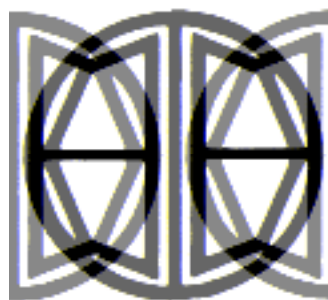


Oman International Bank S.A.O.G

Quarterly return to MSM as at 30 June 2008

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Oman International Bank S.A.O.G

Interim report for six months ended 30 June 2008

Board of Directors' Report on the half yearly results (unaudited) for the period ended June 30, 2008

Dear Shareholders,

On behalf of the Board of Directors of Oman International Bank SAOG, it gives me pleasure to present a brief summary of the activities of the Bank and its performance for the half year ended 30th June 2008.

The Net Profit for the half year was OMR 15.36 Mio compared to OMR 13.05 Mio for the corresponding period of the previous year, an increase of 17.7%. Due to the excess liquidity in the market, the Net Interest Income for the half year was OMR 14.3 Mio compared to OMR 16.2 Mio for the corresponding period. Other Operating Income for the half year was OMR 9.0 Mio compared to OMR 4.8 Mio for the corresponding period of previous year, an increase of 84%. Operating Cost for the half year of OMR 9.1 Mio showed an increase of 4.5%. The quality of the loan book continues to improve with the provision for loan impairment for the half year decreasing by 33% to OMR 1.1 Mio compared to OMR 1.6 Mio for the previous year corresponding half year. Our focus on recovering non performing loans continues with the impact of recoveries and write back for the half year amounting to OMR 3.99 Mio compared to OMR 4 Mio for the corresponding period last year.

Total deposits are OMR 814.8 Mio as at 30th June 2008 compared to 783.1 Mio with special emphasis on low cost funding; and we continue to focus on generating core deposits. Net loans and advances were at OMR 564.8 Mio as at 30th June 2008 compared to OMR 478.2 Mio as at 30th June, 2007 an increase of 18% which is after taking into account an early repayment of a loan of OMR 25 Mio during the period. Outstanding letters of credit and guarantees are OMR 244.1 Mio compared to OMR 183.7 Mio an increase of 32.8%.

The local Money Market continued to experience excess liquidity coupled with a reduction in the regulatory ceiling on the lending rate for personal loans, which has reduced our interest income. However, we continue our efforts to reduce the cost of our funding and have reduced our interest expense. There is a downward trend in the market with regard to both average lending rates and average deposit rates resulting in reduced interest margins.

However there are ample opportunities available to grow the loan portfolio at a steady pace in the future, by lending to the retail sector, providing housing loans, financing infrastructure, tourism and other sectors of national importance in addition to the oil and gas sectors. The bank has recently signed agreements with some tourism development companies for housing loans as well as participating in a number of syndicated loans.



Oman International Bank S.A.O.G

Interim report for six months ended 30 June 2008

The earning per share on an annualised basis have increased to baizas 336 from last year's level of baiza 286 for the same period. The Net assets per share have increased to OMR 1.772 from OMR 1.346 since last year, an increase of 31%. The cost to income ratio has come down from 41.2% to 39.1%, a reduction of 5%. The network has increased to OMR 161.8 Mio from OMR 122.9 Mio a year ago. Total assets have grown to OMR 1.075 billion from OMR 1.003 billion an increase of 7%. The Capital Adequacy Ratio as at the 30th June 2008 was 15.41% compared to 15.87% for the same period last year, which is well above the minimum prescribed level of 10%.

As regards our international operations, we continue to focus on recoveries in India where asset growth is restricted in the short term. The operations in Pakistan are being monitored to improve results.

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 wish to express our most humble gratitude and loyalty to His Majesty Sultan Qaboos Bin Said for the peace and stability, which his reign has brought us. We pray that the Almighty grant His Majesty good health to allow him to lead us on an 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 2008, which includes condensed balance sheet and the related condensed statements of income, changes in equity and 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 32.

