

OMAN INTERNATIONAL BANK SAOG

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF OMAN INTERNATIONAL BANK SAOG

Report on the financial statements

We have audited the financial statements of Oman International Bank SAOG ("the Bank") set out on pages 2 to 47, which comprise the statement of financial position as at 31 December 2010, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the disclosure requirements of the Capital Market Authority and the Commercial Companies Law of 1974, as amended, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

In our opinion, the financial statements of the Bank as at and for the year ended 31 December 2010, in all material respects, comply with:

- the relevant disclosure requirements of the Capital Market Authority; and
- the Commercial Companies Law of 1974, as amended.

30 January 2011

Khalid Masud Ansari

OMAN INTERNATIONAL BANK SAOG

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

2009 US\$'000	2010 US\$'000		Note	2010 RO'000	2009 RO'000
104,504	95,065	Interest income		36,600	40,234
<u>(21,761)</u>	<u>(17,561)</u>	Interest expense		<u>(6,761)</u>	<u>(8,378)</u>
82,743	77,504	Net interest income		29,839	31,856
<u>29,091</u>	<u>26,644</u>	Other operating income	3	<u>10,258</u>	<u>11,200</u>
111,834	104,148	Total income		40,097	43,056
<u>(50,384)</u>	<u>(54,078)</u>	Other operating expenditure	3	<u>(20,820)</u>	<u>(19,398)</u>
61,450	50,070	Operating profit before provisions		19,277	23,658
(8,465)	(9,865)	Provision for loan impairment	9	(3,798)	(3,259)
10,512	11,621	Impact of recoveries / write back	4	4,474	4,047
—	—	Proposed directors' remuneration		—	—
63,497	51,826	Profit before taxation		19,953	24,446
<u>(7,595)</u>	<u>(6,151)</u>	Taxation	5	<u>(2,368)</u>	<u>(2,924)</u>
<u>55,902</u>	<u>45,675</u>	Net profit for the year		<u>17,585</u>	<u>21,522</u>
		Other comprehensive income			
4,179	509	Net movement in fair value of available for sale investments, net of tax		196	1,609
-	273	Revaluation of land		105	-
<u>299</u>	<u>338</u>	Effect of currency translation		<u>130</u>	<u>115</u>
<u>4,478</u>	<u>1,120</u>	Other comprehensive income for the year		<u>431</u>	<u>1,724</u>
<u>60,380</u>	<u>46,795</u>	Total comprehensive income for the year		<u>18,016</u>	<u>23,246</u>
US \$ 0.061	US \$ 0.050	Basic earnings per share	6	RO 0.019	RO 0.024

The notes set out on pages 6 to 47 form an integral part of these financial statements.

Report of the Auditors - page 1.

OMAN INTERNATIONAL BANK SAOG

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

2009 US\$'000	2010 US\$'000	Note	2010 RO'000	2009 RO'000
Assets				
278,597	331,060		127,458	107,260
467,353	361,538	7	139,192	179,931
62,696	213,122	8	82,052	24,138
1,596,390	1,660,016	9	639,106	614,610
80,618	82,416	10	31,730	31,038
78,143	79,862	11	30,747	30,085
<u>135,761</u>	<u>273,564</u>	12	<u>105,322</u>	<u>52,268</u>
<u>2,699,558</u>	<u>3,001,578</u>		<u>1,155,607</u>	<u>1,039,330</u>
Liabilities				
216,590	218,169	13	83,995	83,387
1,895,803	2,070,021	14	796,958	729,884
<u>142,545</u>	<u>274,159</u>	15	<u>105,551</u>	<u>54,880</u>
<u>2,254,938</u>	<u>2,562,349</u>		<u>986,504</u>	<u>868,151</u>
Equity				
237,208	237,208	16	91,325	91,325
150,101	151,405	17	58,291	57,789
<u>57,311</u>	<u>50,616</u>		<u>19,487</u>	<u>22,065</u>
<u>444,620</u>	<u>439,229</u>		<u>169,103</u>	<u>171,179</u>
<u>2,699,558</u>	<u>3,001,578</u>		<u>1,155,607</u>	<u>1,039,330</u>
<u>US\$ 0.49</u>	<u>US\$ 0.48</u>		<u>RO 0.185</u>	<u>RO 0.187</u>
<u>683,839</u>	<u>806,465</u>	18	<u>310,489</u>	<u>263,278</u>

The financial statements on pages 2 to 47 were approved by the Board of Directors on 14 March 2011 and were signed on their behalf by:

REEM OMAR ZAWAWI
CHAIRWOMAN

BIPIN DHARAMSEY NENSEY
DEPUTY CHAIRMAN

The notes set out on pages 6 to 47 form an integral part of these financial statements.

Report of the Auditors – pages 1.

OMAN INTERNATIONAL BANK SAOG

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital RO'000	Legal reserve RO'000	Statutory reserve RO'000	Investment revaluation reserve RO'000	Asset revaluation reserve RO'000	Retained profits RO'000	Total RO'000
At 1 January 2009	91,325	29,346	618	2,942	22,109	26,251	172,591
Total comprehensive income for the year							
Net profit for the year	-	-	-	-	-	21,522	21,522
Other comprehensive income for the year							
Effect of currency translation	-	-	15	(7)	-	107	115
Net movement in fair values	-	-	-	1,884	-	-	1,884
Net movement in deferred tax liability on fair values	-	-	-	(275)	-	-	(275)
Total other comprehensive income	-	-	15	1,602	-	107	1,724
Total comprehensive income for the year	-	-	15	1,602	-	21,629	23,246
Transfer to legal / statutory reserve	-	1,096	61	-	-	(1,157)	-
Transactions with shareholders, recorded directly in equity							
Dividend paid for 2008	-	-	-	-	-	(24,658)	(24,658)
Total distribution to share holders	-	-	-	-	-	(24,658)	(24,658)
At 31 December 2009	<u>91,325</u>	<u>30,442</u>	<u>694</u>	<u>4,544</u>	<u>22,109</u>	<u>22,065</u>	<u>171,179</u>
Total comprehensive income for the year							
Net profit for the year	-	-	-	-	-	17,585	17,585
Other comprehensive income for the year							
Effect of currency translation	-	-	28	(17)	-	119	130
Transfer to asset revaluation reserve	-	-	-	-	105	-	105
Net movement in fair values	-	-	-	275	-	-	275
Net movement in deferred tax liability on fair values	-	-	-	(79)	-	-	(79)
Total other comprehensive income	-	-	28	179	105	119	431
Total comprehensive income for the year	-	-	28	179	105	17,704	18,016
Transfer to legal / statutory reserve	-	-	190	-	-	(190)	-
Transactions with shareholders, recorded directly in equity							
Dividend paid for 2009	-	-	-	-	-	(20,092)	(20,092)
At 31 December 2010	<u>91,325</u>	<u>30,442</u>	<u>912</u>	<u>4,723</u>	<u>22,214</u>	<u>19,487</u>	<u>169,103</u>
At 31 December 2010 (US\$'000)	<u>237,208</u>	<u>79,070</u>	<u>2,369</u>	<u>12,268</u>	<u>57,698</u>	<u>50,616</u>	<u>439,229</u>
At 31 December 2009 (US\$'000)	<u>237,208</u>	<u>79,070</u>	<u>1,803</u>	<u>11,802</u>	<u>57,426</u>	<u>57,311</u>	<u>444,620</u>
Note	16	17(a)	17(b)	17(c)	17(d)		

The notes set out on pages 6 to 47 form an integral part of these financial statements.

Report of the Auditors - page 1.

OMAN INTERNATIONAL BANK SAOG

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

2009 US\$'000	2010 US\$'000	Note	2010 RO'000	2009 RO'000
63,497	51,826	Profit before taxation	19,953	24,446
		Adjustments for:		
3,023	2,771	Depreciation	1,067	1,164
-	-	Proposed directors' remuneration	-	-
(2,047)	(1,756)	Provision for loan impairment (net of recoveries)	(676)	(788)
(2,745)	(2,688)	Interest/dividend on investments	(1,035)	(1,057)
(648)	(55)	Unrealised gains on foreign exchange contracts and swaps	(21)	(250)
-	(18)	Profit on disposal of property and equipment	(7)	-
<u>34</u>	<u>(119)</u>	(Gain) / Loss on investments	<u>(46)</u>	<u>13</u>
61,114	49,961	Operating profit before changes in operating assets and liabilities	19,235	23,528
		Changes in operating assets and liabilities:		
(5,312)	(12,029)	Cash and balances with central banks	(4,631)	(2,045)
(12,987)	15,086	Treasury bills and certificates of deposit	5,808	(5,000)
(1,413)	(6,117)	Due from other banks	(2,355)	(544)
33,678	(61,870)	Loans and advances	(23,820)	12,966
(114,933)	(139,577)	Other assets	(53,737)	(44,249)
34,198	(11,974)	Due to banks	(4,610)	13,166
1,478	174,218	Deposits from customers	67,074	569
<u>111,059</u>	<u>134,083</u>	Other liabilities	<u>51,622</u>	<u>42,758</u>
106,882	141,781	Cash from operations	54,586	41,149
<u>(9,610)</u>	<u>(8,566)</u>	Income taxes paid	<u>(3,298)</u>	<u>(3,700)</u>
<u>97,272</u>	<u>133,215</u>	Net cash from operating activities	<u>51,288</u>	<u>37,449</u>
		Investing activities		
(19,481)	(1,122)	Purchase of investments	(432)	(7,500)
(3,122)	(4,112)	Purchase of property and equipment	(1,583)	(1,202)
30,273	384	Proceeds from redemption of investments	148	11,655
10,862	4,806	Income received from investments	1,850	4,182
-	18	Proceeds from sale of property and equipment	7	-
<u>(255)</u>	<u>(545)</u>	Effect of currency translation	<u>(210)</u>	<u>(98)</u>
<u>18,277</u>	<u>(571)</u>	Net cash (used in) from investing activities	<u>(220)</u>	<u>7,037</u>
		Financing activities		
(64,047)	(52,187)	Dividend paid	(20,092)	(24,658)
(64,047)	(52,187)	Net cash used in financing activities	(20,092)	(24,658)
51,502	80,457	Net change in cash and cash equivalents	30,976	19,828
498,441	549,943	Cash and cash equivalents at the beginning of the year	211,728	191,900
<u>549,943</u>	<u>630,400</u>	Cash and cash equivalents at the end of the year	<u>242,704</u>	<u>211,728</u>

The notes set out on pages 6 to 47 form an integral part of these financial statements.

Report of the Auditors - page 1.

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

1 Legal status and principal activities

Oman International Bank SAOG (the Bank) is an Omani joint stock company, which was incorporated on 1 January 1979, operating as a commercial bank through a network of branches in the Sultanate of Oman, India and Pakistan. The registered address of the head office of the Bank is P.O. Box 1727, CPO Seeb, Postal Code 111, and Sultanate of Oman. The Bank has its shares listed on Muscat Securities Market.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

2.1 Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”), the disclosure requirements set out in the Rules for Disclosure and Proformas issued by the Capital Market Authority, the Commercial Company Law of the Sultanate of Oman and the applicable regulations of the Central Bank of Oman (“CBO”). The financial statements are prepared under the historical cost convention as modified by the revaluation of land, available-for-sale investment securities, investments carried at fair value through profit or loss, financial assets and financial liabilities held for trading and all derivative instruments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.22.

2.2 Foreign currencies

2.2.1 *Functional and presentation currency*

Items included in the financial statements of each of the Bank’s entities are measured using the currency of the primary economic environment in which the Bank operates (the functional currency). The financial statements are presented in Rial Omani, which is the functional currency of the primary economic environment in which the Bank operates. The United States Dollar amounts shown in the financial statements have been translated from Rial Omani at the exchange rate of RO 0.385 to each US Dollar, and are shown for the convenience of the reader only.

2.2.2 *Transactions and balances*

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

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

2.2 Foreign currencies (continued)

2.2.3 Translation of financial statements of overseas branches

The assets and liabilities of the overseas branches that have a functional currency other than the Rial Omani are translated into Rial Omani at the period-end rates of exchange. The income and expenses of these overseas branches are translated into Rial Omani at average exchange rates for the period. Differences resulting from the translation of the opening net investment in these overseas branches are taken to other comprehensive income.

