OMAN HOUSING BANK

Annual Report

2013

“ your genuine determination and uncompromising resolution to build the foundations of our nation have taught us that nothing is impossible...”

Thank you

OMAN HOUSING BANK

Human enterprise can only succeed if there is constant endeavour, accompanied by determination, a strong will and a sense of responsibility. No nation can achieve its goal unless it unites and works together to build its future and develop its potential.

The Council of Oman
21/10/2003

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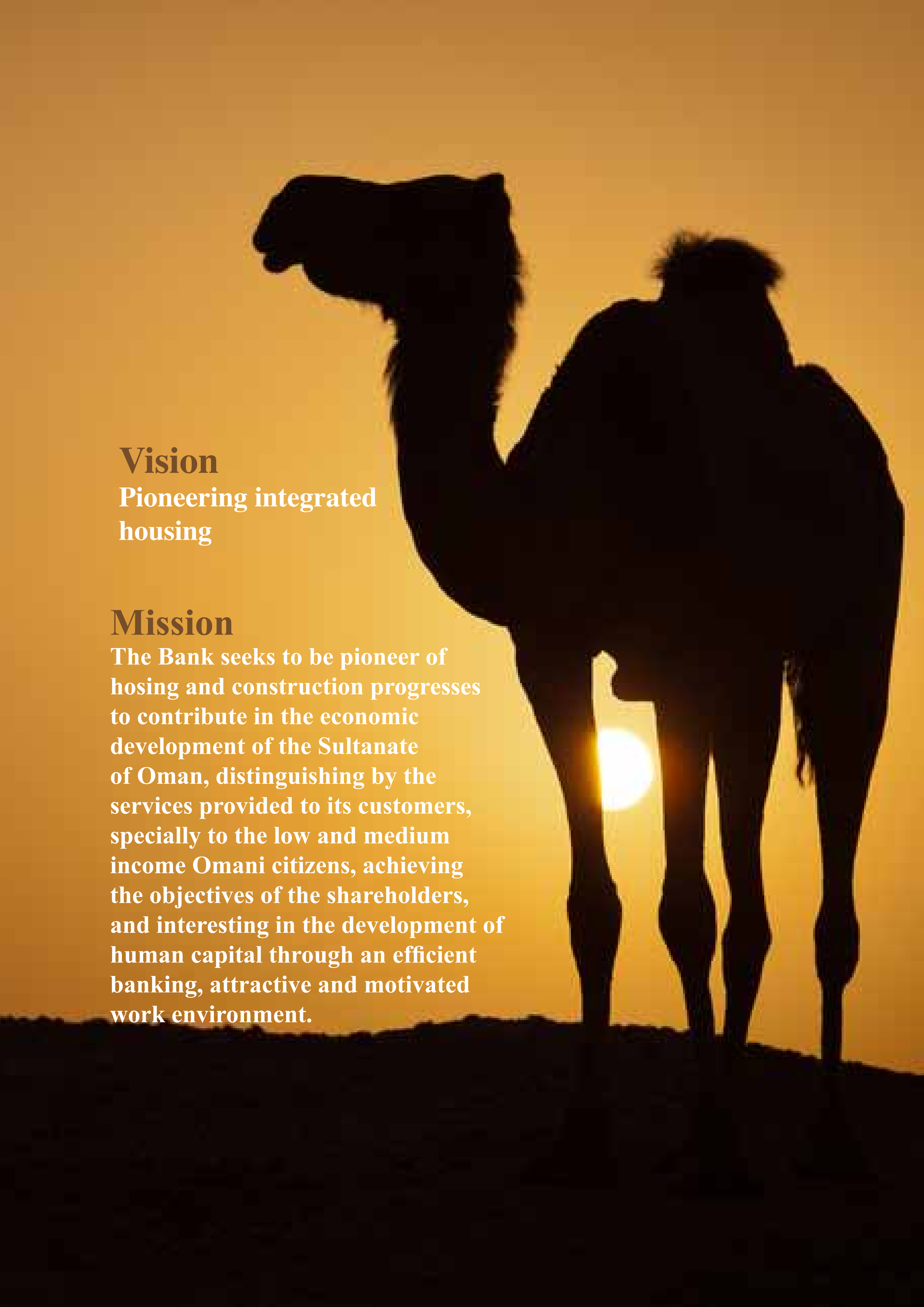
for the year ended 31 December 2013



Vision

Pioneering integrated housing

Mission

The Bank seeks to be pioneer of hosing and construction progresses to contribute in the economic development of the Sultanate of Oman, distinguishing by the services provided to its customers, specially to the low and medium income Omani citizens, achieving the objectives of the shareholders, and interesting in the development of human capital through an efficient banking, attractive and motivated work environment.

Shareholders

General Social Insurance Authority(6.5 %)

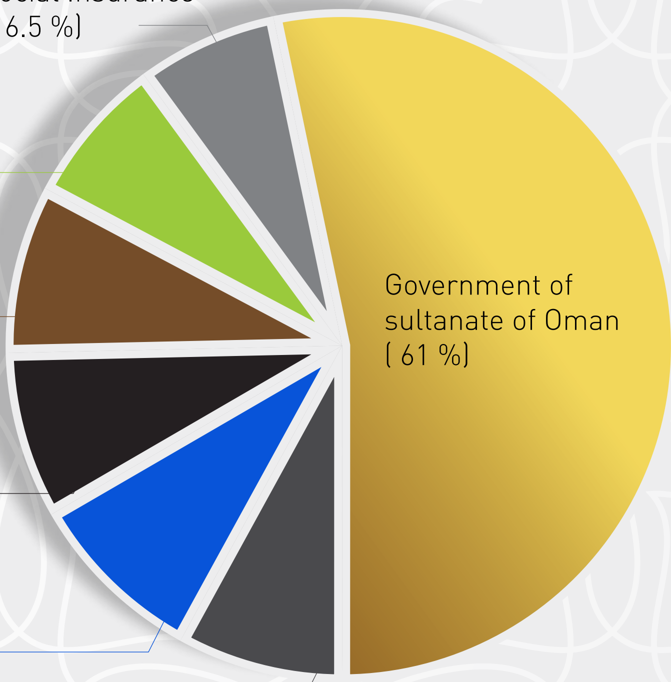
Civil Services Employees Pension Fund (6.5 %)

Royal Oman Police Pension Fund (6.5 %)

Ministry of Defence Pension Fund (6.5 %)

Royal Guard of Oman Pension Fund (6.5 %)

Internal Security Services Pension Fund (6.5 %)

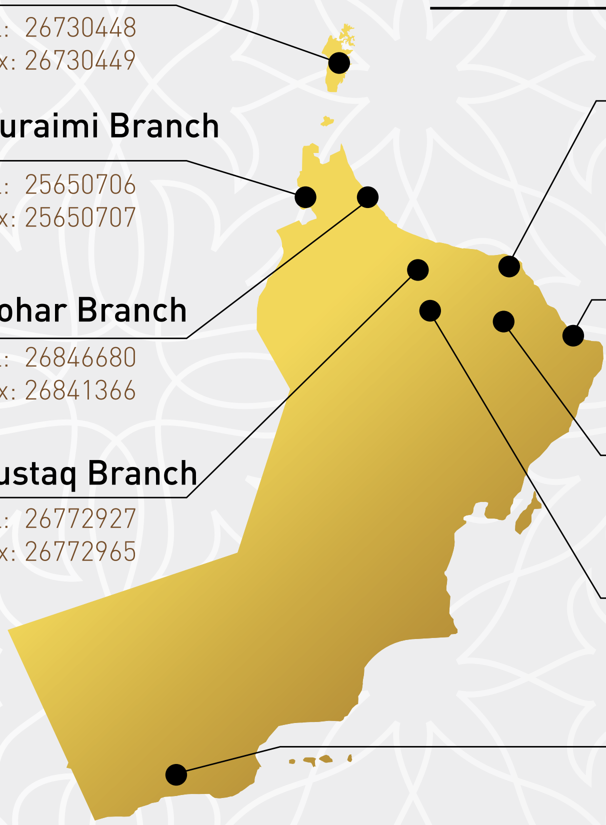


Paid par Value R.O

18,300,000
1,950,000
1,950,000
1,950,000
1,950,000
1,950,000
1,950,000

Total 30,000,000

Branchs



Khasab Branch
Tel: 26730448
Fax: 26730449

Buraimi Branch
Tel: 25650706
Fax: 25650707

Sohar Branch
Tel: 26846680
Fax: 26841366

Rustaq Branch
Tel: 26772927
Fax: 26772965

Main Branch
Tel: 24704444
24775800
Fax: 24704071

Sur Branch
Tel: 25540242
Fax: 25543324

Ibraa Branch
Tel: 25570630
Fax: 25570830

Nizwa Branch
Tel: 25448777
Fax: 25448778

Salalah Branch
Tel: 23292337
Fax: 23295652

HE
Darwish bin Ismail bin Ali Al Balushi
Board Chairman

Sheikh
Nasser bin Suleiman bin Hamed Al Harthy
Member of the Board of Directors
Chairman of the Finance Committee and Risk Management

Brigadier air
Hassan bin Mohammed bin Khamis Al Ajmi
Vice Board Chairman
Chairman of the Audit Committee

Eng.
Abdullah bin Rashid bin Salim Al Kiyumi
Member of the Board of Directors

Mr.
Sami Bin Yahia bin Hamed Al Dgeshi
Member of the Board of Directors

Mr.
Saeed bin Abdullah bin Saeed Al Hassani
Member of the Board of Directors

Mr.
Adnan bin Haider bin Darwish
Secretary of the Board of Directors

Mr.
Rashid bin Mohammed bin Ali Al Maktomi
Member of the Board of Directors

"Report of OHB Board for 2013"

Dear Shareholders

Peace, Mercy and Blessings of Allah may be upon You,,,

Welcome… I am pleased to present to you on my behalf and behalf of other directors the annual report on the results of the bank business and its achievements and financial statements for the year ended on 31/12 / 2013 AD.
The year 2013 was positive at all levels as the bank managed to achieve the goals set in its budget for the said year both in terms of lending or strengthening the financial position of the Bank. Moreover, there were many achievements during this year as stated in the report.