The condensed interim report is the responsibility of the Bank's Management. Bank's Management is 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 does not present fairly, in all material respects, the financial position of the Bank as at 30 June 2008, and of its financial performance and its cash flows for the six months period then ended in accordance with International Financial Reporting Standards and the minimum disclosure requirements of the Capital Market Authority of the Sultanate of Oman.

27 July 2008

KPMG



Oman International Bank S.A.O.G

Interim report for the six months ended 30 June 2008

Summary of unaudited results

	30 June 2008 RO'000	30 June 2007 RO'000
Loans and advances net of provision and reserved interest	564,849	478,194
Deposits	814,806	783,113
Networth	161,835	122,951
Net assets per share	RO 1.772	1.346

	Six months ended 30 June 2008 RO'000	Six months ended 30 June 2007 RO'000
Net interest income	14,344	16,255
Net profit for the period	15,363	13,054
Earnings per share for the period	RO 0.168	RO. 0.143
Earnings per share (annualised)	RO 0.336	RO. 0.286
Capital adequacy ratio	15.41%	15.87%



Oman International Bank S.A.O.G

Interim report for the six months ended 30 June 2008

Unaudited income statement for the six months period ended 30 June 2008

	Notes	Quarter ended 30 June 2008 RO'000	Six months ended 30 June 2008 RO'000	Quarter ended 30 June 2007 RO'000	Six months ended 30 June 2007 RO'000
Interest income		10,429	22,338	13,998	28,268
Interest expense		<u>(3,646)</u>	<u>(7,994)</u>	<u>(5,869)</u>	<u>(12,013)</u>
Net interest income		6,783	14,344	8,129	16,255
Other operating income	5	<u>3,021</u>	<u>9,018</u>	<u>2,741</u>	<u>4,891</u>
Total income		9,804	23,362	10,870	21,146
Other operating expenditure	5	<u>(4,773)</u>	<u>(9,139)</u>	<u>(4,547)</u>	<u>(8,725)</u>
Operating profit before provisions and recoveries		5,031	14,223	6,323	12,421
Provision for loan impairment		(353)	(1,087)	(700)	(1,628)
Loan recoveries and write back	6	<u>2,246</u>	<u>3,994</u>	<u>3,236</u>	<u>4,036</u>
Profit before tax		6,924	17,130	8,859	14,829
Taxation		<u>(794)</u>	<u>(1,767)</u>	<u>(999)</u>	<u>(1,775)</u>
Profit for the period		<u>6,130</u>	<u>15,363</u>	<u>7,860</u>	<u>13,054</u>
Dividend per share		≡	≡	≡	≡



Oman International Bank S.A.O.G

Interim report for the six months ended 30 June 2008

Unaudited balance sheet at 30 June 2008

	Notes	30 June 2008 RO'000	30 June 2007 RO'000	31 December 2007 RO'000
Assets				
Cash and balances with central banks		55,894	56,461	49,431
Treasury bills and certificates of deposits		325,000	70,000	260,000
Due from other banks		51,711	327,999	118,711
Loans and advances:	8			
Due from related parties		37,347	27,206	62,361
Other loans and advances		591,432	528,912	577,108
Loans and advances (gross)		628,779	556,118	639,469
Provision for impairment and reserved interest	9	(63,930)	(77,924)	(79,535)
Loans and advances (net)		564,849	478,194	559,934
Investments	13	35,194	44,934	39,450
Other assets		12,768	17,492	23,408
Property and equipment	14	30,437	8,810	30,852
Total assets		1,075,853	1,003,890	1,081,786
Liabilities				
Deposits from customers:	10			
Due to related parties		23,163	11,220	17,507
Deposits from others		791,643	771,893	794,197
Total deposits		814,806	783,113	811,704
Due to banks		83,711	76,593	83,269
Other liabilities		15,501	21,233	24,664
Total liabilities		914,018	880,939	919,637
Shareholders' funds				
Share capital		91,325	83,023	83,023
Non-distributable reserves		55,177	26,330	53,386
Retained earnings		15,333	13,598	25,740
Total shareholders' funds		161,835	122,951	162,149
Total liabilities and shareholders' funds		1,075,853	1,003,890	1,081,786
Letters of credit and guarantees	19 (a)	244,148	183,734	212,105

The interim unaudited financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 27 July, 2008.

