بنك الإسكان العماني ش.م.ع.م.

OMAN HOUSING BANK S.A.O.C.

Pioneering Integrated Housing

Annual Report 2016

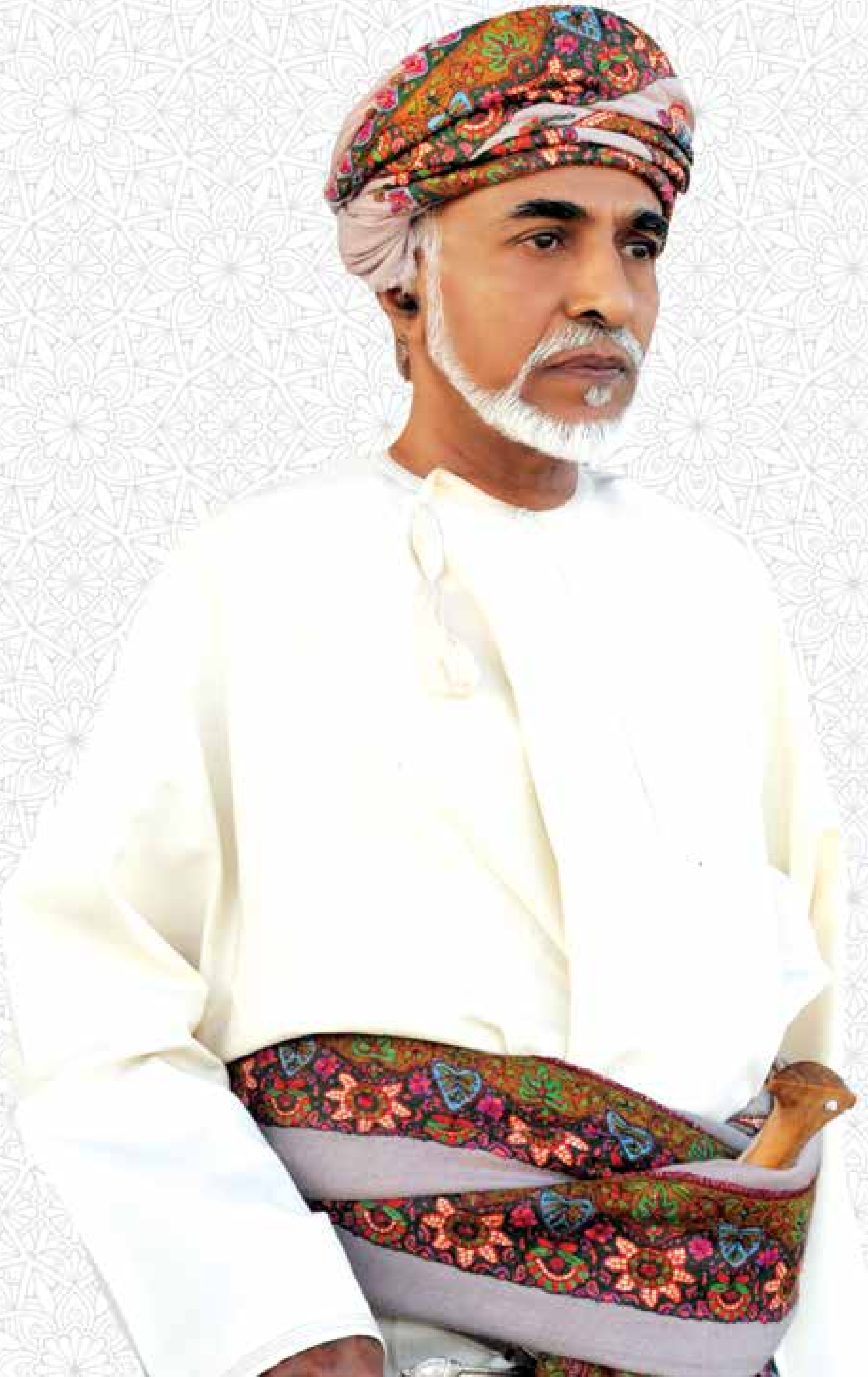
OMAN HOUSING BANK
S.A.O.C.

Annual Report
2016

Pioneering Integrated Housing

“The private sector is one of the main pillars of development whether in terms of economic development, which is the development of trade, industry, agriculture, tourism and the economy in general or in terms of social development, which manifested in the development of human resources, training, rehabilitation and refining its scientific and practical skills and creating renewable jobs and incentives to encourage employment in this sector”

From a speech of His Majesty at the Annual Meeting of the Oman Council 2012



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for the year ended 31 December 2016

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Vision

Pioneering Integrated Housing

Mission

The Bank seeks to be pioneer of housing loans and construction progresses to contribute in the economic development of the Sultanate of Oman, distinguishing by the services provided to its customers, sepcially 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 enviroment

بسم الله الرحمن الرحيم

Board of Directors' Report for Year 2016

Dear Shareholders

I am glad to welcome you, and pleased to present to you, on my own behalf and on behalf of my colleagues the members of the Board of Directors, the Annual Report for the Bank's annual results, achievements and financial statements for the year ended 31 December 2016.

The year 2016 was a positive year at all levels , where the Bank was able to achieve the objectives set forth in its budget for the said year , both in terms of the lending and enhancing the financial position of the bank , there are other achievements were made during the year as described in this report.

Lending Activity

During the year, the Bank continued to provide subsidized loans to citizens , in this regard, let me thank our esteemed Government for its continuous support to the bank . Following are the main achievements:

The number of loans approved is (1699) loans with amount of R.O 80 million until the end of 2016. The Bank also sought to deliver its services to various governorates of the Sultanate, especially areas outside Muscat Governorate. The loans granted to citizens outside Muscat Governorate are amounted to 1456 loans with amount of R.O 66,9 million representing 83,6% of the total lending .

The following table shows the loans granted with a subsidized fee, distributed as per the Bank's branches spread throughout the Sultanate's governorates.

Branches	subsidized loans approved during the year 2016				subsidized loans approved during the year 2015			
	No	%	Amount(R.O)	%	No	%	Amount(R.O)	%
Main Office	243	14,3	13140000	16,4	274	14,7	13412600	16,8
Salalah	74	4,4	4065500	5,1	81	4,3	4381300	5,5
Sohar	212	12,5	9868800	12,3	267	14,2	10450800	13
Sur	137	8	6834900	8,6	127	6,7	5728400	7,2
Nizwa	381	22,4	17132100	21,4	297	15,8	12227700	15,3
Khasab	31	1,8	1502300	1,9	45	2,4	2239100	2,8
Buraimi	108	6,4	5060500	6.3	131	7	5211900	7,5
Rustaq	379	22,3	16976200	21.2	482	25,6	19981600	25
Ibra	134	7,9	5419700	6.8	177	9,4	6366600	7,9
Total	1699	100%	80000000	100%	1881	100%	80000000	100%

Thus, the budget allocated for loans for 2016 amounting to RO 80 million and it has been fully utilized.