2.3 Financial assets

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

2.3.1 Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost;
- certain investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit or loss; and
- financial instruments, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit or loss.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in 'other operating income'.

2.3.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the Bank intends to sell immediately or in the short-term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss; (b) those that the Bank upon initial recognition designates as available-for-sale; or (c) those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

2.3.3 Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity.

OMAN INTERNATIONAL BANK SAOG
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

2 Summary of significant accounting policies (continued)

2.3 Financial assets (continued)

2.3.4 Available-for-sale financial assets

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

2.3.5 Initial and subsequent measurement

Regular-way purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available-for-sale are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the statement of income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

2.3.6 Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category included all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instrument that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

OMAN INTERNATIONAL BANK SAOG
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

2 Summary of significant accounting policies (continued)

2.3 Financial assets (continued)

2.3.6 Fair value hierarchy (continued)

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate swaps and forward foreign exchange contract that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

2.4 Derivative financial instruments

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

2.5 Offsetting

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

2.6 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, amounts due from other banks and short-term government securities.

2.7 Treasury bills

Treasury bills are classified as held for trading or as loans and receivables. Treasury bills acquired for generating a profit from short-term fluctuations in price or dealer's margin are classified as held for trading and other treasury bills are classified as loans and receivables. Treasury bills held for trading are stated at their fair value based on quoted market prices or amounts derived from cash flow models. Unrealised gains and losses arising from changes in the fair value of treasury bills classified as held for trading are recognised in the statement of income as they arise. Treasury bills classified as loans and receivables are stated at their amortised cost.

2.8 Due from banks and money market placements

These are stated at amortised cost using the effective interest method, less any amounts written off and provision for impairment.

OMAN INTERNATIONAL BANK SAOG
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

2 Summary of significant accounting policies (continued)

2.9 Property and equipment

All property and equipment except freehold land are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Revaluation of freehold land is carried out every three years on an open market value basis by an independent professional valuer. Net surpluses arising on revaluation are credited to a revaluation reserve, except that a revaluation increase is recognized as income to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense. A decrease as a result of a revaluation is recognized 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 asset. On disposal the related revaluation surplus is transferred directly to retained earnings. Transfers from revaluation surplus to retained earnings are not made through statement of income.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Land is not depreciated. Depreciation is calculated so as to write off the cost of property and equipment, other than freehold land, less their estimated residual values, on a straight-line basis over the estimated useful lives of the assets concerned. Capital work-in-progress is not depreciated until the assets are ready for use. The principal lives adopted for this purpose are:

Freehold buildings	25 years
Equipment, furniture and fixtures	5 years
Motor vehicles	3 - 5 years
Computer software and equipment	3 - 5 years

Leased property is amortised over 20 years or, if shorter, the period of the lease. Improvements to leased property are amortised over five years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of income.

2.10 Sale and purchase agreement

Securities sold subject to linked repurchase agreements ('repos') are retained in the financial statements as investment securities and the counter party liability is included in amounts due to banks. Securities purchased under agreements to resell ('reverse repos') are recorded as due from other banks. The difference between sale and repurchase price is treated as interest and accrued over the life of the repo agreement using the effective yield method.

OMAN INTERNATIONAL BANK SAOG
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

2 Summary of significant accounting policies (continued)

2.11 Impairment of financial assets

2.11.1 Assets carried at amortised cost

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

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

2.11.2 Assets carried at fair value

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

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.12 Borrowings

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

OMAN INTERNATIONAL BANK SAOG
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

2 Summary of significant accounting policies (continued)

2.13 Deposits

All money market and customer deposits are recognised initially at fair value being consideration received and subsequently stated at amortised cost.

2.14 End of service benefits and leave entitlement

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the statement of financial position date, having regard to the requirements of the relevant labour laws of the countries in which the Bank operates. Employee entitlements to annual leave are recognised when they accrue to employees and an accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the statement of financial position date.

Contributions to a defined contribution retirement plan for Omani employees in accordance with the Omani Social Insurance Scheme are recognised as an expense in the statement of income.

2.15 Provisions

Provisions for legal claims are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

2.16 Interest income and interest expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' and 'interest expense' in the statement of income using the effective interest method.

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

Contractual interest is recognised unless collectability is in doubt. Interest on interest bearing financial assets classified as held for trading or at fair value through profit or loss is recognised on an accrual basis.

2.17 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

2.18 Dividend income

Dividends are recognised in the statement of comprehensive income once notice of entitlement is received.

OMAN INTERNATIONAL BANK SAOG
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

2 Summary of significant accounting policies (continued)

2.19 Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of income except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Provision for Oman taxation has been made on the basis of the rates applicable to an Omani Public Joint Stock company. Taxation on the overseas operations is provided on the basis of the relevant taxation laws of the countries in which the Bank operates.

Deferred income tax is provided in full, on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes (the tax base). The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date. The principal temporary differences arise from depreciation of property and equipment, provisions, tax losses carried forward and unrealised gains or losses on investments.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.20 Operating segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the Business Committee to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the Business Committee include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Bank's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property and equipment, and intangible assets other than goodwill.

2.21 Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Bank acts in a fiduciary capacity such as nominee, trustee or agent.

2.22 Critical accounting estimates and judgments

The key assumptions concerning the future and other key sources of estimating uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

OMAN INTERNATIONAL BANK SAOG
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2010

2 Summary of significant accounting policies (continued)

2.22 Critical accounting estimates and judgments (continues)

Impairment losses on loans and advances

The Bank reviews its non performing loans and advances at each statement of financial position date to assess whether a provision for impairment should be recorded in the statement of income. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future changes to such provisions.

Collective impairment provisions on loans and advances

In addition to specific provisions against individually significant loans and advances, the Bank also makes a collective impairment provision against loans and advances which, although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. This collective provision is based on any deterioration in the internal grade of the loan since it was granted. The amount of the provision is based on the historical loss pattern for loans within each grade and is adjusted to reflect current economic changes.

2.23 Fair value

The methods and assumption used in estimating the fair value of financial assets and liabilities are included in note 20.

2.24 Acceptance

Acceptances are disclosed on the statement of financial position under other assets with corresponding liability disclosed under other liabilities.

2.25 Director's remuneration

The Directors' remuneration is governed as set out in the Memorandum of Association of the Bank, the Commercial Companies Law and the Capital Market Authority.

The Annual General Meeting approve the remuneration and the sitting fees for the Board Directors and its sub-committees provided that such fees shall not exceed 5% of the annual net profit after deduction of the legal reserve and the optional reserve and the distribution of dividends to the shareholders provided that such fees shall not exceed RO 200,000. The sitting fee for each director does not exceed RO 10,000 in one year.

2.26 Dividend distribution

The Board adopts a prudent dividend policy, which complies with regulatory and prudential requirements applicable in the Sultanate of Oman. Net profit of the Bank is distributed in accordance with the Bank's Memorandum of Association and subject to the approval of the CBO and the shareholders.

2.27 New standard and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these financial statements. None of these will have an effect on the financial statements of the company, with the exception of IFRS 9 Financial Instruments, published on 12 November 2010 as part of phase I of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables.

The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

Subject to approval by Ordinary Annual General Meeting

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

3 Analysis of other operating income and expenditure

2009 US\$'000	2010 US\$'000		2010 RO'000	2009 RO'000
		Other operating income		
17,470	15,421	Fee and commission income	5,937	6,726
4,636	4,242	Exchange income	1,633	1,785
(34)	119	Gain / (loss) on investments	46	(13)
179	413	Dividend income	159	69
<u>6,840</u>	<u>6,449</u>	Other income	<u>2,483</u>	<u>2,633</u>
<u>29,091</u>	<u>26,644</u>		<u>10,258</u>	<u>11,200</u>
		Other operating expenditure		
		Staff costs:		
257	288	End of service benefits	111	99
1,179	1,252	Social security and defined contribution plan costs	482	454
<u>27,364</u>	<u>29,771</u>	Salaries and other staff costs	<u>11,462</u>	<u>10,535</u>
28,800	31,311		12,055	11,088
4,397	5,005	Occupancy costs	1,927	1,693
3,023	2,771	Depreciation	1,067	1,164
		Other operating costs:		
2,927	2,793	Advertisement and publicity	1,075	1,127
1,899	2,192	Communication	844	731
1,239	1,956	Insurance	753	477
3,054	3,073	Repairs and maintenance	1,183	1,176
<u>5,045</u>	<u>4,977</u>	Others	<u>1,916</u>	<u>1,942</u>
<u>50,384</u>	<u>54,078</u>		<u>20,820</u>	<u>19,398</u>

4 Impact of recoveries / write back

2009 US\$'000	2010 US\$'000		2010 RO'000	2009 RO'000
5,153	5,351	Provision for loan impairment	2,060	1,984
3,117	3,496	Reserved interest	1,346	1,200
<u>2,242</u>	<u>2,774</u>	Technically transferred to memorandum account	<u>1,068</u>	<u>863</u>
<u>10,512</u>	<u>11,621</u>		<u>4,474</u>	<u>4,047</u>

5 Taxation

The taxation charge for the year is as follows:

2009 US\$'000	2010 US\$'000		2010 RO'000	2009 RO'000
7,712	6,169	Oman taxation		
(117)	(18)	- current	2,375	2,969
<u>7,595</u>	<u>6,151</u>	- deferred	<u>(7)</u>	<u>(45)</u>
			<u>2,368</u>	<u>2,924</u>

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

5 Taxation (continued)

Income tax for the Oman operations has been assessed for all years up to 2004; all subsequent years are subject to agreement with the Tax Authorities.

Income tax for the Indian operations has been agreed for all years to 31 March 1989; all subsequent years are subject to agreement by the Tax Authorities. In the tax assessments in respect of these years, the Tax Authorities have not recognised certain exemptions claimed by the Bank, resulting in a tax demand of approximately RO 358,000 which has not been provided in the financial statements. The Bank has lodged an appeal with the Tax Authorities contesting the above decision. The Management believes that the appeal will be successful.

Income tax for the Pakistan operations is yet to be agreed for any period since commencement of operations. The Bank has lodged an appeal with the High Court against the assessments for the years 1996 to 2000.

The tax rate applicable to the Bank in Oman is 12% (2009 - 12%). For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be 11.90% (2009 - 11.96 %).

The difference between the applicable tax rates of 12% and the effective tax rate of 11.90% arises due to the tax effect of income not considered to be taxable and expenses that are not considered to be deductible. The adjustments are based on the current understanding of the existing laws, regulations and practices.

Deferred tax asset has been computed at the tax rate of 12% (2009 - 12%).

6 Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the shareholders, being net profit for the year, by the weighted average number of shares in issue, as follows:

2009	2010		2010	2009
913,257	913,257	Weighted average number of shares in issue ('000)	913,257	913,257
55,902	45,675	Net profit for the year (US\$'000 / RO'000)	17,585	21,522
0.061	0.050	Basic earnings per share (US\$ / RO)	0.019	0.024

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.

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

7 Treasury bills and certificates of deposit

2009 US\$'000	2010 US\$'000		2010 RO'000	2009 RO'000
<u>467,353</u>	<u>361,538</u>	Certificates of deposit	<u>139,192</u>	<u>179,931</u>
<u>467,353</u>	<u>361,538</u>		<u>139,192</u>	<u>179,931</u>

8 Due from other banks

2009 US\$'000	2010 US\$'000		2010 RO'000	2009 RO'000
50,036	<u>193,927</u>	Placements	<u>74,662</u>	19,264
<u>12,660</u>	<u>19,195</u>	Others	<u>7,390</u>	<u>4,874</u>
<u>62,696</u>	<u>213,122</u>		<u>82,052</u>	<u>24,138</u>

9 Loans and advances

2009 US\$'000	2010 US\$'000		2010 RO'000	2009 RO'000
197,081	<u>194,075</u>	Overdrafts	<u>74,719</u>	75,876
1,567,616	<u>1,653,449</u>	Loans	<u>636,578</u>	603,532
<u>16,582</u>	<u>14,387</u>	Bills discounted/purchased	<u>5,539</u>	<u>6,384</u>
1,781,279	<u>1,861,911</u>	Gross loans and advances	<u>716,836</u>	685,792
(81,678)	<u>(85,878)</u>	Provision for loan impairment	<u>(33,063)</u>	(31,446)
<u>(103,211)</u>	<u>(116,017)</u>	Reserved interest	<u>(44,667)</u>	<u>(39,736)</u>
<u>1,596,390</u>	<u>1,660,016</u>	Loans and advances (net)	<u>639,106</u>	<u>614,610</u>

CBO requires provision for loan impairment to be made on the basis of the higher of provision as per International Accounting Standards (IAS) 39 – Financial Instruments: Recognition and Measurement and as per CBO norms on a portfolio basis on the non-performing loans.

