporate Governance (Code) as amended for MSM Listed Companies and the regulations for Corporate Governance of Banking and Financial Institutions issued by the Central Bank of Oman.

There are no penalties or strictures imposed on the Bank by MSM/CMA or any statutory authority, on any matter related to capital markets during the relevant period.

Board of Directors

The Board of Directors is responsible for the overall direction, supervision and control of the Bank. Specific responsibilities of the Board include laying down and approving the business objectives of the Bank, approving strategies and policies which need to be pursued in order to achieve these objectives, and reviewing on an on-going basis the performance of the Bank in relation to its stated objectives as well as adherence to policies.

Appointment of Directors

The Board is comprised of 11 members, 6 of whom were elected by the Shareholders at the Bank's Annual General Meeting held on 11th April 2005 for a period of three years, while 4 members were elected by the Shareholders at the Bank's Annual General Meeting held on 1st March 2006. 1 Director was elected by the Shareholders at the Bank's Annual General Meeting held on 5th March 2007.

The current term of all the Directors expires in April 2008; accordingly a new Board of Directors will be elected in the Annual General Meeting scheduled to be held on 23rd March 2008.

Process of nomination of the Directors

The nomination of the Directors is as per Articles 29 to 34 of the Bank's Article of Association.

The Board reviews the appropriate skills and characters required of the Board Members and recommends suitable names for the Shareholders for election. Shareholders retain the power to elect any candidate to the Board irrespective of whether this candidate is recommended by the Board or otherwise.

Characteristics and core competency of the Board

Members of the Board and its committees bring appropriate knowledge and experience as well as independent judgment to Board Meetings and resolutions. The Board collectively possesses professional knowledge, business expertise, industry knowledge and financial awareness to carry out its oversight responsibilities over the executive and senior management of the Bank.

Information given to the Board

The Directors are given appropriate and timely information so that they can maintain full and effective control over strategic, financial, operation, compliance and governance issues. The information provided to the Board is as per the guidelines provided in the Code.

On appointment, each Director receives information about the Bank and is advised of the legal, regulatory and other obligations devolving upon a Director of listed companies.

Composition of the Board

No Director is a member of the Board of more than four public joint stock companies or banks whose principal place of business is in the Sultanate of Oman, or is a Chairman of more than two such companies.

The following tables show the position of each Board Member in line with the Code's requirements:

Table 1

Name of the Directors	Representing	Category of the Director*
Sheikh Suhail Bahwan – Chairman	Himself	NEX-NIND
Sayyidah Rawan Al Said – Deputy Chairperson	Herself	NEX-IND
Mr. Abdul Hameed Bin Ahmed Al Balushi	Himself	NEX-IND
Brig. Khalid Bin Mohamed Al Sulaimi	Ministry of Defence Pension Fund- Equity Investor	NEX-IND
Mr. Anil Nahar	Himself	NEX-NIND
Mr. Imad Kamal Sultan	Abna Sultan Trading & Co. LLC Equity Investor	NEX-IND
Sheikh Abdullah Ali Al Thani	The Commercial Bank of Qatar- Equity Investor	NEX-NIND
Mr. Omar Hussain Al Fardan	Himself	NEX-NIND
Mr. Andrew Charles Stevens	Himself	NEX-NIND
Mr. Hugh Edward Thompson	Himself	NEX-NIND
Dr. Younis Al Akhzami	Himself	NEX-IND

*NEX: Non-Executive Director, IND: Independent, NIND: Non Independent

Table 2

Name of the Directors	Other Board Committees Membership*	No. of other S.A.O.G Boards	No. of Meetings attended	Attended last AGM on 5th March 2007 (Yes/No/NA)
Sheikh Suhail Bahwan – Chairman	Nil	Nil	4	No
Sayyidah Rawan Al Said – Deputy Chairperson	BAC, BRC, CCB	2	4	Yes
Mr. Abdul Hameed Bin Ahmed Al Balushi	CCB, BAC	Nil	6	Yes
Brig. Khalid Bin Mohamed Al Sulaimi	CCB, EXCOB, BRC	1	6	Yes
Mr. Anil Nahar	CCB, EXCOB, BAC	1	6	Yes
Mr. Imad Kamal Sultan	CCB, BRC	Nil	6	Yes
Sheikh Abdullah Ali Al Thani	Nil	Nil	3	Yes
Mr. Omar Hussain Al Fardan	EXCOB	Nil	4	Yes
Mr. Andrew Charles Stevens	EXCOB	Nil	5	Yes
Mr. Hugh Edward Thompson	BAC, BRC	Nil	4	Yes
Dr. Younis Al Akhzami	BAC	Nil	6	Yes

*BAC: Board Audit Committee, CCB: Credit Committee of the Board, BRC: Board Risk Committee and EXCOB: Executive Committee of the Board.

Number and dates of Board Meetings

National Bank of Oman held 6 Board Meetings during 2007. They were on , 22nd January, 5th March, 26th April, 27th June, 3rd October and 18th December. The maximum interval between 2 meetings was 65 days. This is in compliance with Article 4 of the Code, which requires meetings to be held within a maximum time gap of 4 months.

Remuneration to Board and Top Management

The sum of the benefits (e.g. salaries, perquisites, bonuses, stock options, gratuity, pension, etc.) paid to the top five officers of the management of the Bank in 2007 is RO. 822,581.

There were no direct pre-determined performance linked incentives applicable to the top five officers during the year.

Staff service contracts is 2 years for expatriate officers and determined by the prevailing labour laws for Omanis. The notice period is between 2 and 4 months.

As all members of the Board are Non-Executive Directors no fixed remuneration or performance linked incentive are applicable. The Non-Executive Directors are paid sitting fees and reimbursement of expense for attending the Board and Committee Meetings. In addition to the sitting fees paid the total remuneration for 2007 of the Directors is RO 137,800 subject to the Annual General Meeting approval proposed to be held on 23rd March 2008.

The details of the sitting fees paid or accrued for payment during 2007 are as follows:

Table 3

Name of the Directors	Total fees RO	Remarks
Shiekh Suhail Bahwan – Chairman	2,000	
Sayyidah Rawan Al Said – Deputy Chairperson	8,800	
Mr. Abdul Hameed Bin Ahmed Al Balushi	8,800	
Brig. Khalid Bin Mohamed Al Sulaimi	9,200	
Mr. Anil Nahar	10,000	
Mr. Imad Kamal Sultan	8,600	
Sheikh Abdullah Ali Al Thani	1,500	
Mr. Omar Hussain Al Fardan	3,000	
Mr. Andrew Charles Stevens	3,500	
Mr. Hugh Edward Thompson	3,200	
Dr. Younis al Akhzami	3,600	
Total	**62,200**	

The total hotel and travel expense related to the Board Members during 2007 is RO 18,401.

Board Committees

As at December 2007, The Board of Directors has 4 standing committees, the Credit Committee, the Audit Committee, the Risk Committee and the Executive Committee.

Audit Committee

The Audit Committee consists of 3 Independent members; and 2 Non-Independent members. The committee has met 5 times in 2007. The names of the members, their positions and their meetings and attendance appear in the table below:

Table 4

Name	Position	Meetings attended	Remarks
Sayyidah Rawan Al Said	Chairperson	4	
Mr. Anil Nahar	Member	5	
Mr. Hugh Edward Thompson	Member	2	
Mr. Abdul Hameed Al Balushi	Member	4	
Dr. Younis Al Akhzami	Member	3	

The Audit Committee has its own charter duly approved by the Board.

The primary responsibilities and functions of the Audit Committee are to provide assistance to the Board in fulfilling their oversight responsibility to the Shareholders, potential Shareholders, and the investment community relating to the Bank's financial statements and the financial reporting process, the systems of internal accounting and financial controls, the internal audit function, the annual independent audit of the Bank's financial statements and the legal compliance and ethics programs as established by the Management and the Board.

Credit Committee:

The Credit Committee comprises of 5 members and met 13 times during 2007. The names of the members, their positions and their meetings and attendance appear in the table below:

Table 5

Name	Position	Meetings attended	Remarks
Brig. Khalid Bin Mohamed Al Sulaimi	Chairman	9	
Sayyidah Rawan Al Said	Member	8	–
Mr. Abdul Hameed Al Balushi	Member	11	–
Mr. Anil Nahar	Member	11	–
Mr. Imad Kamal Sultan	Member	9	–

The CCB's main responsibilities are:

- To approve transactions up to the maximum legal limits of the Bank including underwriting exposures and sell down targets.
- Review reports of risk assets covering bank wide portfolio trends including higher risk assets, exposures as well as the other reports at least every quarter.
- Review management of recovery strategies of problem loans and adequacy of provisioning.

Board Risk Committee:

The Risk Committee of the Board is comprised of 4 members and met 5 times during the year. The major responsibilities of the Committee include risk identification and review, risk policy, risk limits and risk management and monitoring. The names of the members appear in the table below:

Table 6

Name	Position	Meetings attended
Sayyidah Rawan Al Said	Chairperson	5
Brig. Khalid Bin Mohamed Al Sulaimi	Member	2
Mr. Hugh Thompson	Member	4
Mr. Imad Kamal Sultan	Member	5
Mr. Anil Nahar	Member	2 *

* (Resigned on 27.06.2007)

Executive Committee of the Board (EXCOB)

The Executive Committee of the Board comprises of 4 members and met 5 times during the year. The names of the members and their positions are as set out in the table below :

Table 7

Name	Position	Meetings attended
Mr. Omar Hussain Al Fardan	Chairman	5
Mr. Andrew Charles Stevens	Member	5
Brig. Khalid Bin Mohamed Al Sulaimi	Member	4
Mr. Anil Nahar	Member	5

The main responsibilities of the EXCOB are stated below:

- To recommend for Board approval strategies and policies to be pursued by the Bank.
- To review and recommend to the Board all policies relating to the Bank's organisation and operations including all necessary authorities required by Executive Management in the execution of their responsibilities
- Appointment and movement of key executives in the Bank.
- To review and approve major changes in the Bank's organisational structure at the level of Divisional Heads and above.

Composition of the Management

The organisation chart of the Bank's Management is comprised of a Chief Executive Officer as the leader of the organisation whose appointment, functions and package are determined by the Board. 4 General Managers are also appointed by the Board to assist the CEO and to lead 4 groups in the Bank. The organisation chart also includes Deputy General Managers and Assistant General Managers besides the Divisional Heads. During the year 2007 the Deputy Chief Executive Officer and the Chief Financial Officer left the Bank services for personal reasons.

Table 8

Name	Position
Mr. Andrew Duff	Chief Executive Officer
Mr. Taqi Ali Sultan	General Manager, Chief Organizational Effectiveness Officer
Mr. Paul Trowbridge	General Manager, Chief Risk Officer
Mr. Humayun Rashid	General Manager, Chief Consumer Banking Officer
Mr. James Vincent	General Manager, Chief Corporate Banking and Capital Markets Officer

Market Price Data

The following table and graphs show the high, low, and average prices of the Bank's shares and compares Bank's performance against the broad index of banks and investment companies during 2007:

Table 9

Banks & Investment Index				NBO Price			
Month	High	Low	Average	Month	High	Low	Average
Jan-07	7733.3	7229.0	7531.8	Jan-07	6.000	5.789	5.917
Feb-07	7469.3	7233.2	7368.7	Feb-07	5.969	5.800	5.899
Mar-07	7327.3	7073.5	7231.3	Mar-07	5.850	4.909	5.052
Apr-07	7614.6	7217.4	7438.4	Apr-07	5.452	5.000	5.264
May-07	8026.0	7387.7	7738.3	May-07	5.578	5.410	5.492
Jun-07	8413.8	7973.0	8234.5	Jun-07	5.936	5.565	5.779
Jul-07	8691.4	8308.0	8544.3	Jul-07	6.122	5.850	5.991
Aug-07	9416.4	8690.7	9133.3	Aug-07	6.490	6.050	6.261
Sep-07	9691.8	9194.7	9364.7	Sep-07	6.352	6.169	6.253
Oct-07	10434.3	9643.9	10073.7	Oct-07	7.130	6.388	6.721
Nov-07	11371.2	10550.5	10948.7	Nov-07	7.504	7.099	7.403
Dec-07	12451.7	11373.0	12141.6	Dec-07	7.601	7.392	7.494

Related Party Transactions

Details of all transactions where a Director and/or other related parties might have a potential interest are provided to the Board for their review and approval, and the interested Directors neither participate in the discussions, nor do they vote on such matters.

Based on the approval received from the Shareholders in the Annual General Meeting held on 5th March 2007 the management services agreement with The Commercial Bank of Qatar (CBQ) was renewed for a period of one year. The agreement commencing from July 2005 is for an initial period of three years extendable for a further period of 3 years.

Every quarter the details of the related party transactions are produced and submitted to the Board for review and approval as part of approving the quarterly financial statements.

Details of all the related party transactions are provided to the Shareholders as part of the financial statements submitted for approval at the Annual General Meeting along with the statement that transactions are on an arms length and independent basis and reasonable.

Internal Control Review

The Board attaches great importance to maintaining a strong control environment and their review has covered all controls, including financial, operational, compliance and risk management.

The Board has a collective responsibility for the establishment, maintenance and review of a system of internal controls that provides reasonable assurance of effective and efficient operations, internal financial control, and compliance with the relevant laws and regulations.

The Board has established a management structure that clearly defines roles and responsibility and reporting lines and has approved the updated policies including credit, expenditure, disclosure, corporate governance etc.

Bank's financial position, results of operations and business performance is regularly reported to the Board. The actual performance achieved against budgets and prior period are reported and closely monitored.

Financial information is prepared using appropriate accounting policies that are consistently applied. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets through policies and procedures manuals, desk performance instructions and other circulars.

The Bank's internal disclosure policy includes the close season period definition. This is notified to all the insiders on quarterly basis or when required.

For the year under review the Board has conducted a review of the effectiveness of the Bank's internal control policies and procedures and is satisfied that the Bank's internal control are effective and that appropriate procedures are in place to implement the code's requirements.

Shareholders

Communication with Shareholders and Investors

The Board is committed to ensure that all material information relating to Bank's business operations is regularly communicated to Stakeholders and Members of the investment community.

The Bank has its own website, where relevant information relating to the Bank, its products, its operations and annual and quarterly financial statements are posted. The Bank's website address is www.nbo.co.om.

The quarterly, half-yearly, and annual results of operations of the Bank are published in leading Arabic and English newspapers in the Sultanate of Oman. After completion of the statutory audit, the Annual Report and Summary Financial Statements are sent by post to all Shareholders along with the notice of the forthcoming Annual General Meeting of the Bank. Further, the Shareholders are advised to contact the Bank whenever they require any updated information regarding the Bank or its operations.

The distribution of Dividend to the Shareholders by the Bank during the last five years appears in the table below:

Table 10

Year	Cash Dividend	Bonus Shares
2003	–	–
2004	–	–
2005	15%	–
2006	17.5%	15%
2007 (Proposed subject to CBO & Shareholders' approval)	17.5%	17.5%

Donations

During the year 2007 the Bank distributed donations to the charitable organisations and other non profitable organisations totaling RO. 100,000 as approved by the Annual General Meeting held on 23rd March 2007.

Also the Board of Directors, consequent to the damages caused by unfavourable weather conditions, approved a donation of RO. 1,000,000 to be paid to the affected bodies over two years. This donation will be submitted to the Shareholders for approval in their Annual Meeting of 23rd March 2008.

Details of NBO main Donations during the year 2007:

Amount	Details
50,000.000	For Oman National Football Team
162,710.000	Various Parties as below:
Amount	
63,210.000	Muscat Municipality
40,500.000	Ministry of Education
5,000.000	Al Noor Association for the Blind
10,000.000	Oman Association for the Disabled
10,000.000	Oman Women Association – Muscat
12,000.000	Ministry of Social Development
10,000.000	Association of Early intervention for Children with Special Needs
7,000.000	Oman College for Management and Technology
5,000.000	Dar Al Atta'a Association

A copy of the Management Discussion and Analysis is circulated as part of the Annual Report.

There are no Global Depository Receipts/Warrants or any Convertible instruments outstanding.

Distribution of Shareholding:

The shareholding pattern as on 31 December 2007 was:

Number of Shares	Number of Shareholders	Total Shares	% of Capital
7,000,000 and above	3	52,674,469	57%
3,000,000 to 6,999,999	3	15,463,939	17%
1,500,000 to 2,999,999	4	9,005,619	10%
500,000 to 1,499,999	5	4,215,896	5%
100,000 to 499,999	30	6,571,185	7%
Below 100,000	640	4,068,892	4%
Total	**685**	**92,000,000**	**100%**

Auditors:

Having strong internal and external auditors is recognized by the Board as part of sound corporate governance, and as important agents providing an independent and continuous assessment of the adequacy of, and compliance with, the Bank's established policies and procedures.

KPMG – Our Statutory Auditors:

KPMG is a leading professional services firm, providing audit, tax and advisory services. KPMG has more than 100,000 Professionals throughout the world, Offices in 800 cities and 7,000 Partners in over 150 countries.

KPMG in the Middle East and South Asia employs more than 4,000 Professionals and have Offices in 15 countries.

The Oman practice of KPMG was established in 1974. KPMG Oman currently has a staff compliment in audit, tax and advisory services in excess of 100, including 3 Partners, 2 Directors and 12 Managers. KPMG Oman is accredited by the Capital Market Authority to audit Omani listed companies.

The Bank's Internal Audit Division reports directly to the Chairman of the Board Audit Committee and the Audit Committee oversees the activities of the division and evaluates the effectiveness of internal controls. The control assessments performed are risk based. 2007 was the last year for KPMG in its role as external auditors for NBO. The Annual General Meeting will appoint a new external auditor in its meeting scheduled on 23rd March 2008. The Bank's external auditors, KPMG, work very closely with the Bank's internal auditors.

During the year 2007, RO 79,000 was accrued/paid for the external auditors against the audit and related assurance services and RO 15,275 for IT related assurance work.

Sheikh Suhail Salim Bahwan
Chairman

KPMG
4th floor, HSBC Bank Building
MBD
P.O. Box 641
P.C. 112
Sultanate of Oman

Tel 968 24709181
Fax 968 24700839

Report to the Board of Directors of National Bank of Oman ("the Bank") in respect of the Basel II – Pillar III Disclosures

We have performed the procedures agreed with you and as prescribed in the Central Bank of Oman ("CBO") Circular No. BM 1027 dated 4 December 2007 ("the Procedures") with respect to the Basel II – Pillar III disclosures ("the Disclosures") of National Bank of Oman ("the Bank") set out on pages 20 to 35 as at and for the year ended 31 December 2007. The Disclosures were prepared by the Management in accordance with CBO's Circular No. BM 1009 dated 13 September 2006 and Circular No. BM 1027 dated 4 December 2007. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The Procedures were performed solely to assist you in evaluating the Bank's compliance with the disclosure requirements set out in CBO's Circular number BM 1009 dated 13 September 2006.

We report our findings as follows:

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

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

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

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

19 February 2008

KPMG

Name: - NATIONAL BANK OF OMAN S.A.O.G

This is a stand alone entity.

Capital Structure

The authorised share capital of the Bank as at 31st December 2007 is 160,000,000 shares of RO 1/- each.

The issued and paid up capital of the Bank as at 31st December 2007 is 92,000,000 shares of RO 1/- each.

The Bank has deposited in UAE and Egypt, an amount of RO 5.5 million and RO 19.25 million respectively, of capital as support for its overseas branches. These amounts cannot be withdrawn without the approval of the Central Banks of the countries concerned.

The Banks Capital Structure as at close of 31st December 2007, based on Central Bank of Oman's (CBO) guidelines issued on the said subject is as follows:

S. No.	Elements of Capital	Amount in RO 000's
	Tier I Capital	
	Local Banks	
1	Paid-up Capital	92,000
2	Share Premium	34,465
3	Legal Reserves	26,026
4	General Reserves	4,419
5	Sub-ordinated Loan Reserve	10,000
6	Stock Dividend	16,100
7	Retained Earnings	8,844
8	Non-cumulative perpetual preferred stock	–
9	Other non-distributable Reserve	6,182
	Foreign Banks	–
10	Assigned Capital	–
11	Capital Deposits	–
12	Retained Earnings	–
13	Interest free funds from HO	–
	Total Gross Tier I Capital	**198,036**
	Deductions	
14	Goodwill	
15	Deferred Tax Asset	–
16	Intangible Assets, including losses, cumulative unrealised losses recognised directly in equity	–
17	Reciprocal crossholding of bank capital, artificially designed to inflate the capital position of banks	
	Sub-total	–
18	**Tier I capital after the above deductions**	**198,036**

Capital Structure (continued)

S. No.	Elements of Capital	Amount in RO 000's
19	50% of investments in the capital of banks and other financial entities, other than reciprocal cross holdings of bank capital	–
20	50% of Significant minority and majority investments in commercial entities, which exceed 5% of the bank's net worth for individual significant investments and 20% of the banks' net worth for aggregate of such investments	–
21	50% of shortfall in the regulatory capital requirements in the un-consolidated entities	–
22	50% of Investments in unconsolidated banking and financial subsidiary companies associates or affiliates, etc	–
	Sub-total	–
23	**Tier I capital after all deductions**	**198,036**

S. No.	Tier II Capital	
24	Undisclosed reserves	–
25	Revaluation Reserves / Cumulative fair value gains or losses on available for sale instruments	7,128
26	General Loan Loss Provisions / General Loan Loss Reserve	12,884
27	Sub-ordinated Debt	2,500
28	Hybrid Debt Capital Instruments	–
29	**Total Tier II Capital**	**22,512**
	Deductions	
30	50% of investments in the capital of banks and other financial entities, other than reciprocal cross holdings of bank capital	–
31	50% of Significant minority and majority investments in commercial entities, which exceed 5% of the bank's net worth for individual significant investments and 20% of the banks' net worth for aggregate of such investments	–
32	50% of shortfall in the regulatory capital requirements in the un-consolidated entities	–
33	50% of Investments in unconsolidated banking and financial subsidiary companies associates or affiliates, etc	–
	Total deductions from Tier II	**–**
	Tier II Capital (Net)	**22,512**
34	**Tier III Capital (eligible)**	**–**
35	**Total Regulatory Capital**	**220,548**

Note: Retained earnings are after deduction of RO 16.1 million towards proposed cash dividend.

