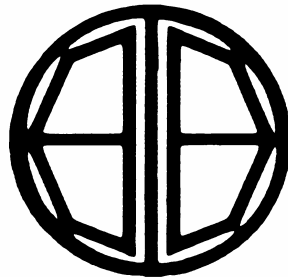


Oman International Bank S.A.O.G

Quarterly return to MSM as at 30 September 2008

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**Board of Directors' Report on the nine months results (unaudited)
for the period ended September 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 nine months ended 30th September 2008.

The Net Profit for the nine months was OMR 21.25 Mio compared to OMR 19.01 Mio for the corresponding period of the previous year, recording an increase of 11.8%. The Net Interest Income for the nine months was OMR 21.6 Mio compared to OMR 24.9 Mio for the corresponding period of the previous year. Other Operating Income for the first nine months of 2008 was OMR 11.9 Mio compared to OMR 7.1 Mio for the corresponding period of previous year, recording a considerable increase of 66%. The total income increased to OMR 33.5 Mio during the period recording an increase of 4.4% against OMR 32.1 Mio of the corresponding period of the previous year. Operating Cost for the nine months was OMR 13.9 Mio. Comparatively it was 6.4% higher than the amount of the corresponding period of the last year. The provision for loan impairment for the first nine months decreased by 15.3% to OMR 1.9 Mio compared to OMR 2.2 Mio for the previous year corresponding nine months. The Bank recovered OMR 6.1 Mio from non-performing advances during the first nine months which recorded a 27% increase in recoveries against the same period of the previous year. With these the Bank continues to improve the quality of the advances book.

Total deposits are OMR 741.6 Mio as at 30th September 2008 compared to OMR 733.0 Mio of the same period of the last year. The Bank continues to grow the deposit base and core deposits with emphasis on low cost funding. Net loans and advances were at OMR 596.9 Mio as at 30th September 2008 compared to OMR 490.8 Mio as at 30th September, 2007 recording an increase of 21.6%. Contingent liabilities in terms of letters of credit and guarantees during the period were OMR 219.1 Mio compared to OMR 188.8 Mio of the same period of last year an increase of 16%.

Local Money Market continued to experience excess liquidity. This pushed the banks to lend at very competitive rates. Further, the regulatory ceiling on the lending rate for personal loans was also reduced during the period. This affected the interest income. The Bank has grown the loan book through quality lending to increase the interest income. The Bank also strives to increase the fee-based income, as it has done during the period, to boost the income.



Oman International Bank S.A.O.G

Interim report for Nine months ended 30 September 2008

The Bank maintains a strong balance of its total assets in cash and equally liquid assets.

The earning per share on an annualised basis has increased to baizas 31 from last year's level of baizas 28 for the same period. Net assets per share have recorded an increase of 28% during the period from baizas 142 of the last year to baizas 182. The networth has increased during the period to OMR 165.8 Mio from OMR 129.4 Mio of the previous year recording a growth of 28%. Total assets have grown to OMR 1.019 billion from OMR 980 Mio with an increase of 3.9%. The Bank's Capital Adequacy Ratio as at the 30th September 2008 was 15.20% compared to 15.27% for the same period last year. This is well above the minimum ratio of 10% stipulated by the CBO.

With regards to the overseas operations, the Bank continues to focus on recoveries strategy in India while holding the growth in the advances portfolio temporarily. 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 September 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 nine 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 September 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.

25 October 2008

KPMG



Oman International Bank S.A.O.G

Interim report for Nine months ended 30 September 2008

Summary of unaudited results

	30 September 2008 RO'000	30 September 2007 RO'000
Loans and advances net of provision and reserved interest	596,925	490,801
Deposits	741,692	733,010
Networth	165,829	129,430
Net assets per share	RO 0.182	RO 0.142

	Nine months ended 30 September 2008 RO'000	Nine months ended 30 September 2007 RO'000
Net interest income	21,634	24,964
Net profit for the period	21,258	19,011
Earnings per share for the period	RO 0.023	RO 0.021
Earnings per share (annualised)	RO 0.031	RO 0.028
Capital adequacy ratio	15.20%	15.27 %