Lending Activity: -

Thanks to the continued support of the wise government, the bank managed during 2013 to continue providing subsidized loans to citizens as follows: -
The number of approved loans reached (2044) of (80) million Omani riyals by the end of 2013. The bank sought to provide its services to the various governorates of the Sultanate, especially the areas outside the governorate of Muscat as the number of loans granted to citizens residing in governorates outside the governorate of Muscat reached (1485) loans of a total value of (54.9) million Omani riyals, i.e. (68.6 %) of its value in 2013.
The following table illustrates the granted subsidized loans distributed to the bank's branches located in the different governorates and states of the Sultanate from 2013 to 2012.

Branches	Approved subsidized loans during 2013				Approved subsidized loans during 2012			
	Number	Rate	Amount (OR)	Rate	Number	Rate	Amount (OR)	Rate
Main Branch	559	27.4	25114800	31.4	271	21.6	11146300	27.2
Salalah	115	5.6	5576500	6.9	51	4.1	2048500	5
Sohar	239	11.7	8881900	11.1	130	10.4	3778000	9.2
Sur	159	7.8	5999900	7.5	72	5.7	2168500	5.3
Nizwa	248	12.1	9043000	11.3	220	17.5	6702700	16.3
Khasab	31	1.5	1176000	1.5	15	1.2	455200	1.1
Al Buraimi	108	5.3	3970100	5	53	4.2	1784100	4.4
Al Rustaq	431	21.1	15108500	18.9	337	26.8	10058100	24.5
Ibraa	154	7.5	5129300	6.4	106	8.5	2858600	7
Total	2044	%100	80000000	%100	1255	%100	41000000	%100

It is noted that the approved lending and loans budget of 2012 was less than 2013 budget, but the situation radically differed after issuing the supreme orders of His Majesty Sultan Qaboos bin Said Al Moadham (may Allah protect him) adopting new simple structure for the banking and administrative fees, which resulted in a high demand on loans of the bank. Therefore, we had to allocate a double lending budget for the year 2013 of (80) million Omani Riyals, which is twice the value of 2012 lending budget.

The total subsidized loans provided by OHB to citizens since its establishment in 1977 until the end of 2013 in all OHB branches across the various governorates of the Sultanate reached (35618) loans with a total value of (704.2) million OMR.

The number of subsidized loans granted to citizens in the areas outside the governorate of Muscat reached (19902) loans with a total value of (398.4) million OMR, i.e (55.9%) of the total number of granted loans and (56.6%) of its value as shown in the following table: -

Branches	Approved subsidized loans since the establishment of each branch till 31/12 / 2013			
	Number	Rate	Amount (OR)	Rate
Main Branch	15716	44.1	305803491	43.4
Salalah	4406	12.4	78098151	11.1
Sohar	3168	8.9	57467842	8.2
Sur	2256	6.3	41914196	6
Nizwa	3445	9.7	73322952	10.4
Khasab	613	1.7	11438100	1.6
Al Buraimi	1067	3	24103255	3.4
Al Rustaq	3370	9.5	78830900	11.2
Ibraa	1577	4.4	33196800	4.7
Total	35618	100%	704175687	100%

Due to the high demand on subsidized loans after adopting the new structure of the banking and administrative services fees, OHB decided to allocate all its lending-allocated resources to subsidized loans only, without any resources for unsubsidized housing loans.

Branches	Approved loans with unsubsidized fees since 01/01/93 to the end of 2012			
	Number	Rate	Amount (OR)	Rate
Main Branch	2030	41.7	66655530	48.1
Salalah	564	11.6	17244400	12.4
Sohar	413	8.5	9730800	7
Sur	299	6.1	7686300	5.6
Nizwa	340	7	8607000	6.2
Khasab	96	2	2052100	1.5
Al Buraimi	153	3.1	3905625	2.8
Al Rustaq	698	14.3	17115500	12.4
Ibraa	279	5.7	5541992	4
Total	4872	100%	138539247	100%

Financial Results:
With respect to the financial results and through the review of balance sheet figures for the fiscal year ended on 31/12/2013, it is apparent that the OHB has achieved positive results by registration of good growth ratios in most of the financial indicators, where the total assets of the OHB rose in the end of 2013 to reach OMR (310) Million corresponding to an amount of OMR (257.5) Million in the end of 2012, that is to say with an excess of ratio of (20.4%).

Furthermore, growth in assets depends basically on the rise of housing loans portfolio as on 31/12/2013 total rise of loans portfolio reached OMR (299.5) million compared to the amount of OMR (247.8) million in end of the past year, thus, the ratio of growth is OMR (20.8%) million …… subsequent to the growth of loans portfolio, the total revenues of OHB services hit OMR (22.4) million against an amount of OMR (19.7) million in respect of the same period in the preceding year.
Therefore, the net earning achieved by the OHB marked OMR (12.3) million with an increase of percentage of (19.4%) for the earnings of 2012 which were OMR (10.3) million, accordingly, the basic return for the shares is OMR (0. 409) against OMR (0.343) in the end of 2012….. Moreover, shareholders total rights reached OMR (138.3) million compared to the amount of OMR (125.9) million and a percentage of (12.4%). This increase is attributed to the rise of the reserves and retained earnings.
The following schedule shows the position of the most important indicators within the past five years as of 2009 till 2013.

Details	2009	2010	2011	2012	2013
Net Earnings	8.9	9	9.5	10.3	12.3
Total Assets	194.4	203.4	225	257.5	310
Total Net Loans	177.5	200.3	215.6	247.8	299.3
Total Deposits of Clients	12.4	14.1	9.2	26.8	58.4
Total Rights of Shareholders	103.3	110.3	117.4	125.9	138.3

Therefore, the OHB focuses on the development of its assets together with maintaining assets quality and durability to strengthen the financial position of the OHB to be able to achieve its targets as per required effectiveness.
Thus, the Board of Directors decided in its (fourth) meeting of 2012 to submit a recommendation to the Shareholders (Extraordinary) General Assembly for the purpose of adding an amount of OMR (70) million to the OHB Capital, consequently, the total Capital will be OMR (100) million provided that all the shareholders will approve the increase of the amount. Such added amount shall be settled by all shareholders according to each shareholder current proportion in the Capital to the effect of the support of the OHB financial positions, enablement of same fulfilling its obligations, achievement of the ambitious borrowing plan of 2013 whereby a budget of borrowing has been allotted at the amount of OMR (80) million and all the shareholders have been already addressed of the subject of Capital increase.

OHB management looks forward to realizing more accomplishments in various fields of OHB operations by following the financial and strategic plan for the coming ten years, being in line with the developmental plans of the government and achieving OHB noble mission regarding the availability of adequate houses to Omani families who are in need for houses. That is due to the achievements realized within the preceding years in different courses of action in OHB with respect to the rise of each of portfolio loans exceeding OMR (299) million and rights of the shareholders to more than OMR (138) million. Moreover, the total numbers of the beneficiaries of OHB loans reached (40490) Omani family marking an increase of OMR (824.7) million together with the update and renovation which took place in all mechanisms and work systems.
At the level of rehabilitation and training, OHB has organized (143) courses in various fields inside and outside the Sultanate during this year. The participants' number was (352) which will strengthen employees' abilities to duly do the duties and bear the responsibilities they are entrusted with. The Omani employees ratio constituted about (95.5 %) in OHB.

Agreements with Commercial Banks:
Within the framework of OHB interest in providing the citizens with all the possible facilities to acquire their houses, OHB has made agreements of soft clauses with some commercial banks inside the Sultanate to enable the seekers for borrowing from OHB to get loans from the commercial banks till it is their turn to get a loan from OHB which will undertake the settlement of these loans balances to the commercial banks. This is for the purpose of gaining time and avoiding the delay of their acquisition of the houses they crave for.

The Agreement with the Arab Fund for Economic and Social Development:
Within the limitation of OHB persistence to consolidate its financial positions, to enable it to promote its responsibility and to achieve the targets for which it is established, OHB is in connection with conclusion of an agreement with the Arab Fund for Economic and Social Development to get a loan of forty million Kuwaiti dinar. This loan will be allotted for funding OHB borrowing operations. It is required to consolidate the financial position of OHB by getting this loan in the light of the growing volume of requests for borrowing which led the bank to multiply loans budget against the previous position before the reduction of banking and administrative services fees, noting that this agreement is in its final phases.
Finally, the Board of Directors extends deepest thanks and gratitude to His Majesty Sultan Qaboos Bin Said (May Allah protect him) for his sublime directives and his honorable patronage to OHB. Thanks are extended too to the wise government for the permanent support to OHB to help it continue providing its services easily and conveniently.

Furthermore, the Board of Directors extends its deepest thanks to each of the Ministry of Finance, Central Bank of Oman (CBO) and all Ministries, institutions, non governmental authorities for their sincere and true cooperation with OHB to help it complete its functions and duties. Thanks and appreciation are extended too to OHB employees for their dedication to work, sincerity and the efforts they exerted to serve and enhance this institution.

May Allah guide us and you to more success to serve our beloved Oman under the judicious leadership of His Majesty Sultan Qaboos Bin Said (May Allah protect him). Praying Almighty Allah to confer him with good health and long life and grant Omani people goodness and prosperity.

Peace and Blessings of Allah be upon You ...

