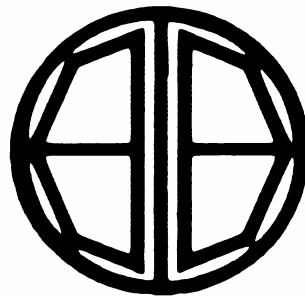


Oman International Bank S.A.O.G

Quarterly return to MSM as at 30 June 2009

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Oman International Bank S.A.O.G

Interim report for six months ended 30 June 2009

Board of Directors' Report on the half yearly results (unaudited) for the period ended June 30, 2009

Dear Shareholders,

On behalf of the Board of Directors of Oman International Bank SAOG, it gives me great pleasure to present a brief summary of the activities of the Bank and its performance for the half year ended 30th June, 2009.

The net interest income for the half year shows an increase of 11.85% to RO 16 Mio from RO 14.3 Mio for corresponding period last year. However operating income has shown a reduction of RO 3.4 million solely on account of the inclusion in the last year of one off investment income of OMR 3.175 Mio. Our banking non-funded income has remained stable.

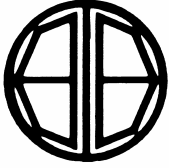
The provision for loan impairment has been reduced by 43% to RO 620K compared with RO 1,087K for the corresponding period last year. The increase in net income and continued reduction in loan impairment indicates the long term success of our prudent risk management policies and procedures which emphasize profitable opportunities. The impact of recoveries amounted to RO 1.9 Mio compared to RO3.9 Mio for last year due to slight delay in crystallisation of some major recoveries. Overheads have increased by 3.4% due to staff costs and inflation.

Accordingly the net profit of RO 11.8 Mio compared to RO 15.3 Mio lower than the corresponding period last year by RO 3.53 Mio.

The loans and advances showed an increase of 12.4% to RO 635 Mio as at 30th June, 2009 from RO 564.8 Mio for the corresponding period last year.

Outstanding letters of credit and guarantees were at RO 259.8 Mio as compared to RO 244.1 Mio last year.

The focus of the corporate banking unit is to finance infrastructure, tourism and other sectors of national importance in addition to oil and gas. The major emphasis remains to align our strategy with the strategic plans of the government. The bank has several proposals under process.



Oman International Bank S.A.O.G

Interim report for six months ended 30 June 2009

You will be pleased to know that the Bank won the GCC HR Excellence Award in the “Best Nationalization Friendly Initiative” category. The Bank was also awarded, by the Ministry of Manpower, for compliance with the rules and regulations of the Omani Labour Law and appreciation for the continuous efforts in the field of Omanisation.

As regards our international operations, there has been consistent improvement. The India operations have reported a profit whereas the Pakistan operations are being closely monitored to improve the results further.

In closing this address, on behalf of the Board of Directors, I would like to express our appreciation and thanks to all our customers, correspondent banks, staff and management whose commitment to the Bank is appreciated, as well as to the Central Bank of Oman and their counterparts overseas for their support and guidance.

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

Reem Omar Zawawi
Chairperson of the Board

**REVIEW REPORT TO THE BOARD OF DIRECTORS OF
OMAN INTERNATIONAL BANK SAOG**

Introduction

We have reviewed the accompanying condensed interim report of the Oman International Bank SAOG ("the Bank") as at 30 June 2009, which includes condensed statement of financial position and the related condensed statements of income, condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows, prepared in Capital Market Authority's format, for the six months period then ended, and a summary of significant accounting policies and other explanatory notes set out on pages 5 to 33.

The condensed interim report is the responsibility of the Bank's Management. Bank's Management are responsible for the preparation of this condensed interim financial information in accordance with International Financial Reporting Standards and the requirements set out in the Rules for Disclosure and Proformas issued by the Capital Market Authority of the Sultanate of Oman. Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of the Bank's personnel responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information as at and for the six months period ended 30 June 2009 is not prepared, in all material respects, in accordance with International Financial Reporting Standards and the minimum disclosure requirements of the Capital Market Authority of the Sultanate of Oman.



Oman International Bank S.A.O.G

Interim report for the six months period ended 30 June 2009

Summary of unaudited results

	30 June 2009 RO'000	30 June 2008 RO'000
Loans and advances net of provision and reserved interest	635,390	564,849
Deposits	713,110	814,806
Networth	160,336	161,835
Net assets per share	RO 0.176	RO 0.177

	Six months ended 30 June 2009 RO'000	Six months ended 30 June 2008 RO'000
Net interest income	16,044	14,344
Net profit for the period	11,831	15,363
Earnings per share for the period	RO 0.013	RO 0.017
Earnings per share (annualised)	RO 0.026	RO 0.034
Capital adequacy ratio	14.70%	15.41%



Oman International Bank S.A.O.G

Interim report for the six months period ended 30 June 2009

Unaudited income statement for the quarter and six months period ended 30 June 2009