REEM OMAR ZAWAWI
CHAIRPERSON

JUMA BIN ABDULLA AL HINAI
DIRECTOR



Oman International Bank S.A.O.G

Interim report for the six months ended 30 June 2008

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 2007	75,476	23,591	495	-	1,771	23,880	125,213
Effect of currency translation	-	-	45	-	(42)	61	64
Net movement in fair values	-	-	-	-	470	-	470
Total income and expense for the period directly recorded in equity	-	-	45	-	428	61	534
Net profit for the period	-	-	-	-	-	13,054	13,054
Total income and expense for the period	-	-	45	-	428	13,115	13,588
Cash dividend paid for year 2006	-	-	-	-	-	(15,850)	(15,850)
Stock dividend for the year 2006	7,547	-	-	-	-	(7,547)	-
At 30 June 2007	83,023	23,591	540	-	2,199	13,598	122,951
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 the 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

Note : Statutory reserve relates to India Operations, required under Reserve Bank of India regulations.



Oman International Bank S.A.O.G

Interim report for the six months ended 30 June 2008

Unaudited statement of cash flows for the six months period ended 30 June 2008

	Six months ended 30 June 2008 RO'000	Six months ended 30 June 2007 RO'000
Profit before taxation	17,130	14,829
Adjustments for:		
Depreciation	574	556
Provision for loan impairment (net of recoveries/write back)	(2,907)	(2,408)
Interest/dividend on investments	(3,070)	(1,195)
Unrealised foreign currency losses / (gains)	253	(138)
Profit on disposal of property and equipment	(6)	(5)
Profit on sale on investments	(963)	-
Unrealised (gains) / losses on investments	(15)	33
Effect of currency translation loss / (gain)	<u>903</u>	<u>(886)</u>
Operating profit before changes in operating assets and liabilities	11,899	10,786
Changes in operating assets	55,935	155,415
Changes in operating liabilities	<u>12,651</u>	<u>110,474</u>
Cash generated from operations	80,485	276,675
Income taxes paid	<u>(3,781)</u>	<u>(3,357)</u>
Net cash flow from operating activities	<u>76,704</u>	<u>273,318</u>
Cash flows from investing activities		
Purchase of property and equipment	(242)	(214)
Proceeds from sale of property and equipment	6	6
Purchase of investments	(436)	(3,046)
Proceeds from sale of investments	6,588	947
Income received from investments	<u>4,952</u>	<u>2,844</u>
Net cash flow from investing activities	<u>10,868</u>	<u>537</u>
Cash flows from financing activities		
Dividend paid	<u>(17,435)</u>	<u>(15,850)</u>
Net change in cash and cash equivalents	70,137	258,005
Cash and cash equivalents at beginning of period	<u>284,802</u>	<u>97,589</u>
Cash and cash equivalents at end of period (Refer note 20)	<u>354,939</u>	<u>355,594</u>



Oman International Bank S.A.O.G

Interim report for the six months ended 30 June 2008

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 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 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 2007, 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.

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 CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2008**

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 CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2008**

2. Summary of significant accounting policies (continued)

2.3 Financial Assets (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 CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 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



**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2008**

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 CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2008**

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.



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2. Summary of significant accounting policies (continued)

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



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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.



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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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3. Interest income

Interest bearing assets earned interest at an overall annualised rate of **4.29 %** for the six months ended 30 June 2008. (June 2007: 5.68 %).

4. Interest expense

For the six months ended 30 June 2008, the average overall annualised cost of funds was **1.73 %** (June 2007: 2.59 %).

