

OMAN INTERNATIONAL BANK SAOG

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

OMAN INTERNATIONAL BANK SAOG
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF OMAN INTERNATIONAL BANK SAOG

Report on the financial statements

We have audited the financial statements of Oman International Bank SAOG ("the Bank") set out on pages 3 to 45, which comprise the balance sheet as at 31 December 2007, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements for the year ended 31 December 2006 was audited by another auditor whose report dated 28 February 2007 was qualified.

Management's responsibility for the financial statements

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the disclosure requirements of the Capital Market Authority and the Commercial Companies Law of 1974, as amended. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Bank's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the Bank's Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Oman International Bank SAOG as at 31 December 2007 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other Legal and Regulatory Requirements

In our opinion, the financial statements of Oman International Bank SAOG as at and for the year ended 31 December 2007, in all material respects, comply with:

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

31 January 2008

KPMG

OMAN INTERNATIONAL BANK SAOG
INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

2006 US\$'000	2007 US\$'000		Note	2007 RO'000	2006 RO'000
136,442	146,958	Interest income		56,579	52,530
<u>(46,400)</u>	<u>(61,657)</u>	Interest expense		<u>(23,738)</u>	<u>(17,864)</u>
90,042	85,301	Net interest income		32,841	34,666
<u>27,252</u>	<u>29,702</u>	Other operating income	3	<u>11,435</u>	<u>10,492</u>
117,294	115,003	Total income		44,276	45,158
<u>(45,608)</u>	<u>(45,192)</u>	Other operating expenditure	3	<u>(17,399)</u>	<u>(17,559)</u>
71,686	69,811	Operating profit before provisions		26,877	27,599
(8,836)	(7,218)	Provision for loan impairment	9	(2,779)	(3,402)
14,106	19,604	Impact of recoveries / write back	4	7,548	5,431
<u>(130)</u>	<u>-</u>	Proposed directors' remuneration		<u>-</u>	<u>(50)</u>
76,826	82,197	Profit before taxation		31,646	29,578
<u>(8,787)</u>	<u>(9,272)</u>	Taxation	5	<u>(3,570)</u>	<u>(3,383)</u>
<u>68,039</u>	<u>72,925</u>	Net profit for the year		<u>28,076</u>	<u>26,195</u>
US \$ 0.82	US \$ 0.88	Basic earnings per share	6	RO 0.338	RO 0.316

The notes set out on pages 7 to 45 form an integral part of these financial statements.

Report of the Auditors - pages 1 and 2.

OMAN INTERNATIONAL BANK SAOG

BALANCE SHEET AS AT 31 DECEMBER 2007

2006 US\$'000	2007 US\$'000	Note	2007 RO'000	2006 RO'000
Assets				
102,800	128,392		49,431	39,578
155,844	675,325	7	260,000	60,000
639,758	308,340	8	118,711	246,307
1,342,483	1,454,374	9	559,934	516,856
107,987	102,468	10	39,450	41,575
23,431	80,135	11	30,852	9,021
25,331	60,799	12	23,408	9,752
<u>2,397,634</u>	<u>2,809,833</u>		<u>1,081,786</u>	<u>923,089</u>
Liabilities				
253,628	216,282	13	83,269	97,647
1,778,743	2,108,322	14	811,704	684,816
40,034	64,063	15	24,664	15,413
<u>2,072,405</u>	<u>2,388,667</u>		<u>919,637</u>	<u>797,876</u>
Equity				
196,042	215,644	16	83,023	75,476
67,161	138,665	17	53,386	25,857
62,026	66,857		25,740	23,880
<u>325,229</u>	<u>421,166</u>		<u>162,149</u>	<u>125,213</u>
<u>2,397,634</u>	<u>2,809,833</u>		<u>1,081,786</u>	<u>923,089</u>
<u>US\$ 3.92</u>	<u>US\$ 5.07</u>		<u>RO 1.953</u>	<u>RO 1.508</u>
<u>273,283</u>	<u>550,922</u>	18	<u>212,105</u>	<u>105,214</u>

The financial statements on pages 3 to 45 were approved by the Board of Directors on 31 January 2008 and were signed on their behalf by:

REEM OMAR ZAWAWI
CHAIRPERSON

BIPIN DHARAMSEY NENSEY
DEPUTY CHAIRMAN

The notes set out on pages 7 to 45 form an integral part of these financial statements.

Report of the Auditors – pages 1 and 2.

OMAN INTERNATIONAL BANK SAOG

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

	Share capital RO'000	Legal reserve RO'000	Statutory reserve RO'000	Investment revaluation reserve RO'000	Asset revaluation reserve RO'000	Retained profits RO'000	Total RO'000
At 1 January 2006	62,897	20,966	487	2,596	-	27,346	114,292
Effect of currency translation	-	-	8	(6)	-	9	11
Net amount transferred to profit or loss	-	-	-	132	-	-	132
Net movement in fair values	-	-	-	(951)	=	-	(951)
Total income and expenses for the year directly recorded in equity	-	-	8	(825)	-	9	(808)
Net profit for the year	-	-	-	-	=	26,195	26,195
Total income and expenses for the year	-	-	8	(825)	-	26,204	25,387
Transfer to legal reserve	-	2,625	-	-	-	(2,625)	-
Dividend paid for 2005	-	-	-	-	-	(14,466)	(14,466)
Stock dividend for 2005	12,579	-	-	-	=	(12,579)	-
At 31 December 2006	<u>75,476</u>	<u>23,591</u>	<u>495</u>	<u>1,771</u>	=	<u>23,880</u>	<u>125,213</u>
Effect of currency translation	-	-	63	(61)	-	109	111
Net amount transferred to profit or loss	-	-	-	-	-	-	-
Net movement in fair values	-	-	-	2,973	-	-	2,973
Deferred tax liability on fair values	-	-	-	(438)	=	-	(438)
Total income and expenses for the year directly recorded in equity	-	-	63	2,474	-	109	2,646
Net profit for the year	-	-	-	-	=	28,076	28,076
Total income and expenses for the year	-	-	63	2,474	-	28,185	30,722
Transfer to legal / statutory reserve	-	2,808	120	-	-	(2,928)	-
Transfer to asset revaluation reserve	-	-	-	-	22,064	-	22,064
Dividend paid for 2006	-	-	-	-	-	(15,850)	(15,850)
Stock dividend for 2006	7,547	-	-	-	=	(7,547)	-
At 31 December 2007	<u>83,023</u>	<u>26,399</u>	<u>678</u>	<u>4,245</u>	<u>22,064</u>	<u>25,740</u>	<u>162,149</u>
At 31 December 2007 (US\$'000)	<u>215,644</u>	<u>68,569</u>	<u>1,761</u>	<u>11,026</u>	<u>57,309</u>	<u>66,857</u>	<u>421,166</u>
At 31 December 2006 (US\$'000)	<u>196,042</u>	<u>61,275</u>	<u>1,286</u>	<u>4,600</u>	=	<u>62,026</u>	<u>325,229</u>
Note	16	17(a)	17(b)	17(c)			

The notes set out on pages 7 to 45 form an integral part of these financial statements.

Report of the Auditors - pages 1 and 2.

OMAN INTERNATIONAL BANK SAOG

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

2006 US\$'000	2007 US\$'000	Note	2007 RO'000	2006 RO'000
76,826	82,197	Profit before taxation	31,646	29,578
		Adjustments for:		
2,683	2,309	Depreciation	889	1,033
130	-	Proposed directors' remuneration	-	50
(5,270)	(12,386)	Provision for loan impairment (net of recoveries)	(4,769)	(2,029)
(6,411)	(5,190)	Interest/dividend on investments	(1,998)	(2,468)
		Unrealised losses on foreign exchange contracts and swaps	544	509
1,322	1,413	Profit on disposal of property and equipment	-	(32)
(83)	-	Loss on investments	54	<u>171</u>
<u>445</u>	<u>140</u>	Operating profit before changes in operating assets and liabilities	<u>26,366</u>	26,812
69,642	68,483	Changes in operating assets and liabilities:		
		Cash and balances with central banks	(8,184)	(10,481)
(27,223)	(21,257)	Treasury bills and certificates of deposit	(10,000)	11,280
29,299	(25,974)	Due from other banks	114,958	(134,455)
(349,234)	298,592	Loans and advances	(38,309)	(2,237)
(5,811)	(99,504)	Other assets	(16,317)	(5,546)
(14,405)	(42,382)	Due to banks	(6,196)	50,250
130,519	(16,094)	Deposits from customers	126,888	25,572
66,421	329,579	Other liabilities	<u>7,994</u>	<u>1,489</u>
<u>3,868</u>	<u>20,765</u>	Cash from operations	197,200	(37,316)
(96,924)	512,208	Income taxes paid	<u>(3,339)</u>	<u>(2,979)</u>
<u>(7,738)</u>	<u>(8,673)</u>	Net cash from operating activities	<u>193,861</u>	<u>(40,295)</u>
(104,662)	503,535	Investing activities		
		Purchase of investments	(3,408)	(658)
(1,709)	(8,852)	Purchase of property and equipment	(483)	(1,126)
(2,925)	(1,255)	Proceeds from redemption of investments	10,004	866
2,250	25,984	Income received from investments	4,524	4,644
12,062	11,751	Proceeds from sale of property and equipment	13	35
91	34	Effect of currency translation	<u>(1,448)</u>	<u>(182)</u>
<u>(473)</u>	<u>(3,761)</u>	Net cash from investing activities	<u>9,202</u>	<u>3,579</u>
<u>9,296</u>	<u>23,901</u>	Financing activities		
		Dividend paid	<u>(15,850)</u>	(14,466)
(37,574)	(41,169)	Net cash used in financing activities	<u>(15,850)</u>	<u>(14,466)</u>
<u>(37,574)</u>	<u>(41,169)</u>	Net change in cash and cash equivalents	187,213	(51,182)
(132,940)	486,267	Cash and cash equivalents at the beginning of the year	<u>97,589</u>	<u>148,771</u>
<u>386,418</u>	<u>253,478</u>	Cash and cash equivalents at the end of the year	<u>284,802</u>	<u>97,589</u>
<u>253,478</u>	<u>739,745</u>		21	

The notes set out on pages 7 to 45 form an integral part of these financial statements.