CBO also requires as per circular BM 977 a general loan loss provision to cover expected losses, whereas IFRS requires collective impairment based on incurred losses. As per BM 977, the financial statements include a general provision of RO 5.7 million which is based on an expected loan loss provisioning model developed by the Bank. The collective impairment provision as required under IAS 39 based on an incurred loss model developed by the Bank amounts to RO 2.46 million.

The movement on the provision for loan impairment during 2010 is analysed as follows:

	Specific provision RO'000	General provision RO'000	Total provision RO'000	Total provision US\$'000
At 1 January	25,651	5,795	31,446	81,678
Currency translation effect on opening balance	(4)	(2)	(6)	(16)
Provided during the year	<u>3,792</u>	<u>6</u>	<u>3,798</u>	<u>9,865</u>
Released during the year:				
- due to recoveries	<u>(1,678)</u>	-	<u>(1,678)</u>	<u>(4,358)</u>
- due to write back	<u>(327)</u>	<u>(55)</u>	<u>(382)</u>	<u>(992)</u>
Written off during the year	<u>(115)</u>	-	<u>(115)</u>	<u>(299)</u>
At 31 December	<u>27,319</u>	<u>5,744</u>	<u>33,063</u>	<u>85,878</u>

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

9 Loans and advances (continued)

The movement on the provision for loan impairment during 2009 is analysed as follows:

	Specific provision RO'000	General provision RO'000	Total provision RO'000	Total provision US\$'000
At 1 January	23,986	6,196	30,182	78,395
Currency translation effect on opening balance	(10)	(1)	(11)	(29)
Provided during the year	3,255	4	3,259	8,465
Released during the year:				
- due to recoveries	(1,170)	-	(1,170)	(3,039)
- due to write back	(410)	(404)	(814)	(2,114)
At 31 December	<u>25,651</u>	<u>5,795</u>	<u>31,446</u>	<u>81,678</u>

The movement on reserved interest during the year is analysed as follows:

2009 US\$'000	2010 US\$'000		2010 RO'000	2009 RO'000
86,654	103,211	At 1 January	39,736	33,362
19,674	18,222	Unrecognised during the year	7,016	7,574
(3,117)	(3,496)	Transfer to the statement of comprehensive income	(1,346)	(1,200)
-	(1,920)	Written-off during the year	(739)	-
<u>103,211</u>	<u>116,017</u>	At 31 December	<u>44,667</u>	<u>39,736</u>

At 31 December 2010, loans and advances on which interest has not been accrued amounted to RO 77.5 million (2009 – RO 72.3 million). Government soft loans amounting to RO 3.4 million (2009 - RO 4.3 million), on which the principal is guaranteed and part of interest serviced by the Government of the Sultanate of Oman, are impaired. Adequate provision for impairment is made for the portion of interest not serviced by the customers.

10 Investments

2009 US\$'000	2010 US\$'000		2010 RO'000	2009 RO'000
26,533	26,424	Held-to-maturity	10,173	10,215
<u>54,085</u>	<u>55,992</u>	Available-for-sale	<u>21,557</u>	<u>20,823</u>
<u>80,618</u>	<u>82,416</u>		<u>31,730</u>	<u>31,038</u>

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

10 Investments (continued)

Investments classified as held-to-maturity are as follows:

2009 US\$'000	2010 US\$'000		2010 RO'000	2009 RO'000
13,511	12,689	Quoted – Oman Government securities	4,885	5,203
12,455	13,169	Quoted - Foreign Government securities	5,070	4,794
<u>567</u>	<u>566</u>	Quoted - Other securities, Oman	<u>218</u>	<u>218</u>
<u>26,533</u>	<u>26,424</u>		<u>10,173</u>	<u>10,215</u>

Available-for-sale investments are as follows:

2009 US\$'000	2010 US\$'000	Cost of:	2010 RO'000	2009 RO'000
9,036	9,390	Quoted - Foreign Government securities	3,615	3,479
3,000	3,301	Quoted - Equity and other securities, Oman	1,271	1,155
<u>29,122</u>	<u>29,706</u>	Unquoted investments	<u>11,437</u>	<u>11,212</u>
41,158	42,397		16,323	15,846
		Revaluation gains/(losses) of:		
(1,094)	(1,348)	Quoted - Foreign Government securities	(519)	(421)
4,655	3,875	Quoted - Equity and other securities, Oman	1,492	1,792
<u>9,366</u>	<u>11,068</u>	Unquoted investments	<u>4,261</u>	<u>3,606</u>
<u>54,085</u>	<u>55,992</u>		<u>21,557</u>	<u>20,823</u>

Details of the Bank's investments for which the Bank's holding exceeds 10% of the market value of its investments portfolio are :

	% of Overall portfolio	Number of securities	Market value 2010 RO'000	Cost 2010 RO'000
Investment Stabilisation Fund – Oman	<u>29</u>	<u>7,228,957</u>	<u>9,202</u>	<u>7,500</u>

At 31 December 2010, available-for-sale investments in the amount of RO 20.04 million (2009 – RO 19.55 million) are measured using Level I, RO 0.68 million (2009 – RO 0.69 million) are measured using Level II and RO 0.84 million (2009 – RO 0.59 million) are stated at cost.

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NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

11 Property and equipment:

The movement in property and equipment during the year is as follows:

	Freehold land and buildings RO'000	Leasehold property and improvements RO'000	Equipment, furniture and fixtures RO'000	Motor vehicles RO'000	Computer equipment RO'000	Capital work in progress RO'000	Total RO'000
Cost / Valuation							
1 January 2010	32,557	2,683	7,305	856	12,958	526	56,885
Currency translation effect on opening balances	88	(1)	7	-	10	-	104
Revaluation reserve	105	-	-	-	-	-	105
Additions	-	55	310	56	496	666	1,583
Disposals	-	-	(25)	-	(75)	-	(100)
31 December 2010	<u>32,750</u>	<u>2,737</u>	<u>7,597</u>	<u>912</u>	<u>13,389</u>	<u>1,192</u>	<u>58,577</u>
Depreciation							
1 January 2010	4,606	2,564	6,695	812	12,123	-	26,800
Currency translation effect on opening balances	46	-	8	-	9	-	63
Charge for the year	286	45	253	39	444	-	1,067
Disposals	-	-	(25)	-	(75)	-	(100)
31 December 2010	<u>4,938</u>	<u>2,609</u>	<u>6,931</u>	<u>851</u>	<u>12,501</u>	<u>-</u>	<u>27,830</u>
Net book value							
31 December 2010	<u>27,812</u>	<u>128</u>	<u>666</u>	<u>61</u>	<u>888</u>	<u>1,192</u>	<u>30,747</u>
31 December 2010 (US\$'000)	<u>72,238</u>	<u>335</u>	<u>1,729</u>	<u>158</u>	<u>2,306</u>	<u>3,096</u>	<u>79,862</u>

Freehold land owned by the Bank is revalued as at 31 December 2010, by independent professional valuer on open market basis. The aggregate increase in value was RO 0.105 million. Surplus on revaluation was credited to revaluation reserve in equity.

If freehold land had been carried at cost, the carrying amount of freehold land and buildings would have been RO 5,598,000 (2009: RO 5,842,000).

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NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

11 Property and equipment (continued)

The movement in property and equipment for the year 2009 is as follows

	Freehold land and buildings RO'000	Leasehold property and improvements RO'000	Equipment, furniture and fixtures RO'000	Motor vehicles RO'000	Computer equipment RO'000	Capital work in progress RO'000	Total RO'000
Cost /Valuation							
1 January 2009	32,496	2,615	6,966	857	12,685	23	55,642
Currency translation effect on opening balances	54	(4)	1	(1)	3	-	53
Additions	7	72	350	-	270	503	1,202
Disposals	-	-	(12)	-	-	-	(12)
31 December 2009	<u>32,557</u>	<u>2,683</u>	<u>7,305</u>	<u>856</u>	<u>12,958</u>	<u>526</u>	<u>56,885</u>
Depreciation							
1 January 2009	4,299	2,525	6,454	748	11,594	-	25,620
Currency translation effect on opening balances	26	(3)	1	(1)	4	-	27
Charge for the year	281	42	251	65	525	-	1,164
Disposals	-	-	(11)	-	-	-	(11)
31 December 2009	<u>4,606</u>	<u>2,564</u>	<u>6,695</u>	<u>812</u>	<u>12,123</u>	<u>-</u>	<u>26,800</u>
Net book value							
31 December 2009	<u>27,951</u>	<u>119</u>	<u>610</u>	<u>44</u>	<u>835</u>	<u>526</u>	<u>30,085</u>
31 December 2009 (US\$'000)	<u>72,600</u>	<u>310</u>	<u>1,584</u>	<u>114</u>	<u>2,169</u>	<u>1,366</u>	<u>78,143</u>

12 Other assets

2009 US\$'000	2010 US\$'000		2010 RO'000	2009 RO'000
1,096	1,647	Prepaid taxes	634	422
291	312	Deferred tax asset	120	112
2,143	2,231	Other prepayments	859	825
3,158	335	Derivative trading assets (note 18 (d))	129	1,216
11,722	15,673	Cheques for collection and others	6,034	4,513
<u>117,351</u>	<u>253,366</u>	Acceptances	<u>97,546</u>	<u>45,180</u>
<u>135,761</u>	<u>273,564</u>		<u>105,322</u>	<u>52,268</u>

13 Due to banks

2009 US\$'000	2010 US\$'000		2010 RO'000	2009 RO'000
11,278	-	Bank borrowings	-	4,342
150,229	150,496	Syndicated borrowings	57,941	57,838
<u>55,083</u>	<u>67,673</u>	Others	<u>26,054</u>	<u>21,207</u>
<u>216,590</u>	<u>218,169</u>		<u>83,995</u>	<u>83,387</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

14 Deposits from customers

2009 US\$'000	2010 US\$'000		2010 RO'000	2009 RO'000
566,561	636,327	Current	244,986	218,126
812,587	842,400	Savings	324,324	312,846
277,223	269,901	Time deposits	103,912	106,731
<u>239,432</u>	<u>321,393</u>	Others	<u>123,736</u>	<u>92,181</u>
<u>1,895,803</u>	<u>2,070,021</u>		<u>796,958</u>	<u>729,884</u>

15 Other liabilities

2009 US\$'000	2010 US\$'000		2010 RO'000	2009 RO'000
7,821	5,423	Provision for income tax	2,088	3,011
1,124	1,328	Deferred tax liability	511	433
1,804	1,776	End of service benefits	684	695
5,110	5,300	Accrued expenses	2,040	1,968
2,530	668	Derivative trading liabilities (note 18 (d))	257	974
6,805	6,298	Others	2,425	2,619
<u>117,351</u>	<u>253,366</u>	Acceptances	<u>97,546</u>	<u>45,180</u>
<u>142,545</u>	<u>274,159</u>		<u>105,551</u>	<u>54,880</u>

As per the directives of the Capital Market Authority (CMA) the amount of unpaid dividend which is outstanding for more than six months is required to be transferred to the Investors' Trust Fund established by the CMA. The unpaid dividend amounting to RO 44,119 (2009 – RO 56,782) outstanding for more than six months has been transferred to the Investors' Trust Fund during October 2010.