Darwish Bin Ismail Bin Ali Al Balushi
OHB Chairman

General Manager Speech

May Peace and Blessings of Allah may be upon You,,,,,,

OHB continued to Keep up with the comprehensive development plans and objectives of the government of the founder of Oman renaissance and developer, His Majesty Sultan Qaboos Bin Said (May Allah protect him). At the side of improvement of the social status of the citizens, the supreme orders supported the adoption of a new simple structure for the administrative and banking services fees with ratios range between (1%-4%). Accordingly, OHB witnessed in 2013 a remarkable increase in the number of applications of the citizens which reached (6091) applications in 2013 of an amount of (266) Million OMR.

Out of OHB interest in finding solution to the clients who wish to avoid waiting for their turn, it signed agreements with a number of commercial banks which refer the applications of the applicants for residential loans to a commercial bank as per the client choice of the commercial bank to grant him a loan with soft clauses whilst the bank undertakes to repay his remaining balances after reaching his turn in the turn list.

In the light of the judicious policy of OHB Management of its two forms (Board of Directors and Executive Management) in finding permanent offices to its branches in the different governorates of the Sultanate to perform their services in the form required, OHB signed in the first quarter of (2014) an agreement with a leading contracting company in the Sultanate for the construction of a permanent office of its branch in State of Ibras. Moreover, OHB is in the process of signing another agreement to construct a permanent office thereof in the State of Sur.

The efforts exerted by the Management to subjugate hardships and to abide by the policies thereof developed to achieve the aspired objectives have been coined by increasing the lending portfolio on 31/12/ 2013 to (299.5) million OMR against (247.8) million OMR for the same period of the last year. Therefore, OHB was able to achieve a steady growth in the volume of its operations by focusing on its basic business for which it is established. Moreover, for the raising of the level of the provided services, OHB has updated its existing statutes and rules and issued new instructions to help it achieve the aspired goal by providing healthy appropriate house to the citizens across the Sultanate.

Finally, it honors me to give thanks and appreciation to the judicious government for its permanent support to OHB to enable it to continuously provide services to the citizens. Additionally, I would like to thank His Excellency/ the honorable Chairman and all members of the Board for their directives and ongoing follow- up of OHB performance for the achievement of the objectives for which it was established. I would like to thanks also our honorable clients for their trust in OHB and all OHB employees of all ranks and positions for their exerted efforts, sincerity and role in its success and prosperity.

May Allah guide all to success

Adnan Bin Haider Bin Darwish
General Manager
Secretary of the Board of Directors

Oman Housing Bank SAOC (OHB)
Risk Management Department

Legal Disclosure under Basel II – Pillar III
2013

1- Risk Management:
The Board of Directors plays an important role in the general supervision of the risk management processes to ensure the proper performance of risk management and OHB's operation within the prescribed limits.

The Board endorses the risk management policies, sets the accepted risk limits and approves the capital adequacy assessment process.

The Board has formed the (Finance and Risk Management) Committee to assist the Board in proposing and developing risk management policies, proposing the acceptable Tiers of risks and developing methods to identify, measure and monitor risks. The Committee shall monitor the compliance of the OHB's units with the risk standards and limits and review the efficiency and effectiveness of the Risk Management Department through the Committee's supervision of the Department operations.

2- Disclosure Policy:
OHB applies a formal policy derived from Basel II - Disclosure Requirements under Pillar III approved by the Board of Directors in line with the requirements of the Central Bank of Oman.

3- Scope of Application:
OHB operates through its network of branches across the Sultanate of Oman. The information furnished later on about the capital structure are consolidated for the operations of all branches of OHB. OHB does not have any subsidiaries and does not constitute any part of any group.

4- Capital Structure: -
The regulatory capital of OHB is divided into (3) tiers: -

Tier (1): Basic Capital, which includes: -
Paid-up capital, legal reserve, special reserve and retained earnings.
There are no innovative capital instruments in the capital. The authorized and fully paid-up capital comprises of (30) million shares, the value of each is one Omani Riyal. OHB shall deduct (10%) of its annual profits to form the legal reserve, and may stop such deduction only if the balance of such reserve reached one-third of the capital. The legal reserve is not subject to distribution and the General Assembly may decide to form optional reserves not exceeding 20% of the net profit of the year after deducting the legal reserve. The formation of retained earnings aims at strengthening the financial position of OHB and facing any unforeseen contingencies.

Tier (2): Additional Capital, which includes:
The general provision for loan losses (not exceeding (1.25%) of the risk-weighted assets).

Tier (3): Short-Term Subordinated Loan to Face Market Risks:
OHB has no Tier (3) Capital at present.

Hereinafter are the elements of the capital structure of OHB on the date of disclosure:

Composition of the Regulatory Capital as on 31/12 /2013	('000) OMR
Tier (1) Basic Capital	
Paid-up Capital	30000
Legal Reserve	16045
Special Reserve	48984
Retained Earnings	42069
Total Tier (1)	137098
Tier (2) Additional Capital:	
General Provision for Loan Losses	2272
Total Tier (2)	2272
Total Eligible Capital	139370

5- Capital Adequacy: -

The capital adequacy of OHB is calculated in accordance with the guidelines of (Basel II) and directives of the Central Bank of Oman using the standardized approach for calculating credit risk and market risks, if any, in addition to the application of the simple approach of guarantee insertion. The approach of basic indicator is followed for calculating the operational risks and the Moody's rating scale is followed for calculating the claim risks of banks and other financial institutions.

OHB applies a policy to maintain an adequate and strong capital base suitable for the nature of its activities of long-term lending in order to face loss risks or unexpected difficulties. Despite the strength of the capital base of OHB, which enables it to cope with various conditions and fluctuations, the Board of directors has decided, for more reservation and caution to cope with developments, to increase the capital adequacy ratio by 2% over targeted regulatory Tier specified by the Central Bank of Oman of (12 %) so that the official capital adequacy ratio of OHB became (14 %). The actual capital adequacy ratio reached (76.66 %) at the end of the year as evident from the following data.

The quantitative calculation of the capital adequacy ratio of OHB depends on the following items: -

Details Amounts in (‹000) OMR	Total Balances (Book Value)	Net Balances (Book Value) *	Risk- weighted assets
Balance Sheet		316060	136287
off Balance Sheet		31404	11847
Capital - Tier (1)		137098	137098
Capital - Tier (2)		2272	2272
Capital - Tier (3)		-	-
Total Eligible Capital		139370	139370
Capital Requirements for Credit Risks			17776
Capital Requirements for Market Risks			-
Capital Requirements for Operational Risks			4040
Total Venture Capital			21816
Capital Adequacy Ratio - Tier (1)			%75.41
Capital Adequacy Ratio - Total			%76.66

* The net value after deducting the provisions, Interest in reserve and eligible collaterals.

6- Risks and Hedging:

6/1: Credit Risks:

The credit risks result from all products and services when the counterparties of OHB fail to fulfill payment obligations in accordance with the terms and conditions of the contract. Although the credits granted by OHB are housing loans given to the citizens and guaranteed by real properties geographically located within the Sultanate of Oman, the risks may arise sometimes when the value of such guarantees does not cover the whole outstanding obligations of the client. The executive management approves credits within specific ceilings and according to cautious criteria and practices and powers approved by the Board of Directors with a view to minimizing the potential losses and keep credit risks within low and acceptable limits.

OHB follows the Standarized approach for calculating the risk-weighted credit assets at a rate of (35%) for the housing loans subsidized by the government of the Sultanate of Oman and at a rate of (100%) for other loans. OHB identifies the size of the potential losses of credits using the rating scale of credit established under the Central Bank of Oman Circular No. (BM977) dated 25 September 2004 taking into account the market value of real estate guarantees by (50%).

As the credit granted by OHB is confined to one type and to one geographic region, the quantitative disclosure is limited to the following: -

Type of Credit	Current Period Average	Position as on 31/12 /2013
Personal loans to employees		14
Housing loans to citizens subsidized by the Government of the Sultanate of Oman	12632	264524
Other housing loans to citizens (un-subsidized)	-396	34776
Total	12236	299314

Circulation of total loans

Details	Regular Loans		Irregular Loans			
	Standard	Special Indicator	Substandard	Doubtful	Loss	Total
Opening Balance	290316	366	930	973	1432	294017
Incorporation /Change	(169)	(129)	120	57	121	-
New Loans	16854	1	3	2	8	16868
Loan Collection	(4283)	(2)	(17)	(13)	(18)	(4333)
Written-off Loans	-	-	-	-	-	-
Closing Balance	302718	236	1037	1018	1543	306552
Retained Provision	6054	5	258	276	422	7015
Retained Interests	-	1	6	25	219	251

6/2: Market Risks:

Market risks are the risks of changes in the value of securities or transactions due to the movements of market factors.

The items of OHB balance sheet do not currently include any assets or liabilities subject to change under the exchange rates as according to the policy all transactions are only conducted in Omani Riyal or in US dollar pegged to Omani Riyal. As for the interest rate risk, such risk may directly arise in case of increasing the interest rates on short-term deposits or medium-term loans, but the interest rates on lending to clients are fixed. OHB is trying to follow the policy of finance through long-term loans to avoid such risks or government loans at fixed interest rate. The closing accounts of OHB include distribution of assets and liabilities to a number of predefined timescales to determine the extent of sensitivity to interest rates.

6/3: Liquidity Risks:

Liquidity risks are the risks represented in OHB's not having sufficient funds to fulfill its obligations when due. Liquidity risks generally result from the different timing of inflows and outflows of funds. OHB follows a prudent policy in managing liquidity by taking arrangements to provide ready cash so as to fulfill short-term obligations.