Report of the Auditors - pages 1 and 2.

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

1 Legal status and principal activities

Oman International Bank SAOG (the Bank) is an Omani joint stock company, which was incorporated on 1 January 1979, operating as a commercial bank through a network of branches in the Sultanate of Oman, India and Pakistan. The registered address of the head office of the Bank is P.O. Box 1727, CPO Seeb, Postal Code 111, Sultanate of Oman. The Bank has its shares listed on Muscat Securities Market.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”), the disclosure requirements set out in the Rules for Disclosure and Proformas issued by the Capital Market Authority, the Commercial Company Law of the Sultanate of Oman and the applicable regulations of the Central Bank of Oman (“CBO”). The financial statements are prepared under the historical cost convention as modified by the revaluation of land, available-for-sale investment securities, investments carried at fair value through profit or loss, financial assets and financial liabilities held for trading and all derivative instruments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.23.

The Bank has adopted IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures for the current accounting period.

The Bank will apply IFRS 8, Operating Segments from accounting periods beginning on 1 January 2009.

2.2 Foreign currencies

2.2.1 Functional and presentation currency

Items included in the financial statements of each of the Bank’s entities are measured using the currency of the primary economic environment in which the Bank operates (the functional currency). The financial statements are presented in Rial Omani, which is the functional currency of the primary economic environment in which the Bank operates. The United States Dollar amounts shown in the financial statements have been translated from Rial Omani at the exchange rate of RO 0.385 to each US Dollar, and are shown for the convenience of the reader only.

2.2.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2007

2. Summary of significant accounting policies (continued)

2.2 Foreign currencies (continued)

2.2.3 Translation of financial statements of overseas branches

The assets and liabilities of the overseas branches that have a functional currency other than the Rial Omani are translated into Rial Omani at the period-end rates of exchange. The income and expenses of these overseas branches are translated into Rial Omani at average exchange rates for the period. Differences resulting from the translation of the opening net investment in these overseas branches are taken directly to retained profits.

2.3 Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition.

2.3.1 Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost;
- certain investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit or loss; and
- financial instruments, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit or loss.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in 'other operating income'.

2.3.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the Bank intends to sell immediately or in the short-term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss; (b) those that the Bank upon initial recognition designates as available-for-sale; or (c) those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

2.3.3 Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity.

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

2 Summary of significant accounting policies (continued)

2.3 Financial assets (continued)

2.3.4 Available-for-sale financial assets

Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

2.3.5 Initial and subsequent measurement

Regular-way purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available-for-sale are recognised on trade-date the date on which the Bank commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit 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.

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

2 Summary of significant accounting policies (continued)

2.7 Treasury bills

Treasury bills are classified as held for trading or as loans and receivables. Treasury bills acquired for generating a profit from short-term fluctuations in price or dealer's margin are classified as held for trading and other treasury bills are classified as loans and receivables. Treasury bills held for trading are stated at their fair value based on quoted market prices or amounts derived from cash flow models. Unrealised gains and losses arising from changes in the fair value of treasury bills classified as held for trading are recognised in the income statement as they arise. Treasury bills classified as loans and receivables are stated at their amortised cost.

2.8 Due from banks and money market placements

These are stated at amortised cost using the effective interest method, less any amounts written off and provision for impairment.

2.9 Property and equipment

All property and equipment except freehold land are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Revaluation of freehold land is carried out every three years on an open market value basis by an independent professional valuer. Net surpluses arising on revaluation are credited to a revaluation reserve, except that a revaluation increase is recognized as income to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense. A decrease as a result of a revaluation is recognized as an expense, except that it is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that asset. On disposal the related revaluation surplus is transferred directly to retained earnings. Transfers from revaluation surplus to retained earnings are not made through income statement.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Land is not depreciated. Depreciation is calculated so as to write off the cost of property and equipment, other than freehold land, less their estimated residual values, on a straight-line basis over the estimated useful lives of the assets concerned. Capital work-in-progress is not depreciated until the assets are ready for use. The principal lives adopted for this purpose are:

Freehold buildings	25 years
Equipment, furniture and fixtures	5 years
Motor vehicles	3 - 5 years
Computer software and equipment	3 - 5 years

Leased property is amortised over 20 years or, if shorter, the period of the lease. Improvements to leased property are amortised over five years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

2 Summary of significant accounting policies (continued)

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.

2.11.2 Assets carried at fair value

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, in the case of debt instrument classified as available for sale, the fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

2.12 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

2 Summary of significant accounting policies (continued)

2.13 Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

2.14 Deposits

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

2.15 End of service benefits and leave entitlement

End of service benefits are accrued in accordance with the terms of employment of the Bank's employees at the balance sheet date, having regard to the requirements of the relevant labour laws of the countries in which the Bank operates. Employee entitlements to annual leave are recognised when they accrue to employees and an accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Contributions to a defined contribution retirement plan for Omani employees in accordance with the Omani Social Insurance Scheme are recognised as an expense in the income statement.

2.16 Provisions

Provisions for legal claims are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

2.17 Interest income and interest expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' and 'interest expense' in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Contractual interest is recognised unless collectibility is in doubt. Interest on interest bearing financial assets classified as held for trading or at fair value through profit or loss is recognised on an accrual basis.

2.18 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

2.19 Dividend income

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

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

2 Summary of significant accounting policies (continued)

2.20 Taxation

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

Provision for Oman taxation has been made on the basis of the rates applicable to an Omani Public Joint Stock company. Taxation on the overseas operations is provided on the basis of the relevant taxation laws of the countries in which the Bank operates.

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.21 Segment reporting

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

2.22 Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Bank acts in a fiduciary capacity such as nominee, trustee or agent.

2.23 Critical accounting estimates and judgments

The key assumptions concerning the future and other key sources of estimating uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment losses on loans and advances

The Bank reviews its non performing loans and advances at each balance sheet date to assess whether a provision for impairment should be recorded in the income statement. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future changes to such provisions.

Collective impairment provisions on loans and advances

In addition to specific provisions against individually significant loans and advances, the Bank also makes a collective impairment provision against loans and advances which, although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. This collective provision is based on any deterioration in the internal grade of the loan since it was granted. The amount of the provision is based on the historical loss pattern for loans within each grade and is adjusted to reflect current economic changes.

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

2 Summary of significant accounting policies (continued)

2.24 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.

2.25 Director's remuneration

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

The Annual General Meeting approve the remuneration and the sitting fees for the Board Directors and its sub-committees provided that such fees shall not exceed 5% of the annual net profit after deduction of the legal reserve and the optional reserve and the distribution of dividends to the shareholders provided that such fees shall not exceed RO 200,000. The sitting fees for each director does 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 profit of the Bank is distributed in accordance with the Bank's Memorandum of Association and subject to the approval of the CBO and the shareholders.

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

3 Analysis of other operating income and expenditure

2006 US\$'000	2007 US\$'000		2007 RO'000	2006 RO'000
		Other operating income		
12,561	15,779	Fee and commission income	6,075	4,836
3,413	4,561	Exchange income	1,756	1,314
(445)	(140)	Loss on investments	(54)	(171)
3,995	647	Dividend income	249	1,538
<u>7,728</u>	<u>8,855</u>	Other income	<u>3,409</u>	<u>2,975</u>
<u>27,252</u>	<u>29,702</u>		<u>11,435</u>	<u>10,492</u>
		Other operating expenditure		
		Staff costs:		
210	190	End of service benefits	73	81
998	1,008	Social security and defined contribution plan costs	388	384
<u>24,120</u>	<u>24,932</u>	Salaries and other staff costs	<u>9,599</u>	<u>9,286</u>
25,328	26,130		10,060	9,751
3,657	3,766	Occupancy costs	1,450	1,408
2,683	2,309	Depreciation	889	1,033
		Other operating costs:		
2,496	2,579	Advertisement and publicity	993	961
1,647	1,868	Communication	719	634
1,418	1,387	Insurance	534	546
2,369	2,421	Repairs and maintenance	932	912
<u>6,010</u>	<u>4,732</u>	Others	<u>1,822</u>	<u>2,314</u>
<u>45,608</u>	<u>45,192</u>		<u>17,399</u>	<u>17,559</u>

4 Impact of recoveries / write back

2006 US\$'000	2007 US\$'000		2007 RO'000	2006 RO'000
10,756	15,033	Provision for loan impairment	5,788	4,141
2,865	4,519	Reserved interest	1,740	1,103
485	52	Written-off accounts	20	187
<u>14,106</u>	<u>19,604</u>		<u>7,548</u>	<u>5,431</u>

5 Taxation

The taxation charge for the year is as follows:

2006 US\$'000	2007 US\$'000		2007 RO'000	2006 RO'000
		Oman taxation		
8,787	9,828	- current	3,784	3,383
-	(322)	- prior years	(124)	-
-	(234)	- deferred	(90)	-
<u>8,787</u>	<u>9,272</u>		<u>3,570</u>	<u>3,383</u>

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

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

5 Taxation (continued)

Income tax for the Indian operations has been agreed for all years to 31 March 1989; all subsequent years are subject to agreement by the Tax Authorities. In the tax assessments in respect of these years, the Tax Authorities have not recognised certain exemptions claimed by the Bank, resulting in a tax demand of approximately RO 417,000 which has not been provided in the financial statements. The Bank has lodged an appeal with the Tax Authorities contesting the above decision. The Management believes that the appeal will be successful.

Income tax for the Pakistan operations is yet to be agreed for any period since commencement of operations. The Bank has lodged an appeal with the High Court against the assessments for the years 1996 to 2000.

The tax rates applicable to the Bank is 12% (2006 - 12%). For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be 11.96% (2006 - 11.44%).

The difference between the applicable tax rates of 12% and the effective tax rate of 11.96% arises due to the tax effect of income not considered to be taxable and expenses that are not considered to be deductible. The adjustment are based on the current understanding of the existing laws, regulations and practices.