5. Analysis of other operating income and expenditure

	Six months ended 30 June 2008 RO'000	Six months ended 30 June 2007 RO'000
Other operating income		
Fee and commission income	3,175	2,400
Exchange	1,176	763
Realised gains on investments	963	-
Unrealised gain / (loss) on trading investments	15	(33)
Dividend	2,376	239
Profit on sale of property and equipment	6	5
Other income	<u>1,307</u>	<u>1,517</u>
	9,018	4,891
Other operating expenditure		
Staff costs	5,080	4,735
Occupancy costs	758	686
Depreciation	574	556
Other operating costs:		
Advertisement and publicity	494	587
Communication	372	359
Repairs and maintenance	521	466
Others	<u>1,340</u>	<u>1,336</u>
	9,139	8,725

6. Loans recoveries and write back

	Six months ended 30 June 2008 RO'000	Six months ended 30 June 2007 RO'000
Impaired loans	3,258	3,257
Reserved interest	697	764
Written-off loans	<u>39</u>	<u>15</u>
	3,994	4,036



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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 2008	30 June 2007	31 December 2007
Weighted average number of shares in issue ('000)	91,325	91,325	91,325
Profit for the period (RO'000)	15,363	13,054	28,076
Basic earnings per share – annualised (RO)	0.336	0.286	0.307

During the period ended 30 June 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.

8. Loans and advances

Loans and advances can be analysed as follows:

	30 June 2008	30 June 2007	31 December 2007
	RO'000	RO'000	RO'000
Overdrafts	68,360	65,581	68,851
Loans	555,278	488,473	565,759
Bills discounted / purchased	5,141	2,064	4,859
Gross loans and advances	628,779	556,118	639,469
Provision for loan impairment	(32,071)	(37,508)	(36,213)
Reserved interest	(31,859)	(40,416)	(43,322)
Net loans and advances	<u>564,849</u>	<u>478,194</u>	<u>559,934</u>

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

	30 June 2008	30 June 2007	31 December 2007
	RO'000	RO'000	RO'000
Personal and consumer loans	230,388	218,685	226,853
Import trade	23,250	20,620	22,468
Construction	37,778	31,527	33,716
Financial institutions	24,145	29,311	25,683
Manufacturing	95,125	76,259	110,156
Wholesale and retail trade	16,117	13,755	18,878
Export trade	814	6,383	6,478
Electricity, gas, water, transportation and communication	40,038	39,050	33,280
Services	21,303	20,567	20,732
Mining and quarrying	125,710	87,206	121,966
Others	14,111	12,755	19,259
	<u>628,779</u>	<u>556,118</u>	<u>639,469</u>



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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2008

8. Loans and advances (Continued)

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

	30 June 2008	30 June 2007	31 December 2007
	RO'000	RO'000	RO'000
0-5%	333,857	85,651	107,949
5-7%	26,513	198,388	254,291
7-10%	228,215	217,867	223,222
10-13%	34,492	42,066	40,794
more than 13%	<u>5,702</u>	<u>12,146</u>	<u>13,213</u>
	<u>628,779</u>	<u>556,118</u>	<u>639,469</u>

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

	30 June 2008	30 June 2007	31 December 2007
	RO'000	RO'000	RO'000
0-6 months	135,472	98,618	113,401
6-12 months	23,215	22,257	23,389
1-3 years	94,577	92,709	97,465
3-5 years	89,247	95,718	90,074
More than 5 years	<u>222,338</u>	<u>168,892</u>	<u>235,605</u>
	<u>564,849</u>	<u>478,194</u>	<u>559,934</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 6.0 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 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)
Written off during the period	<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>



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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2008

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 2007 is analysed in the table below:

	Specific Provision RO'000	General Provision RO'000	Total Provision RO'000
Balance at 1 January 2007	33,202	5,719	38,921
Currency translation effect on opening balance	218	(1)	217
Provided during the period	1,628	-	1,628
Released during the period:			
Due to recoveries	(2,244)	-	(2,244)
Due to write back	(736)	(277)	(1,013)
Written off during the period	<u>(1)</u>	<u>-</u>	<u>(1)</u>
Balance at 30 June 2007	<u>32,067</u>	<u>5,441</u>	<u>37,508</u>

