

Board of Director's Report

Dear Shareholders,

On behalf of the Board of Directors of Oman International Bank SAOG, it gives me great pleasure to present the 25th Annual Report on the Bank's activities and audited Financial Statements for the year ended 31st December, 2008 which was another successful year for the Bank.

Economy and Banking Industry

The Sultanate's economy showed a strong growth with initial indications of 8.8% growth in the Gross Domestic Product for the year. The government is expected to post a record surplus of OMR 3.5 billion for the year 2008. The growth in oil income and improvement in non oil exports contributed to the better performance of the economy.

The Banking Industry in Oman continues to demonstrate strong growth, with a growth in deposits and lending during the year. OMR customer deposit rates showed a marginal increase while lending rates declined during the year. As a result of substantial domestic liquidity, the interest rates on Certificate of Deposits issued by the Central Bank of Oman showed a steady decline during the year.

Financial Performance and Shareholders' returns

I am pleased to report that 2008 was another successful year for the Bank with record profitability. The Bank's strategy during the year was to further consolidate its position in the market place. The business philosophy of the Bank is to continue delivering consistent returns to its shareholders backed by a determination to pursue growth with prudent risk management.

Total Interest Income for the year 2008 was OMR 44.148 Mio compared to OMR 56.579 Mio for the previous year. Net Interest Income showed a marginal decline on account of drops in interest rates in the market with regard to loans and advances. Non Interest Income showed an increase of 32.6% as a result of our

efforts to increase the volume of fee based activity. Operating Costs increased by 7.9% due to the inflation and the cost of staff went up with the introduction of the five day working week and less working hours per day. The Bank's Operating Profit for the year 2008 was OMR 26.271 Mio compared to OMR.26.877 Mio for the previous year.

Our commitment to improve asset quality and thereby reduce the provision for loan impairment continues with the provision for loan impairment for the year decreased by 26.2% to OMR 2.051 Mio. On the recovery side the Bank had increased recoveries by 18.9% in 2008 from OMR 7.548 Mio in 2007 to OMR 8.978 Mio in 2008. The income statement includes a general loan loss provision of OMR 6.117 Mio to cover the expected loss as required by the Central Bank of Oman which resulted in an additional charge of OMR 0.190 Mio for the year 2008 and a cumulative charge of OMR 5.3 Mio in the Balance Sheet more than the International Financial Reporting Standard requirement. Thus, retained earnings are understated by OMR 5.3 Mio. Accordingly, the Bank achieved a Net Profit of OMR 29.474 Mio for the year 2008, compared to OMR 28.076 Mio for the year 2007, an increase of 4.97 %.

In the light of these results, the Board of Directors has proposed a cash dividend of 27% to be distributed in 2009. The Bank adopts a prudent dividend policy, however the dividend distribution is subject to the approval of the shareholders. The Bank continues to provide consistent returns to its shareholders as detailed below:

Year	Cash Dividend (%)	Stock Dividend (%)
2007	21	10
2006	21	10
2005	23	20
2004	21	-
2003	21	-

The Bank commands a market share of 8.23% for Deposits, 7.4% for loans and 7.77% for total assets as at 31st December 2008 as per the consolidated statistics from the Central Bank of Oman.

During the year ended 31 December 2008, the normal value of the share was split

from a face value of OMR 1 each to a face value of OMR 0.100 each and was approved at the Extra Ordinary General meeting on 6th October, 2008.

The Loans and Advances stood at OMR 626.7 Mio as at 31st December 2008 compared to OMR 559.6 Mio as at 31st December, 2007, an increase of 11.93%. The focus during the year has been to increase the corporate loans to increase the profits. Total Deposits stood at OMR 729.3 Mio as at 31st December 2008 compared to OMR 811.7 Mio as at 31st December, 2007. The Retail Banking Unit continues to focus on providing innovative products and services to the Bank's largest customer base by revamping the prize draw scheme of saving account customers to distribute 312 Mercedes cars as prizes and it was well received by the customers.