The liquidity is managed by reducing the gap between the accrued assets and liabilities as much as possible and through medium-and long-term borrowing whenever necessary to ensure that sufficient liquidity is always available to meet the obligations of OHB on due date. The closing accounts of OHB include an analysis of the accrued assets and liabilities in a number of predetermined timescales to determine the liquidity gap.

6/4: Operational Risks: -

Operational risks are the risks of loss resulting from the inadequacy or failure of internal operations, employees and systems or from external or other factors that arise from legal and regulatory requirements. OHB follows the method of key indicator to measure such risks, which requires the deduction of (15%) of the average income for the last three years to determine the venture capital for operations.

Deloitte.

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Independent auditor's report to the shareholders of Oman Housing Bank SAOC

Report on the financial statements

We have audited the accompanying financial statements of **Oman Housing Bank SAOC** ("the Bank"), which comprise of the statement of financial position as at 31 December 2013, and the statement of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 3 to 40.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the Commercial Companies Law of 1974, as amended, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from 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 the auditor's 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, the auditor considers 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 the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 audit opinion.

Deloitte.

Independent auditor's report to the shareholders of Oman Housing Bank SAOC (continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Oman Housing Bank SAOC** as of 31 December 2013, 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 comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended.

Other matter

The financial statements of the Bank for the year ended 31 December 2012 were audited by another auditor who expressed an unmodified opinion on those statements on 7 March 2013.

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
29 January 2014

OMAN HOUSING BANK SAOC

Statement of financial position
at 31 December 2013

	Note	2013 RO'000	2012 RO'000
ASSETS			
Cash and balances with banks		**5,282**	4,853
Term deposits	5	**1,000**	1,000
Mortgage loan accounts	6	**299,300**	247,835
Property and equipment	7	**2,386**	2,144
Other assets	8	**2,032**	1,715
Total assets		**310,000**	257,547
LIABILITIES AND EQUITY			
LIABILITIES			
Customers' deposits	9	**58,416**	26,772
Loans from the Government	10	**103,830**	96,830
Other liabilities	11	**9,499**	8,037
Total liabilities		**171,745**	131,639
EQUITY			
Share capital	12	**30,000**	30,000
Legal reserve	13	**16,045**	14,817
Special reserve	14	**48,984**	47,254
Revaluation reserve	7, 15	**1,157**	1,089
Retained earnings		**42,069**	32,748
Total equity		**138,255**	125,908
Total liabilities and equity		**310,000**	257,547
Mortgage loan commitments	22	**31,403**	24,811

For

H.E. Darwish Bin Ismail Ali Al Balushi
Chairman

Adnan Bin Haider Bin Darwish
General Manager

The accompanying notes form an integral part of these financial statements.

Statement of comprehensive income
for the year ended 31 December 2013

	Note	2013 RO'000	2012 RO'000
Interest income	17	22,357	19,681
Interest expense	18	(3,896)	(3,219)
Total net interest income		18,461	16,462
Other income	19	1,032	1,011
Reversal of provision for impairment of loans - specific	6	593	230
Total other operating income		1,625	1,241
General and administrative expenses	20	(6,135)	(5,978)
Depreciation of property and equipment	7	(135)	(105)
Operating expenses		(6,270)	(6,083)
Net operating profit before provisions and write offs		13,816	11,620
Provision for impairment of loans - Specific	6	(488)	(673)
Provision for impairment of loans - General	6	(1,049)	(645)
Bad debt directly written off		-	(3)
Profit for the year		12,279	10,299
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net revaluation surplus during the year		68	614
Total comprehensive income for the year		12,347	10,913
Earnings per share (basic and diluted)	21	0.409	0.343

The accompanying notes form an integral part of these financial statements.

Statement of changes in equity
for the year ended 31 December 2013

	Share capital RO'000	Legal reserve RO'000	Special reserve RO'000	Revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
At 1 January 2013	30,000	14,817	47,254	1,089	32,748	125,908
Comprehensive income:						
Profit for the year	-	-	-	-	12,279	12,279
Other comprehensive income:						
Revaluation surplus during the year (note 15)	-	-	-	68	-	68
Total other comprehensive income for the year	-	-	-	68	12,279	12,347
Transactions with owners:						
Dividend paid for 2012	-	-	-	-	-	-
Transfer to legal reserve	-	1,228	-	-	(1,228)	-
Transfer to special reserve	-	-	1,730	-	(1,730)	-
Total transactions with owners	-	1,228	1,730	-	(2,958)	-
At 31 December 2013	30,000	16,045	48,984	1,157	42,069	138,255

The accompanying notes form an integral part of these financial statements.

Statement of changes in equity
for the year ended 31 December 2013 (continued)

	Share capital RO'000	Legal reserve RO'000	Special reserve RO'000	Revaluation reserve RO'000	Retained earnings RO'000	Total RO'000
At 1 January 2012	30,000	13,787	45,400	475	27,733	117,395
Profit for the year	-	-	-	-	10,299	10,299
Other comprehensive income:						
Revaluation surplus during the year (note 15)	-	-	-	614	-	614
Total other comprehensive income for the year	-	-	-	614	10,299	10,913
Transactions with owners:						
Dividend paid for 2011	-	-	-	-	(2,400)	(2,400)
Transfer to legal reserve	-	1,030	-	-	(1,030)	-
Transfer to special reserve	-	-	1,854	-	(1,854)	-
Total transactions with owners	-	1,030	1,854	-	(5,284)	(2,400)
At 31 December 2012	30,000	14,817	47,254	1,089	32,748	125,908

The accompanying notes form an integral part of these financial statements.

Statement of cash flows
for the year ended 31 December 2013

	2013 RO'000	2012 RO'000
Operating activities		
Profit for the year	**12,279**	10,299
Adjustments:		
Depreciation of property and equipment	**135**	105
Net profit on disposal / write off of property and equipment	**(9)**	-
Reversal of provision for impairment of loans - specific	**(593)**	(230)
Provision for impairment of loans - specific	**488**	673
Provision for impairment of loans - general	**1,049**	645
Bad debt directly written off	**-**	3
Operating profit before changes in operating assets and liabilities	**13,349**	11,495
Changes in operating assets and liabilities:		
Term deposits	**-**	5,000
Mortgage loan accounts	**(52,409)**	(33,361)
Other assets	**(317)**	(943)
Customers' deposits	**31,644**	17,614
Other liabilities	**1,470**	1,387
Net cash (used in) / from operating activities	**(6,263)**	1,192
Investing activities		
Proceed form sale of property and equipment	**10**	-
Purchase of property and equipment	**(318)**	(407)
Net cash used in investing activities	**(308)**	(407)
Financing activities		
Loan from the Government	**7,000**	5,000
Dividend paid	**-**	(2,400)
Net cash from financing activities	**7,000**	2,600
Net change in cash and cash equivalents	**429**	3,385
Cash and cash equivalents at the beginning of the year	**4,853**	1,468
Cash and cash equivalents at the end of the year (note 23)	**5,282**	4,853

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December 2013

1. Legal status and principal activities

Oman Housing Bank SAOC (the Bank) was established as a closely held joint stock company in the Sultanate of Oman under the Royal Decree 51/77 and the term of the Bank has been extended under Royal Decree 36/2010 for twenty years commencing from August 2007. The registered address of the Bank is P.O. Box 2555 Ruwi, Postal code 112. The principal activity of the Bank is to provide housing loans to Omani Nationals through a network of branches in the Sultanate of Oman.

As per the Articles of Association of the Bank, every year, a minimum dividend of 5% (2012: 5%) of the paid-up share capital should be paid to the shareholders

2. Adoption of new and revised International Financial Reporting Standards (IFRSs)

For the year ended 31 December 2013, the Bank has adopted all the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for the period beginning on 1 January 2013.

Notes to the financial statements
for the year ended 31 December 2013 (continued)

2. Adoption of new and revised International Financial Reporting Standards (IFRS)

2.1 Standards and Interpretations adopted with no effect on the financial statements

The following new and revised Standards and Interpretations have been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities	The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.
IFRS 10: Consolidated Financial Statements	IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC-12 Consolidation - Special Purpose Entities. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern financial and operating policies of the entity so as to obtain benefits from its activities.
IFRS 11: Joint arrangements	IFRS 11, replaces IAS 31 Interest in Joint Ventures and guidance contained in a related interpretations. IFRS 11, deals with how a joint arrangement of which two or more parties have joint control should be classified and account for. Under IFRS 11, investments in joint arrangements are classified either as joint operations or joint ventures, based on rights and obligation of parties to the arrangements by considering the structure, the legal form of the arrangement, the contractual terms agreed by the parties to the arrangement, and when relevant, other facts and circumstances.
IFRS 12: Disclosure of Interests in Other Entities	IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements.

Notes to the financial statements
for the year ended 31 December 2013 (continued)

2. Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

2.1 Standards and Interpretations adopted with no effect on the financial statements (continued)

IFRS 13: Fair Value Measurement	IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non- financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).
Amendments to IAS 1 Presentation of Items of Other Comprehensive Income	The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income' [and the 'income statement' is renamed as the 'statement of profit or loss']. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.
Annual Improvements 2009-2011 Cycle	Makes amendments to the following standards: IAS 1 - Clarification of the requirements for comparative information IAS 16 - Classification of servicing equipment IAS 32 - Clarify that tax effect of a distribution to holders of equity instruments should be accounted for in accordance with IAS 12 Income Taxes IAS 34 - Clarify interim reporting of segment information for total assets in order to enhance consistency with the requirements in IFRS 8 Operating Segments.