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

	30 June 2008 RO'000	30 June 2007 RO'000
Balance at the beginning of the period	43,322	36,965
Currency translation effect on opening balance	(1,102)	940
Reserved during the period	2,883	3,276
Transfer to the income statement	(697)	(764)
Written off during the period	<u>(12,547)</u>	<u>(1)</u>
Balance at end of the period	<u>31,859</u>	<u>40,416</u>

Provision for loan impairment and reserved interest represent **102.03 %** of gross non-performing loans and advances at 30 June 2008 (June 2007: 100.71 %).

At 30 June 2008, loans and advances on which interest has been reserved and/or has not been accrued amounted to RO 62.6 million (June 2007: RO 77.4 million). In addition, Government soft loans, amounting to RO 4.6 million (June 2007: RO 9.4 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.

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 2008 RO'000	30 June 2007 RO'000	31 December 2007 RO'000
Current	187,523	179,433	196,705
Savings	335,998	312,299	311,739
Time deposits	152,580	180,899	166,080
Others	<u>138,705</u>	<u>110,482</u>	<u>137,180</u>
	<u>814,806</u>	<u>783,113</u>	<u>811,704</u>



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10. Deposits (continued)

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

	30 June 2008 RO'000	30 June 2007 RO'000	31 December 2007 RO'000
0-6 months	759,459	711,808	740,297
6-12 months	26,458	41,879	48,232
1-3 years	8,972	10,648	4,531
3-5 years	19,917	18,778	18,644
More than 5 years	-	-	-
	<u>814,806</u>	<u>783,113</u>	<u>811,704</u>

The interest rate bands of deposits are as follows:

	30 June 2008 RO'000	30 June 2007 RO'000	31 December 2007 RO'000
0-2%	644,690	484,446	479,915
2-4%	123,248	112,727	170,281
4-6%	42,311	178,666	149,538
6-8%	3,090	4,685	10,509
8-10 %	358	705	293
more than 10%	1,109	1,884	1,168
	<u>814,806</u>	<u>783,113</u>	<u>811,704</u>

11. Asset liability mismatch

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

Maturities	30 June 2008			30 June 2007		
	Assets RO'000	Liabilities RO'000	Mismatch RO'000	Assets RO'000	Liabilities RO'000	Mismatch RO'000
0-6 months	532,901	786,794	(253,893)	561,727	751,775	(190,048)
6-12 months	30,681	26,460	4,221	32,407	41,934	(9,527)
1-3 years	113,864	67,065	46,799	108,186	10,702	97,484
3-5 years	94,901	19,917	74,984	101,641	76,528	25,113
more than 5 years	303,506	175,617	127,889	199,929	122,951	76,978
	<u>1,075,853</u>	<u>1,075,853</u>	<u>-</u>	<u>1,003,890</u>	<u>1,003,890</u>	<u>-</u>

12. Investment Income

Investment income can be analysed as follows:

	Six months ended 30 June 2008 RO'000	Six months ended 30 June 2007 RO'000
Interest	694	956
Dividend	2,376	239
Realised gains	963	-
Unrealised loss	15	(33)
	<u>4,048</u>	<u>1,162</u>



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13. Investments

Investments can be analysed as follows:

	Market Value 30 June 2008	Market Value 30 June 2007	Book Value 30 June 2008	Book Value 30 June 2007	Cost 30 June 2008
Marketable securities – MSM					
Finance	2,330	1,022	2,330	1,022	617
Investment	-	-	-	-	-
Insurance	696	374	696	374	422
Services	349	198	349	198	64
Industrial	105	91	105	91	146
Government bonds	11,704	23,531	11,580	23,746	10,728
Other bonds	236	230	223	223	222
	<u>15,420</u>	<u>25,446</u>	<u>15,283</u>	<u>25,654</u>	<u>12,199</u>
Marketable securities – Foreign by Sector					
Government securities	10,637	13,172	11,197	13,881	12,418
	<u>10,637</u>	<u>13,172</u>	<u>11,197</u>	<u>13,881</u>	<u>12,418</u>
Unquoted and other investments					
Unquoted Omani shares			510	260	831
Investment fund units			6,503	5,057	2,937
Unquoted foreign shares			1,701	82	85
			<u>8,714</u>	<u>5,399</u>	<u>3,853</u>
Total			<u>35,194</u>	<u>44,934</u>	<u>28,470</u>

13.a. Details of Significant Investments

	*Holding %	*Number of Securities	Market Value 30 June 2008 RO'000	Book Value 2008 RO'000	Cost RO'000
MSM quoted securities					
Government bonds			11,704	11,580	10,728
Others			<u>3,716</u>	<u>3,703</u>	<u>1,471</u>
			<u>15,420</u>	<u>15,283</u>	<u>12,199</u>
Foreign listed securities					
Government securities			<u>10,637</u>	<u>11,197</u>	<u>12,250</u>
			<u>10,637</u>	<u>11,197</u>	<u>12,250</u>
Total quoted securities			<u>26,057</u>	<u>26,480</u>	<u>24,449</u>
Unquoted securities					
Oman				7,013	3,768
Others				<u>1,701</u>	<u>85</u>
				<u>8,714</u>	<u>3,853</u>
Totals as of 30 June 2008				<u>35,194</u>	<u>28,302</u>

* The Bank does not hold 10% or more of the issuer's share capital nor holds 10% or more of the market value of the Bank's investment portfolio.



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13 Investments (continued)

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

	30 June 2008 RO'000	30 June 2007 RO'000	31December 2007 RO'000
Held for trading	-	99	100
Fair value through profit or loss	2,824	4,775	4,800
Held-to-maturity	17,075	29,480	21,092
Available-for-sale	<u>15,295</u>	<u>10,580</u>	<u>13,458</u>
	<u>35,194</u>	<u>44,934</u>	<u>39,450</u>

13.c. The held for trading investments consist of quoted Oman Government securities of RO NIL (June 2007 - RO 99,000, December 2007 - RO 100,000).

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

	30 June 2008 RO'000	30 June 2007 RO'000	31December 2007 RO'000
Quoted - Foreign Government securities	<u>2,824</u>	<u>4,775</u>	<u>4,800</u>

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

	30 June 2008 RO'000	30 June 2007 RO'000	31December 2007 RO'000
Quoted - Oman Government securities	11,580	23,647	15,093
Quoted - Foreign Government securities	5,277	5,614	5,780
Quoted - Other securities, Oman	<u>218</u>	<u>219</u>	<u>219</u>
	<u>17,075</u>	<u>29,480</u>	<u>21,092</u>

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

	30 June 2008 RO'000	30 June 2007 RO'000	31December 2007 RO'000
Cost of:			
Quoted - Foreign Government securities	3,769	3,977	4,107
Quoted - Equity and other securities:			
Oman	1,253	984	1,253
Unquoted investments	<u>3,853</u>	<u>3,420</u>	<u>3,415</u>
	<u>8,875</u>	<u>8,381</u>	<u>8,775</u>
Revaluation gains/(losses) of:			
Quoted - Foreign Government securities	(673)	(584)	(581)
Quoted - Equity and other securities:			
Oman	2,231	705	1,033
Unquoted investments	<u>4,862</u>	<u>2,078</u>	<u>4,231</u>
	<u>15,295</u>	<u>10,580</u>	<u>13,458</u>



