

Subject to approval by Ordinary Annual General Meeting

OMAN INTERNATIONAL BANK SAOG
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

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OMAN INTERNATIONAL BANK SAOG



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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 43, which comprise the balance sheet as at 31 December 2008, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

The 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 judgment, 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 Bank'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 Bank's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the Bank's 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 opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Oman International Bank SAOG as at 31 December 2008 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 Oman International Bank SAOG as at and for the year ended 31 December 2008, in all material respects, comply with:

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

31 January 2009

KPMG

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OMAN INTERNATIONAL BANK SAOG

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

2007 US\$'000	2008 US\$'000	Note	2008 RO'000	2007 RO'000
146,958	114,670		44,148	56,579
<u>(61,657)</u>	<u>(37,387)</u>		<u>(14,394)</u>	<u>(23,738)</u>
85,301	77,283		29,754	32,841
<u>29,702</u>	<u>39,395</u>	3	<u>15,167</u>	<u>11,435</u>
115,003	116,678		44,921	44,276
<u>(45,192)</u>	<u>(48,442)</u>	3	<u>(18,650)</u>	<u>(17,399)</u>
69,811	68,236		26,271	26,877
<u>(7,218)</u>	<u>(5,327)</u>	9	<u>(2,051)</u>	<u>(2,779)</u>
19,604	23,319	4	8,978	7,548
<u>—</u>	<u>—</u>		<u>—</u>	<u>—</u>
82,197	86,228		33,198	31,646
<u>(9,272)</u>	<u>(9,673)</u>	5	<u>(3,724)</u>	<u>(3,570)</u>
<u>72,925</u>	<u>76,555</u>		<u>29,474</u>	<u>28,076</u>
US \$ 0.080	US \$ 0.084	6	RO 0.032	RO 0.031
	Basic earnings per share			

The notes set out on pages 6 to 43 form an integral part of these financial statements.

Report of the Auditors - page 1.

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OMAN INTERNATIONAL BANK SAOG

BALANCE SHEET AS AT 31 DECEMBER 2008

2007 US\$'000	2008 US\$'000	Note	2008 RO'000	2007 RO'000
Assets				
128,392	340,577		131,122	49,431
675,325	415,584	7	160,000	260,000
308,340	66,784	8	25,712	118,711
1,454,374	1,628,021	9	626,788	559,934
102,468	87,901	10	33,842	39,450
80,135	77,979	11	30,022	30,852
60,799	27,818	12	10,710	23,408
<u>2,809,833</u>	<u>2,644,664</u>		<u>1,018,196</u>	<u>1,081,786</u>
Liabilities				
216,282	267,901	13	103,142	83,269
2,108,322	1,894,325	14	729,315	811,704
64,063	34,151	15	13,148	24,664
<u>2,388,667</u>	<u>2,196,377</u>		<u>845,605</u>	<u>919,637</u>
Equity				
215,644	237,208	16	91,325	83,023
138,665	142,896	17	55,015	53,386
66,857	68,183		26,251	25,740
<u>421,166</u>	<u>448,287</u>		<u>172,591</u>	<u>162,149</u>
<u>2,809,833</u>	<u>2,644,664</u>		<u>1,018,196</u>	<u>1,081,786</u>
<u>US\$ 0.46</u>	<u>US\$ 0.49</u>		<u>RO 0.189</u>	<u>RO 0.177</u>
<u>550,922</u>	<u>603,304</u>	18	<u>232,272</u>	<u>212,105</u>

The financial statements on pages 2 to 43 were approved by the Board of Directors on 31 January 2009 and were signed on their behalf by:

REEM OMAR ZAWAWI
CHAIRPERSON

BIPIN DHARAMSEY NENSEY
DEPUTY CHAIRMAN

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Report of the Auditors – pages 1.

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OMAN INTERNATIONAL BANK SAOG

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008**

	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 2007	75,476	23,591	495	1,771	-	23,880	125,213
Effect of currency translation	-	-	63	(61)	-	109	111
Net movement in fair values	-	-	-	2,973	-	-	2,973
Deferred tax liability on fair values	-	-	-	(438)	-	-	(438)
Total income and expenses for the year directly recorded in equity	-	-	63	2,474	-	109	2,646
Net profit for the year	-	-	-	-	-	28,076	28,076
Total income and expenses for the year	-	-	63	2,474	-	28,185	30,722
Transfer to legal / statutory reserve	-	2,808	120	-	-	(2,928)	-
Transfer to asset revaluation reserve	-	-	-	-	22,064	-	22,064
Dividend paid for 2006	-	-	-	-	-	(15,850)	(15,850)
Stock dividend for 2006	7,547	-	-	-	-	(7,547)	-
At 31 December 2007	<u>83,023</u>	<u>26,399</u>	<u>678</u>	<u>4,245</u>	<u>22,064</u>	<u>25,740</u>	<u>162,149</u>
Effect of currency translation	-	-	(118)	100	-	100	82
Net movement in fair values	-	-	-	(1,684)	-	(321)	(2,005)
Net movement in deferred tax liability on fair values	-	-	-	281	-	-	281
Total income and expenses for the year directly recorded in equity	-	-	(118)	(1,303)	-	(221)	(1,642)
Net profit for the year	-	-	-	-	-	29,474	29,474
Total income and expenses for the year	-	-	(118)	(1,303)	-	29,253	27,832
Transfer to legal / statutory reserve	-	2,947	58	-	-	(3,005)	-
Transfer to asset revaluation reserve	-	-	-	-	45	-	45
Dividend paid for 2007	-	-	-	-	-	(17,435)	(17,435)
Stock dividend for 2007	8,302	-	-	-	-	(8,302)	-
At 31 December 2008	<u>91,325</u>	<u>29,346</u>	<u>618</u>	<u>2,942</u>	<u>22,109</u>	<u>26,251</u>	<u>172,591</u>
At 31 December 2008 (US\$'000)	<u>237,208</u>	<u>76,223</u>	<u>1,605</u>	<u>7,642</u>	<u>57,426</u>	<u>68,183</u>	<u>448,287</u>
At 31 December 2007 (US\$'000)	<u>215,644</u>	<u>68,569</u>	<u>1,761</u>	<u>11,026</u>	<u>57,309</u>	<u>66,857</u>	<u>421,166</u>
Note	16	17(a)	17(b)	17(c)	17(d)		

The notes set out on pages 6 to 43 form an integral part of these financial statements.
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CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

2007 US\$'000	2008 US\$'000	Note	2008 RO'000	2007 RO'000
82,197	86,228	Profit before taxation	33,198	31,646
		Adjustments for:		
2,309	2,935	Depreciation	1,130	889
-	-	Proposed directors' remuneration	-	-
(12,386)	(17,992)	Provision for loan impairment (net of recoveries)	(6,927)	(4,769)
(5,190)	(9,205)	Interest/dividend on investments	(3,544)	(1,998)
		Unrealised losses on foreign exchange contracts		
1,413	743	and swaps	286	544
-	(21)	Profit on disposal of property and equipment	(8)	-
<u>140</u>	<u>(2,371)</u>	(Gain)/loss on investments	<u>(913)</u>	<u>54</u>
		Operating profit before changes in operating assets and liabilities	23,222	26,812
		Changes in operating assets and liabilities:		
(21,257)	(50,257)	Cash and balances with central banks	(19,349)	(8,184)
(25,974)	-	Treasury bills and certificates of deposit	-	(10,000)
298,592	151,878	Due from other banks	58,473	114,958
(99,504)	(155,655)	Loans and advances	(59,927)	(38,309)
(42,382)	23,018	Other assets	8,862	(16,317)
(16,094)	(2,194)	Due to banks	(845)	(6,196)
329,579	(213,997)	Deposits from customers	(82,389)	126,888
<u>20,765</u>	<u>(29,755)</u>	Other liabilities	<u>(11,456)</u>	<u>7,994</u>
512,208	(216,645)	Cash from operations	(83,409)	197,200
<u>(8,673)</u>	<u>(9,843)</u>	Income taxes paid	<u>(3,789)</u>	<u>(3,339)</u>
<u>503,535</u>	<u>(226,488)</u>	Net cash (used in) from operating activities	<u>(87,198)</u>	<u>193,861</u>
		Investing activities		
(8,852)	(13,852)	Purchase of investments	(5,333)	(3,408)
(1,255)	(1,390)	Purchase of property and equipment	(535)	(483)
25,984	21,527	Proceeds from redemption of investments	8,288	10,004
11,751	19,132	Income received from investments	7,366	4,524
34	36	Proceeds from sale of property and equipment	14	13
<u>(3,761)</u>	<u>5,017</u>	Effect of currency translation	<u>1,931</u>	<u>(1,448)</u>
<u>23,901</u>	<u>30,470</u>	Net cash from investing activities	<u>11,731</u>	<u>9,202</u>
		Financing activities		
<u>(41,169)</u>	<u>(45,286)</u>	Dividend paid	<u>(17,435)</u>	<u>(15,850)</u>
<u>(41,169)</u>	<u>(45,286)</u>	Net cash used in financing activities	<u>(17,435)</u>	<u>(15,850)</u>
486,267	(241,304)	Net change in cash and cash equivalents	(92,902)	187,213
		Cash and cash equivalents at the beginning of the year		
<u>253,478</u>	<u>739,745</u>	Cash and cash equivalents at the end of the year	<u>284,802</u>	<u>97,589</u>
<u>739,745</u>	<u>498,441</u>		<u>191,900</u>	<u>284,802</u>