Notes to the financial statements for the year ended 31 December 2013 (continued)

2. Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

2.1 Standards and Interpretations adopted with no effect on the financial statements (continued)

IAS 19 Employee Benefits (as revised in 2011)	IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. These changes have had an impact on the amounts recognised in profit or loss and other comprehensive income in prior years (see the tables below for details). In addition, IAS 19 (as revised in 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

2.2 Standards and Interpretations in issue not yet effective

At the date of authorisation of these consolidated financial statements, the following new and revised Standards and Interpretations were in issue but not yet effective:

	Effective for annual periods beginning on or after
New IFRS and relevant amendments **Financial Instruments**	
IFRS 9: *Financial Instruments* (as revised in 2010 *to include requirements for the classification and measurement of financial liabilities and incorporate existing derecognition requirements)*	January 2015
Consolidation, joint arrangements, associates and disclosures	
Amendment to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements, to *provide 'investment entities' (as defined) an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 Financial Instruments or IAS 39 Financial Instruments: Recognition and Measurement*.	January 2014

2. Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 Standards and Interpretations in issue not yet effective (continued)

Amendments to IFRSs	**Effective for annual periods beginning on or after**
IAS 32 : Financial instruments: presentation, *Offsetting Financial Assets and Financial Liabilities: to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main area (a) the meaning of 'currently has a legally enforceable right of set-off'(b) the application of simultaneous realisation and settlement (c) the offsetting of collateral amounts (d) the unit of account for applying the offsetting requirements*	January 2014
IAS 36: impairment of assets, *Recoverable Amount Disclosures for Non-Financial Assets to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.*	January 2014
IAS 39: Financial Instruments: Recognition and Measurement, *Novation of Derivatives and Continuation of Hedge Accounting' makes it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.* *A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations.*	January 2014
New Interpretations and amendments to Interpretations:	
IFRIC 21 – Levies	January 2014

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Bank's in the period of initial application..

Notes to the financial statements for the year ended 31 December 2013 (continued)

3 Summary of significant accounting policies

The significant accounting policies adopted in the preparation of the financial statements are as follows:

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of the Commercial Companies Law of 1974, as amended, on the historical cost basis except for the revaluation of lands which are measured at fair value.

These policies have been consistently applied in dealing with items that are considered material in relation to the bank's financial statements for all the years presented.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. 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 4.

Revenue recognition

Recognition of banking and administrative service fees
Banking and administrative service fees accrues on a time proportion basis taking into account the fees related to the loan and rate applicable. If the recovery of banking and administrative service fees on mortgage accounts is classified, its recognition in the statement of comprehensive income is deferred until it is received in cash.

Recognition of interest income and expense
Interest income and expense are recognised in the statement of comprehensive income on accrual basis using the effective yield method on the principal outstanding.

Recognition of commission and fees
Commission and fees are recognised in the statement of comprehensive income at the time of effecting the transaction to which they relate.

Recognition of Government contribution
The proportion of banking and administrative services fees borne by the Government of the Sultanate of Oman is recognised on a daily basis and claimed at monthly intervals until the maximum ceiling is reached.

Notes to the financial statements
for the year ended 31 December 2013 (continued)

3. Summary of significant accounting policies (continued)

Mortgage loan accounts

Mortgage accounts originated by providing money directly to the borrower are categorised as originated loans and are stated at cost less any amounts written off, provision for impairment of loans and unrecognised banking and administrative service fees.

Provisions for impairment of loans comprise both specific provisions as well as provision for potential losses not specifically identified but which experience indicates is present in the mortgage accounts portfolio. A loan impairment provision represents the difference between the carrying amount of the loan and the recoverable amount, which is the current value of any expected cash flows, including amounts recoverable from collateral, discounted based on inception interest rates.

Property and equipment

Property and equipment except land are stated at cost less accumulated depreciation less impairment losses, if any. Land is stated at revalued amount. The cost of property and equipment is the purchase cost, together with any incidental expenses of acquisition.

Revaluations of lands are carried out every three years on an open market value for existing use basis, by an internal valuer in the engineering department of the bank. Net surpluses arising on revaluation are credited to a revaluation reserve, except that a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. A decrease as a result of a revaluation is recognised 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 the statement of comprehensive income.

Depreciation is calculated so as to write off the cost of property and equipment on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	Years
Buildings	25
Vehicles	5
Furniture and fixtures and office equipment	5 – 10
Other equipments	5

Capital work-in-progress is not depreciated until the asset is put to use, and will be depreciated based on the rates applicable to its particular category upon capitalisation.

Gains and losses on disposal of property and equipment are determined as the difference between the carrying amount of the asset and its selling price and are dealt with in the statement of comprehensive income.

Notes to the financial statements
for the year ended 31 December 2013 (continued)

3. Summary of significant accounting policies (continued)

Financial assets and liabilities

Classification
The bank classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The bank's loans and receivables comprise mortgage loans and cash and cash equivalents in the statement of financial position.

Recognition
The bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the bank becomes a party to the contractual provisions of the instrument.

Derecognition

The bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the bank is recognised as a separate asset or liability.

The bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Offsetting
Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the bank intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards or for gains and losses arising from a group of similar transactions.

Amortised cost measurement
The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3. Summary of significant accounting policies (continued)

Derecognition (continued)

Fair value measurement
A number of the bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods.

Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Impairment of financial assets

The bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and an impairment loss is 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.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the bank about the loss events as well as considering the guidelines issued by the Central Bank of Oman.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, the impairment loss is recognised in the statement of comprehensive income.

The bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Notes to the financial statements
for the year ended 31 December 2013 (continued)

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

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

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

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the bank to reduce any differences between loss estimates and actual loss experience.

The loss arising on an impairment of an asset is determined as the difference between the recoverable amount and carrying amount of the asset and is recognised immediately in the statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Borrowings

Government loans are recognised initially at cost less attributable transaction costs. Subsequent to initial recognition, these are stated at amortised cost with any difference between proceeds, net of transaction costs, and the redemption value recognised in the statement of comprehensive income over the years of the borrowings on an effective interest basis.

Dividend distribution

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the bank’s shareholders. Interim dividends are deducted from equity when they are paid.

Directors’ remuneration

Directors’ remuneration is calculated in accordance with the requirements of the Commercial Companies Law of 1974, as amended.

Notes to the financial statements
for the year ended 31 December 2013 (continued)

3. Summary of significant accounting policies (continued)

End of service benefits

End of service benefits are accrued in accordance with the terms of employment of the bank's employees having regard to the requirements of the Omani Labour Law. For Omani employees the contributions are transferred to the Public Authority for Social Insurance in accordance with the terms of the Royal Decree 72/91.

Foreign currencies

Items included in the bank's financial statements are measured using Rial Omani which is the currency of the primary economic environment in which the bank operates, rounded off to the nearest thousand.

Transactions in foreign currencies are translated to Rial Omani at the rate of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the reporting date. The exchange gains and losses are included in the statement of comprehensive income.

Earnings per share

The bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, and all balances with banks maturing within three months from the date of placement.

Operating lease payments

Leases in which a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Rental payments made under operating leases are recognised in the statement of comprehensive income under 'general and administrative expenses' on a straight line basis over the term of the lease.

Grants related to assets

Government grants in form freehold land are credited to deferred grants related to assets and is recognized in the income statement over the useful life of property constructed on that land. Grants are credited to income statement where no rational basis exists for allocating the grant to a period other than the one in which it was received.

Notes to the financial statements for the year ended 31 December 2013 (continued)

4 Critical accounting estimates and judgments

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of the financial statements and the resultant provisions and changes in fair value for the year. Such estimates are necessarily based on assumptions about several factors involving varying, and possibly significant, degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

The estimates and associated assumptions are based on historical experience and various other factors that are believed by the bank to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are readily apparent from other sources. Actual results may differ from these estimates.

Impairment losses on mortgage loans

The bank reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required.

In addition to specific allowances against individually significant loans and advances, the bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a higher probable risk of default than when originally granted. This takes into consideration factors such as any deterioration in collateral value or deterioration in cash flows.

Fair value estimation

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Accordingly variances may arise between the historical cost and the fair value.

The Board of Directors considers that, except for the government and housing loans, the fair value of the assets and liabilities of the bank are not materially different from their carrying amounts. The assumptions made to determine the fair value are as follows:

Short-term financial instruments

The carrying amount of cash on hand and at banks, due from other banks and the short-term financial instruments recognised in the statement of financial position under other assets and other liabilities are considered to be a reasonable estimate of the fair values due to their short-term nature.

4 Critical accounting estimates and judgments (continued)

Mortgage loan accounts

The mortgage loan accounts are expected to run to maturity. It is not practicable to determine the fair value of mortgage accounts as the subsidy received from the Government is capped at an amount that is determined by the Government annually. Consequently it is not feasible to assess the total return from these accounts for future periods.

Customer deposits

The fair values of savings accounts with no stated maturity approximate its carrying value. The fair value of term deposits is estimated using the rates offered for deposits having similar terms and conditions.

Term loans from banks

The fair values of term loans are estimated using the interest rates offered for loans with similar terms and conditions.

Loans from the Government

The fair values of loans 1, 2, 3 and 4 (note 10) from the Government are estimated using the interest rates offered for loans with similar terms and conditions. No fair value can be determined for the subordinated loan in the absence of a repayment schedule.

5 Term deposits

	2013	2012
	RO'000	RO'000
Term deposits	**1,000**	1,000

This represents deposit with National Bank of Oman SAOG having maturity due on 29 April 2014 and carries interest at the rate of 2.5% (2012 - 2.5%) per annum.