Oman International Bank S.A.O.G

Interim report for Nine months ended 30 September 2008

Unaudited income statement for the quarter and nine months period ended 30 September 2008

	Notes	Quarter ended 30 September 2008 RO'000	Quarter ended 30 September 2007 RO'000	Nine months ended 30 September 2008 RO'000	Nine months ended 30 September 2007 RO'000
Interest income		10,794	14,686	33,132	42,954
Interest expense		<u>(3,504)</u>	<u>(5,977)</u>	<u>(11,498)</u>	<u>(17,990)</u>
Net interest income		7,290	8,709	21,634	24,964
Other operating income	5	<u>2,912</u>	<u>2,293</u>	<u>11,930</u>	<u>7,184</u>
Total income		10,202	11,002	33,564	32,148
Other operating expenditure	5	<u>(4,819)</u>	<u>(4,390)</u>	<u>(13,958)</u>	<u>(13,115)</u>
Operating profit before provisions and recoveries		5,383	6,612	19,606	19,033
Provision for loan impairment		<u>(830)</u>	<u>(636)</u>	<u>(1,917)</u>	<u>(2,264)</u>
Loan recoveries and write back	6	<u>2,146</u>	<u>795</u>	<u>6,140</u>	<u>4,831</u>
Profit before tax		6,699	6,771	23,829	21,600
Taxation		<u>(804)</u>	<u>(814)</u>	<u>(2,571)</u>	<u>(2,589)</u>
Profit for the period		<u>5,895</u>	<u>5,957</u>	<u>21,258</u>	<u>19,011</u>
Dividend per share		===== -	===== -	===== -	===== -

The notes set out on pages 10 to 32 form an integral part of these interim unaudited financial statements



Oman International Bank S.A.O.G

Interim report for Nine months ended 30 September 2008

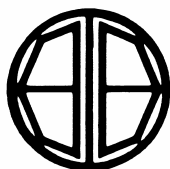
Unaudited balance sheet at 30 September 2008

	Notes	30 September 2008 RO'000	30 September 2007 RO'000	31 December 2007 RO'000
Assets				
Cash and balances with central banks		72,947	112,639	49,431
Treasury bills and certificates of deposits		260,000	80,000	260,000
Due from other banks		10,422	224,044	118,711
Loans and advances:	8			
Due from related parties		38,989	34,025	62,361
Other loans and advances		621,909	536,546	577,108
Loans and advances (gross)		660,898	570,571	639,469
Provision for impairment and reserved interest	9	(63,973)	(79,770)	(79,535)
Loans and advances (net)		596,925	490,801	559,934
Investments	13	36,284	45,794	39,450
Other assets		13,224	18,736	23,408
Property and equipment		30,108	8,725	30,852
Total assets		1,019,910	980,739	1,081,786
Liabilities				
Deposits from customers:	10			
Due to related parties		21,439	21,825	17,507
Deposits from others		720,253	711,185	794,197
Total deposits		741,692	733,010	811,704
Due to banks		96,440	93,542	83,269
Other liabilities		15,949	24,757	24,664
Total liabilities		854,081	851,309	919,637
Shareholders' funds				
Share capital		91,325	83,023	83,023
Non-distributable reserves		53,201	26,828	53,386
Retained earnings		21,303	19,579	25,740
Total shareholders' funds		165,829	129,430	162,149
Total liabilities and shareholders' funds		1,019,910	980,739	1,081,786
Letters of credit and guarantees	19 (a)	219,146	188,811	212,105

The interim unaudited financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 25 October 2008.