Capital Adequacy

Qualitative Disclosures:

The ultimate objectives of capital management are three fold:

- Ensure stability of the Bank by holding enough capital to cover unexpected loss
- Enhance the efficiency of the Bank, by increasing the risk adjusted return at various levels of aggregation (and there by ensuring that too much "excess" capital is not held unnecessarily)
- Incentive informed decision making and pro active risk management through an efficient and effective allocation of capital across the business.

The capital management plan envisaged for the Bank will be based on the regulatory risk capital framework of Basel 2 and using standardized approach for calculating the credit as well market risk and the basic indicator approach for operational risk as prescribed by CBO.

The Bank is in active dialogue with leading solution providers/consultant for measurement of capital charge for credit risk. The Bank is in receipt of proposals from some of the solution providers/consultant and in the process of reviewing the same. A road map to migrate to the advance approaches for measurement of capital charge for credit risk will be established during 2008.

The Bank is in the process of documenting the requirements for the measurement of market risk using internal models and will gradually look at a software enabling the Bank to migrate to the advanced approaches for measurement of capital charge for market risk.

As regards measurement of capital charge for operational risk, the Bank intends to gradually migrate to the Standardized approach, as the complementing Policies and Procedures have been put in place and the Operational risk management process is being strengthened.

Quantitative Disclosures:

Position as at 31.12.07

(RO'000)

S. No.	Details	Amount
1	Tier I Capital (after supervisory deductions)	198,036
2	Tier II capital (after supervisory deductions & upto eligible limits)	22,512
3	Tier III Capital (upto a limit where Tier II & Tier III does not exceed Tier I)	–
4	Of which, Total Eligible Tier III Capital	–
5	**Risk Weighted Assets – Banking Book**	**1,282,818**
6	**Risk Weighted Assets – Operational Risk**	**97,184**
7	**Total Risk Weighted Assets – Banking Book + Operational Risk**	**1,380,002**
8	Minimum required capital to support RWAs of banking book & operational risk	138,000
	i) Minimum required Tier I Capital for banking book & operational risk	115,488
	ii) Tier II Capital required for banking book & operational risk	22,512
9	Tier I capital available for supporting Trading Book	98,648
10	Tier II capital available for supporting Trading book	–
11	**Risk Weighted Assets – Trading Book**	**28,145**
12	Total capital required to support Trading Book	2,815
13	Minimum Tier I capital required for supporting Trading Book	802
14	Used Eligible Tier III Capital	–
15	Total Regulatory Capital	220,548
16	Total Risk Weighted Assets – Whole bank	1,408,147
17	BIS Capital Adequacy Ratio	15.66
18	Unused but eligible Tier III Capital	–

Total Tier I Capital Ratio and Risk Weighted assets for the Bank as at 31st December 2007.

Position as at 31.12.07 (RO'000)

S. No.	Details.	Gross Balance (Book Value)	Net Balance (Book Value)	Risk Weighted Assets
1	On balance Sheet Item	1,493,532	1,426,609	1,001,352
2	Off balance sheet item	374,965	374,965	281,466
3	Derivatives	–	–	–
4	Operational Risk	–	–	97,184
5	Market Risk	–	–	28,145
4	Total	1,868,497	1,801,574	1,408,147
6	Tier I Capital	198,036		
7	Tier 2 Capital	22,512		
8	Tier 3 Capital	–		
9	Total Regulatory Capital	220,548		
9.1	Capital requirement for credit risk	128,282		
9.2	Capital requirement for market risk	2,815		
9.3	Capital requirement for operational risk	9,718		
10	Total required Capital	140,815		
11	Tier I Ratio	14.06%		
12	Total Capital ratio	15.66%		

Note: Off balance sheet items include credit default swap exposures on banks.

Risk Exposure And Assessment

Risk Management

The primary objective of Risk Management is to safeguard the bank's resources from various operational and non-operational risks which the bank faces. The bank has exposure to the following risks:-

Credit Risk – Qualitative Disclosures

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

The strategy of the Bank in management of credit risk is to enhance the credit quality of its loan book.

The Bank has in place a detailed Risk Charter approved by the Board, which spells the Risk Management architecture in the Bank and specifically the management set up for management of credit risk in the Bank.

Corporate Credit Risk: Credit Risk management (CRM) in the Bank is responsible for the credit risk review of individual corporate credits and investment proposals, the development of industry and product credit policies, and monitoring, controlling and diversifying credit risk. CRM provides the foundation for sound credit underwriting and portfolio risk management that conforms to the Bank's activities, strategic objectives, and its economic and competitive environments.

Credit Risk Management has responsibility for initiating, supporting and validating the credit risk rating methodologies and practices of the business units regarding their non-retail credit portfolio.

One Obligor Principle: The 'one obligor principle' is based on the assumption that the performance of part of a group of inter-related companies and/or persons might be influenced (positively or negatively) by the results of one or more other parts thereof.

Risk Rating Framework: The risk-rating framework consists of the establishment of the Credit Risk Rating of the obligor.

Consumer Risk: The management of the risks inherent in retail lending differs from that of a corporate customer, and is very closely linked to the types of products offered by Retail banking.

Credit Risk – Qualitative Disclosures (continued)

Generally, retail risks are more homogeneous in nature and much of the risk management is done at the product programme level as opposed to an individual credit-by-credit basis.

The Bank has in place a state of the art credit risk management structure comprising of a Credit review, Credit Administration and Control, Credit Policy and Portfolio management sections.

The Credit review section reviews and assesses credit risk in all credit exposures in excess of designated limits, prior to facilities being committed to customers by the concerned business units. Renewals and reviews of facilities are subject to the same review process. The section also limits concentrations to various economic sectors/countries, compliance of business units with in-house prescribed exposure limits, including those for selected industries, country risk and product type. The section also provides advice, guidance and specialist skills to business units to promote best practice throughout the Bank in management of credit risk.

The Credit Administration and Control section ensures:

- Documentation for all loans is properly completed, executed and maintained.
- The correct approving authority approves credit lines and details are accurately recorded.
- Production of adequate and accurate reports covering various credit risk exposures.
- Irregularities are reported and corrective action is taken.
- Review of and participation in any new/existing product offerings of NBO.
- Various internal reporting and external reporting is prepared on a periodical basis.
- That all approved limits are input into the system under a “maker and checker” concept.
- That various Credit Policies and Tolerance Authority are judiciously exercised.
- Disbursement of funds for all approved credit exposures are appropriately authorised.

The Credit Policy and Portfolio section reviews the Corporate Credit portfolio of the Bank on a quarterly basis, to ensure that the portfolio confirms to the Regulatory and Internal limits for sector wise exposures. It also ensures that results of the quarterly reviews are provided to the Senior Management/Sub-committee of the board at periodic intervals.

The section also checks that the Corporate Credit Policy of the Bank is regularly reviewed to ensure it is in line with the latest guidelines of the Regulator/Internal policy.

Credit Risk at the Bank is managed in two dimensions, portfolio level and obligor level.

In order to manage concentration risks, sector wise limits have been prescribed in the Credit Risk policy. Limits have been put in place for Cross-border Risk and Sovereign Risk. In order to monitor the quality of the loans, a risk rating system has been put in place, which rates the corporate exposures in the books of the bank.

The scope and nature of the risk reporting and/or measurement system:

Scope and Nature of risk reporting:

A comprehensive detailed review of the Corporate Credit portfolio is conducted on a quarterly basis and the report is provided to the Senior Management and the Risk Committee of the Board. The areas of risk review are:

- Exposures downgraded/negatively migrated
- Weighted average credit grade profile
- Portfolio concentration/performance
- Position of Restructured exposures
- Position of Past Due exposures
- Exposures secured by MSM Stocks
- Exposures to Real Estate Sector and Leasing Sector
- Syndicated Exposures
- New Relationships

Measurement:

Currently the Bank computes the expected losses on its credit exposure on the basis of risk classification of both corporate and retail loans to delinquent category based on extant guidelines of the Central Bank.

For retail loans there are lending programmes in place for standard loans granted to customers. A programme lending approach contains standard risk acceptance criteria and loan processing practices in order to optimize the efficiency and risk/reward of those portfolios.

Policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants:

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing, at fortnightly frequencies for registered equities and every three years for properties. Collateral generally is not held over loans and advances extended to Banks.

Definition of past due and impaired (for accounting purpose):

A loan, where repayments of principal and interest are pre-determined, shall be considered as past due, when it has not been paid on the due date fixed by the bank, as per terms of sanction.

Credit facilities like overdrafts, lines of credit, etc where no definite repayments are pre-determined shall be treated past due, if:

- The outstanding balance remains continuously in excess of 10% of the sanctioned/authorized limit, or
- In cases where the outstanding balance in the principal operating account is less than the sanctioned/authorized limit, but there are not enough credits in the account to cover the interest charged, or
- In cases where unauthorized drawings have frequently been allowed.
- Bills, which remain unpaid on due dates, shall be considered as past due.

All loans and advances, which are classified as Substandard, Doubtful and Loss, are categorized as Non-Performing Loans ("NPL") i.e impaired assets.

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

Bank's Credit Risk Management Policy: The Bank has in place a comprehensive Corporate Credit Risk Policy Manual and Procedure Manual, which provides detailed policy guidelines embedded in which are the Regulatory/in-house limits. Further the Process Manual provides detailed process guidelines about the credit process and the templates to be used to process the individual credit applications.

Credit Risk management process: During the current period, the Corporate Credit risk Policy and Procedures have been comprehensively reviewed. Comprehensive Corporate and Retail Credit portfolio review has been put in place. There have not been any significant changes in Credit Risk management process in the Bank during the year.

Credit Risk – Quantitative Disclosure

(i) Total gross credit exposures, plus daily average of gross exposure over the period broken down by major types of credit exposure as at 31st December 2007:

(RO'000)

S. No.	Type of Credit Exposure	Average Gross Exposure		Total Gross Exposure as at	
		Current Year	Previous Year	31st December 07	31st December 06
1	Overdrafts	40,312	42,010	47,593	39,547
2	Personal Loans	345,424	296,199	396,008	322,172
3	Loans against Trust Receipts	37,527	24,099	35,198	38,424
4	Other Loans	459,239	352,690	491,931	384,434
5	Bills Purchased / Discounted	6,778	1,873	5,233	3,537
6	Any Other	–	–	–	–
	Total	**889,280**	**716,871**	**975,963**	**788,114**

Credit Risk – Quantitative Disclosures (continued)

(ii) Geographic distribution of exposures, broken down to in significant area by major types of credit exposure as at 31st December 2007:

(RO'000)

S. No.	Type of Credit Exposure	Oman	Other GCC countries	OECD countries	India	Pakistan	Others	Total
1	Overdrafts	30,144	5,740	–	–	–	11,709	47,593
2	Personal Loans	380,772	13,550	–	–	–	1,686	396,008
3	Loans against Trust Receipts	29,656	5,271	–	–	–	271	35,198
4	Other Loans	401,404	75,270	9,587	–	–	5,670	491,931
5	Bills Purchased / Discounted	5,233	–	–	–	–	–	5,233
6	Any Other	–	–	–	–	–	–	–
	Total	**847,209**	**99,831**	**9,587**	–	**–**	**19,336**	**975,963**

(iii) Industry or counter party type distribution of exposures, broken down by major types of credit exposure as at 31st December 2007:

(RO'000)

S. No.	Economic Sector	Overdraft	Loans	Bills Purchased/ Discounted	Others	Total	Off Balance Sheet Exposure
1	Import Trade	2,179	5,420	–	29,656	37,255	99
2	Export Trade	–	700	–	–	700	2
3	Wholesale & Retail Trade	11,442	75,163	14	3,992	90,611	20,875
4	Mining & Quarrying	156	12,677	3,759	-	16,592	2,071
5	Construction	2,929	91,653	394	826	95,802	79,058
6	Manufacturing	8,788	106,411	686	507	116,392	44,461
7	Electricity, gas and water	–	13,709	–	–	13,709	–
8	Transport and Communication	85	13,046	–	–	13,131	226
9	Financial Institutions	3,253	61,952	–	–	65,205	160,400
10	Services	1,294	27,538	–	–	28,832	27,644
11	Personal Loans	6,022	389,626	360	–	396,008	436
12	Agriculture and Allied Activities	229	13,919	–	–	14,148	129
13	Government	–	109	–	–	109	75,450
14	Non-Resident Lending	–	35,289	–	–	35,289	–
15	All Others	11,216	40,727	20	217	52,180	44,023
	Total	**47,593**	**887,939**	**5,233**	**35,198**	**975,963**	**454,874**

Credit Risk – Quantitative Disclosures (continued)

(iv) Residual contractual maturity as at 31st December 2007, in line with guidelines issued by Central Bank of Oman, breakdown of the whole portfolio, broken down by major types of credit exposure is as follows:

(RO'000)

S. No.	Time Band	Overdraft	Loans	Bills Purchased / Discounted	Others	Total	Off Balance Sheet Exposure
1	Up to 1 month	2,380	69,517	5,233	6,480	83,610	160,620
2	1-3 months	2,380	60,876	–	14,739	77,995	72,893
3	3-6 months	2,380	24,559	–	11,402	38,341	46,841
4	6-9 months	2,380	3,131	–	–	5,511	27,735
5	9-12 months	2,380	81,372	–	2,577	86,329	10,488
6	1-3 years	11,898	59,183	–	–	71,081	53,738
7	3-5 years	11,898	108,179	–	–	120,077	71,611
8	Over 5 years	11,897	481,122	–	–	493,019	10,948
	Total	**47,593**	**887,939**	**5,233**	**35,198**	**975,963**	**454,874**

(v) Total loan broken down by Major industry or counter party type as at 31st December 2007:

(RO'000)

S. No.	Economic Sector	Gross Loans	Of which, NPLs	General Provisions held	Specific Provisions held	Reserve Interest	Provisions made during the year	Advances written off during the year
1	Import Trade	37,255	2,203	350	2,203	–	36	1,108
2	Export Trade	700	700	–	700	–	–	–
3	Wholesale & Retail Trade	90,611	27,109	660	10,383	7,145	98	1,928
4	Mining & Quarrying	16,592	–	166	–	–	–	–
5	Construction	95,802	3,889	918	1,830	1,555	4	590
6	Manufacturing	116,392	13,488	1,112	9,067	1,115	1,401	367
7	Electricity, gas and water	13,709	–	137	–	–	–	–
8	Transport and Communication	13,131	228	129	89	131	–	–
9	Financial Institutions	65,205	550	647	235	315	–	–
10	Services	28,832	1,730	276	754	553	–	100
11	Personal Loans	396,008	17,922	7,456	12,479	3,270	2,861	10,504
12	Agriculture and Allied Activities	14,148	5,850	83	896	803	355	1,385
13	Government	109	–	1	–	–	–	–
14	Non-Resident Lending	35,289	195	351	40	–	–	–
15	All Others	52,180	1,661	597	1,685	1,067	3,102	399
	Total	**975,963**	**75,525**	**12,883**	**40,361**	**15,954**	**7,857**	**16,381**

Credit Risk – Quantitative Disclosures (continued)

(vi) Amount of impaired loans as at 31st December 2007, broken down by significant geographical areas including, with the amounts of specific and general allowances related to each geographical area:

(RO'000)

S. No.	Countries	Gross Loans	Of which, NPLs	General Provisions held	Specific Provisions held	Reserve Interest	Provisions made during the year	Advances written off during the year
1	Oman	847,209	47,780	11,683	16,347	12,856	7,061	10,365
2	Other GCC Countries	99,831	12,843	855	9,789	2,972	735	4,897
3	OECD Countries	9,587	–	96	–	–	–	–
4	India	–	–	–	–	–	–	–
5	Pakistan	–	–	–	–	–	–	–
6	Others	19,336	14,902	249	14,225	126	61	1,119
	Total	**975,963**	**75,525**	**12,883**	**40,361**	**15,954**	**7,857**	**16,381**

(vii) Movements of Gross Loans

(RO'000)

Movement of Gross Loans during the year ended December 31 2007							
S. No.	**Details**	**Performing Loans**		**Non performing Loans**			
		Standard	S.M	Sub-Standard	Doubtful	Loss	Total
1	Opening balance	660,839	38,472	7,443	11,925	69,435	788,114
2	Migration / changes (+/-)	(16,269)	2,933	(868)	(1,006)	15,210	–
3	New Loans	498,830	–	–	–	–	498,830
4	Recovery of Loans	(275,323)	(9,044)	(2,246)	(2,247)	(5,740)	(294,600)
5	Loans written off	–	–	(5)	(211)	(16,165)	(16,381)
6	Closing Balance	868,077	32,361	4,324	8,461	62,740	975,963
7	Provisions Held	12,883	–	678	1,691	37,992	53,244
8	Reserve Interest	–	–	1,038	1,133	13,783	15,954

Credit Risk – Disclosures for portfolios subject to the standardized approach.

Qualitative Disclosures:

The bank is following Moody's rating for both sovereign and inter bank transaction (exposure) and the balance exposure is treated as unrated at 100% risk.

With the approval of the Central Bank of Oman, the Bank uses the discretion to treat loans and advances as unrated at risk weight of 100%, except housing loans which are risk weighted at 35% based on the requirements as stipulated in the guidelines issued by CBO.

Similarly, with the approval of CBO, the Bank uses the discretion of the simple approach for recognizing collaterals.

Quantitative Disclosures:

Exposure amount after risk mitigation as at 31st December 2007, subject to the standardized approach is as below.

(RO'000)

S. No.	Product / Rating	Carrying 0%	Carrying 20%	Carrying 35%	Carrying 50%	Carrying 100%	Total
	Rated						
1	Sovereign	253,902	–	–	2,707	–	256,609
2	Banks	–	74,996	–	111,701	53,632	240,329
	Unrated						
1	Corporate	–	26,771	–	–	344,418	371,189
2	Retail	–	–	–	–	350,007	350,007
3	Claims secured by residential property	–	–	22,349	–	–	22,349
4	Claims secured by commercial property	–	–	–	–	94,980	94,980
5	Past Due Loans	–	–	–	–	13,739	13,739
6	Other Assets	15,806	3,005	–	–	58,596	77,407
7	Off-balance Sheet Items	24,612	43,206	–	68,646	238,501	374,965
	Total Banking Book	**294,320**	**147,978**	**22,349**	**183,054**	**1,153,873**	**1,801,574**

Credit Risk Mitigation

Qualitative Disclosures:

The Bank holds collateral against loans and advances to customers in the form of mortgage interest over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of the collateral assessed on an on-going basis. Collateral usually is not held against investment securities.

The Bank has adopted the simple approach for collaterals. The collaterals considered are cash and provisions against impaired loans.

Quantitative Disclosures:

Eligible financial collateral.

Sr No	Details	Amount
1	Corporate 100% Cash	10,608
2	Past due loans(provisions)	56,315
	Total	**66,923**

The capital requirement on credit risk as at 31st December 2007 is RO 128,282K.

Market Risk

Market Risk arises from fluctuations in interest rates, foreign exchange rates & equity prices. The board has set limits for acceptable levels of Market Risk. The Assets & Liability Committee monitors this on a regular basis.

• Trading Book

The Bank does not have any exposure under the trading book other than the foreign exchange risk.

Procedure: For the purpose of capital charge, a three month average of the sum of the net short positions or net long positions whichever is higher is taken. The average is worked out based on the basis of the actual positions as obtained on all the working days during the immediately preceding three month period from the reporting date. The capital charge is computed at 8% to reflect the general market risk.

Capital required for trading book as at 31st December 2007:

- Foreign Exchange Risk - RO 2,815K

• Banking Book

Interest Rate Risk

Qualitative Disclosure:

The principal market risk to which non-trading portfolio is exposed is the risk of loss from fluctuation in the future cash flows or fair values of financial instruments because of changes in market interest rates.

Interest rate risk is managed by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 200 basis point (bp) parallel fall or raise in yield curves to review the impact on the economic value of the assets and liabilities and the equity of the Bank, a 200 basis points (bp) parallel fall or raise in yield curve for the time period upto one year to review its impact on the earnings of the Bank.

In respect of monitoring the impact of interest rate changes on the earnings of the Bank, the Bank has set internal limits.

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

Positions are monitored on a monthly basis and hedging strategies used to ensure positions are maintained within established limits.

With regard to equity price risk, the proprietary equity positions are held in the 'Available for Sale' category and not in the 'Held for Trade' category, as such no VaR is calculated on the equity investments of the Bank.

However, a standardized shock of 50% erosion in market value of equities is factored on the aggregate of the equity investments of the Bank. The carrying cost of the equity investments is considered for sensitivity testing which is carried out on a quarterly basis.

Methods and assumptions used in preparing the sensitivity analysis: The method for interest rate sensitivity analysis are: traditional Maturity Gap Analysis (to measure the interest rate sensitivity of earnings), and Duration (to measure interest rate sensitivity of capital): methodology provided by BIS in its paper on 'Principles for the Management and Supervision of Interest Rate Risk' issued in July 2004.

Quantitative Disclosures:

The assumptions used to measure the sensitivity is parallel shift in interest rate by 200 basis points (bps) to measure the interest sensitivity of earnings and interest rate sensitivity of capital.

As at December 2007	200 bps increase	200 bps decrease
Earnings Impact - RO'000s	3,575	(3,575)
Earnings Impact - USD'000s	9,286	(9,286)

The Bank has been consistently using the above methods/assumptions to conduct interest rate sensitivity analysis. The above sensitivity analysis are carried out at monthly rests and results thereof monitored against the in-house prescribed limits, the results are also actively deliberated at the ALCO meetings. There have not been any significant changes in Interest Rate Risk management process in the Bank during the year.

The Bank's interest sensitivity position, in line with guidelines issued by Central Bank of Oman, based on contractual re-pricing arrangements at 31 December 2007 was as follows:

	Average effective interest rate	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	3.44%	166,021	–	–	79,817	245,838
Trading investments	N/A	49	–	–	–	49
Due from banks and other money market placements	5.74%	181,858	20,219	–	–	202,077
Loans and advances (net)	7.81%	425,885	105,987	374,893	–	906,765
Non-trading investments	4.55%	–	4,005	4,000	37,454	45,459
Premises and equipment	N/A	–	–	–	6,763	6,763
Deferred tax asset	N/A	–	–	–	–	–
Other assets	N/A	–	–	–	69,674	69,674
Total assets		**773,813**	**130,211**	**378,893**	**193,708**	**1,476,625**
Due to banks and other money market deposits	4.90%	215,493	–	–	–	215,493
Customers' deposits	3.55%	277,085	240,874	148,700	269,364	936,023
Other liabilities	N/A	–	–	–	74,154	74,154
Taxation	N/A	–	–	–	5,668	5,668
Subordinated funds	5.88%	–	–	12,500	–	12,500
Shareholders' equity	N/A	–	–	–	232,787	232,787
Total liabilities and Shareholders' equity		**492,578**	**240,874**	**161,200**	**581,973**	**1,476,625**
Total interest rate sensitivity gap		**281,235**	**(110,663)**	**217,693**	**(388,265)**	**–**
Cumulative interest rate sensitivity gap		**281,235**	**170,572**	**388,265**	**–**	**–**

Liquidity Risk

Qualitative Disclosures:

Liquidity may be defined as a Bank's ability to ensure the availability of funds to meet all on-balance sheet and off-balance sheet commitments at a reasonable price. Liquidity Risk can in turn be defined as the risk to earnings and capital arising from a bank's potential inability to meet its liabilities when they become due, without incurring unacceptable losses. Conversely, Liquidity Risk also manifests itself in the form of opportunity losses due to holding excess liquidity relative to liabilities.

