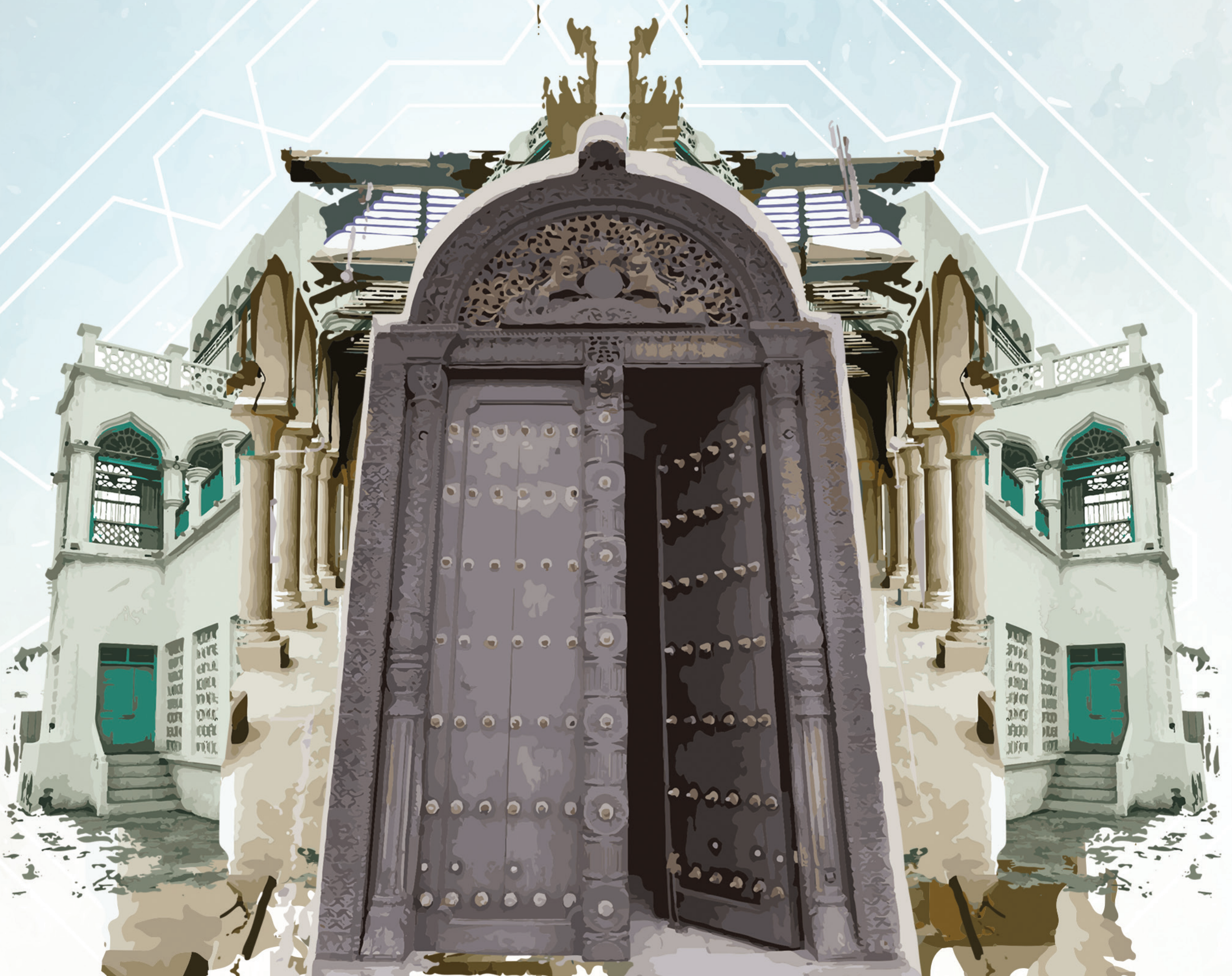
بنك الإسكان العماني ش.م.ع.م.

OMAN HOUSING BANK S.A.O.C.

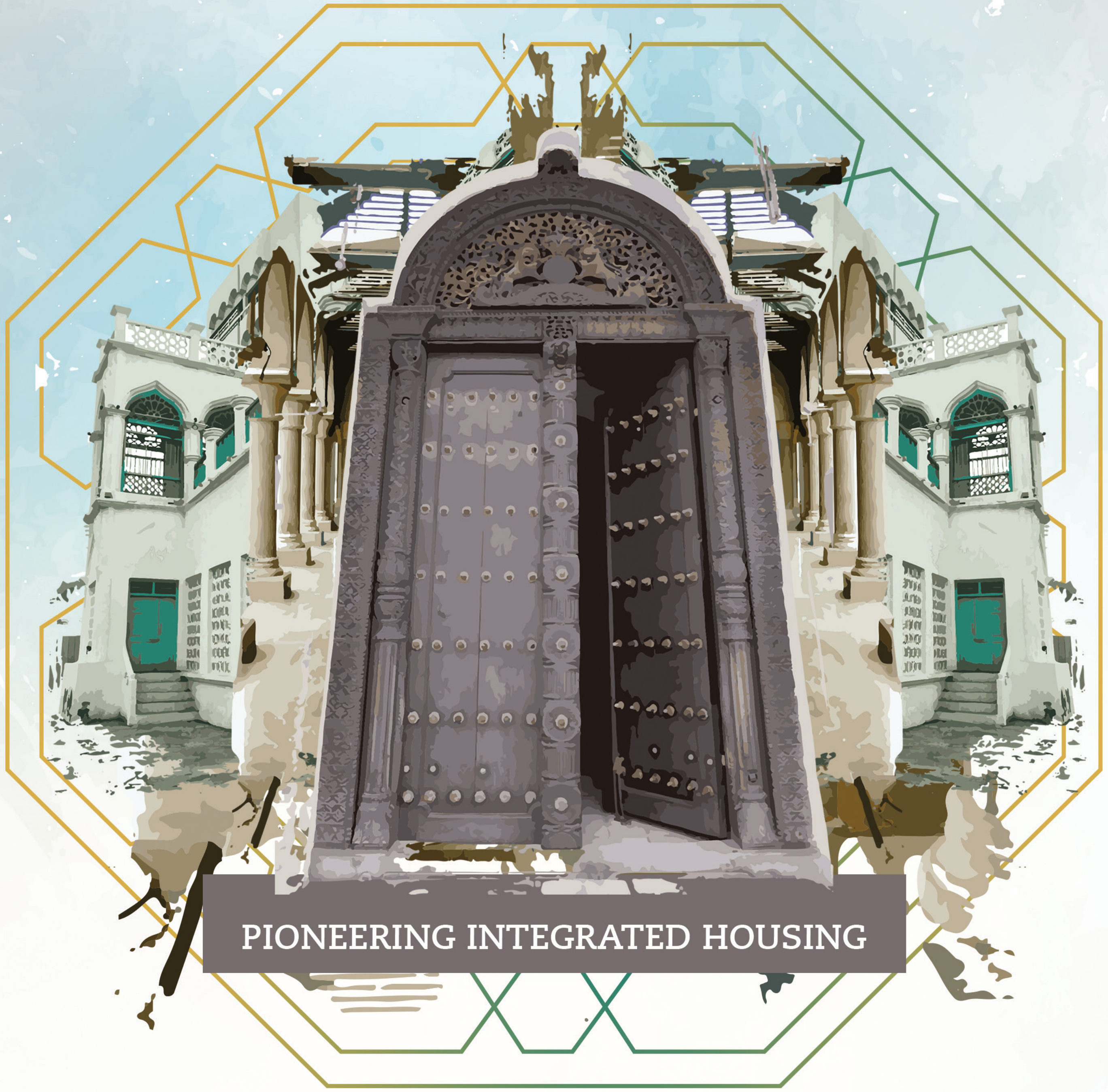


PIONEERING INTEGRATED HOUSING

ANNUAL REPORT 2017

بنك الإسكان العماني ش.م.ع.م.