Deferred tax asset has been computed at the tax rate of 12% (2006 - 12%).

6 Basic earnings per share

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

2006	2007		2007	2006
83,023	83,023	Weighted average number of shares in issue ('000)	83,023	83,023
68,039	72,925	Net profit for the year (US\$'000 / RO'000)	28,076	26,195
0.82	0.88	Basic earnings per share (US\$ / RO)	0.338	0.316

No figure for diluted earnings per share has been presented as the Bank has not issued any instruments which would have an impact on earnings per share when exercised.

7 Treasury bills and certificates of deposit

2006 US\$'000	2007 US\$'000		2007 RO'000	2006 RO'000
<u>155,844</u>	<u>675,325</u>	Certificates of deposit	<u>260,000</u>	<u>60,000</u>
<u>155,844</u>	<u>675,325</u>		<u>260,000</u>	<u>60,000</u>

8 Due from other banks

2006 US\$'000	2007 US\$'000		2007 RO'000	2006 RO'000
613,426	295,868	Placements	113,909	236,169
<u>26,332</u>	<u>12,472</u>	Others	<u>4,802</u>	<u>10,138</u>
<u>639,758</u>	<u>308,340</u>		<u>118,711</u>	<u>246,307</u>

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

9 Loans and advances

2006 US\$'000	2007 US\$'000		2007 RO'000	2006 RO'000
190,722	178,834	Overdrafts	68,851	73,428
1,342,686	1,469,504	Loans	565,759	516,934
6,179	12,621	Bills discounted/purchased	4,859	2,379
1,539,587	1,660,959	Gross loans and advances	639,469	592,741
(101,091)	(94,060)	Provision for loan impairment	(36,213)	(38,920)
(96,013)	(112,525)	Reserved interest	(43,322)	(36,965)
<u>1,342,483</u>	<u>1,454,374</u>	Loans and advances (net)	<u>559,934</u>	<u>516,856</u>

CBO requires provision for loan impairment to be made on the basis of the higher of provision as per International Accounting Standards (IAS) 39 – Financial Instruments: Recognition and Measurement and as per CBO norms on a portfolio basis on the non-performing loans.

CBO also requires as per circular BM 977 a general loan loss provision to cover expected losses, whereas IFRS requires collective impairment based on incurred losses. As per BM 977, the financial statements include a general provision of RO 5.99 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 0.8 million.

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

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

The movement on the provision for loan impairment during 2006 is analysed as follows:

	Specific provision RO'000	General provision RO'000	Total provision RO'000	Total provision US\$'000
At 1 January	34,738	4,977	39,715	103,156
Currency translation effect on opening balance	37	-	37	96
Provided during the year	2,659	743	3,402	8,836
Transfers	100	-	100	260
Released during the year:				
- due to recoveries	(3,011)	-	(3,011)	(7,821)
- due to write back	(1,129)	(1)	(1,130)	(2,935)
Written off during the year	(193)	-	(193)	(501)
At 31 December	<u>33,201</u>	<u>5,719</u>	<u>38,920</u>	<u>101,091</u>

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

9 Loans and advances (continued)

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

2006 US\$'000	2007 US\$'000		2007 RO'000	2006 RO'000
86,000	96,013	At 1 January	36,965	33,110
382	3,454	Currency translation effect on opening balance	1,330	147
16,013	17,582	Unrecognised during the year	6,769	6,165
(2,865)	(4,519)	Transfer to the income statement	(1,740)	(1,103)
<u>(3,517)</u>	<u>(5)</u>	Written-off during the year	<u>(2)</u>	<u>(1,354)</u>
<u>96,013</u>	<u>112,525</u>	At 31 December	<u>43,322</u>	<u>36,965</u>

At 31 December 2007, loans and advances on which interest has not been accrued amounted to RO 77.1 million (2006 – RO 75.1 million). Government soft loans amounting to RO 8.9 million, on which the principal is guaranteed and part of interest serviced by the Government of the Sultanate of Oman, are impaired. Adequate provision for impairment is made for the portion of interest not serviced by the customers.

10 Investments

2006 US\$'000	2007 US\$'000		2007 RO'000	2006 RO'000
270	260	Held for trading	100	104
12,403	12,468	Fair value through profit or loss	4,800	4,775
70,023	54,783	Held-to-maturity	21,092	26,959
<u>25,291</u>	<u>34,957</u>	Available-for-sale	<u>13,458</u>	<u>9,737</u>
<u>107,987</u>	<u>102,468</u>		<u>39,450</u>	<u>41,575</u>

The held for trading investments consist of quoted Oman Government securities of RO 100,000 (2006 – RO 104,000).

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

2006 US\$'000	2007 US\$'000		2007 RO'000	2006 RO'000
<u>12,403</u>	<u>12,468</u>	Quoted – Foreign Government securities	<u>4,800</u>	<u>4,775</u>

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

2006 US\$'000	2007 US\$'000		2007 RO'000	2006 RO'000
53,428	39,201	Quoted – Oman Government securities	15,093	20,570
16,026	15,013	Quoted - Foreign Government securities	5,780	6,170
<u>569</u>	<u>569</u>	Quoted - Other securities, Oman	<u>219</u>	<u>219</u>
<u>70,023</u>	<u>54,783</u>		<u>21,092</u>	<u>26,959</u>

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

10 Investments (continued)

Available-for-sale investments are as follows:

2006 US\$'000	2007 US\$'000	Cost of:	2007 RO'000	2006 RO'000
9,283	10,668	Quoted - Foreign Government securities	4,107	3,574
2,553	3,255	Quoted - Equity and other securities, Oman	1,253	983
<u>8,855</u>	<u>8,870</u>	Unquoted investments	<u>3,415</u>	<u>3,409</u>
20,691	22,793		8,775	7,966
		Revaluation gains/(losses) of:		
(1,244)	(1,509)	Quoted - Foreign Government securities	(581)	(479)
2,216	2,683	Quoted - Equity and other securities, Oman	1,033	853
<u>3,628</u>	<u>10,990</u>	Unquoted investments	<u>4,231</u>	<u>1,397</u>
<u>25,291</u>	<u>34,957</u>		<u>13,458</u>	<u>9,737</u>

11 Property and equipment

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

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

Freehold land owned by the Bank were revalued as of 31 December 2007 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.

If freehold land had been carried at cost, the carrying amount of freehold land and buildings would have been RO 6,620,000 (2006: RO 6,508,000).

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

11 Property and equipment (continued)

The movement in property and equipment for the year 2006 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							
1 January 2006	10,198	2,609	6,598	781	11,789	25	32,000
Currency translation effect on opening balances	38	(1)	1	-	5	-	43
Reclassification	-	(19)	19	-	25	(25)	-
Additions	300	2	167	169	465	23	1,126
Disposals	-	-	(27)	(130)	(2)	-	(159)
31 December 2006	<u>10,536</u>	<u>2,591</u>	<u>6,758</u>	<u>820</u>	<u>12,282</u>	<u>23</u>	<u>33,010</u>
Depreciation							
1 January 2006	3,730	2,467	6,143	669	10,084	-	23,093
Currency translation effect on opening balances	13	(1)	1	1	5	-	19
Reclassification	-	-	-	-	-	-	-
Charge for the year	285	18	189	59	482	-	1,033
Disposals	-	-	(26)	(129)	(1)	-	(156)
31 December 2006	<u>4,028</u>	<u>2,484</u>	<u>6,307</u>	<u>600</u>	<u>10,570</u>	<u>-</u>	<u>23,989</u>
Net book value							
31 December 2006	<u>6,508</u>	<u>107</u>	<u>451</u>	<u>220</u>	<u>1,712</u>	<u>23</u>	<u>9,021</u>
2006 - (US\$'000)	<u>16,904</u>	<u>278</u>	<u>1,171</u>	<u>571</u>	<u>4,447</u>	<u>60</u>	<u>23,431</u>

12 Other assets

2006 US\$'000	2007 US\$'000		2007 RO'000	2006 RO'000
1,179	1,265	Prepaid taxes	487	454
-	234	Deferred tax asset	90	-
1,234	1,826	Other prepayments	703	475
1,582	2,166	Derivative trading assets (note 18 (d))	834	609
12,022	24,713	Cheques for collection and others	9,515	4,628
<u>9,314</u>	<u>30,595</u>	Acceptances	<u>11,779</u>	<u>3,586</u>
<u>25,331</u>	<u>60,799</u>		<u>23,408</u>	<u>9,752</u>

13 Due to banks

2006 US\$'000	2007 US\$'000		2007 RO'000	2006 RO'000
81,364	2,449	Bank borrowings	943	31,325
150,509	151,740	Syndicated borrowings	58,420	57,946
<u>21,755</u>	<u>62,093</u>	Others	<u>23,906</u>	<u>8,376</u>
<u>253,628</u>	<u>216,282</u>		<u>83,269</u>	<u>97,647</u>

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

14 Deposits from customers

2006 US\$'000	2007 US\$'000		2007 RO'000	2006 RO'000
366,504	510,922	Current	196,705	141,104
722,912	809,712	Savings	311,739	278,321
561,652	431,377	Time deposits	166,080	216,236
<u>127,675</u>	<u>356,311</u>	Others	<u>137,180</u>	<u>49,155</u>
<u>1,778,743</u>	<u>2,108,322</u>		<u>811,704</u>	<u>684,816</u>

15 Other liabilities

2006 US\$'000	2007 US\$'000		2007 RO'000	2006 RO'000
9,132	9,930	Provision for income tax	3,823	3,516
-	1,138	Deferred tax liability	438	-
1,577	1,580	End of service benefits	608	607
6,418	6,153	Provision for other expenses	2,369	2,471
2,943	3,475	Derivative trading liabilities (note 18 (d))	1,338	1,133
10,650	11,192	Others	4,309	4,100
<u>9,314</u>	<u>30,595</u>	Acceptances	<u>11,779</u>	<u>3,586</u>
<u>40,034</u>	<u>64,063</u>		<u>24,664</u>	<u>15,413</u>

As per the directives of the Capital Market Authority (CMA) the amount of unpaid dividend which is outstanding for more than six months is required to be transferred to the Investors' Trust Fund established by the CMA. The unpaid dividend amounting to RO 62,473 outstanding for more than six months has been transferred to the Investors' Trust Fund during October 2007 (2006 – RO 33,442).