The strategy of the Bank in management of liquidity risk is to minimize the resultant impact on the earnings of the Bank. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Bank has in place a detailed Risk Charter approved by the Board which spells the Risk Management architecture in the Bank for management of Liquidity Risk in the Bank.

Process: NBO takes a two-tiered approach to Liquidity Risk Management

Going concern Liquidity Management: the management of the liquidity position within specified parameters to ensure all liabilities can be met on a timely basis.

Event Risk Liquidity Management: ensuring that in the event of either a firm-specific or general market event, the Bank is able to generate sufficient liquidity to withstand a short term liquidity crisis. Event Risk Liquidity Management includes the following tools:

- Stress test: a quantitative analysis of the liquidity impact of several (market and bank specific) liquidity crises.
- Liquidity buffer: mitigation of an event risk is achieved through the provision of standby liquidity in the form of unencumbered, Central Bank eligible collateral and stand-by lines.
- Contingency Funding Plan: A comprehensive Liquidity Contingency Plan is in place at the Bank.

The overall Liquidity Risk is kept at such a level that NBO is able to resume its business after a specified crisis.

Treasury division of the Bank receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury division maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities and inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The Bank is subject to liquidity limits prescribed by the CBO and for areas where discretion was provided to the Bank, the Bank has set limits.

The monthly liquidity position Statement of Maturities of Assets and Liabilities is monitored on a monthly basis to ensure that the gap limits are within the limits prescribed by the Regulator and those set in-house. Stress testing is conducted under a variety of scenarios covering both normal and severe market conditions.

ALCO reviews the strategy and policies related to management of liquidity and ensures that senior management takes steps necessary to monitor and control liquidity risk. ALCO is kept informed regularly of the liquidity situation of the Bank and immediately if there are any material changes in the Bank's current or prospective liquidity position.

The Bank has in place a state of art liquidity risk management structure comprising of an active ALCO which meets at monthly intervals and at times of need.

The scope and nature of the risk reporting and/or measurement system:

Scope and Nature of Risk Reporting:

A statement: Maturities of Assets and Liabilities is prepared on a monthly basis by the Financial Control Division which contains the maturity profile of the various assets and liabilities and off-balance sheet items.. The statement contains the cumulative gaps vis-à-vis cumulative liabilities for each prescribed time band and the position of these gaps vis-à-vis the Regulatory and in-house limit is also reported therein. This statement is placed to the ALCO at its meetings and in case any of the gap limit is exceeded the same is escalated to the ALCO along with analysis and further action planned to bring the position within the limits.

Further, the liquidity of the Bank is estimated under bank specific and market specific scenarios, the results of which are reviewed by the ALCO on a regular basis.

Measurement:

The monitoring and control of Liquidity Risk is done on an ongoing basis. The Bank uses the maturity ladder approach, which calculates the cumulative surplus or deficit of funds at selected time bands. The cash flows are placed in different time bands based on future behavior of assets, liabilities and off-balance sheet positions. In order to ensure uniformity in the treatment of behavioral patterns of assets, liabilities and off-balance sheet positions, the Central Bank has evolved a broad framework, which has been subscribed by the Bank.

Policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants.

The Bank has put in comprehensive policy on Liquidity Risk and Liquidity Contingency Risk which provides detailed guidelines for mitigating the risk. In the case of a contingency, the policy provides a blue-print for asset sales, market access, restructuring the maturity and composition of assets and liabilities.

As an on-going mitigant the Bank has in place availability of liquidity support in the form of committed lines of credit, reciprocal arrangements and ensures liquidity of its certain assets.

Bank's Liquidity Risk Management Policy: The Bank has put in place detailed Policies on Liquidity Risk and Liquidity Contingency Risk, which have been approved by the Risk Committee of the Board. There have not been any significant changes in Liquidity Risk management process in the Bank during the year.

Quantitative Disclosures:

The maturity profile of the assets and liabilities in line with guidelines issued by Central bank of Oman, at 31st December 2007 was as follows:

	On demand to within 3 months	3 to 12 months	Over 1 year	Total
	RO'000	RO'000	RO'000	RO'000
Cash and balances with Central Banks	212,184	10,377	23,277	245,838
Trading investments	49			49
Due from banks and other money market placements	159,565	22,302	20,210	202,077
Loans and advances (net)	161,605	78,282	666,878	906,765
Non-trading investments	18,751	4,000	22,708	45,459
Premises and equipment	–	–	6,763	6,763
Deferred tax asset	–	–	–	–
Other assets	63,309	1,083	5,282	69,674
Total assets	**615,463**	**116,044**	**745,118**	**1,476,625**
Due to banks a nd other money market deposits	83,597	6,771	125,125	215,493
Customers' deposits	335,881	210,288	389,854	936,023
Other liabilities	69,200	4,700	254	74,154
Taxation	–	–	5,668	5,668
Subordinated funds	–	–	12,500	12,500
Shareholders' equity	–	–	232,787	232,787
Total liabilities and shareholders' equity	**488,678**	**221,759**	**766,188**	**1,476,625**

Operational Risk

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events

Objective : Operational Risk Management ("ORM") facilitates the management of operational risks by setting policies, developing tools and methodologies, and providing advice on ORM issues. All developments are subject to close co-operation with the business units.

Operational Risk (continued)

Key responsibilities include:

- Developing, maintaining and communicating bank-wide Operational Risk Policy and Procedures
- Liaise with support units (e.g. Internal Audit) and with external parties (e.g. regulators, professional bodies, etc.) with respect to operational risk issues
- Raising risk and control awareness across the Bank through ongoing training, communications, etc.
- Developing and enhancing ORM programs and tools
- Selection and implementation of ORM systems
- Assisting the business units in the interpretation of the ORM Policy and in the implementation of ORM programs, tools and systems
- Collating operational risk data and information at the bank-wide level
- Analyzing operational risk data and information and provide reports to management
- Ensuring compliance with ORM Policy and Procedures
- Providing advice to the business units and senior management on ORM related issues, where necessary
- Overseeing the creation of a Business Continuity and Disaster Recovery Plan
- Ensuring the adequacy of the security infrastructure of the Bank

The bank follows basic indicator approach for determining operational risk.

The Capital charge for operational risk under Basic Indicator approach is calculatedby taking the average of gross income multiplied by 15%, for each of the last three financial years, excluding years of negative or zero gross income. The gross income is Net Interest Income (+) Non interest income (+) Provisions for unpaid interest (-) realized profit on sale of Held to Maturity (HTM) and Available for Sale (AFS) investments (-) extraordinary / irregular items of income

Capital requirement for operational risk as per Basel 2 is RO 9,718K.

This report on Basel II disclosures set out from pages 20 to 35 was authorized for issue by the Board of Directors on 19th February 2008.

Sheikh Suhail Salim Bahwan
Chairman

Senior Management Team


1


2


3


4


5


6


7


8


9


10


11


12


13

MANAGEMENT TEAM

1. **Andrew McGregor Duff**
   Chief Executive Officer

2. **Taqi Ali Sultan**
   General Manager
   Chief of Organisational Effectiveness

3. **Paul Trowbridge**
   General Manager
   Chief Risk Officer

4. **James Vincent**
   General Manager
   Chief of Corporate Banking and Capital Markets

5. **Humayun Rashid**
   General Manager
   Chief of Consumer Banking

---

6. **Khalfan Al Aufi**
   Deputy General Manager
   Human Resources

7. **Dev Sarker**
   Deputy General Manager
   Chief Auditor

8. **Arvind Aiyer**
   Assistant General Manager
   Chief Financial Officer

9. **Baqer Taqi Mohammed Al Lawati**
   Assistant General Manager
   Financial Institutions Group

10. **Nasser Salim Al Rashdi**
    Assistant General Manager
    Credit and Risk Management

11. **Gopalakrishnan M.V.**
    Assistant General Manager
    Information Technology

12. **Hassan A. Amir Shaban**
    Assistant General Manager
    Corporate Communications

13. **Hussein Ali Habib**
    Assistant General Manager
    Compliance

Nasser Massoud Al Jahadhmy
Divisional Head - Consumer Credit

Masoud Khalfan Al Ghazi
Divisional Head - Projects & Services

Manjit Wadhwa
Divisional Head - Treasury

Adil Al Saleh
Head of Mortgages & Strategic Alliances

Asif Redha Sabir Hussein
Head - Distribution, Sales & Business Development

Sreenivasan Sampath
Divisional Head - Remedial Management

Mustafa Al-Hemeid
Divisional Head - Legal

Saud Said Al Shidhani
Head - Operational Risk Management

Anees Redha Sultan
Divisional Head - Investment Banking

Jamal Al Waily
Country Manager - Egypt

Ravi Khot
Country Manager - UAE

Best Bank in Oman

The Bankers'Award

CSR Award

MANAGEMENT DISCUSSION & ANALYSIS REPORT

Economic Development

Oil remains the biggest contributor to the Omani Economy. The growth oriented budget for 2008 indicated that the country's general revenues are estimated at about RO 5,400 million, an increase over 2007 of 20 percent.

The oil revenues were estimated on the assumption of an average oil price of $45 per barrel and production of 790,000 barrels per day, and account for 67 percent of the state's total revenues. Gas revenues account for 11 percent, Current and Capital revenues account for 22 percent of the state's total revenue.

The total expenditure for 2008, is estimated at about RO 5,800 million, an increase over 2007 by 19 percent.

In the light of the revenues and expenditure estimates included in the general budget, the estimated deficit for the year 2008 amounts to RO 400 million, i.e. 7 percent of the revenues and 3 percent of the GDP, similar to the estimated deficit in the budget of the previous year 2007. However, the percentage of the deficit from the total revenues decreased to 7 percent against 9 percent in the year 2007, which was one of the positive indicators of the budget.

The 2008 budget reflects the government's commitment towards building a modern national economy with renewable competitive capabilities.

Despite serious issues for the Oman's economy in 2007, unfavourable weather conditions and inflation, it has performed well on a buoyant oil market. Most importantly, the country's various diversification plans continue to bear fruits. The recent announcement of a new free-trade zone coming up near the Sohar Port is likely to attract Foreign Direct Investments.

Over the past half a decade or so, Oman has begun to lay the groundwork for an extensive economic overhaul, it has undertaken a wide range of economic diversification schemes that include tourism, real estate, new port facilities and major industrial plants. Today, these are at varying stages of maturity. The planned tourism projects during the 7th Five-Year Plan are Wave Tourism Project, Resort at Yiti, Al Madinah Al Zarqa (Blue City), Shinas Tourism Resort, Ras Al Hadd Tourism Village and Al Sefa Project.

There are plans for developing Muscat and Salalah International Airports, the process of reviewing the plans is underway and it is expected during the first half of the current year tenders for the new runway will be invited. Work is underway on the designs for construction of six regional airports in Sohar, Al Duqum, Ras Al Had, Adam, Haima and Shaleem.

The main features of the performance of the national economy during 2007, based on preliminary estimates of the GDP, indicate that the national economy will achieve a growth of 11.6 percent and continue its characteristic of increasing growth in the recent years. The good performance of the national economy is due, on the one hand, to the increase in oil prices and on the other hand, to the appropriate environment that is conducive to growth, which was facilitated by the economic policies of the government.

The Muscat Securities Market (MSM) during the period recorded a distinguished performance.

The arrival of unfavourable weather conditions in June 2007 that engulfed this beautiful country has exhibited that the people of Oman followed the path of solidarity and joint action in performing national duty.

In summary, Oman is well positioned to take advantage of continued regional growth and NBO expects operating conditions in Oman to remain favourable for investment as well as corporate/retail growth and profits in the coming year.

Industry Structure and Development

The financial sector in Oman is broadly classified into the following categories:

- Central Bank of Oman
- Commercial and specialised banks
- Non-banking financial institutions
- Brokerage and finance houses
- Exchange companies

The Central Bank of Oman provides oversight and regulatory supervision to the banking and Non-banking Finance Companies.

Commercial Banks in Oman provide a full range of banking services in both domestic and foreign currencies for both corporations and individuals. Some of these banks also provide investment services including brokerage for the Muscat Securities Market. Non-banking Financial Institutions play a traditional retail role in small ticket retail financing as well as hire purchase, auto finance and leasing.

Other institutions including government sponsored and civil service pension funds, insurance companies and mutual funds also play a part in the overall financing of capital in Oman. Corporate Governance standards are set by the Capital Markets Authority, which together with the Muscat Securities Market facilitates the smooth running of the local bourse as well as the issue of new securities.

The Banking Industry in 2007 continues to show an overall improvement in asset quality and profitability driven by favourable operating conditions and a benign credit environment.

Anticipated growth in economy and high levels of investment will provide continued opportunities for both retail and corporate banking including intermediation in investment flows, capital raising whether debt or equity to both international and domestic customers.

Synergies with Strategic Partner, Commercial Bank of Qatar (CBQ)

Corporate Banking and Capital Markets (CBCM) has continued to work closely with Commercial Bank of Qatar in attempting to facilitate cross-border flow for mutual clients and supporting NBO where the Bank's prudent credit policies dictated that the Bank should seek support.

Strategically, it has also acted to provide advice on business and functional issues within the CBCM Group and we would see this developing further over the next 12 months and beyond.

CBCM has also partnered with other local and regional banks and institutions where we have perceived it to make sense and add value to what we can deliver to our clients.

During 2007, the focus was on replicating some of the training already done at CBQ and accordingly, the Omega Credit Skills Assessment (for Corporate Banking, Credit and Internal Audit Staff) and the CD based Course in Trade Finance (for Corporate Banking, Credit and TSS Staff) was implemented in NBO with appropriate inputs from CBQ.

NBO launched the corporate internet banking solution in 2007, based on the CBQ proprietary product and this was well received in the market place. On the same basis NBO is currently piloting the retail internet banking solution and expects to launch this to its customer base in early 2008.

The working team, established by both banks to make recommendations for additional synergy has continued to expand its activities and has achieved a solid working relationship between the two organisations. The focus continues to be on technology and customer fulfillment, with a wider remit to look at all areas within the two organisations requiring technology support. One specific area of focus has been the implementation of a program to add value to both organisations by establishing a project management methodology and discipline on all projects within the two organisations.

Financial Performance Including Segmental Analysis

The Bank achieved a net profit of RO 44.6 million for the year 2007, thus exceeding the previous year profit by 47%.

The emphasis of the Bank on sustainable growth can be witnessed by the increase in operating profit from RO 29 million to RO 36 million. Improvement in other growth and business efficiency continued with increase in the ratio of other operating income to total income from 33% to 40%.

Despite an increase in the total operating costs over previous year, the cost to income ratio has improved from 45% in 2006 to 44% in 2007.

Total assets grew by 36.4% over 2006 to close at RO 1.48 billion as at December 2007. Net advances increased by RO 203 million while deposits showed a growth of 14.62% over 2006.

Risk Management

During the year the Risk Management process was further consolidated with the Board Risk Management Committee meeting five times during the year wherein they approved new and revised policies and procedures for Risk Management: Credit, Market, Operational, Information Security, Recoveries and Legal. Detailed agenda on enterprise wide risk encountered by the Bank is presented to the Management Risk Committee and the Board Risk Committee.

The Bank is in the process of evaluating proposals for software and consultancy arrangements to enable the Bank to migrate to the advanced approaches for measurement of credit risk as per the provisions of the revised Basel II framework.

The Bank is compliant with the provisions of the Basel II framework as advised by the Regulator.

The Administrative Framework, Policies and Procedures in place for management of risk in the bank compares well with the international best practices, recommendations of the Basel Committee and complies with the guidelines of the Central Bank of Oman (CBO).

Credit Risk Management

The Bank has framed Policies and Procedures for management of Corporate Credit Risk. These Policies and Procedures Manuals were externally reviewed and subsequently approved by the Risk Committee of the Board.

The Bank is also in the process of migrating to the advanced approaches for measurement of credit risk: Corporate and Retail Credit. Accordingly, the Bank is evaluating software solutions and consultancy arrangements. On putting in place the proposed system, the Bank will be able to migrate to the advanced measurement systems for measuring credit risk prescribed in the revised Basel II framework.

Market Risk Management

The Bank has reviewed Policies pertaining to Market Risk. The functioning of the ALCO has been overhauled; and the market risk encountered by the Bank is being appropriately addressed. The revised policies on Liquidity Risk and Liquidity Contingency Risk were externally reviewed and approved by the Risk Committee of the Board.

The Bank is currently monitoring the Liquidity and Interest rate risk in its books using primary statistical methods eg: Maturity Gap Method, Earnings at Risk, Economic Value prescribed by the Basel Committee and the CBO. Systems and Processes to monitor the market risks in Foreign Exchange exposures, Investment in Equities and Fixed Income Securities have been revisited and enhanced.

Operational Risk Management

Operational Risk Management "(ORM)" is the Bank's primary objective, which ultimately reflects and improves the Banks Shareholders' value. Operational risk is defined as a risk of loss resulting from inadequate of failed internal processes, human behavior and systems or from external events. This definition captures operational risk events, such as, IT problems, shortcomings in the organisational structure, lapses in internal controls, human errors, frauds and external threats.

The guiding principle in ORM is that management at all levels is responsible for directing and managing operational risks. ORM coordinators are assigned throughout the bank to assist line management in fulfilling this responsibility.

To achieve this objective ORM has been using internationally known ORM tools to help/ gather all the necessary information in order to:

• enable line management to identify and analyze operational risks; and

• implement mitigating measures and determine the effectiveness of these mitigating measures.

As operational risk has a potential impact across all business lines, ORM aims to ensure that the concept is well implemented by involving every business division and their business processes, technology, infrastructure and personnel, as all have a key role to play in the effective management of operational risk.

Recoveries

The Bank continued its aggressive efforts to accelerate collections from remedial accounts through relentless pursuit of defaulting debtors. As a result of our sustained efforts, we have achieved recoveries and releases exceeding RO 18 million from remedial accounts. The downward trend in the level of non-performing loans continued in 2007. NPL level for 2007 at RO 75.8 million shows a significant decline from the level of RO 95 million in 2006. We will continue our focus on further reduction in the NPL level and maintain the momentum of recovery and collection.

Compliance

The scope and responsibilities of the Bank's compliance function were broadened to include monitoring mechanisms to ensure the Bank's ongoing adherence to all applicable laws and regulations. Major achievements included preparation of checklists of applicable local laws and regulations along with mapping to respective businesses and internal compliance certification process.

Another major achievement was in the anti-money laundering field, where comprehensive electronic anti-money laundering learning and training programme was introduced for all staff members.

Information Security and Business Continuity Management

The major focus of the Division during the year had been to enhance the information security rating of the bank through development and implementation of required polices and procedures and establishment of the business continuity management.

The initiatives undertaken towards corporate governance includes review of the corporate information security policy, physical security manual, information technology procedures manual, establishment of technology code of usage and data classification framework and enterprise wide information security risk assessment.

Logical security enhancement includes implementation of vulnerability management, log management solutions; encryption of communication links between Branches and Head office and launching of information security e-learning program.

The crisis situation during unfavourable weather conditions was managed efficiently and effectively in accordance with the corporate business continuity and disaster recovery plans with minimal loss.

Corporate Communications

Corporate Communications Division is the Division responsible for the Corporate Image of the Bank as well as maintaining and co-coordinating the implementation of Corporate Identity standards and procedures.

The Division focuses on enhancing the Bank's visibility and brand image as well as providing community support.

The major activities initiated during the period include participation as sponsors in a number of major local events such as the Salalah Khareef and Muscat Festivals, sponsorship of Oman National Team – Gulf Cup Team in UAE, to name a few.

As part of community support, the Bank continues to support a number of major social events and local charities and also organises the Annual NBO Charity Fair.

NBO's support for Local Charities

The Bank has played a prominent role whereby, it has given donations to Charitable Institutions; Government Organisations and directly to victims affected by Oman's unfavourable weather conditions in June 2007. In addition, many of the Bank's employees also took part in the rescue operations.

During Eid, NBO Staff visited patients in hospitals to encourage and cheer them and also gave them presents.

The Bank allocates an annual budget to support projects of non-profit charity organisations.

Due to its significant role in the above areas, the Bank was awarded the "Corporate Social Responsibility Award 2007" by World Finance Magazine, U.K.

Consumer Banking

The focus during 2007 was to strengthen revenues, product management, launch new campaigns, conduct manpower analysis and establish retail operations to ensure compliance. The operational policies and procedures were documented, all open audit issues were closed and operational controls were strengthened thereby setting up a robust platform for future expansion. Operational activities carried out by the marketing team were handed over to the operations division to achieve synergies and develop expertise. Consumer Banking posted robust growth of 29% in advances and 21% growth in deposits.

Customer experience has been one of the key initiatives for the year 2007, wherein various projects were initiated which include the new Retail Internet Banking system, the Model Branch, CRM and the revamp of the Call Center. We continued with our pioneering efforts in SMS banking by launching the SMS pull functionality. Further enhancements in the offering are planned for 2008.

The Bank increased its ATM footprint during 2007 by launching the first Drive-Thru ATM in Sohar and 15 new ATMs at various key locations across the country. The launch of the Direct Sales Team to provide door-step service was one of the key initiatives of 2007. Major sales campaigns were aimed at the Ministry of Education and strategic alliances with corporate houses to offer our products and services.

NBO's 1st Drive-thru ATM in Sohar

NBO's 'Win an Apartment' Campaign

The Bank also commenced offering a pay-roll management solution and Salary Card was the first product. The Salary Card provides savings on time, costs and risks to both the employer and employee by simplifying the salary disbursement procedures. The Bank has already tied-up with key corporate customers for this product.