	Notes	Quarter ended 30 June 2009 RO'000	Quarter ended 30 June 2008 RO'000	Six months ended 30 June 2009 RO'000	Six months ended 30 June 2008 RO'000
Interest income		9,988	10,429	20,643	22,338
Interest expense		<u>(2,175)</u>	<u>(3,646)</u>	<u>(4,599)</u>	<u>(7,994)</u>
Net interest income		7,813	6,783	16,044	14,344
Other operating income	5	<u>3,018</u>	<u>3,021</u>	<u>5,535</u>	<u>9,018</u>
Total income		10,831	9,804	21,579	23,362
Other operating expenditure	5	<u>(4,861)</u>	<u>(4,773)</u>	<u>(9,452)</u>	<u>(9,139)</u>
Operating profit before provisions and recoveries		5,970	5,031	12,127	14,223
Provision for loan impairment		(248)	(353)	(620)	(1,087)
Loan recoveries and write back	6	<u>488</u>	<u>2,246</u>	<u>1,926</u>	<u>3,994</u>
Profit before tax		6,210	6,924	13,433	17,130
Taxation		<u>(745)</u>	<u>(794)</u>	<u>(1,602)</u>	<u>(1,767)</u>
Net profit for the period		<u>5,465</u>	<u>6,130</u>	<u>11,831</u>	<u>15,363</u>
Dividend per share		=	=	=	=

The notes set out on pages 11 to 33 form an integral part of these interim unaudited financial statements



Oman International Bank S.A.O.G

Interim report for the six months period ended 30 June 2009

Unaudited statement of comprehensive income for the six months period ended 30 June 2009

	Quarter ended 30 June 2009 RO'000	Quarter ended 30 June 2008 RO'000	Six months ended 30 June 2009 RO'000	Six months ended 30 June 2008 RO'000
Net profit for the period	5,465	6,130	11,831	15,363
Other comprehensive income				
Net movement in fair value of available for sale investments	1,147	1,836	535	1,688
Effect of currency translation	<u>111</u>	<u>17</u>	<u>37</u>	<u>25</u>
Other comprehensive income for the period, net of tax	<u>1,258</u>	<u>1,853</u>	<u>572</u>	<u>1,713</u>
Total comprehensive income for the period	<u>6,723</u>	<u>7,983</u>	<u>12,403</u>	<u>17,076</u>



Oman International Bank S.A.O.G

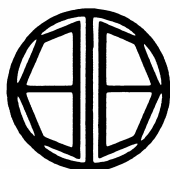
Interim report for the six months period ended 30 June 2009

Unaudited statement of financial position at 30 June 2009

	Notes	30 June 2009 RO'000	30 June 2008 RO'000	31 December 2008 RO'000
Assets				
Cash and balances with central banks		118,472	55,894	131,122
Treasury bills and certificates of deposits		119,896	325,000	160,000
Due from other banks		31,255	51,711	25,712
Loans and advances:	8			
Due from related parties		45,607	37,347	57,923
Other loans and advances		656,078	591,432	632,409
Loans and advances (gross)		701,685	628,779	690,332
Provision for impairment and reserved interest	9	(66,295)	(63,930)	(63,544)
Loans and advances (net)		635,390	564,849	626,788
Investments	13	37,949	35,194	33,842
Other assets		19,313	12,768	10,710
Property and equipment	14	30,442	30,437	30,022
Total assets		992,717	1,075,853	1,018,196
Liabilities				
Deposits from customers:	10			
Due to related parties		15,142	23,163	17,989
Deposits from others		697,968	791,643	711,326
Total deposits		713,110	814,806	729,315
Due to banks		97,046	83,711	103,142
Other liabilities		22,225	15,501	13,148
Total liabilities		832,381	914,018	845,605
Shareholders' funds				
Share capital		91,325	91,325	91,325
Non-distributable reserves		55,605	55,177	55,015
Retained earnings		13,406	15,333	26,251
Total shareholders' funds		160,336	161,835	172,591
Total liabilities and shareholders' funds		992,717	1,075,853	1,018,196
Letters of credit and guarantees	19 (a)	259,888	244,148	232,272

The interim unaudited financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 29 July 2009.

REEM OMAR ZAWAWI
CHAIRPERSON



Oman International Bank S.A.O.G

Interim report for the six months period ended 30 June 2009

Unaudited statement of changes in equity

Particulars

	Share capital RO'000	Legal reserve RO'000	Statutory reserve RO'000	Revaluation reserve RO'000	Investment revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
At 1 January 2008	83,023	26,399	678	22,064	4,245	25,740	162,149
Effect of currency translation	-	-	(56)	-	48	33	25
Net movement in fair values	-	-	-	-	1,688	-	1,688
Total income and expense for the period directly recorded in equity	-	-	(56)	-	1,736	33	1,713
Net profit for the period	-	-	-	-	-	15,363	15,363
Total income and expense for the period	-	-	(56)	-	1,736	15,396	17,076
Transferred during the period	-	-	66	-	-	(66)	-
Transfer to asset revaluation reserve	-	-	-	45	-	-	45
Cash dividend paid for year 2007	-	-	-	-	-	(17,435)	(17,435)
Stock dividend for the year 2007	8,302	-	-	-	-	(8,302)	-
At 30 June 2008	91,325	26,399	688	22,109	5,981	15,333	161,835
At 1 January 2009	91,325	29,346	618	22,109	2,942	26,251	172,591
Effect of currency translation	-	-	(3)	-	(1)	41	37
Net movement in fair values	-	-	-	-	535	-	535
Total income and expense for the period directly recorded in equity	-	-	(3)	-	534	41	572
Net profit for the period	-	-	-	-	-	11,831	11,831
Total income and expense for the period	-	-	(3)	-	534	11,872	12,403
Transferred during the period	-	-	59	-	-	(59)	-
Cash dividend paid for the year 2008	-	-	-	-	-	(24,658)	(24,658)
At 30 June 2009	91,325	29,346	674	22,109	3,476	13,406	160,336