The notes set out on pages 6 to 43 form an integral part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

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, 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, unless otherwise stated.

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 2.23.

The Bank will apply IFRS 8, Operating segments from accounting periods beginning on 1 January 2009. Similarly it will also apply Revised IAS 1 presentation of financial statements (2007) regarding “total comprehensive income” from year 2009. These standards becomes effective in year 2009.

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 income statement. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

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NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2008

2 Summary of significant accounting policies (continued)

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 directly to retained profits.

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 2008

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 income statement. 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 income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the income statement.

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.

2.4 Derivative financial instruments

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

2.5 Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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.

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2008

2 Summary of significant accounting policies (continued)

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 income statement 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.

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 income statement.

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 balance sheet 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 income statement.

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 2008

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

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 balance sheet 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 equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, 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 income statement, the impairment loss is reversed through the income statement.

2.12 Impairment of non-financial assets

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.

2.13 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 income statement over the period of the borrowings using the effective interest method.

2.14 Deposits

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

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2008

2 Summary of significant accounting policies (continued)

2.15 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 balance sheet 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 balance sheet 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 income statement.

2.16 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.

2.17 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 income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument 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 collectibility 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.

2.18 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.

2.19 Dividend income

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

2.20 Taxation

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

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.

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2008

2 Summary of significant accounting policies (continued)

2.20 Taxation (continued)

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

2.21 Segment reporting

A segment is a distinguishable component that is engaged either in providing products and services within a particular economic environment (geographical segment) or in providing products or services (business segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from external customers and whose revenue, result or assets are 10 per cent or more of all the segments are reported separately.

2.22 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.

2.23 Critical accounting estimates and judgments

The key assumptions concerning the future and other key sources of estimating uncertainty at the balance sheet 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:

Impairment losses on loans and advances

The Bank reviews its non performing loans and advances at each balance sheet date to assess whether a provision for impairment should be recorded in the income statement. 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.

2.24 Acceptance

Acceptances are disclosed on the balance sheet under other assets with corresponding liability disclosed under other liabilities. Therefore, there is no off-balance sheet commitment for acceptances.

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.

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2008

2 Summary of significant accounting policies (continued)

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.

3 Analysis of other operating income and expenditure

2007 US\$'000	2008 US\$'000		2008 RO'000	2007 RO'000
		Other operating income		
15,779	16,748	Fee and commission income	6,448	6,075
4,561	6,156	Exchange income	2,370	1,756
(140)	2,371	Gain/(loss) on investments	913	(54)
647	6,208	Dividend income	2,390	249
<u>8,855</u>	<u>7,912</u>	Other income	<u>3,046</u>	<u>3,409</u>
<u>29,702</u>	<u>39,395</u>		<u>15,167</u>	<u>11,435</u>
		Other operating expenditure		
		Staff costs:		
190	304	End of service benefits	117	73
1,008	1,109	Social security and defined contribution plan costs	427	388
<u>24,932</u>	<u>27,057</u>	Salaries and other staff costs	<u>10,417</u>	<u>9,599</u>
26,130	28,470		10,961	10,060
3,766	4,036	Occupancy costs	1,554	1,450
2,309	2,935	Depreciation	1,130	889
		Other operating costs:		
2,579	2,151	Advertisement and publicity	828	993
1,868	1,948	Communication	750	719
1,387	1,312	Insurance	505	534
2,421	2,634	Repairs and maintenance	1,014	932
<u>4,732</u>	<u>4,956</u>	Others	<u>1,908</u>	<u>1,822</u>
<u>45,192</u>	<u>48,442</u>		<u>18,650</u>	<u>17,399</u>

4 Impact of recoveries / write back

2007 US\$'000	2008 US\$'000		2008 RO'000	2007 RO'000
15,033	15,748	Provision for loan impairment	6,063	5,788
4,519	7,140	Reserved interest	2,749	1,740
<u>52</u>	<u>431</u>	Written-off accounts	<u>166</u>	<u>20</u>
<u>19,604</u>	<u>23,319</u>		<u>8,978</u>	<u>7,548</u>

5 Taxation

The taxation charge for the year is as follows:

2007 US\$'000	2008 US\$'000		2008 RO'000	2007 RO'000
		Oman taxation		
9,828	9,613	- current	3,701	3,784
(322)	-	- prior years	-	(124)
<u>(234)</u>	<u>60</u>	- deferred	<u>23</u>	<u>(90)</u>
<u>9,272</u>	<u>9,673</u>		<u>3,724</u>	<u>3,570</u>

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OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2008

5 Taxation (continued)

Income tax for the Oman operations has been agreed for all years up to 1997; all subsequent years are subject to agreement with the Tax Authorities. In the tax assessments issued for 1998 to 2002 the Tax Authorities have not recognised certain allowances claimed by the Bank. The Bank has lodged an appeal with the Tax Authorities contesting the above decision. The appeals are at different stages of the appellate process and decisions are pending.

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 417,000 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 rates applicable to the Bank in Oman is 12% (2007 - 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 11.15% (2007 - 11.96 %).

The difference between the applicable tax rates of 12% and the effective tax rate of 11.15% 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% (2007 - 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:

2007	2008		2008	2007
913,257	913,257	Weighted average number of shares in issue ('000)	913,257	913,257
72,925	76,555	Net profit for the year (US\$'000 / RO'000)	29,474	28,076
0.080	0.084	Basic earnings per share (US\$ / RO)	0.032	0.031

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.

During the year ended 31 December 2008, the Bank issued 8,302,338 bonus shares of RO 1 each to the existing shareholders, since the bonus issue was without consideration; the issue is treated as if it had occurred prior to the beginning of year 2007.

During the year ended 31 December 2008, the nominal value of the share was split from a nominal value of RO 1 each to a nominal value of RO 0.100 each and was approved by Extra Ordinary General meeting on 6 October 2008. The earnings per share have been calculated using the split shares for all the periods presented.

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OMAN INTERNATIONAL BANK SAOG

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2008**

7 Treasury bills and certificates of deposit

2007 US\$'000	2008 US\$'000		2008 RO'000	2007 RO'000
<u>675,325</u>	<u>415,584</u>	Certificates of deposit	<u>160,000</u>	<u>260,000</u>
<u>675,325</u>	<u>415,584</u>		<u>160,000</u>	<u>260,000</u>

8 Due from other banks

2007 US\$'000	2008 US\$'000		2008 RO'000	2007 RO'000
295,868	34,065	Placements	13,115	113,909
<u>12,472</u>	<u>32,719</u>	Others	<u>12,597</u>	<u>4,802</u>
<u>308,340</u>	<u>66,784</u>		<u>25,712</u>	<u>118,711</u>

9 Loans and advances

2007 US\$'000	2008 US\$'000		2008 RO'000	2007 RO'000
178,834	196,974	Overdrafts	75,835	68,851
1,469,504	1,558,644	Loans	600,078	565,759
<u>12,621</u>	<u>37,452</u>	Bills discounted/purchased	<u>14,419</u>	<u>4,859</u>
1,660,959	1,793,070	Gross loans and advances	690,332	639,469
(94,060)	(78,395)	Provision for loan impairment	(30,182)	(36,213)
<u>(112,525)</u>	<u>(86,654)</u>	Reserved interest	<u>(33,362)</u>	<u>(43,322)</u>
<u>1,454,374</u>	<u>1,628,021</u>	Loans and advances (net)	<u>626,788</u>	<u>559,934</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 6.2 million which is based on an expected loan loss provisioning model developed and certified by Oliver Wyman, a leading international firm on financial services strategy and risk management consultancy. The collective impairment provision as required under IAS 39 based on an incurred loss model developed by the same consultant amounts to RO 0.9 million.