The focus during 2007 was on building the product value and encouraging opportunities for customers to use their credit cards through innovative programs. The Bank launched campaigns wherein for the first time in Oman, the customers had the chance to win an Apartment in Shatti Al Qurum and earn the highest "Cash Back" in the region, of 3% on all spends during Ramadan and following months. In addition to these special offers, discount programs at popular restaurants, car rental companies and other retail outlets were launched. The Bank's presence and reach was expanded by establishing a Direct Sales Team. Increased convenience and safety to customers through courier delivery and card activation through the Call Center was also provided.

"Al Manzel" – the Housing Loan product, launched in June 2006, was offered to the mass market after six months of successful operations. The Bank increased it's foot print and reach across the nation by building it's sales team of mortgage specialists and tying up with key developers and realtors.

The Salary Related Loans policy was revamped to ensure that an improved product was offered to the desired customer segment. The insurance offering on Salary Related Loans was also enhanced to provide clarity on customer disclosures, policy coverage and refund options. As a part of the Bank's Corporate Social Responsibility, customer awareness on the responsibility and impact of opting for installment waivers or choosing to become a guarantor through published literature in branches and media was created.

"Al Kanz" – the Savings Scheme was revamped to offer value to all customer segments. Al Kanz showed a robust growth during the year. The interest rates offered on FDs and LTDs were aligned to be in line with the market.

NBO's Donation to Oman Association for Women

The Bank invested heavily in human capital to achieve the key goals of 2007. Training programs on products and services, skill development and leadership were rolled out. Leadership training was imparted to the Branch Managers, Regional Managers, and key consumer banking staff. Measurable Key Performance Indicators and revised Job Descriptions to meet the new business requirements have been implemented.

In line with the growth strategy, the Bank intends to continue to be at the forefront of new product development and offerings in Oman as well as invest in its distribution channels to make them even more accessible, user friendly and customer service orientated. Further developments in this regard can be expected in 2008 enhancing the customer experience, which will lead to growth in profits over the short to medium term. Consumer Banking will continue to focus on booking quality assets, gaining market share in low cost deposits and enhancing distribution in 2008, while building an aggressive sales culture and focusing on service leadership.

Corporate Banking and Capital Markets

NBO's Corporate Loan Services

Corporate Banking

2007 was another strong year for Corporate Banking as the Division sought to capitalise further on the gains made in 2006. Operating profit for Corporate Banking Division (CBD) rose 61% to RO 15 million on asset growth of 28% to RO 447 million. The Bank's non-funded volumes also grew strongly with L/C's growing by 168% and LG's by 47%. The Bank further deepened it's wholesale deposit base, which witnessed a growth of 23% to reach RO 491 million.

The Division also worked in conjunction with Investment Banking in structuring several innovative deals bringing together clients from Oman with others from around the region. It also continued its focus as a leading player in local syndications, bringing together a group of local banks to secure an MLA position in the US$ 1,375 million Oman Refinery refinancing transaction.

The second half of the year was focused on growing staff levels to support an aggressive expansion of the Bank's corporate business and product profile. The latter part of the year saw the launch of the "SAMA" Corporate Internet Banking platform, a state-of-the-art system that replaces the old remote dial-up system and most importantly gives clients a web-based, real-time access to account information and the ability to initiate transactions online. This is supported by a multi-layered security system to give clients every confidence in the integrity of their data using our system.

NBO Sama (Corporate Internet Banking) Launch

The Bank formally established a new Corporate Unit in Sohar which, based on initial business success there, is set to grow during 2008. 2007 also saw the formal establishment of the Transaction Banking Unit which is now being staffed up and aims to roll out a comprehensive range of services to the Bank's wholesale client base, using the SAMA CIB as a key plank in this strategy. 2008 will also see further segmentation of the Bank's wholesale customer base to ensure clients of varied sizes and facility requirements are appropriately served. Early 2008 will see the formal establishment of a dedicated SME team.

2007 has provided many market challenges which we are likely to continue in 2008. Despite the pressures on lending margins being in an upward direction in global markets due to the continuing fall-out of the sub-prime crisis in the US, abundant local liquidity, fierce competition and growing numbers of new entrants to the local market all conspire to keep downward pressure on credit spreads. This situation will continue well into 2008.

Capital Markets

The Muscat Securities Market (MSM) was again the region's strongperformer for 2007. This positive underpinning provided the Bank's Capital Markets Group with the opportunity to take advantage of these conditions and return very attractive performance on the portfolios it manages on behalf of clients. The Bank's portfolio management team is one of the top performers in the local market and further increased the level of client funds under management during the year.

Fee income generated by Investment Banking more than doubled for the year, with the division originating and executing several complex and innovative financings.

IBD also worked closely in partnership with another bank to launch successfully the Oman Integrated Tourist Project Fund (OITP), targeted to invest in up and coming OITP's in the Sultanate in which the Bank also retains a proprietary investment.

Treasury

The Treasury Division continues to be held in good esteem by the Bank's clients for providing timely and tailored solutions to meet their risk management concerns. 2008 will see an expansion of this activity as the Group seeks to build on opportunities generated in particular by the Bank's developing Transaction Banking business.

Treasury was instrumental in steering the Bank safely through the international market turmoil that grew through the second half of the year and spilled into the regional markets as rumour and speculation abounded over possible regional currency realignments, which did not transpire but created unusual conditions in the money markets.

We see 2008 continuing to present significant challenges in the international debt and capital markets as the US economy faces turbulent times and the credit markets remain tight. Within the GCC, the establishment of the single market will take the limelight but inflationary pressures will continue to remain an issue, posing an underlying question to the peg to the USD maintained by most regional currencies.

International Banking – Financial Institutions Group (FIG)

The Financial Institutions Group maintains close relationship with Correspondents in the United States, Europe, Asia/Subcontinent and the Middle East. During the year it was again very active in sourcing profitable funded and unfunded transactions from the international markets.

Most importantly, FIG was responsible for arranging and closing the Bank's hugely successful US$ 325 million Syndicated Loan in August 2007, marking the Bank's return to the international debt markets after an absence of 9 years. The timing of the deal could not have been bettered given the subsequent turmoil and resultant spike in pricing in the international markets. The transaction provides a strong platform from which to fund the Bank's continued expansion over the coming year.

NBO Syndicated Loan Signing Ceremony

Finance

Financial Control

The Bank continues to follow best practices in terms of disclosure requirements of the International Financial Reporting Standards as well as the Regulators in the reporting of the financial statements so as to enable the users to have transparent and meaningful information. During the year the division was actively involved in the implementation of the Basel II and IFRS requirements relating to the Bank.

Efforts towards initiatives in cost management and process improvements in the Financial Control Division continue so as to enable improved efficiencies and lower costs.

Business Finance

The Business Finance Division established during the year has substantially enhanced the scope and availability of MIS reports and analytics to the executive management, business managers and line managers through a variety of operational, tactical and strategic reports.

The Division, with the objective of supporting the business development activities of business divisions through effective dissemination of information, has successfully implemented an effective and robust MIS reporting system distributed through a user friendly platform. It ensures adequate information availability at all times so that informed business decisions are possible.

Operations

Highlights of significant process improvement initiatives for 2007 included the successful implementation of the Smart Card together with our finger print reader solution at all branches. Launched for the first time in the Sultanate of Oman, this is one of the pioneering development in banking technology and customer service in the country. The facility automates and simplifies the process of identity verification primarily for illiterate customers.

Further enhancements were also made across the Bank's Cards, Payments, Treasury & Investment and centralized capabilities that have greatly improved processing efficiency, accuracy and customer experience. Processes improved include – Debit Card issuance, Credit Card statement dispatch, payments routed via Automated Clearing House (ACH) / Real Time Gross Settlement (RTGS) systems, upgrade of Voice Recording systems and centralization of signature capture process.

Additionally the Bank has introduced a new brokerage system that provides the Operations team with greater processing efficiencies to significantly improve capability to manage execution of local and international stocks traded by the Bank's customers through the NBO Brokerage team, whilst also enhancing customer satisfaction.

Information Technology

Information Technology continues to play a key role in delivery of timely cost-efficient products and services to customers and automation of processes.

During the year the major initiatives undertaken included launch of a secure internet based banking for corporate customers with transactional capability and using SMS services as a tool to generate sales leads. On the browser based platform launched in 2006, additional systems, such as, SMS service customer registration, credit card enquiry and IPO data collection were launched. An Intranet Portal was launched to improve communication and share information across the network and email infrastructure was moved in to Microsoft Exchange Platform. At the same time the Bank enhanced the core system in a cost effective manner to offer 24 hour service across all channels and launched multi purpose plasma display screens at selected branches for displaying exchange rates and advertisements.

Human Resources

The year 2007 has been a significant year with several key initiatives undertaken by the Bank's Human Resources Division (HR) that were and is being closely aligned with business functions.

Talent Management

The Bank launched it's Leadership Development Program for identifying and developing successors for key positions in various divisions. Accordingly a leadership training initiative titled "The Best Leadership Development Program" was conducted for the identified senior managers, middle managers and first line managers during 2007. The training, in 3 phases, covered 27 senior managers, 80 middle managers and 80 first line managers. The training was conducted offsite by the globally renowned U.K. based training firm, K3 Performance Ltd., and encompassed a combination of classroom teaching and activity based experiential learning.

NBO Leaders in action

A measurable Performance Management System "(Key Performance Indicators)" was launched for the entire staff in the Bank.

A "Personal Development Plan" as a part of Talent Management and Succession Plan for the entire Bank was introduced. This plan will provide career development opportunities and a career path to staff and valuable inputs through training.

A revised Management Trainee Program was launched for recent Omani graduates. Similarly Office Assistants in the Bank were provided with additional opportunity for growth within the bank through career development programs.

Training & Development

Various alternative channels of learning & training were utilised. As a result, programs on Anti-Money Laundering & Information Security Awareness through e-learning and CD based learning on Trade Finance were successfully completed. A significant number of training programs (internal and external) were organised. Several of the key staff were sent for overseas training as part of overall staff development and skills.

Policy Manuals

The HR Manuals for Oman, Abu Dhabi and Egypt were put in place. Training policy and procedures manual and core training curriculum were developed.

Omanisation

The Bank's Omanisation percentage stood at 92% as on 31st December 2007. The Bank participated in compensation surveys in Oman, UAE and Egypt for aligning their rewards system in line with the market.


NBO Staff Party 2007

Internal Control Systems and their Adequacy

The Management is aware of its responsibilities to the various Stakeholders of the Bank. As part of fulfilling its responsibilities and ensuring that all areas of the Bank's operations are managed effectively and efficiently, progressive enhancements to the internal control systems of the Bank were introduced during the year, which include new policies and procedures, quality control reviews and related enhanced controls.

The compliance function has put in place procedures for monitoring 'Anti Money Laundering' and ensuring regulatory compliance across the bank.

The Management continues to take steps to enhance the internal control systems to support the achievement of the corporate objectives and to ensure that Stakeholders' interests are protected.

Finally, the internal audit division conducts ongoing audits of the entire bank under the direction of the Board Audit Committee.

Outlook

The developments in 2007 have been significant as the Bank has built a platform for sustainable growth in business and profits. The Bank is set on a course of growth and improvement in all the areas with the guidance and support of strategic partner Commercial Bank of Qatar.

The country's budget for the year 2008, which is based on conservative pricing of oil at US $ 45 per barrel, has estimated sizeable expenditure on expansion of education and health services. Further, under the seventh five-year plan, the total appropriations to the various projects approved under the plan amounted to RO 5,373 million. This will ensure that opportunities to grow continue to be available to banks.

The Bank has established a clear strategy for growth in 2008 and beyond based on a balanced scorecard approach where the Bank has a clearly defined strategy with respect to financial performance, customers and products, process and service improvements and development of its employees.

Oman is the primary focus and market for the Bank. The Bank will continue to build the UAE franchise as an additional service point for Omani customers.

Whilst the focus will be on diversified revenue growth and strategic cost management, strong risk management is a central theme for all activities of the Bank to mitigate potential risks that would be encountered by the Bank during its normal course of business.

The Bank will continue to work closely with strategic alliance partner, Commercial Bank of Qatar, to capitalise on regional business opportunities and transfer best practices across both organisations.

The various progressive initiatives taken by the Bank to improve systems, processes and controls, and risk management, in the backdrop of a buoyant economy of the Sultanate and the GCC countries, will propel NBO to greater heights and further enhance Shareholder value.

Paul Trowbridge
Deputy Chief Executive Officer

BALANCE SHEET

As at 31 December 2007

2006 USD'000	***2007 USD'000***		*Notes*	***2007 RO'000***	*2006 RO'000*
		ASSETS			
265,758	**638,540**	Cash and balances with Central Banks	3	**245,838**	102,317
216	**127**	Financial Assets at fair value through income statement	4	**49**	83
478,455	**524,875**	Due from banks and other money market placements	5	**202,077**	184,205
1,827,966	**2,355,234**	Loans and advances (net)	6	**906,765**	703,767
105,706	**118,075**	Non-trading investments	7	**45,459**	40,697
15,286	**17,566**	Premises and equipment	8	**6,763**	5,885
3,558	**-**	Deferred tax asset	13	**-**	1,370
114,594	**180,973**	Other assets	9	**69,674**	44,119
2,811,539	**3,835,390**			**1,476,625**	1,082,443
		LIABILITIES			
44,821	**559,722**	Due to banks and other money market deposits	10	**215,493**	17,256
2,121,161	**2,431,229**	Customers' deposits	11	**936,023**	816,647
129,524	**192,608**	Other liabilities	12	**74,154**	49,867
4,145	**14,722**	Taxation	13	**5,668**	1,596
2,299,651	**3,198,281**			**1,231,338**	885,366
		SUBORDINATED FUNDS			
32,468	**32,468**	Subordinated private placement	14	**12,500**	12,500
32,468	**32,468**			**12,500**	12,500
		SHAREHOLDERS' EQUITY			
207,792	**238,961**	Share capital	15	**92,000**	80,000
89,519	**89,519**	Share premium reserve	16	**34,465**	34,465
56,010	**67,600**	Legal reserve	17	**26,026**	21,564
11,478	**11,478**	General Reserve	18	**4,419**	4,419
38,283	**90,475**	Other non distributable reserves	19	**34,833**	14,739
36,364	**41,818**	Proposed Cash Dividend	20	**16,100**	14,000
31,169	**41,818**	Proposed Stock Dividend	20	**16,100**	12,000
8,805	**22,972**	Retained earnings		**8,844**	3,390
479,420	**604,641**			**232,787**	184,577
2,811,539	**3,835,390**			**1,476,625**	1,082,443
658,548	**1,181,491**	**COMMITMENTS AND CONTINGENT LIABILITIES**	21	**454,874**	253,541

The financial statements were authorised for issue on 19th February 2008 in accordance with a resolution of the Board of Directors.

Chairman

Deputy Chief Executive Officer

The report of the Auditors is set out on page 50.

The attached notes 1 to 35 form part of these financial statements.

INCOME STATEMENT

Year ended 31 December 2007

2006 USD'000	***2007 USD'000***		*Notes*	***2007 RO'000***	*2006 RO'000*
154,008	**195,709**	Interest income	22	**75,348**	59,293
(62,735)	**(94,114)**	Interest expense	23	**(36,234)**	(24,153)
91,273	**101,595**	**Net interest income**		**39,114**	35,140
45,127	**67,462**	Other operating income	24	**25,973**	17,374
136,400	**169,057**	**OPERATING INCOME**		**65,087**	52,514
		OPERATING EXPENSES			
(33,794)	**(40,539)**	Staff costs		**(15,608)**	(13,011)
(23,026)	**(29,621)**	Other operating expenses	25	**(11,404)**	(8,865)
(4,387)	**(4,262)**	Depreciation	8	**(1,641)**	(1,689)
(61,207)	**(74,422)**			**(28,653)**	(23,565)
75,193	**94,635**	**PROFIT FROM OPERATIONS BEFORE PROVISIONS AND RECOVERIES**		**36,434**	28,949
(27,642)	**(20,408)**	Provision for credit losses	6	**(7,857)**	(10,642)
36,893	**23,709**	Recoveries and releases from provision for credit losses	6	**9,128**	14,204
5,683	**33,007**	Recoveries from debts written off & Others		**12,708**	2,188
14,934	**36,308**			**13,979**	5,750
90,127	**130,943**	**PROFIT FROM OPERATIONS AFTER PROVISIONS AND RECOVERIES**		**50,413**	34,699
(11,099)	**(15,057)**	Taxation	13	**(5,797)**	(4,273)
79,028	**115,886**	**NET PROFIT FOR THE YEAR**		**44,616**	30,426
0.86	**1.26**	Earnings per share	27	**0.485**	0.331

The attached notes 1 to 35 form part of these financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2007

2006 USD'000	***2007 USD'000***		***2007 RO'000***	*2006 RO'000*
		OPERATING ACTIVITIES		
79,028	**115,886**	Net profit after taxation	**44,616**	30,426
		Adjustments for:		
4,387	**4,262**	Depreciation	**1,641**	1,689
(26,158)	**(39,348)**	Provision for credit losses (net)	**(15,149)**	(10,071)
(192)	**(104)**	(Profit) on sale of assets (net)	**(40)**	(74)
(3,590)	**(3,403)**	(Profit) on sale of investment securities	**(1,310)**	(1,382)
(158)	**(60)**	Translation differences on investments, premises, equipment & CWIP adjustment	**(23)**	(61)
(2,091)	**-**	Write-off of provision on investments	**-**	(805)
(6,595)	**(8,605)**	Investment (income)	**(3,313)**	(2,539)
44,631	**68,628**	Operating profit before changes in operating assets and liabilities	**26,422**	17,183
(28,192)	**(44,091)**	Due from banks and other money market placements	**(16,975)**	(10,854)
(395,475)	**(487,919)**	Loans and advances (Gross)	**(187,849)**	(152,258)
-	**88**	Trading investments	**34**	-
8,792	**(62,818)**	Other assets	**(24,185)**	3,385
520,158	**310,068**	Customers' deposits	**119,376**	200,261
17,587	**325,000**	Due to banks and other money market deposits	**125,125**	6,771
(3,512)	**74,564**	Other liabilities	**28,707**	(1,352)
163,989	**183,520**	Cash from operations	**70,655**	63,136
(309)	**(904)**	Taxes paid	**(348)**	(119)
163,680	**182,616**	Net cash from operating activities	**70,307**	63,017
		INVESTING ACTIVITIES		
(72,543)	**(10,636)**	Purchase of non-trading investments	**(4,095)**	(27,929)
50,260	**47,368**	Proceeds from sale of non-trading investments	**18,237**	19,350
(2,468)	**(6,561)**	Purchase of premises and equipment	**(2,526)**	(950)
221	**182**	Proceeds from sale of premises and equipment	**70**	85
5,216	**6,693**	Interest received on Government Development Bonds and Treasury Bills	**2,577**	2,008
29	**-**	Other investment income	**-**	11
1,351	**1,912**	Dividends received from investment securities	**736**	520
(17,934)	**38,958**	Net cash from investing activities	**14,999**	(6,905)
		FINANCING ACTIVITIES		
(31,455)	**(36,364)**	Payment of Dividends & Director's remuneration	**(14,000)**	(12,110)
(22,956)	**-**	Repayment of subordinated loans	**-**	(8,838)
(54,411)	**(36,364)**	Net cash from financing activities	**(14,000)**	(20,948)
91,335	**185,210**	**INCREASE IN CASH AND CASH EQUIVALENTS**	**71,306**	35,164
559,317	**650,652**	Cash and cash equivalents at the beginning of the year	**250,501**	215,337
650,652	**835,862**	**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**	**321,807**	250,501
		REPRESENTING:		
265,758	**638,540**	Cash and balances with Central Banks	**245,838**	102,317
384,894	**197,322**	Deposits and balances with other banks and financial institutions (net)	**75,969**	148,184
650,652	**835,862**		**321,807**	250,501

The attached notes 1 to 35 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year Ended 31 December 2007

(RO'000)	*Share capital*	*Proposed Stock Dividend*	*Share premium reserve*	*Legal reserve*	*General Reserve*	*Other non-distributable reserves:* *Non distributable reserve**	*Revaluation reserve*	*Subordinated funds reserve*	*Change in fair value of Investments Available for Sale*	*Proposed Dividends and Directors Remuneration*	*Retained earnings*	*Total*
	(Note 15)	*(Note 20)*	*(Note 16)*	*(Note 17)*	*(Note 18)*	*(Note 19)*	*(Note 19)*	*(Notes 14 & 19)*	*(Note 19)*	*(Note 20)*		
Balance at 1 January 2006	80,000	-	34,465	18,521	-	6,182	2,928	9,419	(132)	12,110	4,507	168,000
Change in fair value of Investment available for sale	-	-	-	-	-	-	-	-	(1,622)	-	-	(1,622)
Transfer from Subordinated funds reserve	-	-	-	-	4,419	-	-	(4,419)	-	-	-	-
Transfer to Subordinated funds reserve	-	-	-	-	-	-	-	2,500	-	-	(2,500)	-
Revaluation reserve	-	-	-	-	-	-	(117)	-	-	-	-	(117)
Dividends & Directors remuneration paid during the period	-	-	-	-	-	-	-	-	-	(12,110)	-	(12,110)
Net profit for the year	-	-	-	-	-	-	-	-	-	-	30,426	30,426
Transfer to legal reserve	-	-	-	3,043	-	-	-	-	-	-	(3,043)	-
Transferred to proposed dividend	-	-	-	-	-	-	-	-	-	14,000	(14,000)	-
Transferred to proposed stock dividend	-	12,000	-	-	-	-	-	-	-	-	(12,000)	-
Balance at 1 January 2007	**80,000**	**12,000**	**34,465**	**21,564**	**4,419**	**6,182**	**2,811**	**7,500**	**(1,754)**	**14,000**	**3,390**	**184,577**
Change in fair value of Investment available for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**17,594**	**-**	**-**	**17,594**
Transfer from Proposed Stock Dividend	**12,000**	**(12,000)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transfer to Subordinated funds reserve	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,500**	**-**	**-**	**(2,500)**	**-**
Dividends & Directors remuneration paid during the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(14,000)**	**-**	**(14,000)**
Net profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**44,616**	**44,616**
Transfer to legal reserve	**-**	**-**	**-**	**4,462**	**-**	**-**	**-**	**-**	**-**	**-**	**(4,462)**	**-**
Transferred to proposed dividend	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**16,100**	**(16,100)**	**-**
Transferred to proposed stock dividend	**-**	**16,100**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(16,100)**	**-**
Balance as at 31 December 2007	**92,000**	**16,100**	**34,465**	**26,026**	**4,419**	**6,182**	**2,811**	**10,000**	**15,840**	**16,100**	**8,844**	**232,787**
Balance at 1 January 2007 – In USD'000	207,792	31,169	89,519	56,010	11,478	16,057	7,301	19,481	(4,556)	36,364	8,805	479,420
Balance as at 31 December 2007 – In USD'000	**238,961**	**41,818**	**89,519**	**67,600**	**11,478**	**16,057**	**7,301**	**25,974**	**41,143**	**41,818**	**22,972**	**604,641**

* Non-distributable reserve is a voluntary reserve created by the Bank's Board of Directors to meet the obligation if any arising from Government guarantee relating to BCCI receivables (notes 9 and 19).