The total number of loans granted by the Bank to the citizens since its inception in 1977 until the end of 2016 reached (41087) with total amount of R.O 944,2 million , of them 16715 loan for the Governorate of Muscat with amount of R.O 355,6 million representing 40,7% of the total number of loans and 37,7% of its value .

The number of subsidized loans granted to citizens in areas outside the Governorate of Muscat has reached 24372 loan with amount of R.O 588,6 million i.e 59,3 /% of the total number of loans granted and 62.3% of its value as per following table :

Branches	subsidized loans approved during the period from the date of inception until 31/12/2016			
	No	%	Amount(R.O)	%
Main Office	16715	40,7	355636491	37,6
Salalah	4656	11,3	91566351	10
Sohar	3907	9,5	87913542	9,3
Sur	2653	6,5	59934896	6.3
Nizwa	4341	10,6	111377352	11.8
Khasab	742	1,8	17495300	1.8
Buraimi	1403	3,4	38202155	4
Rustaq	4632	11,3	131446100	13.9
Ibra	2038	4,9	50624900	5.3
Total	41087	100%	944197087	100%

Financial Results

In terms of financial results and through reviewing the figures of the balance sheet for the fiscal year ended 31 \ 12 \ 2016, it is clear that the Bank has achieved positive results by recording good growth rates in most financial indicators. Total assets of the Bank increased in 2016 to reach RO 446.8 million compared with e amount of RO 404.9 million at the end of 2015 it increased by 10,3%.

The growth in assets was mainly driven by the rise in the housing loan portfolio as the total loan portfolio increased on 31/11/2016 to reach R.O 420.7 million comparing with R.O 373,6 million at the end of last year by rate of 12,6%.

The Bank achieved a net profit of RO 13.8 million increased by 22,1% comparing with the net profit of 2015 which is RO 11.3 million. Total shareholders' equity also increased to reach RO 241,5 million comparing with RO 229,3 million, increased by 5,3% . This increase is due to the increase in capital, reserves and retained earnings.

The following table shows the status of the most important financial indicators during the past five years, from 2012 to 2016:

(Amounts in millions of Omani Rials)

Particulars	2012	2013	2014	2015	2016
Net profit	10,3	12,3	14,5	11,3	13,8
Total assets	257,5	310	347,5	404,9	446,8
Total liabilities	131,6	171,7	197,1	175,6	205,3
Total net loans	247,8	299,3	334,6	373,6	420,8
Total shareholders› equity	125,9	138,3	150,4	229.3	241,5

The Bank focuses on developing its assets while maintaining the quality and durability of assets to enhance the financial position of the Bank so that it can achieve its objectives effectively. The Board of Directors proposes to distribute the net profit of 2016 to the shareholders as follows:
Net profit for year 2016

(Amounts in millions of Omani Rials)

Net profit for the year	13,754
Net profit distributions Amount Transferred to the legal reserve(10% of net profit)	1,375
Amount Transferred to the special reserve	2,476
Distribution of cash dividends to the shareholders(5% of paid capital)	4,042
Amount transferred to retained earnings	5,861
Total Net profit for the year	13,754

In terms of training and human resources development, the Bank has organized 86 training sessions in various fields during the year inside and outside the Sultanate. The number of participants reached 319 participants, these sessions will enhance the capabilities of the staff so that they can perform the duties and responsibilities on the required basis. The percentage of Omanis reached 96,7% of total number of employees in the Bank. So by achieving this percentage the Bank is at the forefront of the banks operating in the Sultanate in this regard.

Introducing an advanced e-banking system

The Bank signed an agreement last year with a professional company to introduce an electronic banking system, in line with the Bank's plan to provide electronic solutions to achieve the Bank's vision of achieving a qualitative leap in its operations and services. It will benefit citizens by obtaining a high level of modern electronic services and meets international banking standards. In this moment the most parts of the system have been completed and it is expected to be operated during the first quarter of 2017.

Best Mortgage Bank Award

For the second year, the Bank was awarded the "Best Bank in the Mortgage Finance" category by the Arab Bankers Union. Winning this award is a clear demonstration of the bank's excellence and its achievement of standards and advanced management systems, and reflects the great role it played in the urban development in the Sultanate and the effective contribution to the efforts of the government in providing a decent life for Omani people.

The Board of Directors is looking forward to further achievements in various areas of the Bank's operations through the Financial and Strategic Plan for the next 10 years, in line with the Government's development plans and the Bank's mission to provide suitable housing for Omani families in need of housing.

In conclusion, the Board of Directors of the Bank extends its sincere thanks and gratitude to His Majesty Sultan Qaboos Bin Said (May Allah protect him) on his directives and generous patronage of the bank and thanks go to the esteemed government for the continuous support provided to the Bank to enable it to continue providing its services to all citizens easily.

The Board of Directors also extends its sincere thanks to the Ministry of Finance, the Central Bank of Oman and all ministries, institutions and all public and private organizations for their sincere and honest cooperation with the Bank in order to carry out its duties and responsibilities. Also we thanks and appreciate the staff of the Bank for their dedication, sincerity and efforts that they have made in order to serve this institution and promote it.

May God help us and you to provide more service to our beloved country Oman under the wise leadership of His Majesty Sultan Qaboos bin Said (May Allah protect him), and we pray to God to grant His Majesty good health, wellness and longevity and the Omani people with well-being and prosperity.

Yours Faithfully

Rashad Ahmed Mohammed Omair Al Hinai

Chairman of Board of Directors

بسم الله الرحمن الرحيم

Director General’s speech

Ladies and gentlemen,

Oman Housing Bank strives to continue the journey of outstanding accomplishments that came to existence through the execution of its strategic and financial plans in accordance with the objectives it was established for, achieving continuous successes, which has enabled it to strengthen its stature year after year, and strengthen the satisfaction of its clients, as evident that the bank has achieved rising growth rates in the various types of financial statements, which in turn has shown the extent of the bank’s capacity of optimally utilizing its financial resources. This would not have been realized without the careful planning the bank has maintained to fulfil its operations via methodologies and regulatory principles that have encompassed all the aspects of its operations, committing to the bank’s message and its obligations with utmost efficiency, capacity and professionalism, relying on its own abilities and qualified personnel. This has contributed in fulfilling the enhancement of accomplishments and lofty aspirations it has looked forward to, in order to reach the highest levels of advancement and success through our vision that set being in the lead as a target we are striving to reach. We have continued to commit to applying the ideal practices in the domain of banking operations and governance and the rest of international standards, which has resulted in advancement in the level of performance quantitatively and qualitatively.