OMAN HOUSING BANK S.A.O.C.



ANNUAL REPORT 2017

“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

HIS MAJESTY SULTAN QABOOS BIN SAID

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, specially to the low and medium income Omani citizens, achieving the objectives of the shareholders, and interesting in the development of human capital through an efficient banking, attractive and motivated work environment.

"Board of Directors' Report for Year 2017"

Dear Shareholders

After Compliments

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 31/12/ 2017.

Rashad Ahmed Mohammed Omair Al Hinai
Chairman of Board of Directors

The year 2017 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 (1751) loans with amount of R.O (77.2) million until the end of 2017. 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 (1435) loans with amount of R.O (62,2) million representing (80,6%) 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 between year 2017 and 2016.

Branches	subsidized loans approved during the year 2017				subsidized loans approved during the year 2016			
	No	%	Amount (R.O)	%	No	%	Amount(R.O)	%
Main Office	316	18,1	14954400	19,4	243	14,3	13140000	16,4
Salalah	66	3,8	3618100	4,9	74	4,4	4065500	5,1
Sohar	246	14	9524600	12,3	212	12,5	9868800	12.3
Sur	127	7,3	5669800	7,3	137	8	6834900	8,6
Nizwa	286	16,3	12977000	16,8	381	22,4	17132100	21,4
Khasab	30	1,7	1409500	1,8	31	1,8	1502300	1,9
Buraimi	112	6,4	4862500	6,3	108	6,4	5060500	6,3
Rustaq	408	23,3	17730300	22,9	379	22,3	16976200	21.2
Ibra	160	9,1	6422600	8,3	134	7,9	5419700	6,8
Total	1751	100%	77168800	100%	1699	100%	80000000	100%

The total number of loans granted by the Bank to the citizens since its inception in 1977 until the end of 2017 reached (42832) with total amount of R.O 1000 million (One Billion), of them 17031 loan for the Governorate of Muscat with amount of R.O (371) million representing (39,7%) of the total number of loans and (36,3%) of its value .

The number of subsidized loans granted to citizens in areas outside the Governorate of Muscat has reached (25801) loan with amount of R.O (650,8) million i.e (60,3 /%) of the total number of loans granted and (63.3%) of its value as per following table:

Branches	subsidized loans approved during the period from the date of inception until 31/12/2017			
	No	%	Amount (R.O)	%
Main Office	17031	39,7	370.590.891	36,3
Salalah	4722	11	95.184.451	9.3
Sohar	4153	10	97.438.142	9,5
Sur	2780	6,4	65.604.696	6.4
Nizwa	4627	10,8	124.354.352	12.2
Khasab	772	1,8	18.904.800	1.9
Buraimi	1515	3,5	43.064.655	4.2
Rustaq	5040	11,7	149.176.400	14.6
Ibra	2198	5,1	57.047.500	5.6
Total	42832	100%	1.021.365.887	100%

Due to the strong demand for subsidized borrowing - following the approval of the new structure of banking and administrative services - the Bank has decided to allocate all its resources available for borrowing to be limited to subsidized loans only.

OMAN HOUSING BANK S.A.O.C.

Financial Results

In terms of financial results and through reviewing the figures of the balance sheet for the fiscal year ended 31/12/2017, 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 2017 to reach RO (502.1) million compared with the amount of RO (446.8) million at the end of 2016 it increased by (12,4%).

The growth in assets was mainly driven by the rise in the housing loan portfolio as the total loan portfolio increased on 31/12/2017 to reach R.O(476.2) million comparing with R.O (420,8) million at the end of last year by rate of (13,2%.)

The Bank achieved a net profit of RO (13.2) million, with slight decline R.O (half million) comparing with the net profit of 2016 which is RO(13.7) million. The decrease is due to currency conversion losses for the loan received by the Bank in Kuwaiti Dinars. Total shareholders' equity also increased to reach RO (250,6) million comparing with RO (241,5) million, increased by (3,8%). 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 2013 to 2017:

(Amounts in millions of Omani Rials)

Particulars	2013	2014	2015	2016	2017
Net profit	12,3	14,5	11,3	13,8	13,2
Total assets	310	347,5	404,9	446,8	502.1
Total liabilities	171,7	197,1	175,6	205,3	251.5
Total net loans	299,3	334,6	373,6	420,8	476.2
Total shareholders' equity	138,3	150,4	229.3	241,5	250.6

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 2017 to the shareholders as follows:

Net profit for year 2017

(Amounts in millions of Omani Rials)

Net profit for the year	13,173
Net profit distributions Amount Transferred to the legal reserve (10% of net profit)	1,317
Amount Transferred to the special reserve	2,371
Distribution of cash dividends to the shareholders (5% of paid capital)	5,000
Amount transferred to retained earnings	4,485
Total Net profit for the year	13,173

In terms of training and human resources development, the Bank has organized (64) training sessions in various fields during the year inside and outside the Sultanate. The number of participants reached (210) 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 (97%) 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

This year witnessed the launch of the new electronic banking system, which is characterized by many advanced electronic solutions that achieve the vision of the bank as a quantum leap in its operations and services and benefit citizens to obtain a high level of modern electronic services and enhance the efficiency of achievement, Applications of citizens and customers with the bank, in addition to the connectivity of ATMs and applications of smart phones, has been the infrastructure of the network and upgrading the information to meet the requirements of this developed system.

Best Mortgage Bank Award

For the third 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

OMAN HOUSING BANK S.A.O.C.

Director General's speech

After Compliments,

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.

The Bank applies the standards of transparency and disclosure in its operations in accordance with the requirements of the corporate governance rules and best banking standards, which reflects positively on all aspects of the Bank's work.

As customer satisfaction and meeting its requirements is our goal, the Bank strives to maximize its operations to achieve this goal. The advanced e-banking system, launched this year, is contributing to a high level of fast and sophisticated electronic services.

In terms of the Bank's operating results, many financial indicators have shown an increasing growth that reflects the proper investment of the funds, as the bank's assets have achieved a growth of around 12.4% for the year of 2017. The bank has approved loans for the amount of (77) million Omani Rials in this year, and the lending portfolio has risen to (476.2) million Omani Rials with a growth rate of around (13.2%) compared with the end of year 2016. Loan applications received throughout the year have reached more than (2634) with an amount of approximately (127) million Omani Rials, which indicates that demand for lending is growing from year to year . 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 (83%), 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 major sources 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 (43) thousand loans in the amounting of (1000) 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.