Unaudited statement of cash flows for the six months ended 30 June 2009

	Six months ended 30 June 2009 RO'000	Six months ended 30 June 2008 RO'000
Profit before taxation	13,433	17,130
Adjustments for:		
Depreciation	585	574
Provision for loan impairment (net of recoveries/write back)	(1,306)	(2,907)
Interest/dividend on investments	(696)	(3,070)
Unrealised forward foreign currency losses / (gains)	(17)	253
Profit on disposal of property and equipment	-	(6)
Profit on sale on investments	(4)	(963)
Unrealised losses on investments	<u>(14)</u>	<u>(15)</u>
Operating profit before changes in operating assets and liabilities	11,981	10,996
Changes in operating assets	(38,256)	55,935
Changes in operating liabilities	<u>8,236</u>	<u>12,651</u>
Cash (used in) generated from operations	(18,039)	79,582
Income taxes paid	<u>(3,700)</u>	<u>(3,781)</u>
Net cash flow (used in) from operating activities	<u>(21,739)</u>	<u>75,801</u>
Cash flows from investing activities		
Purchase of property and equipment	(1,013)	(242)
Proceeds from sale of property and equipment	-	6
Purchase of investments	(7,500)	(436)
Proceeds from sale of investments	3,705	6,588
Income received from investments	2,049	4,952
Effect of currency translation	<u>83</u>	<u>903</u>
Net cash flow (used in) from investing activities	<u>(2,676)</u>	<u>11,771</u>
Cash flows from financing activities		
Dividend paid	<u>(24,658)</u>	<u>(17,435)</u>
Net (decrease) increase in cash and cash equivalents	(49,073)	70,137
Cash and cash equivalents at beginning of period	<u>191,900</u>	<u>284,802</u>
Cash and cash equivalents at end of period (Refer note 20)	<u>142,827</u>	<u>354,939</u>



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2009**

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 condensed interim financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

The condensed interim unaudited financial statements are prepared in accordance with International Financial Reporting Standards and the disclosure requirements set out in the Rules for Disclosure and Proformas issued by the Capital Market Authority. The accounting policies used in the preparation of condensed interim financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2008, the prior year. The annual financial statements were 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. The annual financial statements are prepared under the historical cost convention as modified by the revaluation of land, available-for-sale investment securities, investment carried at fair value through profit or loss, financial assets and financial liabilities held for trading and all derivative instruments.

The Bank has adopted IFRS 8 Operating segments and revised IAS 1 presentation of financial statements (2007) regarding "total comprehensive income from accounting periods beginning on 1 January 2009.

Functional and presentation currency

The financial statements have been prepared in Rials Omani which is the functional currency of the primary economic environment in which the Bank operates.

2.2 Foreign currencies

2.2.1 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.

2.2.2 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.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2009**

2. Summary of significant accounting policies (continued)

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.

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.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2009**

2. Summary of significant accounting policies (continued)

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 and 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.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2009**

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



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2009**

2. Summary of significant accounting policies (continued)

2.9 Property and equipment (continued)

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.

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. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2009**

2. Summary of significant accounting policies (continued)

2.11 Impairment of financial assets (continued)

2.11.1 Assets carried at amortised cost (continued)

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

The Bank, as a policy, believes in full recovery of all outstanding. Only when all possible avenues for recovery of loans are fully exhausted the Bank considers write off.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

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 profit or loss, 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.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2009**

2.13 Acceptances

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.

2.14 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.

2.15 Deposits

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

2.16 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.

2.17 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.

2.18 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



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2009**

2. Summary of significant accounting policies (continued)

2.18 Interest income and interest expense (continued)

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.

2.19 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.

2.20 Dividend income

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

2.21 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.

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.

2.22 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.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2009**

2. Summary of significant accounting policies (continued)

2.23 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.

2.24 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 problem 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.

2.25 Director's remuneration

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

The Annual General Meeting shall determine and 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 fees for each director shall not exceed RO 10,000 in one year.

2.26 Dividend distribution

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



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NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2009

3. Interest income

Interest bearing assets earned interest at an overall annualised rate of **4.54 %** for the six months ended 30 June 2009 (June 2008: 4.29 %).

4. Interest expense

For the six months ended 30 June 2009, the average overall annualised cost of funds was **1.12 %** (June 2008: 1.73 %).

