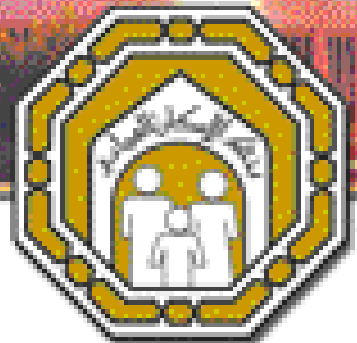


ANNUAL REPORT

2004



OMANHOUSING BANK S.A.O.C.



His Majesty Sultan Qaboos Bin Said

G R O W T H

D E V E L O P M E N T

P R O G R E S S

S U C C E S S



OMAN HOUSING BANK S.A.O.C.

www.ohb.co.om



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Bank Branches

Head Office

Post Box: 2555, Ruwi, Postal code: 112, Sultanate of Oman.

Telephone: 24704444 (10 lines), Telex: 3077 ISKAN ON

Email: ohb@ohb.co.om

Website: www.ohb.co.om

Main Branch

P.O. Box -2555, Postal Code - 112,

Sultanate of Oman

Tel: 24702887, Telefax: 24704060

Khasab Branch

P.O. Box -28, Postal Code - 811,

Sultanate of Oman

Tel: 26830448, Telefax: 26830449

Salalah Branch

P.O. Box -966, Postal Code - 211,

Sultanate of Oman, Tel: 23291431,

23292337, Telefax: 295652

Buraimi Branch

P.O. Box -370, Postal Code - 512,

Sultanate of Oman

Tel: 25650706, Telefax: 25650707

Sohar Branch

P.O. Box -252, Postal Code - 311,

Sultanate of Oman

Tel: 26840366, 26842366, Telefax: 26841366

Ruqra Branch

P.O. Box -222, Postal Code - 318,

Sultanate of Oman

Tel: 26875800, 26875799, Telefax: 26878820

Sur Branch

P.O. Box -300, Postal Code - 411,

Sultanate of Oman

Tel: 25540324, 25540242, Telefax: 25543324

Ibra Branch

P.O. Box -262, Postal Code - 413,

Sultanate of Oman

Tel: 25570630, 25571304, Telefax: 25570830

Nizwa Branch

P.O. Box -7111, Postal Code - 611,

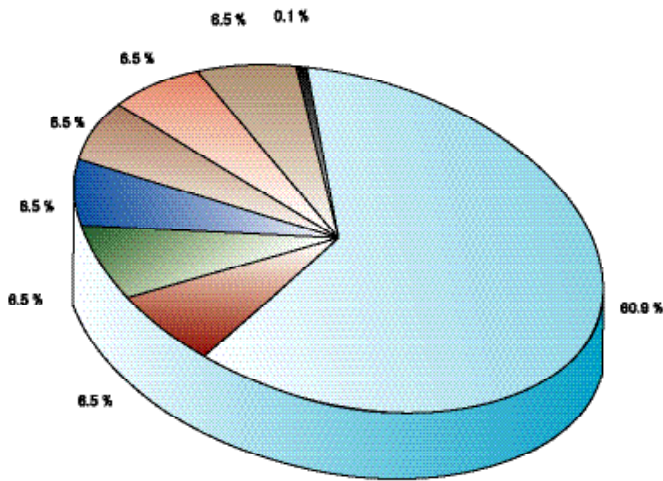
Sultanate of Oman

Tel: 25410375, 25410465, Telefax: 25410075



Stockholders

Stockholders	No. of Shares	Authorised Capital RO.	Paid-up Value RO.	Percentage
Government of the Sultanate of Oman	18,270,000	18,270,000	18,270,000	60.9 %
Internal Security Services Pension Fund	1,950,000	1,950,000	1,950,000	6.5 %
Royal Guard of Oman Pension Fund	1,950,000	1,950,000	1,950,000	6.5 %
Ministry of Defence Pension Fund	1,950,000	1,950,000	1,950,000	6.5 %
Royal Oman Police Fund	1,950,000	1,950,000	1,950,000	6.5 %
Civil Service Employees Pension Fund	1,950,000	1,950,000	1,950,000	6.5 %
Public Authority for Social Insurance	1,950,000	1,950,000	1,950,000	6.5 %
Oman Development Bank	30,000	30,000	30,000	0.1 %
Total	30,000,000	30,000,000	30,000,000	100 %