Adnan Haidar Darwish
Director General
Secretary of the Board of Directors

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.

Finally, 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 the Board Director (or Chairman) 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.

Risk Management Department

Legal Disclosure under Basel II Pillar III

1. Risk Management

The Board of Directors plays an important role in overall supervision of risk management processes to ensure that risk management requirements were properly implemented and that the Bank is operating within the prescribed limits.

The Board approves risk management policies and sets acceptable risk limits, as well as adopting the capital adequacy assessment process.

The Board has set up a committee (Finance and Risk Management) to assist the Board in proposing and developing risk management policies, proposing acceptable levels of risk, establishing methods for identifying, measuring and controlling risks, monitoring the compliance of the Bank's units with risk standards and limits, and reviewing the efficiency and effectiveness of the Risk Management Department operations.

2. Disclosure Policy

The Bank has an official policy derived from Basel II - Disclosure requirements under Pillar III - approved by the Board of Directors in line with the requirements of the Central Bank of Oman.

3. Field of application

The Bank operates through its branch network in Oman and the subsequent data on the capital structure is consolidated for the operations of all branches of the Bank. The Bank has no subsidiaries and is not part of any group.

4. Capital structure

The Bank's regulatory capital is divided into (3) levels:

* Level 1: **Basic capital, includes:**

Paid-up capital, statutory reserve, special reserve, retained earnings.

There are no innovative capital instruments in the capital. The paid-up share capital represents (89,325,000) shares, value of each RO 1. The Bank deducts 10% of its annual profits in favour of the statutory reserve. The deduction shall not be suspended unless the balance of this account equals one third of the capital. This reserve is not available for distribution and the Ordinary General Assembly may decide to create optional reserve accounts not exceeding 20% of the net profit for the year after deducting the statutory reserve. The purpose of the retained earnings is to strengthen the financial position of the Bank and to meet any unforeseen circumstances.

* Level 2: **Additional capital includes:**

General provision for loan losses (not exceeding 1.25%) of assets weighted by credit risk without risk weighted assets.

* Level (3): **Short-term loan to meet market risk:**

The Bank does not currently have level (3) capital.

The Bank's capital structure is as follows:

Composition of the regulatory capital at 31 December 2017	RO (In thousands)
Level (1) Basic capital:	
Paid - up capital	89,325
Statutory reserve	21,323
Special Reserve	58,006
Retained earnings	63,987
Total of level (1)	232,641
Level (2) Additional Capital:	
General provision for loan losses	2,430
Total of Level (2)	2,430
Total qualified capital	235,071

5. Capital adequacy

The Bank's capital adequacy is computed in accordance with the Basel II guidelines along with the Central Bank of Oman guidelines, using the standardized methodology for calculating credit risk and market, if any, with the application of the simple methodology for the inclusion of collateral. Moody's rating is also taken to calculate the risk of claims of the Banks and other financial institutions.

The Bank has a policy of maintaining a sufficient and strong capital base commensurate with the nature of its long-term lending activity to meet the risk of unexpected losses or difficulties. Despite the strength of the Bank's capital base which enables it to cope with various conditions and uncertainties, however the Board, in order to be more cautious to response to the developments, decided to increase the capital adequacy ratio at a rate of 2%, higher than the targeted regulatory level set by the Central Bank of Oman (13.25%), including a reserve ratio for capital preservation. The Bank's official capital adequacy ratio is (14%) , as it is evident from the following data, the actual capital adequacy ratio stood at the end of the year (82.88%)

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

Details Amounts in thousands Riyal Omani	Total balances (Book value)	Net balances (Book value)*	Risk Weighted Assets
Items included in the budget	501,153	501,153	191,172
Extra budgetary items	37,646	9,322	3,262
Capital – Level 1		232,641	232,641
Capital – Level 2		2,430	2,430
Capital – Level 3		-	-
Total qualified capital		235,071	235,071
Capital requirements for credit risk		194,434	25,726
Capital requirements for market risk		50,831	6,735
Capital requirements for operational risk		38,379	5,085
Total capital risk		283.644	37,583
Capital Adequacy Ratio – First Level			82.02%
Capital Adequacy Ratio - Gross			82.88%

* Net after deduction of provisions, interest saved and eligible guarantees.

6. Risks and reserves taken or (Precautions)

6/1: Credit risk:

Credit risk arises from all products and services when counterparties fail to meet payment obligations in accordance with the terms and conditions of the contract. Although credit granted by the Bank is housing loans to citizens and has real estate and geographically limited collateral within the Sultanate of Oman, however risks may arise in some cases by not covering the value of these guarantees to the full obligations owed by the customer. Approvals for the granting of credit by the executive management within specific ceilings, standards, prudent practices and authority approved by the Board of Directors, in order to minimize potential losses and keep exposure to credit risk within low limits and acceptable rates.

The Bank follows the Standardized Approach for the calculation of credit assets risk-weighted at a rate (35%) of the housing loans subsidized by the Government of the Sultanate of Oman, at a rate of (100%) to the other, also the Bank determine the amount of potential credit following the classification due to credit losses under the circulation of the Central Bank of Oman (BM977) dated 25 September 2004, taking into account the market value of real estate guarantees by (50%).

Given that credit granted by the Bank is limited to one type and within a single geographical area; quantitative disclosure is limited to the following:

(RO'000)

Type of credit	Average at current period	Current status as on 31/12/2017
Housing loans for citizens subsidized by the Government of the Sultanate of Oman	4910	457891
Other housing loans to citizens (un subsidized)	-294	18272
Total	4616	476163

Total Loan Movements:

		Thousand RO					
No.	Details	Regular loan		Irregular loans			
		Standard	Special notice	Substandard	Doubtful	Loss	Total
1	Opening balance	427396	315	687	508	1293	430199
2	Integration / change	(1065)	(24)	539	112	438	0
3	New loans	86597	12	9	270	269	87157
4	Loan Collection	(29947)	(81)	(21)	(26)	(125)	(30200)
5	Written off Loans	0	0	0	0	0	0
6	Closing balance	482981	222	1214	864	1875	487156
7	Reserved amount	9662	33	302	220	479	10696
8	Retained benefits	-	-	10	15	272	297

6/2 Market risk:

Market risk is the risk of changes in the value of securities or transactions due to movements in market factors.

The Bank's budget items currently include any assets or liabilities that are subject to change at the rate of exchange (KDD loan in Kuwaiti Dinars). The policy is to hedge all transactions in Riyal Omani or US Dollar with a fixed rate against Riyal Omani. Interest rate risk may arise directly in the event of an increase in interest rates on short-term deposits or medium-term loans, while interest rates on lending to customers are fixed, and the bank tries to follow the policy of financing through long-term loans to avoid these risks or government loans at a fixed rate. The Bank's final accounts including a distribution of assets and liabilities over a number of predetermined time bands to indicate the sensitivity gap to interest rates.

6/3: Liquidity risk:

Liquidity risk is the risk of non-availability of enough money in the bank to meet its obligations when due and caused general liquidity risk from the incompatibility of inflows and outflows of funds, the Bank follows a prudent policy in managing liquidity by maintaining arrangements for the provision of cash ready to meet short-term obligations.