The movement on the provision for loan impairment during 2008 is analysed as follows:

	Specific provision RO'000	General provision RO'000	Total provision RO'000	Total provision US\$'000
At 1 January	30,221	5,992	36,213	94,060
Currency translation effect on opening balance	(411)	(6)	(417)	(1,083)
Provided during the year	1,833	218	2,051	5,327
Released during the year:				
- due to recoveries	(4,416)	-	(4,416)	(11,470)
- due to write back	(1,639)	(8)	(1,647)	(4,278)
Technically transferred to memorandum account during the year	(1,600)	-	(1,600)	(4,156)
Written-off during the year	(2)	-	(2)	(5)
At 31 December	<u>23,986</u>	<u>6,196</u>	<u>30,182</u>	<u>78,395</u>

Subject to approval by Ordinary Annual General Meeting

OMAN INTERNATIONAL BANK SAOG

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2008**

9. Loans and advances (continued)

The movement on the provision for loan impairment during 2007 is analysed as follows:

	Specific provision RO'000	General provision RO'000	Total provision RO'000	Total provision US\$'000
At 1 January	33,201	5,719	38,920	101,091
Currency translation effect on opening balance	303	-	303	787
Provided during the year	2,506	273	2,779	7,218
Transfers				
Released during the year:				
- due to recoveries	(5,080)	-	(5,080)	(13,194)
- due to write back	(708)	-	(708)	(1,839)
Written off during the year	(1)	-	(1)	(3)
At 31 December	<u>30,221</u>	<u>5,992</u>	<u>36,213</u>	<u>94,060</u>

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

2007 US\$'000	2008 US\$'000		2008 RO'000	2007 RO'000
96,013	112,525	At 1 January	43,322	36,965
3,454	(6,014)	Currency translation effect on opening balance	(2,315)	1,330
17,582	16,068	Unrecognised during the year	6,186	6,769
(4,519)	(7,140)	Transfer to the income statement	(2,749)	(1,740)
-	(28,780)	Technically transferred to memorandum account during the year	(11,080)	-
(5)	(5)	Written-off during the year	(2)	(2)
<u>112,525</u>	<u>86,654</u>	At 31 December	<u>33,362</u>	<u>43,322</u>

The total loans technically transferred during the year to memorandum account are with the full right of recovery being continued. These were in respect of the advances in India in the amount of RO 12.7 million (2007- Nil), and were fully provided by the Bank.

At 31 December 2008, loans and advances on which interest has not been accrued amounted to RO 61.5 million (2007 – RO 77.1 million). Government soft loans amounting to 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

2007 US\$'000	2008 US\$'000		2008 RO'000	2007 RO'000
260	-	Held for trading	-	100
12,468	7,199	Fair value through profit or loss	2,771	4,800
54,783	51,134	Held-to-maturity	19,687	21,092
<u>34,957</u>	<u>29,568</u>	Available-for-sale	<u>11,384</u>	<u>13,458</u>
<u>102,468</u>	<u>87,901</u>		<u>33,842</u>	<u>39,450</u>

The held for trading investments consisted of quoted Oman Government securities of RO Nil (2007 – RO 100,000).

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OMAN INTERNATIONAL BANK SAOG

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2008**

10 Investments (continued)

Investments classified as carried at fair value through profit or loss are as follows:

2007 US\$'000	2008 US\$'000		2008 RO'000	2007 RO'000
<u>12,468</u>	<u>7,199</u>	Quoted – Foreign Government securities	<u>2,771</u>	<u>4,800</u>

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

2007 US\$'000	2008 US\$'000		2008 RO'000	2007 RO'000
39,201	38,275	Quoted – Oman Government securities	14,737	15,093
15,013	12,291	Quoted - Foreign Government securities	4,732	5,780
569	568	Quoted - Other securities, Oman	218	219
<u>54,783</u>	<u>51,134</u>		<u>19,687</u>	<u>21,092</u>

Available-for-sale investments are as follows:

2007 US\$'000	2008 US\$'000	Cost of:	2008 RO'000	2007 RO'000
10,668	8,821	Quoted - Foreign Government securities	3,396	4,107
3,255	3,081	Quoted - Equity and other securities, Oman	1,186	1,253
<u>8,870</u>	<u>9,618</u>	Unquoted investments	<u>3,703</u>	<u>3,415</u>
22,793	21,520		8,285	8,775
		Revaluation gains/(losses) of:		
(1,509)	(740)	Quoted - Foreign Government securities	(285)	(581)
2,683	5,387	Quoted - Equity and other securities, Oman	2,074	1,033
<u>10,990</u>	<u>3,401</u>	Unquoted investments	<u>1,310</u>	<u>4,231</u>
<u>34,957</u>	<u>29,568</u>		<u>11,384</u>	<u>13,458</u>

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**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2008**

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 2008	32,898	2,586	6,848	852	12,540	23	55,747
Currency translation effect on opening balances	(458)	(15)	(63)	(15)	(71)	-	(622)
Revaluation reserve	45	-	-	-	-	-	45
Additions	11	44	216	33	231	-	535
Disposals	-	-	(35)	(13)	(15)	-	(63)
31 December 2008	<u>32,496</u>	<u>2,615</u>	<u>6,966</u>	<u>857</u>	<u>12,685</u>	<u>23</u>	<u>55,642</u>
Depreciation							
1 January 2008	4,214	2,509	6,337	685	11,150	-	24,895
Currency translation effect on opening balances	(197)	(15)	(64)	(11)	(61)	-	(348)
Charge for the year	282	31	216	88	513	-	1,130
Disposals	-	-	(35)	(14)	(8)	-	(57)
31 December 2008	<u>4,299</u>	<u>2,525</u>	<u>6,454</u>	<u>748</u>	<u>11,594</u>	<u>-</u>	<u>25,620</u>
Net book value	<u>28,197</u>	<u>90</u>	<u>512</u>	<u>109</u>	<u>1,091</u>	<u>23</u>	<u>30,022</u>
31 December 2008 (US\$'000)	<u>73,239</u>	<u>234</u>	<u>1,329</u>	<u>283</u>	<u>2,834</u>	<u>60</u>	<u>77,979</u>

Freehold land owned by the Bank was revalued as at 31 December 2007, except one land which was revalued as at 31 March 2008 aggregating to increase in value by RO 22.1 million, by independent professional valuer on open market basis. The gross carrying amount of the land was restated so that the net carrying amount of the asset after its revaluation equals its revalued amount, 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 6,088,000 (2007: RO 6,620,000).