REEM OMAR ZAWAWI
CHAIRPERSON

BIPIN DHARAMSEY
DEPUTY CHAIRMAN



Oman International Bank S.A.O.G

Interim report for Nine months ended 30 September 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	-	-	55	-	(54)	85	86
Net movement in fair values	-	-	-	-	970	-	970
Total income and expense for the period directly recorded in equity	-	-	55	-	916	85	1,056
Net profit for the period	-	-	-	-	-	19,011	19,011
Total income and expense for the period	-	-	55	-	916	19,096	20,067
Cash dividend paid for year 2006	-	-	-	-	-	(15,850)	(15,850)
Stock dividend for the year 2006	7,547	-	-	-	-	(7,547)	-
At 30 September 2007	83,023	23,591	550	-	2,687	19,579	129,430
At 1 January 2008	83,023	26,399	678	22,064	4,245	25,740	162,149
Effect of currency translation	-	-	(108)	-	92	103	87
Net movement in fair values	-	-	-	-	(275)	-	(275)
Total income and expense for the period directly recorded in equity	-	-	(108)	-	(183)	103	(188)
Net profit for the period	-	-	-	-	-	21,258	21,258
Total income and expense for the period	-	-	(108)	-	(183)	21,361	21,070
Transferred during the period	-	-	61	-	-	(61)	-
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 September 2008	91,325	26,399	631	22,109	4,062	21,303	165,829



Unaudited statement of cash flows for the nine months ended 30 September 2008

	Nine months ended 30 September 2008 RO'000	Nine months ended 30 September 2007 RO'000
Profit before taxation	23,829	21,600
Adjustments for:		
Depreciation	849	840
Provision for loan impairment (net of recoveries/write back)	(4,223)	(2,566)
Interest/dividend on investments	(3,374)	(1,753)
Unrealised foreign currency losses / (gains)	276	(204)
Profit on disposal of property and equipment	(8)	(9)
Profit on sale on investments	(963)	-
Unrealised losses on investments	82	92
Effect of currency translation loss / (gain)	<u>1,781</u>	<u>(1,123)</u>
Operating profit before changes in operating assets and liabilities	18,249	16,877
Changes in operating assets	11,837	74,968
Changes in operating liabilities	<u>(65,392)</u>	<u>42,759</u>
Cash generated from operations	(35,306)	134,604
Income taxes paid	<u>(3,781)</u>	<u>(3,359)</u>
Net cash flow from operating activities	<u>(39,087)</u>	<u>131,245</u>
Cash flows from investing activities		
Purchase of property and equipment	(311)	(376)
Proceeds from sale of property and equipment	8	10
Purchase of investments	(5,333)	(3,046)
Proceeds from sale of investments	8,288	1,066
Income received from investments	<u>5,033</u>	<u>3,461</u>
Net cash flow from investing activities	<u>7,685</u>	<u>1,115</u>
Cash flows from financing activities		
Dividend paid	<u>(17,435)</u>	<u>(15,850)</u>
Net change in cash and cash equivalents	(48,837)	116,510
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>235,965</u>	<u>214,099</u>



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 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 FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 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 FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 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 FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 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 FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 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 FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 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.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2008**

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



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2008**

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 NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2008**

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.



Oman International Bank S.A.O.G

Interim report for nine months ended 30 September 2008

NOTES TO THE FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2008

3. Interest income

Interest bearing assets earned interest at an overall annualised rate of **4.31 %** for the nine months ended 30 September 2008 (September 2007: 5.74 %).

4. Interest expense

For the nine months ended 30 September 2008, the average overall annualised cost of funds was **1.64 %** (September 2007: 2.56 %).

5. Analysis of other operating income and expenditure

	Nine months ended 30 September 2008 RO'000	Nine months ended 30 September 2007 RO'000
Other operating income		
Fee and commission income	4,709	3,667
Exchange gain	1,838	1,201
Realised gain on investments	963	-
Unrealised loss on trading investments	(82)	(92)
Dividend	2,377	239
Profit on sale of property and equipment	8	9
Other income	<u>2,117</u>	<u>2,160</u>
	<u>11,930</u>	<u>7,184</u>
Other operating expenditure		
Staff costs	7,948	7,308
Occupancy costs	1,152	1,082
Depreciation	849	840
Other operating costs:		
Advertisement and publicity	682	741
Communication	557	555
Repairs and maintenance	753	731
Others	<u>2,017</u>	<u>1,858</u>
	<u>13,958</u>	<u>13,115</u>

6. Loans recoveries and write back

	Nine months ended 30 September 2008 RO'000	Nine months ended 30 September 2007 RO'000
Impaired loans	4,593	3,838
Reserved interest	1,522	975
Written-off loans	<u>25</u>	<u>18</u>
	<u>6,140</u>	<u>4,831</u>



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NOTES TO THE FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2008

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 September 2008	30 September 2007	31 December 2007
	No of shares '000	No of shares '000	No of shares '000
Weighted average number of shares in issue	913,257	913,257	913,257
	RO'000	RO'000	RO'000
Profit for the period	21,258	19,011	28,076
Basic earnings per share – annualised (RO)	0.031	0.028	0.031

During the period ended 30 September 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.