The attached notes 1 to 35 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2007

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

National Bank of Oman SAOG ("NBO", "the bank") was established in the Sultanate of Oman in 1973 as a joint stock company and is engaged in corporate and retail banking activities within the Sultanate of Oman with branches in the United Arab Emirates and Egypt. The bank operates in Oman under a banking licence issued by the Central Bank of Oman and is covered by its deposit insurance scheme. The registered address of the bank is PO Box 751, Ruwi, Postal Code 112, Muscat, Sultanate of Oman.
The bank employed 1,130 employees as at 31 December 2007 (2006: 1,065).

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are as follows:

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standards Board (IASB), requirements of the Oman Commercial Companies Law of 1974, as amended and the disclosure requirements of the Capital Market Authority. While preparing these financial statements, the bank has adopted IFRS 7 "financial instruments: disclosures" which is effective for the accounting periods beginning on or after 1 January 2007. The bank believes that IFRS 7 has not affected the bank's financial position or results of operation presented in the financial statements as it relates solely to the content and format of financial instruments disclosures. Additionally, IFRIC-10 "Interim Financial Reporting and Impairment" is also effective for accounting periods beginning on or after January 2007. IFRIC-10 prohibits the reversal of an impairment loss recognized in a previous interim period in respect of goodwill and investment in an equity instrument or a financial asset carried at cost. The Bank believes that adoption of IFRIC-10 has not impacted the Bank's results and financial position significantly. In accordance with the transitional requirements of the standards, the bank has provided full comparative information.

The financial statements are prepared under the historical cost convention modified to include the revaluation of freehold land and buildings and the measurement of derivative financial instruments, trading and available for sale investment securities at fair value.

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 are as follows:

- Sultanate of Oman: Rial Omani
- United Arab Emirates: UAE Dirham
- Egypt: US Dollar

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

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

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

The accounting policies have been applied consistently by the Bank and are consistent with those used in the previous year.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and other financial institutions, treasury bills and money market placements, deposits and certificates of deposit maturing within three months of the date of acquisition. Cash and cash equivalents are carried at amortised cost in the balance sheet.

Financial Assets at fair value through income statement

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

Loans and advances

Loans and advances are non-derivative financial assets with fixed determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

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

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

Non-trading investments

These are classified as follows:

- Available for sale
- Held to maturity

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

Available for sale

After initial recognition, investments, which are classified as "available for sale", are re-measured at fair value. Fair value changes are included in equity in the period in which they arise, except for changes in impairment losses and in the case of monetary items, foreign exchange gains and losses. When these investments are de-recognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement.

Held to maturity

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

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

Fair values

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

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

Due from banks and other money market placements

These are stated at cost less any provisions for impairment.

Premises and equipment

Premises and equipment are initially recorded at cost or deemed cost.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revaluations of buildings are carried out every five years on an open market value for existing use basis by an independent valuer. Net surpluses arising on revaluation are credited to a capital reserve, except that a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.

A decrease as a result of a revaluation is recognised as an expense, except that it is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. On disposal the related revaluation surplus is credited to retained earnings.

Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment other than freehold land, which is deemed to have an indefinite life, and capital work in progress. The rates of depreciation are based upon the following estimated useful lives:

• Buildings on freehold land	25 years
• Buildings on leasehold land	10 years
• Leasehold improvements	3 to 5 years
• Motor vehicles	4 years
• Furniture	10 years
• Equipment	5 years

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

Collateral pending sale
The bank occasionally acquires real estate in settlement of certain loans and advances. Real estate is stated at the lower of the net realisable value of the related loans and advances and the current fair value of such assets. Gains or losses on disposal, and unrealised losses on revaluation, are recognised in the income statement.

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

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

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

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on 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.

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.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Revenue recognition
Interest income and expense is recognised in the income statement using the effective interest rate method. The effective interest rate is established on initial recognition of the financial asset/liability and is not revised subsequently. Commission and fees are recognised as the related services are performed. Income from investments is accrued on notification of entitlement. Dividend income is recognized when the right to receive payment is established. Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

Foreign currencies
(i) Transactions denominated in foreign currencies are translated into Rial Omani and recorded at rates of exchange ruling at the value dates of the transactions.

(ii) 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.

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

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

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

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

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

Staff terminal benefits
The terminal benefits for Omani employees are provided in accordance with the Sultanate of Oman’s Social Insurance Law of 1991. For Egyptian employees the terminal benefits are provided in accordance with the Egyptian social security law. Provision for staff terminal benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods, discounted to its present value.

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.

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2007

3 CASH AND BALANCES WITH CENTRAL BANKS

2006 USD'000	***2007 USD'000***		***2007 RO'000***	*2006 RO'000*
42,829	**41,054**	Cash	**15,806**	16,489
56,062	**10,881**	Treasury Bills with Central Banks	**4,189**	21,584
77,922	**420,343**	Certificates of Deposit with Central Banks	**161,832**	30,000
1,984	**1,984**	Insurance deposit with Central Bank of Oman	**764**	764
1,299	**1,299**	Capital deposit with Central Bank of Oman	**500**	500
85,662	**162,979**	Other balances with Central Banks (net)	**62,747**	32,980
265,758	**638,540**		**245,838**	102,317

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

On 13th March 2007, a claim by Central Bank of Egypt (CBE) and a counter claim by the Bank (both related to CBE's conversion to Egyptian Pounds in 2003 of a placement of US Dollars by the Bank with CBE) were settled with no further loss to the Bank (an exchange loss of RO 8.9 million had been recognized in 2003 in respect of this matter).

4 FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

2006 USD'000	***2007 USD'000***		***2007 RO'000***	*2006 RO'000*
216	**127**	Oman Government Development Bonds	**49**	83

5 DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
381,883	**359,634**	Placements	**138,459**	147,025
75,130	**152,366**	Net loans and advances to banks	**58,661**	28,925
21,442	**12,875**	Other balances	**4,957**	8,255
478,455	**524,875**		**202,077**	184,205

6 LOANS AND ADVANCES

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
102,719	**123,618**	Overdrafts	**47,593**	39,547
836,810	**1,028,592**	Personal loans	**396,008**	322,172
998,530	**1,277,743**	Other loans	**491,931**	384,434
99,803	**91,423**	Loans against trust receipts	**35,198**	38,424
9,187	**13,592**	Bills discounted	**5,233**	3,537
2,047,049	**2,534,968**	Gross loans and advances	**975,963**	788,114
(172,654)	**(138,298)**	Provision for credit losses	**(53,245)**	(66,472)
(46,429)	**(41,436)**	Reserved interest	**(15,953)**	(17,875)
1,827,966	**2,355,234**	Net loans and advances	**906,765**	703,767

The movement in the provision for credit losses and reserved interest is set out below:

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
		Loan Loss Provision		
195,169	**172,654**	Balance at beginning of year	**66,472**	75,140
27,642	**20,408**	Provided during the year	**7,857**	10,642
(30,670)	**(19,567)**	Released/recovered during the year	**(7,533)**	(11,808)
(19,797)	**(31,319)**	Written off during the year	**(12,058)**	(7,622)
310	**1,008**	Translation difference	**388**	120
-	**(4,886)**	Transfer	**(1,881)**	-
172,654	**138,298**	Balance at end of year	**53,245**	66,472
		Reserved Interest		
50,073	**46,429**	Balance at beginning of year	**17,875**	19,278
13,937	**11,407**	Reserved during the year	**4,392**	5,366
(6,223)	**(4,142)**	Released/recovered during the year	**(1,595)**	(2,396)
(1,195)	**(1,036)**	Released/recovered during the year to interest income	**(399)**	(460)
(10,163)	**(11,229)**	Written off during the year	**(4,323)**	(3,913)
-	**7**	Translation difference	**3**	-
46,429	**41,436**	Balance at end of year	**15,953**	17,875

6 LOANS AND ADVANCES (continued)

All loans and advances require payment of interest based on agreed tenors, some at fixed rates and others at rates that re-price prior to maturity. As of 31 December 2007 loans and advances on which interest is not being accrued or where interest has been reserved amounted to RO 75.5 million – USD 196.2 million (2006 – RO 88.8 million – USD 230.6 million).

During the year the bank has written-off fully provided loans and advances in the amount of RO 16.381 million – USD 42.55 million (2006: RO 11.5 million – USD 29.9 million) against impairment provisions where the bank believes the possibility of recoveries is low. The bank will continue to pursue the recovery of these loans through all possible means and any future recovery from these written-off loans will be recognised in the income statement.

Concentrations of credit risk arise when a number of counter parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographic location.

The table below analyses the concentration of gross loans and advances by various sectors:

Total 2006 USD'000	***Total 2007 USD'000***		***Total 2007 RO'000***	*Total 2006 RO'000*
41,283	**36,748**	Agriculture	**14,148**	15,894
175,930	**248,836**	Construction	**95,802**	67,733
2,343	**1,818**	Export trade	**700**	902
161,260	**169,364**	Financial institutions	**65,205**	62,085
34	**283**	Government	**109**	13
103,735	**96,766**	Import trade	**37,255**	39,938
161,647	**302,318**	Manufacturing	**116,392**	62,234
836,810	**1,028,592**	Personal	**396,008**	322,172
120,182	**74,888**	Service	**28,832**	46,270
42,327	**34,106**	Transport and communication	**13,131**	16,296
216,688	**235,353**	Wholesale and retail trade	**90,611**	83,425
184,810	**305,896**	Others	**117,770**	71,152
2,047,049	**2,534,968**	Total	**975,963**	788,114

The geographic distribution of loans and advances to customers, based on the location of the borrower and industry sector, is as follows:

	Consumer and personal loans RO'000	***Business and Government RO'000***	***Real estate and others RO'000***	***31/12/2007 Total RO'000***	*31/12/2006 Total RO'000*
Sultanate of Oman	**380,772**	**393,536**	**72,901**	**847,209**	659,159
United Arab Emirates	**13,550**	**59,989**	**8,904**	**82,443**	88,477
Egypt	**1,686**	**17,650**	**-**	**19,336**	23,052
Others	**-**	**26,975**	**-**	**26,975**	17,426
Total - 31 December 2007	**396,008**	**498,150**	**81,805**	**975,963**	788,114
Total - 31 December 2006	322,172	398,209	67,733	788,114	

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

6 LOANS AND ADVANCES (continued)

The geographic distribution of loans and advances to customers, based on the location of the borrower and industry sector, is as follows:

	Consumer and personal loans	*Business and Government*	*Real estate and others*	*31/12/2007 Total*	*31/12/2006 Total*
	USD'000	*USD'000*	*USD'000*	*USD'000*	*USD'000*
Sultanate of Oman	**989,018**	**1,022,171**	**189,354**	**2,200,543**	1,712,101
United Arab Emirates	**35,195**	**155,815**	**23,127**	**214,137**	229,811
Egypt	**4,379**	**45,844**	**-**	**50,223**	59,875
Others	**-**	**70,065**	**-**	**70,065**	45,262
Total - 31 December 2007	**1,028,592**	**1,293,895**	**212,481**	**2,534,968**	2,047,049
Total - 31 December 2006	836,810	1,034,309	175,930	2,047,049	

7 NON-TRADING INVESTMENTS

	Carrying value 31/12/2007 RO'000	***Cost 31/12/2007 RO'000***	*Carrying value 31/12/2006 RO'000*	*Cost 31/12/2006 RO'000*
Available for sale				
1) Quoted investments - Oman				
Banking and Investment Sector	**4,979**	**3,975**	3,083	4,302
Industry Sector	**6,188**	**4,403**	5,751	5,965
Service Sector	**3,549**	**2,817**	1,959	2,116
	14,716	**11,195**	10,793	12,383
2) Quoted investments - Foreign				
Banking and Investment Sector	**18,699**	**6,749**	3,219	3,146
Service Sector	**176**	**145**	102	155
	18,875	**6,894**	3,321	3,301
3) Unquoted investments				
Banking and Investment Sector	**3,842**	**3,504**	9,362	9,381
Service Sector	**22**	**22**	22	22
	3,864	**3,526**	9,384	9,403
Total Available for sale	**37,455**	**21,615**	23,498	25,087
Held to maturity				
Government Development Bonds	**8,004**		17,199	
Total Held to maturity	**8,004**		17,199	
Total Non-Trading investments	**45,459**		40,697	
Total Non-Trading investments – USD'000	**118,075**		105,706	

Included under unquoted available for sale investments in 2007 were equity investments with a value of RO 0.41 million – USD 1.06 million, which were carried at cost, less permanent diminution in value, due to the unpredictable nature of future cash flows and the lack of other suitable methods for arriving at a reliable fair value. Other investments are carried at fair value.

8 PREMISES AND EQUIPMENT

	Freehold land and buildings and leasehold improvements	*Motor vehicles, furniture and equipment*	*Capital work in progress*	*Total*
	RO'000	*RO'000*	*RO'000*	*RO'000*
Reconciliation of carrying amount:				
Balance as at 1 January 2007, net of accumulated depreciation	3,386	2,229	270	5,885
Additions	63	1,564	899	2,526
Disposals	-	(30)	-	(30)
Transfers	126	632	(758)	-
Translation difference	19	4	-	23
Depreciation	(447)	(1,194)	-	(1,641)
Balance as at 31 December 2007, net of accumulated depreciation	**3,147**	**3,205**	**411**	**6,763**
At cost	11,759	15,079	411	27,249
Accumulated depreciation	(8,612)	(11,874)	-	(20,486)
Net carrying value at 31 December 2007	**3,147**	**3,205**	**411**	**6,763**
Net carrying value at 31 December 2007 – USD'000	**8,174**	**8,325**	**1,067**	**17,566**
Net carrying value at 31 December 2006	3,386	2,229	270	5,885
Net carrying value at 31 December 2006 – USD'000	8,793	5,792	701	15,286

Freehold land stated at cost of RO 0.06 million – USD 0.16 million (2006 - RO 0.06 million – USD 0.16 million) is not depreciated. Land and buildings include three buildings on freehold land, which were re-valued at their open market value for existing use by an independent professional valuer as of 30 September 2005, at RO 3.6 million (USD 9.4 million). Other buildings on freehold land not re-valued were purchased within the past five years at a cost of RO 1.3 million (USD 3.4 million). On revaluation, the gross carrying amount of each building revalued was restated so that the net carrying amount of the asset after revaluation equals its re-valued amount. If buildings had been carried at cost less depreciation, the net carrying amount would have been RO 1.18 million – USD 3.06 million (2006 - RO 1.3 million – USD 3.4 million).

9 OTHER ASSETS

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
7,566	**13,990**	Interest receivable	**5,386**	2,913
3,023	**3,665**	Prepayments and deposits	**1,411**	1,164
9,195	**-**	Net due from BCCI (refer below)	**-**	3,540
2,558	**3,452**	Collateral pending sale	**1,329**	985
338	**210**	Positive fair value of derivatives (note 33)	**81**	130
82,919	**135,821**	Customers' indebtedness for acceptances (refer note 2)	**52,291**	31,924
8,995	**23,835**	Others (Refer Note below)	**9,176**	3,463
114,594	**180,973**		**69,674**	44,119
92,977	**86,922**	Due from BCCI net of provision for impairment (refer below)	**33,465**	35,796
(83,782)	**(86,922)**	Interim amounts received from BCCI liquidators	**(33,465)**	(32,256)
9,195	**-**		**-**	3,540

The Government of the Sultanate of Oman has agreed, unconditionally, to guarantee payments of all and any sums, which are due to the bank by Bank of Credit and Commerce International (BCCI) up to a maximum of RO 38.9 million (USD 101 million). BCCI is in liquidation. Upon receipt of formal and final notification from the liquidators of BCCI of the settlement arrangements in respect of amounts due to the bank ("the settlement date") the bank may make a call under this guarantee.

In consideration of granting of the guarantee, the bank has undertaken to pay to the Government, out of the bank's net profits, an annual fee of RO 1 million (USD 2.6 million) or 15% of the bank's annual profit, whichever is higher from the settlement date. The annual fee will initially offset any payments due from the Government under this guarantee. If after twenty years from the settlement date, a balance remains payable by the Government, the payment of the annual fee can be extended by mutual consent. The annual fee specified above is payable prior to dividends being distributed to shareholders.

In March 2001 certain terms of the guarantee with the Government of the Sultanate of Oman were revised so that the maximum amount payable by the bank to the Government is equivalent to the amount due from BCCI on the settlement date.

Under the terms of the revised guarantee agreement the Government of the Sultanate of Oman continues to have certain rights of approval and consultation.

The details of the amounts received from the BCCI liquidators against the bank's admitted claims, pending the final notification of settlement by the BCCI liquidators is as follows:

Interim amounts received USD'000	*Year*	*Interim amounts received RO'000*
24,564	1996	9,457
21,745	1998	8,372
14,104	2000	5,430
17,062	2003	6,569
6,216	2005	2,393
91	2006	35
3,140	2007	1,209
86,922		**33,465**

9 OTHER ASSETS (continued)

The Bank also had various non-funded claims and counter claims relating to BCCI Holdings Luxembourg, pending with the Luxembourg Court (not covered under the guarantee by the Government of the Sultanate of Oman). Given the complexity of these claims and counter claims, the Bank, with approval of the regulatory authority, entered into a settlement agreement with BCCI Holdings Luxembourg, during the fourth quarter of 2007, whereby an amount of RO 4.91 million (USD 12.74 million) was admitted as claim. In accordance with the terms of the agreement, the Bank shall receive a claim of 84% of the face value of the admitted amount, and it will receive all future interim and (the) final dividend payments of the Admitted Amount, in due course, as and when declared by the Luxembourg District Court. An amount receivable of RO 4.1 million (USD 10.6 million) has accordingly been included under 'Others' above and the same amount recognized within "recoveries from bad debts written off and others".

10 DUE TO BANKS AND OTHER MONEY MARKET DEPOSITS

2006 USD'000	***2007 USD'000***		***2007 RO'000***	*2006 RO'000*
33,738	**524,743**	Money market acceptances	**202,026**	12,989
11,083	**34,979**	Other balances	**13,467**	4,267
44,821	**559,722**		**215,493**	17,256

11 CUSTOMERS' DEPOSITS

2006 USD'000	***2007 USD'000***		***2007 RO'000***	*2006 RO'000*
338,855	**414,868**	Current accounts	**159,724**	130,459
441,444	**522,839**	Savings accounts	**201,293**	169,956
1,300,119	**1,369,366**	Term deposits	**527,206**	500,546
40,743	**124,156**	Certificates of Deposit	**47,800**	15,686
2,121,161	**2,431,229**		**936,023**	816,647

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2007

12 OTHER LIABILITIES

2006 USD'000	**2007 USD'000**		**2007 RO'000**	2006 RO'000
15,694	**24,187**	Interest payable	**9,312**	6,042
2,878	**3,766**	Staff entitlements	**1,450**	1,108
82,919	**135,821**	Liabilities under acceptances	**52,291**	31,924
696	**3,244**	Negative fair value of derivatives (note 33)	**1,249**	268
27,337	**25,590**	Other accruals and provisions	**9,852**	10,525
129,524	**192,608**		**74,154**	49,867

		Staff entitlements are as follows:		
1,470	**1,740**	End of service benefits	**670**	566
1,408	**2,026**	Other liabilities	**780**	542
2,878	**3,766**		**1,450**	1,108
		Movements in the end of service benefits liability are as follows:		
1,574	**1,470**	Liability as at 1 January	**566**	606
184	**509**	Expense recognised in the income statement	**196**	71
(288)	**(239)**	End of service benefits paid	**(92)**	(111)
1,470	**1,740**	Liability as at 31 December	**670**	566

13 TAXATION

2006 USD'000	**2007 USD'000**		**2007 RO'000**	2006 RO'000
		Current tax expense (income)		
719	**11,499**	Current liability	**4,427**	277
719	**11,499**		**4,427**	277
10,380	**3,558**	**Deferred tax expense**	**1,370**	3,996
11,099	**15,057**		**5,797**	4,273

Reconciliation of tax expense

The bank is liable to income tax at the following rates:

- Sultanate of Oman: 12% of consolidated taxable income in excess of RO 30,000
- United Arab Emirates: 20% of taxable income
- Egypt: 20% of taxable income

Set out below is reconciliation between incomes taxes calculated on accounting profits with income tax expense for the year:

2006 USD'000	**2007 USD'000**		**2007 RO'000**	2006 RO'000
90,127	**130,943**	Accounting profit	**50,413**	34,699
10,815	**15,704**	Tax at applicable rate	**6,046**	4,164
-	**88**	Non-deductible expenses	**34**	-
(626)	**(641)**	Tax exempt revenues	**(247)**	(241)
910	**(94)**	Others	**(36)**	350
11,099	**15,057**		**5,797**	4,273

The Bank's liabilities for taxation in the Sultanate of Oman has been assessed up to the year ended 31 December 2002. Management has filed an appeal with the tax authorities against the assessment orders received for years 2001 and 2002 and it has been advised that the appeal would be heard favourably based on current indications. Management believes that any additional taxes that may arise on completion of the tax assessments for the years 2001 to 2006 will not be significant to the Bank's financial position at 31 December 2007.

13 TAXATION (continued)

The tax assessments of the Egypt operations in respect of the different taxes applicable are at different stages of completion with the respective tax authorities. The Bank's liability in respect of its branch in Abu Dhabi has been agreed with the tax authorities up to 31 December 2006.