Notes to the financial statements for the year ended 31 December 2013 (continued)

6 Mortgage loan accounts

	2013 RO'000	2012 RO'000
Gross mortgage loan accounts as at 1 January	**254,142**	220,837
Loans distributed during the year	**77,739**	54,957
Principal repayments during the year	**(25,329)**	(21,652)
Gross mortgage loan accounts as at 31 December	**306,552**	254,142
Provision for impairment of loans (refer 'a' below)	**(7,013)**	(6,069)
Reserved banking and administrative service fees (refer 'b' below)	**(239)**	(238)
Net mortgage loan accounts as at 31 December	**299,300**	247,835

a) The movement in the provision for impairment of loans during the year is as follows:

	2013 RO'000	2012 RO'000
At 1 January	**6,069**	5,015
Provision for impairment of loans – Specific	**488**	673
Provision for impairment of loans – General	**1,049**	645
Reversal of provision for impairment of loans - Specific	**(593)**	(230)
Written off during the year	**-**	(34)
At 31 December	**7,013**	6,069

b) The movement in the reserved banking and administrative service fees during the year is as follows:

	2013 RO'000	2012 RO'000
At 1 January	**238**	257
Reserved banking and administrative service fees during the year	**68**	101
Reversed during the year	**(63)**	(75)
Written off during the year	**(4)**	(45)
At 31 December	**239**	238

Banking and administrative service fees are not recognised as income by the bank so as to comply with the rules, regulations and guidelines issued by Central bank of Oman against mortgage loan accounts which are impaired i.e. overdue by more than 89 days.

6 Mortgage loan accounts (continued)

At 31 December 2013 the specific provision for loan impairment and the reserved banking and administrative service fees represents 33.2% (2012 - 35.5%) of gross non-performing mortgage accounts. Also, the bank maintains collective provision for impairment for the performing loans amounting to RO 6,059,000 (2012 - RO 5,010,000).

The banking and administrative service fees rates varied from 1% to 8% (2012 - 1% to 9%) per annum in addition to the contribution received from the Government of the Sultanate of Oman.

Summary of mortgage loan accounts is as follows:

	2013 RO'000	2012 RO'000
Performing accounts	**302,718**	250,227
Past due but not impaired	**236**	262
Non-performing mortgage loans	**3,598**	3,653
Total mortgage loans	**306,552**	254,142
Provision for impairment of loans	**(7,013)**	(6,069)
Reserved banking and administrative service fees	**(239)**	(238)
Net mortgage loan accounts as at 31 December	**299,300**	247,835
Past due but not impaired		
Past due (60 - 89 days)	**236**	262
Non-performing loans		
Substandard (past due 90 - 179 days)	**1,037**	1,465
Doubtful (past due 180 - 364 days)	**1,018**	783
Loss (past due 365 days and over)	**1,543**	1,405
	3,598	3,653
Fair value of collateral	**8,156**	8,613

Notes to the financial statements
for the year ended 31 December 2013 (continued)

7 Property and equipment

	Land and buildings RO'000	Furniture, fixtures and equipment RO'000	Other equipment RO'000	Motor vehicles RO'000	Capital-work-in-progress RO'000	Total RO'000
Cost / valuation						
At 1 January 2013	2,267	1,150	774	219	282	4,692
Additions	72	46	34	-	255	407
Disposals	-	(41)	(56)	-	-	(97)
Revaluation	614	-	-	-	-	614
Transfer	274	-	-	-	(274)	-
At 1 January 2013	**3,227**	**1,155**	**752**	**219**	**263**	**5,616**
Additions	**-**	**26**	**84**	**80**	**128**	**318**
Disposals	**-**	**(25)**	**(48)**	**(64)**	**(8)**	**(145)**
Revaluation	**68**	**-**	**-**	**-**	**-**	**68**
Transfer	**278**	**22**	**2**	**-**	**(302)**	**-**
At 31 December 2013	**3,573**	**1,178**	**790**	**235**	**81**	**5,857**

7 Property and equipment (continued)

	Land and buildings RO'000	Furniture, fixtures and equipment RO'000	Other equipment RO'000	Motor vehicles RO'000	Capital-work-in-progress RO'000	Total RO'000
Depreciation						
At 1 January 2012	1,520	1,054	690	200	-	3,464
Charge for the year	32	26	37	10	-	105
Disposals	-	(41)	(56)	-	-	(97)
At 1 January 2013	**1,552**	**1,039**	**671**	**210**	**-**	**3,472**
Charge for the year	**30**	**35**	**47**	**23**	**-**	**135**
Disposals	**-**	**(24)**	**(48)**	**(64)**	**-**	**(136)**
At 31 December 2013	**1,582**	**1,050**	**670**	**169**	**-**	**3,471**
Carrying value						
At 31 December 2013	**1,991**	**128**	**120**	**66**	**81**	**2,386**
At 31 December 2012	**1,675**	**116**	**81**	**9**	**263**	**2,144**

Land and buildings includes lands granted by the Government of Sultanate of Oman at no cost. The market value of such lands at 31 December 2013 is RO 1,156,863 (2012 - RO 1,088,762). The Bank revalue its lands on a regular basis.

Notes to the financial statements for the year ended 31 December 2013 (continued)

8 Other assets

	2013 RO'000	2012 RO'000
Other receivables	**1,782**	1,457
Staff personal loans	**14**	13
Prepayments and others	**250**	258
	2,046	1,728
Provision for staff personal loans	**(2)**	(3)
Interest reserve - staff personal loans	**(12)**	(10)
	2,032	1,715

9 Customers' deposits

	2013	2012
Saving accounts	**7,713**	6,170
Term deposits	**50,703**	20,602
	58,416	26,772

Interest rates on savings accounts varied between 1% to 2% (2012 - 1% to 2%) per annum. Interest rates on term deposits varied between 1.3% to 2.5% (2012 - 0.32% to 1.8%) per annum.

10 Loans from the Government

	2013 RO'000	2012 RO'000
Government loan – 1	**34,830**	34,830
Government loan - 2	**10,000**	10,000
Government loan - 3	**8,000**	8,000
Government loan - 4	**31,000**	24,000
Subordinated loan	**20,000**	20,000
	103,830	96,830

Loans 1 and 2 from the Government of the Sultanate of Oman are denominated in Rial Omani and carry interest rates of 5% and 3% (2012 - 5% and 3%) per annum respectively.

Loan 3 from the Government of the Sultanate of Oman is denominated in Rial Omani and carries interest rate of 3% (2012 - 3%) per annum.

10 Loans from the Government (continued)

Government loans 1, 2 and 3, the bank has applied for restructuring of the terms and conditions, with the Government of Sultanate of Oman. However, a response was awaited at the reporting date. The management believes that these amounts will not be paid in the next 12 months.

Loan 4 from the Government of Sultanate of Oman is denominated in Rial Omani and carries interest rate of 3% (2012 – 3%) per annum. During 2011, the Government approved a loan of RO 31,000,000 to the bank of which RO 24,000,000 has been disbursed as at 31 December 2012 and the balance has been disbursed in 2013. The loan is repayable in equal annual installments over a period of ten years after the start of a grace period of two years from the date of last payment disbursement of the loan amount.

During 2001, the Government of Sultanate of Oman approved a subordinated loan of RO 20,000,000 to the bank, of which RO 12,000,000 was disbursed during the year 2001, RO 2,000,000 was disbursed during 2002, and the balance of RO 6,000,000 was disbursed during 2003. This is an interest free loan and there are no fixed repayment terms for this loan.

11 Other liabilities

	2013 RO'000	2012 RO'000
Retention payable to contractors	**3,695**	2,794
Accrued interest	**2,321**	1,853
Customers' insurance payable	**809**	755
Sale proceeds for financing new residences and personal stakes	**817**	793
End of service benefits (refer below)	**180**	160
Other payables	**1,677**	1,682
	9,499	8,037

The movement in the end of service benefits liability during the year is as follows:

	2013 RO'000	2012 RO'000
At 1 January	**160**	123
Expense recognised in the statement of comprehensive income	**23**	37
Cash paid to employees	**(3)**	-
At 31 December	**180**	160

Notes to the financial statements for the year ended 31 December 2013 (continued)

12 Share capital

The share capital of the bank is divided into 30,000,000 (2012 - 30,000,000) fully paid shares of RO 1 each. The shareholding pattern is as follows:

	2013	2012
Government of the Sultanate of Oman - Ministry of Finance	**61.0%**	61.0%
Internal Security Service Pension Fund	**6.5%**	6.5%
Royal Guard of Oman Pension Fund	**6.5%**	6.5%
Ministry of Defence Pension Fund	**6.5%**	6.5%
Royal Oman Police Pension Fund	**6.5%**	6.5%
Civil Service Employees Pension Fund	**6.5%**	6.5%
Public Authority for Social Insurance	**6.5%**	6.5%
	100%	100%

13 Legal reserve

In accordance with the bank’s Articles of Association, the bank is required to transfer 10% of its profit for the year, to a legal reserve may not stop this deduction only if the balance of this account is one-third of the capital. The legal reserve is not available for distribution.

14 Special reserve

In accordance with the Articles of Association of the bank, after appropriation of legal reserve and dividend proposed, an amount as determined by the General Assembly can decide to regular accounts configured backup is optional not exceeding 20% (2012-20%) of the net profits.

15 Revaluation reserve

This reserve represents the fair value gain arising from revaluation of lands after the initial recognition by internal valuers of the bank. The movement in the revaluation reserve is as under:

	2013 RO’000	2012 RO’000
At 1 January	**1,089**	475
Revaluation surplus during the year	**68**	614
At 31 December	**1,157**	1,089

The revaluation reserve is not available for distribution.

16 Proposed dividend

The board of directors of the bank proposed 8% (2012 - nil% of the share capital) for the year 2013.

17 Interest income

	2013 **RO'000**	2012 RO'000
Banking and administrative service fee	**3,142**	9,126
Government contribution to administrative fee (refer below)	**19,190**	10,484
Interest on short-term deposits	**25**	71
	22,357	19,681

In accordance with Article 6 of the Royal Decree No. 51/77and the Royal Decree No.36/2010, borrowers are charged a proportion of the prevailing total rate of banking and administrative service fees, determined in accordance with their monthly income. The Government of the Sultanate of Oman bears the difference between the prevailing total rate of banking and administrative service fees and the reduced rate of banking and administrative service fees, of RO 19,190,454 (2012 - RO 10,484,350).