5. Analysis of other operating income and expenditure

	Six months ended 30 June 2009 RO'000	Six months ended 30 June 2008 RO'000
Other operating income		
Fee and commission income	3,284	3,175
Exchange gain	942	1,176
Realised gain on investments	4	963
Unrealised gain on trading investments	14	15
Dividend	65	2,376
Profit on sale of property and equipment	-	6
Other income	<u>1,226</u>	<u>1,307</u>
	<u>5,535</u>	<u>9,018</u>
Other operating expenditure		
Staff costs	5,211	5,080
Occupancy costs	835	758
Depreciation	585	574
Other operating costs:		
Advertisement and publicity	577	494
Communication	348	372
Repairs and maintenance	610	521
Others	<u>1,286</u>	<u>1,340</u>
	<u>9,452</u>	<u>9,139</u>

6. Loans recoveries and write back

	Six months ended 30 June 2009 RO'000	Six months ended 30 June 2008 RO'000
Impaired loans	1,139	3,258
Reserved interest	744	697
Written-off loans	<u>43</u>	<u>39</u>
	<u>1,926</u>	<u>3,994</u>



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NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2009

7 Basic earnings per share

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

	30 June 2009	30 June 2008	31 December 2008
Weighted average number of shares in issue ('000)	913,257	913,257	913,257
Net profit for the period (RO'000)	11,831	15,363	29,474
Basic earnings per share – annualised (RO)	0.026	0.034	0.032

8. Loans and advances

Loans and advances can be analysed as follows:

	30 June 2009 RO'000	30 June 2008 RO'000	31 December 2008 RO'000
Overdrafts	77,900	68,360	75,835
Loans	617,877	555,278	600,078
Bills discounted / purchased	5,908	<u>5,141</u>	<u>14,419</u>
Gross loans and advances	701,685	628,779	690,332
Provision for loan impairment	(29,656)	(32,071)	(30,182)
Reserved interest	(36,639)	<u>(31,859)</u>	<u>(33,362)</u>
Net loans and advances	<u>635,390</u>	<u>628,779</u>	<u>626,788</u>

The concentration of gross loans and advances by economic sector are as follows:

	30 June 2009 RO'000	30 June 2008 RO'000	31 December 2008 RO'000
Personal and consumer loans	246,286	230,388	238,773
Import trade	27,330	23,250	25,384
Construction	40,265	37,778	40,827
Financial institutions	32,922	24,145	34,720
Manufacturing	101,602	95,125	111,670
Wholesale and retail trade	21,035	16,117	18,866
Export trade	881	814	1,090
Electricity, gas, water, Transportation and communication	40,458	40,038	39,352
Services	17,905	21,303	18,977
Mining and quarrying	134,473	125,710	119,110
Others	38,528	<u>14,111</u>	<u>41,563</u>
	<u>701,685</u>	<u>628,779</u>	<u>690,332</u>



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NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2009

8. Loans and advances (continued)

The interest rate bands of gross loans and advances are as follows:

	30 June 2009 RO'000	30 June 2008 RO'000	31 December 2008 RO'000
0-5%	326,013	333,857	300,059
5-7%	52,172	26,513	97,674
7-10%	282,317	228,215	250,302
10-13%	36,041	34,492	38,252
more than 13%	5,142	5,702	4,045
	<u>701,685</u>	<u>628,779</u>	<u>690,332</u>

The contractual maturity of net loans and advances based on period remaining to maturity are as follows:

	30 June 2009 RO'000	30 June 2008 RO'000	31 December 2008 RO'000
0-6 months	173,513	135,472	190,749
6-12 months	23,023	23,215	31,537
1-3 years	129,463	94,577	91,713
3-5 years	75,288	89,247	92,079
More than 5 years	234,103	222,338	220,710
	<u>635,390</u>	<u>564,849</u>	<u>626,788</u>

9. Provision for loan impairment and reserved interest

The Central Bank of Oman (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.

The Central Bank of Oman 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 6.1 million which is based on an expected loan loss provisioning model developed and certified by Mercer 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 1.1 million.

The movement on provision for loan impairment for the six months period ended on 30 June 2009 is analysed in the table below:

	Specific Provision RO'000	General Provision RO'000	Total Provision RO'000
Balance at 1 January 2009	23,986	6,196	30,182
Currency translation effect on opening balance	(6)	(1)	(7)
Provided during the period	615	5	620
Released during the period:	(1,049)	(90)	(1,139)
Due to recoveries	(880)	-	(880)
Due to write back	(169)	(90)	(259)
Balance at 30 June 2009	<u>23,546</u>	<u>6,110</u>	<u>29,656</u>



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Interim report for the six months period ended 30 June 2009

NOTES TO THE FINANACIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2009

9. Provision for loan impairment and reserved interest (continued)

The movement on provision for loan impairment for the six months period ended on 30 June 2008 is analysed in the table below:

	Specific Provision RO'000	General Provision RO'000	Total Provision RO'000
Balance at 1 January 2008	30,221	5,992	36,213
Currency translation effect on opening balance	(55)	(5)	(60)
Provided during the period	1,014	73	1,087
Released during the period:			
Due to recoveries	(1,839)	-	(1,839)
Due to write back	(1,404)	(15)	(1,419)
Technically transferred to memorandum account	<u>(1,911)</u>	<u>-</u>	<u>(1,911)</u>
Balance at 30 June 2008	<u>26,026</u>	<u>6,045</u>	<u>32,071</u>

The movement on reserved interest for the period is analysed as below:

	30 June 2009 RO'000	30 June 2008 RO'000
Balance at the beginning of the period	33,362	43,322
Currency translation effect on opening balance	(1)	(1,102)
Reserved during the period	4,022	2,883
Transfer to the income statement	(744)	(697)
Technically transferred to memorandum account	<u>-</u>	<u>(12,547)</u>
Balance at end of the period	<u>36,639</u>	<u>31,859</u>

Provision for loan impairment and reserved interest represent **103.75 %** of gross non-performing loans and advances less government soft loans at 30 June 2009 (June 2008: 102.03 %).

At 30 June 2009, loans and advances on which interest has been reserved and/or has not been accrued amounted to RO 63.9 million (June 2008 - RO 62.6 million). In addition, Government soft loans, amounting to RO 4.4million, 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.

The estimated fair value of loans and advances is not materially different from the book value of loans and advances.

10. Deposits

Deposits can be analysed as follows:

	30 June 2009 RO'000	30 June 2008 RO'000	31December 2008 RO'000
Current	197,184	187,523	208,418
Savings	322,965	335,998	307,244
Time deposits	113,458	152,580	139,063
Others	<u>79,503</u>	<u>138,705</u>	<u>74,590</u>
	<u>713,110</u>	<u>814,806</u>	<u>729,315</u>



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NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2009

10. Deposits (continued)

The contractual maturities of deposits based on the period remaining to maturity are as follows:

	30 June 2009 RO'000	30 June 2008 RO'000	31 December 2008 RO'000
0-6 months	696,651	759,459	666,331
6-12 months	13,336	26,458	52,841
1-3 years	2,968	8,972	9,744
3-5 years	<u>155</u>	<u>19,917</u>	<u>399</u>
	<u>713,110</u>	<u>814,806</u>	<u>729,315</u>

The interest rate bands of deposits are as follows:

	30 June 2009 RO'000	30 June 2008 RO'000	31 December 2008 RO'000
0-2%	659,952	644,690	655,545
2-4%	13,536	123,248	43,108
4-6%	35,042	42,311	25,817
6-8%	2,779	3,090	3,750
8-10 %	861	358	1,095
more than 10%	<u>940</u>	<u>1,109</u>	<u>-</u>
	<u>713,110</u>	<u>814,806</u>	<u>729,315</u>

11. Asset liability mismatch

The asset liability mismatch based on the remaining period to maturity is as follows:

Maturities	30 June 2009			30 June 2008		
	Assets RO'000	Liabilities RO'000	Mismatch RO'000	Assets RO'000	Liabilities RO'000	Mismatch RO'000
0-6 months	436,329	754,243	(317,914)	532,901	786,794	(253,893)
6-12 months	39,999	13,346	26,653	30,681	26,460	4,221
1-3 years	141,213	64,637	76,576	113,864	67,065	46,799
3-5 years	82,807	155	82,652	94,901	19,917	74,984
more than 5 years	<u>292,369</u>	<u>160,336</u>	<u>132,033</u>	<u>303,506</u>	<u>175,617</u>	<u>127,889</u>
	<u>992,717</u>	<u>992,717</u>	<u>-</u>	<u>1,075,853</u>	<u>1,075,853</u>	<u>-</u>

12. Investment income

Investment income can be analysed as follows:

	Six months ended 30 June 2009 RO'000	Six months ended 30 June 2008 RO'000
Interest	631	694
Dividend	65	2,376
Realised gain	4	963
Unrealised gain	<u>14</u>	<u>15</u>
	<u>714</u>	<u>4,048</u>



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NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2009

13. Investments

Investments can be analysed as follows:

	Market Value 30 June 2009	Market Value 30 June 2008	Book Value 30 June 2009	Book Value 30 June 2008	Cost 30 June 2009
Marketable securities – MSM					
Finance	2,185	2,330	2,185	2,330	617
Investment	-	-	-	-	-
Insurance	471	696	471	696	422
Services	218	349	218	349	64
Industrial	57	105	57	105	79
Government bonds	13,776	11,704	13,652	11,580	12,778
Other bonds	250	236	222	223	222
	<u>16,957</u>	<u>15,420</u>	<u>16,805</u>	<u>15,283</u>	<u>14,182</u>
Marketable securities – Foreign by Sector					
Government securities	7,571	10,637	7,710	11,197	8,664
Others	-	-	-	-	-
	<u>7,571</u>	<u>10,637</u>	<u>7,710</u>	<u>11,197</u>	<u>8,664</u>
Unquoted and other investments					
Unquoted Omani shares			510	510	510
Investment fund units			11,601	6,503	10,610
Unquoted foreign shares			1,323	1,701	77
Others			-	-	-
			<u>13,434</u>	<u>8,714</u>	<u>11,197</u>
Total			<u>37,949</u>	<u>35,194</u>	<u>34,043</u>