Subsequent to 30 September 2008, the nominal value of the share was split from a nominal value of RO 1 each to a nominal value of RO 0.100 each and was approved by Extra Ordinary General meeting on 6 October 2008. The earnings per share has been calculated using the split shares for all the periods presented.

8. Loans and advances

Loans and advances can be analysed as follows:

	30 September 2008	30 September 2007	31 December 2007
	RO'000	RO'000	RO'000
Overdrafts	71,689	70,044	68,851
Loans	582,339	497,616	565,759
Bills discounted / purchased	6,870	2,911	4,859
Gross loans and advances	660,898	570,571	639,469
Provision for loan impairment	(31,522)	(37,617)	(36,213)
Reserved interest	(32,451)	(42,153)	(43,322)
Net loans and advances	<u>596,925</u>	<u>490,801</u>	<u>559,934</u>

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

	30 September 2008	30 September 2007	31 December 2007
	RO'000	RO'000	RO'000
Personal and consumer loans	222,346	223,960	226,853
Import trade	23,809	29,623	22,468
Construction	48,493	28,063	33,716
Financial institutions	25,720	29,760	25,683
Manufacturing	117,849	77,613	110,156
Wholesale and retail trade	18,395	10,696	18,878
Export trade	876	6,443	6,478
Electricity, gas, water, Transportation and communication	39,594	33,853	33,280
Services	20,186	20,585	20,732
Mining and quarrying	120,564	94,381	121,966
Others	23,066	15,594	19,259
	<u>660,898</u>	<u>570,571</u>	<u>639,469</u>



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NOTES TO THE FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2008

8. Loans and advances (continued)

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

	30 September 2008	30 September 2007	31 December 2007
	RO'000	RO'000	RO'000
0-5%	369,455	92,292	107,949
5-7%	26,110	199,526	254,291
7-10%	229,004	219,217	223,222
10-13%	32,693	42,239	40,794
more than 13%	<u>3,636</u>	<u>17,297</u>	<u>13,213</u>
	<u>660,898</u>	<u>570,571</u>	<u>639,469</u>

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

	30 September 2008	30 September 2007	31 December 2007
	RO'000	RO'000	RO'000
0-6 months	168,522	112,915	113,401
6-12 months	31,139	23,445	23,389
1-3 years	84,913	90,821	97,465
3-5 years	94,757	94,496	90,074
More than 5 years	<u>217,594</u>	<u>169,124</u>	<u>235,605</u>
	<u>596,925</u>	<u>490,801</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 6.6 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 nine months period ended on 30 September 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	(97)	(7)	(104)
Provided during the period	1,296	621	1,917
Released during the period:			
Due to recoveries	(3,441)	-	(3,441)
Due to write back	(1,152)	-	(1,152)
Moved to memorandum during the period	<u>(1,911)</u>	<u>-</u>	<u>(1,911)</u>
Balance at 30 September 2008	<u>24,916</u>	<u>6,606</u>	<u>31,522</u>



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Interim report for nine months ended 30 September 2008

NOTES TO THE FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2008

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

The movement on provision for loan impairment for the nine months period ended on 30 September 2007 is analysed in the table below:

	Specific Provision RO'000	General Provision RO'000	Total Provision RO'000
Balance at 1 January 2007	33,201	5,719	38,920
Currency translation effect on opening balance	273	(1)	272
Provided during the period	2,264	-	2,264
Released during the period:			
Due to recoveries	(2,768)	-	(2,768)
Due to write back	(753)	(317)	(1,070)
Moved to memorandum during the period	<u>(1)</u>	<u>-</u>	<u>(1)</u>
Balance at 30 September 2007	<u>32,216</u>	<u>5,401</u>	<u>37,617</u>

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

	30 September 2008 RO'000	30 September 2007 RO'000
Balance at the beginning of the period	43,322	36,965
Currency translation effect on opening balance	(1,083)	1,194
Reserved during the period	4,281	4,970
Transfer to the income statement	(1,522)	(975)
Moved to memorandum during the period	<u>(12,547)</u>	<u>(1)</u>
Balance at end of the period	<u>32,451</u>	<u>42,153</u>

Provision for loan impairment and reserved interest represent **104.41 %** of gross non-performing loans and advances less government soft loans at 30 September 2008 (September 2007 : 101.36 %).