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

2006 US\$'000	2007 US\$'000		2007 RO'000	2006 RO'000
1,810	1,577	At 1 January	607	697
167	208	Charge for the year	80	64
<u>(400)</u>	<u>(205)</u>	Paid during the year	<u>(79)</u>	<u>(154)</u>
<u>1,577</u>	<u>1,580</u>	At 31 December	<u>608</u>	<u>607</u>

16 Share capital

The share capital of the Bank is divided into 83,023,380 fully paid shares of RO 1 each (2006 - 75,475,800 shares of RO 1 each) against the authorised share capital of 100 million shares of RO 1 each.

Dr Omar Bin Abdul Muniem Al Zawawi, the Bank's founder, holds 8,360,517 shares (2006 - 7,600,470) personally, and this is the only single shareholding in excess of 10%.

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

17 Reserves

Non-distributable reserves

(a) Legal reserve

In accordance with the Commercial Companies Law of Oman 1974, annual appropriations of 10% of the profit for the year, before Directors' remuneration, are made to the legal reserve until the accumulated balance of the reserve is equal to one third of the value of the Bank's paid-up share capital. Accordingly, RO 2,808,000 being 10% of the profit for the year, has been transferred to legal reserve during the year (2006 - RO 2,625,000). This reserve is not available for distribution.

(b) Statutory reserve

Regulations issued on 30 September 2000 by the authority regulating the banking activities in India, in which certain branches operate, require the branches to appropriate 25% of their profits for the year to a statutory reserve, which is not distributable without the prior permission of the regulatory authority. An earlier regulation issued on 27 March 1989, required the branches in India to appropriate 20% of their profits to a statutory reserve until the year 2000. Accordingly, RO 120,000 being 25% of the profit for the year, has been transferred to legal reserve during the year (2006 - RO Nil).

(c) Investment revaluation reserve

Investments revaluation reserve represents fair value changes in available-for-sale financial assets.

18 Contingent liabilities, commitments and derivatives

(a) Letters of credit, guarantees and other commitments

2006 US\$'000	2007 US\$'000		2007 RO'000	2006 RO'000
48,982	107,730	Letters of credit	41,476	18,858
224,301	443,192	Guarantees and performance bonds	170,629	86,356
<u>273,283</u>	<u>550,922</u>		<u>212,105</u>	<u>105,214</u>

(b) Undrawn loan commitments

At 31 December 2007, the Bank had undrawn irrevocable loan commitments amounting to RO 38.33 million (2006 - RO 34.63 million).

(c) Capital commitments

At 31 December 2007, there were capital commitments amounting to RO 1,934,000 (2006 - RO 276,000).

(d) Derivatives

In the ordinary course of business the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price in one or more underlying financial instruments, reference rate or index. Derivative instruments include forwards, futures, swaps and options.

The table below sets out the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

18 Contingent liabilities, commitments and derivatives (continued)

(d) Derivatives (continued)

The notional amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor the credit risk.

31 December 2007:

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

31 December 2006:

	Positive fair value RO 000	Negative fair value RO 000	Notional amount Total RO 000	Notional amounts by term to maturity			
				Up to 1 year RO 000	>1-3 years RO 000	>3-5 years RO 000	Over 5 years RO 000
Derivatives held for trading:							
Interest rate swaps	334	303	25,168	-	5,127	20,041	-
Forward foreign exchange Contracts	275	830	268,502	199,207	20,098	39,728	9,469
Interest rate caps	-	-	4,866	3,326	1,540	-	-
	<u>609</u>	<u>1,133</u>	<u>298,536</u>	<u>202,533</u>	<u>26,765</u>	<u>59,769</u>	<u>9,469</u>
US\$ 000	<u>1,582</u>	<u>2,943</u>	<u>775,418</u>	<u>526,060</u>	<u>69,519</u>	<u>155,244</u>	<u>24,595</u>

Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional amount, for an agreed period of time starting on a specified future date.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, amounts as well as interest differentials are exchanged in different currencies.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

Derivatives held or issued for trading purposes

Most of the Bank's derivative trading activities relate to sales and positioning. Sales activities involve offering products to customers in order to enable them to transfer, modify or reduce current and expected risks. Positioning involves managing positions with the expectation of profiting from favourable movements in prices, rates or indices.

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

18 Contingent liabilities, commitments and derivatives (continued)

(e) Contingencies

As at 31 December 2007, there were certain legal suits pending against the Bank, aggregating to RO 18.4 million (2006: RO 17.5 million). Based on the opinion of the Bank's legal counsel, the Bank's management believes that no liability is expected to arise from these cases and it therefore does not consider it necessary to make any provision in this regard.

19 Financial assets and liabilities

Accounting classifications and fair values as at 31st December 2007

	Trading	Designated at fair value	Held to maturity	Loans and receivables	Available for sale	Other amortized cost	Total carrying amount	Fair value
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with central banks	-	-	-	49,431	-	-	49,431	49,431
Treasury bills and certificates of deposit	-	-	260,000	-	-	-	260,000	260,000
Due from other banks	-	-	-	118,711	-	-	118,711	118,698
Loans and advances	-	-	-	559,934	-	-	559,934	565,050
Investments	<u>100</u>	<u>4,800</u>	<u>21,092</u>	-	<u>13,458</u>	-	<u>39,450</u>	<u>39,069</u>
Total	<u>100</u>	<u>4,800</u>	<u>281,092</u>	<u>728,076</u>	<u>13,458</u>	-	<u>1,027,526</u>	<u>1,032,248</u>

Due to banks	-	-	-	-	-	83,269	83,269	83,269
Deposits from customers	-	-	-	-	-	<u>811,704</u>	<u>811,704</u>	<u>812,025</u>
Total	-	-	-	-	-	<u>894,973</u>	<u>894,973</u>	<u>895,294</u>

	Trading	Designated at fair value	Held to maturity	Loans and receivables	Available for sale	Other amortized cost	Total carrying amount	Fair value
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Cash and balances with central banks	-	-	-	128,392	-	-	128,392	128,392
Treasury bills and certificates of deposit	-	-	675,325	-	-	-	675,325	675,325
Due from other banks	-	-	-	308,340	-	-	308,340	308,306
Loans and advances	-	-	-	1,454,374	-	-	1,454,374	1,467,662
Investments	<u>260</u>	<u>12,468</u>	<u>54,783</u>	-	<u>34,957</u>	-	<u>102,468</u>	<u>101,478</u>
Total	<u>260</u>	<u>12,468</u>	<u>730,108</u>	<u>1,891,106</u>	<u>34,957</u>	-	<u>2,668,899</u>	<u>2,681,163</u>

Due to banks	-	-	-	-	-	216,282	216,282	216,282
Deposits from customers	-	-	-	-	-	<u>2,108,322</u>	<u>2,108,322</u>	<u>2,109,156</u>
Total	-	-	-	-	-	<u>2,324,604</u>	<u>2,324,604</u>	<u>2,325,438</u>

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

19 Financial assets and liabilities (continued)

Accounting classifications and fair values as at 31st December 2006

	Trading	Designated at fair value	Held to maturity	Loans and receivables	Available for sale	Other amortized cost	Total carrying amount	Fair value
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cash and balances with central banks	-	-	-	39,578	-	-	39,578	39,578
Treasury bills and certificates of deposit	-	-	60,000	-	-	-	60,000	60,000
Due from other banks	-	-	-	246,307	-	-	246,307	246,247
Loans and advances	-	-	-	516,856	-	-	516,856	521,109
Investments	<u>104</u>	<u>4,775</u>	<u>26,959</u>	<u>-</u>	<u>9,737</u>	<u>-</u>	<u>41,575</u>	<u>40,993</u>
Total	<u>104</u>	<u>4,775</u>	<u>86,959</u>	<u>802,741</u>	<u>9,737</u>	<u>-</u>	<u>904,316</u>	<u>907,927</u>

Due to banks	-	-	-	-	-	97,647	97,647	97,647
Deposits from customers	-	-	-	-	-	684,816	684,816	684,843
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>782,463</u>	<u>782,463</u>	<u>782,490</u>

	Trading	Designated at fair value	Held to maturity	Loans and receivables	Available for sale	Other amortized cost	Total carrying amount	Fair value
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Cash and balances with central banks	-	-	-	102,800	-	-	102,800	102,800
Treasury bills and certificates of deposit	-	-	155,844	-	-	-	155,844	155,844
Due from other banks	-	-	-	639,758	-	-	639,758	639,603
Loans and advances	-	-	-	1,342,483	-	-	1,342,483	1,353,530
Investments	<u>270</u>	<u>12,403</u>	<u>70,023</u>	<u>-</u>	<u>25,291</u>	<u>-</u>	<u>107,987</u>	<u>106,475</u>
Total	<u>270</u>	<u>12,403</u>	<u>225,867</u>	<u>2,085,041</u>	<u>25,291</u>	<u>-</u>	<u>2,348,872</u>	<u>2,358,252</u>

Due to banks	-	-	-	-	-	253,628	253,628	253,628
Deposits from customers	-	-	-	-	-	1,778,743	1,778,743	1,778,813
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,032,371</u>	<u>2,032,371</u>	<u>2,032,441</u>

20 Fair value information

The following summarises the methods and assumptions used in estimating the fair values of financial assets and liabilities.

Treasury bills, certificates of deposit and due from other banks

The fair value of treasury bills, certificates of deposit and due from other banks which are short-term in nature are estimated to equal their carrying value. For the remainder, the fair values have been determined by discounting the contracted cash flows using market interest rates of instruments of similar nature and maturities.

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

20 Fair value information (continued)

Loans and advances

The estimated fair value of loans whose actual interest rates are materially different from prevailing market interest rates are determined by discounting the contracted cash flows using market interest rates currently charged for similar loans. The fair value of non-performing loans approximates to the book value adjusted for provision for loan impairment. For the remainder, the fair value has been taken at book value as the prevailing interest rates offered on similar loans are not materially different from the actual loan rates.