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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 2008	32,898	2,586	6,896	852	12,492	23	55,747
Currency translation effect on opening balances	(218)	(7)	(33)	(8)	(28)	-	(294)
Revaluation reserve	45	-	-	-	-	-	45
Additions	12	18	134	31	47	-	242
Disposals	-	-	-	(12)	(2)	-	(14)
30 June 2008	<u>32,737</u>	<u>2,597</u>	<u>6,997</u>	<u>863</u>	<u>12,509</u>	<u>23</u>	<u>55,726</u>
Depreciation							
1 January 2008	4,214	2,509	6,371	685	11,116	-	24,895
Currency translation effect on opening balances	(95)	(6)	(33)	(5)	(27)	-	(166)
Charge for the year	146	15	117	43	253	-	574
Disposals	-	-	-	(12)	(2)	-	(14)
30 June 2008	<u>4,265</u>	<u>2,518</u>	<u>6,455</u>	<u>711</u>	<u>11,340</u>	<u>-</u>	<u>25,289</u>
Net book value	<u>28,472</u>	<u>79</u>	<u>542</u>	<u>152</u>	<u>1,169</u>	<u>23</u>	<u>30,437</u>
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>

Freehold land owned by the Bank at Khasab was revalued as of 30 June 2008 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.



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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2008

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

	30 June 2008	30 June 2007	31 December 2007
	RO'000	RO'000	RO'000
Loans and advances	37,347	27,206	62,361
Current, deposit and other accounts	23,163	11,220	17,507
Letters of credit and guarantees	5,982	2,136	4,275
Provision for loans and advances*	<u>888</u>	<u>888</u>	<u>888</u>

Loans and advances amounting to RO 125,000 (June 2007: RO 125,000, December 2007: RO 125,000) 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 2008	30 June 2007
	RO'000	RO'000
Interest income	1,438	911
Interest expense	205	299
Other operating income	21	154
Other operating expenditure:		
Advertisement and publicity	35	72
Insurance	129	144
Printing and stationery	46	48
Repairs and maintenance	230	234
Others	<u>201</u>	<u>174</u>
	<u>641</u>	<u>672</u>
Purchase of property and equipment:	<u>120</u>	<u>56</u>



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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	Director	Other directors	Significant shareholder	Others	Total
	RO'000	RO'000	RO'000	RO'000	RO'000
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>

For the period ended
30 June 2007

Loans and advances	5,451	369	4,046	17,340	27,206
Deposits	128	37	1,897	9,158	11,220
Letters of credit, acceptances and guarantees	32	-	567	1,537	2,136
Provision for loans and advances	-	-	-	888	888
Interest income	95	9	187	620	911
Interest expense	37	-	135	127	299
Other operating income	-	-	1	153	154
Other operating expenditure:					
Advertisement and publicity	-	1	70	1	72
Insurance	-	-	-	144	144
Printing and stationery	-	2	27	19	48
Repairs and maintenance	-	-	116	118	234
Others	4	50	62	58	174
Purchase of property and equipment	<u>-</u>	<u>-</u>	<u>12</u>	<u>42</u>	<u>56</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 2008	30 June 2007	31 December 2007
H.E. Dr. Omar Bin Abdul Muniem Al Zawawi	<u>9,196,566</u>	<u>8,360,517</u>	<u>8,360,517</u>

17. Geographical segment information

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>

A geographical analysis of key financial data by location of primary assets as at 30 June 2007 is set out below

	Oman RO'000	Others RO'000	Consolidation adjustments RO'000	Total RO'000
Revenue from customers	32,303	856	-	33,159
Internal revenue	43	14	(57)	-
Segment result	12,914	140	-	13,054
Assets	993,985	39,982	(30,077)	1,003,890
Liabilities	871,129	25,733	(15,923)	880,939
Capital expenditure	204	10	-	214
Depreciation	492	64	-	556
Provision for loan impairment	<u>1,129</u>	<u>499</u>	<u>-</u>	<u>1,628</u>



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18 Business segment information

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>

An analysis of key financial data by business segment as at 30 June 2007 is set out below:

	Retail RO'000	Corporate RO'000	Treasury & Investments RO'000	Common RO'000	Total RO'000
Revenue from customers	12,730	8,744	10,689	996	33,159
Assets	212,783	274,566	443,503	73,038	1,003,890
Capital expenditure	<u>=</u>	<u>=</u>	<u>=</u>	<u>214</u>	<u>214</u>