The operating results have been satisfactory, as evident in that many financial indicators have shown steady growth, as the bank’s assets have achieved a growth of around 10% for the year of 2015. The bank has approved loans for the amount of 80 million Omani Rials in this year, and the lending portfolio has risen to (420.7) million Omani Rials with a growth rate of around (12.6%) compared with the end of 2015. Loan applications received throughout the year have reached more than (2000) with an amount of approximately (100) million Omani Rials, which indicates that demand for lending is at the utmost extent. In addition, the bank has continued to keep the lagging loan portfolio under control while it had been in its lowest performance levels thanks to the intensive efforts exerted to achieve this. Furthermore, the Capital adequacy ratio was fortified to exceed the regulatory requirements multiples of times, wherein it surpassed (104%), which indicates the strength of the bank’s financial position.

The bank’s role has grown during the preceding years, which makes it considered one of the resources that are relied on to accelerate development due to the fact that housing has a pivotal role in the development of all other sectors. This can be seen in that the bank has provided more than (41) thousand loans in the amounting of (900) million Omani Rials. The banking sector has become broader and more competitive, and this necessitates that the bank continues enhancing its operations, its performance levels, and the execution of its strategic and financial plans in order to preserve its clients and strengthen their confidence in us, a target that requires continued diligence, preservation of ascending and distinguished growth rates, and the establishment of a unique imprint in a banking world that is characterized by continuous competition and advancement.

The results the bank has achieved are the product of devoted efforts in addition to the introduction of enhancements and development of its entire operations which we take upon ourselves to preserve, resulting in fostering the continuation of distinguished and solid performance.

In closing, it is a source of deep gratification of us to express gratitude and acknowledgment to our esteemed government for the unceasing sustainment it provides the bank thus making it able to continue to offer its services to citizens. We would also like to express gratitude to His Excellency Chairman of Board Director and to all board directors for their guidance and continuous observation of the bank’s performance that work to fulfill the objectives for which it was established, and to our respected clients for their confidence in us. We furthermore thank all personnel in the establishment in all of their positions for their efforts, devotion and role in its success and prosperity.

We ask God for his sustenance for all.

Adnan Haidar Darwish

Director General

Secretary of the Board of Directors

Oman Housing Bank S.A.O.C

Risk Management Department

DISCLOSURE UNDER BASEL II-PILLAR 3/2016

1. Risk Management

The Board of Directors has a very important role to play in the overall supervision of risk management operations, in order to ensure proper application of the same, and that the Bank is operating within the prescribed limits. The Board approves all the risk management policies and sets the acceptable risk levels, in addition to the approval of the capital adequacy evaluation process.

The Board has formed a Committee (Finance and Risk Management) to assist the Board in proposing and developing risk management policies; to suggest the acceptable risk levels'; to develop the proper methods to identify, measure and control risks; and to monitor the compliance of the Bank's units with the risk measures and limits, as well as to review the efficiency and efficacy of the Risk Management Department by being under the supervision of the said Committee.

2. Disclosure Policy

The Bank has an official policy in place derived from Basel II (Disclosure Requirements under Pillar 3) as approved by the Board in line with the CBO's requirements.

3. Scope of Application

The Bank operates through a network of branches in the Sultanate of Oman, and the statements submitted later about the capital structure are consolidated of all the branches. The Bank has no subsidiaries and does not constitute part of any group.

4. Capital Structure

The Bank's regulatory capital is divided into three tiers:

- Tier 1: Core capital, including: The paid-up capital, legal reserve, special reserve and retained earnings. There are no innovative capital instruments. The authorized capital comprises (89,325) million shares of OMR 1 each. The Bank allocates (10%) of its annual profits to the legal reserve, and such allocation shall continue until the reserve becomes equal to one third of the capital. Such reserve may not be distributed, and the General Meeting may decide to formulate optional reserves up to 20% of the net profits of a given year after the deduction of the legal reserve. The formulation of retained earnings is aimed at improving the Bank's financial position and to meet any unforeseen contingencies.

- Tier 2: Additional Capital, which is comprised of: General Allowance for Loan Loss (not exceeding 1.25% of the Risk Weighted Assets).

- Tier 3: Short-term subordinated loan to meet market risk: The Bank has no Tier 3 capital.

Following are the capital structure components as on the disclosure date:

Statutory Capital Structure as on 31/12/2016	000 OR
	89,325
1- Core capital:	20,006
Paid-up Capital	55,635
Legal Reserve	59,502
Special Reserve	
Retained Earnings	
	224,468
Total Tier 1	
Tier 2 – Additional Capital:	2,230
General Allowance for Loan Loss	2,230
Total Tier 2	
Total Eligible Capital	
	226,698

5. Capital Adequacy

The Bank's capital adequacy is calculated according to Basel II guidelines and CBO's directives, by using standardized approach for calculating credit and market risks, if any, along with applying the simple approach for recognizing the collaterals. The Basic Indicator Approach is applied for calculating operational risk. The Bank uses the ratings by Moody's to calculate the risk of claims from banks and other financial institutions. The Bank has a policy to maintain robust and adequate capital base commensurate with the nature of the Bank's activity of providing long-term lending in order to meet any loss risks or unforeseen difficulties. In spite of the strong capital base, which enables the Bank to cope with any conditions or fluctuations, nevertheless, the Board has decided, to ensure more precaution and prudence to meet any developments, to increase the capital adequacy by (2%) above the regulatory level prescribed by CBO of (12%), so that the Bank's official adequacy rate will become (14%). The actual adequacy rate at the end of the year was (104.55%)as evident from the following statements.

The quantitative calculation of the Bank's capital adequacy is as follows:

Description Amounts in RO '000	Total Balances (Book Value)	Net Balances (Book Value)*	Risk Weighted Assets
Balance Sheet Items		444,714	172,807
Off-Balance Sheet Items		42,441	5,604
Capital-Tier 1		224,468	224,468
Capital-Tier 2		2,230	2,230
Capital-Tier 3		--	--
Total Eligible Capital		226,698	226,698
Capital Requirements for Credit Risk		178,411	21,409
Capital Requirements for Market Risk			--
Capital Requirements for Operational Risk		38,414	4,610
Total Capital Risk		216,825	26,019
Capital Adequacy Ratio- Tier 1			103.52%
Capital Adequacy Ratio - Total			104.55%

* Net after deduction of provisions, reserved interests and eligible collaterals.

6. Risks & Reserves (Hedging)

6-1: Credit Risk Credit

Risks result from all the products and services if counterparty fails to meet its payment obligations according to the contractual terms and conditions. Despite that the credit offered by the bank is comprised of housing loans available to citizens, secured by property and geographically confined to the Sultanate of Oman, but risks, however, may sometimes arise when such collaterals don't fully covering the entire obligations payable by the customer. Credits are approved by the Executive Management within specific limits, and according to prudent criteria and practices as authorized by the Board, in order to minimize any potential losses, and keep the credit risk exposure within low levels and acceptable limits. The Bank follows the standardized approach for calculating the risk weighted assets at a rate (35%) for housing loans subsidized by the Government of the Sultanate of Oman, and the rate of (100%) for the other loans. The Bank also identifies the amount of potential credit losses by following the set credit rating pursuant to CBO's Circular (BM 977) dated 25 Sep. 2004, after taking into account the market value of the real estate collaterals by(50%).