13. a. Details of Significant Investments

	Market Value 30 June 2009 RO'000	Book Value 30 June 2009 RO'000	Cost RO'000
MSM quoted securities			
Government bonds	13,776	13,652	12,778
Others	3,181	3,153	1,404
	<u>16,957</u>	<u>16,805</u>	<u>14,182</u>
Foreign listed securities			
Government securities	7,571	7,710	8,664
Others	-	-	-
	<u>7,571</u>	<u>7,710</u>	<u>8,664</u>
Total quoted securities	<u>24,528</u>	<u>24,515</u>	<u>22,846</u>
Unquoted securities			
Oman		12,111	11,120
Others		1,323	77
		<u>13,434</u>	<u>11,197</u>
Totals as of 30 June 2009		<u>37,949</u>	<u>34,043</u>



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NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2009

13 Investments (continued)

13. a. Details of Significant Investments (continued)

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

30 June 2009 RO'000	% of Overall Portfolio	Number of securities	Market Value RO'000	Cost RO'000
Investment Stabilisation Fund – Oman	<u>21.22</u>	<u>7,228,957</u>	<u>8,053</u>	<u>7,500</u>

13.b. Details of classification of investments are given below:

	30 June 2009 RO'000	30 June 2008 RO'000	31December 2008 RO'000
Fair value through profit or loss	-	2,824	2,771
Held-to-maturity	18,553	17,075	19,687
Available-for-sale	<u>19,396</u>	<u>15,295</u>	<u>11,384</u>
	<u>37,949</u>	<u>35,194</u>	<u>33,842</u>

13.c. Details of investments classified as carried at fair value through profit or loss are as follows:

	30 June 2009 RO'000	30 June 2008 RO'000	31December 2008 RO'000
Quoted - Foreign Government securities	=	<u>2,824</u>	<u>2,771</u>

13.d. Details of investments classified as held-to-maturity are as follows:

	30 June 2009 RO'000	30 June 2008 RO'000	31December 2008 RO'000
Quoted - Oman Government securities	13,652	11,580	14,737
Quoted - Foreign Government securities	4,683	5,277	4,732
Quoted - Other securities, Oman	<u>218</u>	<u>218</u>	<u>218</u>
	<u>18,553</u>	<u>17,075</u>	<u>19,687</u>



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NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2009

13. e. Details of available-for-sale investments are as follows:

	30 June 2009 RO'000	30 June 2008 RO'000	31 December 2008 RO'000
Cost of:			
Quoted - Foreign Government securities	3,378	3,769	3,396
Quoted - Equity and other securities:			
Oman	1,186	1,253	1,186
Unquoted investments	<u>11,198</u>	<u>3,853</u>	<u>3,703</u>
	15,762	8,875	8,285
Revaluation gains/(losses) of:			
Quoted - Foreign Government securities	(351)	(673)	(285)
Quoted - Equity and other securities:			
Oman	1,749	2,231	2,074
Unquoted investments	<u>2,236</u>	<u>4,862</u>	<u>1,310</u>
	<u>19,396</u>	<u>15,295</u>	<u>11,384</u>

14 Property and equipment

The movement in property and equipment during the period is as follows

	Freehold land and buildings RO'000	Leasehold property and improvements RO'000	Equipment, furniture and fixtures RO'000	Motor vehicles RO'000	Computer equipment RO'000	Capital work in progress RO'000	Total RO'000
Cost / Valuation							
1 January 2009	32,496	2,615	6,966	857	12,685	23	55,642
Currency translation effect on opening balances	(12)	(3)	(3)	-	(4)	-	(22)
Additions	-	72	260	-	196	485	1,013
Disposals	-	-	(7)	-	-	-	(7)
30 June 2009	<u>32,484</u>	<u>2,684</u>	<u>7,216</u>	<u>857</u>	<u>12,877</u>	<u>508</u>	<u>56,626</u>
Depreciation							
1 January 2009	4,299	2,525	6,454	748	11,594	-	25,620
Currency translation effect on opening balances	(6)	(2)	(3)	-	(3)	-	(14)
Charge for the year	140	19	130	37	259	-	585
Disposals	-	-	(7)	-	-	-	(7)
30 June 2009	<u>4,433</u>	<u>2,542</u>	<u>6,574</u>	<u>785</u>	<u>11,850</u>	<u>-</u>	<u>26,184</u>
Net book value							
30 June 2009	<u>28,051</u>	<u>142</u>	<u>642</u>	<u>72</u>	<u>1,027</u>	<u>508</u>	<u>30,442</u>
31 December 2008	<u>28,197</u>	<u>90</u>	<u>512</u>	<u>109</u>	<u>1,091</u>	<u>23</u>	<u>30,022</u>



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NOTES TO THE FINANACIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2009

15 Related Parties and Holders of 10 % of the Bank's shares

	30 June 2009 RO'000	30 June 2008 RO'000	31December 2008 RO'000
Loans and advances	45,607	37,347	57,923
Current, deposit and other accounts	15,142	23,163	17,989
Letters of credit and guarantees	6,304	5,982	5,494
Provision for loans and advances*	<u>888</u>	<u>888</u>	<u>888</u>

Loans and advances amounting to RO **16,024,000** (June 2008: RO 125,000, December 2008: RO 20,201,000) 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 shareholders annual general meeting held on 5 April 2001 and 30 April 2003 respectively.