19 Contingent liabilities, commitments and derivatives

(a) Letters of credit, guarantees and other commitments

	30 June 2008 RO'000	30 June 2007 RO'000	31 December 2007 RO'000
Letters of credit	60,428	23,522	41,476
Guarantees and performance bonds	<u>183,720</u>	<u>160,212</u>	<u>170,629</u>
	<u>244,148</u>	<u>183,734</u>	<u>212,105</u>
Derivatives:			
Forward forex contracts – sales	123,261	340,295	178,563
Forward forex contracts – purchases	74,946	74,742	43,595
Interest rate caps	3,758	4,497	4,127
Interest rate swaps	<u>23,243</u>	<u>25,168</u>	<u>25,168</u>



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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	Net	Net
	Assets	Liabilities	Purchases	Sales	exposure	exposure	exposure
	FCY'000	FCY'000	FCY'000	FCY'000	30 June 2008 FCY'000	30 June 2008 RO'000	30 June 2007 RO'000
US Dollars	759,322	481,012	108,778	271,726	115,362	44,414	39,673
Indian Rupees	1,371,235	1,378,923	8,000	-	312	3	29
Others	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>185</u>	<u>401</u>
						<u>44,602</u>	<u>40,103</u>

(c) Contingencies

As at 30 June 2008, there were certain legal suits pending against the Bank, aggregating to RO 16.9 million (June 2007: RO 18.6 million, December 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.

20. Cash and cash equivalents

	30 June 2008 RO'000	30 June 2007 RO'000
Balance sheet items comprise:		
Cash and balances with central banks	55,894	56,461
Treasury bills and certificates of deposit	325,000	70,000
Due from other banks	51,711	327,999
Due to banks	<u>(83,711)</u>	<u>(76,593)</u>
	348,894	377,867
Adjustment for items maturing after three months from date of acquisition and restricted balances	<u>6,045</u>	<u>(22,273)</u>
	<u>354,939</u>	<u>355,594</u>
Cash and cash equivalents comprise:		
Cash and balances with central banks	16,921	13,397
Treasury bills and certificates of deposit	315,000	70,000
Due from other banks	42,635	290,816
Due to banks	<u>(19,617)</u>	<u>(18,619)</u>
	<u>354,939</u>	<u>355,594</u>



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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2008

21. Exposure to Credit risk

	Loans and advances		Due from other banks		Investments	
	30 June 2008 RO'000	31 December 2007 RO'000	30 June 2008 RO'000	31 December 2007 RO'000	30 June 2008 RO'000	31 December 2007 RO'000
Individually impaired	62,659	77,087	-	-	-	-
Allowance for impairment	<u>(57,885)</u>	<u>(73,543)</u>	=	=	=	=
Carrying amount	4,774	3,544	-	-	-	-
Past due and not impaired	15,935	23,569	-	-	-	-
Neither past due nor impaired	<u>544,140</u>	<u>532,821</u>	<u>51,711</u>	<u>118,711</u>	<u>35,194</u>	<u>39,450</u>
Total carrying amount	<u>564,849</u>	<u>559,934</u>	<u>51,711</u>	<u>118,711</u>	<u>35,194</u>	<u>39,450</u>

22. Dividend per share

The Shareholders at the Annual General meeting held on 31 March, 2008 approved a cash dividend of RO 0.210 per share amounting to RO 17.435 million and a stock dividend of 10% equal to 8,302,338 shares for the year 2007 (2006 : cash dividend of RO 0.210 per share amounting to RO 15.850 million and stock dividend of 10% equal to 7,547,580 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 2008.

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 2008 RO'000	30 June 2007 RO'000	31 December 2007 RO'000
Tier I and tier II capital	124,589	112,914	124,906
Risk-weighted assets	808,737	711,308	804,123
Capital adequacy ratio %	15.41	15.87	15.53