The movements in end of service benefits liability are as follows:

2009 US\$'000	2010 US\$'000		2010 RO'000	2009 RO'000
1,616	1,804	At 1 January	695	622
257	288	Charge for the year	111	99
<u>(69)</u>	<u>(316)</u>	Paid during the year	<u>(122)</u>	<u>(26)</u>
<u>1,804</u>	<u>1,776</u>	At 31 December	<u>684</u>	<u>695</u>

16 Share capital

The share capital of the Bank is divided into 913,257,180 fully paid shares of RO 0.100 each (2009 – 913,257,180 shares of RO 0.100 each) against the authorised share capital of 1000 million shares of RO 0.100 each.

Dr Omar Bin Abdul Muniem Al Zawawi, the Bank's founder, holds 91,965,660 shares (2009 – 91,965,660) personally, and this is the only single shareholding in excess of 10%.

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

17 Reserves

Non-distributable reserves

(a) Legal reserve

In accordance with the Commercial Companies Law of Oman 1974, annual appropriations of 10% of the profit for the year, before Directors' remuneration, are made to the legal reserve until the accumulated balance of the reserve is equal to one-third of the value of the Bank's paid-up share capital. No transfer has been made during the year to legal reserve as the legal reserve equals to one-third of the Bank's paid up share capital (2009 – RO 1,096,000). This reserve is not available for distribution.

(b) Statutory reserve

Regulations issued on 30 September 2000 by the authority regulating the banking activities in India, in which certain branches operate, require the branches to appropriate 25% of their profits for the year to a statutory reserve, which is not distributable without the prior permission of the regulatory authority. An earlier regulation issued on 27 March 1989, required the branches in India to appropriate 20% of their profits to a statutory reserve until the year 2000. In this respect an amount of RO 190,000 has been transferred to statutory reserve during the year (2009 - RO 61,000).

(c) Investment revaluation reserve

Investments revaluation reserve represents fair value changes in available-for-sale financial assets.

(d) Asset revaluation reserve

Asset revaluation reserve represents net surplus arising on revaluation of freehold land and is not available for distribution.

18 Contingent liabilities, commitments and derivatives

(a) Letters of credit, guarantees and other commitments

2009 US\$'000	2010 US\$'000		2010 RO'000	2009 RO'000
167,551	359,070	Letters of credit	138,242	64,507
<u>516,288</u>	<u>447,395</u>	Guarantees and performance bonds	<u>172,247</u>	<u>198,771</u>
<u>683,839</u>	<u>806,465</u>		<u>310,489</u>	<u>263,278</u>

(b) Undrawn loan commitments

At 31 December 2010, the Bank had undrawn irrevocable loan commitments amounting to RO 9.5 million (2009 - RO 10.9 million).

(c) Capital commitments

At 31 December 2010, there were capital commitments amounting to RO 5,759,000 (2009 – RO 1,824,000).

(d) 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 the price in one or more underlying financial instruments, reference rate or index. Derivative instruments include forwards, futures, swaps and options.

The table below sets out the positive and negative fair values of derivative financial instruments, 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.

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

18 Contingent liabilities, commitments and derivatives (continued)

(d) Derivatives (continued)

The notional amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor the credit risk.

Forward foreign exchange contract are measured using Level I and interest rate swaps are measured using Level II of fair value hierarchy.

31 December 2010:

	Positive fair value RO 000	Negative fair value RO 000	Notional amount Total RO 000	Notional amounts by term to maturity		
				Up to 1 year RO 000	>1-3 years RO 000	>3-5 years RO 000
Derivatives held for trading:						
Forward foreign exchange contracts	129	257	130,655	50,773	79,882	-
Interest rate caps	-	-	370	370	-	-
	<u>129</u>	<u>257</u>	<u>131,025</u>	<u>51,143</u>	<u>79,882</u>	<u>-</u>
US\$ 000	<u>335</u>	<u>668</u>	<u>340,325</u>	<u>132,839</u>	<u>207,486</u>	<u>-</u>

31 December 2009:

	Positive fair value RO 000	Negative fair value RO 000	Notional amount Total RO 000	Notional amounts by term to maturity		
				Up to 1 year RO 000	>1- 3 years RO 000	>3 - 5 years RO 000
Derivatives held for trading:						
Interest rate swaps	360	285	20,041	20,041	-	-
Forward foreign exchange contracts	856	689	128,177	119,943	327	7,907
Interest rate caps	-	-	1,109	1,109	-	-
	<u>1,216</u>	<u>974</u>	<u>149,327</u>	<u>141,093</u>	<u>327</u>	<u>7,907</u>
US\$ 000	<u>3,158</u>	<u>2,530</u>	<u>387,863</u>	<u>366,476</u>	<u>850</u>	<u>20,537</u>

Derivative product types

Forwards and futures 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. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional amount, for an agreed period of time starting on a specified future date.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest

Payments based on a notional value in a single currency. For currency swaps, amounts as well as interest differentials are exchanged in different currencies.

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

18 Contingent liabilities, commitments and derivatives (continued)

(d) Derivatives (continued)

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Derivatives held or issued for trading purposes

Most of the Bank's derivative trading activities relate to sales and positioning. Sales activities involve offering products to customers in order to enable them to transfer, modify or reduce current and expected risks. Positioning involves managing positions with the expectation of profit from favourable movements in prices, rates or indices.

(e) Contingencies

As at 31 December 2010, there were certain legal suits pending against the Bank, aggregating to RO 3.7 million (2009: RO 5.09 million). Based on the opinion of the Bank's legal counsel, the Bank's management believes that no liability is expected to arise from these cases and it therefore does not consider it necessary to make any provision in this regard.

19 Financial assets and liabilities

Accounting classifications and fair values as at 31 December 2010

	Trading RO'000	Held to maturity RO'000	Loans and receivables RO'000	Available for sale RO'000	Other amortized cost RO'000	Total carrying amount RO'000	Fair value RO'000
Cash and balances with central banks	-	-	127,458	-	-	127,458	127,458
Treasury bills and certificates of deposit	-	139,192	-	-	-	139,192	139,192
Due from other banks	-	-	82,052	-	-	82,052	82,006
Loans and advances	-	-	639,106	-	-	639,106	643,958
Investments	-	10,173	-	21,557	-	31,730	31,675
Derivative trading assets	129	-	-	-	-	129	129
Total	129	149,365	848,616	21,557	-	1,019,667	1,024,418
Due to banks	-	-	-	-	83,995	83,995	83,995
Deposits from customers	-	-	-	-	796,958	796,958	796,970
Derivative trading liabilities	257	-	-	-	-	257	257
Total	257	-	-	-	880,953	881,210	881,222

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

19 Financial assets and liabilities (continued)

	Trading US\$'000	Held to maturity US\$'000	Loans and receivable US\$'000	Available for sale US\$'000	Other amortized cost US\$'000	Total carrying amount US\$'000	Fair value US\$'000
Cash and balances with central banks	-		331,060	-	-	331,060	331,060
Treasury bills and certificates of deposit	-	361,538	-	-	-	361,538	361,538
Due from other banks	-		213,122	-	-	213,122	213,003
Loans and advances	-		1,660,016	-	-	1,660,016	1,672,618
Investments	-	26,424	-	55,992	-	82,416	82,273
Derivative trading assets	335	-	-	-	-	335	335
Total	335	387,962	2,204,198	55,992	-	2,648,487	2,660,827
Due to banks	-	-	-	-	218,169	218,169	218,169
Deposits from customers	-	-	-	-	2,070,021	2,070,021	2,070,052
Derivative trading liabilities	668	-	-	-	-	668	668
Total	668	-	-	-	2,288,190	2,288,858	2,288,889

Accounting classifications and fair values as at 31 December 2009

	Trading RO'000	Held to maturity RO'000	Loans and receivable RO'000	Available for sale RO'000	Other amortized cost RO'000	Total carrying amount RO'000	Fair value RO'000
Cash and balances with central banks	-	-	107,260	-	-	107,260	107,260
Treasury bills and certificates of deposit	-	179,931	-	-	-	179,931	179,931
Due from other banks	-	-	24,138	-	-	24,138	24,233
Loans and advances	-	-	614,610	-	-	614,610	619,587
Investments	-	10,215	-	20,823	-	31,038	31,127
Derivative trading assets	1,216	-	-	-	-	1,216	1,216
Total	1,216	190,146	746,008	20,823	-	958,193	963,354
Due to banks	-	-	-	-	83,387	83,387	83,387
Deposits from customers	-	-	-	-	729,884	729,884	730,068
Derivative trading liabilities	974	-	-	-	-	974	974
Total	974	-	-	-	813,271	814,245	814,429

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

19 Financial assets and liabilities (continued)

	Trading US\$'000	Held to maturity US\$'000	Loans and receivable US\$'000	Available for sale US\$'000	Other amortized cost US\$'000	Total carrying amount US\$'000	Fair value US\$'000
Cash and balances with central banks	-	-	278,597	-	-	278,597	278,597
Treasury bills and certificates of deposit	-	467,353	-	-	-	467,353	467,353
Due from other banks	-	-	62,696	-	-	62,696	62,944
Loans and advances	-	-	1,596,390	-	-	1,596,390	1,609,316
Investments	-	26,533	-	54,085	-	80,618	80,849
Derivative trading assets	<u>3,158</u>	-	-	-	-	<u>3,158</u>	<u>3,158</u>
Total	<u>3,158</u>	<u>493,886</u>	<u>1,937,683</u>	<u>54,085</u>	-	<u>2,488,812</u>	<u>2,502,217</u>
Due to banks	-	-	-	-	216,590	216,590	216,590
Deposits from customers	-	-	-	-	1,895,803	1,895,803	1,896,280
Derivative trading liabilities	<u>2,530</u>	-	-	-	-	<u>2,530</u>	<u>2,530</u>
Total	<u>2,530</u>	-	-	-	<u>2,112,393</u>	<u>2,114,923</u>	<u>2,115,400</u>

20 Fair value information

The following summarises the methods and assumptions used in estimating the fair values of financial assets and liabilities:

Treasury bills, certificates of deposit and due from other banks

The fair value of treasury bills, certificates of deposit and due from other banks which are short-term in nature are estimated to equal their carrying value. For the remainder, the fair values have been determined by discounting the contracted cash flows using market interest rates of instruments of similar nature and maturities.

Loans and advances

The estimated fair value of loans whose actual interest rates are materially different from prevailing market interest rates are determined by discounting the contracted cash flows using market interest rates currently charged for similar loans. The fair value of non-performing loans approximates to the book value adjusted for provision for loan impairment. For the remainder, the fair value has been taken at book value as the prevailing interest rates offered on similar loans are not materially different from the actual loan rates.

Investments

The fair value of investments is based on the market value as at the year-end or on amounts derived from cash flow models.

Due to banks

The major portion of the bank borrowings is long-term foreign currency borrowings whose interest rates are linked to LIBOR and hence the fair value is estimated to equal their carrying value. The fair value of bank borrowings which are short-term in nature is estimated to equal their carrying value. For the remainder, the fair values have been determined by discounting the contracted cash flows using market interest rates of borrowings of similar maturities.

Deposits from customers

The fair values of deposits with no stated maturity are assumed to be equal to their carrying value. The estimated fair values of fixed rate deposits are determined by discounting the contracted cash flows using market interest rates currently offered for similar deposits.

Other financial instruments

The fair values of all other financial instruments are considered to approximate their book values.

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

20 Fair value information (continued)

Other financial instruments (continued)

No fair value adjustment is made with respect to credit-related financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams materially reflect contractual fees and commissions actually charged at the statement of financial position date for agreements of similar credit standing and maturity.

Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included in the carrying values of other assets and other liabilities.

Fair values and liquidity risk for financial instruments

The Bank has applied improving disclosures about financial instruments (amendments to IFRS 7) issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

The amendments require that fair value measurement disclosure use a three level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurement are categorised as level 3 (significant unobservable inputs) in the fair value hierarchy. The amendment require that any significant transfer between level 1 and level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reasons therefore, are required to be disclosed for each class of financial instruments.