Government issued a directive on 14 August 2012 to exempt the borrowers from banking and administrative service fee on the subsidised loan balances. For the new loans disbursed after 14 August 2012, the borrowers shall pay interest up to 4% and the differential will be borne by the Government.

18 Interest expense

	2013 **RO'000**	2012 RO'000
Interest on loans from the Government	**3,211**	2,973
Interest on customers' deposits	**655**	160
Interest on staff housing loans	**30**	86
	3,896	3,219

Notes to the financial statements for the year ended 31 December 2013 (continued)

19 Other income

	2013 RO'000	2012 RO'000
Fees and commissions	**996**	994
Miscellaneous income	**36**	17
	1,032	1,011

20 General and administrative expenses

	2013 RO'000	2012 RO'000
Staff expenses	**5,274**	5,091
Training expenses	**126**	125
Professional fees	**108**	83
Communication costs	**79**	76
Board of Directors' remuneration - proposed	**84**	84
Board of Directors' meeting expenses and sitting fees	**20**	24
Utilities and rent	**105**	108
Maintenance	**103**	120
Legal expenses	**25**	34
Travelling expenses	**26**	27
Marketing expense	**20**	47
Stationary charges	**33**	46
Miscellaneous expenses	**132**	113
	6,135	5,978

21 Earnings per share (basic and diluted)

The basic earnings per share has been derived by dividing the profit for the year attributable to the shareholders by the weighted average number of shares outstanding. As there are no dilutive potential shares, the diluted earnings per share is identical to the basic earnings per share.

	2013	2012
Net profit for the year (RO'000)	**12,279**	10,299
Weighted average number of shares outstanding (shares'000)	**30,000**	30,000
Earnings per share - basic and diluted (RO)	**0.409**	0.343

Notes to the financial statements
for the year ended 31 December 2013 (continued)

22 Mortgage loan commitments

	2013 RO'000	2012 RO'000
Mortgage loan accounts - approved but not disbursed	**31,403**	24,811

23 Cash and cash equivalents

Cash and balances with banks	**5,282**	4,853
Cash and cash equivalents	**5,282**	4,853

24 Related parties

The bank has entered into transactions with Government, its Directors, key management and other entities over which certain directors are able to exercise significant influence in the ordinary course of business.

Transactions included in statement of comprehensive income are as follows:

	2013 RO'000	2012 RO'000
Government		
Government contribution to administrative fee (note 17)	**19,190**	10,484
Interest on loans from the Government (note 18)	**3,211**	2,973
Directors		
Banking and administrative fees	**2**	2
Board of Directors' meeting expenses and sitting fees (note 20)	**20**	24
Board of Directors' remuneration - proposed (note 20)	**84**	84
Key management		
Banking and administrative fees	**26**	42

Notes to the financial statements for the year ended 31 December 2013 (continued)

24 Related parties (continued)

Amount due (to) / from related parties:

	2013 RO'000	2012 RO'000
Government		
Loans from the Government (note 10)	**(103,830)**	(96,830)
Interest accrued on loans from the Government	**(1,912)**	(1,808)
Receivable against Government contribution to administrative fee	**1,740**	1,440
Fixed deposits from Ministry of Defense pension Fund	**14,000**	-
Directors		
Mortgage loan accounts	**23**	31
Key management		
Mortgage loan accounts	**524**	647

All loans to related parties are performing loans and no provision for impairment has been made against these loans.

Compensation of the key management personnel is as follows:

	2013 RO'000	2012 RO'000
Salaries and allowances	**663**	624
Other benefits	**128**	127
	791	751

25 Capital management

The bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The bank's capital comprises debts that include borrowings and equity attributable to shareholders, comprising issued capital, reserves and retained earnings under notes 12 to 15.

25 Capital management (continued)

Gearing ratio

The bank's financial Risk Management Committee reviews the capital structure on a semi - annual basis. As part of this review, the committee considers the cost of capital and the risk associated with each class of capital. The debt to equity ratio at the reporting date is as follows:

	2013 RO'000	2012 RO'000
Debt	**162,246**	123,602
Equity	**138,255**	125,908
Debt to equity ratio	**117.35%**	98.17%

- Debt includes loan from Government and customer deposits.
- Equity includes all the capital and reserves of the bank.

Capital adequacy

The capital adequacy, calculated in accordance with the Bank for International Settlements (BIS) guidelines, is as follows:

	2013 RO'000	2012 RO'000
Capital base		
Tier 1	**137,098**	124,819
Tier 2	**2,272**	2,003
Total capital base	**139,370**	126,822
Risk weighted assets		
Credit risk - on balance sheet items	**136,287**	119,873
Credit risk - off balance sheet items	**11,847**	9,360
Operational risk	**33,663**	31,000
Total risk weighted assets	**181,797**	160,233
Capital adequacy ratio	**76.66%**	79.15%

Notes to the financial statements for the year ended 31 December 2013 (continued)

26 Risk management policies

Risk Management is the process by which the bank identifies key risks, obtains consistent, understandable risk measures and chooses which risks reducing and which to increase and by what means and establishes procedures to monitor the resulting risk position. The objective of risk management is to ensure that the bank operates within the risk levels set by the bank's Board of Directors while the various business functions pursue their objective of maximizing the risk adjusted returns. The bank has exposure to the following core risks from its use of financial instruments:

- Market risk
- Credit risk
- Liquidity risk

The bank borrows money from the Government, foreign and local financial institutions and local commercial banks at fixed interest rates and for various periods and seeks to earn above average interest margins by investing these funds in providing housing loans. The bank continuously reviews its policies and internal control systems in order to ensure they include all reasonable procedures to minimise the risks as much as possible.

Market risk

Market risk is the risk of loss due to adverse changes in interest rates. The bank does not actively participate in trading in debts, equity securities, and foreign exchange or derivative instruments.

Interest rate risk

Interest rate risk arises from the possibility that changes in the interest rates and the mis-matches in the amounts of assets or liabilities that mature or re-price during a given period.

The bank provides housing assistance to Omani nationals by providing supported housing loans in accordance with its objectives. The interest of loan service provided by the bank carries rates supported by the government.

The bank manages this risk by matching the re-pricing of assets and liabilities and through risk management strategies. The loans extended by the bank are for periods varying from one to over twenty five years are at fixed interest rates, albeit with interest variance clause. However, any re-pricing of the bank's liabilities by its lenders due to economic factors would result to some extent in interest rate risk. The bank mitigates this risk by matching the tenure of its assets and liabilities by availing long-term funds from the Government at fixed interest rates.

Interest rate risk arises in the bank's core statement of financial position as a result of mismatches in the re-pricing of interest rate sensitive financial assets and liabilities. The bank mitigates this risk by matching the tenure of its assets and liabilities by availing long-term funds from its lenders at fixed interest rates. The bank's exposure to interest rate risk is shown in note 27.

26 Risk management policies (continued)

Credit risk

Credit risk is the potential loss resulting from the failure of a borrower or counter party to honour its financial or contractual obligations in accordance with the agreed terms. The function of credit risk management is to maximise the bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Credit risk makes up the largest part of the bank's risk exposure. Credit Risk Management process of the bank begins with the risk policy, updated regularly, which clearly defines parameters for each type of risks assumed by the bank.

Risk limit control and mitigation policies

The bank addresses credit risk through the following process:

- All credit processes - Approval, disbursal, administration, classification, recoveries and write-off are governed by the bank's Credit manual which is reviewed by the bank's Risk Management Department. The credit policy stipulates clear guidelines for each of these functions and the lending authority at various levels as stipulated in appropriate 'Lending Authority Limits'.

- All lending accounts are reviewed on a portfolio basis at least once a year. Concentration of exposure to counterparties are monitored according to regulatory norms and limits prescribed in the bank's risk policy.

- The bank employs a range of policies and practices to mitigate credit risk prevalent in credit exposures. Most common collateral taken is Mortgages over residential properties.

All loans of the bank are regularly monitored to ensure compliance with the stipulated repayment terms. Those loans are classified into one of the five risk classification categories: Standard, Special Mention, Substandard, Doubtful, and Loss as stipulated by Central Bank of Oman regulations and guidelines (note 5). The responsibility for identifying problem accounts and classifying them rests with business line function.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk resulting from the bank's loan portfolio based on the following:

- Regular review of the loans portfolio to identify any potential risk;
- 98.800% of the loans and advances portfolio are considered to be neither past due nor impaired (2012 - 98.500%);
- Impaired loan assessed on an individual basis amounted to RO 3,598,000 (2012 – RO 3,653,000) which is 1.2% (2012 - 1.5%) of total gross mortgaged loans.

Notes to the financial statements for the year ended 31 December 2013 (continued)

26 Risk management policies (continued)

Credit risk

Credit risk is the potential loss resulting from the failure of a borrower or counter party to honour its financial or contractual obligations in accordance with the agreed terms. The function of credit risk management is to maximise the bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Credit risk makes up the largest part of the bank's risk exposure. Credit Risk Management process of the bank begins with the risk policy, updated regularly, which clearly defines parameters for each type of risks assumed by the bank.

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26 Risk management policies (continued)

Credit risk (continued)

Maximum exposure to credit risk

The following table shows the maximum exposure to credit risk before collateral held for all on-balance sheet items and off-balance sheet items based on net carrying amounts at reporting date:

	2013		2012	
	RO'000	**%**	RO'000	%
Balances with banks	**5,147**	**1.50**	4,708	1.68
Term deposits	**1,000**	**0.30**	1,000	0.36
Mortgage loan accounts	**299,300**	**88.30**	247,835	88.49
Other assets	**1,782**	**0.60**	1,457	0.61
Mortgage loan commitments	**31,403**	**9.30**	24,811	8,86
	338,632	**100.00**	279,811	100.00

There is no significant credit exposure with any individual counter party.