2006 USD'000	***2007 USD'000***		***2007 RO'000***	*2006 RO'000*
		Tax liability		
		Current year		
579	**11,184**	Income tax	**4,306**	223
109	**296**	Other taxes	**114**	42
688	**11,480**		**4,420**	265
		Prior year		
226	**226**	Income tax	**87**	87
3,231	**3,016**	Other taxes	**1,161**	1,244
3,457	**3,242**		**1,248**	1,331
4,145	**14,722**		**5,668**	1,596

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

2006 USD'000	***2007 USD'000***		***2007 RO'000***	*2006 RO'000*
(145)	**-**	Premises and equipment	**-**	(56)
(60)	**-**	Provisions	**-**	(23)
(3,353)	**-**	Tax value of loss carry forwards	**-**	(1,291)
(3,558)	**-**		**-**	(1,370)

De-recognized deferred tax assets

2006 USD'000	***2007 USD'000***		***2007 RO'000***	*2006 RO'000*
535	**(205)**	Deductible temporary differences (net)	**(79)**	206
(10,914)	**(3,353)**	Tax losses	**(1,291)**	(4,202)
(10,379)	**(3,558)**		**(1,370)**	(3,996)

13 TAXATION (continued)

Movement in temporary differences during the year

	As at 1 January 2007 (Asset) liability *RO'000*	(Income) expense *RO'000*	**As at 31 December 2007 (Asset) liability *RO'000***
Premises and equipment	(56)	56	**-**
Provisions	(23)	23	**-**
Tax losses	(1,291)	1,291	-
	(1,370)	1,370	-

	As at 1 January 2007 (Asset) liability *USD'000*	(Income) expense *USD'000*	**As at 31 December 2007 (Asset) liability *USD'000***
Premises and equipment	(145)	145	**-**
Provisions	(60)	60	**-**
Tax losses	(3,353)	3,353	**-**
	(3,558)	3,558	**-**

14 SUBORDINATED PRIVATE PLACEMENT

The bank obtained through subordinated private placement an amount of RO 12.5 million (USD 32.5 million) on 7 April 2003. This placement is repayable at the end of 6 years and carries effective annual interest rate of 5.875%. In accordance with the Central Bank of Oman regulations, the subordinated private placement is included in the calculation of capital as defined by Basel Convention.

An amount equal to RO 2.5 million (USD 6.5 million) will be set aside annually before payment of dividends to shareholders, till the maturity of the private placement in April 2009. The amount set aside is credited to a non-distributable subordinated fund reserve account.

15 SHARE CAPITAL

The authorised share capital of the bank is 160,000,000 shares (2006 – 80,000,000 shares) of RO 1/- (USD 2.6) each.
The issued and paid up capital of the bank is 92,000,000 shares (2006 – 80,000,000 shares) of RO 1/- (USD 2.6) each.

Following the shareholders approval on 5th March 2007, the authorised capital of the bank was increased to 160,000,000 shares and the issued capital of the Bank was increased by RO 12.0 million through an issue of stock dividend of RO 0.150 per share (USD 0.39 per share).

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

	Number of shares	*% Holding*
The Commercial Bank of Qatar	**32,064,825**	**34.85%**
Suhail Bahwan Group (Holdings) L.L.C	**13,564,716**	**14.74%**

16 SHARE PREMIUM RESERVE

The share premium of RO 34.5 million (USD 89.6 million) represents the amount of premium on issue of 10 million shares by the Bank through a private placement for RO 4.450 (USD 11.56) per share, following the Shareholders approval at the Extraordinary General Meeting held on 25 June 2005.

17 LEGAL RESERVE

The legal reserve, which is not available for distribution, is accumulated in accordance with the Commercial Companies Law of Oman and the Union Law No. 10 in Abu Dhabi. The annual appropriation must not be less than 10% of the net profit for the year until such time that the reserve amounts to at least one third of share capital in Oman and half of the branch capital in Abu Dhabi.

18 GENERAL RESERVE

On 9 May 2006, based on mutual agreement between the Ministry of Finance and the Bank, the residual loan amount of RO 8.8 million (USD 22.9 million) was prepaid. As a consequence to this prepayment an amount of RO 4.4 million (USD 11.4 million) was transferred from subordinated funds reserve to general reserve, which is reflected in the Statement of Changes in Equity. The general reserve is distributable.

19 OTHER NON-DISTRIBUTABLE RESERVES

Other non-distributable reserves include the following:

2006 USD'000	***2007 USD'000***		***2007 RO'000***	*2006 RO'000*
16,057	**16,057**	Non-distributable reserve (refer note below)	**6,182**	6,182
7,301	**7,301**	Revaluation reserve	**2,811**	2,811
19,481	**25,974**	Subordinated funds reserve (note 14)	**10,000**	7,500
(4,556)	**41,143**	Reserve for the cumulative change in the fair value of investments available for sale	**15,840**	(1,754)
38,283	**90,475**		**34,833**	14,739

In order to meet the obligation arising from the Government guarantee referred to in note 9, the Board of Directors had decided to create a voluntary non-distributable reserve in respect of amounts due from BCCI. In view of the interim settlement made by BCCI during 2005 an amount of RO 2.4 million (USD 6.2 million) was transferred to retained earnings from this reserve. The remaining balance in this reserve is not available for transfer until the BCCI liquidators make additional settlement or all obligations arising from the guarantee given by the Government of Oman are fully settled.

20 DIVIDENDS PER SHARE

In respect of 2007, a cash dividend of RO 0.175 per share (USD 0.46 per share) (2006: RO 0.175 per share – USD 0.46 per share) amounting to a total of RO 16.1 million (USD 41.8 million) (2006 - RO 14.0 million – USD 36.4 million), and stock dividend of RO 0.175 per share (USD 0.46 per share) (2006 – RO 0.150 per share – USD 0.39 per share) amounting to RO 16.1 million (USD 41.8 million) (2006 – RO 12.0 million – USD 31.2 million) have been proposed by the Board of Directors on 27th January 2008. The proposed dividend including the stock dividend will be put forward for approval by the Shareholders at the bank's Annual General Meeting planned on 3rd March 2008.

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2007

21 COMMITMENTS AND CONTINGENT LIABILITIES

Credit related commitments include commitments to extend credit, standby letters of credit and guarantees, which are designed to meet the requirements of the bank's customers.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates or other termination clauses and require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

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.

a) As of the balance sheet date, commitments on behalf of customers for which there were corresponding customer liabilities consisted of the following:

2006 USD'000	***2007 USD'000***		***2007 RO'000***	*2006 RO'000*
497,514	**758,483**	Guarantees	**292,016**	191,543
161,034	**423,008**	Documentary letters of credit	**162,858**	61,998
658,548	**1,181,491**		**454,874**	253,541

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

2006 USD'000	***2007 USD'000***		***2007 RO'000***	*2006 RO'000*
278	**335**	Agriculture	**129**	107
103,753	**205,345**	Construction	**79,058**	39,945
189,296	**416,624**	Financial institutions	**160,400**	72,879
164,847	**258**	Import trade	**99**	63,466
12,561	**115,483**	Manufacturing	**44,461**	4,836
1,457	**1,133**	Personal	**436**	561
137,437	**71,802**	Service	**27,644**	52,913
60	**586**	Transport and communication	**226**	23
40,519	**54,221**	Wholesale and retail trade	**20,875**	15,600
8,340	**315,704**	Others	**121,546**	3,211
658,548	**1,181,491**		**454,874**	253,541

Guarantees include RO 0.4 million – USD 0.9 million (Dec 2006: RO 6.3 million – USD 16.4 million) relating to non-performing loans.

21 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
1,382	**896**	b) Capital expenditure	**345**	532
3,229	**2,070**	c) Operating lease commitments	**797**	1,243
		Future minimum lease payments:		
1,631	**278**	Not later than one year at the balance sheet date	**107**	628
1,125	**1,288**	Later than one year and not later than five years at the balance sheet date	**496**	433
473	**504**	Later than five years	**194**	182
3,229	**2,070**	Aggregate operating lease expenditure contracted for at the balance sheet date	**797**	1,243

d) Branches

The bank has deposited in the countries concerned, the following amounts of capital as support for its overseas branches. These amounts cannot be withdrawn without the approval of the Central Banks of the countries concerned.

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
14,294	**14,294**	Abu Dhabi branch	**5,503**	5,503
50,000	**50,000**	Egypt branches	**19,250**	19,250

22 INTEREST INCOME

Interest bearing assets other than investments earned interest at an overall effective annual rate of 7.42% for the year ended 31 December 2007 (31 December 2006 – 7.69%).

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
131,907	**163,130**	Interest from Customers	**62,805**	50,784
22,101	**32,579**	Interest from Banks	**12,543**	8,509
154,008	**195,709**	Total	**75,348**	59,293

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2007

23 INTEREST EXPENSE

For the year ended 31 December 2007 the average overall effective annual cost of funds was 3.67% (31 December 2006 – 3.48%).

2006 *USD'000*	***2007*** ***USD'000***		***2007*** ***RO'000***	*2006* *RO'000*
62,200	**81,190**	Interest to Customers	**31,258**	23,947
535	**12,924**	Interest to Banks	**4,976**	206
62,735	**94,114**	Total	**36,234**	24,153

24 OTHER OPERATING INCOME

2006 *USD'000*	***2007*** ***USD'000***		***2007*** ***RO'000***	*2006* *RO'000*
4,312	**5,974**	Net gains from foreign exchange dealings	**2,300**	1,660
9,057	**16,576**	Fees and commissions	**6,382**	3,487
5,216	**6,694**	Income from Treasury bills, Government Development Bonds and Certificates of Deposit	**2,577**	2,008
16,605	**25,839**	Service charges	**9,948**	6,393
1,351	**1,912**	Dividend income	**736**	520
3,590	**3,403**	Profit on sale of investments	**1,310**	1,382
4,996	**7,064**	Miscellaneous income	**2,720**	1,924
45,127	**67,462**		**25,973**	17,374

25 OTHER OPERATING EXPENSES

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
5,361	**5,797**	Establishment costs	**2,232**	2,064
16,114	**22,299**	Operating and administration costs	**8,585**	6,204
382	**356**	Directors Remuneration	**137**	147
1,169	**1,169**	BCCI Provision	**450**	450
23,026	**29,621**		**11,404**	8,865

26 RELATED PARTY TRANSACTIONS

a) Management Service Agreement with CBQ

Based on the approval received from the Shareholders in the Extraordinary General Meeting held on 25th June 2005, the bank entered into a management services agreement with the Commercial Bank of Qatar (CBQ) for an initial period of three years extendable for a further period of 3 years. This agreement is subject to annual renewal after approval by the Shareholders of the bank in a general meeting.

The scope of work under the management services agreement is subject to approval by the Board of Directors of the bank. The major areas covered include, broad strategic guidelines in all areas of the operations including overseas expansion. The other areas covered in the agreement include introducing or enhancing policies and processes in various areas of the bank including credit, operational controls, internal control, and reporting. In addition the areas where services will be provided include human resources, information technology, financial control.

For the above services the bank will pay Management Fees as follows:

- For net profit up to RO 15.0 Million (USD 39.0 million) the lower of Management Costs or 1% of the net profit
- For net profits between RO 15.0 million (USD 39.0 million) to RO 30.0 million (USD 78.0 million) the higher of Management Costs or 1% of the net profit
- For net profits in excess RO 30.0 million (USD 78.0 million), in addition to the above, 3% of the net profits in excess of RO 30.0 Million (USD 78.0 million).

Proportionate fees will be paid where the agreement is not in effect for the full year. In addition, with the approval of the Board reasonable out of pocket expenses incurred in connection with the provision of the Management Services such as travel, boarding and lodging will be reimbursed.

For the year ended 31 December 2007, management fees of RO 0.7 million – USD 1.8 million (31 December 2006: RO 0.3 million – USD 0.8 million) have been accrued for.

b) Other related party transactions

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

No provision has been recognised in respect of the loans given to related parties (2006: nil).

The loans issued to related parties during the year of RO 24.8 million – USD 64.5 million (2006: RO 25.7 million – USD 66.8 million) are repayable or repaid as per the contract with them and have an average interest rate of 6.5 % during 2007. The loans and advances to the related parties are generally collateralised by cash deposits, Bank Guarantees, shares in MSM and commercial charge over fixed assets or based on the business model of the borrower.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

26 RELATED PARTY TRANSACTIONS (continued)

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

2006* USD'000	2007 USD'000		2007 RO'000	2006* RO'000
		Loans		
71,782	**68,863**	Loans outstanding at 1 January	**26,512**	27,636
66,681	**64,486**	Loans issued during the year	**24,827**	25,672
(3)	**-**	Transferred out during the year	**-**	(1)
(69,597)	**(83,452)**	Loans repayment during the year	**(32,129)**	(26,795)
68,863	**49,897**	Loans outstanding at 31 December	**19,210**	26,512
2,629	**2,813**	Interest income earned	**1,083**	1,012
		Deposits		
19,803	**18,639**	Deposits at 1 January	**7,176**	7,624
14,301	**9,961**	Deposits received during the year	**3,835**	5,506
(210)	**-**	Transferred out during the year	**-**	(81)
(15,255)	**(10,878)**	Deposits repaid during the year	**(4,188)**	(5,873)
18,639	**17,722**	Deposits at 31 December	**6,823**	7,176
686	**727**	Interest expense on deposits	**280**	264
148	**252**	Other income earned	**97**	57
36,927	**21,138**	Contingent liabilities	**8,138**	14,217
48,873	**86,086**	Risk Indemnities	**33,143**	18,816
70,000	**70,000**	Standby Revolving Credit Facility	**26,950**	26,950
1,366	**2,431**	Other expense	**936**	526

Senior Management compensation:

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
		Salaries and other short term benefits		
2,075	**2,408**	-Fixed	**927**	799
429	**532**	-Discretionary	**205**	165
2,504	**2,940**	Total	**1,132**	964

* This includes related parties who resigned in April 2006 based on specification in the Corporate Governance Code issued by CMA by decision 11/2002 dated 3rd June 2002 which requires related parties of an ex-director to be disclosed for a period of twelve months after his resignation.

27 BASIC EARNING PER SHARE

Profit per share is calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year as follows:

2006 USD'000	2007 USD'000		2007 RO'000	2006 RO'000
79,028	**115,886**	Profit for the year	**44,616**	30,426
92,000	**92,000**	Weighted average number of shares outstanding during the year (in 000s)	**92,000**	92,000
0.86	**1.26**	Earning per share	**0.485**	0.331

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

28 CAPITAL ADEQUACY

The international standard for measuring capital adequacy is the risk asset ratio, which relates capital to balance sheet assets and off balance sheet exposures weighted according to broad categories of risk.

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

2007 USD'000		2007 RO'000
	Capital base	
556,197	Tier 1 - shareholders' funds *	**214,136**
58,473	Tier 2 - subordinated loan, private placement and collective impairment provisions	**22,512**
614,670	Total capital base	**236,648**
	Risk weighted assets	
3,331,995	Credit Risk	**1,282,818**
252,426	Operational Risk	**97,184**
73,104	Market Risk	**28,145**
3,657,525	Total risk weighted assets	**1,408,147**
16.81%	Risk asset ratio (Basel II norms) *	**16.81%**
21.29%	Risk asset ratio (Basel I norms) – Dec 2006	21.29%

* In the event, the proposed dividend in the amount of RO 32.2 million – USD 83.6 million (refer note 20) is approved at the Annual General Meeting planned on 3rd March 2008, the Risk asset ratio will stand revised at 15.66%.

The risk asset ratio for Dec 2006 being based on Basel I norms is not directly comparable to the risk asset ratio for Dec 2007, based on Basel II norms.

29 RISK MANAGEMENT

The primary objective of Risk Management is to safeguard the bank's resources from various operational and non-operational risks which the bank faces. The bank has exposure to the following risks:-

❋ CREDIT RISK

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

The strategy of the Bank in management of credit risk is to enhance the credit quality of its loan book.

The Bank has in place a detailed Risk Charter approved by the Board, which spells the Risk Management architecture in the Bank and specifically the management set up for management of credit risk in the Bank.

Corporate Credit Risk: Credit Risk Management (CRM) in the Bank is responsible for the credit risk review of individual corporate credits and investment proposals, the development of industry and product credit policies, and monitoring, controlling and diversifying credit risk. CRM provides the foundation for sound credit underwriting and portfolio risk management that conforms to the Bank's activities, strategic objectives, and its economic and competitive environments.

Credit Risk Management has responsibility for initiating, supporting and validating the credit risk rating methodologies and practices of the business units regarding their non-retail credit portfolio.

One Obligor Principle: The 'one obligor principle' is based on the assumption that the performance of part of a group of inter-related companies and/or persons might be influenced (positively or negatively) by the results of one or more other parts thereof.

Risk Rating Framework: The risk-rating framework consists of the establishment of the Credit Risk Rating of the obligor.

Consumer Risk: The management of the risks inherent in retail lending differs from that of a corporate customer, and is very closely linked to the types of products offered by Retail banking.

Generally, retail risks are more homogeneous in nature and much of the risk management is done at the product programme level as opposed to an individual credit-by-credit basis.

The Bank has in place a state of the art credit risk management structure comprising of a Credit review, Credit Administration and Control, Credit Policy and Portfolio management sections.

The Credit review section reviews and assesses credit risk in all credit exposures in excess of designated limits, prior to facilities being committed to customers by the concerned business units. Renewals and reviews of facilities are subject to the same review process. The section also limits concentrations to various economic sectors/countries, compliance of business units with in-house prescribed exposure limits, including those for selected industries, country risk and product type. The section also provides advice, guidance and specialist skills to business units to promote best practice throughout the Bank in management of credit risk.

The Credit Administration and Control section ensures:

- Documentation for all loans is properly completed, executed and maintained.
- The correct approving authority approves credit lines and details are accurately recorded.
- Production of adequate and accurate reports covering various credit risk exposures.
- Irregularities are reported and corrective action is taken.
- Review of and participation in any new/existing product offerings of NBO.
- Various internal reporting and external reporting is prepared on a periodical basis.
- That all approved limits are input into the system under a "maker and checker" concept.
- That various Credit Policies and Tolerance Authority are judiciously exercised.
- Disbursement of funds for all approved credit exposures are appropriately authorised.

29 RISK MANAGEMENT (continued)

The Credit Policy and Portfolio section reviews the Corporate Credit portfolio of the Bank on a quarterly basis, to ensure that the portfolio confirms to the Regulatory and Internal limits for sector wise exposures. It also ensures that results of the quarterly reviews are provided to the Senior Management/Sub-committee of the board at periodic intervals.

The section also checks that the Corporate Credit Policy of the Bank is regularly reviewed to ensure it is in line with the latest guidelines of the Regulator/Internal policy.

Credit Risk at the Bank is managed in two dimensions, portfolio level and obligor level.

In order to manage concentration risks, sector wise limits have been prescribed in the Credit Risk policy. Limits have been put in place for Cross-border Risk and Sovereign Risk. In order to monitor the quality of the loans, a risk rating system has been put in place, which rates the corporate exposures in the books of the bank.

The scope and nature of the risk reporting and/or measurement system:

Scope and Nature of risk reporting:

A comprehensive detailed review of the Corporate Credit portfolio is conducted on a quarterly basis and the report is provided to the Senior Management and the Risk Committee of the Board. The areas of risk review are:

- Exposures downgraded/negatively migrated
- Weighted average credit grade profile
- Portfolio concentration/performance
- Position of Restructured exposures
- Position of Past Due exposures
- Exposures secured by MSM Stocks
- Exposures to Real Estate Sector and Leasing Sector
- Syndicated Exposures
- New Relationships

Measurement:

Currently the Bank computes the expected losses on its credit exposure on the basis of risk classification of both corporate and retail loans to delinquent category based on extant guidelines of the Central Bank.

For retail loans there are lending programmes in place for standard loans granted to customers. A programme lending approach contains standard risk acceptance criteria and loan processing practices in order to optimize the efficiency and risk/reward of those portfolios.

Policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants:

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing, at fortnightly frequencies for registered equities and every three years for properties. Collateral generally is not held over loans and advances extended to Banks.

Definition of past due and impaired (for accounting purpose):

A loan, where repayments of principal and interest are pre-determined, shall be considered as past due, when it has not been paid on the due date fixed by the bank, as per terms of sanction.
Credit facilities like overdrafts, lines of credit, etc where no definite repayments are pre-determined shall be treated past due, if:

- The outstanding balance remains continuously in excess of 10% of the sanctioned/authorized limit, or

29 RISK MANAGEMENT (continued)

- In cases where the outstanding balance in the principal operating account is less than the sanctioned/authorized limit, but there are not enough credits in the account to cover the interest charged, or
- In cases where unauthorized drawings have frequently been allowed.
  Bills, which remain unpaid on due dates, shall be considered as past due.

All loans and advances, which are classified as Substandard, Doubtful and Loss, are categorized as Non-Performing Loans ("NPL") i.e impaired assets.

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

Bank's Credit Risk Management Policy: The Bank has in place a comprehensive Corporate Credit Risk Policy Manual and Procedure Manual, which provides detailed policy guidelines embedded in which are the Regulatory/ in-house limits. Further the Process Manual provides detailed process guidelines about the credit process and the templates to be used to process the individual credit applications.

Credit Risk management process: During the current period, the Corporate Credit risk Policy and Procedures have been comprehensively reviewed. Comprehensive Corporate and Retail Credit portfolio review has been put in place. There have not been any significant changes in Credit Risk management process in the Bank during the year.

Loans & Advances can be further analysed as follows:-

A. Loans & Advances

	Performing Loans (neither past due nor impaired)	*Loans past due and not impaired*	*Non Performing Loans*	*Gross Loans*
	RO'000	*RO'000*	*RO'000*	*RO'000*
Balance as at 1 January 2007	**689,586**	**9,725**	**88,803**	**788,114**
Additions during the year	**261,082**	**15,377**	**13,336**	**289,795**
Attrition during the year	**(55,995)**	**(19,337)**	**(10,233)**	**(85,565)**
Written-off During the year	**-**	**-**	**(16,381)**	**(16,381)**
Balance as at 31 December 2007	**894,673**	**5,765**	**75,525**	**975,963**
Balance as at 31 December 2007 – USD'000s	**2,323,825**	**14,974**	**196,169**	**2,534,968**
Balance as at 31 December 2006	689,586	9,725	88,803	788,114
Balance as at 31 December 2006 – USD'000s	1,791,132	25,260	230,657	2,047,049

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2007

29 RISK MANAGEMENT (continued)

Collateral held and other credit enhancement against the above

	Performing Loans (neither past due nor impaired) RO'000	*Loans past due and not impaired* RO'000	*Non Performing Loans* RO'000	*Gross Loans* RO'000
Collateral available	**315,566**	**1,586**	**12,875**	**330,027**
Guarantees available	**81,763**	**-**	**4,400**	**86,163**
Government Soft Loans*	**12,944**	**-**	**5,472**	**18,416**
Balance as at 31 December 2007	**410,273**	**1,586**	**22,747**	**434,606**
Balance as at 31 December 2007 – USD'000s	**1,065,644**	**4,120**	**59,083**	**1,128,847**
Balance as at 31 December 2006	309,746	2,259	24,168	336,173
Balance as at 31 December 2006 – USD'000s	804,535	5,868	62,774	873,177

* Government Soft Loans are guaranteed by the Government to the extent of the outstanding principal.