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**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2008**

11 Property and equipment (continued)

The movement in property and equipment for the year 2007 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 2007	10,536	2,591	6,758	820	12,282	23	33,010
Currency translation effect on opening balances	298	-	31	5	37	-	371
Revaluation reserve	22,064	-	-	-	-	-	22,064
Additions	-	3	276	27	177	-	483
Disposals	-	(8)	(169)	-	(4)	-	(181)
31 December 2007	<u>32,898</u>	<u>2,586</u>	<u>6,896</u>	<u>852</u>	<u>12,492</u>	<u>23</u>	<u>55,747</u>
Depreciation							
1 January 2007	4,028	2,484	6,307	600	10,570	-	23,989
Currency translation effect on opening balances	116	-	30	4	35	-	185
Charge for the year	70	33	192	81	513	-	889
Disposals	-	(8)	(158)	-	(2)	-	(168)
31 December 2007	<u>4,214</u>	<u>2,509</u>	<u>6,371</u>	<u>685</u>	<u>11,116</u>	-	<u>24,895</u>
Net book value							
31 December 2007	<u>28,684</u>	<u>77</u>	<u>525</u>	<u>167</u>	<u>1,376</u>	<u>23</u>	<u>30,852</u>
2007 - (US\$'000)	<u>74,504</u>	<u>200</u>	<u>1,364</u>	<u>434</u>	<u>3,573</u>	<u>60</u>	<u>80,135</u>

12 Other assets

2007 US\$'000	2008 US\$'000		2008 RO'000	2007 RO'000
1,265	1,070	Prepaid taxes	412	487
234	171	Deferred tax asset	66	90
1,826	1,553	Other prepayments	598	703
2,166	4,722	Derivative trading assets (note 18 (d))	1,818	834
24,713	13,499	Cheques for collection and others	5,197	9,515
<u>30,595</u>	<u>6,803</u>	Acceptances	<u>2,619</u>	<u>11,779</u>
<u>60,799</u>	<u>27,818</u>		<u>10,710</u>	<u>23,408</u>

13 Due to banks

2007 US\$'000	2008 US\$'000		2008 RO'000	2007 RO'000
2,449	73,603	Bank borrowings	28,337	943
151,740	150,403	Syndicated borrowings	57,905	58,420
<u>62,093</u>	<u>43,895</u>	Others	<u>16,900</u>	<u>23,906</u>
<u>216,282</u>	<u>267,901</u>		<u>103,142</u>	<u>83,269</u>

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**NOTES TO THE FINANCIAL STATEMENTS (continued)
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14 Deposits from customers

2007 US\$'000	2008 US\$'000		2008 RO'000	2007 RO'000
510,922	541,346	Current	208,418	196,705
809,712	798,036	Savings	307,244	311,739
431,377	361,203	Time deposits	139,063	166,080
<u>356,311</u>	<u>193,740</u>	Others	<u>74,590</u>	<u>137,180</u>
<u>2,108,322</u>	<u>1,894,325</u>		<u>729,315</u>	<u>811,704</u>

15 Other liabilities

2007 US\$'000	2008 US\$'000		2008 RO'000	2007 RO'000
9,930	9,719	Provision for income tax	3,742	3,823
1,138	408	Deferred tax liability	157	438
1,580	1,616	End of service benefits	622	608
6,153	4,792	Accrued expenses	1,845	2,369
3,475	3,873	Derivative trading liabilities (note 18 (d))	1,491	1,338
11,192	6,940	Others	2,672	4,309
<u>30,595</u>	<u>6,803</u>	Acceptances	<u>2,619</u>	<u>11,779</u>
<u>64,063</u>	<u>34,151</u>		<u>13,148</u>	<u>24,664</u>

As per the directives of the Capital Market Authority (CMA) the amount of unpaid dividend and fraction share 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 56,088 (2007 – RO 61,433) and fraction shares amounting to RO 2,355 outstanding for more than six months has been transferred to the Investors' Trust Fund during October 2008 (2007 – 1,040).

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

2007 US\$'000	2008 US\$'000		2008 RO'000	2007 RO'000
1,577	1,579	At 1 January	608	607
190	304	Charge for the year	117	73
<u>(187)</u>	<u>(267)</u>	Paid during the year	<u>(103)</u>	<u>(72)</u>
<u>1,580</u>	<u>1,616</u>	At 31 December	<u>622</u>	<u>608</u>

16 Share capital

The share capital of the Bank is divided into 913,257,180 fully paid shares of RO 0.100 each (2007 - 830,233,800 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 (2007 - 83,605,170) personally, and this is the only single shareholding in excess of 10%.

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OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2008

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. Accordingly, RO 2,947,000 being 10% of the profit for the year, has been transferred to legal reserve during the year (2007 - RO 2,808,000). 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 58,000 has been transferred to statutory reserve during the year (2007 - RO 120,000).

(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.

18 Contingent liabilities, commitments and derivatives

(a) Letters of credit, guarantees and other commitments

2007 US\$'000	2008 US\$'000		2008 RO'000	2007 RO'000
107,730	121,829	Letters of credit	46,904	41,476
<u>443,192</u>	<u>481,475</u>	Guarantees and performance bonds	<u>185,368</u>	<u>170,629</u>
<u>550,922</u>	<u>603,304</u>		<u>232,272</u>	<u>212,105</u>

(b) Undrawn loan commitments

At 31 December 2008, the Bank had undrawn irrevocable loan commitments amounting to RO 9.73 million (2007 - RO 38.33 million).

(c) Capital commitments

At 31 December 2008, there were capital commitments amounting to RO 2,322,000 (2007 - RO 1,934,000).

(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.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2008**

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.

31 December 2008:

	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	Over 5 years RO 000
Derivatives held for trading:							
Interest rate swaps	654	529	23,243	3,202	20,041	-	-
Forward foreign exchange Contracts	1,164	962	89,620	78,438	356	10,826	-
Interest rate caps	-	-	3,388	3,388	-	-	-
	<u>1,818</u>	<u>1,491</u>	<u>116,251</u>	<u>85,028</u>	<u>20,397</u>	<u>10,826</u>	=
US\$ 000	<u>4,722</u>	<u>3,873</u>	<u>301,950</u>	<u>220,851</u>	<u>52,980</u>	<u>28,119</u>	=

31 December 2007:

	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	Over 5 years RO 000
Derivatives held for trading:							
Interest rate swaps	63	93	25,168	1,925	23,243	-	-
Forward foreign exchange Contracts	771	1,245	205,858	171,971	18,527	15,360	-
Interest rate caps	-	-	4,127	2,587	1,540	-	-
	<u>834</u>	<u>1,338</u>	<u>235,153</u>	<u>176,483</u>	<u>43,310</u>	<u>15,360</u>	=
US\$ 000	<u>2,166</u>	<u>3,475</u>	<u>610,787</u>	<u>458,397</u>	<u>112,494</u>	<u>39,896</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.

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.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)
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18 Contingent liabilities, commitments and derivatives (continued)

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 profiting from favourable movements in prices, rates or indices.

(e) Contingencies

As at 31 December 2008, there were certain legal suits pending against the Bank, aggregating to RO 16.06 million (2007: RO 18.4 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 2008

	Designated at fair value 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	-	-	131,122	-	-	131,122	131,122
Treasury bills and certificates of deposit	-	160,000	-	-	-	160,000	160,000
Due from other banks	-	-	25,712	-	-	25,712	25,760
Loans and advances	-	-	626,788	-	-	626,788	632,093
Investments	<u>2,771</u>	<u>19,687</u>	<u>-</u>	<u>11,384</u>	<u>-</u>	<u>33,842</u>	<u>34,339</u>
Total	<u>2,771</u>	<u>179,687</u>	<u>783,622</u>	<u>11,384</u>	<u>-</u>	<u>977,464</u>	<u>983,314</u>
Due to banks	-	-	-	-	103,142	103,142	103,142
Deposits from customers	-	-	-	-	729,315	729,315	729,970
Total	-	-	-	-	<u>832,457</u>	<u>832,457</u>	<u>833,112</u>

	Designated at fair value US\$'000	Held to maturity US\$'000	Loans and receivables 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	-	-	340,577	-	-	340,577	340,577
Treasury bills and certificates of deposit	-	415,584	-	-	-	415,584	415,584
Due from other banks	-	-	66,784	-	-	66,784	66,909
Loans and advances	-	-	1,628,021	-	-	1,628,021	1,641,800
Investments	<u>7,197</u>	<u>51,135</u>	<u>-</u>	<u>29,569</u>	<u>-</u>	<u>87,901</u>	<u>89,192</u>
Total	<u>7,197</u>	<u>466,719</u>	<u>2,035,382</u>	<u>29,569</u>	<u>-</u>	<u>2,538,867</u>	<u>2,554,062</u>
Due to banks	-	-	-	-	267,901	267,901	267,901
Deposits from customers	-	-	-	-	1,894,325	1,894,325	1,896,026
Total	-	-	-	-	<u>2,162,226</u>	<u>2,162,226</u>	<u>2,163,927</u>