Whereas the credit offered by the Bank is limited to one type and confined within one geographical area, the quantitative disclosure is limited to:

RO '000

Credit Type	Average of Current Period	Status as on 31/12/2016
Personal loans to staff	0	0
Housing loans to citizens subsidized by the government	4270	398971
Other housing loans for citizens (Unsubsidized)	337	21794
Total	4607	420765

Movement of Gross Financing

RO '000							
Sr.	Details	Performing Loans		Non-Performing Loans			
1	Opening Balance	379,269	72	952	547	1690	382,530
2	Consolidation /Change	318	253	(215)	(17)	(339)	0
3	New Loans	74,903	2	4	1	41	74,951
4	Recovery of Loans	27,094	12	54	23	99	27,282
5	Loans Written off	0	0	0	0	0	0
6	Closing Balance	427247	464	687	508	1293	430,199
7	Provision Held for Scheduled Loans	8,547	28	170	130	320	9,195
8	Retained Provision	0	1	7	5	226	239

6-2 Market Risk

Market risk is the risk of changes in the value of financial instruments or transactions due to changes in the market variables. The items on the balance sheet of the Bank do not currently include any assets or liabilities exposed to changes in foreign exchange rate, as all transactions are made either Omani Rials or US Dollar, which is pegged to OMR. As for interest rate risk, they may arise directly in the event of increase in the interest rate on short-term deposits or mid-term loans, while the interest rates are fixed for customer borrowings. The Bank is trying to follow long-term loan policy to avoid such risks, or Government loans at a fixed interest rate. The Bank's closing accounts include distribution of assets and liabilities over predetermined timescales to indicate the sensitivity gap towards interest rates.

6-3 Liquidity Risk

Liquidity risk is the risk that the Bank will not be able to meet its obligations as they fall due. Liquidity risk arises due to desynchronized cash inflows and outflows. The Bank follows a prudent liquidity management policy by maintaining certain arrangements to provide available cash to meet its short term obligations. The Bank's approach to managing liquidity is to reduce, as far as possible, the gap between the assets and liabilities, as well as by mid and long term borrowings, when necessary, to ensure that sufficient liquid funds are available to meet any commitments as they arise. The final accounts of the Bank include an analysis of the assets and liabilities over a number of predetermined timescales to indicate liquidity gap.

6-4 Operational Risk

Operational risk refers to the loss resulting from inadequate or failed internal processes, people and systems or from external events, etc. that may arise due to legal or regulatory requirements. The Bank follows the Basic Indicator Approach for the measurement of such risk, which stipulates that 15% shall be deducted from the average income for the last three-year period to determine the Operational risk capital.

Second: Business Continuity Planning Business Continuity Management refers to the implementation and management of preventive measures, planning and preparation to ensure resumption of the Bank's business after an emergency or shutdown. The Bank will ensure that all systems and processes can be resumed during situations of business interruption. To this end, the Bank has a contingency plan in place to ensure effective business continuity under unforeseen disasters, in accordance with CBO's instructions in this regard. The Bank carries out constant revision of the current plans by applying an active action plan to ensure processes and systems continuity along with flexibility and readiness to address any emergency requirements. The business Continuity Management Committee is responsible for drafting, adopting, modifying, testing and maintaining the activity continuity plans of the Bank. The Committee shall review and agree on strategic input as regards the evaluation and planning of business continuity to ensure proper management of business continuity and that planning and maintenance responsibility is recognized across all business processes. In order to enhance the business continuity plan framework,

the Bank has:

* formed the Business Continuity Management Committee and determined the terms of reference thereof. The same holds necessary meetings for performing its role.
* Conducted Evacuation and first aid drills in case of fire at the Head Office.
* Conducted annual tests to restore the banking system of the Bank.

Deloitte.

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of **Oman Housing Bank SAOC** ("the Bank"), which comprise the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies set out on pages 4 to 40.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the other ethical requirements that are relevant to our audit of the Bank's financial statements in Sultanate of Oman, and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Management is responsible for the other information. The other information comprises the Board of Directors' report which is expected to be made available to us after the date of this audit report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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Responsibilities of management and Board of Directors for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended, and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Board of Directors are responsible for overseeing the Bank's financial reporting process

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risk, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidenced obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosure are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

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

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Auditor's responsibilities for the audit of the financial statements

We communicate with the with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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.

Deloitte & Touche

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
13 March 2017

OMAN HOUSING BANK SAOC

Statement of financial position
at 31 December 2016

	Note	2016 RO'000	2015 RO'000
ASSETS			
Cash and bank balances	5	8,563	5,170
Mortgage loan accounts	6	420,765	373,569
Due from Government	25	10,675	21,350
Property and equipment	7	4,883	2,993
Other assets	8	1,950	1,801
Total assets		446,836	404,883
LIABILITIES AND EQUITY			
LIABILITIES			
Due to Banks	9	22,297	32,639
Customers' deposits	10	25,369	16,541
Loans from the Government	11	103,830	103,830
Loan from Arab Fund For Economic and Social Development	12	42,751	12,978
Other liabilities	13	11,085	9,581
Total liabilities		205,332	175,569
EQUITY			
Share capital	14	100,000	100,000
Legal reserve	15	20,006	18,631
Special reserve	16	55,635	53,159
Revaluation reserve	7, 17	2,319	1,157
Retained earnings		63,544	56,367
Total equity		241,504	229,314
Total liabilities and equity		446,836	404,883
Mortgage loan commitments	24	42,441	44,278

H.E. Rashad Ahmed Mohd Al Hinai
Chairman

Adnan Bin Haider Bin Darwish
General Manager

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

OMAN HOUSING BANK SAOC

Statement of profit or loss and other comprehensive income for the year ended 31 December 2016

	Note	2016 RO'000	2015 RO'000
Interest income	19	24,545	21,942
Interest expense	20	(5,167)	(4,393)
Net interest income		19,378	17,549
Other operating income	21	1,562	1,149
General and administrative expenses	22	(6,526)	(6,098)
Depreciation of property and equipment	7	(169)	(165)
Operating expenses		(6,695)	(6,263)
Net operating profit before provisions and write offs		14,245	12,435
Provision for impairment of loans - specific	6	(696)	(383)
Provision for impairment of loans – general	6	(1,013)	(752)
Provision for impairment of loans – specific (restructured loans)	6	(22)	(351)
Reversal of provision for impairment of restructured loans	6	351	-
Reversal of provision for impairment of loans – specific	6	890	384
Bad debt written off		(1)	-
Profit for the year		13,754	11,333
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net revaluation surplus during the year		1,162	-
Total comprehensive income for the year		14,916	11,333
Earnings per share (basic and diluted)	23	0.137	0.174