Revised disclosures in respect of financial assets and liabilities carried at fair value are included in note 19.

Further, the definition of liquidity risk has been amended and it is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial assets.

The amendments require disclosure of a maturity analysis for non-derivative and derivative financial liabilities, but contractual maturities are required to be disclosed for derivatives financial liabilities only when contractual maturities are essential for an understanding of the timing of cash flows. For issued financial guarantee contract, the amendments require the maximum amount of the guarantee to be disclosed in the earliest period in which the guarantee could be called.

Revised disclosure in respect of liquidity risk is included in note 27.3

21 Cash and cash equivalents

The reconciliation of the components of cash and cash equivalents with the equivalent items shown in the statement of financial position is shown below:

2009 US\$'000	2010 US\$'000		2010 RO'000	2009 RO'000
278,597	331,060	Statement of financial position items comprise:	127,458	107,260
467,353	361,538	Cash and balances with central banks	139,192	179,931
62,696	213,122	Treasury bills and certificates of deposit	82,052	24,138
(216,590)	(218,169)	Due from other banks	(83,995)	(83,387)
592,056	687,551	Due to banks	264,707	227,942
(42,113)	(57,151)	Adjustment for items maturing after three months from date of acquisition and restricted balances	(22,003)	(16,214)
<u>549,943</u>	<u>630,400</u>		<u>242,704</u>	<u>211,728</u>
140,634	181,068	Cash and cash equivalents comprise:	69,711	54,144
428,392	337,662	Cash and balances with central banks	130,000	164,931
43,052	187,361	Treasury bills and certificates of deposit	72,134	16,575
(62,135)	(75,691)	Due from other banks	(29,141)	(23,922)
<u>549,943</u>	<u>630,400</u>	Due to banks	<u>242,704</u>	<u>211,728</u>

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

22 Related party transactions

The Bank accepts deposits from its major shareholders, Directors, senior management and their related concerns. The Bank also provides loans and other advances, and other banking services to these parties. These transactions are entered into in the ordinary course of the Bank's business, at normal commercial interest and commission rates. At 31 December, balances with related parties were as follows:

2009 US\$'000	2010 US\$'000		2010 RO'000	2009 RO'000
96,164	115,301	Loans and advances	44,391	37,023
52,158	126,371	Deposits from customers	48,653	20,081
13,836	9,114	Letters of credit, guarantees and other acceptances	3,509	5,327
<u>2,306</u>	<u>2,306</u>	Provision for loans and advances	<u>888</u>	<u>888</u>

Loans and advances amounting to RO 17,510,000 (2009: RO 17,510,000) included above are secured by cash collaterals and bank guarantees.

The financial statements include the following amounts in relation to transactions with Directors and their related concerns:

2009 US\$'000	2010 US\$'000		2010 RO'000	2009 RO'000
7,901	6,727	Interest income	2,590	3,042
7,353	255	Interest expense*	98	2,831
94	62	Other operating income	24	36
		Other operating expenditure:		
86	75	Advertisement and publicity	29	33
681	675	Insurance	260	262
774	665	Repairs and maintenance	256	298
1,033	1,086	Others	418	398
<u>514</u>	<u>1,166</u>	Purchase of property and equipment	<u>449</u>	<u>198</u>

* The amount paid and accrued for the year 2009 in the amount of RO 2.761 million was included as cost of fund for savings accounts under "interest expense" in statement of income towards 312 Mercedes Benz cars scheme for the "Mandoos Prize draws 2009".

Compensation of the key management personnel is as follows:

2009 US\$'000	2010 US\$'000		2010 RO'000	2009 RO'000
948	1,130	Short-term employee benefits	435	365
<u>49</u>	<u>54</u>	Terminal benefits	<u>21</u>	<u>19</u>
<u>997</u>	<u>1,184</u>		<u>456</u>	<u>384</u>

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

22. Related party transactions (continued)

Analysis of the related party transactions with related parties or holders of 10% or more of the bank's shares, ("Significant shareholders") or their family members during the year is as follows:

	Director RO'000	Other directors RO'000	Significant shareholder RO'000	Others RO'000	Total RO'000
As at 31 December 2010					
Loans and advances	12,500	9	21,492	10,390	44,391
Deposits from customers	12,575	23	21,174	14,881	48,653
Letters of credit, guarantees and other acceptances	28	-	1,065	2,416	3,509
Provision for loans and advances	=	=	=	888	888
During the year 2010					
Interest income	587	1	1,124	878	2,590
Interest expense	1	-	11	86	98
Other operating income	-	-	8	16	24
Other operating expenditure:					
Advertisement and publicity	-	-	29	-	29
Insurance	-	-	-	260	260
Repairs and maintenance	-	-	203	53	256
Others	8	26	232	152	418
Purchase of property and equipment	=	=	370	79	449

	Director RO'000	Other directors RO'000	Significant shareholder RO'000	Others RO'000	Total RO'000
As at 31 December 2009					
Loans and advances	4,302	10	17,792	14,919	37,023
Deposits from customers	582	17	3,428	16,054	20,081
Letters of credit, guarantees and other acceptances	28	-	1,831	3,468	5,327
Provision for loans and advances	=	=	=	888	888
During the year 2009					
Interest income	663	1	1,070	1,308	3,042
Interest expense*	-	-	2,765	66	2,831
Other operating income	-	-	19	17	36
Other operating expenditure:					
Advertisement and publicity	-	-	33	-	33
Insurance	-	-	-	262	262
Repairs and maintenance	-	-	241	57	298
Others	8	31	226	133	398
Purchase of property and equipment	=	=	94	104	198

Details are provided separately above where loans and advances relating to an individual Director and/or Significant shareholder and his/her related parties are greater than 5% of the total related party loans and advances. Others represent transactions with parties related to more than one Director, Significant Shareholder and/or key management personnel.

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

23 Geographical distribution of assets and liabilities

A geographical analysis of the assets, liabilities and equity as at 31 December 2010 is as follows:

	Oman RO'000	Other GCC countries RO'000	OECD countries RO'000	India RO'000	Pakistan RO'000	Others RO'000	Total RO'000
Cash and balances with central banks	109,736	-	-	1,940	15,782	-	127,458
Treasury bills and certificates of deposit	139,192	-	-	-	-	-	139,192
Due from other banks	-	21,099	37,460	9,438	504	13,551	82,052
Loans and advances	632,139	4,621	-	184	2,162	-	639,106
Investments	22,078	29	1,416	8,166	-	41	31,730
Property and equipment	29,547	-	-	1,097	103	-	30,747
Other assets	<u>19,982</u>	<u>-</u>	<u>84,048</u>	<u>1,179</u>	<u>113</u>	<u>-</u>	<u>105,322</u>
Total assets	<u>952,674</u>	<u>25,749</u>	<u>122,924</u>	<u>22,004</u>	<u>18,664</u>	<u>13,592</u>	<u>1,155,607</u>
Due to banks	1,399	10,343	71,891	10	297	55	83,995
Deposits from customers	777,874	-	16	15,261	3,807	-	796,958
Other liabilities	<u>104,872</u>	<u>-</u>	<u>-</u>	<u>553</u>	<u>126</u>	<u>-</u>	<u>105,551</u>
Total liabilities	<u>884,145</u>	<u>10,343</u>	<u>71,907</u>	<u>15,824</u>	<u>4,230</u>	<u>55</u>	<u>986,504</u>
Equity	<u>168,711</u>	<u>-</u>	<u>-</u>	<u>392</u>	<u>-</u>	<u>-</u>	<u>169,103</u>
Total liabilities and equity	<u>1,052,856</u>	<u>10,343</u>	<u>71,907</u>	<u>16,216</u>	<u>4,230</u>	<u>55</u>	<u>1,155,607</u>

	Oman US\$'000	Other GCC countries US\$'000	OECD countries US\$'000	India US\$'000	Pakistan US\$'000	Others US\$'000	Total US\$'000
Cash and balances with central banks	285,029	-	-	5,039	40,992	-	331,060
Treasury bills and certificates of deposit	361,538	-	-	-	-	-	361,538
Due from other banks	-	54,803	97,299	24,514	1,309	35,197	213,122
Loans and advances	1,641,919	12,003	-	478	5,616	-	1,660,016
Investments	57,346	75	3,678	21,211	-	106	82,416
Property and equipment	76,745	-	-	2,849	268	-	79,862
Other assets	<u>51,902</u>	<u>-</u>	<u>218,306</u>	<u>3,062</u>	<u>294</u>	<u>-</u>	<u>273,564</u>
Total assets	<u>2,474,479</u>	<u>66,881</u>	<u>319,283</u>	<u>57,153</u>	<u>48,479</u>	<u>35,303</u>	<u>3,001,578</u>
Due to banks	3,634	26,865	186,730	26	771	143	218,169
Deposits from customers	2,020,452	-	42	39,639	9,888	-	2,070,021
Other liabilities	<u>272,396</u>	<u>-</u>	<u>-</u>	<u>1,436</u>	<u>327</u>	<u>-</u>	<u>274,159</u>
Total liabilities	<u>2,296,482</u>	<u>26,865</u>	<u>186,772</u>	<u>41,101</u>	<u>10,986</u>	<u>143</u>	<u>2,562,349</u>
Equity	<u>438,211</u>	<u>-</u>	<u>-</u>	<u>1,018</u>	<u>-</u>	<u>-</u>	<u>439,229</u>
Total liabilities and equity	<u>2,734,693</u>	<u>26,865</u>	<u>186,772</u>	<u>42,119</u>	<u>10,986</u>	<u>143</u>	<u>3,001,578</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

23 Geographical distribution of assets and liabilities (continued)

A geographical analysis of the assets, liabilities and equity as at 31 December 2009 is as follows:

	Oman RO'000	Other GCC countries RO'000	OECD countries RO'000	India RO'000	Pakistan RO'000	Others RO'000	Total RO'000
Cash and balances with central banks	90,836	-	-	1,042	15,382	-	107,260
Treasury bills and certificates of deposit	179,931	-	-	-	-	-	179,931
Due from other banks	-	11,780	3,420	8,148	695	95	24,138
Loans and advances	607,992	4,621	-	151	1,846	-	614,610
Investments	21,373	29	1,742	7,853	-	41	31,038
Property and equipment	28,906	-	-	1,131	48	-	30,085
Other assets	<u>17,845</u>	<u>-</u>	<u>28,690</u>	<u>5,133</u>	<u>600</u>	<u>-</u>	<u>52,268</u>
Total assets	<u>946,883</u>	<u>16,430</u>	<u>33,852</u>	<u>23,458</u>	<u>18,571</u>	<u>136</u>	<u>1,039,330</u>
Due to banks	1,213	5,795	71,838	11	1,774	2,756	83,387
Deposits from customers	711,129	-	14	15,527	3,214	-	729,884
Other liabilities	<u>53,792</u>	<u>-</u>	<u>-</u>	<u>925</u>	<u>163</u>	<u>-</u>	<u>54,880</u>
Total liabilities	766,134	5,795	71,852	16,463	5,151	2,756	868,151
Equity	<u>170,954</u>	<u>-</u>	<u>-</u>	<u>225</u>	<u>-</u>	<u>-</u>	<u>171,179</u>
Total liabilities and equity	<u>937,088</u>	<u>5,795</u>	<u>71,852</u>	<u>16,688</u>	<u>5,151</u>	<u>2,756</u>	<u>1,039,330</u>