Liquidity management is managed by reducing the gap between requirements of the assets and liabilities wherever possible and by borrowing medium and long term where necessary to ensure that liquidity is always sufficient to meet the Bank's obligations as due. The Bank's final accounts include an analysis of the asset and liability maturities on a number of predetermined time bands to demonstrate the liquidity gap.

6/4: Operational risks:

Operational risk is the risk of loss resulting from the inadequacy or failure of internal processes, employees, systems or due to external factors, and others arising from legal and regulatory requirements. The Bank follows the basic indicator method of measurement, which requires taking 15% of income for last three years to determine risk capital for operational transactions.

Second: Planning for Business Continuity

Managing the continuity of the work is implementation and management of preventive measures, planning and preparation to ensure that the Bank can continue to work after an emergency or malfunctioning operation. The Bank ensures that its systems and procedures are viable during situations where work is likely to stop. The Bank is continuously improving its current plans by implementing an active work plan to ensure continuity of procedures and systems with flexibility and readiness to meet emergency requirements.
The business continuity system management committee was charged with responsibility of formulating, adopting, modifying, testing and maintaining the bank's continuity plans. The committee reviews and agrees on the strategic information on business continuity assessment and planning, ensuring continuity of business activity, and that the responsibility for planning and maintenance is understood across all fields of work.

In order to strengthen the business continuity plan framework, the Bank has:

- Conducted a Training Simulation Process on emergency evacuation at the Bank's headquarters in December 2017.
- Reviewed and updated the business continuity management plans in September 2017 (Crisis Management Plan, Business Continuity Plan and Disaster Recovery Plan).
- launched the new banking system in November 2017. The IT Department upgraded the data backup system and introduced the necessary modifications based on the new requirements of the systems implemented / developed.

pwc

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

Report on the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Oman Housing Bank SAOC ("the Bank") as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2017;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Sultanate of Oman. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Other information

The management is responsible for the other information. The other information, which we obtained prior to the date of our auditor's report comprises of board of directors report and statutory disclosure under Basel II – Pillar III and Basel III Framework, but does not include the financial statements and our auditor's report thereon. The complete annual report which is not yet received is expected to be made available to us after that date.

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.

pwc

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

Other information (continued)

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the complete annual report which is not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the financial statements, 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 management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance 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 ISAs, we exercise professional judgment and maintain professional scepticism 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 risks, 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, 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 Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

Auditor's responsibilities for the audit of the financial statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence 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 disclosures 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 represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance 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

Further, we report that the financial statements comply, in all material respects, with the relevant requirements of the Commercial Companies Law of 1974, as amended.

Other matter – prior year financial statements audited by predecessor auditor

The financial statements of the Bank for the year ended 31 December 2016, were audited by another firm of auditors, whose report dated 13 March 2017, expressed an unmodified opinion on those financial statements. Our report is not qualified in respect of this matter.

PricewaterhouseCoopers

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C.R. No 1230865
PricewaterhouseCoopers LLC

14 March 2018
Muscat, Sultanate of Oman

OMAN HOUSING BANK SAOC

Statement of financial position
At 31 December 2017

	Note	2017 RO'000	2016 RO'000
ASSETS			
Cash and bank balances	5	8,076	8,563
Mortgage loan accounts	6	476,163	420,765
Due from Government of Oman	25	10,675	10,675
Other assets	8	2,378	1,950
Property and equipment	7	4,874	4,883
Total assets		502,166	446,836
LIABILITIES AND EQUITY			
LIABILITIES			
Due to Banks	9	32,004	22,297
Customers' deposits	10	51,589	25,369
Loans from Government of Oman	11	103,830	103,830
Loan from the Arab Fund for Economic and Social Development	12	50,831	42,751
Other liabilities	13	13,277	11,085
Total liabilities		251,531	205,332
EQUITY			
Share capital	14	100,000	100,000
Legal reserve	15	21,323	20,006
Special reserve	16	58,006	55,635
Revaluation reserve	7, 17	2,319	2,319
Retained earnings		68,987	63,544
Total equity		250,635	241,504
Total liabilities and equity		502,166	446,836
Mortgage loan commitments	24	37,646	42,441

The financial statements were authorised for issue on 14 March 2018 in accordance with a resolution of the Board of Directors.

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 2017

	Note	2017 RO'000	2016 RO'000
Interest income	19	27,646	24,545
Interest expense	20	(6,492)	(5,167)
Net interest income		21,154	19,378
Other operating income	21	950	1,017
General and administrative expenses	22	(6,706)	(6,526)
Depreciation of property and equipment	7	(184)	(169)
Foreign exchange (loss) / gain		(540)	545
Operating expenses		(7,430)	(6,150)
Net operating profit before loan impairment charges and other credit risk provisions		14,674	14,245
Provision for impairment of loans - specific	6	(930)	(696)
Provision for impairment of loans – general	6	(1,109)	(1,013)
Provision for impairment of loans – specific (restructured loans)	6	(28)	(22)
Reversal of provision for impairment of restructured loans	6	17	351
Reversal of provision for impairment of loans – specific	6	549	890
Bad debt written off		-	(1)
		(1,501)	(491)
Profit for the year		13,173	13,754
Other comprehensive income			
Items that may not be reclassified subsequently to profit or loss			
Net revaluation surplus during the year		-	1,162
Total comprehensive income for the year		13,173	14,916
Earnings per share (basic and diluted)	23	0.132	0.138

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 2017

	Share capital	Legal reserve	Special reserve	Revaluation reserve	Retained earnings	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
At 1 January 2017	100,000	20,006	55,635	2,319	63,544	241,504
Comprehensive income:						
Profit for the year	-	-	-	-	13,173	13,173
Transactions with shareholders:						
Dividend paid for 2016 (note 18)	-	-	-	-	(4,042)	(4,042)
Transfer to legal reserve (note 15)	-	1,317	-	-	(1,317)	-
Transfer to special reserve (note 16)	-	-	2,371	-	(2,371)	-
Total transactions with shareholders	-	1,317	2,371	-	(7,730)	(4,042)
At 31 December 2017	100,000	21,323	58,006	2,319	68,987	250,635
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 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 (note 15)	-	1,375	-	-	(1,375)	-
Transfer to special reserve (note 16)	-	-	2,476	-	(2,476)	-
Total transactions with shareholders	-	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 cash flows
For the year ended 31 December 2017

	Note	2017 RO'000	2016 RO'000
Cash flows from operating activities			
Profit for the year		13,173	13,754
Adjustments			
Depreciation of property and equipment	7	184	169
Loss on disposal of property and equipment	7	34	11
Reversal of provision for impairment of loans - specific	6	(549)	(890)
Reversal of provision for impairment of restructured loans	6	(17)	(351)
Provision for impairment of loans – specific	6	930	696
Provision for impairment of loans – specific (restructured loans)	6	28	22
Provision for impairment of loans – general	6	1,109	1,013
Banking and administrative service fees reserved during the year	6	85	63
Banking and administrative service fees written back during the year	6	(27)	(80)
Bad debt written off	6	-	1
Operating profit before changes in working capital		14,950	14,408
Changes in working capital			
Due from Government		-	10,675
Mortgage loan accounts		(56,957)	(47,670)
Other assets		(428)	(149)
Due to banks		9,707	(10,342)
Customers' deposits		26,220	8,828
Other liabilities		2,192	1,504
Net cash used in operating activities		**(4,316)**	**(22,746)**
Cash flows from investing activities			
Purchase of property and equipment	7	(209)	(908)
Cash flows from financing activities			
Loan from the Arab Fund for Economic and Social Development		8,080	29,773
Dividend paid		(4,042)	(2,726)
Net cash generated from financing activities		**4,038**	**27,047**
Net change in cash and cash equivalents		**(487)**	**3,393**
Cash and cash equivalents at the beginning of the year		8,563	5,170
Cash and cash equivalents at the end of the year (note 5)		**8,076**	**8,563**

(a) Net debt reconciliation is disclosed under note 34 of these financial statements.