At 30 September 2008, loans and advances on which interest has been reserved and/or has not been accrued amounted to RO 61.3 million (September 2007 - RO 78.7 million). In addition, Government soft loans, amounting to RO 4.7 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 September 2008 RO'000	30 September 2007 RO'000	31 December 2007 RO'000
Current	184,127	192,715	196,705
Savings	318,007	301,470	311,739
Time deposits	157,479	170,423	166,080
Others	<u>82,079</u>	<u>68,402</u>	<u>137,180</u>
	<u>741,692</u>	<u>733,010</u>	<u>811,704</u>



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NOTES TO THE FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2008

10. Deposits (continued)

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

	30 September 2008 RO'000	30 September 2007 RO'000	31 December 2007 RO'000
0-6 months	669,646	659,808	740,297
6-12 months	49,175	44,686	48,232
1-3 years	4,445	9,788	4,531
3-5 years	<u>18,426</u>	<u>18,728</u>	<u>18,644</u>
	<u>741,692</u>	<u>733,010</u>	<u>811,704</u>

The interest rate bands of deposits are as follows:

	30 September 2008 RO'000	30 September 2007 RO'000	31 December 2007 RO'000
0-2%	602,541	448,670	479,915
2-4%	112,941	140,534	170,281
4-6%	23,878	136,620	149,538
6-8%	1,127	5,063	10,509
8-10 %	295	1,009	293
more than 10%	<u>910</u>	<u>1,114</u>	<u>1,168</u>
	<u>741,692</u>	<u>733,010</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 September 2008			30 September 2007		
	Assets RO'000	Liabilities RO'000	Mismatch RO'000	Assets RO'000	Liabilities RO'000	Mismatch RO'000
0-6 months	479,152	693,176	(214,024)	543,192	722,903	(179,711)
6-12 months	44,093	49,177	(5,084)	34,320	44,686	(10,366)
1-3 years	97,399	66,856	30,543	104,053	9,788	94,265
3-5 years	105,099	18,427	86,672	100,569	18,728	81,841
more than 5 years	<u>294,167</u>	<u>192,274</u>	<u>101,893</u>	<u>198,605</u>	<u>184,634</u>	<u>13,971</u>
	<u>1,019,910</u>	<u>1,019,910</u>	-	<u>980,739</u>	<u>980,739</u>	-

12. Investment income

Investment income can be analysed as follows:

	Nine months ended 30 September 2008 RO'000	Nine months ended 30 September 2007 RO'000
Interest	997	1,444
Dividend	2,377	239
Realised gain	963	-
Unrealised loss	<u>(82)</u>	<u>(92)</u>
	<u>4,255</u>	<u>1,591</u>



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NOTES TO THE FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2008

13. Investments

Investments can be analysed as follows:

	Market Value 30 September 2008	Market Value 30 September 2007	Book Value 30 September 2008	Book Value 30 September 2007	Cost 30 September 2008
Marketable securities – MSM					
Finance	2,382	1,082	2,382	1,082	617
Investment	-	-	-	-	-
Insurance	706	263	706	263	422
Services	330	206	330	206	64
Industrial	87	91	87	91	146
Government bonds	15,092	23,950	15,207	23,966	13,759
Other bonds	240	233	226	227	222
	<u>18,837</u>	<u>25,825</u>	<u>18,938</u>	<u>25,835</u>	<u>15,230</u>
Marketable securities – Foreign by Sector					
Government securities	9,918	13,460	10,499	14,039	11,442
Others	-	-	-	-	-
	<u>9,918</u>	<u>13,460</u>	<u>10,499</u>	<u>14,039</u>	<u>11,442</u>
Unquoted and other investments					
Unquoted Omani shares			510	260	831
Investment fund units			5,039	5,577	3,110
Unquoted foreign shares			1,298	83	83
Others			-	-	-
			<u>6,847</u>	<u>5,920</u>	<u>4,024</u>
Total			<u>36,284</u>	<u>45,794</u>	<u>30,696</u>