	Oman US\$'000	Other GCC countries US\$'000	OECD countries US\$'000	India US\$'000	Pakistan US\$'000	Others US\$'000	Total US\$'000
Cash and balances with central banks	235,938	-	-	2,706	39,953	-	278,597
Treasury bills and certificates of deposit	467,353	-	-	-	-	-	467,353
Due from other banks	-	30,597	8,883	21,164	1,805	247	62,696
Loans and advances	1,579,200	12,003	-	392	4,795	-	1,596,390
Investments	55,514	75	4,525	20,398	-	106	80,618
Property and equipment	75,081	-	-	2,937	125	-	78,143
Other assets	<u>46,349</u>	<u>-</u>	<u>74,522</u>	<u>13,332</u>	<u>1,558</u>	<u>-</u>	<u>135,761</u>
Total assets	<u>2,459,435</u>	<u>42,675</u>	<u>87,930</u>	<u>60,929</u>	<u>48,236</u>	<u>353</u>	<u>2,699,558</u>
Due to banks	3,151	15,052	186,592	29	4,608	7,158	216,590
Deposits from customers	1,847,088	-	36	40,331	8,348	-	1,895,803
Other liabilities	<u>139,719</u>	<u>-</u>	<u>-</u>	<u>2,403</u>	<u>423</u>	<u>-</u>	<u>142,545</u>
Total liabilities	1,989,958	15,052	186,628	42,763	13,379	7,158	2,254,938
Equity	<u>444,036</u>	<u>-</u>	<u>-</u>	<u>584</u>	<u>-</u>	<u>-</u>	<u>444,620</u>
Total liabilities and equity	<u>2,433,994</u>	<u>15,052</u>	<u>186,628</u>	<u>43,347</u>	<u>13,379</u>	<u>7,158</u>	<u>2,699,558</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

24 Distribution by economic sector

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

2009 US\$'000	2010 US\$'000		2010 RO'000	2009 RO'000
680,574	704,257	Personal and consumer	271,139	262,021
94,993	87,919	Import trade	33,849	36,572
71,256	82,792	Construction	31,875	27,434
66,192	87,161	Financial institutions	33,557	25,484
259,964	245,777	Manufacturing	94,624	100,086
25,462	55,891	Wholesale and retail trade	21,518	9,803
2,423	2,831	Export trade	1,090	933
131,849	148,636	Electricity, gas, water, transportation and communication	57,225	50,762
48,779	61,894	Services	23,829	18,780
303,345	283,538	Mining and quarrying	109,162	116,788
96,442	101,215	Others	38,968	37,129
<u>1,781,279</u>	<u>1,861,911</u>		<u>716,836</u>	<u>685,792</u>

The table below analyses the concentration of letters of credit, guarantees and other commitments by economic sector:

2009 US\$'000	2010 US\$'000		2010 RO'000	2009 RO'000
255	416	Personal and consumer	160	98
21,557	17,725	Import trade	6,824	8,299
50,318	48,527	Construction	18,683	19,373
551,055	695,382	Financial institutions	267,722	212,156
11,200	6,584	Manufacturing	2,535	4,312
14,756	13,140	Wholesale and retail trade	5,059	5,681
1,579	140	Electricity, gas, water, transportation and communication	54	608
3,397	6,717	Services	2,586	1,308
130	260	Mining and quarrying	100	50
29,592	17,574	Others	6,766	11,393
<u>683,839</u>	<u>806,465</u>		<u>310,489</u>	<u>263,278</u>

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

25 Operating segments

The Bank has two reportable segments as describe below, which are the Banks strategic business units. The strategic business units offer different products and services, and are managed separately based on the Bank's management and internal reporting structure for each of the strategic business units, the Bank's Business Committee reviews internal management reports on at least monthly basis. The following summary describes the operations in each of the Bank's reportable segments.

Wholesale Banking: includes loans, deposits and other transactions, balances with the corporate customers, treasury and trade finance.

Retail Banking: includes loans, deposits and other transactions.

Information regarding the results of each reportable segment is included below. The performance is measured based on segment profit before income tax, as included in the management information report that are reviewed by the Business Committee. Segment profit is used to measure the performance as management believes that such information is most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Information about operating segments

	31 December 2010			31 December 2009		
	Wholesale Banking RO' 000	Retail Banking RO' 000	Total RO' 000	Wholesale Banking RO' 000	Retail Banking RO' 000	Total RO' 000
External income						
Net interest income	12,217	17,622	29,839	15,970	15,886	31,856
Other operating income	<u>3,547</u>	<u>6,711</u>	<u>10,258</u>	<u>3,814</u>	<u>7,386</u>	<u>11,200</u>
Total segment income	<u>15,764</u>	<u>24,333</u>	<u>40,097</u>	<u>19,784</u>	<u>23,272</u>	<u>43,056</u>
Other material non-cash items:						
Impairment losses on financial assets	<u>2,714</u>	<u>1,084</u>	<u>3,798</u>	<u>2,598</u>	<u>661</u>	<u>3,259</u>
Reportable segment profit before income tax	<u>10,221</u>	<u>9,732</u>	<u>19,953</u>	<u>15,341</u>	<u>9,105</u>	<u>24,446</u>
Reportable segment assets	<u>860,806</u>	<u>256,406</u>	<u>1,117,212</u>	<u>756,476</u>	<u>249,347</u>	<u>1,005,823</u>
Reportable segment liabilities	<u>525,165</u>	<u>453,485</u>	<u>978,650</u>	<u>401,481</u>	<u>458,209</u>	<u>859,690</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

25 Operating segments (continued)

	31 December 2010			31 December 2009		
	Wholesale Banking US\$' 000	Retail Banking US\$' 000	Total US\$' 000	Wholesale Banking US\$' 000	Retail Banking US\$' 000	Total US\$' 000
External income						
Net interest income	31,732	45,772	77,504	41,481	41,262	82,743
Other operating income	<u>9,213</u>	<u>17,431</u>	<u>26,644</u>	<u>9,907</u>	<u>19,184</u>	<u>29,091</u>
Total segment income	<u>40,945</u>	<u>63,203</u>	<u>104,148</u>	<u>51,388</u>	<u>60,446</u>	<u>111,834</u>
Other material non-cash items:						
Impairment losses on financial assets	<u>7,049</u>	<u>2,816</u>	<u>9,865</u>	<u>6,748</u>	<u>1,717</u>	<u>8,465</u>
Reportable segment profit before income tax	<u>26,548</u>	<u>25,278</u>	<u>51,826</u>	<u>39,848</u>	<u>23,649</u>	<u>63,497</u>
Reportable segment assets	<u>2,235,860</u>	<u>665,990</u>	<u>2,901,850</u>	<u>1,964,872</u>	<u>647,655</u>	<u>2,612,527</u>
Reportable segment liabilities	<u>1,364,065</u>	<u>1,177,883</u>	<u>2,541,948</u>	<u>1,042,808</u>	<u>1,190,153</u>	<u>2,232,961</u>

Reconciliation of reportable segment assets and liabilities

	2010 RO' 000	2010 US\$' 000	2009 RO' 000	2009 US\$' 000
Assets				
Total assets for reportable segments	1,117,212	2,901,850	1,005,823	2,612,527
Other unallocated amounts	<u>38,395</u>	<u>99,728</u>	<u>33,507</u>	<u>87,031</u>
Total assets	<u>1,155,607</u>	<u>3,001,578</u>	<u>1,039,330</u>	<u>2,699,558</u>
Liabilities				
Total liabilities for reportable segments	978,650	2,541,948	859,690	2,232,961
Other unallocated amounts	<u>7,854</u>	<u>20,401</u>	<u>8,461</u>	<u>21,977</u>
Total liabilities	<u>986,504</u>	<u>2,562,349</u>	<u>868,151</u>	<u>2,254,938</u>

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

25 Operating segments (continued)

Operating segments geographical areas

A geographical analysis of key financial data by location of primary assets as at 31 December 2010 is set out below:

	Oman RO'000	Others RO'000	Adjustments RO'000	Total RO'000
Income from customers	45,203	1,655	-	46,858
Internal income	32	-	(32)	-
Net segment result	16,764	821	-	17,585
Assets	1,147,116	41,192	(32,701)	1,155,607
Liabilities	979,037	24,550	(17,083)	986,504
Capital expenditure	1,473	110	-	1,583
Depreciation	936	131	-	1,067
Provision for loan impairment	<u>3,781</u>	<u>17</u>	-	<u>3,798</u>
	Oman US\$'000	Others US\$'000	Adjustments US\$'000	Total US\$'000
Income from customers	117,410	4,299	-	121,709
Internal income	83	-	(83)	-
Net segment result	43,543	2,132	-	45,675
Assets	2,979,523	106,992	(84,937)	3,001,578
Liabilities	2,542,953	63,766	(44,370)	2,562,349
Capital expenditure	3,826	286	-	4,112
Depreciation	2,431	340	-	2,771
Provision for loan impairment	<u>9,821</u>	<u>44</u>	-	<u>9,865</u>

A geographical analysis of key financial data by location of primary assets as at 31 December 2009 is set out below:

	Oman RO'000	Others RO'000	Adjustments RO'000	Total RO'000
Income from customers	49,842	1,592	-	51,434
Internal income	32	-	(32)	-
Net segment result	20,986	536	-	21,522
Assets	1,029,537	38,724	(28,931)	1,039,330
Liabilities	859,104	23,419	(14,372)	868,151
Capital expenditure	1,191	11	-	1,202
Depreciation	1,043	121	-	1,164
Provision for loan impairment	<u>3,194</u>	<u>65</u>	-	<u>3,259</u>
	Oman US\$'000	Others US\$'000	Adjustments US\$'000	Total US\$'000
Income from customers	129,460	4,135	-	133,595
Internal income	83	-	(83)	-
Net segment result	54,509	1,393	-	55,902
Assets	2,674,122	100,582	(75,146)	2,699,558
Liabilities	2,231,439	60,829	(37,330)	2,254,938
Capital expenditure	3,094	28	-	3,122
Depreciation	2,709	314	-	3,023
Provision for loan impairment	<u>8,296</u>	<u>169</u>	-	<u>8,465</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

26 Dividend per share

The Board of Directors at the forthcoming Ordinary Annual General meeting will propose a cash dividend of RO 0.015 per share of nominal value of RO 0.100 each amounting to RO 13.699 million and a stock dividend of 6% equal to 54,795,431 shares for the year 2010 compared to (2009: cash dividend of RO 0.022 per share of nominal value of RO 0.100 each amounting to RO 20.092 million). These financial statements do not reflect these dividends, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2011.

27 Risk Management

27.1 Introduction and overview

The primary objective of the Risk Management system is to safeguard the Bank's capital, its financial resources and profitability from various risks. The Bank's risk management policies are designed to identify and analyze all risks, to set appropriate risk limits and controls, to measure and monitor the same through reliable management information systems.

The Bank has exposure to the following major risks from its business

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

Risk Management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. Risk Management policies and systems are established to identify and analyze risks faced by the Bank.

The Bank has established Asset and Liability Committee (ALCO), Credit and Operational Risk Committees which are responsible for developing and monitoring risk management policies. The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by Internal Audit which undertakes regular and ad-hoc reviews, the results of which are reported to the Audit Committee. The Board monitors the risk and receives reports which allow it to review the effectiveness of the risk management policies.

Management is responsible for:

- Developing and recommending policies and risk management practices /processes for approval by the Board of Directors.
- Ensuring that business activities are conducted in accordance with the approved policies and processes.
- Establishing and maintaining data systems and methods capable of providing timely and accurate measurement of risks in each business category.
- Ensuring the development of board and management reports and reporting procedures /disciplines that provide meaningful business information, in analyzed form, useful to decision makers.

The Risk Management Department oversees the risk management of the Bank. Risk Management through its policies and procedures maps the key risks that threaten achievement of the Bank's objectives. Ownership and implementation of the risk policies and procedures lie with the business units.

27.2 Credit Risk

Credit Risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loan 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). For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

27 Risk Management (continued)

27.2 Credit Risk (continued)

27.2.1 Management of Credit Risk

The Board of Directors has delegated responsibility for the management of credit risk to the Board Risk Committee (BRC) which is responsible for the oversight of the Bank's credit risk, including:

- Formulating credit risk & operational risk policies
- Establishing the authorization structure
- Reviewing and assessing credit risk & operational risk
- Limiting concentration of exposure to counterparties
- Developing and maintaining the Bank's risk grading
- Reviewing compliance of business units
- Providing advice, guidance and specialist skills to promote best practice in the management of credit risk.

27.2. Credit Approval Process

The Credit process requires all credit applications from Corporate & Commercial Banking unit to be independently reviewed by Risk Management department. The Risk Credit Committee (RCC) of the Management approves applications within its delegated limits and recommends applications above its delegated limit to the Board Risk Committee.