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 2017

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 9 branches in the Sultanate of Oman.

As per the Articles of Association of the Bank, every year, a minimum dividend of 5% (2016: 5%) of the paid-up share capital should be paid to the shareholders.

In accordance with Article 6 of the Royal Decree No. 51/77 and 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. Application of new and revised International Financial Reporting Standards (IFRS)

2.1 Standards applicable during the year

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning on 1 January 2017 which have a material impact on the financial statements of the Bank.

2.2 Future accounting developments

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2018. The impact assessment of the relevant standards is set out below:

IFRS 9 'Financial Instruments'

In July 2014, the IASB issued IFRS 9 'Financial Instruments', which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement

The classification and measurement of financial assets will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss ('FVPL'). The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair value compared with IAS 39.

For financial liabilities designated to be measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in other comprehensive income. However, based on an assessment of financial assets and financial liabilities performed to date and expectations around changes to statement of financial position composition, the Bank expects that the overall impact of any change will not be significant.

Impairment

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, and lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, an impairment allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12 month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in 'stage 3'.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

Hedge accounting

The general hedge accounting requirement's aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks, but do not explicitly address macro hedge accounting strategies, which are particularly important for banks. As a result, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting, which the Bank has exercised, although it will implement the revised hedge accounting disclosures required by the related amendments to IFRS 7 'Financial Instruments: Disclosures'.

Transition

The requirements of IFRS 9 'Financial Instruments' will be adopted from 1 January 2018. The classification and measurement and impairment requirements will be applied retrospectively by adjusting the opening statement of financial position at the date of initial application, with no requirement to restate comparative periods. The Bank is currently assessing the impact of the new standard in its financial statements.

IFRS 15 'Revenue from Contracts with Customers'

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers'. The original effective date of IFRS 15 has been delayed by one year and the standard is now effective for annual periods beginning on or after 1 January 2018 with early application permitted. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for performance obligations as they are satisfied. The standard should be applied retrospectively, with certain practical expedients available. The Bank is currently assessing the impact of the new standard in its financial statements.

IFRS 16 'Leases'

In January 2016, the IASB issued IFRS 16 'Leases' with an effective date of annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the statement of financial position. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. The Bank is currently assessing the impact of the new standard in its financial statements.

3. Summary of significant accounting policies

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

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board ('IASB') and the applicable requirements of the Central Bank of Oman ('CBO') and 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.

IFRS's comprise accounting standards issued by the IASB as well as interpretations issued by the IFRS Interpretation Committee ('IFRIC')

The Bank presents its assets and liabilities broadly in order of the liquidity in the statement of financial position as this presentation is more appropriate to the Bank's operations and does not distinguish between current and non-current items.

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

Revenue recognition

Recognition of banking and administrative service fees

Banking and administrative service fees accrues on a time proportion basis taking into account the fees related to the loan and rate applicable. If the recovery of banking and administrative service fees on mortgage accounts is classified, its recognition in the statement of 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 interest rate method on the principal outstanding.

Recognition of miscellaneous income

Miscellaneous income is credited to income at the time of effecting the transaction.

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 to banking and administrative service fees

The proportion of banking and administrative services fees borne by the Government of the Sultanate of Oman is accrued on time apportioned 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 original effective interest rates.

Property and equipment

Property and equipment except land are stated at cost less accumulated depreciation and 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.

Revaluation 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 surplus arising on revaluation is credited to a revaluation reserve, except that a revaluation increase is recognised as income in the statement of profit or loss and other comprehensive 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
Motor vehicles	5
Furniture, 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

All financial instruments are recognised initially at fair value at trade date. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received). Financial instruments include cash and bank balances, mortgage loan accounts, due from government, due to banks, customers' deposits, loans from government, loan from the Arab Fund for Economic and Social Development and other financial assets and liabilities.

(a). 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.

(b). 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, due from Government and cash and bank balances in the statement of financial position.

(c). Recognition

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

Derecognition

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

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

(a). 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.

(b). 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 rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Impairment of financial assets

The bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and an impairment loss is incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

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

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

Borrowings of the bank consists of amounts due from banks, customers' deposits, loan from government and loan from Arab Fund for Economic and Social Development. Borrowings 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 rate 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.

The Bank's obligation in respect of non-Omani terminal benefits, which is an unfunded defined benefit retirement plan, is the amount of future benefit that such employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value.

Provision

A provision is recognised in the statement of financial position when the Bank has present (legal or constructive) obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows using a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as cost.

Other liabilities

Other liabilities are initially recorded at fair value and are subsequently measured at amortised cost.

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 original 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.

4. Critical accounting estimates & judgments

The preparation of the financial statements in conformation with IFRS requires the use of estimates and assumptions about future conditions. The use of available information and the application of judgement are inherent in the formation of estimates; actual results in the future may differ from estimates upon which financial information is prepared. Management believes that the Bank's critical accounting policies where judgement is necessarily applied are those which relate to impairment of mortgage loan accounts.

Impairment losses on mortgage loans

The Bank reviews its distressed mortgage loans 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 mortgage loans, 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 mortgage 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 Government and due to Banks recognised in the statement of financial position are considered to be a reasonable estimate of the fair values due to their short-term nature.

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

The fair values of term loans are estimated using the interest rates offered for loans with similar terms and conditions. Term loan of the bank includes loan received from Arab Fund for Economic and Social Development.

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

	2017	2016
	RO	RO
Cash in hand	126	178
Cash at Banks	7,950	8,385
	8,076	8,563

6 Mortgage loan accounts

	2017 RO'000	2016 RO'000
Gross mortgage loan accounts as at 1 January	430,199	382,530
Loans distributed during the year	87,157	79,220
Repayments during the year	(30,200)	(31,551)
Gross mortgage loan accounts as at 31 December	**487,156**	**430,199**
Provision for impairment of loans - specific (refer note 6.1 below)	(1,034)	(642)
Provision for impairment of loans - general (refer note 6.1 below)*	(9,662)	(8,553)
Reserved banking and administrative service fees (refer note 6.2)**	(297)	(239)
Net mortgage loan accounts as at 31 December	**476,163**	**420,765**

* General provision represents collective provision on a portfolio of mortgage loan.