13.a. Details of Significant Investments

	*Holding %	*Number of Securities	Market Value 30 September 2008 RO'000	Book Value 30 September 2008 RO'000	Cost RO'000
MSM quoted securities					
Government bonds			15,092	15,207	13,759
Others			<u>3,745</u>	<u>3,731</u>	<u>1,471</u>
			<u>18,837</u>	<u>18,938</u>	<u>15,230</u>
Foreign listed securities					
Government securities			9,918	10,499	11,442
Others			-	-	-
			<u>9,918</u>	<u>10,499</u>	<u>11,442</u>
Total quoted securities			<u>28,755</u>	<u>29,437</u>	<u>26,672</u>
Unquoted securities					
Oman				5,549	3,941
Others				<u>1,298</u>	<u>83</u>
				<u>6,847</u>	<u>4,024</u>
Totals as of 30 September 2008				<u>36,284</u>	<u>30,696</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 September 2008 RO'000	30 September 2007 RO'000	31December 2007 RO'000
Held for trading	-	100	100
Fair value through profit or loss	2,772	4,796	4,800
Held-to-maturity	20,266	29,833	21,092
Available-for-sale	<u>13,246</u>	<u>11,065</u>	<u>13,458</u>
	<u>36,284</u>	<u>45,794</u>	<u>39,450</u>

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

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

	30 September 2008 RO'000	30 September 2007 RO'000	31December 2007 RO'000
Quoted - Foreign Government securities	<u>2,772</u>	<u>4,796</u>	<u>4,800</u>

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

	30 September 2008 RO'000	30 September 2007 RO'000	31December 2007 RO'000
Quoted - Oman Government securities	15,207	23,867	15,093
Quoted - Foreign Government securities	4,837	5,743	5,780
Quoted - Other securities, Oman	<u>222</u>	<u>223</u>	<u>219</u>
	<u>20,266</u>	<u>29,833</u>	<u>21,092</u>

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

	30 September 2008 RO'000	30 September 2007 RO'000	31December 2007 RO'000
Cost of:			
Quoted - Foreign Government securities	3,467	4,075	4,107
Quoted - Equity and other securities:			
Oman	1,253	983	1,253
Unquoted investments	<u>4,025</u>	<u>3,322</u>	<u>3,415</u>
	8,745	8,380	8,775
Revaluation gains/(losses) of:			
Quoted - Foreign Government securities	(578)	(575)	(581)
Quoted - Equity and other securities:			
Oman	2,256	662	1,033
Unquoted investments	<u>2,823</u>	<u>2,598</u>	<u>4,231</u>
	<u>13,246</u>	<u>11,065</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	6,848	852	12,540	23	55,747
Currency translation effect on opening balances	(419)	(15)	(57)	(15)	(66)	-	(572)
Revaluation reserve	45	-	-	-	-	-	45
Additions	12	18	162	33	86	-	311
Disposals	-	-	(12)	(13)	(2)	-	(27)
30 September 2008	<u>32,536</u>	<u>2,589</u>	<u>6,941</u>	<u>857</u>	<u>12,558</u>	<u>23</u>	<u>55,504</u>
Depreciation							
1 January 2008	4,214	2,509	6,337	685	11,150	-	24,895
Currency translation effect on opening balances	(180)	(15)	(56)	(10)	(60)	-	(321)
Charge for the year	212	24	166	66	381	-	849
Disposals	-	-	(12)	(14)	(1)	-	(27)
30 September 2008	<u>4,246</u>	<u>2,518</u>	<u>6,435</u>	<u>727</u>	<u>11,470</u>	<u>-</u>	<u>25,396</u>
Net book value	<u>28,290</u>	<u>71</u>	<u>506</u>	<u>130</u>	<u>1,088</u>	<u>23</u>	<u>30,108</u>
31 December 2007	<u>28,684</u>	<u>77</u>	<u>511</u>	<u>167</u>	<u>1,390</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 FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2008