All Retail applications in excess of the Branch Manager's authority or outside pre-defined product norms are approved by the Credit Sanctioning Unit at Head Office.

27.2.3 Collateral and Credit Enhancements

The Bank obtains collaterals for all corporate credits, unless the business case warrants clean lending.

Personal loan borrowers are required to provide guarantors as additional security. For housing loans and auto loans, besides the salary assignments, the underlying asset is mortgaged.

27.2.4 Large exposures and Concentration

Exposure to a person, company or group (ie the Single Borrower Lending Limit - SBLL) is restricted to maximum 15 % of the Bank's net worth or 10 % of the Bank's net worth for senior members in Management. In addition, the total of all facilities granted to senior members in Management of the Bank must not exceed 35 % of the Bank's net worth.

27.2.5 Credit quality of Loans and Advances

All loans and advances in the Bank are classified according to asset quality. Standard accounts include all facilities which demonstrate good financial condition, risk factors and capacity to repay in line with the original terms of sanction.

Accounts categorized as "Specially Mentioned" carry no impairment provision but are below standard and require monitoring for reason of one or more adverse factors. This may for example relate to poor profitability, low tangible net worth, deteriorating business prognosis or doubts about the ownership.

27.2.6 Impaired Loans

Impaired loans are those loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms.

Impairment allowance is calculated by discounting the expected future cash flows at the contracted rate of interest and determining the fair value of the assets. This is measured against the provision requirements in terms of CBO methodology. The impairment provision held by the Bank is the higher of the two methodologies on a portfolio basis. Interest is suspended on all impaired loans.

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

27 Risk Management (continued)

27.2 Credit risk (continued)

The CBO as per circular BM 977 requires Banks either to establish a general loan loss provision to cover expected losses amounting to 2 % of their personal loan portfolio and 1 % of the corporate loan portfolio or develop its own provisioning model.

A model is developed by the Bank. The model is a combination of three sub models: a corporate loan probability of default (PD) model, a personal loan PD model, and a Loss given default (LGD) model. From these foundations, a cycle –average expected loss model was developed that will be an effective tool for forecasting the appropriate level of general provisions necessary to safeguard the Bank’s statement of financial position against expected losses.

27.2.7 Credit Administration

Credit Administration Department ensures that security documentation of loans and advances are perfected to protect the Bank's interest. The department is responsible for maintaining all limits and disbursements. This segregation ensures that the credit marketing function and credit operations are independent and control is effectively exercised

The Bank has adopted the Standard Approach under Basel II for credit risk.

27.2.8 Exposure to Credit risk

	Loans and advances		Due from other banks		Investments	
	2010 RO'000	2009 RO'000	2010 RO'000	2009 RO'000	2010 RO'000	2009 RO'000
Individually impaired	77,488	72,350	-	-	79	79
Allowance for impairment	<u>(71,986)</u>	<u>(65,387)</u>	=	=	<u>(31)</u>	<u>(31)</u>
Carrying amount	5,502	6,963	-	-	48	48
Past due and not impaired	11,370	19,468	-	-	-	-
Neither past due nor impaired	<u>622,234</u>	<u>588,179</u>	<u>82,052</u>	<u>24,138</u>	<u>31,682</u>	<u>30,990</u>
Total carrying amount	<u>639,106</u>	<u>614,610</u>	<u>82,052</u>	<u>24,138</u>	<u>31,730</u>	<u>31,038</u>

	Loans and advances		Due from other banks		Investments	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
Individually impaired	201,268	187,922	-	-	205	205
Allowance for impairment	<u>(186,977)</u>	<u>(169,836)</u>	=	=	<u>(81)</u>	<u>(81)</u>
Carrying amount	14,291	18,086	-	-	124	124
Past due and not impaired	29,534	50,566	-	-	-	-
Neither past due nor impaired	<u>1,616,191</u>	<u>1,527,738</u>	<u>213,122</u>	<u>62,696</u>	<u>82,292</u>	<u>80,494</u>
Total carrying amount	<u>1,660,016</u>	<u>1,596,390</u>	<u>213,122</u>	<u>62,696</u>	<u>82,416</u>	<u>80,618</u>

The Bank holds collateral against loans and advances in the form of deposits, mortgage over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at regular intervals as per the policies and procedures of the Bank. Collateral usually is not held against due to banks and investment securities, and no such collateral was held at 31 December 2010 or 2009.

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NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

27 Risk Management (continued)

27.2 Credit risk (continued)

27.2.8 Exposure to Credit risk (continued)

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

Loans and advances			Loans and advances	
2009	2010		2010	2009
US\$'000	US\$'000		RO'000	RO'000
		Against individually impaired		
45,641	47,364	Property	18,235	17,572
436	369	Deposits	142	168
<u>11,265</u>	<u>9,291</u>	Guarantees (Sovereign/Bank)	<u>3,577</u>	<u>4,337</u>
<u>57,342</u>	<u>57,024</u>	Total	<u>21,954</u>	<u>22,077</u>
		Against past due but not impaired		
40,403	39,847	Property	15,341	15,555
694	353	Deposits	136	267
478	<u>6,382</u>	Guarantees (Sovereign/Bank)	<u>2,457</u>	<u>184</u>
<u>41,575</u>	<u>46,582</u>	Total	<u>17,934</u>	<u>16,006</u>
		Against neither past due nor impaired		
101,382	62,512	Property	24,067	39,032
6,912	-	Debt Securities	-	2,661
2,577	1,343	Equities	517	992
78,410	85,717	Deposits	33,001	30,188
<u>184,888</u>	<u>161,403</u>	Guarantees (Sovereign/Bank)	<u>62,140</u>	<u>71,182</u>
<u>374,169</u>	<u>310,975</u>	Total	<u>119,725</u>	<u>144,055</u>
<u>473,086</u>	<u>414,581</u>	Total Securities	<u>159,613</u>	<u>182,138</u>

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

The Bank monitors concentration of credit risk by business sectors. An analysis of the concentration of credit risk at the reporting date is as follows:

	Loans and advances		Due from other banks		Investments	
	2010	2009	2010	2009	2010	2009
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Concentration by sector:						
Sovereign	-	-	-	-	13,269	13,273
Corporate	382,700	366,723	-	-	-	-
Banks	-	-	82,052	24,138	-	-
Retail	256,406	247,887	-	-	-	-
Equity	-	-	-	-	<u>18,461</u>	<u>17,765</u>
Carrying amount	<u>639,106</u>	<u>614,610</u>	<u>82,052</u>	<u>24,138</u>	<u>31,730</u>	<u>31,038</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

27 Risk Management (continued)

27.2 Credit risk (continued)

27.2.8 Exposure to Credit risk (continued)

	Loans and advances		Due from other banks		Investments	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
Concentration by sector:						
Sovereign	-	-	-	-	34,465	34,475
Corporate	994,026	952,527	-	-	-	-
Banks	-	-	213,122	62,696	-	-
Retail	665,990	643,863	-	-	-	-
Equity	-	-	-	-	47,951	46,143
Carrying amount	<u>1,660,016</u>	<u>1,596,390</u>	<u>213,122</u>	<u>62,696</u>	<u>82,416</u>	<u>80,618</u>

27.3 Liquidity and funding management

Liquidity risk is the possibility that the Bank may be unable to meet its liabilities as they become due for payment without incurring excessive cost. The liquidity risk arises generally due to mismatch in the timing of inflows and outflows of funds. Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

The objective of the Bank's liquidity and funding management is to ensure that all funding commitments and deposits withdrawals can be met when due. It is the Bank's objective to maintain a diversified and stable funding base mainly comprising core retail deposits and corporate deposits and institutional balances. Portfolios of highly liquid assets, which are diversified by currency and maturity, are maintained with the objective of enabling the Bank to respond quickly and smoothly to unforeseen liquidity requirements.

The management of liquidity and funding is carried out in accordance with the practices and limits set by the Board and in line with the guidelines issued by CBO. The Bank has adopted the duration gap analysis with behavioral pattern for monitoring liquidity. The Treasury Department of the Bank is responsible for liquidity management under the guidance and supervision of ALCO. ALCO meets periodically to monitor funding strategies, liquidity planning, prudential limits etc.

The Bank's liquidity and funding management process includes:

- Projecting cash flows by major currency and considering maintenance of liquid assets necessary in relation thereto;
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements;
- Monitoring depositor concentration with particular thrust to stable retail deposits complemented by corporate and institutional deposits.

Current accounts and savings deposits form a significant part of the Bank's funding. More importance is given by the Bank on maintaining the stability of these deposits. The stability of deposits, which are the primary source of funding, depends upon maintaining depositors' confidence in the Bank's capital strength and liquidity and on competitive and transparent deposit-pricing strategies.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash, treasury bills and certificate of deposits, and due from other banks less any due to banks and other borrowings maturing within the next three months. The ratio of net liquid assets to deposits from customers at 31 December 2010 was 23.18% (2009 – 29.01%).

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

27 Risk Management (continued)

27.3 Liquidity and funding management (continued)

Residual contractual maturities of financial liabilities

	Carrying amount RO'000	Gross nominal inflow/ (outflow) RO'000	Up to 1 year RO'000	1-3 years RO'000	>3-5 years RO'000	Over 5 years RO'000
31 December 2010						
Non-derivative liabilities						
Due to banks	83,995	(84,053)	(84,053)	-	-	-
Deposit from customers	796,958	(797,018)	(465,502)	(82,343)	(79,623)	(169,550)
Unrecognized loan commitments	-	(9,527)	(9,527)	-	-	-
Derivative liabilities						
Trading:	257	-	-	-	-	-
Outflow	-	(39,699)	(27,192)	(12,507)	-	-
Inflow	-	39,442	26,935	12,507	-	-
	<u>881,210</u>	<u>(890,855)</u>	<u>(559,339)</u>	<u>(82,343)</u>	<u>(79,623)</u>	<u>(169,550)</u>

	Carrying amount US\$'000	Gross nominal inflow/ (outflow) US\$'000	Up to 1 year US\$'000	1-3 years US\$'000	>3-5 years US\$'000	Over 5 years US\$'000
31 December 2010						
Non-derivative liabilities						
Due to banks	218,169	(218,319)	(218,319)	-	-	-
Deposit from customers	2,070,021	(2,070,177)	(1,209,096)	(213,878)	(206,813)	(440,390)
Unrecognized loan commitments	-	(24,745)	(24,745)	-	-	-
Derivative liabilities						
Trading:	668	-	-	-	-	-
Outflow	-	(103,114)	(70,628)	(32,486)	-	-
Inflow	-	102,446	69,960	32,486	-	-
	<u>2,288,858</u>	<u>(2,313,909)</u>	<u>(1,452,828)</u>	<u>(213,878)</u>	<u>(206,813)</u>	<u>(440,390)</u>

	Carrying amount RO'000	Gross nominal inflow/ (outflow) RO'000	Up to 1 year RO'000	1-3 years RO'000	>3-5 years RO'000	Over 5 years RO'000
31 December 2009						
Non-derivative liabilities						
Due to banks	83,387	(83,675)	(25,501)	(58,174)	-	-
Deposit from customers	729,884	(731,110)	(421,075)	(79,632)	(77,577)	(152,826)
Unrecognized loan commitments	-	(10,907)	(10,907)	-	-	-
Derivative liabilities						
Trading:	974	-	-	-	-	-
Outflow	-	(76,337)	(76,203)	(134)	-	-
Inflow	-	75,363	75,229	134	-	-
	<u>814,245</u>	<u>(826,666)</u>	<u>(458,457)</u>	<u>(137,806)</u>	<u>(77,577)</u>	<u>(152,826)</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

27 Risk Management (continued)

27.3 Liquidity and funding management (continued)

	Carrying amount US\$'000	Gross nominal inflow/ (outflow) US\$'000	Up to 1 year US\$'000	1-3 years US\$'000	>3-5 years US\$'000	Over 5 years US\$'000
31 December 2009						
Non-derivative liabilities						
Due to banks	216,590	(217,338)	(66,236)	(151,102)	-	-
Deposit from customers	1,895,803	(1,898,987)	(1,093,701)	(206,836)	(201,499)	(396,951)
Unrecognized loan commitments	-	(28,330)	(28,330)	-	-	-
Derivative liabilities						
Trading:	2,530	-	-	-	-	-
Outflow	-	(198,278)	(197,930)	(348)	-	-
Inflow	-	195,748	195,400	348	-	-
	<u>2,114,923</u>	<u>(2,147,185)</u>	<u>(1,190,797)</u>	<u>(357,938)</u>	<u>(201,499)</u>	<u>(396,951)</u>

The table above shows the undiscounted cash flows of the Bank's financial liabilities and unrecognized loan commitments on the basis of their earliest possible contractual maturity. The Bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand and savings deposits from customers are expected to maintain a stable or increase balance.