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**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2008**

19 Financial assets and liabilities (continued)

Accounting classifications and fair values as at 31 December 2007

	Trading RO'000	Designated at fair value 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	-	-	-	49,431	-	-	49,431	49,431
Treasury bills and certificates of deposit	-	-	260,000	-	-	-	260,000	260,000
Due from other banks	-	-	-	118,711	-	-	118,711	118,698
Loans and advances	-	-	-	559,934	-	-	559,934	565,050
Investments	<u>100</u>	<u>4,800</u>	<u>21,092</u>	<u>-</u>	<u>13,458</u>	<u>-</u>	<u>39,450</u>	<u>39,069</u>
Total	<u>100</u>	<u>4,800</u>	<u>281,092</u>	<u>728,076</u>	<u>13,458</u>	<u>-</u>	<u>1,027,526</u>	<u>1,032,248</u>
Due to banks	-	-	-	-	-	83,269	83,269	83,269
Deposits from customers	-	-	-	-	-	811,704	811,704	812,025
Total	-	-	-	-	-	<u>894,973</u>	<u>894,973</u>	<u>895,294</u>

	Trading US\$'000	Designated at fair value US\$'000	Held to maturity US\$'000	Loans and receivables 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	-	-	-	128,392	-	-	128,392	128,392
Treasury bills and certificates of deposit	-	-	675,325	-	-	-	675,325	675,325
Due from other banks	-	-	-	308,340	-	-	308,340	308,306
Loans and advances	-	-	-	1,454,374	-	-	1,454,374	1,467,662
Investments	<u>260</u>	<u>12,468</u>	<u>54,783</u>	<u>-</u>	<u>34,957</u>	<u>-</u>	<u>102,468</u>	<u>101,478</u>
Total	<u>260</u>	<u>12,468</u>	<u>730,108</u>	<u>1,891,106</u>	<u>34,957</u>	<u>-</u>	<u>2,668,899</u>	<u>2,681,163</u>
Due to banks	-	-	-	-	-	216,282	216,282	216,282
Deposits from customers	-	-	-	-	-	2,108,322	2,108,322	2,109,156
Total	-	-	-	-	-	<u>2,324,604</u>	<u>2,324,604</u>	<u>2,325,438</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.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)
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20 Fair value information (continued)

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 on-balance sheet financial instruments

The fair values of all on-balance sheet financial instruments are considered to approximate their book values.

Off-balance sheet financial instruments

No fair value adjustment is made with respect to credit-related off-balance sheet 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 balance sheet 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.

21 Cash and cash equivalents

The reconciliation of the components of cash and cash equivalents with the equivalent items shown in the balance sheet is shown below:

2007 US\$'000	2008 US\$'000		2008 RO'000	2007 RO'000
		Balance sheet items comprise:		
128,392	340,577	Cash and balances with central banks	131,122	49,431
675,325	415,584	Treasury bills and certificates of deposit	160,000	260,000
308,340	66,784	Due from other banks	25,712	118,711
<u>(216,282)</u>	<u>(267,901)</u>	Due to banks	<u>(103,142)</u>	<u>(83,269)</u>
895,775	555,044		213,692	344,873
<u>(156,030)</u>	<u>(56,603)</u>	Adjustment for items maturing after three months from date of acquisition and restricted balances	<u>(21,792)</u>	<u>(60,071)</u>
<u>739,745</u>	<u>498,441</u>		<u>191,900</u>	<u>284,802</u>
		Cash and cash equivalents comprise:		
45,997	207,925	Cash and balances with central banks	80,051	17,709
649,351	389,610	Treasury bills and certificates of deposit	150,000	250,000
138,231	48,553	Due from other banks	18,693	53,219
<u>(93,834)</u>	<u>(147,647)</u>	Due to banks	<u>(56,844)</u>	<u>(36,126)</u>
<u>739,745</u>	<u>498,441</u>		<u>191,900</u>	<u>284,802</u>

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OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2008

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:

2007 US\$'000	2008 US\$'000		2008 RO'000	2007 RO'000
161,977	150,449	Loans and advances	57,923	62,361
45,473	46,725	Deposits from customers	17,989	17,507
11,104	14,270	Letters of credit, guarantees and other acceptances	5,494	4,275
<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 20,201,000 (2007: RO 232,000) included above are secured by cash collaterals, government securities and bank guarantees.

* Provision for loans and advances relates to Oman Securities Portfolio Company SAOG, which was placed into liquidation on 9 January 2001. The provision was disclosed in the related party note in the financial statements for the years 2000 and 2002 and approved at the shareholder's Annual General Meetings held on 5 April 2001 and 30 April 2003, respectively.

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

2007 US\$'000	2008 US\$'000		2008 RO'000	2007 RO'000
5,094	6,208	Interest income	2,390	1,961
1,449	764	Interest expense	294	558
60	96	Other operating income	37	23
		Other operating expenditure:		
247	112	Advertisement and publicity	43	95
701	683	Insurance	263	270
1,403	1,548	Repairs and maintenance	596	540
1,103	1,265	Others	487	424
<u>634</u>	<u>465</u>	Purchase of property and equipment	<u>179</u>	<u>244</u>

Compensation of the key management personnel is as follows:

2007 US\$'000	2008 US\$'000		2008 RO'000	2007 RO'000
605	784	Short-term employee benefits	302	233
<u>31</u>	<u>42</u>	Terminal benefits	<u>16</u>	<u>12</u>
<u>636</u>	<u>826</u>		<u>318</u>	<u>245</u>

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OMAN INTERNATIONAL BANK SAOG

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2008**

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 (a) RO'000	Other directors RO'000	Significant shareholder RO'000	Others RO'000	Total RO'000
As at 31 December 2008					
Loans and advances	12,401	392	19,628	25,502	57,923
Deposits from customers	168	36	4,115	13,670	17,989
Letters of credit, guarantees and other acceptances	32	-	2,390	3,072	5,494
Provision for loans and advances	-	-	-	888	<u>888</u>
During the year 2008					
Interest income	288	11	923	1,168	2,390
Interest expense	7	-	151	136	294
Other operating income	-	-	5	32	37
Other operating expenditure:					
Advertisement and publicity	-	4	39	-	43
Insurance	-	-	-	263	263
Repairs and maintenance	-	308	227	61	596
Others	9	114	308	56	487
Purchase of property and equipment	=	<u>4</u>	<u>48</u>	<u>127</u>	<u>179</u>

	Director (a) RO'000	Other directors RO'000	Significant shareholder RO'000	Others RO'000	Total RO'000
As at 31 December 2007					
Loans and advances	11,126	470	30,804	19,961	62,361
Deposits from customers	2,120	42	5,712	9,633	17,507
Letters of credit, guarantees and other acceptances	36	-	1,016	3,223	4,275
Provision for loans and advances	-	-	-	888	888
During the year 2007					
Interest income	234	19	442	1,266	1,961
Interest expense	39	-	290	229	558
Other operating income	-	-	2	21	23
Other operating expenditure:					
Advertisement and publicity	-	1	93	1	95
Insurance	-	-	-	270	270
Repairs and maintenance	-	-	225	315	540
Others	7	51	275	91	424
Purchase of property and equipment	=	=	<u>63</u>	<u>181</u>	<u>244</u>

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.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)
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23 Geographical distribution of assets and liabilities

A geographical analysis of the assets, liabilities and equity as at 31 December 2008 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	115,177	-	-	806	15,139	-	131,122
Treasury bills and certificates of deposit	160,000	-	-	-	-	-	160,000
Due from other banks	-	6,784	11,784	7,033	4	107	25,712
Loans and advances	620,679	4,565	-	129	1,415	-	626,788
Investments	22,147	2,772	1,040	7,842	-	41	33,842
Property and equipment	28,757	-	-	1,191	74	-	30,022
Other assets	9,233	-	-	1,291	186	-	10,710
Total assets	955,993	14,121	12,824	18,292	16,818	148	1,018,196
Due to banks	28,700	5,439	68,015	821	138	29	103,142
Deposits from customers	711,210	-	10	15,514	2,581	-	729,315
Other liabilities	12,612	-	-	366	170	-	13,148
Total liabilities	752,522	5,439	68,025	16,701	2,889	29	845,605
Equity	172,258	-	-	333	-	-	172,591
Total liabilities and equity	924,780	5,439	68,025	17,034	2,889	29	1,018,196