B. Movement in Non-performing loans

	Substandard RO'000	*Doubtful* RO'000	*Loss* RO'000	*Total* RO'000
Balance as at 1 January 2007	**7,443**	**11,925**	**69,435**	**88,803**
Additions during the year	**(868)**	**(1,006)**	**15,210**	**13,336**
Attrition during the year	**(2,246)**	**(2,247)**	**(5,740)**	**(10,233)**
Written-off During the year	**(5)**	**(211)**	**(16,165)**	**(16,381)**
Balance as at 31 December 2007	**4,324**	**8,461**	**62,740**	**75,525**
Balance as at 31 December 2007 – USD'000s	**11,231**	**21,977**	**162,961**	**196,169**
Balance as at 31 December 2006	7,443	11,925	69,435	88,803
Balance as at 31 December 2006 – USD'000s	19,332	30,974	180,351	230,657

C. Movements of Rescheduled Loans

	2007 RO'000
Balance as at 1 January 2007	**43,553**
Additions during the year	**11,198**
Attrition during the year	**(12,467)**
Written-off during the year	**(1,987)**
Balance as at 31 December 2007	**40,297**
Balance as at 31 December 2007 – USD'000s	**104,668**
Balance as at 31 December 2006	43,553
Balance as at 31 December 2006 – USD'000s	113,125

The above represent corporate loans.

29 RISK MANAGEMENT (continued)

❋ LIQUIDITY RISK

Strategies and Processes:

Strategy:

Liquidity may be defined as a Bank's ability to ensure the availability of funds to meet all on-balance sheet and off-balance sheet commitments at a reasonable price. Liquidity Risk can in turn be defined as the risk to earnings and capital arising from a bank's potential inability to meet its liabilities when they become due, without incurring unacceptable losses. Conversely, Liquidity Risk also manifests itself in the form of opportunity losses due to holding excess liquidity relative to liabilities.

The strategy of the Bank in management of liquidity risk is to minimize the resultant impact on the earnings of the Bank. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Bank has in place a detailed Risk Charter approved by the Board which spells the Risk Management architecture in the Bank for management of Liquidity Risk in the Bank.

Process: NBO takes a two-tiered approach to Liquidity Risk Management

Going concern Liquidity Management: the management of the liquidity position within specified parameters to ensure all liabilities can be met on a timely basis.

Event Risk Liquidity Management: ensuring that in the event of either a firm-specific or general market event, the Bank is able to generate sufficient liquidity to withstand a short term liquidity crisis. Event Risk Liquidity Management includes the following tools:

<u>Stress test:</u> a quantitative analysis of the liquidity impact of several (market and bank specific) liquidity crises.

<u>Liquidity buffer</u>: mitigation of an event risk is achieved through the provision of standby liquidity in the form of unencumbered, Central Bank eligible collateral and stand-by lines.

<u>Contingency Funding Plan</u>: A comprehensive Liquidity Contingency Plan is in place at the Bank.

The overall Liquidity Risk is kept at such a level that NBO is able to resume its business after a specified crisis.

Treasury division of the Bank receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury division maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities and inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The Bank is subject to liquidity limits prescribed by the CBO and for areas where discretion was provided to the Bank, the Bank has set limits.

The monthly liquidity position: Statement of Maturities of Assets and Liabilities is monitored on a monthly basis to ensure that the gap limits are within the limits prescribed by the Regulator and those set in-house. Stress testing is conducted under a variety of scenarios covering both normal and severe market conditions.

ALCO reviews the strategy and policies related to management of liquidity and ensures that senior management takes steps necessary to monitor and control liquidity risk. ALCO is kept informed regularly of the liquidity situation of the Bank and immediately if there are any material changes in the Bank's current or prospective liquidity position.

The Bank has in place a state of art liquidity risk management structure comprising of an active ALCO which meets at monthly intervals and at times of need.

29 RISK MANAGEMENT (continued)

The scope and nature of the risk reporting and/or measurement system:

Scope and Nature of risk reporting:

A statement: Maturities of Assets and Liabilities is prepared on a monthly basis, which contains the maturity profile of the various assets and liabilities and off-balance sheet items. The statement contains the cumulative gaps vis-à-vis cumulative liabilities for each prescribed time band and the position of these gaps vis-à-vis the Regulatory and in-house limit is also reported therein. This statement is placed to the ALCO at its meetings and in case any of the gap limit is exceeded the same is escalated to the ALCO along with analysis and further action planned to bring the position within the limits.

Further, the liquidity of the Bank is estimated under bank specific and market specific scenarios, the results of which are reviewed by the ALCO on a regular basis.

Measurement:

The monitoring and control of Liquidity Risk is done on an ongoing basis. The Bank uses the maturity ladder approach, which calculates the cumulative surplus or deficit of funds at selected time bands. The cash flows are placed in different time bands based on future behavior of assets, liabilities and off-balance sheet positions. In order to ensure uniformity in the treatment of behavioral patterns of assets, liabilities and off-balance sheet positions, the Central Bank has evolved a broad framework, which has been subscribed by the Bank.

Policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants:

The Bank has put in comprehensive policy on Liquidity Risk and Liquidity Contingency Risk which provides detailed guidelines for mitigating the risk. In the case of a contingency, the policy provides a blue-print for asset sales, market access, restructuring the maturity and composition of assets and liabilities.

As an on-going mitigant the Bank has in place availability of liquidity support in the form of committed lines of credit, reciprocal arrangements and ensures liquidity of its certain assets.

Bank’s Liquidity Risk Management Policy: The Bank has put in place detailed Policies on Liquidity Risk and Liquidity Contingency Risk, which have been approved by the Risk Committee of the Board. There have not been any significant changes in Liquidity Risk management process in the Bank during the year.

29 RISK MANAGEMENT (continued)

The maturity profile of the assets and liabilities at **31 December 2007** was as follows:

	On demand to within 3 months RO'000	*3 to 12 months RO'000*	*Over 1 year RO'000*	*Total RO'000*
Cash and balances with Central Banks	212,184	10,377	23,277	245,838
Trading investments	49	-	-	49
Due from banks and other money market placements	159,565	22,302	20,210	202,077
Loans and advances (net)	161,605	78,282	666,878	906,765
Non-trading investments	18,751	4,000	22,708	45,459
Premises and equipment	-	-	6,763	6,763
Deferred tax asset	-	-	-	-
Other assets	63,309	1,083	5,282	69,674
Total assets	615,463	116,044	745,118	1,476,625
Due to banks and other money market deposits	83,597	6,771	125,125	215,493
Customers' deposits	335,881	210,288	389,854	936,023
Other liabilities	69,200	4,700	254	74,154
Taxation	-	-	5,668	5,668
Subordinated funds	-	-	12,500	12,500
Shareholders' equity	-	-	232,787	232,787
Total liabilities and shareholders' equity	488,678	221,759	766,188	1,476,625

	On demand to within 3 months USD'000	*3 to 12 months USD'000*	*Over 1 year USD'000*	*Total USD'000*
Cash and balances with Central Banks	551,127	26,953	60,460	638,540
Trading investments	127	-	-	127
Due from banks and other money market placement	414,455	57,927	52,493	524,875
Loans and advances (net)	419,753	203,330	1,732,151	2,355,234
Non-trading investments	48,704	10,389	58,982	118,075
Premises and equipment	-	-	17,566	17,566
Deferred tax asset	-	-	-	-
Other assets	164,439	2,813	13,721	180,973
Total assets	1,598,605	301,412	1,935,373	3,835,390
Due to banks and other money market deposits	217,135	17,587	325,000	559,722
Customers' deposits	872,418	546,203	1,012,608	2,431,229
Other liabilities	179,740	12,208	660	192,608
Taxation	-	-	14,722	14,722
Subordinated funds	-	-	32,468	32,468
Shareholders' equity	-	-	604,641	604,641
Total liabilities and shareholders' equity	1,269,293	575,998	1,990,099	3,835,390

29 RISK MANAGEMENT (continued)

The maturity profile of the assets and liabilities at 31 December 2006 was as follows:

	On demand to within 3 months RO'000	*3 to 12 months RO'000*	*Over 1 year RO'000*	*Total RO'000*
Cash and balances with Central Banks	76,341	20,104	5,872	102,317
Trading investments	83	-	-	83
Due from banks and other money market placements	151,591	27,609	5,005	184,205
Loans and advances (net)	117,456	58,814	527,497	703,767
Non-trading investments	23,542	9,155	8,000	40,697
Premises and equipment	-	-	5,885	5,885
Deferred tax asset	-	-	1,370	1,370
Other assets	35,386	2,620	6,113	44,119
Total assets	404,399	118,302	559,742	1,082,443
Due to banks and other money market deposits	10,486	-	6,770	17,256
Customers' deposits	322,549	207,662	286,436	816,647
Other liabilities	45,146	4,669	52	49,867
Taxation	-	-	1,596	1,596
Subordinated funds	-	-	12,500	12,500
Shareholders' equity	-	-	184,577	184,577
Total liabilities and shareholders' equity	378,181	212,331	491,931	1,082,443

	On demand to within 3 months USD'000	*3 to 12 months USD'000*	*Over 1 year USD'000*	*Total USD'000*
Cash and balances with Central Banks	198,288	52,218	15,252	265,758
Trading investments	216	-	-	216
Due from banks and other money market placements	393,743	71,712	13,000	478,455
Loans and advances (net)	305,080	152,764	1,370,122	1,827,966
Non-trading investments	61,148	23,779	20,779	105,706
Premises and equipment	-	-	15,286	15,286
Deferred tax asset	-	-	3,558	3,558
Other assets	91,911	6,805	15,878	114,594
Total assets	1,050,386	307,278	1,453,875	2,811,539
Due to banks and other money market deposits	27,237	-	17,584	44,821
Customers' deposits	837,789	539,382	743,990	2,121,161
Other liabilities	117,262	12,127	135	129,524
Taxation	-	-	4,145	4,145
Subordinated funds	-	-	32,468	32,468
Shareholders' equity	-	-	479,420	479,420
Total liabilities and shareholders' equity	982,288	551,509	1,277,742	2,811,539

29 RISK MANAGEMENT (continued)

❋ MARKET RISK

Market Risk arises from fluctuations in interest rates, foreign exchange rates & equity prices. The board has set limits for acceptable levels of Market Risk. The Assets & Liability Committee (ALCO) monitors this on a regular basis.

o *Interest Rate Risk*

The principal market risk to which non-trading portfolio is exposed is the risk of loss from fluctuation in the future cash flows or fair values of financial instruments because of changes in market interest rates.

Interest rate risk is managed by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 200 basis point (bp) parallel fall or raise in yield curves to review the impact on the economic value of the assets and liabilities and the equity of the Bank, a 200 basis points (bps) parallel fall or raise in yield curve for the time period upto one year to review its impact on the earnings of the Bank.

In respect of monitoring the impact of interest rate changes on the earnings of the Bank, the Bank has set internal limits.

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

Positions are monitored on a monthly basis and hedging strategies used to ensure positions are maintained within established limits.

With regard to equity price risk, the proprietary equity positions are held in the 'Available for Sale' category and not in the 'Held for Trade' category, as such no VaR is calculated on the equity investments of the Bank.

However, a standardized shock of 50% erosion in market value of equities is factored on the aggregate of the equity investments of the Bank. The carrying cost of the equity investments is considered for sensitivity testing which is carried out on a quarterly basis.

Methods and assumptions used in preparing the sensitivity analysis: The method for interest rate sensitivity analysis are: traditional Maturity Gap Analysis (to measure the interest rate sensitivity of earnings), and Duration (to measure interest rate sensitivity of capital): methodology provided by BIS in its paper on 'Principles for the Management and Supervision of Interest Rate Risk' issued in July 2004.

The assumptions used to measure the sensitivity is parallel shift in interest rate by 200 basis points (bps) to measure the interest sensitivity of earnings and interest rate sensitivity of capital.

As at December 2007	**200 bps increase**	**200 bps decrease**
Earnings Impact - RO'000s	**3,575**	**(3,575)**
Earnings Impact - USD'000s	**9,286**	**(9,286)**

The bank has been consistently using the above methods/assumptions to conduct interest rate sensitivity analysis. The above sensitivity analysis are carried out at monthly rests and results thereof monitored against the in-house prescribed limits, the results are also actively deliberated at the ALCO meetings.

There have not been any significant changes in Interest Rate Risk management process in the Bank during the year.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

29 RISK MANAGEMENT (continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements at **31 December 2007** was as follows:

	Average effective interest rate	*On demand within 3 months RO'000*	*3 to 12 months RO'000*	*Over 1 year RO'000*	*Non interest sensitive RO'000*	*Total RO'000*
Cash and balances with Central Banks	3.44%	166,021	-	-	79,817	245,838
Trading investments	N/A	49	-	-	-	49
Due from banks and other money market placements	5.74%	181,858	20,219	-	-	202,077
Loans and advances (net)	7.81%	425,885	105,987	374,893	-	906,765
Non-trading investments	4.55%	-	4,005	4,000	37,454	45,459
Premises and equipment	N/A	-	-	-	6,763	6,763
Deferred tax asset	N/A	-	-	-	-	-
Other assets	N/A	-	-	-	69,674	69,674
Total assets		773,813	130,211	378,893	193,708	1,476,625
Due to banks and other money market deposits	4.90%	215,493	-	-	-	215,493
Customers' deposits	3.55%	277,085	240,874	148,700	269,364	936,023
Other liabilities	N/A	-	-	-	74,154	74,154
Taxation	N/A	-	-	-	5,668	5,668
Subordinated funds	5.88%	-	-	12,500	-	12,500
Shareholders' equity	N/A	-	-	-	232,787	232,787
Total liabilities and shareholders' equity		492,578	240,874	161,200	581,973	1,476,625
Total interest rate sensitivity gap		281,235	(110,663)	217,693	(388,265)	-
Cumulative interest rate sensitivity gap		281,235	170,572	388,265	-	-

29 RISK MANAGEMENT (continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements at **31 December 2007** was as follows:

	Average effective interest rate	*On demand within 3 months USD'000*	*3 to 12 months USD'000*	*Over 1 year USD'000*	*Non interest sensitive USD'000*	*Total USD'000*
Cash and balances with Central Banks	3.44%	431,223	-	-	207,317	638,540
Trading investments	N/A	127	-	-	-	127
Due from banks and other money market placements	5.74%	472,358	52,517	-	-	524,875
Loans and advances (net)	7.81%	1,106,195	275,291	973,748	-	2,355,234
Non-trading investments	4.55%	-	10,403	10,390	97,282	118,075
Premises and equipment	N/A	-	-	-	17,566	17,566
Deferred tax asset	N/A	-	-	-	-	-
Other assets	N/A	-	-	-	180,973	180,973
Total assets		2,009,903	338,211	984,138	503,138	3,835,390
Due to banks and other money market deposits	4.90%	559,722	-	-	-	559,722
Customers' deposits	3.55%	719,701	625,647	386,234	699,647	2,431,229
Other liabilities	N/A	-	-	-	192,608	192,608
Taxation	N/A	-	-	-	14,722	14,722
Subordinated private placement	5.88%	-	-	32,468	-	32,468
Shareholders' equity	N/A	-	-	-	604,641	604,641
Total liabilities and shareholders' equity		1,279,423	625,647	418,702	1,511,618	3,835,390
Total interest rate sensitivity gap		730,480	(287,436)	565,436	(1,008,480)	-
Cumulative interest rate sensitivity gap		730,480	443,044	1,008,480	-	-

29 RISK MANAGEMENT (continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2006 was as follows:

	Average effective interest rate	*On demand within 3 months RO'000*	*3 to 12 months RO'000*	*Over 1 year RO'000*	*Non interest sensitive RO'000*	*Total RO'000*
Cash and balances with Central Banks	4.09%	34,370	17,214	-	50,733	102,317
Trading investments	N/A	83	-	-	-	83
Due from banks and other money market placements	5.79%	151,591	27,609	5,005	-	184,205
Loans and advances (net)	8.16%	318,787	78,744	306,236	-	703,767
Non-trading investments	4.56%	-	9,155	8,000	23,542	40,697
Premises and equipment	N/A	-	-	-	5,885	5,885
Deferred tax asset	N/A	-	-	-	1,370	1,370
Other assets	N/A	-	-	-	44,119	44,119
Total assets		504,831	132,722	319,241	125,649	1,082,443
Due to banks and other money market deposits	2.40%	17,256	-	-	-	17,256
Customers' deposits	3.45%	387,250	163,821	74,690	190,886	816,647
Other liabilities	N/A	-	-	-	49,867	49,867
Taxation	N/A	-	-	-	1,596	1,596
Subordinated private placement	5.88%	-	-	12,500	-	12,500
Shareholders' equity	N/A	-	-	-	184,577	184,577
Total liabilities and shareholders' equity		404,506	163,821	87,190	426,926	1,082,443
Total interest rate sensitivity gap		100,325	(31,099)	232,051	(301,277)	-
Cumulative interest rate sensitivity gap		100,325	69,226	301,277	-	-

29 RISK MANAGEMENT (continued)

The bank's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2006 was as follows:

	Average effective interest rate	*On demand within 3 months USD'000*	*3 to 12 months USD'000*	*Over 1 year USD'000*	*Non interest sensitive USD'000*	*Total USD'000*
Cash and balances with Central Banks	4.09%	89,272	44,712	-	131,774	265,758
Trading investments	N/A	216	-	-	-	216
Due from banks and other money market placements	5.79%	393,743	71,712	13,000	-	478,455
Loans and advances (net)	8.16%	828,018	204,530	795,418	-	1,827,966
Non-trading investments	4.56%	-	23,779	20,779	61,148	105,706
Premises and equipment	N/A	-	-	-	15,286	15,286
Deferred tax asset	N/A	-	-	-	3,558	3,558
Other assets	N/A	-	-	-	114,594	114,594
Total assets		1,311,249	344,733	829,197	326,360	2,811,539
Due to banks and other money market deposits	2.40%	44,821	-	-	-	44,821
Customers' deposits	3.45%	1,005,843	425,509	194,000	495,809	2,121,161
Other liabilities	N/A	-	-	-	129,524	129,524
Taxation	N/A	-	-	-	4,145	4,145
Subordinated private placement	5.88%	-	-	32,468	-	32,468
Shareholders' equity	N/A	-	-	-	479,420	479,420
Total liabilities and shareholders' equity		1,050,664	425,509	226,468	1,108,898	2,811,539
Total interest rate sensitivity gap		260,585	(80,776)	602,729	(782,538)	-
Cumulative interest rate sensitivity gap		260,585	179,809	782,538	-	-

o *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 does not hold any proprietary position in foreign exchange. The forex positions in the books of the bank are held on account of customers and any variations in the exchange rates are absorbed by the customers.

However, a standardized shock of 15% adverse movement in exchange rates is factored on the aggregate of net open position in each currency (excluding fixed parity currencies) at quarterly intervals.

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

2006 USD'000	***2007 USD'000***		***2007 RO'000***	*2006 RO'000*
66,709	**34,268**	US Dollar	**13,193**	25,683
7,273	**55,644**	UAE Dirham	**21,423**	2,800
699	**1,397**	Others	**538**	269

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

29 RISK MANAGEMENT (continued)

❋ OPERATIONAL RISK

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events

Objective : Operational Risk Management (“ORM”) facilitates the management of operational risks by setting policies, developing tools and methodologies, and providing advice on ORM issues. All developments are subject to close co-operation with the business units.

Key responsibilities include:

- Developing, maintaining and communicating bank-wide Operational Risk Policy and Procedures
- Liaise with support units (e.g. Internal Audit) and with external parties (e.g. regulators, professional bodies, etc.) with respect to operational risk issues
- Raising risk and control awareness across the Bank through ongoing training, communications, etc.
- Developing and enhancing ORM programs and tools
- Selection and implementation of ORM systems
- Assisting the business units in the interpretation of the ORM Policy and in the implementation of ORM programs, tools and systems
- Collating operational risk data and information at the bank-wide level
- Analysing operational risk data and information and provide reports to management
- Ensuring compliance with ORM Policy and Procedures
- Providing advice to the business units and senior management on ORM related issues, where necessary
- Overseeing the creation of a Business Continuity and Disaster Recovery Plan
- Ensuring the adequacy of the security infrastructure of the Bank

30 CONCENTRATIONS

The bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risk with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate.