** Reserved interest forms part of specific provision for the purpose of IFRS.

6.1. The movement in the provision for impairment of loans during the year is as follows:

	2017 RO'000	2016 RO'000
At 1 January	9,195	8,705
Provision for impairment of loans – specific	930	696
Provision for impairment of loans – specific (restructured loans)	28	22
Provision for impairment of loans – general	1,109	1,013
Reversal of provision for impairment of loans – specific	(549)	(890)
Reversal of provision for impairment of restructured loans	(17)	(351)
At 31 December	**10,696**	**9,195**

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

	2017 RO'000	2016 RO'000
At 1 January	239	256
Banking and administrative service fees reserved during the year	85	63
Banking and administrative service fees written back during the year	(27)	(80)
At 31 December	**297**	**239**

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.

At 31 December 2017, the specific provision for loan impairment and the reserved banking and administrative service fees represents 33.67% (2016 - 35.41%) of gross non-performing mortgage accounts. Also, the bank maintains collective provision for impairment for the performing loans amounting to RO 9,662,358 (2016 - RO 8,552,580).

The banking and administrative service fees rates varied from 1% to 6% (2016 - 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:

	2017 RO'000	2016 RO'000
Performing accounts	483,203	427,247
Past due but not impaired	-	464
Non-performing mortgage loans	3,953	2,488
Total mortgage loans	487,156	430,199
Provision for impairment of loans	(10,696)	(9,195)
Reserved banking and administrative service fees	(297)	(239)
Net mortgage loan accounts as at 31 December	**476,163**	**420,765**
Past due but not impaired		
Past due (60 - 89 days)	-	464
Non-performing loans		
Substandard (past due 90 - 179 days)	1,214	687
Doubtful (past due 180 - 364 days)	864	508
Loss (past due 365 days and over)	1,875	1,293
	3,953	2,488
Fair value of collateral	3,889	5,001

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 2016	3,555	1,369	745	246	690	6,605
Additions	-	50	18	-	840	908
Disposals	-	(15)	(10)	-	(10)	(35)
Transfer	-	-	12	-	(12)	-
Revaluation (note 17)	1,162	-	-	-	-	1,162
At 1 January 2017	4,717	1,404	765	246	1,508	8,640
Additions	-	155	54	-	-	209
Disposals	-	(12)	(14)	-	(26)	(52)
Transfer	-	4	4	-	(8)	-
At 31 December 2017	**4,717**	**1,551**	**809**	**246**	**1,474**	**8,797**

7.Property and equipment (continued)

	Land and buildings	Furniture, fixtures and equipment	Other equipment	Motor vehicles	Capital-work-in-progress	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Depreciation						
At 1 January 2016	1,662	1,140	608	202	-	3,612
Change for the year	36	49	66	18	-	169
Disposals	-	(15)	(9)		-	(24)
At 1 January 2017	1,698	1,174	665	220	-	3,757
Charge for the year	31	71	63	19	-	184
Disposals	-	(6)	(12)	-	-	(18)
At 31 December 2017	1,729	1,239	716	239	-	3,923
Carrying value						
At 31 December 2017	2,988	312	93	7	1,474	4,874
At 31 December 2016	3,019	230	100	26	1,508	4,883

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 (last date of revaluation) was RO 2,319,500. 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 valuers. Accordingly 3 plots were revaluated during the year ended 31 December 2016. Fair value of the land has been classified as level 2 in accordance with the requirements of fair value hierarchy.

8. Other assets

	2017	2016
	RO'000	RO'000
Receivables against Government contribution to banking and administrative service fees (note 25)	2,298	1,697
Prepayments and others	80	253
	2,378	1,950

9. Due to banks

	2017	2016
	RO'000	RO'000
Deposits from banks	32,000	22,000
Bank overdrafts	4	297
	32,004	22,297

Interest rates on term deposits vary from 2.75% to 3.75% (2016 – 2.00% to 3.65%) per annum.

10. Customers' deposits

	2017	2016
	RO'000	RO'000
Saving accounts	9,239	8,794
Term deposits	42,350	16,575
	51,589	25,369

Interest rates on savings accounts and terms deposits vary from 1.00% to 4.25% (2016 – 1.00% to 4.25 %) per annum.

11. Loans from Government of Oman

	2017	2016
	RO'000	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

Loan 1 from the Government of the Sultanate of Oman is denominated in Rial Omani and carries interest rate of 5% (2016 - 5%) per annum.

Loans 2, 3 and 4 from the Government of the Sultanate of Oman are denominated in Rial Omani and carry interest rate of 3% (2016 - 3%) per annum.

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.

The above mentioned loans (note 25) do not have repayments terms and management believes that these amounts will not be paid in the next 12 months.

12. Loan from the Arab Fund for Economic and Social Development

During the year 2014, the Arab Fund for Economic and Social Development approved a loan of Kuwaiti Dinar ('KWD') 40,000,000 at an interest rate of 3% per annum. The amount of loan drawn as at 31 December 2017 is RO 50,830,632 (2016 - RO 42,751,233). The interest is paid every six month of each year in February and August. The loan is repayable in thirty-six semi-annual equal installments starting from 2018 each amounting to KWD 1,100,000 and last installment amounted to KWD 400,000. This is after grace period of four years from the first withdrawal.

13. Other liabilities

	2017	2016
	RO'000	RO'000
Retention payable to contractors	4,979	4,196
Accrued interest	3,836	2,831
Customers' insurance payable	2,221	1,690
Sale proceeds for financing new residences and personal stakes	965	1,076
End of service benefits (note 13.1)	86	170
Other payables	1,190	1,122
	13,277	11,085

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

	2017	2016
	RO'000	RO'000
At 1 January	170	164
Expense recognised in the statement of profit or loss and other comprehensive income	16	20
Payments to employees left during the year	(100)	(14)
At 31 December	86	170

14 . Share capital

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

	2017	2016
Government of the Sultanate of Oman - Ministry of Finance (Parent)	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 and Commercial Companies Law of Oman 1974, as amended, the Bank is required to transfer 10% of its net profit for the year to a legal reserve until the balance of the reserve is equal to one-third of the Bank's paid up 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% (2016: 20%) of the net profits for the year.

17. Revaluation reserve

This reserve represents the fair value gain arising from revaluation of lands after the initial recognition. During the year 2016, the Board of Directors had passed a resolution to revalue the lands owned by the Bank through external valuers, as a result 3 plots were revaluated.

	2017	2016
	RO'000	RO'000
At 1 January	2,319	1,157
Revaluation surplus	-	1,162
At 31 December	2,319	2,319

The revaluation reserve is not available for distribution.

18. Proposed dividend

The cash dividend of RO 5,000 thousand has been proposed by the bank's Board of Directors (2016 – RO 4,042 thousand) and will be submitted for shareholders' approval. The break-up of the proposed cash dividend is as follows:

5% cash dividend of RO 3,050 thousand on paid up share capital of RO 50,325 thousand, held by Government of Sultanate of Oman - Ministry of Finance (MoF) and 5% on paid up share capital of RO 39,000 thousand held by other shareholders amounting to RO 1,950 thousand.

19. Interest income

	2017	2016
	RO'000	RO'000
Banking and administrative service fees	6,544	5,336
Government contribution to banking and administrative service fees (note 25)	21,097	19,201
Interest on short-term deposits	5	8
	27,646	24,545

In accordance with Article 6 of the Royal Decree 51/77 and the Royal Decree 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 2017, the subsidy amount was RO 21,096,872 (2016 - RO 19,201,216).