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

OMAN HOUSING BANK SAOC

Statement of changes in equity
for the year ended 31 December 2016

	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 2016	100,000	18,631	53,159	1,157	56,367	229,314
Comprehensive income:						
Profit for the year	-	-	-	-	13,754	13,754
Other comprehensive income:						
Revaluation surplus during the year (note 17)	-	-	-	1,162	-	1,162
Total other comprehensive income for the year	-	-	-	1,162	13,754	14,916
Transactions with shareholders:						
Dividend paid for 2015	-	-	-	-	(2,726)	(2,726)
Transfer to legal reserve	-	1,375	-	-	(1,375)	-
Transfer to special reserve	-	-	2,476	-	(2,476)	-
Total transactions with shareholders	100,000	1,375	2,476	-	(6,577)	(2,726)
At 31 December 2016	100,000	20,006	55,635	2,319	63,544	241,504

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

OMAN HOUSING BANK SAOC

Statement of changes in equity
for the year ended 31 December 2016 (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 2015	30,000	17,498	51,119	1,157	50,607	150,381
Comprehensive income:						
Profit for the year	-	-	-	-	11,333	11,333
Total other comprehensive income for the year	-	-	-	-	11,333	11,333
Transactions with shareholders:						
Dividend paid for 2014	-	-	-	-	(2,400)	(2,400)
Share capital introduced	70,000	-	-	-	-	70,000
Transfer to legal reserve	-	1,133	-	-	(1,133)	-
Transfer to special reserve	-	-	2,040	-	(2,040)	-
Total transactions with shareholders	70,000	1,133	2,040	-	(5,573)	67,600
At 31 December 2015	100,000	18,631	53,159	1,157	56,367	229,314

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

OMAN HOUSING BANK SAOC

Statement of cash flows
for the year ended 31 December 2016

	2016 RO'000	2015 RO'000
Operating activities		
Profit for the year	13,754	11,333
Adjustments:		
Depreciation of property and equipment	169	165
Loss on write off of property and equipment	11	-
Reversal of provision for impairment of loans - specific	(890)	(384)
Reversal of provision for impairment of restructured loans	(351)	-
Provision for impairment of loans – specific	696	383
Provision for impairment of loans – specific (restructured loans)	22	351
Provision for impairment of loans – general	1,013	752
Bad debt written off	1	-
Operating profit before changes in operating assets and liabilities	14,425	12,600
Changes in operating assets and liabilities:		
Term deposits	-	-
Due from government	10,675	(21,350)
Mortgage loan accounts	(47,687)	(40,076)
Other assets	(149)	354
Due to banks	(10,342)	2,140
Customers' deposits	8,828	(30,120)
Other liabilities	1,504	68
Net cash used in operating activities	(22,746)	(76,384)
Investing activities		
Purchase of property and equipment	(908)	(653)
Financing activities		
Share capital introduced	-	70,000
Loan from the Arab Fund for Economic & Social Development	29,773	6,339
Dividend paid	(2,726)	(2,400)
Net cash from financing activities	27,047	73,939
Net change in cash and cash equivalents	3,393	(3,098)
Cash and cash equivalents at the beginning of the year	5,170	8,268
Cash and cash equivalents at the end of the year (note 5)	8,563	5,170

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

OMAN HOUSING BANK SAOC

Notes to the financial statements
for the year ended 31 December 2016

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% (2015: 5%) of the paid-up share capital should be paid to the shareholders

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 in a form of subsidy.

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

2.1 New and revised IFRSs applied with no material effect on the financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2016, have been adopted in these financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- IFRS 14 *Regulatory Deferral Accounts*
- Amendments to IAS 1 *Presentation of Financial Statements* relating to Disclosure initiative
- Amendments to IFRS 11 *Joint arrangements* relating to accounting for acquisitions of interests in joint operations
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* relating to clarification of acceptable methods of depreciation and amortisation
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture*: Bearer Plants
- Amendments to IAS 27 *Separate Financial Statements* relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investment in Associates and Joint Ventures* relating to applying the consolidation exception for investment entities
- Annual Improvements to IFRSs 2012 – 2014 Cycle covering amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34

OMAN HOUSING BANK SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

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

2.2 New and revised IFRS in issue but not yet effective

The Bank has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	**Effective for annual periods beginning on or after**
Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1, IFRS 12 and IAS 28	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017
Amendments to IAS 12 *Income Taxes* relating to the recognition of deferred tax assets for unrealised losses	1 January 2017
Amendments to IAS 7 *Statement of Cash Flows* to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	1 January 2017
IFRIC 22 *Foreign Currency Transactions and Advance Consideration* The interpretation addresses foreign currency transactions or parts of transactions where: • there is consideration that is denominated or priced in a foreign currency; • the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary.	1 January 2018
Amendments to IFRS 2 *Share Based Payment* regarding classification and measurement of share based payment transactions	1 January 2018
Amendments to IFRS 4 *Insurance Contracts*: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	1 January 2018
Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	1 January 2018
Amendments to IFRS 7 *Financial Instruments: Disclosures* relating to disclosures about the initial application of IFRS 9.	When IFRS 9 is first applied
IFRS 7 *Financial Instruments: Disclosures* relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.	When IFRS 9 is first applied

OMAN HOUSING BANK SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

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

2.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 9 *Financial Instruments* (revised versions in 2009, 2010, 2013 and 2014)	1 January 2018

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas:

- **Classification and measurement**: Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **Impairment**: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised
- **Hedge accounting**: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **Derecognition**: The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

OMAN HOUSING BANK SAOC

Notes to the financial statements for the year ended 31 December 2016 (continued)

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

2.2 New and revised IFRS in issue but not yet effective

New and revised IFRSs	**Effective for annual periods beginning on or after**
IFRS 15 *Revenue from Contracts with Customers* In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition: • Step 1: Identify the contract(s) with a customer. • Step 2: Identify the performance obligations in the contract. • Step 3: Determine the transaction price. • Step 4: Allocate the transaction price to the performance obligations in the contract. • Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.	1 January 2018
Amendments to IFRS 15 *Revenue from Contracts* with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.	1 January 2018
IFRS 16 *Leases* IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	1 January 2019
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely

OMAN HOUSING BANK SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

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

Management anticipates that these new standards, interpretations and amendments will be adopted in the Bank's financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, IFRS 15 and IFRS 16, may have no material impact on the financial statements of the Bank in the period of initial application.

Management anticipates that IFRS 15 and IFRS 9 will be adopted in the Bank's financial statements for the annual period beginning 1 January 2018 and that IFRS 16 will be adopted in the Bank's financial statements for the annual period beginning 1 January 2019. The application of IFRS 15 and IFRS 9 may have significant impact on amounts reported and disclosures made in the Bank's financial statements in respect of revenue from contracts with customers and the Bank's financial assets and financial liabilities and the application of IFRS 16 may have significant impact on amounts reported and disclosures made in the Bank's financial statements in respect of its leases.

However, it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Bank performs a detailed review.

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.

OMAN HOUSING BANK SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

3 Summary of significant accounting policies (continued)

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 profit or loss and other 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 profit or loss and other 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 profit or loss and other 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.

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.