The focus of the Corporate Banking Unit was to finance infrastructure, tourism and other sectors of national importance in addition to oil and gas. The major emphasis during the year was to align our strategy with the strategic plan of the government. The results are encouraging with an increase in the corporate loan portfolio during the year. Non funded business in terms of Letters of Credit and Guarantees was also increased by 9.5% to OMR 232 Mio.

Treasury continues to play a very vital role in deploying the surplus liquidity in addition to meeting the requirements of our large customer base for forex and other treasury products. This resulted in increasing exchange income by 35% in 2008. In the wake of diminishing liquidity in the financial market across the globe, I am pleased to announce that OIB maintained one of the strongest liquidity position by a bank in the Sultanate of Oman.

The Bank's strategy in India, of focusing on recovery of problematic advances, although limits the asset growth, it improves cost of funds and reduces operating costs. The results continue to be encouraging with an improvement in the operating income. I am also pleased to report that Indian Operations achieved a Net Profit of OMR 63.7k for the year 2008. The operations in Pakistan are being monitored to improve results, the third branch in Pakistan in Gwadar was opened during the year.

Corporate Governance

The Bank is firmly committed to the highest standards of corporate governance and has complied with international best practice and various regulatory bodies. The Board of Directors believes in setting the highest standards of governance and exercises oversight in the functioning of the independent management team. These standards are founded on the core principles of transparency and accountability at all levels of the Bank to protect the interests of all stakeholders. A separate statement on Corporate Governance is issued as part of the Annual Report which highlights the key aspects of Governance within the Bank.

OIB conducted the Quality Assessment review of the internal audit function and was certified by an external firm and rated to be in the top 5% in the GCC and in the top 15% on the world. It was certified that the OIB audit function is a well managed and focused function that delivers quality service to the Board and Audit Committee of the Bank.

OIB, in its functioning, has given due recognition to the social responsibility that it has to discharge as a large corporate entity in the Sultanate. The Bank provided significant sponsorships to various cultural, athletic and social activities around the country. These included the Oman Card for His Majesty Sultan Qaboos Bin Said on the 38th National Day, the gold sponsorship of Muscat Festival 2008, the main sponsorship of the 13th Muscat International Book Fair, sponsorship for Khareef tourism festival in Salalah, Higher education exhibition 2008, Promotion campaign booklet for Ministry of Manpower, Development of Al Shumukh school – Training in Horsemanship and racing, Exclusive 3 year sponsorship to Oman TV Channel 2. The Bank also contributed OMR 100,000 to the Oman Charitable Organization.

Human Resource Development and Omanisation

Human Resource strategies of the Bank are developed to foster and enrich the staff competences and experience so as to improve productivity. OIB is an equal opportunity employer. The Bank maintained an Omanization level of 91.6% in 2008.

Staff training is an integral part of HR strategies. In 2008 the Bank provided 174 training courses both in-house and external which were local and overseas and had 1,775 staff participants.

Future Plans

The Bank looks to the future with conservatism, confidence and optimism. The government policies continue to focus on strong economic growth with expenditure up by 11% and revenue by 4%.

In the future the Bank will increase its delivery channels in terms of new state of the art branches, ATMs, POSs and customer friendly mobile banking services. The Bank will make optimum use of these channels to redefine customer convenience and thereby to achieve continuous and sustainable growth.

The bank is in a process of inaugurating a new branch at the Muttrah Business district and a service centre at Port Services – Mina Sultan Qaboos.

On behalf of the Board of Directors, I convey our gratitude and thanks to all our valued customers, correspondent banks, staff and management for their contributions and commitment to the Bank, as well as to the Central Bank of Oman and their counterparts overseas for their support and guidance.

On behalf of the Board, I express our most humble gratitude and loyalty to His Majesty Sultan Qaboos Bin Said for the peace, stability and growth which his reign has brought us. We pray that the Almighty may grace on His Majesty, good health to lead us on an unblemished enlightened path to further prosperity and development for Oman and its people.

Reem Omar Zawawi
Chairperson of the Board