20. Interest expense

	2017	2016
	RO'000	RO'000
Interest on loans from the Government of Oman (note 25)	3,212	3,219
Interest on customers' deposits	1,859	1,142
Interest on loan from Arab Fund for Economic and Social Development	1,421	806
	6,492	5,167

21. Other operating income

	2017	2016
	RO'000	RO'000
Fees and commissions	939	973
Miscellaneous income	11	44
	950	1,017

22. General and administrative expenses

	2017	2016
	RO'000	RO'000
Staff expenses	5,715	5,619
Professional fees	184	94
Maintenance	134	115
Utilities and rent	116	97
Training expenses	55	71
Communication costs	40	98
Board of Directors' remuneration - proposed (note 25)	40	84
Board of Directors' meeting expenses and sitting fees (note 25)	29	39
Legal expenses	27	27
Travelling expenses	20	22
Marketing expense	18	9
Stationary charges	17	22
Miscellaneous expenses	311	229
	6,706	6,526

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 during the year. As there are no dilutive potential shares, the diluted earnings per share is identical to the basic earnings per share.

	2017	2016
Net profit for the year (RO'000)	13,173	13,754
Weighted average number of shares outstanding (shares'000)	100,000	100,000
Earnings per share - basic and diluted (RO)	0.132	0.138

24. Mortgage loan commitments

	2017	2016
	RO'000	RO'000
Mortgage loan accounts - approved but not disbursed	37,646	42,441

25. Related parties

The Bank's related parties include the parent, Government of Sultanate of Oman and related entities, key management personnel, close family members of key management personnel and entities which are controlled, jointly controlled or significantly influenced by key management personnel or their close family members.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank and includes members of the Boards of Directors of the Bank.

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.

Holders of 10% or more of the Bank's shares may include companies, individuals, or families. Families are included if the shares of the family members total 10% or more of the Bank's shares. Members of the family of an individual are those that may be expected to influence, or be influenced by that person in their dealings with the Bank.

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

	2017	2016
	RO'000	RO'000
Government		
Government contribution to banking and administrative service fees (note 19)	21,097	19,201
Interest on loans from the Government of Oman (note 20)	3,212	3,219
Directors		
Board of Directors' meeting expenses and sitting fees (note 22)	29	39
Board of Directors' remuneration - proposed (note 22)	40	84
Amount due (to) / from related parties:		
Loans from Government of Oman (note 11)	(103,830)	(103,830)
Interest accrued on loans from Government of Oman	(1,912)	(1,912)
Receivable against Government contribution to banking and administrative service fees (note 8)	2,298	1,697
Due from Government of Oman – Share capital	10,675	10,675
Term deposits from the shareholders	(41,000)	(15,000)
Key management		
Mortgage loan accounts	180	172
Banking and administrative service fees	6	4

All loans to related parties are performing loans and no provision for impairment has been made against these loans as at 31 December 2017 and 2016.

Compensation of the key management personnel is as follows:

	2017	2016
	RO'000	RO'000
Salaries and allowances	545	514
Other benefits	199	273
	744	787

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.

(a). 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:

	2017	2016
	RO'000	RO'000
Debt	238,254	194,247
Equity	250,635	241,504
Debt to equity ratio	95.06%	80.43%

Debt includes customer deposits, loan from Government and loan from the Arab Fund for Economic and Social Development. Equity includes all the capital and reserves of the Bank.

(b). Capital adequacy

Capital management is guided by the CBO through circular BM 1009 (Guidelines on BASEL II) and regulatory capital under BASEL III framework. Capital adequacy is calculated on quarterly intervals and reported to the CBO. Banks are required to maintain minimum capital adequacy ratio including capital conservation buffer in accordance with CBO stipulated guidelines.

	2017	2016
	RO'000	RO'000
Capital base		
Tier 1	232,641	224,468
Tier 2	2,430	2,230
Total capital base	235,071	226,698
Risk weighted assets		
Credit risk - on balance sheet items	191,172	172,807
Credit risk - off balance sheet items	3,262	5,604
Operational risk	38,379	38,414
Market risk	50,831	42,751
Total risk weighted assets	**283,644**	**259,576**
Capital adequacy ratio	**82.88%**	**87.33%**

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 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 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.

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.

The Bank limits its credit risk with regard to bank deposits by dealing with reputed banks. The credit rating of all the banks as at 31 December 2017 is P-2 (31 December 2016: P-2).

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 distressed 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;
- 99.19% of the gross mortgage loans portfolio as at 31 December 2017 is considered to be neither past due nor impaired (2016 – 99.42%);
- Impaired loans assessed on an individual basis amounted to RO 3,953,022 (2016 - RO 2,487,766) which is 0.81% (2016 - 0.58%) of gross mortgaged loans as at 31 December 2017.

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:

	2017		2016	
	RO'000	%	RO'000	%
On Balance sheet exposure:				
Balances with banks	7,950	1.49	8,385	1.73
Mortgage loan accounts	476,163	89.05	420,765	86.94
Due from Government	10,675	2.00	10,675	2.21
Other assets	2,298	0.43	1,697	0.35
Off Balance sheet exposure:				
Mortgage loan commitments	37,646	7.04	42,441	8.77
	534,732	**100.00**	**483,963**	**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 on a regular basis.

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.

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 2017:

31 December 2017	Interest Rate	Up to 1 month	1 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months	1 - 3 years	3 - 5 years	More than 5 years	Non-sensitive	Total
	%	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Assets											
Cash and banks balances		-	-	-	-	-	-	-	-	8,076	8,076
Mortgage loan accounts	1-6	2,881	6,009	9,001	8,982	9,622	70,371	67,697	301,600	-	476,163
Due from Government of Oman		-	-	-	-	-	-	-	-	10,675	10,675
Property and equipment		-	-	-	-	-	-	-	-	4,874	4,874
Other assets		-	-	-	-	-	-	-	-	2,378	2,378
Total assets		**2,881**	**6,009**	**9,001**	**8,982**	**9,622**	**70,371**	**67,697**	**301.600**	**26,003**	**502,166**
Liabilities and equity											
Due to Banks	2.75-3.75	4,004	5,000	14,000	3,000	6,000	-	-	-	-	32,004
Customers' deposits	1-4.25	462	3,462	461	3,461	13,363	13,460	2,310	14,610	-	51,589
Loans from the Government of Oman	3-5	-	-	-	-	-	-	31,000	52,830	20,000	103,830
Loan from the Arab Fund for Economic and Social Development	3	-	-	-	-	4,149	5,533	41,149	-	-	50,831
Other liabilities		-	-	-	-	-	-	-	-	13,277	13,277
Total equity		-	-	-	-	-	-	-	-	**250,635**	**250,635**
Total liabilities and equity		**4,466**	**8,462**	**14,461**	**6,461**	**23,512**	**18,993**	**74,459**	**67,440**	**283,912**	**502,166**
Interest rate sensitivity gap		**(1,585)**	**(2,453)**	**(5,460)**	**2,521**	**(13,890))**	**51,378**	**(6,762)**	**234,160**	**(257,909)**	
Cumulative gap		**(1,585)**	**(4,038)**	**(9,498)**	**(6,977)**	**(20,867)**	**30,511**	**23,749**	**257,909**	**-**	