OMAN HOUSING BANK SAOC

Notes to the financial statements for the year ended 31 December 2016 (continued)

3. Summary of significant accounting policies (continued)

Property and equipment (continued)

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 or by external valuer. 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 profit or loss and other 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 profit or loss and other comprehensive income.

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.

OMAN HOUSING BANK SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

3. Summary of significant accounting policies (continued)

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.

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.

OMAN HOUSING BANK SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

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 profit or loss and other 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 profit or loss and other 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.

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.

OMAN HOUSING BANK SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

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 profit or loss and other 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 profit or loss and other 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.

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 61/2013.

OMAN HOUSING BANK SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

3. Summary of significant accounting policies (continued)

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 or losses are included in the Statement of profit or loss and other 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 profit or loss and other 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.

OMAN HOUSING BANK SAOC

Notes to the financial statements
for the year ended 31 December 2016 (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 profit or loss and other 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.

OMAN HOUSING BANK SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

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 11) 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 Cash and banks' balances

	2016 **RO**	2015 RO
Cash and balances with banks	**8,563**	5,170

OMAN HOUSING BANK SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

6 Mortgage loan accounts

	2016 RO'000	2015 RO'000
Gross mortgage loan accounts as at 1 January	**382,530**	342,439
Loans distributed during the year	**79,220**	70,546
Repayments during the year	**(31,551)**	(30,455)
Gross mortgage loan accounts as at 31 December	**430,199**	382,530
Provision for impairment of loans (refer 'a' below)	**(9,195)**	(8,705)
Reserved banking and administrative service fees (refer 'b' below)	**(239)**	(256)
Net mortgage loan accounts as at 31 December	**420,765**	373,569

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

	2016 RO'000	2015 RO'000
At 1 January	**8,705**	7,603
Provision for impairment of loans – Specific	**696**	383
Provision for impairment of loans – specific (Restructured Loans)	**22**	351
Provision for impairment of loans – General	**1,013**	752
Reversal of provision for impairment of loans – Specific	**(890)**	(384)
Reversal of provision for impairment of loans –Restructured	**(351)**	-
At 31 December	**9,195**	8,705

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

	2016 RO'000	2015 RO'000
At 1 January	**256**	241
Banking and administrative service fees provided during the year	**63**	64
Banking and administrative service fees written back during the year	**(80)**	(49)
Written off during the year	**-**	-
At 31 December	**239**	256

Banking and administrative service fees on classified loans 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.

OMAN HOUSING BANK SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

6 Mortgage loan accounts (continued)

At 31 December 2016 the specific provision for loan impairment and the reserved banking and administrative service fees represents 34.52 % (2015- 33.55%) of gross non-performing mortgage accounts. Also, the bank maintains collective provision for impairment for the performing loans amounting to RO 8,552,580 (2015 - RO 7,539,982).

The banking and administrative service fees rates varied from 1% to 6% (2015 - 1% to 6%) per annum in addition to the contribution received from the Government of the Sultanate of Oman.

Summary of mortgage loan accounts is as follows:

	2016	2015
	RO'000	RO'000
Performing accounts	**427,247**	379,269
Past due but not impaired	**464**	72
Non-performing mortgage loans	**2,488**	3,189
Total mortgage loans	**430,199**	382,530
Provision for impairment of loans	**(9,195)**	(8,705)
Reserved banking and administrative service fees	**(239)**	(256)
Net mortgage loan accounts as at 31 December	**420,765**	373,569
Past due but not impaired		
Past due (60 - 89 days)	**464**	72
Non-performing loans		
Substandard (past due 90 - 179 days)	**687**	952
Doubtful (past due 180 - 364 days)	**508**	547
Loss (past due 365 days and over)	**1,293**	1,690
	2,488	3,189
Fair value of collateral	**5,001**	7,404

OMAN HOUSING BANK SAOC

Notes to the financial statements
for the year ended 31 December 2016 (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						
At 1 January 2015	3,550	1,227	693	235	277	5,982
Additions	-	69	81	11	492	653
Disposal	-	(1)	(29)	-	-	(30)
Transfer	5	74	-	-	(79)	-
At 1 January 2016	3,555	1,369	745	246	690	6,605
Additions	-	50	18	-	840	908
Disposals	-	(15)	(10)	-	(10)	(35)
Transfer	-	-	12	-	(12)	-
Revaluation	1,162	-	-	-	-	1,162
At 31 December 2016	4,717	1,404	765	246	1,508	8,640

OMAN HOUSING BANK SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

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 2015	1,623	1,089	580	185	-	3,477
Change for the year	39	52	57	17	-	165
Disposals	-	(1)	(29)		-	(30)
At 1 January 2016	**1,662**	**1,140**	**608**	**202**	-	**3,612**
Charge for the year	**36**	**49**	**66**	**18**	-	**169**
Disposals	-	**(15)**	**(9)**	-	-	**(24)**
At 31 December 2016	**1,698**	**1,174**	**665**	**220**	-	**3,757**
Carrying value						
At 31 December 2016	**3,019**	**230**	**100**	**26**	**1,508**	**4,883**
At 31 December 2015	1,893	229	137	44	690	2,993

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 2016 is RO 2,319,500 (2015 - RO 1,157,000). 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 and by external valuers for 3 plots revaluated during the current year.

OMAN HOUSING BANK SAOC

Notes to the financial statements for the year ended 31 December 2016 (continued)

8 Other assets

	2016 RO'000	2015 RO'000
Other receivables (Note 25)	1,697	1,542
Prepayments and others	253	259
	1,950	1,801

9 Due to Banks

Deposits from Banks	22,000	32,500
Bank overdrafts	297	139
	22,297	32,639

Interest rates paid on term deposits varied from 2% to 3.65% (2015 – 0.75% to 2.75%) per annum.

10 Customers' deposits

	2016 RO'000	2015 RO'000
Saving accounts	8,794	8,543
Term deposits	16,575	7,998
	25,369	16,541

Interest rates paid on savings accounts and terms deposits varied from 1% to 4.25% (2015 - 1% to 2.4 %) per annum.

11 Loans from the Government

	2016 RO'000	2015 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	31,000
Subordinated loan	20,000	20,000
	103,830	103,830

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% (2015 - 5% and 3%) per annum.

OMAN HOUSING BANK SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

11 Loans from the Government (continued)

Loan 3 from the Government of the Sultanate of Oman is denominated in Rial Omani and carries interest rate of 3% (2015 - 3%) per annum.

Loan 4 from the Government of the Sultanate of Oman is denominated in Rial Omani and carries interest rate of 3% (2015 - 3%) per annum.

Theese loans do not have repayments terms and management believes that these amounts will not be paid in the next 12 months.

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.

12 Loan from the Arab Fund for Economic & Social Development

During the year 2014, the Arab Fund for Economic & Social Development approved a loan of Kuwait Dinar 40,000,000 to the bank of which KWD 34,000,000 equivalent RO 42,751,233 has been disbursed as at 31 December 2016, the balance will be disbursed upon Bank's needs. Interest paid every six month of each year in February and August. The loan is repayable in thirty-six semi-annual equal installments each amount to KWD 1,100,000 and last installment amounted to KWD 400,000 after grace period of four years from the first withdrawal.