Investments

The fair value of investments is based on the market value as at the year-end or on amounts derived from cash flow models.

Due to banks

The major portion of the bank borrowings is long-term foreign currency borrowings whose interest rates are linked to LIBOR and hence the fair value is estimated to equal their carrying value. The fair value of bank borrowings which are short-term in nature is estimated to equal their carrying value. For the remainder, the fair values have been determined by discounting the contracted cash flows using market interest rates of borrowings of similar maturities.

Deposits from customers

The fair values of deposits with no stated maturity are assumed to be equal to their carrying value. The estimated fair values of fixed rate deposits are determined by discounting the contracted cash flows using market interest rates currently offered for similar deposits.

Other on-balance sheet financial instruments

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

Off-balance sheet financial instruments

No fair value adjustment is made with respect to credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams materially reflect contractual fees and commissions actually charged at the balance sheet date for agreements of similar credit standing and maturity.

Foreign exchange contracts are valued based on market prices. The market value adjustments in respect of foreign exchange contracts are included in the carrying values of other assets and other liabilities.

21 Cash and cash equivalents

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

2006 US\$'000	2007 US\$'000	Balance sheet items comprise:	2007 RO'000	2006 RO'000
102,800	128,392	Cash and balances with central banks	49,431	39,578
155,844	675,325	Treasury bills and certificates of deposit	260,000	60,000
639,758	308,340	Due from other banks	118,711	246,307
(253,628)	(216,282)	Due to banks	(83,269)	(97,647)
644,774	895,775		344,873	248,238
		Adjustment for items maturing after three months from date of acquisition and restricted balances	(60,071)	(150,649)
(391,296)	(156,030)		284,802	97,589
<u>253,478</u>	<u>739,745</u>			
		Cash and cash equivalents comprise:		
41,663	45,997	Cash and balances with central banks	17,709	16,040
155,844	649,351	Treasury bills and certificates of deposit	250,000	60,000
171,057	138,231	Due from other banks	53,219	65,857
(115,086)	(93,834)	Due to banks	(36,126)	(44,308)
<u>253,478</u>	<u>739,745</u>		284,802	97,589

Subject to approval by Ordinary Annual General Meeting

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

22 Related party transactions

The Bank accepts deposits from its major shareholders, Directors, senior management and their related concerns. The Bank also provides loans and other advances, and other banking services to these parties. These transactions are entered into in the ordinary course of the Bank's business, at normal commercial interest and commission rates. At 31 December, balances with related parties were as follows:

2006 US\$'000	2007 US\$'000		2007 RO'000	2006 RO'000
79,725	161,977	Loans and advances	62,361	30,694
89,434	45,473	Deposits from customers	17,507	34,432
4,288	11,104	Letters of credit, guarantees and other acceptances	4,275	1,651
<u>2,306</u>	<u>2,306</u>	Provision for loans and advances*	<u>888</u>	<u>888</u>

Loans and advances amounting to RO 125,000 (2006: 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 shareholder's Annual General Meetings held on 5 April 2001 and 30 April 2003, respectively.

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

2006 US\$'000	2007 US\$'000		2007 RO'000	2006 RO'000
4,312	5,094	Interest income	1,961	1,660
2,818	1,449	Interest expense	558	1,085
31	60	Other operating income	23	11
		Other operating expenditure:		
1,000	247	advertisement and publicity	95	385
839	701	insurance	270	323
831	818	repairs and maintenance	315	320
1,096	1,103	others	424	422
<u>592</u>	<u>634</u>	Purchase of property and equipment	<u>244</u>	<u>228</u>

Compensation of the key management personnel is as follows:

2006 US\$'000	2007 US\$'000		2007 RO'000	2006 RO'000
701	605	Short-term employee benefits	233	270
<u>37</u>	<u>31</u>	Terminal benefits	<u>12</u>	<u>14</u>
<u>738</u>	<u>636</u>		<u>245</u>	<u>284</u>

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

22 Related party transactions (continued)

Analysis of the related party transactions with related parties or holders of 10% or more of the bank's shares, ("Significant shareholders") or their family members during the year is as follows:

	Director (a) RO'000	Director (b) RO'000	Other directors RO'000	Significant shareholder RO'000	Others RO'000	Total RO'000
As at 31 December 2007						
Loans and advances	11,126	-	470	30,804	19,961	62,361
Deposits from customers	2,120	-	42	5,712	9,633	17,507
Letters of credit, guarantees and other acceptances	36	-	-	1,016	3,223	4,275
Provision for loans and advances	-	-	-	-	888	888
During the year 2007						
Interest income	234	-	19	442	1,266	1,961
Interest expense	39	-	-	290	229	558
Other operating income	-	-	-	2	21	23
Other operating expenditure:						
Advertisement and publicity	-	-	1	93	1	95
Insurance	-	-	-	-	270	270
Repairs and maintenance	-	-	-	225	90	315
Others	7	-	51	275	91	424
Purchase of property and equipment	=	=	=	<u>63</u>	<u>181</u>	<u>244</u>

	Director (a) RO'000	Director (b) RO'000	Other directors RO'000	Significant shareholder RO'000	Others RO'000	Total RO'000
As at 31 December 2006						
Loans and advances	8,751	-	367	4,129	17,447	30,694
Deposits from customers	10,581	-	49	12,185	11,617	34,432
Letters of credit, guarantees and other acceptances	27	-	-	785	839	1,651
Provision for loans and advances	-	-	-	-	888	888
During the year 2006						
Interest income	166	-	16	477	1,001	1,660
Interest expense	178	-	-	552	355	1,085
Other operating income	-	-	-	3	8	11
Other operating expenditure:						
Advertisement and publicity	-	-	-	384	1	385
Insurance	-	-	-	-	323	323
Repairs and maintenance	-	-	-	229	91	320
Others	10	-	86	217	109	422
Purchase of property and equipment	=	=	=	<u>133</u>	<u>95</u>	<u>228</u>

Details are provided separately above where loans and advances relating to an individual Director and/or Significant shareholder and his/her related parties are greater than 5% of the total related party loans and advances. Others represent transactions with parties related to more than one Director, Significant Shareholder and/or key management personnel.

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

23 Geographical distribution of assets and liabilities

A geographical analysis of the assets, liabilities and equity as at 31 December 2007 is as follows:

	Oman RO'000	Other GCC RO'000	OECD countries RO'000	India RO'000	Pakistan RO'000	Others RO'000	Total RO'000
Cash and balances with central banks	32,920	-	-	1,476	15,035	-	49,431
Treasury bills and certificates of deposit	260,000	-	-	-	-	-	260,000
Due from other banks	-	73,284	36,124	9,192	4	107	118,711
Loans and advances	558,098	244	-	173	1,419	-	559,934
Investments	25,323	4,767	14	9,305	-	41	39,450
Property and equipment	29,275	-	-	1,542	35	-	30,852
Other assets	<u>22,088</u>	-	-	<u>1,104</u>	<u>216</u>	-	<u>23,408</u>
Total assets	<u>927,704</u>	<u>78,295</u>	<u>36,138</u>	<u>22,792</u>	<u>16,709</u>	<u>148</u>	<u>1,081,786</u>
Due to banks	1,332	14,178	66,508	20	1,120	111	83,269
Deposits from customers	789,853	-	12	18,899	2,940	-	811,704
Other liabilities	<u>23,941</u>	-	-	<u>650</u>	<u>73</u>	-	<u>24,664</u>
Total liabilities	815,126	14,178	66,520	19,569	4,133	111	919,637
Equity	<u>162,053</u>	-	-	<u>96</u>	-	-	<u>162,149</u>
Total liabilities and equity	<u>977,179</u>	<u>14,178</u>	<u>66,520</u>	<u>19,665</u>	<u>4,133</u>	<u>111</u>	<u>1,081,786</u>

	Oman US\$'000	Other GCC US\$'000	OECD countries US\$'000	India US\$'000	Pakistan US\$'000	Others US\$'000	Total US\$'000
Cash and balances with central banks	85,506	-	-	3,834	39,052	-	128,392
Treasury bills and certificates of deposit	675,325	-	-	-	-	-	675,325
Due from other banks	-	190,347	93,830	23,875	10	278	308,340
Loans and advances	1,449,605	634	-	449	3,686	-	1,454,374
Investments	65,775	12,382	36	24,169	-	106	102,468
Property and equipment	76,039	-	-	4,005	91	-	80,135
Other assets	<u>57,371</u>	-	-	<u>2,867</u>	<u>561</u>	-	<u>60,799</u>
Total assets	<u>2,409,621</u>	<u>203,363</u>	<u>93,866</u>	<u>59,199</u>	<u>43,400</u>	<u>384</u>	<u>2,809,833</u>
Due to banks	3,459	36,826	172,748	52	2,909	288	216,282
Deposits from customers	2,051,567	-	31	49,088	7,636	-	2,108,322
Other liabilities	<u>62,185</u>	-	-	<u>1,688</u>	<u>190</u>	-	<u>64,063</u>
Total liabilities	2,117,211	36,826	172,779	50,828	10,735	288	2,388,667
Equity	<u>420,917</u>	-	-	<u>249</u>	-	-	<u>421,166</u>
Total liabilities and equity	<u>2,538,128</u>	<u>36,826</u>	<u>172,779</u>	<u>51,077</u>	<u>10,735</u>	<u>288</u>	<u>2,809,833</u>

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

23 Geographical distribution of assets and liabilities (continued)

A geographical analysis of the assets, liabilities and equity as at 31 December 2006 is as follows:

	Oman RO'000	Other GCC countries RO'000	OECD countries RO'000	India RO'000	Pakistan RO'000	Others RO'000	Total RO'000
Cash and balances with central banks	23,922	-	-	1,083	14,573	-	39,578
Treasury bills and certificates of deposit	60,000	-	-	-	-	-	60,000
Due from other banks	10,925	88,300	131,125	8,049	5	7,903	246,307
Loans and advances	511,441	831	1,906	353	2,325	-	516,856
Investments	27,362	4,804	13	9,355	-	41	41,575
Property and equipment	7,523	-	-	1,469	29	-	9,021
Other assets	8,603	-	-	1,017	132	-	9,752
Total assets	649,776	93,935	133,044	21,326	17,064	7,944	923,089
Due to banks	15,946	16,128	64,727	104	621	121	97,647
Deposits from customers	662,650	-	16	18,241	3,909	-	684,816
Other liabilities	14,794	-	-	526	93	-	15,413
Total liabilities	693,390	16,128	64,743	18,871	4,623	121	797,876
Equity	125,195	-	-	18	-	-	125,213
Total liabilities and equity	818,585	16,128	64,743	18,889	4,623	121	923,089

	Oman US\$'000	Other GCC countries US\$'000	OECD countries US\$'000	India US\$'000	Pakistan US\$'000	Others US\$'000	Total US\$'000
Cash and balances with central banks	62,135	-	-	2,813	37,852	-	102,800
Treasury bills and certificates of deposit	155,844	-	-	-	-	-	155,844
Due from other banks	28,376	229,351	340,585	20,906	13	20,527	639,758
Loans and advances	1,328,418	2,158	4,951	917	6,039	-	1,342,483
Investments	71,070	12,478	34	24,299	-	106	107,987
Property and equipment	19,540	-	-	3,816	75	-	23,431
Other assets	22,347	-	-	2,641	343	-	25,331
Total assets	1,687,730	243,987	345,570	55,392	44,322	20,633	2,397,634
Due to banks	41,418	41,891	168,122	270	1,613	314	253,628
Deposits from customers	1,721,169	-	42	47,379	10,153	-	1,778,743
Other liabilities	38,426	-	-	1,366	242	-	40,034
Total liabilities	1,801,013	41,891	168,164	49,015	12,008	314	2,072,405
Equity	325,182	-	-	47	-	-	325,229
Total liabilities and equity	2,126,195	41,891	168,164	49,062	12,008	314	2,397,634

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NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

24 Distribution by economic sector

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

2006 US\$'000	2007 US\$'000		2007 RO'000	2006 RO'000
619,015	589,230	Personal and consumer	226,853	238,321
70,709	58,359	Import trade	22,468	27,223
81,431	87,573	Construction	33,716	31,351
89,927	66,709	Financial institutions	25,683	34,622
183,036	286,119	Manufacturing	110,156	70,469
55,834	49,034	Wholesale and retail trade	18,878	21,496
16,881	16,826	Export trade	6,478	6,499
98,943	86,442	Electricity, gas, water, transportation and communication	33,280	38,093
60,868	53,849	Services	20,732	23,434
230,842	316,795	Mining and quarrying	121,966	88,874
32,101	50,023	Others	19,259	12,359
<u>1,539,587</u>	<u>1,660,959</u>		<u>639,469</u>	<u>592,741</u>

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

2006 US\$'000	2007 US\$'000		2007 RO'000	2006 RO'000
722	286	Personal and consumer	110	278
9,940	41,065	Import trade	15,810	3,827
42,148	53,764	Construction	20,699	16,227
184,151	405,416	Financial institutions	156,085	70,898
10,896	12,784	Manufacturing	4,922	4,195
6,719	9,979	Wholesale and retail trade	3,842	2,587
21	26	Export trade	10	8
2,821	5,668	Electricity, gas, water, transportation and communication	2,182	1,086
3,808	4,784	Services	1,842	1,466
766	314	Mining and quarrying	121	295
<u>11,291</u>	<u>16,836</u>	Others	<u>6,482</u>	<u>4,347</u>
<u>273,283</u>	<u>550,922</u>		<u>212,105</u>	<u>105,214</u>

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

25 Geographical segment information

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

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

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

A geographical analysis of key financial data by location of primary assets as at 31 December 2006 is set out below:

	Oman RO'000	Others RO'000	Consolidation adjustments RO'000	Total RO'000
Revenue from customers	61,379	1,643	-	63,022
Internal revenue	24	140	(164)	-
Segment result	26,452	(257)	-	26,195
Assets	912,961	38,840	(28,712)	923,089
Liabilities	787,509	25,341	(14,974)	797,876
Capital expenditure	1,091	35	-	1,126
Depreciation	915	118	-	1,033
Provision for loan impairment	3,241	161	-	3,402

	Oman US\$'000	Others US\$'000	Consolidation adjustments US\$'000	Total US\$'000
Revenue from customers	159,426	4,268	-	163,694
Internal revenue	62	364	(426)	-
Segment result	68,706	(667)	-	68,039
Assets	2,371,327	100,884	(74,577)	2,397,634
Liabilities	2,045,478	65,821	(38,894)	2,072,405
Capital expenditure	2,834	91	-	2,925
Depreciation	2,377	306	-	2,683
Provision for loan impairment	8,418	418	-	8,836

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

25 Geographical segment information (continued)

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

	Oman RO'000	Others RO'000	Total RO'000
Revenue from customers	53,711	14,303	68,014
	Oman US\$'000	Others US\$'000	Total US\$'000
Revenue from customers	139,509	37,151	176,660

A geographical analysis of revenue by location of customers as at 31 December 2006 is set out below:

	Oman RO'000	Others RO'000	Total RO'000
Revenue from customers	55,882	7,140	63,022
	Oman US\$'000	Others US\$'000	Total US\$'000
Revenue from customers	145,149	18,545	163,694

26 Business segment information

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

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

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

An analysis of key financial data by business segment as at 31 December 2006 is set out below:

	Retail RO'000	Corporate RO'000	Treasury & Investments RO'000	Common RO'000	Total RO'000
Revenue from customers	27,757	17,282	15,134	2,849	63,022
Assets	228,456	292,103	341,110	61,420	923,089
Capital expenditure	-	-	-	1,126	1,126

	Retail US\$'000	Corporate US\$'000	Treasury & Investments US\$'000	Common US\$'000	Total US\$'000
Revenue from customers	72,096	44,888	39,309	7,401	163,694
Assets	593,392	758,709	886,000	159,533	2,397,634
Capital expenditure	-	-	-	2,925	2,925

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

27 Dividend per share

The Board of Directors at the forthcoming Annual General meeting will propose 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 do not reflect these dividends, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2008.

28 Risk Management

28.1 Introduction and overview

The primary objective of the Risk Management system is to safeguard the Bank's capital, its financial resources and profitability from various risks. The Bank's risk management policies are designed to identify and analyze all risks, to set appropriate risk limits and controls, to measure and monitor the same through reliable management information systems.

The Bank has exposure to the following major risks from its business

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

Risk Management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. Risk Management policies and systems are established to identify and analyze risks faced by the Bank. The Bank has established Asset and Liability (ALCO) Committee, Credit and Operational Risk Committees which are responsible for developing and monitoring risk management policies. The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by Internal Audit which undertakes regular and ad-hoc reviews, the results of which are reported to the Audit Committee. The Board monitors the risk and receives reports which allow it to review the effectiveness of the risk management policies.

Management is responsible for:

- Developing and recommending policies and risk management practices /processes for approval by the Board of Directors.
- Ensuring that business activities are conducted in accordance with the approved policies and processes.
- Establishing and maintaining data systems and methods capable of providing timely and accurate measurement of risks in each business category.
- Ensuring the development of board and management reports and reporting procedures /disciplines that provide meaningful business information, in analyzed form, useful to decision makers.

The Risk Management Department oversees the risk management of the Bank. Risk Management through its policies and procedures maps the key risks that threaten achievement of the Bank's objectives. Ownership and implementation of the risk policies and procedures lie with the business units.

28.2 Credit Risk

Credit Risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loan and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

28 Risk Management (continued)

28.2 Credit risk (continued)

28.2.1 Management of Credit Risk

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

- Formulating credit policies
- Establishing the authorization structure
- Reviewing and assessing credit risk
- Limiting concentration of exposure to counterparties
- Developing and maintaining the Bank's risk grading
- Reviewing compliance of business units
- Providing advice, guidance and specialist skills to promote best practice in the management of credit risk.

28.2.2 Credit Approval Process

The Credit process requires all credit applications from Corporate & Commercial Banking unit to be independently reviewed by Risk Management department. The Risk Credit Committee (RCC) of the Management approves applications within its delegated limits and recommends applications above its delegated limit to the Board Credit Committee.

All Retail applications in excess of the Branch Manager's authority or outside pre-defined product norms are approved by the Credit Sanctioning Unit at Head Office.

28.2.3 Collateral and Credit Enhancements

The Bank obtains collaterals for all corporate credits, unless the business case warrants clean lending.

Personal loan borrowers are required to provide guarantors as additional security. For housing loans and auto loans, besides the salary assignments, the underlying asset is mortgaged.

28.2.4 Large exposures and Concentration

Exposure to a person, company or group (ie the Single Borrower Lending Limit - SBLL) is restricted to maximum 15 % of the Bank's net worth or 10 % of the Bank's net worth for senior members in Management. In addition, the total of all facilities granted to senior members in Management of the Bank must not exceed 35 % of the Bank's net worth.

28.2.5 Credit quality of Loans and Advances

All loans and advances in the Bank are classified according to asset quality. Standard accounts include all facilities which demonstrate good financial condition, risk factors and capacity to repay in line with the original terms of sanction. These are not currently subdivided but this will be a feature of future policy.

Accounts categorized as "Specially Mentioned" carry no impairment provision but are below standard and require monitoring for reason of one or more adverse factors. This may for example relate to poor profitability, low tangible net worth, deteriorating business prognosis or doubts about the ownership.

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

28 Risk Management (continued)

28.2 Credit risk (continued)

28.2.6 Impaired Loans

Impaired loans are those loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms.

Impairment allowance is calculated by discounting the expected future cash flows at the contracted rate of interest and determining the fair value of the assets. This is measured against the provision requirements in terms of CBO methodology. The impairment provision held by the Bank is the higher of the two methodologies on a portfolio basis. Interest is suspended on all impaired loans.

The CBO as per circular BM 977 requires Banks either to establish a general loan loss provision to cover expected losses amounting to 2 % of their personal loan portfolio and 1 % of the corporate loan portfolio or develop its own provisioning model.

