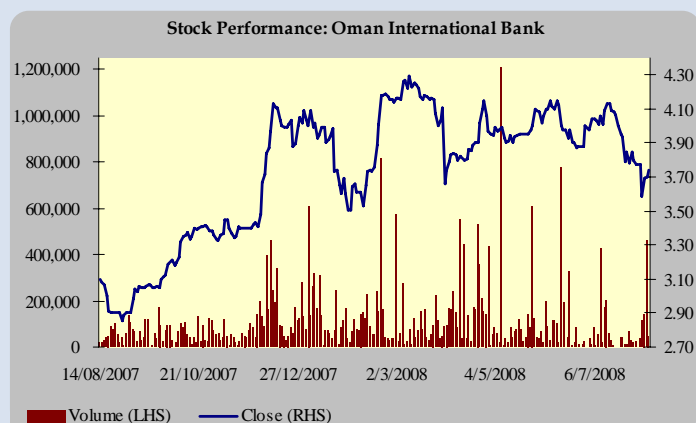


Oman International Bank: H1 2008

Company	Oman International Bank
CMP (RO)	3.743
Ticker	OIBB
Established	Jan-79
Industry	Banking
Shares outstanding	91,325,718
Market Cap. (RO)	341,832,162

Price History



Financial Summary

(RO '000)	H1 2008	H1 2007	% Change
Interest income	22,338	28,268	-21.0%
Interest Expense	(7,994)	(12,013)	-33.5%
Other Income	9,018	4,891	84.4%
Net profit	15,363	13,054	17.7%
Loans & Advances	564,849	478,194	18.1%
Deposits from Customers	814,806	783,113	4.0%
Share Capital	91,325	83,023	10.0%
Total Assets	1,075,853	1,003,890	7.2%
Basic EPS	0.168	0.157	7.0%
P/E Ratio	11.9	12.7	-6.5%
Int. earned (% annualized)	4.3%	5.7%	-24.5%
Cost of funds (% annualized)	1.7%	2.6%	-33.2%

Source: Company Financials, Al Madina Research

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Preview: H1 2008

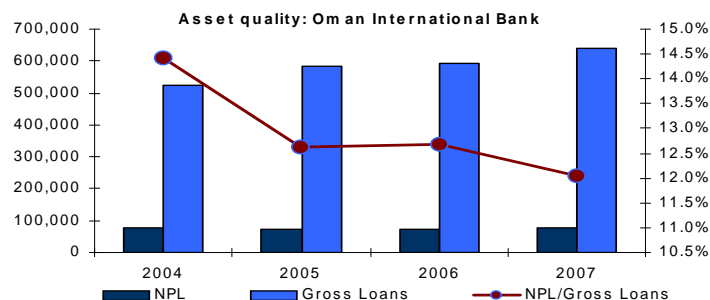
For the six months ended 30th June 2008, Oman International Bank has reported a net profit of RO. 15.36 million, growth of 17.7% over the same period last year (RO. 13.0 million). The net interest income has decreased by 11.8% (y-o-y) to RO 14.3 million. The bank has witnessed improved earnings from the non-interest income, which achieved a growth of 84.3% (y-o-y).

Company & Industry Overview

Established January 1, 1979, Oman International Bank is the fourth largest bank in Oman in terms of market capitalization. It is among the first few 100% Omani owned commercial banks in the country. OIB operates through a large network of 86 branches and have international presence marked by a branch each in India and Pakistan.

The Banking system has been awash with liquidity lately. Total outstanding credit extended by the commercial banks in the country has risen by 49.7% (y-o-y) to RO. 7.503 billion as of April 2008. At the same time total deposits held by commercial banks increased by 42.0% (y-o-y) to reach RO 7.49 billion. With the entry new banks over the past year the competitive environment has eroded interest rates. Lending rates on Rial Omani have reduced from 7.41% in April 2007 to 6.83% as of April 2008. at the same time deposit rates have fallen from 1.84% in April 2007 to 1.71% as of April 2008. Essentially the spread earned has declined to 5.12%.

As of 30th June 2008, we notice a decline in the gross loan book to RO. 628.7 mn from RO. 639.4 mn recorded at the end of 2007. Some early repayments have occurred during the period. At the same time the Bank's NPL coverage still remains solid at 102.3%. The NPLs stand at 9.8% of overall average gross loans. Recovery attempts on these have been successful for the first half at RO. 3.99 million. Deposits have grown to marginally over year 2007 levels to RO. 814.2 million for the period.