13 Other liabilities

	2016 **RO'000**	2015 RO'000
Retention payable to contractors	**4,196**	3,216
Accrued interest	**2,831**	2,660
Customers' insurance payable	**1,690**	1,197
Sale proceeds for financing new residences and personal stakes	**1,076**	1,404
End of service benefits (refer below)	**170**	164
Other payables	**1,122**	940
	11,085	9,581

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

	2016 **RO'000**	2015 RO'000
At 1 January	**164**	170
Expense recognised in the statement of comprehensive income	**20**	24
Cash paid to employees	**(14)**	(30)
At 31 December	**170**	164

OMAN HOUSING BANK SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

14 Share capital

The share capital of the bank is divided into 100,000,000 (2015 – 100,000,000) shares of RO 1 each for the 2016 the paid up capital was 89,325,000 share (2015 – 78,650,000). The shareholding pattern is as follows:

	2016	2015
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%

15 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 and may not stop this deduction unless if the balance of this account is one-third of the capital. The legal reserve is not available for distribution.

16 Special reserve

In accordance with the Articles of Association of the bank, after appropriation of legal reserve and dividend proposed; the General Assembly may decide to create optional reserve accounts not exceeding 20% (2015-20%) of the net profits.

17 Revaluation reserve

This reserve represents the fair value gain arising from revaluation of lands after the initial recognition. During the year the Board of Directors had passed a resolution to revaluate the lands owned by the Bank through external valuers, as a result 3 plots were revaluated and the movement appears as below:

	2016 RO'000	2015 RO'000
At 1 January	**1,157**	1,157
Revaluation during the year	**1,162**	-
At 31 December	**2,319**	1,157

The revaluation reserve is not available for distribution.

OMAN HOUSING BANK SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

18 Proposed dividend

The cash dividend of RO 4,042 thousand has been proposed by the bank's Board of Directors (2015 – RO 2,726 thousand) and will be submitted for shareholders' approval. The break-up of the proposed cash dividend is as follows:

- 5% dividend of RO 2,092 thousand on paid up share capital of RO 50,325 thousand, held by Ministry of Finance (MoF), and pro-rata dividend on additional share capital of RO 10,675 thousand that was received by the Bank from MoF on 18 October 2016.
- 5% on share capital of RO 39,000 thousand held by the other shareholders amounting to RO 1,950 thousand.

19 Interest income

	2016 RO'000	2015 RO'000
Banking and administrative service fee	5,336	4,416
Government contribution to administrative fee (refer below)	19,201	17,522
Interest on short-term deposits	8	4
	24,545	21,942

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 in a form of subsidy. For the year 2016 the subsidy amount was RO 19,201,216 (2015 - RO 17,521,829).

20 Interest expense

	2016 RO'000	2015 RO'000
Interest on loans from the Government	3,219	3,212
Interest on customers' deposits	1,142	873
Interest on loan from Arab Fund for Economic and Social Development	806	308
	5,167	4,393

21 Other income

Fees and commissions	973	1,098
Miscellaneous income	589	51
	1,562	1,149

OMAN HOUSING BANK SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

22 General and administrative expenses

	2016 RO'000	2015 RO'000
Staff expenses	5,619	5,133
Training expenses	71	139
Professional fees	94	114
Communication costs	98	87
Board of Directors' remuneration - proposed	84	35
Board of Directors' meeting expenses and sitting fees	39	22
Utilities and rent	97	98
Maintenance	115	147
Legal expenses	27	27
Travelling expenses	22	20
Marketing expense	9	26
Stationary charges	22	24
Miscellaneous expenses	229	226
	6,526	6,098

23 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.

	2016	2015
Net profit for the year (RO'000)	13,754	11,333
Weighted average number of shares outstanding (shares'000)	100,000	65,288
Earnings per share - basic and diluted (RO)	0.137	0.174

24 Mortgage loan commitments

Mortgage loan accounts - approved but not disbursed	42,441	44,278

25 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 profit or loss and other comprehensive income are as follows:

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Notes to the financial statements for the year ended 31 December 2016 (continued)

25 Related parties (continued)

	2016 RO'000	2015 RO'000
Government		
Government contribution to administrative fee (note 19)	**19,201**	17,522
Interest on loans from the Government (note 20)	**3,219**	**3,212**
Directors		
Banking and administrative fees	-	1
Board of Directors' meeting expenses and sitting fees (note 22)	**39**	22
Board of Directors' remuneration - proposed (note 22)	**84**	35
Key management		
Banking and administrative fees	**4**	6
Amount due (to) / from related parties:		
Loans from the Government (note 11)	**(103,830)**	(103,830)
Interest accrued on loans from the Government	**(1,912)**	(1,912)
Receivable against Government contribution to administrative fee	**1,697**	1,542
Due from Government – Share capital	**10,675**	21,350
Fixed deposits from Shareholders	**(15,000)**	(6,000)
Directors		
Mortgage loan accounts	-	25
Key management		
Mortgage loan accounts	**172**	238

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:

	2016 RO'000	2015 RO'000
Salaries and allowances	**514**	427
Other benefits	**273**	51
	787	478

OMAN HOUSING BANK SAOC

Notes to the financial statements for the year ended 31 December 2016 (continued)

26 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 14 to 17.

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:

	2016 RO'000	2015 RO'000
Debt	194,247	165,988
Equity	241,504	229,314
Debt to equity ratio	**80.43%**	72.38%

Debt includes loan from Government, Loan from the Arab Fund for Economic & Social Development 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:

	2016 RO'000	2015 RO'000
Capital base		
Tier 1	224,468	225,431
Tier 2	2,230	2,635
Adjustment	-	(21,350)
Total capital base	**226,698**	206,716
Risk weighted assets		
Credit risk - on balance sheet items	172,807	156,566
Credit risk - off balance sheet items	5,604	16,704
Operational risk	38,414	37,538
Total risk weighted assets	**216,825**	210,808
Capital adequacy ratio	**104.55%**	98.06%

OMAN HOUSING BANK SAOC

Notes to the financial statements for the year ended 31 December 2016 (continued)

27 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 28.

OMAN HOUSING BANK SAOC

Notes to the financial statements for the year ended 31 December 2016 (continued)

27 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 6). 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;
- 99.42 % of the loans and advances portfolio are considered to be neither past due nor impaired (2015 - 99.17 %);
- Impaired loans assessed on an individual basis amounted to RO 2,487,766 (2015 - RO 3,189,000) which is 0.58% (2015 - 0.83%) of total gross mortgaged loans

OMAN HOUSING BANK SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

27 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:

	2016		2015	
	RO'000	%	RO'000	%
Balances with banks	8,385	1.77	5,020	1. 18
Mortgage loan accounts	420,765	88.90	373,569	88.02
Other assets	1,697	0.36	1,542	0.37
Mortgage loan commitments	42,441	8.97	44,278	10.43
	473,288	100.00	424,409	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 and regionally on both short and long-term bases to finance its loans.