	30 June 2009 RO'000	30 June 2008 RO'000
Interest income	1,439	1,438
Interest expense	48	205
Other operating income	8	21
Other operating expenditure:		
Advertisement and publicity	24	35
Insurance	132	129
Printing and stationery	47	46
Repairs and maintenance	247	230
Others	<u>179</u>	<u>201</u>
	<u>629</u>	<u>641</u>
Purchase of property and equipment:	<u>166</u>	<u>120</u>

As at 30 June,2009, there was an expense commitment of RO 1.804 million towards 312 Mercedes Benz cars scheme for the "Mandoos Prize draws 2009". The amount paid till date is RO 0.957 million included as cost of fund for savings accounts.



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NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2009

15 Related Parties and Holders of 10 % of the Bank's shares (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 period is as follows:

For the period ended 30 June 2009	Director RO'000	Other directors RO'000	Significant shareholder RO'000	Others RO'000	Total RO'000
Loans and advances	11,977	10	17,634	15,986	45,607
Deposits	246	2	3,483	11,411	15,142
Letters of credit, acceptances and guarantees	28	-	1,056	5,220	6,304
Provision for loans and advances	-	-	-	888	888
Interest income	312	-	522	605	1,439
Interest expense	-	-	4	44	48
Other operating income	-	-	8	-	8
Other operating expenditure:					
Advertisement and publicity	-	-	24	-	24
Insurance	-	-	-	132	132
Printing and stationery	-	-	41	6	47
Repairs and maintenance	-	-	122	125	247
Others	5	23	93	58	179
Purchase of property and equipment	<u>-</u>	<u>-</u>	<u>66</u>	<u>100</u>	<u>166</u>

For the period ended
30 June 2008

Loans and advances	9,000	80	7,687	20,580	37,347
Deposits	141	38	9,962	13,022	23,163
Letters of credit, acceptances and guarantees	32	-	1,626	4,324	5,982
Provision for loans and advances	-	-	-	888	888
Interest income	148	-	898	392	1,438
Interest expense	1	4	93	107	205
Other operating income	-	-	2	19	21
Other operating expenditure:					
Advertisement and publicity	-	-	35	-	35
Insurance	-	-	-	129	129
Printing and stationery	-	14	20	12	46
Repairs and maintenance	-	-	117	113	230
Others	5	46	92	58	201
Purchase of property and equipment	<u>-</u>	<u>-</u>	<u>80</u>	<u>40</u>	<u>120</u>

Details are provided separately above where amounts relating to an individual director and/or significant shareholder and his/her related parties are greater than 5% of the total of related party loans and advances. Others represent transactions with parties related to more than one director and/or significant shareholder.



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16. Shareholders

All those shareholders of the Bank who own 10% or more of the Bank's shares, whether in their name, or through a nominee account, and the number of shares they hold are as follows:

	30 June 2009	30 June 2008	31 December 2008
H.E. Dr. Omar Bin Abdul Muniem Al Zawawi	<u>91,965,660</u>	<u>91,965,660</u>	<u>91,965,660</u>

17. Geographical segment information

A geographical analysis of key financial data by location of primary assets as at 30 June 2009 is set out below

	Oman RO'000	Others RO'000	Consolidation adjustments RO'000	Total RO'000
Revenue from customers	25,428	750	-	26,178
Internal revenue	12	-	(12)	-
Segment result	11,873	(42)	-	11,831
Assets	984,508	36,661	(28,452)	992,717
Liabilities	824,392	22,083	(14,094)	832,381
Capital expenditure	1,013	-	-	1,013
Depreciation	525	60	-	585
Provision for loan impairment	<u>615</u>	<u>5</u>	<u>-</u>	<u>620</u>

A geographical analysis of key financial data by location of primary assets as at 30 June 2008 is set out below

	Oman RO'000	Others RO'000	Consolidation adjustments RO'000	Total RO'000
Revenue from customers	30,544	812	-	31,356
Internal revenue	70	2	(72)	-
Segment result	15,622	(259)	-	15,363
Assets	1,068,860	39,315	(32,322)	1,075,853
Liabilities	906,716	25,155	(17,853)	914,018
Capital expenditure	208	34	-	242
Depreciation	510	64	-	574
Provision for loan impairment	<u>1,087</u>	<u>-</u>	<u>-</u>	<u>1,087</u>



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NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2009

18. Business segment information

An analysis of key financial data by business segment as at 30 June 2009 is set out below:

	Retail RO'000	Corporate RO'000	Treasury & Investments RO'000	Common RO'000	Total RO'000
Revenue from customers	12,632	9,700	3,151	695	26,178
Assets	233,076	402,956	187,673	169,012	992,717
Capital expenditure	<u>=</u>	<u>=</u>	<u>=</u>	<u>1,013</u>	<u>1,013</u>

An analysis of key financial data by business segment as at 30 June 2008 is set out below:

	Retail RO'000	Corporate RO'000	Treasury & Investments RO'000	Common RO'000	Total RO'000
Revenue from customers	12,957	10,069	5,219	3,111	31,356
Assets	217,582	347,868	417,239	93,164	1,075,853
Capital expenditure	<u>=</u>	<u>=</u>	<u>=</u>	<u>242</u>	<u>242</u>

19 Contingent liabilities, commitments and derivatives

(a) Letters of credit, guarantees and other commitments

	30 June 2009 RO'000	30 June 2008 RO'000	31 December 2008 RO'000
Letters of credit	59,101	60,428	46,904
Guarantees and performance bonds	<u>200,787</u>	<u>183,720</u>	<u>185,368</u>
	<u>259,888</u>	<u>244,148</u>	<u>232,272</u>
Derivatives:			
Forward forex contracts – sales	71,050	123,261	178,563
Forward forex contracts – purchases	31,580	74,946	43,595
Interest rate caps	3,018	3,758	4,127
Interest rate swaps	<u>20,041</u>	<u>23,243</u>	<u>25,168</u>



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NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2009

19. Contingent liabilities, commitments and derivatives (continued)

(b) Currency risk

Currency risk is the risk that the Bank is exposed to as a result of any exchange rate movements. The Bank's main functional currency is the Rial Omani. The treasury manual of the Bank sets out the details of the intra day and overnight exposures that are continuously monitored.

The Bank had the following significant net exposures denominated in foreign currencies as at 30 June:

	Forward		Net exposure		Net exposure	Net exposure	
	Assets	Liabilities	Purchases	Sales	30 June 2009	30 June 2009	30 June 2008
	FCY'000	FCY'000	FCY'000	FCY'000	FCY'000	RO'000	RO'000
US Dollars	648,132	412,326	16,075	139,864	112,017	43,127	44,414
Indian Rupees	1,367,431	1,371,350	4,000	-	81	1	3
Others	=====	=====	=====	=====	=====	<u>290</u>	<u>185</u>
						<u>43,418</u>	<u>44,602</u>

(c) Contingencies

As at 30 June 2009, there were certain legal suits pending against the Bank, aggregating to RO 16.4 million (June 2008: RO 16.9 million, December 2008: RO 16.06 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.

20. Cash and cash equivalents

	30 June 2009	30 June 2008
	RO'000	RO'000
Balance sheet items comprise:		
Cash and balances with central banks	118,472	55,894
Treasury bills and certificates of deposit	119,896	325,000
Due from other banks	31,255	51,711
Due to banks	<u>(97,046)</u>	<u>(83,711)</u>
	172,577	348,894
Adjustment for items maturing after six months from date of acquisition and restricted balances	<u>(29,750)</u>	<u>6,045</u>
	<u>142,827</u>	<u>354,939</u>
Cash and cash equivalents comprise:		
Cash and balances with central banks	67,119	16,921
Treasury bills and certificates of deposit	90,000	315,000
Due from other banks	23,207	42,635
Due to banks	<u>(37,499)</u>	<u>(19,617)</u>
	<u>142,827</u>	<u>354,939</u>



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NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2009

21. Exposure to Credit risk

	Loans and advances		Due from other banks		Investments	
	30 June 2009 RO'000	31 December 2008 RO'000	30 June 2009 RO'000	31 December 2008 RO'000	30 June 2009 RO'000	31 December 2008 RO'000
Individually impaired	63,973	61,373	-	-	-	-
Allowance for impairment	<u>(60,185)</u>	<u>(57,348)</u>	-	-	-	-
Carrying amount	3,788	4,025	-	-	-	-
Past due and not impaired	21,839	23,520	-	-	-	-
Neither past due nor impaired	<u>609,763</u>	<u>599,243</u>	<u>31,255</u>	<u>25,712</u>	<u>37,949</u>	<u>33,842</u>
Total carrying amount	<u>635,390</u>	<u>626,788</u>	<u>31,255</u>	<u>25,712</u>	<u>37,949</u>	<u>33,842</u>

22. Dividend per share

The Shareholders at the Annual General meeting held on 31 March, 2009 approved 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 reflect these dividends, which have been accounted for in shareholders' equity as an appropriation of retained earnings for the period ended 30 June 2009.

23. Capital adequacy ratio

Details of capital adequacy, calculated in accordance with the norms prescribed by the Bank for International Settlements, are given below:

	30 June 2009 RO'000	30 June 2008 RO'000	31 December 2008 RO'000
Tier I and tier II capital	130,359	124,589	130,150
Risk-weighted assets	887,002	808,737	868,730
Capital adequacy ratio %	14.70	15.41	14.98

24. Comparative balances

The corresponding figures of 2008 included for comparative purposes have been reclassified to conform with the presentation in the current period.