The excess liquidity in the local economy and increased competition has eaten away into the Bank's spread for the period. As of 31st March 2008, the spread earned on its

interest bearing assets have reduced to 2.56%. This compares to a spread of 3.09% earned corresponding period last year. The Bank's net interest income continues to decline which is an issue of concern. The Bank attributes this mainly to the excess liquidity situation and the changing banking regulations. The Bank's non-interest has seen some improvement for the first half of 2008. Comprising mainly of investment income and fee & commission income, the non-interest income is up 84.3% (y-o-y) to RO. 9.01 million.

The Bank is making efforts to increase its loan book to augment its topline growth. During the period the Bank has introduced housing and car loan schemes as part of its efforts to strengthen its Retail business. In the Commercial segment the core theme remains to focus on project finance in the sectors of infrastructure development, tourism and oil & gas. In the International arena the Bank continues to attempt recoveries for its India operations at the same time exercising prudence in Pakistan. In Pakistan the Bank has recently opened a new branch in Gwadar apart from existing branches in Lahore and Karachi. As per the financials, the Bank's operations outside Oman have suffered a minor setback for the 6m ended 30th June 2008 with a loss of RO. 259K.

Quarterly Income (RO 000): OIB	Q2 08	Q1 08	Yr 2007	Q4 07	Q3 07	Q2 07	Q1 07
Interest Income	10,429	11,909	56,579	13,625	14,686	13,998	14,270
Interest Expense	(3,646)	(4,348)	(23,738)	(5,748)	(5,977)	(5,869)	(6,144)
Net Interest Income	6,783	7,561	32,841	7,877	8,709	8,129	8,126
<i>% of Operating Income.</i>	<i>69.2%</i>	<i>55.8%</i>	<i>74.2%</i>	<i>64.9%</i>	<i>79.2%</i>	<i>74.8%</i>	<i>79.1%</i>
Other Operating Income	3,021	5,997	11,435	4,251	2,293	2,741	2,150
<i>% of Operating Income.</i>	<i>30.8%</i>	<i>44.2%</i>	<i>25.8%</i>	<i>35.1%</i>	<i>20.8%</i>	<i>25.2%</i>	<i>20.9%</i>
Total Income	9,804	13,558	44,276	12,128	11,002	10,870	10,276
Other Operating Expenditure	(4,773)	(4,366)	(17,399)	(4,284)	(4,390)	(4,547)	(4,178)
Operating profit before provisions	5,031	9,192	26,877	7,844	6,612	6,323	6,098
Provision for loan impairment	(353)	(734)	(2,779)	(515)	(636)	(700)	(928)
Impact of recoveries / writeback	2,246	1,748	7,548	2,717	795	3,236	800
Proposed directors remuneration			0	0	0	0	0
Profit before taxation	6,924	10,206	31,646	10,046	6,771	8,859	5,970
Taxation	(794)	(973)	(3,570)	(981)	(814)	(999)	(776)
Net profit for the year	6,130	9,233	28,076	9,065	5,957	7,860	5,194

Source: Company Financials & Al-Madina research

Outlook & Recommendations

As of 30th June 2008, Oman International Bank has reported a lower net interest income. We believe this is a core issue which the Bank has already begun to address. The Bank has already initiated steps to strengthen its loan book via several initiatives. We believe the spread earned is likely to remain under pressure in the near term which may require the Bank to prudently target growth in its loan book. In the overall standpoint of the sector, we believe the CBO regulation changes are not likely to pose major challenges for the entities. The doubling of allowable exposure in mortgage loans (to 10%) will come as a welcome relief and the Bank is likely to see some growth in this arena via the signing of agreements with certain tourism companies. We note that the Bank's income is almost entirely Oman based which may also raise some concern as the local economy continues to witness severe competition with entry of new banks.

Overall we see a positive trend in the Banking sector of Oman, keeping in mind that the fiscal policy will remain oriented toward fulfilling Oman's development needs and limiting vulnerability to oil production and prices. We believe that the Omani banks could also benefit strongly from exposure to the other vibrant GCC economies.

Al Madina Research: Rating Methodology

Rating	Explanation
Buy	Capital gain of >20% to the CMP over the year.
Accumulate	Capital gain in the range of 10%-20% to the CMP over the year.
Hold	Capital gain in the range of 0%-10% to the CMP over the year.
Reduce	Capital likely to depreciate in the range of 0%-10% to the CMP over the year.
Sell	Capital likely to depreciate >10% to the CMP over the year.

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