	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	299,161	-	-	2,094	39,322	-	340,577
Treasury bills and certificates of deposit	415,584	-	-	-	-	-	415,584
Due from other banks	-	17,620	30,608	18,268	10	278	66,784
Loans and advances	1,612,154	11,857	-	335	3,675	-	1,628,021
Investments	57,525	7,200	2,701	20,369	-	106	87,901
Property and equipment	74,693	-	-	3,094	192	-	77,979
Other assets	23,982	-	-	3,353	483	-	27,818
Total assets	2,483,099	36,677	33,309	47,513	43,682	384	2,644,664
Due to banks	74,545	14,127	176,662	2,132	358	77	267,901
Deposits from customers	1,847,299	-	26	40,296	6,704	-	1,894,325
Other liabilities	32,758	-	-	951	442	-	34,151
Total liabilities	1,954,602	14,127	176,688	43,379	7,504	77	2,196,377
Equity	447,422	-	-	865	-	-	448,287
Total liabilities and equity	2,402,024	14,127	176,688	44,244	7,504	77	2,644,664

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**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2008**

23 Geographical distribution of assets and liabilities (continued)

A geographical analysis of the assets, liabilities and equity as at 31 December 2007 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	32,920	-	-	1,476	15,035	-	49,431
Treasury bills and certificates of deposit	260,000	-	-	-	-	-	260,000
Due from other banks	-	73,284	36,124	9,192	4	107	118,711
Loans and advances	558,098	244	-	173	1,419	-	559,934
Investments	25,323	4,767	14	9,305	-	41	39,450
Property and equipment	29,275	-	-	1,542	35	-	30,852
Other assets	<u>22,088</u>	<u>-</u>	<u>-</u>	<u>1,104</u>	<u>216</u>	<u>-</u>	<u>23,408</u>
Total assets	<u>927,704</u>	<u>78,295</u>	<u>36,138</u>	<u>22,792</u>	<u>16,709</u>	<u>148</u>	<u>1,081,786</u>
Due to banks	1,332	14,178	66,508	20	1,120	111	83,269
Deposits from customers	789,853	-	12	18,899	2,940	-	811,704
Other liabilities	<u>23,941</u>	<u>-</u>	<u>-</u>	<u>650</u>	<u>73</u>	<u>-</u>	<u>24,664</u>
Total liabilities	815,126	14,178	66,520	19,569	4,133	111	919,637
Equity	<u>162,053</u>	<u>-</u>	<u>-</u>	<u>96</u>	<u>-</u>	<u>-</u>	<u>162,149</u>
Total liabilities and equity	<u>977,179</u>	<u>14,178</u>	<u>66,520</u>	<u>19,665</u>	<u>4,133</u>	<u>111</u>	<u>1,081,786</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	85,506	-	-	3,834	39,052	-	128,392
Treasury bills and certificates of deposit	675,325	-	-	-	-	-	675,325
Due from other banks	-	190,347	93,830	23,875	10	278	308,340
Loans and advances	1,449,605	634	-	449	3,686	-	1,454,374
Investments	65,775	12,382	36	24,169	-	106	102,468
Property and equipment	76,039	-	-	4,005	91	-	80,135
Other assets	<u>57,371</u>	<u>-</u>	<u>-</u>	<u>2,867</u>	<u>561</u>	<u>-</u>	<u>60,799</u>
Total assets	<u>2,409,621</u>	<u>203,363</u>	<u>93,866</u>	<u>59,199</u>	<u>43,400</u>	<u>384</u>	<u>2,809,833</u>
Due to banks	3,459	36,826	172,748	52	2,909	288	216,282
Deposits from customers	2,051,567	-	31	49,088	7,636	-	2,108,322
Other liabilities	<u>62,185</u>	<u>-</u>	<u>-</u>	<u>1,688</u>	<u>190</u>	<u>-</u>	<u>64,063</u>
Total liabilities	2,117,211	36,826	172,779	50,828	10,735	288	2,388,667
Equity	<u>420,917</u>	<u>-</u>	<u>-</u>	<u>249</u>	<u>-</u>	<u>-</u>	<u>421,166</u>
Total liabilities and equity	<u>2,538,128</u>	<u>36,826</u>	<u>172,779</u>	<u>51,077</u>	<u>10,735</u>	<u>288</u>	<u>2,809,833</u>

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**NOTES TO THE FINANCIAL STATEMENTS (continued)
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24 Distribution by economic sector

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

2007 US\$'000	2008 US\$'000		2008 RO'000	2007 RO'000
589,230	620,191	Personal and consumer	238,773	226,853
58,359	65,933	Import trade	25,384	22,468
87,573	106,043	Construction	40,827	33,716
66,709	90,182	Financial institutions	34,720	25,683
286,119	290,052	Manufacturing	111,670	110,156
49,034	49,003	Wholesale and retail trade	18,866	18,878
16,826	2,831	Export trade	1,090	6,478
86,442	102,213	Electricity, gas, water, transportation and communication	39,352	33,280
53,849	49,291	Services	18,977	20,732
316,795	309,377	Mining and quarrying	119,110	121,966
50,023	107,954	Others	41,563	19,259
<u>1,660,959</u>	<u>1,793,070</u>		<u>690,332</u>	<u>639,469</u>

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

2007 US\$'000	2008 US\$'000		2008 RO'000	2007 RO'000
286	212	Personal and consumer	81	110
41,065	48,126	Import trade	18,528	15,810
53,764	46,294	Construction	17,823	20,699
405,416	442,696	Financial institutions	170,438	156,085
12,784	8,089	Manufacturing	3,114	4,922
9,979	2,064	Wholesale and retail trade	2,064	3,842
26	-	Export trade	-	10
5,668	770	Electricity, gas, water, transportation and communication	6,381	2,182
4,784	4,077	Services	1,570	1,842
314	55	Mining and quarrying	21	121
<u>16,836</u>	<u>50,921</u>	Others	<u>12,252</u>	6,482
<u>550,922</u>	<u>603,304</u>		<u>232,272</u>	<u>212,105</u>

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**NOTES TO THE FINANCIAL STATEMENTS (continued)
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25 Geographical segment information

A geographical analysis of key financial data by location of primary assets as at 31 December 2008 is set out below:

	Oman RO'000	Others RO'000	Consolidation adjustments RO'000	Total RO'000
Revenue from customers	57,801	1,514	-	59,315
Internal revenue	107	6	(113)	-
Segment result	29,611	(137)	-	29,474
Assets	1,010,590	35,588	(27,982)	1,018,196
Liabilities	838,137	20,862	(13,394)	845,605
Capital expenditure	454	81	-	535
Depreciation	1,011	119	-	1,130
Provision for loan impairment	2,051	-	-	2,051

	Oman US\$'000	Others US\$'000	Consolidation adjustments US\$'000	Total US\$'000
Revenue from customers	150,132	3,933	-	154,065
Internal revenue	278	16	(294)	-
Segment result	76,912	(357)	-	76,555
Assets	2,624,909	92,436	(72,681)	2,644,664
Liabilities	2,176,979	54,187	(34,789)	2,196,377
Capital expenditure	1,180	210	-	1,390
Depreciation	2,626	309	-	2,935
Provision for loan impairment	5,327	-	-	5,327

A geographical analysis of key financial data by location of primary assets as at 31 December 2007 is set out below:

	Oman RO'000	Others RO'000	Consolidation adjustments RO'000	Total RO'000
Revenue from customers	66,268	1,746	-	68,014
Internal revenue	103	10	(113)	-
Segment result	28,173	(97)	-	28,076
Assets	1,072,991	40,170	(31,375)	1,081,786
Liabilities	910,720	25,969	(17,052)	919,637
Capital expenditure	456	27	-	483
Depreciation	756	133	-	889
Provision for loan impairment	2,273	506	-	2,779