31 December 2016	Interest rate	Up to 1 month	1 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months	1 - 3 years	3 - 5 years	More than 5 years	Non-sensitive	Total
	%	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Assets											
Cash and banks' balances		-	-	-	-	-	-	-	-	8,563	8,563
Mortgage loan accounts	1-6	5,334	13,578	21,812	24,971	27,819	49,757	50,951	226,543	-	420,765
Due from Government of Oman		-	-	-	-	-	-	-	-	10,675	10,675
Property and equipment		-	-	-	-	-	-	-	-	4,883	4,883
Other assets		-	-	-	-	-	-	-	-	1,950	1,950
Total assets		5,334	13,578	21,812	24,971	27,819	49,757	50,951	226,543	26,071	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 of Oman	3-5	-	-	-	-	-	-	31,000	52,830	20,000	103,830
Loan from the Arab Fund for Economic and Social Development	3	-	-	-	-	-	4,149	5,533	33,069	-	42,751
Other liabilities		-	-	-	-	-	-	-	-	11,085	11,085
Total equity		-	-	-	-	-	-	-	-	241,504	241,504
Total liabilities and equity		737	4,940	5,439	8,439	10,014	13,348	38,732	92.598	265,509	446,836
Interest rate sensitivity gap		4,597	8,638	16,373	16,532	17,805	36,409	12,219	133,945	(246,518)	
Cumulative gap		4,597	12,235	29,608	46,140	63,945	100,354	112,573	246,518		

Financial risk management

Liquidity risk

The amounts disclosed in table below analyse the Bank's assets and liabilities as on 31 December 2017 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 2017	Up to 1 month	1 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months	1 - 3 years	3 - 5 years	More than 5 years	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Assets									
Cash and bank balances	8,076	-	-	-	-	-	-	-	8,076
Mortgage loan accounts	2,881	6,009	9,001	8,982	9,622	70,371	67,697	301,600	476,163
Due from Government of Oman	-	10,675	-	-	-	-	-	-	10,675
Property and equipment	4,874	-	-	-	-	-	-	-	4,874
Other assets	2,298	80	-	-	-	-	-	-	2,378
Total assets	18,129	16,764	9,001	8,982	9,622	70,371	67,697	301,600	502,166
Liabilities and equity									
Due to banks	4,004	5,000	14,000	3,000	6,000	-	-	-	32,004
Customers' deposits	462	3,462	461	3,461	13,363	13,460	2,310	14,610	51,589
Loans from Government of Oman	-	-	-	-	-	-	31,000	72,830	103,830
Loan from the Arab Fund for Economic and Social Development	-	-	-	-	4,149	5,533	41,149	-	50,831
Other liabilities	56	1,244	1,914	329	5,319	8		4,407	13,277
Total equity	-	-	-	-	-	-	-	250,635	250,635
Total liabilities and equity	4,522	9,706	16,375	6,790	28,831	19,001	74,459	342,482	502,166
Net liquidity gap	13,607	7,058	(7,374)	2,192	(19,209)	51,370	(6,762)	(40,882)	
Cumulative liquidity gap	13,607	20,665	13,291	15,483	(3,726)	47,644	40,882	-	

31 December 2016	Up to 1 month	1 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months	1 - 3 years	3 - 5 years	More than 5 years	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Assets									
Cash and banks balances	8,563	-	-	-	-	-	-	-	8,563
Mortgage loan accounts	5,334	13,578	21,812	24,971	27,819	49,757	50,951	226,543	420,765
Due from Government of Oman	-	-	-	10,675	-	-	-	-	10,675
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 Government of Oman	-	-	-	-	-	-	31,000	72,830	103,830
Loan from the Arab Fund for Economic and Social Development	-	-	-	-	-	4,149	5,533	33,069	42,751
Other liabilities	1,965	599	79	102	4,222	112	1	4,005	11,085
Total 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	-	

Financial risk management
Currency risk

Currency risk arises as a result of fluctuations in the value of a financial instruments due to changes in foreign exchange rate. Bank does not hold foreign currency or any other foreign currency investment however the Bank has a borrowing in KWD. Therefore, changes in the KWD affect the statement of profit and loss and other comprehensive income of the Bank.

A change in the KWD by +1/-1% will increase / decrease the profit of the Bank by RO 508 thousand as at 31 December 2017 (2016 – RO 428 thousand).

29. Financial assets and liabilities

Accounting classifications as at:

31 December 2017	Financial assets and liabilities at amortised cost	Total
Financial assets	RO'000	RO'000
Cash and balances with banks	8,076	8,076
Mortgage loan accounts	476,163	476,163
Due from government	10,675	10,675
Total financial assets	494,914	494,914
Total non-financial assets		7,252
Total assets		502,166
Financial liabilities		
Due to Banks	32,004	32,004
Customer deposits	51,589	51,589
Loans from government	103,830	103,830
Loan from Arab Fund for Economic and Social Development	50,831	50,831
Total financial liabilities	238,524	238,524
Total non-financial liabilities		13,277
Total liabilities		251,531

Accounting classifications as at:

31 December 2016	Financial assets and liabilities at amortised cost	Total
Financial assets	RO'000	RO'000
Cash and balances with banks	8,563	8,563
Mortgage loan accounts	420,765	420,765
Due from government	10,675	10,675
Total financial assets	494,914	494,914
Total non-financial assets		6,833
Total assets		446,836
Financial liabilities		
Due to Banks	22,297	22,297
Customer deposits	25,369	25,369
Loans from government	103,830	103,830
Loan from Arab Fund for Economic and Social Development	42,751	42,751
Total financial liabilities	194,247	194,247
Total non-financial liabilities		11,085
Total liabilities		205,332

30. 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.

31. Taxation

In accordance with the Royal Decree 51/77 and Royal Decree 36/2010 the bank is exempt from income tax.

32. Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 14 March 2018.

33. Corresponding figures

Certain corresponding figures for 2016 have been reclassified in order to conform to the presentation adopted in the current period. Such reclassifications have not resulted in any change in the prior period reported profit or equity.

34. Net debt reconciliation

	2017	2016
	RO'000	RO'000
Cash and cash equivalents	8,076	8,563
Borrowings – repayable within one year	(4,149)	-
Borrowings – repayable after one year	(150,512)	(146,581)
Net debt	(146,585)	(138,018)

	2017	2016
	RO'000	RO'000
Cash and cash equivalents	8,076	8,563
Gross debt – fixed interest rates	(154,661)	(146,581)
Net debt	(146,585)	(138,018)

	Other assets	Liabilities from financing activities		
	Cash	Borrowings due within 1 year	Borrowings due after 1 year	Total
	RO	RO	RO	RO
Net debt as at 1 January 2016	5,170	-	(116,808)	(111,638)
Cash flows, net	3,393	-	(29,773)	(26,380)
Net debt as at 31 December 2016	8,563	-	(146,581)	(138,018)
Cash flows, net	(487)	(4,149)	(3,931)	(8,567)
Net debt as at 31 December 2017	8,076	(4,149)	(150,512)	(146,585)

(a) Borrowing of the banks consist of loans from Government of Oman and Loan from the Arab Fund for Economic and Social Development.