27.4 Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Bank's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

27.4.1 Management of market risks

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios include positions arising from market making and proprietary positions together with financial assets and liabilities that are managed on a fair value basis. The management has set in place various limits as tool to control the risk and it is monitored by Risk Management Department.

The Bank uses Value at Risk (VaR) model to measure market risk – foreign exchange and interest rate risk. The VaR model used by the bank is based on 98% confidence level. VaR is calculated for foreign exchange risk on daily basis and interest rate risk on weekly basis and is submitted to ALCO on regular basis.

Overall authority for market risk is vested with ALCO. Risk Management is responsible for the development of detailed risk management policies, subject to review and approval by ALCO/Board and for the day-to-day review of their implementation. As a risk control mechanism limits are put in place for foreign exchange open positions. Positions are managed and monitored on an on going basis by the Treasury. Periodical reporting is made to ALCO who deliberate on the issue and give necessary guidance to Treasury.

The Bank had the following significant net exposures denominated in foreign currencies as at 31 December:

	Assets FCY'000	Liabilities FCY'000	Forward		Net exposure 2010 FCY'000	Net exposure 2010 RO'000	Net exposure 2009 RO'000
			Purchases FCY'000	Sales FCY'000			
US Dollars	770,924	436,966	50,046	274,054	109,950	42,331	45,045
Indian Rupees	1,278,668	1,279,037	-	-	369	3	1
Others						259	521
						<u>42,593</u>	<u>45,567</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

27 Risk Management (continued)

27.4 Market risks (continued)

The majority of the exposure is in US Dollar and the Management do not believe that the Bank is exposed to any material exchange risk as the US Dollar is pegged with Rial Omani.

27.4.2 Exposure to interest rate risk-non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed through monitoring interest rate gaps. The ALCO is the monitoring body for compliance with various limits and is assisted by Risk Management in its day-to-day monitoring activities. Monitoring is carried out through the statement of interest rate sensitivity with impact study on any change in the movement in interest.

Interest rate risk is the sensitivity of the Bank's financial condition to movements in interest rates. Mismatches or gaps in the amount of assets, liabilities and other financial instruments can generate interest rate risk, the impact of which is a function of the interest rate changes and the maturity profile of the assets and liabilities. Positions are monitored regularly and hedging strategies are used to manage the interest rate risk.

The Bank's interest sensitivity position based on contractual repricing arrangements or maturity at 31 December 2010 was as follows:

	Effective interest rate %	Less than 6 months RO'000	6 to 12 months RO'000	Over 12 months RO'000	Non-interest sensitive RO'000	Total RO'000
Assets						
Cash and balances with central banks	-	-	-	-	127,458	127,458
Treasury bills and certificates of deposit	0.28	139,192	-	-	-	139,192
Due from other banks	1.37	69,147	4,518	1,403	6,984	82,052
Loans and advances	5.01	303,719	21,718	301,303	12,366	639,106
Investments	2.66	-	1,401	11,761	18,568	31,730
Total	3.84	512,058	27,637	314,467	165,376	1,019,538
Liabilities						
Due to banks	0.77	58,075	-	-	25,920	83,995
Deposits from customers	0.82	321,231	17,005	8,116	450,606	796,958
Total	0.82	379,306	17,005	8,116	476,526	880,953
Interest sensitivity gap		<u>132,752</u>	<u>10,632</u>	<u>306,399</u>		
	Effective interest rate %	Less than 6 months US\$'000	6 to 12 months US\$'000	Over 12 months US\$'000	Non-interest sensitive US\$'000	Total US\$'000
Assets						
Cash and balances with central banks	-	-	-	-	331,060	331,060
Treasury bills and certificates of deposit	0.28	361,538	-	-	-	361,538
Due from other banks	1.37	179,603	11,735	3,644	18,140	213,122
Loans and advances	5.01	788,881	56,410	782,606	32,119	1,660,016
Investments	2.66	-	3,639	30,548	48,229	82,416
Total	3.84	1,330,022	71,784	816,798	429,548	2,648,152
Liabilities						
Due to banks	0.77	150,844	-	-	67,325	218,169
Deposits from customers	0.82	834,366	44,169	21,081	1,170,405	2,070,021
Total	0.82	985,210	44,169	21,081	1,237,730	2,288,190
Interest sensitivity gap		<u>344,812</u>	<u>27,615</u>	<u>795,841</u>		

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

27 Risk Management (continued)

27.4 Market risks (continued)

27.4.2 Exposure to interest rate risk-non-trading portfolios (continued)

The Bank's interest sensitivity position based on contractual repricing arrangements or maturity at 31 December 2009 was as follows:

	Effective Interest rate %	Less than 6 months RO'000	6 to 12 months RO'000	Over 12 months RO'000	Non-interest sensitive RO'000	Total RO'000
Assets						
Cash and balances with central banks		-	-	-	107,260	107,260
Treasury bills and certificates of deposit	0.96	175,000	4,931	-	-	179,931
Due from other banks	2.34	14,648	3,824	1,513	4,153	24,138
Loans and advances	5.33	290,633	17,692	297,373	8,912	614,610
Investments	2.94	-	-	12,850	18,188	31,038
Total		<u>480,281</u>	<u>26,447</u>	<u>311,736</u>	<u>138,513</u>	<u>956,977</u>
Liabilities						
Due to banks	0.92	62,247	-	-	21,140	83,387
Deposits from customers	1.03	250,050	46,195	7,703	425,936	729,884
Total		<u>312,297</u>	<u>46,195</u>	<u>7,703</u>	<u>447,076</u>	<u>813,271</u>
Interest sensitivity gap		<u>167,984</u>	<u>(19,748)</u>	<u>304,033</u>		

	Effective Interest rate %	Less than 6 months US\$'000	6 to 12 months US\$'000	Over 12 months US\$'000	Non-interest sensitive US\$'000	Total US\$'000
Assets						
Cash and balances with central banks		-	-	-	278,597	278,597
Treasury bills and certificates of deposit	0.96	454,545	12,808	-	-	467,353
Due from other banks	2.34	38,047	9,932	3,930	10,787	62,696
Loans and advances	5.33	754,891	45,953	772,397	23,149	1,596,390
Investments	2.94	-	-	33,377	47,241	80,618
Total		<u>1,247,483</u>	<u>68,693</u>	<u>809,704</u>	<u>359,774</u>	<u>2,485,654</u>
Liabilities						
Due to banks	0.92	161,681	-	-	54,909	216,590
Deposits from customers	1.03	649,481	119,987	20,008	1,106,327	1,895,803
Total		<u>811,162</u>	<u>119,987</u>	<u>20,008</u>	<u>1,161,236</u>	<u>2,112,393</u>
Interest sensitivity gap		<u>436,321</u>	<u>(51,294)</u>	<u>789,696</u>		

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. The impact of incremental 100 basis points parallel fall or rise in all yield curves worldwide at the beginning of the year on net interest income for the next 12 months is as follows:

	100 bp parallel increase RO'000	100 bp parallel decrease RO'000	100 bp parallel increase US\$ '000	100 bp parallel decrease US\$ '000
At 31 December 2010	1,256	(1,256)	3,262	(3,262)
At 31 December 2009	1,495	(1,495)	3,883	(3,883)

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

27 Risk Management (continued)

27.4 Market risks (continued)

Sensitivity analysis – equity price risk

Quoted investments of the bank are listed on Muscat Securities Market (“MSM”) and Foreign Government securities. For such investments classified as available for sale investments a 6% increase in MSM 30 index would have increased Equity by RO 146,000 (2009 – RO 389,000) after tax; an equal change in the opposite direction would have decreased equity by RO 146,000 after tax (2009 – RO 389,000). The analysis is performed on the same basis for 2009.

27.5 Operational risks

Operational risks are the risk of direct or indirect loss arising as a result of operational errors, fraud, lapse or absence of proper procedures or controls. They range from the large scale (failure to maintain a proper business continuity site in the event of major business disruption) to the small scale (maintaining proper dual control and checking) but they all have the potential to disrupt the business: often in unpredictable ways. These risks also include, loss of reputation, failure to comply with laws and regulations, operating outside of an accepted code of business conduct and ethics and lapses in proper corporate governance.

The Bank has an Operational Risk policy and an Operational Manual, supported by Desk Top Procedures updated by Quality Assurance Department. Personnel Policies and Procedures manual and Code of Conduct and Ethical Standards and Directors Handbook address the various requirements to mitigate risks.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit which includes:

- Segregation of duties, including the independent authorization of transactions
- Reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirement
- Documentation of controls and procedures
- Periodic assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified
- Reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation including insurance where effective

The Risk Committee which includes Senior Management of the Bank and Chaired by the General Manager, meets once a month to review the risk concerns / risk mitigation across the Bank, with follow up on the issues discussed at the previous meeting.

Compliance is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with submission to the Audit Committee and senior management of the Bank.

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NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2010

27.6 Capital Management

27.6.1 Regulatory Capital

The CBO sets and monitors capital requirements for the Bank. The overseas branches are directly supervised by their local regulators. In implementing current capital requirements, the CBO requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets in line with Basel II requirements effective 1 January 2007.

The Bank's regulatory capital is analysed into two tiers:

Tier 1 capital, which includes ordinary share capital, retained earnings, after deduction for other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes, such as fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

The Bank's policy is to maintain a strong capital base so as to maintain investor, depositor and market confidence and to sustain future business developments. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between returns and the security offered by a strong capital position. There have been no material changes in the Bank's management of capital during the period.

The Bank's regulatory capital position at 31 December was as follows:

2009 US\$'000	2010 US\$'000		2010 RO'000	2009 RO'000
		Tier 1 capital		
237,208	237,208	Ordinary share capital	91,325	91,325
80,873	81,439	Legal reserve	31,354	31,136
5,125	15,033	Retained earnings	5,788	1,973
<u>(1,771)</u>	<u>(1,971)</u>	Other regulatory adjustments	<u>(759)</u>	<u>(682)</u>
<u>321,435</u>	<u>331,709</u>	Total	<u>127,708</u>	<u>123,752</u>
		Tier 2 capital		
6,481	6,865	Fair value reserve for available-for-sale equity securities	2,643	2,495
<u>15,052</u>	<u>14,919</u>	Collective allowances for impairment	<u>5,744</u>	<u>5,795</u>
<u>21,533</u>	<u>21,784</u>	Total	<u>8,387</u>	<u>8,290</u>
<u>342,968</u>	<u>353,493</u>	Total regulatory capital	<u>136,095</u>	<u>132,042</u>
		Risk-weighted assets		
1,863,465	1,972,678	Banking book	759,481	717,434
218,647	210,890	Operational risk	81,193	84,179
<u>155,553</u>	<u>157,597</u>	Market risk	<u>60,675</u>	<u>59,888</u>
<u>2,237,665</u>	<u>2,341,165</u>	Total risk-weighted assets	<u>901,349</u>	<u>861,501</u>
		Capital ratios		
15.33	15.10	Total regulatory capital expressed as a percentage of total risk-weighted assets	15.10	15.33
14.36	14.17	Total tier 1 capital expressed as a percentage of risk-weighted assets	14.17	14.36

28 Comparative balances

The corresponding figures of 2009 included for comparative purposes have been reclassified to conform with the presentation in the current period.