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

	30 September 2008 RO'000	30 September 2007 RO'000	31 December 2007 RO'000
Loans and advances	38,989	34,025	62,361
Current, deposit and other accounts	21,439	21,825	17,507
Letters of credit and guarantees	7,683	3,556	4,275
Provision for loans and advances*	<u>888</u>	<u>888</u>	<u>888</u>

Loans and advances amounting to RO **125,000** (September 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 September 2008 RO'000	30 September 2007 RO'000
Interest income	2,060	1,406
Interest expense	270	443
Other operating income	32	15
Other operating expenditure:		
Advertisement and publicity	43	83
Insurance	197	201
Printing and stationery	70	95
Repairs and maintenance	339	382
Others	<u>303</u>	<u>257</u>
	<u>952</u>	<u>1,018</u>
Purchase of property and equipment:	<u>129</u>	<u>196</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 September 2008					
Loans and advances	9,000	361	7,710	21,918	38,989
Deposits	936	24	8,505	11,974	21,439
Letters of credit, acceptances and guarantees	32	-	3,289	4,362	7,683
Provision for loans and advances	-	-	-	888	888
Interest income	223	-	969	868	2,060
Interest expense	4	-	135	131	270
Other operating income	-	-	4	28	32
Other operating expenditure:					
Advertisement and publicity	-	-	43	-	43
Insurance	-	-	-	197	197
Printing and stationery	-	17	37	16	70
Repairs and maintenance	-	-	75	264	339
Others	5	71	147	80	303
Purchase of property and equipment	<u>-</u>	<u>4</u>	<u>89</u>	<u>36</u>	<u>129</u>

For the period ended
30 September 2007

Loans and advances	2,801	333	13,233	17,658	34,025
Deposits	218	49	12,500	9,058	21,825
Letters of credit, acceptances and guarantees	32	-	1,071	2,453	3,556
Provision for loans and advances	-	-	-	888	888
Interest income	163	13	298	932	1,406
Interest expense	37	-	221	185	443
Other operating income	-	-	2	13	15
Other operating expenditure:					
Advertisement and publicity	-	1	72	10	83
Insurance	-	-	-	201	201
Printing and stationery	-	25	42	28	95
Repairs and maintenance	-	-	161	221	382
Others	5	81	96	75	257
Purchase of property and equipment	<u>-</u>	<u>-</u>	<u>17</u>	<u>179</u>	<u>196</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 September 2008	30 September 2007	31 December 2007
H.E. Dr. Omar Bin Abdul Muniem Al Zawawi	<u>91,965,660</u>	<u>83,605,170</u>	<u>83,605,170</u>

17. Geographical segment information

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

	Oman RO'000	Others RO'000	Consolidation adjustments RO'000	Total RO'000
Revenue from customers	43,920	1,142	-	45,062
Internal revenue	94	4	(98)	-
Segment result	21,554	(296)	-	21,258
Assets	1,011,578	37,742	(29,410)	1,019,910
Liabilities	845,444	23,441	(14,804)	854,081
Capital expenditure	278	33	-	311
Depreciation	762	87	-	849
Provision for loan impairment	<u>1,926</u>	<u>(9)</u>	<u>-</u>	<u>1,917</u>

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

	Oman RO'000	Others RO'000	Consolidation adjustments RO'000	Total RO'000
Revenue from customers	48,843	1,295	-	50,138
Internal revenue	65	9	(74)	-
Segment result	19,003	8	-	19,011
Assets	971,111	40,822	(31,194)	980,739
Liabilities	841,665	26,499	(16,855)	851,309
Capital expenditure	363	13	-	376
Depreciation	743	97	-	840
Provision for loan impairment	<u>1,758</u>	<u>506</u>	<u>-</u>	<u>2,264</u>



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NOTES TO THE FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2008