The maturity profile of assets and liabilities is set out in note **28**.

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Notes to the financial statements
for the year ended 31 December 2016 (continued)

28 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 2016:

	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 banks' balances		-	-	-	-	-	-	-	-	8,563	8,563
Due from Government		-	-	-	-	-	-	-	-	10,675	10,675
Mortgage loan accounts	1-6	5,334	13,578	21,812	24,971	27,819	49,757	50,951	226,543	-	420,765
Property and equipment		-	-	-	-	-	-	-	-	4,883	4,883
Other assets		1,697	-	-	-	-	-	-	-	253	1,950
Total assets		7,031	13,578	21,812	24,971	27,819	49,757	50,951	226,543	24,374	446,836
Liabilities and equity											
Due to Banks	2-3.65	297	1,000	5,000	8,000	8,000	-	-	-	-	22,297
Customers' deposits	1-4.25	440	3,940	439	439	2,014	9,199	2,199	6,699	-	25,369
Loans from the Government	3-5	-	-	-	-	-	-	31,000	52,830	20,000	103,830
Loan from the Arab Fund	3	-	-	-	-	-	4,149	5,533	33,069	-	42,751
Other liabilities		1,965	599	79	102	4,222	112	1	-	4,005	11,085
Shareholders' equity		-	-	-	-	-	-	-	-	241,504	241,504
Total liabilities and equity		2,702	5,539	5,518	8,541	14,236	13,460	38,733	92,598	265,509	446,836
Interest rate sensitivity gap		4,329	8,039	16,294	16,430	13,583	36,297	12,218	133,945	(241,135)	
Cumulative gap		4,329	12,368	28,662	45,092	58,675	94,972	107,190	241,135	-	

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Notes to the financial statements
for the year ended 31 December 2016 (continued)

28 Financial risk management (continued)

Interest rate risk (continued)

31 December 2015

	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 banks' balances		-	-	-	-	-	-	-	-	5,170	5,170
Due from Government		-	-	-	-	-	-	-	-	21,350	21,350
Mortgage loan accounts	1-6	4,729	11,977	19,223	22,005	24,684	43,811	44,671	202,469	-	373,569
Property and equipment		-	-	-	-	-	-	-	-	2,993	2,993
Other assets		1,542	-	-	-	-	-	-	-	259	1,801
Total assets		6,271	11,977	19,223	22,005	24,684	43,811	44,671	202,469	29,772	404,883
Liabilities and equity											
Due to Banks	1-2.75	2,139	7,500	17,000	6,000	-	-	-	-	-	32,639
Customers' deposits	1-2.4	427	3,227	1,843	427	2,402	2,136	2,136	3,943	-	16,541
Loans from the Government	3-5	-	-	-	-	-	-	31,000	52,830	20,000	103,830
Loan from the Arab Fund	3	-	-	-	-	-	1,439	5,758	5,781		12,978
Other liabilities		1,214	399	2,239	4	3,216	-	-	-	2,509	9,581
Shareholders' equity		-	-	-	-	-	-	-	-	229,314	229,314
Total liabilities and equity		3,780	11,126	21,082	6,431	5,618	3,575	38,894	62,554	251,823	404,883
Interest rate sensitivity gap		2,491	851	(1,859)	15,574	19,066	40,236	5,777	139,915	(222,051)	
Cumulative gap		2,491	3,342	1,483	17,057	36,123	76,359	82,136	222,051		

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Notes to the financial statements
for the year ended 31 December 2016 (continued)

28 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 2016 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.

31 December 2016	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	Total RO'000
Assets									
Cash and banks' balances	8,563	-	-	-	-	-	-	-	8,563
Due from Government	-	-	-	10,675	-	-	-	-	10,675
Mortgage loan accounts	5,334	13,578	21,812	24,971	27,819	49,757	50,951	226,543	420,765
Property and equipment	4,883	-	-	-	-	-	-	-	4,883
Other assets	1,697	253	-	-	-	-	-	-	1,950
Total assets	20,477	13,831	21,812	35,646	27,819	49,757	50,951	226,543	446,836
Liabilities and equity									
Due to Banks	297	1,000	5,000	8,000	8,000	-	-	-	22,297
Customers' deposits	440	3,940	439	439	2,014	9,199	2,199	6,699	25,369
Loans from the Government	-	-	-	-	-	-	31,000	72,830	103.830
Loan from the Arab Fund	-	-	-	-	-	4,149	5,533	33,069	42,751
Other liabilities	1,965	599	79	102	4222	112	1	4005	11,085
Shareholders' equity	-	-	-	-	-	-	-	241,504	241,504
Total liabilities and equity	2,702	5,539	5,518	8,541	14,236	13,460	38,733	358,107	446,836
Net liquidity gap	17,775	8,292	16,294	27,105	13,583	36,297	12,218	(131,564)	
Cumulative liquidity gap	17,775	26,067	42,361	69,466	83,049	119,346	131,564	-	

OMAN HOUSING BANK SAOC

Notes to the financial statements
for the year ended 31 December 2016 (continued)

28 Financial risk management (continued)

Liquidity risk (continued)

31 December 2015	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	Total RO'000
Assets									
Cash and banks' balances	5,170	-	-	-	-	-	-	-	5,170
Due from Government	-	-	-	21,350	-	-	-	-	21,350
Mortgage loan accounts	4,729	11,977	19,223	22,005	24,684	43,811	44,671	202,469	373,569
Property and equipment	-	-	-	-	-	-	-	2,993	2,993
Other assets	1,542	259	-	-	-	-	-	-	1,801
Total assets	11,441	12,236	19,223	43,355	24,684	43,811	44,671	205,462	404,883
Liabilities and equity									
Due to Banks	2,139	7,500	17,000	6,000	-	-	-	-	32,639
Customers' deposits	427	3,227	1,843	427	2,402	2,136	2,136	3,943	16,541
Loans from the Government	-	-	-	-	-	-	31,000	72,830	103,830
Loan from the Arab Fund	-	-	-	-	-	1,439	5,758	5,781	12,978
Other liabilities	1,214	399	2,239	4	3,216	2,509	-	-	9,581
Shareholders' equity	-	-	-	-	-	-	-	229,314	229,314
Total liabilities and equity	3,780	11,126	21,082	6,431	5,618	6,084	38,894	311,868	404,883
Net liquidity gap	7,661	1,110	(1,859)	36,924	19,066	37,727	5,777	(106,406)	
Cumulative liquidity gap	7,661	8,771	6,912	43,836	62,902	100,629	106,406	-	

OMAN HOUSING BANK SAOC

Notes to the financial statements for the year ended 31 December 2016 (continued)

29 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.

30 Taxation

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

31 Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 13 March 2017.