A model was developed and certified by Oliver Wyman, a leading international firm on financial services strategy and risk management consultancy. The model is a combination of three sub models: a corporate loan probability of default (PD) model, a personal loan PD model, and a Loss given default (LGD) model. From these foundations, a cycle – average expected loss model was developed that will be an effective tool for forecasting the appropriate level of general provisions necessary to safeguard the Bank's balance sheet against expected losses .

28.2.7 Credit Administration

Credit Administration Department ensures that security documentation of loans and advances are perfected to protect the Bank's interest. The department is responsible for maintaining all limits and disbursements. This segregation ensures that the credit marketing function and credit operations are independent and control is effectively exercised

The Bank has adopted the Standard Approach under Basel II for credit risk.

28.2.8 Exposure to Credit risk

	Loans and advances		Due from other banks		Investments	
	2007 RO'000	2006 RO'000	2007 RO'000	2006 RO'000	2007 RO'000	2006 RO'000
Individually impaired	77,087	75,131	-	-	-	-
Allowance for impairment	(73,543)	(70,166)	=	=	=	=
Carrying amount	3,544	4,965	=	=	=	=
Past due and not impaired	23,569	23,434	=	=	=	=
Neither past due nor impaired	532,821	488,457	118,711	246,307	39,450	41,575
Total carrying amount	559,934	516,856	118,711	246,307	39,450	41,575

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

28 Risk Management (continued)

28.2 Credit risk (continued)

28.2.8 Exposure to Credit risk (continued)

	Loans and advances		Due from other banks		Investments	
	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000
Individually impaired	200,226	195,145	-	-	-	-
Allowance for impairment	(191,021)	(182,249)	=	=	=	=
Carrying amount	9,205	12,896	=	=	=	=
Past due and not impaired	61,218	60,868	=	=	=	=
Neither past due nor impaired	1,383,951	1,268,719	308,340	639,758	102,468	107,987
Total carrying amount	1,454,374	1,342,483	308,340	639,758	102,468	107,987

The Bank holds collateral against loans and advances in the form of deposits, mortgage over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at regular intervals as per the policies and procedures of the Bank. Collateral usually is not held against due to banks and investment securities, and no such collateral was held at 31 December 2007 or 2006.

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

Loans and advances			Loans and advances	
2006 US\$'000	2007 US\$'000		2007 RO'000	2006 RO'000
		Against individually impaired		
24,436	18,169	Property	6,995	9,408
3	5	Equities	2	1
390	397	Deposits	153	150
=	52	Guarantees (Sovereign/Bank)	20	-
<u>24,829</u>	<u>18,623</u>	Total	<u>7,170</u>	<u>9,559</u>
		Against past due but not impaired		
5,899	4,138	Property	1,593	2,271
-	844	Equities	325	-
2,286	1,997	Deposits	769	880
<u>30,184</u>	<u>22,478</u>	Guarantees (Sovereign/Bank)	<u>8,654</u>	<u>11,621</u>
<u>38,369</u>	<u>29,457</u>	Total	<u>11,341</u>	<u>14,772</u>
		Against neither past due nor impaired		
54,418	49,303	Property	18,982	20,951
29,930	22,917	Debt Securities	8,823	11,523
3,202	852	Equities	328	1,233
55,348	75,416	Deposits	29,035	21,309
<u>10,179</u>	<u>215,249</u>	Guarantees (Sovereign/Bank)	<u>82,871</u>	<u>3,919</u>
<u>153,077</u>	<u>363,737</u>	Total	<u>140,039</u>	<u>58,935</u>
<u>216,275</u>	<u>411,817</u>	Total Securities	<u>158,550</u>	<u>83,266</u>

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

28 Risk Management (continued)

28.2 Credit risk (continued)

28.2.8 Exposure to Credit risk (continued)

Concentrations arise when a number of counter parties are engaged in similar business activities, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry.

The Bank monitors concentration of credit risk by business sectors. An analysis of the concentration of credit risk at the reporting date is as follows:

	Loans and advances		Due from other banks		Investments	
	2007 RO'000	2006 RO'000	2007 RO'000	2006 RO'000	2007 RO'000	2006 RO'000
Concentration by sector:						
Sovereign	-	-	-	-	29,299	34,714
Corporate	342,709	288,400	-	-	-	-
Banks	-	-	118,711	246,307	219	219
Retail	217,225	228,456	-	-	-	-
Equity	-	-	-	-	9,932	6,642
Carrying amount	<u>559,934</u>	<u>516,856</u>	<u>118,711</u>	<u>246,307</u>	<u>39,450</u>	<u>41,575</u>

	Loans and advances		Due from other banks		Investments	
	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000	2007 US\$'000	2006 US\$'000
Concentration by sector:						
Sovereign	-	-	-	-	76,101	90,166
Corporate	890,152	749,091	-	-	-	-
Banks	-	-	308,340	639,758	569	569
Retail	564,222	593,392	-	-	-	-
Equity	-	-	-	-	25,798	17,252
Carrying amount	<u>1,454,374</u>	<u>1,342,483</u>	<u>308,340</u>	<u>639,758</u>	<u>102,468</u>	<u>107,987</u>

28.3 Liquidity and funding management

Liquidity risk is the possibility that the Bank may be unable to meet its liabilities as they become due for payment without incurring excessive cost. The liquidity risk arises generally due to mismatch in the timing of inflows and outflows of funds. Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

The objective of the Bank's liquidity and funding management is to ensure that all funding commitments and deposits withdrawals can be met when due. It is the Bank's objective to maintain a diversified and stable funding base mainly comprising core retail deposits and corporate deposits and institutional balances. Portfolios of highly liquid assets, which are diversified by currency and maturity, are maintained with the objective of enabling the Bank to respond quickly and smoothly to unforeseen liquidity requirements.

The management of liquidity and funding is carried out in accordance with the practices and limits set by the Board and in line with the guidelines issued by CBO. The Bank has adopted the duration gap analysis with behavioral pattern for monitoring liquidity. The Treasury Department of the Bank is responsible for liquidity management under the guidance and supervision of ALCO. ALCO meets periodically to monitor funding strategies, liquidity planning, prudential limits etc.

Subject to approval by Ordinary Annual General Meeting

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

28 Risk Management (continued)

28.3 Liquidity and funding management (continued)

The Bank's liquidity and funding management process includes:

- Projecting cash flows by major currency and considering maintenance of liquid assets necessary in relation thereto;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- Monitoring depositor concentration with particular thrust to stable retail deposits complemented by corporate and institutional deposits.

Current accounts and savings deposits form a significant part of the Bank's funding. More importance is given by the Bank on maintaining the stability of these deposits. The stability of deposits, which are the primary source of funding, depends upon maintaining depositors' confidence in the Bank's capital strength and liquidity and on competitive and transparent deposit-pricing strategies.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash, treasury bills and certificate of deposits, and due from other banks less any due to banks and other borrowings maturing within the next three months. Details of the ratio of net liquid assets to deposits from customers at the reporting date was as follows:

At 31 December	2007 48.23%	2006 43.96%
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Residual contractual maturities of financial liabilities

	Carrying amount	Gross nominal outflow	Up to 1 year	1-3 years	>3-5 years	Over 5 years
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2007						
Non-derivative liabilities						
Due to banks	83,269	92,980	24,694	-	68,286	-
Deposit from customers	811,704	821,660	481,027	82,147	99,391	159,095
Unrecognized loan commitments	38,331	38,331	24,782	13,549	-	-
	Carrying amount	Gross nominal outflow	Up to 1 year	1-3 years	>3-5 years	Over 5 years
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
31 December 2007						
Non-derivative liabilities						
Due to banks	216,282	241,506	64,140	-	177,366	-
Deposit from customers	2,108,322	2,134,182	1,249,421	213,369	258,158	413,234
Unrecognized loan commitments	99,561	99,561	64,369	35,192	-	-

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

28 Risk Management (continued)

28.3 Liquidity and funding management (continued)

Exposure to liquidity risk (continued)

Residual contractual maturities of financial liabilities (continued)

	Carrying amount	Gross nominal outflow	Up to 1 year	1-3 years	>3-5 years	Over 5 years
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
31 December 2006						
Non-derivative liabilities						
Due to banks	97,647	111,838	39,329	-	72,509	-
Deposit from customers	684,816	691,402	426,453	78,428	71,447	115,074
Unrecognized loan commitments	34,443	34,443	32,656	1,787	-	-

	Carrying amount	Gross nominal outflow	Up to 1 year	1-3 years	>3-5 years	Over 5 years
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
31 December 2006						
Non-derivative liabilities						
Due to banks	253,628	290,488	102,153	-	188,535	-
Deposit from customers	1,778,743	1,795,849	1,107,670	203,709	185,577	298,894
Unrecognized loan commitments	89,462	89,462	84,821	4,641	-	-

The table above shows the undiscounted cash flows of the Bank's financial liabilities and unrecognized loan commitments on the basis of their earliest possible contractual maturity. The Bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand and savings deposits from customers are expected to maintain a stable or increase balance.

28.4 Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Bank's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

28.4.1 Management of market risks

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios include positions arising from market making and proprietary positions together with financial assets and liabilities that are managed on a fair value basis. The management has set in place various limits as tool to control the risk and it is monitored by Risk Management Department.

OMAN INTERNATIONAL BANK SAOG

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

28 Risk Management (continued)

28.4 Market risks (continued)

28.4.1 Management of market risks (continued)

Overall authority for market risk is vested in ALCO. Risk Management is responsible for the development of detailed risk management policies, subject to review and approval by ALCO/Board and for the day-to-day review of their implementation. As a risk control mechanism limits are put in place for foreign exchange open positions. Positions are managed and monitored on an on going basis by the Treasury. Periodical reporting is made to ALCO who deliberate on the issue and give necessary guidance to Treasury.