18. Business segment information

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

	Retail RO'000	Corporate RO'000	Treasury & Investments RO'000	Common RO'000	Total RO'000
Revenue from customers	19,596	14,127	8,143	3,196	45,062
Assets	209,464	388,241	311,544	110,661	1,019,910
Capital expenditure	<u>-</u>	<u>-</u>	<u>-</u>	<u>311</u>	<u>311</u>

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

	Retail RO'000	Corporate RO'000	Treasury & Investments RO'000	Common RO'000	Total RO'000
Revenue from customers	19,241	12,952	16,655	1,290	50,138
Assets	214,309	286,817	350,952	128,661	980,739
Capital expenditure	<u>-</u>	<u>-</u>	<u>-</u>	<u>376</u>	<u>376</u>

19 Contingent liabilities, commitments and derivatives

(a) Letters of credit, guarantees and other commitments

	30 September 2008 RO'000	30 September 2007 RO'000	31 December 2007 RO'000
Letters of credit	41,277	23,023	41,476
Guarantees and performance bonds	<u>177,869</u>	<u>165,788</u>	<u>170,629</u>
	<u>219,146</u>	<u>188,811</u>	<u>212,105</u>
Derivatives:			
Forward forex contracts – sales	83,605	294,078	178,563
Forward forex contracts – purchases	53,240	89,203	43,595
Interest rate caps	3,573	4,312	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 September:

	Forward		Net exposure		Net exposure	Net exposure	
	Assets	Liabilities	Purchases	Sales	30 September 2008	30 September 2008	30 September 2007
	FCY'000	FCY'000	FCY'000	FCY'000	FCY'000	RO'000	RO'000
US Dollars	680,842	467,731	74,830	180,367	107,574	41,417	51,931
Indian Rupees	1,365,723	1,405,376	29,500	-	10,153	84	985
Others	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>257</u>	<u>1,391</u>
						<u>41,758</u>	<u>54,307</u>

(c) Contingencies

As at 30 September 2008, there were certain legal suits pending against the Bank, aggregating to RO 16.5 million (September 2007: RO 18.80 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 September 2008	30 September 2007
	RO'000	RO'000
Balance sheet items comprise:		
Cash and balances with central banks	72,947	112,639
Treasury bills and certificates of deposit	260,000	80,000
Due from other banks	10,422	224,044
Due to banks	<u>(96,440)</u>	<u>(93,542)</u>
	246,929	323,141
Adjustment for items maturing after three months from date of acquisition and restricted balances	<u>(10,964)</u>	<u>(109,042)</u>
	<u>235,965</u>	<u>214,099</u>
Cash and cash equivalents comprise:		
Cash and balances with central banks	20,374	17,473
Treasury bills and certificates of deposit	250,000	80,000
Due from other banks	2,487	172,584
Due to banks	<u>(36,896)</u>	<u>(55,958)</u>
	<u>235,965</u>	<u>214,099</u>



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NOTES TO THE FINANCIAL STATEMENTS FOR THE NINE MONTHS PERIOD ENDED 30 SEPTEMBER 2008

21. Exposure to Credit risk

	Loans and advances		Due from other banks		Investments	
	30 September 2008 RO'000	31 December 2007 RO'000	30 September 2008 RO'000	31 December 2007 RO'000	30 September 2008 RO'000	31 December 2007 RO'000
Individually impaired	61,269	77,087	-	-	-	-
Allowance for impairment	<u>(57,369)</u>	<u>(73,543)</u>	-	-	-	-
Carrying amount	3,900	3,544	-	-	-	-
Past due and not impaired	40,504	23,569	-	-	-	-
Neither past due nor impaired	<u>552,521</u>	<u>532,821</u>	<u>10,422</u>	<u>118,711</u>	<u>36,284</u>	<u>39,450</u>
Total carrying amount	<u>596,925</u>	<u>559,934</u>	<u>10,422</u>	<u>118,711</u>	<u>36,284</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 of Ro 1 each amounting to RO 17.435 million and a stock dividend of 10% equal to 8,302,338 shares of Ro 1 each 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 September 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 September 2008 RO'000	30 September 2007 RO'000	31 December 2007 RO'000
Tier I and tier II capital	125,119	113,000	124,906
Risk-weighted assets	823,076	739,900	804,123
Capital adequacy ratio %	15.20	15.27	15.53