The distribution of assets, liabilities and off balance sheet items by geographical regions as of **31 December 2007** was as follows:

	Sultanate of Oman	*UAE*	*Egypt*	*Others*	*Total*
	RO'000	*RO'000*	*RO'000*	*RO'000*	*RO'000*
Cash and balances with Central Banks	143,386	80,496	21,956	-	245,838
Trading investments	49	-	-	-	49
Due from banks and other money market placements	2,692	16,280	2,094	181,011	202,077
Loans and advances (net)	805,930	69,123	4,737	26,975	906,765
Non-trading investments	23,128	1,324	-	21,007	45,459
Premises and equipment	5,752	92	919	-	6,763
Deferred tax asset	-	-	-	-	-
Other assets	68,460	442	772	-	69,674
Total assets	1,049,397	167,757	30,478	228,993	1,476,625
Due to banks and other money market deposits	952	2,994	-	211,547	215,493
Customers' deposits	805,097	82,444	47,096	1,386	936,023
Other liabilities	70,149	2,887	1,118	-	74,154
Taxation	4,094	307	1,267	-	5,668
Subordinated funds	12,500	-	-	-	12,500
Shareholders' equity	217,865	1,389	13,533	-	232,787
Liabilities and shareholders' equity	1,110,657	90,021	63,014	212,933	1,476,625
Off balance sheet items	282,054	15,666	9,617	147,537	454,874

	Sultanate of Oman	*UAE*	*Egypt*	*Others*	*Total*
	USD'000	*USD'000*	*USD'000*	*USD'000*	*USD'000*
Cash and balances with Central Banks	372,430	209,081	57,029	-	638,540
Trading investments	127	-	-	-	127
Due from banks and other money market placements	6,993	42,286	5,438	470,158	524,875
Loans and advances (net)	2,093,326	179,540	12,304	70,064	2,355,234
Non-trading investments	60,072	3,439	-	54,564	118,075
Premises and equipment	14,940	239	2,387	-	17,566
Deferred tax asset	-	-	-	-	-
Other assets	177,820	1,148	2,005	-	180,973
Total assets	2,725,708	435,733	79,163	594,786	3,835,390
Due to banks and other money market deposits	2,472	7,776	-	549,474	559,722
Customers' deposits	2,091,163	214,141	122,326	3,599	2,431,229
Other liabilities	182,205	7,499	2,904	-	192,608
Taxation	10,634	797	3,291	-	14,722
Subordinated funds	32,468	-	-	-	32,468
Shareholders' equity	565,882	3,608	35,151	-	604,641
Liabilities and shareholders' equity	2,884,824	233,821	163,672	553,073	3,835,390
Off balance sheet items	732,608	40,690	24,979	383,214	1,181,491

30 CONCENTRATIONS (continued)

The distribution of assets, liabilities and off balance sheet items by geographical regions as of 31 December 2006 was as follows:

	Sultanate of Oman RO'000	*UAE RO'000*	*Egypt RO'000*	*Others RO'000*	*Total RO'000*
Cash and balances with Central Banks	72,770	2,316	27,231	-	102,317
Trading investments	83	-	-	-	83
Due from banks and other money market placements	9,000	30,928	637	143,640	184,205
Loans and advances (net)	609,554	69,969	6,818	17,426	703,767
Non-trading investments	27,499	1,205	1,155	10,838	40,697
Premises and equipment	4,815	107	963	-	5,885
Deferred tax asset	1,370	-	-	-	1,370
Other assets	41,958	1,807	354	-	44,119
Total assets	767,049	106,332	37,158	171,904	1,082,443
Due to banks and other money market deposits	344	5,563	-	11,349	17,256
Customers' deposits	692,749	70,892	50,973	2,033	816,647
Other liabilities	46,278	2,293	1,296	-	49,867
Taxation	42	246	1,308	-	1,596
Subordinated funds	12,500	-	-	-	12,500
Shareholders' equity	178,637	356	5,584	-	184,577
Liabilities and shareholders' equity	930,550	79,350	59,161	13,382	1,082,443
Off balance sheet items	238,838	13,500	1,203	-	253,541

	Sultanate of Oman USD'000	*UAE USD'000*	*Egypt USD'000*	*Others USD'000*	*Total USD'000*
Cash and balances with Central Banks	189,012	6,016	70,730	-	265,758
Trading investments	216	-	-	-	216
Due from banks and other money market placements	23,377	80,332	1,655	373,091	478,455
Loans and advances (net)	1,583,257	181,738	17,709	45,262	1,827,966
Non-trading investments	71,425	3,130	3,000	28,151	105,706
Premises and equipment	12,507	278	2,501	-	15,286
Deferred tax asset	3,558	-	-	-	3,558
Other assets	108,981	4,694	919	-	114,594
Total assets	1,992,333	276,188	96,514	446,504	2,811,539
Due to banks and other money market deposits	894	14,449	-	29,478	44,821
Customers' deposits	1,799,348	184,135	132,397	5,281	2,121,161
Other liabilities	120,202	5,956	3,366	-	129,524
Taxation	109	639	3,397	-	4,145
Subordinated funds	32,468	-	-	-	32,468
Shareholders' equity	463,991	925	14,504	-	479,420
Liabilities and shareholders' equity	2,417,012	206,104	153,664	34,759	2,811,539
Off balance sheet items	620,358	35,065	3,125	-	658,548

31 SEGMENTAL INFORMATION

For management purposes the bank reports its primary segment information of its operations by the following geographical locations:

i) Oman
ii) United Arab Emirates (UAE)
iii) Egypt

Transactions between the above segments are conducted at estimated market rates on an arms length basis.

Segment information is as follows:

For the year ended 31 December 2007	***Oman***	***UAE***	***Egypt***	***Total***
	RO'000	***RO'000***	***RO'000***	***RO'000***
Segment revenue				
Interest income - external	**62,990**	**5,322**	**7,036**	**75,348**
Interest income - internal	**16,428**	**23**	**6,713**	**23,164**
Operating income - external	**23,852**	**1,682**	**439**	**25,973**
Operating income - internal	**1,748**	**-**	**-**	**1,748**
Total	**105,018**	**7,027**	**14,188**	**126,233**
Segment costs				
Interest costs - external	**27,727**	**3,805**	**4,702**	**36,234**
Interest costs - internal	**16,428**	**23**	**6,713**	**23,164**
Operating expenses - external	**24,599**	**1,618**	**795**	**27,012**
Operating expenses – internal	**-**	**1,444**	**304**	**1,748**
Depreciation	**1,486**	**51**	**104**	**1,641**
Loan loss provision	**7,059**	**736**	**62**	**7,857**
Recoveries & Releases	**(13,379)**	**(1,967)**	**(6,490)**	**(21,836)**
Taxation	**5,464**	**284**	**49**	**5,797**
Total	**69,384**	**5,994**	**6,239**	**81,617**
Segment net profit for the year	**35,634**	**1,033**	**7,949**	**44,616**
Other information				
Segment assets & liabilities	**1,299,238**	**142,234**	**35,153**	**1,476,625**
Segment capital expenses	**2,447**	**39**	**40**	**2,526**

31 SEGMENTAL INFORMATION (continued)

For the year ended 31 December 2007	*Oman USD'000*	*UAE USD'000*	*Egypt USD'000*	*Total USD'000*
Segment revenue				
Interest income - external	163,611	13,823	18,275	195,709
Interest income - internal	42,670	60	17,436	60,166
Operating income - external	61,953	4,369	1,140	67,462
Operating income - internal	4,540	-	-	4,540
Total	272,774	18,252	36,851	327,877
Segment costs				
Interest costs - external	72,018	9,883	12,213	94,114
Interest costs - internal	42,670	60	17,436	60,166
Operating expenses - external	63,892	4,203	2,065	70,160
Operating expenses – internal	-	3,750	790	4,540
Depreciation	3,860	132	270	4,262
Loan loss provision	18,335	1,912	161	20,408
Recoveries & Releases	(34,750)	(5,109)	(16,857)	(56,716)
Taxation	14,192	738	127	15,057
Total	180,217	15,569	16,205	211,991
Segment net profit for the year	92,557	2,683	20,646	115,886
Other information				
Segment assets & liabilities	3,374,645	369,439	91,306	3,835,390
Segment capital expenses	6,356	101	104	6,561

Although the primary reporting basis of the bank is on geographical segments, the bank has three major business segments – Consumer Banking, Corporate Banking and Investment Banking.

The following table shows the distribution of the bank's operating income and total assets by business segments:

2007	*Consumer Banking RO'000*	*Corporate Banking RO'000*	*Investment Banking RO'000*	*Others unallocated RO'000*	*Total RO'000*
Operating Profit (Loss)	28,815	14,554	1,108	(8,043)	36,434
Net profit (loss)	26,150	26,993	1,194	(9,721)	44,616
Segment assets	356,845	472,353	37,455	609,972	1,476,625
	USD'000	*USD'000*	*USD'000*	*USD'000*	*USD'000*
Operating Profit (Loss)	74,844	37,803	2,878	(20,890)	94,635
Net profit (loss)	67,922	70,112	3,101	(25,249)	115,886
Segment assets	926,870	1,226,891	97,286	1,584,343	3,835,390

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2007

31 SEGMENTAL INFORMATION (continued)

For the year ended 31 December 2006	*Oman* *RO'000*	*UAE* *RO'000*	*Egypt* *RO'000*	*Total* *RO'000*
Segment revenue				
Interest income - external	50,893	4,725	3,675	59,293
Interest income - internal	14,616	23	6,482	21,121
Operating income - external	15,937	993	444	17,374
Operating income - internal	1,306	-	-	1,306
Total	82,752	5,741	10,601	99,094
Segment costs				
Interest costs - external	17,953	2,209	3,991	24,153
Interest costs - internal	16,538	9	4,574	21,121
Operating expenses - external	19,666	1,417	793	21,876
Operating expenses – internal	-	1,059	247	1,306
Depreciation	1,485	60	144	1,689
Loan loss provision	8,848	1,645	149	10,642
Recoveries & Releases	(10,493)	(1,772)	(4,127)	(16,392)
Taxation	4,038	223	12	4,273
Total	58,035	4,850	5,783	68,668
Segment net profit for the year	24,717	891	4,818	30,426
Other information				
Segment assets & liabilities	957,211	83,880	41,352	1,082,443
Segment capital expenses	897	43	10	950

31 SEGMENTAL INFORMATION (continued)

For the year ended 31 December 2006	*Oman USD'000*	*UAE USD'000*	*Egypt USD'000*	*Total USD'000*
Segment revenue				
Interest income - external	132,190	12,273	9,545	154,008
Interest income - internal	37,964	60	16,836	54,860
Operating income - external	41,395	2,579	1,153	45,127
Operating income - internal	3,392	-	-	3,392
Total	214,941	14,912	27,534	257,387
Segment costs				
Interest costs - external	46,631	5,738	10,366	62,735
Interest costs - internal	42,956	23	11,881	54,860
Operating expenses – external	51,079	3,681	2,060	56,820
Operating expenses – Internal	-	2,750	642	3,392
Depreciation	3,857	156	374	4,387
Loan loss provision	22,982	4,273	387	27,642
Recoveries & Releases	(27,254)	(4,603)	(10,719)	(42,576)
Taxation	10,489	579	31	11,099
Total	150,740	12,597	15,022	178,359
Segment net profit for the year	64,201	2,315	12,512	79,028
Other information				
Segment assets & liabilities	2,486,261	217,870	107,408	2,811,539
Segment capital expenses	2,330	112	26	2,468

The following table shows the distribution of the bank's operating income and total assets by business segments:

2006	*Consumer Banking RO'000*	*Corporate Banking RO'000*	*Investment Banking RO'000*	*Others unallocated RO'000*	*Total RO'000*
Operating Profit (Loss)	21,907	9,846	596	(3,400)	28,949
Net profit (loss)	18,450	19,053	596	(7,673)	30,426
Segment assets	270,782	348,699	23,499	439,463	1,082,443
	USD'000	*USD'000*	*USD'000*	*USD'000*	*USD'000*
Operating Profit (Loss)	56,901	25,574	1,548	(8,830)	75,193
Net profit (loss)	47,922	49,488	1,548	(19,930)	79,028
Segment assets	703,329	905,712	61,036	1,141,462	2,811,539

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2007

32 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 at 31 December 2007 and 2006 are not significantly different to their carrying value at each of those dates.

33 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 bank uses the following derivative financial instruments:

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. Forwards are customised contracts transacted in the over-the-counter market.

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.

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.

33 DERIVATIVES (continued)

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is 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.

31 December 2007				*Notional amounts by term to maturity*		
	Positive fair value	*Negative fair value*	*Notional amount*	*Within 3 months*	*3 - 12 months*	*1 - 5 years*
	RO'000	*RO'000*	*RO'000*	*RO'000*	*RO'000*	*RO'000*
	(note 9)	*(note 12)*				
Derivatives held for trading:						
Interest rate swaps	**-**	**-**	**12,000**	**-**	**-**	**12,000**
Credit Default Swaps	**-**	**989**	**15,400**	**-**	**3,850**	**11,550**
Forward foreign exchange purchase contracts	**81**	**-**	**62,247**	**54,841**	**7,406**	**-**
Forward foreign exchange sales contracts	**-**	**260**	**62,247**	**54,811**	**7,436**	**-**
Interest rate caps	**-**	**-**	**1,123**	**80**	**180**	**863**
Total	**81**	**1,249**	**153,017**	**109,732**	**18,872**	**24,413**
Total – USD'000	**210**	**3,244**	**397,447**	**285,018**	**49,019**	**63,410**

31 December 2006				*Notional amounts by term to maturity*		
	Positive fair Value	*Negative fair value*	*Notional amount*	*Within 3 months*	*3 - 12 months*	*1 - 5 years*
	RO'000	*RO'000*	*RO'000*	*RO'000*	*RO'000*	*RO'000*
	(Note 9)	*(Note 12)*				
Derivatives held for trading:						
Interest rate swaps	-	91	20,662	-	8,662	12,000
Credit Default Swaps	-	-	-	-	-	-
Forward foreign exchange purchase contracts	83	16	31,961	23,558	8,403	-
Forward foreign exchange sales contracts	47	161	31,961	23,557	8,404	-
Interest rate caps	-	-	1,364	70	180	1,114
Total	130	268	85,948	47,185	25,649	13,114
Total – USD'000	338	696	223,242	122,558	66,622	34,062

34 TRANSLATION INTO US DOLLARS

The reporting currency of the Bank is Omani Rials. The US Dollar amounts, which are presented in these financial statements have been translated from the Omani Rial amounts at an exchange rate of US$ 1 = RO 0.385.

35 COMPARATIVE FIGURES

The corresponding figures for 2006 included for comparative purposes have been reclassified, wherever appropriate. Such reclassifications do not affect previously reported net profit, financial position or shareholders' equity.

NETWORK OF BRANCHES

52 branches in Oman (Including 2 Booths), 5 branches in Egypt and 1 branch in UAE (Abu Dhabi)
Head Office: P.O.Box 751, Postal Code 112, Ruwi, Sultanate of Oman.
Tel: (968) 24778000 Fax: (968) 24778585 Web Site: http://www.nbo.co.om e-mail: ask@nbo.co.om

Muscat Region (South)

Main Branch
C.B.D. Area, P.O. Box 752, Ruwi,
Postal Code 112
Tel : 24778350,24778352
Fax : 24778395 , 24778394

Muscat
P.O. Box 916, Muscat, Postal Code 113
Tel : 24737837, 24740595
Fax : 24737836

Hamriya
P.O. Box 3610, Ruwi, Postal Code 112
P.O.Box 1586 , Ruwi, Postal Code 112
Tel : 24835221, 24835223, 24833792,
24831520
Fax : 24835220 , 24833147

Bait Al Falaj
P.O. Box 334, Muttrah, Postal Code 114
Tel : 24700166 , 24702130
Fax : 24708980

Corniche
P.O. Box 272, Muttrah, Postal Code 114
Tel : 24715103, 24714245
Fax : 24713131

Mina-Al-Fahal
P.O. Box 123, Mina-Al-Fahal,
Postal Code 116
Tel : 24677020, 24677058
Fax : 24563647

Wattaya
P.O. Box 1647, Ruwi, Postal Code 112
Tel : 24563830, 24560585
Fax : 24561334

Qurum
P.O. Box 2928, Ruwi, Postal Code 112
Tel : 24562615, 24560050
Fax : 24562616

Muscat Region North and Musandam

Seeb International Airport
P. O. Box 11, Airport, Postal Code 111
Tel : 24510007, 24510543, 24519626
Fax : 24521483

Seven Seas Airport Booth
P.O. Box: 11, Airport, Postal Code: 111
Tel: 24510137
Fax: 24510156

Seeb Town
P. O. Box 574, Seeb, Postal Code 121
Tel : 24423511, 24423512,24420441
Fax : 24423513

Al Khuwair
P.O. Box 393, Al Khuwair,
Postal Code 113
Tel : 24486481, 24486441, 24486479
Fax : 24486480

Azaiba R/A
P.O. Box 52, Mina-Al-Fahal,
Postal Code 116
Tel : 24591341 , 24597855
Fax : 24591340

Ma'abella
P. O. Box 828, Seeb, Postal Code 121
Tel : 24455957 Fax : 24450120

Ghoubrah R/A
P.O. Box 3909, Ruwi, Postal Code 112
Tel : 24491062, 24497229
Fax : 24491583

Ghoubrah (MOH)
Ministry of Health Building
P.O. Box 393, Ghoubrah, Postal Code 113
Tel : 24602763
Fax : 24697076

Quriyat
P. O. Box 55, Quriyat, Postal Code 120
Tel : 24846100, 24846415
Fax : 24845899

Al Khoudh
P.O.Box 690, Al Khoudh, Postal Code 132
Tel: 24537950, 24537951
Fax: 24537952

Khasab (Musandam)
P. O. Box 30, Khasab, Postal Code 811
Tel : 26730467 , 26731442
Fax : 26730266

Bukha (Musandam)
P. O. Box 42, Bukha, Postal Code 812
Tel : 26828014, 26828278
Fax : 26828466

Dhakilya & Dhahira Region

Nizwa
P. O. Box 100, Nizwa, Postal Code 611
Tel : 25410072, 25410043
Fax : 25410048

Ibri
P. O. Box 30, Ibri, Postal Code 511
Tel : 25691161, 25690782
Fax : 25689391

Buraimi
P. O. Box 9, Buraimi, Postal Code 512
Tel : 25653037, 25655226
Fax : 25650346

Bahla
P. O. Box 72, Bahla, Postal Code 612
Tel : 25419673, 25420772
Fax : 25419167

Samail
P. O. Box 35, Samail, Postal Code 620
Tel : 25351483, 25350355
Fax : 25350234

Fanja
P. O. Box 88, Fanja, Postal Code 613
Tel : 25360444, 25361190
Fax : 25360011

Al Hamra
P. O. Box 19, Al Hamra , Postal Code 617
Tel : 25422008
Fax : 25422766

Dhank
P. O. Box 33, Dhank, Postal Code 514
Tel : 25676603
Fax : 25676191

Batinah Region

Sohar
P. O. Box 65, Sohar, Postal Code 311
Tel : 26840234,26843780, 26845388
Fax : 26842344, 26845322

Saham
P. O. Box 33, Saham, Postal Code 319
Tel : 26855146, 26855299
Fax : 26854006

Al-Khaboura
P. O. Box 4, Al-Khaboura,
Postal Code 326
Tel : 26805155 , 26802380 , 26202970
Fax : 26805204

Barka
P. O. Box 7, Barka, Postal Code 320
Tel : 26882368, 26882007
Fax : 26884332

Bidaya
P. O. Box 92, Bidaya, Postal Code 316
Tel : 26709240 , 26709340
Fax : 26709350

Musna
P. O. Box 38, Musna, Postal Code 312
Tel : 26868145, 26868136
Fax : 26868885

Shinas
P. O. Box 3, Shinas, Postal Code 324
Tel : 26747663
Fax : 26747134

Rustaq
P.O.Box 189, Rustaq, Postal Code 318
Tel : 26878332, 26878334
Fax : 26878335

Afi
P.O.Box 197, Nakhal, Postal Code 323
Tel : 26780972
Fax : 26780967

Sohar Industrial Branch
P.O. Box 497, Sohar, Postal Code 311
Tel: 26751925, 26751309
Fax: 26751705

Suwaiq
P.O. Box 594, Postal Code 315, Suwaiq
Tel: 26860518, 26862764
Fax: 26860517

Dhofar Region

Salalah Main Branch
P. O. Box 197, Salalah, Postal Code 211
Tel : 23291601,23291346
23290710
Fax : 23295695, 23293069

Salalah - Hafa
P.O. Box 824, Salalah, Postal Code 211
Tel : 23291952, 23291940
Fax : 23290066

Salalah - Sultan Qaboos Hospital
P. O. Box 944, Salalah,
Postal Code 211
Tel : 23211042, 23211092
Fax : 23211040

Salalah Port
P.O. Box 1183, Salalah, Postal Code 211
Tel : 23219024
Fax : 23219032

Mirbat
P. O. Box 92, Mirbat, Postal Code 220
Tel : 23268346, 23268345
Fax : 23268010

Sharqiya Region

Sur
P. O. Box 55, Sur, Postal Code 411
Tel : 25540246, 25545158 Fax :
25542046

Ibra
P. O. Box 161, Ibra, Postal Code 413
Tel : 25570015, 25570144 .
Fax : 25570155

Bilad Bani Bu Ali
P. O. Box 11,
Bilad Bani Bu Ali, Postal Code 416
Tel : 25554015, 25554138
Fax : 25553211

Jalan
P. O. Box 77, BBB-Hassan,
Postal Code 415
Tel : 25550950, 25550110
Fax : 25550020

Masirah
P. O. Box 24, Masirah Island,
Postal Code 414
Tel : 25504026, 25504516
Fax : 25504494

Al-Kamil
P. O. Box 20, Al-Kamil, Postal Code 412
Tel : 25557524, 25557770
Fax : 25557020

Al-Mudaibi
P. O. Box 215, Al-Mudaibi, Postal Code
420
Tel : 25578014, 25578484
Fax : 25578015

Overseas Branches

United Arab Emirates
Abu Dhabi, P.O. Box 3822
Abu Dhabi
United Arab Emirates
Tel : (+9712) 6348111, 6394567
Fax : (+9712) 6325027
Telex : 22866 NBO EM
Cable : NATBANK

Egypt
Heliopolis
133-135, Abdel Aziz Fahmy Street,
Heliopolis, Masr El Gedida
Cairo
Arab Republic of Egypt Branch
Tel : (+202) 2900158/157
Fax : (+202) 2905956
Country Manager Office
Tel : (+202) 2900413
Fax : (+202) 2907076
Telex : 93309 NBO UN
Swift : NBOMEGCX

Country Head Office
(C.H.O. Annexe) 68 El Merghani Street
Abu Ghali Building
Tel: (+202) 4174866, 4144302,
4145187, 4144184
Fax: (+202) 4178269, 4177278,
4171350

El Maadi
25, El Zaini Tower
Cross of Misr Helwan Street &
Street 151
Tel : (+202) 3596526 / 3596536
Fax : (+202) 3596603

Mohandessin
34, El Batal Ahmed Abdul Aziz Street
Mohandessin Giza
Arab Republic of Egypt
Tel : (+202) 7617041-2 3359684
Fax : (+202) 7617044
Telex : 93309 NBOUN
Swift : NBOMEGCX

Alexandria
49, El Horeya Avenue Alexandria
Arab Republic of Egypt
Tel : (+203) 3936939,3936927
Fax : (+203) 3936924
Telex : 54185 NBOUN
Swift : NBOMEGCX

El Gouna
102/H2 Downtown,
El Gouna, Gurghada,
Arab Republic of Egypt
Tel : (+20-653) 580240-2
Fax : (+20-653) 580243