Liquidity risk

Liquidity risk is the potential inability of the bank to meet its maturing obligations to a counter party. The bank's conservative liability management policies are designed to ensure that even in adverse situations the bank should be in a position to meet its obligations. In normal conditions the objective is to ensure that there are sufficient funds available to meet current financial commitments.

The Board of Directors and the management monitor the bank's liquidity requirements.

The bank endeavours to obtain low cost borrowings locally on both short and long-term bases to finance its loans.

The maturity profile of assets and liabilities is set out in note 27.

Notes to the financial statements
for the year ended 31 December 2013 (continued)

27 Financial risk management

Interest rate risk

The table below summarises the bank's exposure to interest rate risks. Included in the table are the bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates as on 31 December 2013:

	Interest rate %	Up to 1 month RO'000	1 - 3 months RO'000	3 - 6 months RO'000	6 - 9 months RO'000	9 - 12 months RO'000	1 - 3 years RO'000	3 - 5 years RO'000	More than 5 years RO'000	Non-sensitive RO'000	Total RO'000
Assets											
Cash and balances with banks		-	-	-	-	-	-	-	-	5,282	5,282
Term deposits	2.5	-	-	1,000	-	-	-	-	-	-	1,000
Mortgage loan accounts	1-8	3,744	7,795	11,097	13,307	15,683	35,000	35,821	176,853	-	299,300
Property and equipment		-	-	-	-	-	-	-	-	2,386	2,386
Other assets		-	-	-	-	-	-	-	-	2,032	2,032
Total assets		3,744	7,795	12,097	13,307	15,683	35,000	35,821	176,853	9,700	310,000
Liabilities and equity											
Customers' deposits	1.3-2.50	1,986	5,586	11,702	7,386	18,386	9,508	1,928	1,934	-	58,416
Loans from the Government	3-5	-	-	-	-	-	52,830	31,000	-	20,000	103,830
Other liabilities		-	-	-	-	-	-	-	-	9,499	9,499
Shareholders' equity		-	-	-	-	-	-	-	-	138,255	138,255
Total liabilities and equity		1,986	5,586	11,702	7,386	18,386	62,338	32,928	1,934	167,754	310,000
Interest rate sensitivity gap		1,758	2,209	395	5,921	(2,703)	(27,338)	2,893	174,919	(158,054)	
Cumulative gap		1,758	3,967	4,362	10,283	7,580	(19,758)	(16,865)	158,054		

Notes to the financial statements
for the year ended 31 December 2013 (continued)

27 Financial risk management (continued)

Interest rate risk (continued)

31 December 2012

	Interest rate %	Up to 1 month RO'000	1 - 3 months RO'000	3 - 6 months RO'000	6 - 9 months RO'000	9 - 12 months RO'000	1 - 3 years RO'000	3 - 5 years RO'000	More than 5 years RO'000	Non-sensitive RO'000	Total RO'000
Assets											
Cash and balances with banks		-	-	-	-	-	-	-	-	4,853	4,853
Term deposits	2.5	-	-	-	-	-	1,000	-	-	-	1,000
Mortgage loan accounts	1 - 8	3,145	6,547	9,240	9,183	8,909	32,517	31,175	147,119		247,835
Property and equipment		-	-	-	-	-	-	-	-	2,144	2,144
Other assets		-	-	-	-	-	-	-	-	1,715	1,715
Total assets		3,145	6,547	9,240	9,183	8,909	33,517	31,175	147,119	8,712	257,547
Liabilities and equity											
Customers' deposits	0.32 - 1.8	5,208	1,308	2,824	4,608	8,189	1,543	1,543	1,549	-	26,772
Loans from the Government	3 - 5	-	-	-	-	-	52,830	24,000	-	20,000	96,830
Other liabilities		-	-	-	-	-	-	-	-	8,037	8,037
Shareholders' equity		-	-	-	-	-	-	-	-	125,908	125,908
Total liabilities and equity		5,208	1,308	2,824	4,608	8,189	54,373	25,543	1,549	153,945	257,547
Interest rate sensitivity gap		(2,063)	5,239	6,416	4,575	720	(20,856)	5,632	145,570	(145,233)	
Cumulative gap		(2,063)	3,176	9,592	14,167	14,887	(5,969)	(337)	145,233		

Notes to the financial statements
for the year ended 31 December 2013 (continued)

27 Financial risk management (continued)

Liquidity risk

The amounts disclosed in table below analyse the bank's financial assets and financial liabilities as on 31 December 2013 into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed are the contractual discounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of the discounting is not significant.

	Up to 1 month RO'000	1 - 3 months RO'000	3 - 6 months RO'000	6 - 9 months RO'000	9 - 12 months RO'000	1 - 3 years RO'000	3 - 5 years RO'000	More than 5 years RO'000	Non-sensitive RO'000	Total RO'000
Assets										
Cash and balances with banks	5,282	-	-	-	-	-	-	-	-	5,282
Term deposits	-	-	1,000	-	-	-	-	-	-	1,000
Mortgage loan accounts	3,744	7,795	11,097	13,307	15,683	35,000	35,821	176,853	-	299,300
Property and equipment	-	-	-	-	-	-	-	-	2,386	2,386
Other assets	1,740	20	50	222	-	-	-	-	-	2,032
Total assets	10,766	7,815	12,147	13,529	15,683	35,000	35,821	176,853	2,386	310,000
Liabilities and equity										
Customers' deposits	1,986	5,586	11,702	7,386	18,386	9,508	1,928	1,934	-	58,416
Loans from the Government	-	-	-	-	-	52,830	31,000	20,000	-	103,830
Other liabilities	3,176	1,136	383	88	4,486	14	-	216	-	9,499
Shareholders' equity	-	-	-	-	-	-	-	138,255	-	138,255
Total liabilities and equity	5,162	6,722	12,085	7,474	22,872	62,352	32,928	160,405	-	310,000
Net liquidity gap	5,604	1,093	62	6,055	(7,189)	(27,352)	2,893	16,448	2,386	-
Cumulative liquidity gap	5,604	6,697	6,759	12,814	5,625	(21,727)	(18,834	(2,386)	-	-
Liabilities off balance sheet										
Mortgage loan commitments	2,855	2,416	2,344	2,574	2,661	10,188	8,365	-	-	31,403
Total equity and liabilities (including off balance sheet)	8,017	9,138	14,429	10,048	25,533	72,540	41,293	160,405	-	341,403
Gap in maturity	2,749	(1,323)	(2,282)	3,481	(9,850)	(37,540)	(5,472)	16,448	2,386	(31,403)
Cumulative gap in maturity including off-balance sheet items	2,749	1,426	(856)	2,625	(7,225)	(44,765)	(50,237)	(33,789)		

27 Financial risk management (continued)

Liquidity risk (continued)

31 December 2012	Up to 1 month RO'000	1 - 3 months RO'000	3 - 6 months RO'000	6 - 9 months RO'000	9 - 12 months RO'000	1 - 3 years RO'000	3 - 5 years RO'000	More than 5 years RO'000	Non-sensitive RO'000	Total RO'000
Assets										
Cash and balances with banks	4,853	-	-	-	-	-	-	-	-	4,853
Term deposits	-	-	-	-	-	1,000	-	-	-	1,000
Mortgage loan accounts	3,145	6,547	9,240	9,183	8,909	32,517	31,175	147,119	-	247,835
Property and equipment	-	-	-	-	-	-	-	-	2,144	2,144
Other assets	1,440	24	234	-	-	**17**	-	-	-	1,715
Total assets	9,438	6,571	9,474	9,183	8,909	33,534	31,175	147,119	2,144	257,547
Liabilities and equity										
Customers' deposits	5,208	1,308	2,824	4,608	8,189	1,543	1,543	1,549	-	26,772
Loans from the Government	-	-	-	-	-	52,830	24,000	20,000	-	96,830
Other liabilities	1,138	1,031	240	1,855	3,579	-	-	194	-	8,037
Shareholders' equity	-	-	-	-	-	-	-	125,908	-	125,908
Total liabilities and equity	6,346	2,339	3,064	6,463	11,768	54,373	25,543	147,651	-	257,547
Net liquidity gap	3,092	4,232	6,410	2,720	(2,859)	(20,829)	5,632	(532)	(2,144)	-
Cumulative liquidity gap	3,092	7,324	13,734	16,454	13,595	(7,244)	(1,612)	(2,144)	-	-
Liabilities off balance sheet										
Mortgage loan commitments	2,255	1,909	1,852	2,033	2,103	8,049	6,610	-	-	24,811
Total equity and liabilities (including off balance sheet)	8,601	4,248	4,916	8,496	13,871	62,422	32,153	147,651	-	282,358
Gap in maturity	837	2,323	4,558	687	(4,962)	(28,888)	(978)	(532)	2,144	(24,811)
Cumulative gap in maturity including off-balance sheet items	837	3,160	7,718	8,405	3,443	(25,445)	(26,423)	(26,955)		

Notes to the financial statements for the year ended 31 December 2013 (continued)

28 Segmental information

The bank operates only one business segment of the banking industry and its operating revenues arise from providing finance for housing in the Sultanate of Oman.

Since the bank's entire mortgage loan accounts have associated risks and returns which are similar, the directors consider all mortgage loan accounts to be a single business. Accordingly, there is only one segment.

29 Taxation

In accordance with the Royal Decree No. 51/77 and Royal Decree No. 36/2010 the bank is exempt from income tax.

30 Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 29 January 2014.