The Bank had the following significant net exposures denominated in foreign currencies as at 31 December:

	Assets FCY'000	Liabilities FCY'000	Forward		Net exposure 2007 FCY'000	Net exposure 2007 RO'000	Net exposure 2006 RO'000
			Purchases FCY'000	Sales FCY'000			
US Dollars	864,795	434,628	96,372	424,142	102,397	39,423	28,758
Indian Rupees	1,515,881	1,518,451	4,500	1,700	230	2	32
Others						<u>1,454</u>	<u>247</u>
						<u>40,879</u>	<u>29,037</u>

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

28.4.2 Exposure to interest rate risk-non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed through monitoring interest rate gaps. The ALCO is the monitoring body for compliance with various limits and is assisted by Risk Management in its day-to-day monitoring activities. Monitoring is carried out through the statement of interest rate sensitivity with impact study on any change in the movement in interest.

Interest rate risk is the sensitivity of the Bank's financial condition to movements in interest rates. Mismatches or gaps in the amount of assets, liabilities and off-balance sheet instruments can generate interest rate risk, the impact of which is a function of the interest rate changes and the maturity profile of the assets and liabilities. Positions are monitored regularly and hedging strategies are used to manage the interest rate risk.

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NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

28 Risk Management (continued)

28.4 Market risks (continued)

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

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

	Effective interest rate %	Less than 6 months RO'000	6 to 12 months RO'000	Over 12 months RO'000	Non-interest sensitive RO'000	Total RO'000
Assets						
Cash and balances with central banks		-	-	-	49,431	49,431
Treasury bills and certificates of deposit	3.25	250,000	-	10,000	-	260,000
Due from other banks	5.12	108,849	3,510	1,098	5,254	118,711
Loans and advances	6.02	288,271	17,081	251,719	2,863	559,934
Investments	4.12	<u>5,810</u>	<u>1,702</u>	<u>22,006</u>	<u>9,932</u>	<u>39,450</u>
Total		<u>652,930</u>	<u>22,293</u>	<u>284,823</u>	<u>67,480</u>	<u>1,027,526</u>
Liabilities						
Due to banks	4.35	58,921	-	-	24,348	83,269
Deposits from customers	2.36	<u>328,156</u>	<u>44,085</u>	<u>27,256</u>	<u>412,207</u>	<u>811,704</u>
Total		<u>387,077</u>	<u>44,085</u>	<u>27,256</u>	<u>436,555</u>	<u>894,973</u>
Interest sensitivity gap		265,853	(21,792)	257,567		

	Effective interest rate %	Less than 6 months US\$'000	6 to 12 months US\$'000	Over 12 months US\$'000	Non-interest sensitive US\$'000	Total US\$'000
Assets						
Cash and balances with central banks		-	-	-	128,392	128,392
Treasury bills and certificates of deposit	3.25	649,351	-	25,974	-	675,325
Due from other banks	5.12	282,725	9,117	2,852	13,646	308,340
Loans and advances	6.02	748,756	44,366	653,816	7,436	1,454,374
Investments	4.12	<u>15,090</u>	<u>4,421</u>	<u>57,158</u>	<u>25,799</u>	<u>102,468</u>
Total		<u>1,695,922</u>	<u>57,904</u>	<u>739,800</u>	<u>175,273</u>	<u>2,668,899</u>
Liabilities						
Due to banks	4.35	153,042	-	-	63,240	216,282
Deposits from customers	2.36	<u>852,353</u>	<u>114,506</u>	<u>70,795</u>	<u>1,070,669</u>	<u>2,108,323</u>
Total		<u>1,005,395</u>	<u>114,506</u>	<u>70,795</u>	<u>1,133,909</u>	<u>2,324,605</u>
Interest sensitivity gap		690,527	(56,602)	669,005		

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NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

28 Risk Management (continued)

28.4 Market risks (continued)

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

The Bank's interest sensitivity position based on contractual repricing arrangements or maturity at 31 December 2006 was as follows:

	Effective Interest rate %	Less than 6 months RO'000	6 to 12 months RO'000	Over 12 months RO'000	Non-interest sensitive RO'000	Total RO'000
Assets						
Cash and balances with central banks		-	-	-	39,578	39,578
Treasury bills and certificates of deposit	3.53	60,000	-	-	-	60,000
Due from other banks	5.07	235,911	957	2,814	6,625	246,307
Loans and advances	6.77	269,266	20,224	216,814	10,552	516,856
Investments	4.19	898	9,047	24,537	7,093	41,575
Total		<u>566,075</u>	<u>30,228</u>	<u>244,165</u>	<u>63,848</u>	<u>904,316</u>
Liabilities						
Due to banks	4.79	86,656	2,000	-	8,991	97,647
Deposits from customers	2.34	239,523	76,933	13,973	354,387	684,816
Total		<u>326,179</u>	<u>78,933</u>	<u>13,973</u>	<u>363,378</u>	<u>782,463</u>
Interest sensitivity gap		239,896	(48,705)	230,192		

	Effective Interest rate %	Less than 6 months US\$'000	6 to 12 months US\$'000	Over 12 months US\$'000	Non-interest sensitive US\$'000	Total US\$'000
Assets						
Cash and balances with central banks		-	-	-	102,800	102,800
Treasury bills and certificates of deposit	3.53	155,844	-	-	-	155,844
Due from other banks	5.07	612,756	2,486	7,309	17,207	639,758
Loans and advances	6.77	699,392	52,530	563,153	27,408	1,342,483
Investments	4.19	2,331	23,499	63,732	18,425	107,987
Total		<u>1,470,323</u>	<u>78,515</u>	<u>634,194</u>	<u>165,840</u>	<u>2,348,872</u>
Liabilities						
Due to banks	4.79	225,081	5,195	-	23,352	253,628
Deposits from customers	2.34	622,138	199,826	36,294	920,485	1,778,743
Total		<u>847,219</u>	<u>205,021</u>	<u>36,294</u>	<u>943,837</u>	<u>2,032,371</u>
Interest sensitivity gap		623,104	(126,506)	597,900		

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. The impact of incremental 100 basis points parallel fall or rise in all yield curves worldwide at the beginning of the year on net interest income for the next 12 months is as follows:

	100 bp parallel increase RO'000	100 bp parallel decrease RO'000	100 bp parallel increase US\$ 000	100 bp parallel decrease US\$ '000
At 31 December 2007	2,172	(2,172)	5,642	(5,642)
At 31 December 2006	1,755	(1,755)	4,558	(4,558)

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NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

28 Risk Management (continued)

28.5 Operational risks

28 Risk Management (continued)

28.5 Operational risks

Operational risks are the risk of direct or indirect loss arising as a result of operational errors, fraud, lapse or absence of proper procedures or controls. They range from the large scale (failure to maintain a proper business continuity site in the event of major business disruption) to the small scale (maintaining proper dual control and checking) but they all have the potential to disrupt the business: often in unpredictable ways. These risks also include, loss of reputation, failure to comply with laws and regulations, operating outside of an accepted code of business conduct and ethics and lapses in proper corporate governance.

The Bank has an Operational Risk policy and an Operational Manual, supported by Desk Top Procedures updated by Quality Assurance Department. Personnel Policies and Procedures manual and Code of Conduct and Ethical Standards and Directors Handbook address the various requirements to mitigate risks.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit which include:

- Segregation of duties, including the independent authorization of transactions
- Reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirement
- Documentation of controls and procedures
- Periodic assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified
- Reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation including insurance where effective

The Risk Committee which includes Senior Management of the Bank and Chaired by the General Manager, meets once a month to review the risk concerns / risk mitigation across the Bank, with follow up on the issues discussed at the previous meeting.

Compliance is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with submission to the Audit Committee and senior management of the Bank.

28.6 Capital Management

28.6.1 Regulatory Capital

The CBO sets and monitors capital requirements for the Bank. The overseas branches are directly supervised by their local regulators. In implementing current capital requirements, the CBO requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets in line with Basel II requirements effective 1 January 2007.

The Banks regulatory capital is analysed into two tiers:

Tier 1 capital, which includes ordinary share capital, retained earnings, after deduction for other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes, such as fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

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NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2007

28 Risk Management

28.6 Capital Management (continued)

28.6.1 Regulatory Capital (continued)

The Bank's policy is to maintain a strong capital base so as to maintain investor, deposit and market confidence and to sustain future business developments. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between returns and the security offered by a strong capital position. There have been no material changes in the Bank's management of capital during the period.

The Bank's regulatory capital position at 31 December was as follows:

2006 US\$'000	2007 US\$'000		2007 RO'000	2006 RO'000
		Tier 1 capital		
196,042	215,644	Ordinary share capital	83,023	75,476
62,561	70,330	Legal reserve	27,077	24,086
62,026	21,570	Retained earnings	8,305	23,880
-	(3,561)	Other regulatory adjustments	(1,371)	-
<u>320,629</u>	<u>303,983</u>	Total	<u>117,034</u>	<u>123,442</u>
		Tier 2 capital		
4,600	5,683	Fair value reserve for available-for-sale equity securities	2,188	1,771
14,855	15,564	Collective allowances for impairment	5,992	5,719
-	(800)	Other regulatory adjustments	(308)	-
<u>19,455</u>	<u>20,447</u>	Total	<u>7,872</u>	<u>7,490</u>
<u>340,083</u>	<u>324,430</u>	Total regulatory capital	<u>124,906</u>	<u>130,932</u>
		Risk-weighted assets		
1,542,291	1,727,223	Banking book	664,981	593,782
-	220,984	Operational risk	85,079	-
-	140,423	Market risk	54,063	-
<u>1,542,291</u>	<u>2,088,630</u>	Total risk-weighted assets	<u>804,123</u>	<u>593,782</u>
		Capital ratios		
22.05	15.53	Total regulatory capital expressed as a percentage of total risk-weighted assets	15.53	22.05
21.09	14.55	Total tier 1 capital expressed as a percentage of risk-weighted assets	14.55	21.09

The Capital requirements as at 31 December 2006 given above is as per Basel I.

29. Comparative balances

The corresponding figures of 2006 included for comparative purposes have been reclassified to conform with the presentation in the current period. An amount of RO 11.8 million in respect of acceptances (2006: RO 3.6 million), which was previously disclosed as an off-balance sheet item, have been included in other assets and other liabilities in accordance with revised IAS-39.