	Oman US\$'000	Others US\$'000	Consolidation adjustments US\$'000	Total US\$'000
Revenue from customers	172,125	4,535	-	176,660
Internal revenue	268	26	(294)	-
Segment result	73,178	(252)	-	72,926
Assets	2,786,989	104,338	(81,494)	2,809,833
Liabilities	2,365,505	67,452	(44,291)	2,388,666
Capital expenditure	1,184	70	-	1,254
Depreciation	1,964	345	-	2,309
Provision for loan impairment	5,904	1,314	-	7,218

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**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2008**

25 Geographical segment information (continued)

A geographical analysis of revenue by location of customers as at 31 December 2008 is set out below:

	Oman RO'000	Others RO'000	Total RO'000
Revenue from customers	54,776	4,539	59,315

	Oman US\$'000	Others US\$'000	Total US\$'000
Revenue from customers	142,275	11,790	154,065

A geographical analysis of revenue by location of customers as at 31 December 2007 is set out below:

	Oman RO'000	Others RO'000	Total RO'000
Revenue from customers	53,711	14,303	68,014

	Oman US\$'000	Others US\$'000	Total US\$'000
Revenue from customers	139,509	37,151	176,660

26 Business segment information

An analysis of key financial data by business segment as at 31 December 2008 is set out below:

	Retail RO'000	Corporate RO'000	Treasury & Investments RO'000	Common RO'000	Total RO'000
Revenue from customers	26,339	19,236	9,474	4,266	59,315
Assets	226,135	400,653	226,422	164,986	1,018,196
Capital expenditure	-	-	-	535	535

	Retail US\$'000	Corporate US\$'000	Treasury & Investments US\$'000	Common US\$'000	Total US\$'000
Revenue from customers	68,413	49,964	24,608	11,080	154,065
Assets	587,365	1,040,656	588,108	428,535	2,644,664
Capital expenditure	-	-	-	1,390	1,390

An analysis of key financial data by business segment as at 31 December 2007 is set out below:

	Retail RO'000	Corporate RO'000	Treasury & Investments RO'000	Common RO'000	Total RO'000
Revenue from customers	25,903	18,557	21,303	2,251	68,014
Assets	216,596	343,553	423,481	98,156	1,081,786
Capital expenditure	-	-	-	483	483

	Retail US\$'000	Corporate US\$'000	Treasury & Investments US\$'000	Common US\$'000	Total US\$'000
Revenue from customers	67,281	48,200	55,332	5,847	176,660
Assets	562,587	892,343	1,099,950	254,953	2,809,833
Capital expenditure	-	-	-	1,254	1,254

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NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2008

27 Dividend per share

The Board of Directors at the forthcoming Annual General meeting will propose a cash dividend of RO 0.027 per share of nominal value of RO 0.100 each amounting to RO 24.658 million for the year 2008 (2007 – cash dividend of RO 0.210 per share of nominal value of RO 1 each amounting to RO 17.435 million and stock dividend of 10 % equal to 8,302,338 shares). 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 2009.

28 Risk Management

28.1 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 (ALCO) Committee, 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.

28.2 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.

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OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2008

28 Risk Management (continued)

28.2 Credit risk (continued)

28.2.1 Management of Credit Risk

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

- Formulating credit policies
- Establishing the authorization structure
- Reviewing and assessing credit 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.

28.2.2 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 Credit 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.

28.2.3 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.

28.2.4 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.

28.2.5 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. These are not currently subdivided but this will be a feature of future policy.

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.

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NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2008

28 Risk Management (continued)

28.2 Credit risk (continued)

28.2.6 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.

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 was developed and certified by Oliver Wyman, a leading international firm on financial services strategy and risk management consultancy. 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 balance sheet against expected losses .

28.2.7 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.

28.2.8 Exposure to Credit risk

	Loans and advances		Due from other banks		Investments	
	2008 RO'000	2007 RO'000	2008 RO'000	2007 RO'000	2008 RO'000	2007 RO'000
Individually impaired	61,373	77,087	-	-	-	-
Allowance for impairment	<u>(57,348)</u>	<u>(73,543)</u>	=	=	=	=
Carrying amount	4,025	3,544	=	=	=	=
Past due and not impaired	23,520	23,569	=	=	=	=
Neither past due nor impaired	<u>599,243</u>	<u>532,821</u>	<u>25,712</u>	<u>118,711</u>	<u>33,842</u>	<u>39,450</u>
Total carrying amount	<u>626,788</u>	<u>559,934</u>	<u>25,712</u>	<u>118,711</u>	<u>33,842</u>	<u>39,450</u>

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**NOTES TO THE FINANCIAL STATEMENTS (continued)
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28 Risk Management (continued)

28.2 Credit risk (continued)

28.2.8 Exposure to Credit risk (continued)

	Loans and advances		Due from other banks		Investments	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
Individually impaired	159,410	200,226	-	-	-	-
Allowance for impairment	(148,956)	(191,021)	-	-	-	-
Carrying amount	10,454	9,205	-	-	-	-
Past due and not impaired	61,091	61,218	-	-	-	-
Neither past due nor impaired	1,556,476	1,383,951	66,784	308,340	87,901	102,468
Total carrying amount	1,628,021	1,454,374	66,784	308,340	87,901	102,468

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 2008 or 2007.

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	
2007 US\$'000	2008 US\$'000		2008 RO'000	2007 RO'000
		Against individually impaired		
18,169	22,306	Property	8,588	6,995
5	8	Equities	3	2
397	405	Deposits	156	153
<u>52</u>	<u>52</u>	Guarantees (Sovereign/Bank)	<u>20</u>	<u>20</u>
<u>18,623</u>	<u>22,771</u>	Total	<u>8,767</u>	<u>7,170</u>
		Against past due but not impaired		
4,138	4,582	Property	1,764	1,593
844	-	Equities	-	325
1,997	1,862	Deposits	717	769
<u>22,478</u>	<u>20,743</u>	Guarantees (Sovereign/Bank)	<u>7,986</u>	<u>8,654</u>
<u>29,457</u>	<u>27,187</u>	Total	<u>10,467</u>	<u>11,341</u>
		Against neither past due nor impaired		
49,303	53,994	Property	20,788	18,982
22,917	22,972	Debt Securities	8,844	8,823
852	1,429	Equities	550	328
75,416	74,920	Deposits	28,844	29,035
<u>215,249</u>	<u>209,865</u>	Guarantees (Sovereign/Bank)	<u>80,798</u>	<u>82,871</u>
<u>363,737</u>	<u>363,180</u>	Total	<u>139,824</u>	<u>140,039</u>
<u>411,817</u>	<u>413,138</u>	Total Securities	<u>159,058</u>	<u>158,550</u>

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28 Risk Management (continued)

28.2 Credit risk (continued)

28.2.8 Exposure to Credit risk (continued)

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	
	2008 RO'000	2007 RO'000	2008 RO'000	2007 RO'000	2008 RO'000	2007 RO'000
Concentration by sector:						
Sovereign	-	-	-	-	25,351	29,299
Corporate	400,654	342,709	-	-	-	-
Banks	-	-	25,712	118,711	218	219
Retail	226,134	217,225	-	-	-	-
Equity	-	-	-	-	8,273	9,932
Carrying amount	<u>626,788</u>	<u>559,934</u>	<u>25,712</u>	<u>118,711</u>	<u>33,842</u>	<u>39,450</u>

	Loans and advances		Due from other banks		Investments	
	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000	2008 US\$'000	2007 US\$'000
Concentration by sector:						
Sovereign	-	-	-	-	65,847	76,101
Corporate	1,040,660	890,152	-	-	-	-
Banks	-	-	66,784	308,340	566	569
Retail	587,361	564,222	-	-	-	-
Equity	-	-	-	-	21,488	25,798
Carrying amount	<u>1,628,021</u>	<u>1,454,374</u>	<u>66,784</u>	<u>308,340</u>	<u>87,901</u>	<u>102,468</u>

28.3 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.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2008**

28 Risk Management (continued)

28.3 Liquidity and funding management (continued)

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 balance sheet 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. Details of the ratio of net liquid assets to deposits from customers at the reporting date was as follows:

At 31 December	2008 26.31%	2007 35.09%
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Residual contractual maturities of financial liabilities

	Carrying amount RO'000	Gross nominal 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 2008						
Non-derivative liabilities						
Due to banks	103,142	106,425	56,125	50,300	-	-
Deposit from customers	729,315	732,011	428,798	81,380	76,715	145,118
Unrecognized loan commitments	9,730	9,730	7,545	2,185	-	-
	Carrying amount US\$'000	Gross nominal 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 2008						
Non-derivative liabilities						
Due to banks	267,901	276,428	145,779	130,649	-	-
Deposit from customers	1,894,325	1,901,328	1,113,761	211,377	199,260	376,930
Unrecognized loan commitments	25,272	25,272	19,597	5,675	-	-

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NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2008

28 Risk Management (continued)

28.3 Liquidity and funding management (continued)

Exposure to liquidity risk (continued)

Residual contractual maturities of financial liabilities (continued)

	Carrying amount	Gross nominal outflow	Up to 1 year	1-3 years	>3-5 years	Over 5 years
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2007						
Non-derivative liabilities						
Due to banks	83,269	92,980	24,694	-	68,286	-
Deposit from customers	811,704	821,660	481,027	82,147	99,391	159,095
Unrecognized loan commitments	38,331	38,331	24,782	13,549	-	-

	Carrying amount	Gross nominal outflow	Up to 1 year	1-3 years	>3-5 years	Over 5 years
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
31 December 2007						
Non-derivative liabilities						
Due to banks	216,282	241,506	64,140	-	177,366	-
Deposit from customers	2,108,322	2,134,182	1,249,421	213,369	258,158	413,234
Unrecognized loan commitments	99,561	99,561	64,369	35,192	-	-

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.

28.4 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.

28.4.1 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.

Overall authority for market risk is vested in 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.

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NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2008

28 Risk Management (continued)

28.4 Market risks (continued)

28.4.1 Management of market risks (continued)

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 2008 FCY'000	Net exposure 2008 RO'000	Net exposure 2007 RO'000
			Purchases FCY'000	Sales FCY'000			
US Dollars	694,421	460,230	50,799	181,003	103,987	40,035	39,423
Indian Rupees	1,367,296	1,369,453	2,000	-	157	1	2
Others						249	1,454
						<u>40,285</u>	<u>40,879</u>

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

28.4.2 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 off-balance sheet 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 2008 was as follows:

Assets	Effective interest rate %	Less	6 to 12 months RO'000	Over 12 months RO'000	Non- interest sensitive RO'000	Total RO'000
		than 6 months RO'000				
Cash and balances with central banks		-	-	-	131,122	131,122
Treasury bills and certificates of deposit	1.42	150,000	10,000	-	-	160,000
Due from other banks	4.45	10,675	1,216	1,671	12,150	25,712
Loans and advances	5.72	343,835	24,844	255,206	2,903	626,788
Investments	3.82	<u>3,721</u>	<u>7,985</u>	<u>10,665</u>	<u>11,471</u>	<u>33,842</u>
Total		<u>508,231</u>	<u>44,045</u>	<u>267,542</u>	<u>157,646</u>	<u>977,464</u>
Liabilities						
Due to banks	2.52	85,496	-	-	17,646	103,142
Deposits from customers	1.37	<u>252,329</u>	<u>52,851</u>	<u>10,143</u>	<u>413,992</u>	<u>729,315</u>
Total		<u>337,825</u>	<u>52,851</u>	<u>10,143</u>	<u>431,638</u>	<u>832,457</u>
Interest sensitivity gap		170,406	(8,806)	257,399	-	=

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NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2008

28 Risk Management (continued)

28.4 Market risks (continued)

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

Assets	Effective interest rate %	Less			Non-interest sensitive US\$'000	Total US\$'000
		than 6 months US\$'000	6 to 12 months US\$'000	Over 12 months US\$'000		
Cash and balances with central banks		-	-	-	340,577	340,577
Treasury bills and certificates of deposit	1.42	389,610	25,974	-	-	415,584
Due from other banks	4.45	27,727	3,158	4,340	31,559	66,784
Loans and advances	5.72	893,078	64,530	662,873	7,540	1,628,021
Investments	3.82	9,664	20,740	27,701	29,796	87,901
Total		1,320,079	114,402	694,914	409,472	2,538,867
Liabilities						
Due to banks	2.52	222,068	-	-	45,833	267,901
Deposits from customers	1.37	655,400	137,275	26,345	1,075,305	1,894,325
Total		877,468	137,275	26,345	1,121,138	2,162,226
Interest sensitivity gap		442,611	(22,873)	668,569		

The Bank's interest sensitivity position based on contractual repricing arrangements or maturity at 31 December 2007 was as follows:

Assets	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
Treasury bills and certificates of deposit	3.25	250,000	-	10,000	-	260,000
Due from other banks	5.12	108,849	3,510	1,098	5,254	118,711
Loans and advances	6.02	288,271	17,081	251,719	2,863	559,934
Investments	4.12	5,810	1,702	22,006	9,932	39,450
Total		652,930	22,293	284,823	67,480	1,027,526
Liabilities						
Due to banks	4.35	58,921	-	-	24,348	83,269
Deposits from customers	2.36	328,156	44,085	27,256	412,207	811,704
Total		387,077	44,085	27,256	436,555	894,973
Interest sensitivity gap		265,853	(21,792)	257,567		

Assets	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
Treasury bills and certificates of deposit	3.25	649,351	-	25,974	-	675,325
Due from other banks	5.12	282,725	9,117	2,852	13,646	308,340
Loans and advances	6.02	748,756	44,366	653,816	7,436	1,454,374
Investments	4.12	15,090	4,421	57,158	25,799	102,468
Total		1,695,922	57,904	739,800	175,273	2,668,899
Liabilities						
Due to banks	4.35	153,042	-	-	63,240	216,282
Deposits from customers	2.36	852,353	114,506	70,795	1,070,669	2,108,323
Total		1,005,395	114,506	70,795	1,133,909	2,324,605
Interest sensitivity gap		690,527	(56,602)	669,005		

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NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2008

28 Risk Management (continued)

28.4 Market risks (continued)

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

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 2008	1,195	(1,195)	3,104	(3,104)
At 31 December 2007	2,172	(2,172)	5,642	(5,642)

28.5 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 include:

- 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 2008

28 Risk Management (continued)

28.6 Capital Management

28.6.1 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 Banks 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.

28.6.1 Regulatory Capital (continued)

The Bank's policy is to maintain a strong capital base so as to maintain investor, deposit 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:

2007 US\$'000	2008 US\$'000		2008 RO'000	2007 RO'000
		Tier 1 capital		
215,644	237,208	Ordinary share capital	91,325	83,023
70,330	77,829	Legal reserve	29,964	27,077
21,570	4,138	Retained earnings	1,593	8,305
<u>(3,561)</u>	<u>(1,384)</u>	Other regulatory adjustments	<u>(533)</u>	<u>(1,371)</u>
303,983	<u>317,791</u>	Total	<u>122,349</u>	<u>117,034</u>
		Tier 2 capital		
5,683	4,169	Fair value reserve for available-for-sale equity securities	1,605	2,188
15,564	16,093	Collective allowances for impairment	6,196	5,992
<u>(800)</u>	<u>-</u>	Other regulatory adjustments	<u>-</u>	<u>(308)</u>
20,447	<u>20,262</u>	Total	<u>7,801</u>	<u>7,872</u>
324,430	<u>338,053</u>	Total regulatory capital	<u>130,150</u>	<u>124,906</u>
		Risk-weighted assets		
1,727,223	1,881,608	Banking book	724,419	664,981
220,984	222,273	Operational risk	85,575	85,079
<u>140,423</u>	<u>152,561</u>	Market risk	<u>58,736</u>	<u>54,063</u>
2,088,630	<u>2,256,442</u>	Total risk-weighted assets	<u>868,730</u>	<u>804,123</u>
		Capital ratios		
15.53	14.98	Total regulatory capital expressed as a percentage of total risk-weighted assets	14.98	15.53
14.55	14.08	Total tier 1 capital expressed as a percentage of risk-weighted assets	14.08	14.55

29. Comparative balances

The corresponding figures of 2007 included for comparative purposes have been reclassified to conform with the presentation in the current period.