- Government of the Sultanate of Oman
- Internal Security Services Pension Fund
- Royal Guard of Oman Pension Fund
- Royal Oman Police Fund
- Civil Service Employees Pension Fund
- Public Authority for Social Insurance
- Oman Development Bank



Board Meeting

Board of Directors

Acting Chairman

H E Darwish bin Ismail bin Ali Al Bulushi

Undersecretary Ministry of Finance

Deputy Chairman

LT. Colonel (P.S.C) Masoud bin Humaid bin Malik Al Harthy

Director MT, Wksps, Elect & Mech Engineers

Representative of Royal Guard of Oman Pension Fund

Members

Mr. Moh'd Jawad bin Hassan bin Suleiman

Director General of General Treasury and
Accounts Representative of Ministry of Finances

Captain Said Bin Abdullah bin Said Al Hsani

Representative of internal Security services Pension
Funds & Royal Oman Police Pension Funds

Mr. Sultan bin Moh'd bin Sultan Al Mahrouqi

Director General , Administration & Finance Affairs
Representative of Ministry of Finances

Mr. Faisal bin Abdullah bin Shaban Al Farsi

Representative of Civil Service Employee Fund &
Public authority of Social Insurance

**Engineer, Abdullah bin Rashid bin Sleim
Al Kumy**

Director General of Land & Housing
Ministry of Housing, Electricity & Water
Representative of Ministry of Finances

Secretary

Mr. Adnan bin Haider bin Darwish

General Manager

Auditors

Pricewater House Coopers

Legal Consultant

Abdullah Al Saidi Legal Firm



HE Darwish bin Ismail bin Ali Al Bulushi
Acting Chairman of the Board of Directors



Board Report

Dear Shareholders

On behalf of the Board of Directors, It gives me great pleasure to welcome you on behalf of the members of the Board of Directors to the 29th general meeting and to put forward the banks Annual Report including the various activities of the bank, final accounts, and the auditors' report for the financial year ending 31 Dec 2004.

1. Lending Activities

One of the major aims for which this bank was established is to make available suitable & comfortable house for each & every Omani family in line with a clear and transparent vision in actualizing our customer present and futuristic needs and requirement for owning decent houses .

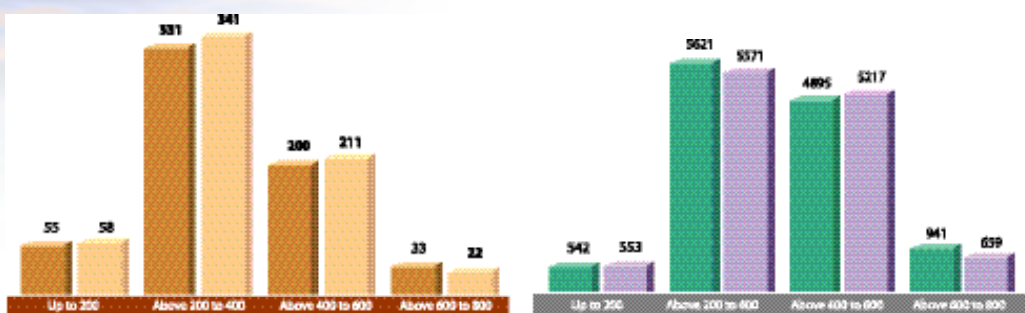
As housing requirements are increasing day by day, our banks lending initiative of granting loans is also increasing day by day ,our banks lending initiative of granting loans is also increasing day by day .

To comply with the bank polices, (632) loans were granted by the fully utilization of subsidized loans allotment for the year 2004 amounting to R.O (12) million, of which (399) loans, amounting to (RO 6,123,800) representing (63,1%) of the total loans and (51 %) of their value, were allotted to limited income citizen. Its worth mentioning that the bank targeted this category, since establishment until 31 Dec 2004, with a (23074) loans from the total approved loans of (25952). Loans allotted to the category in question amounted to R.O 360,863,229 from the total loan value of R.O 429, 275, 687.



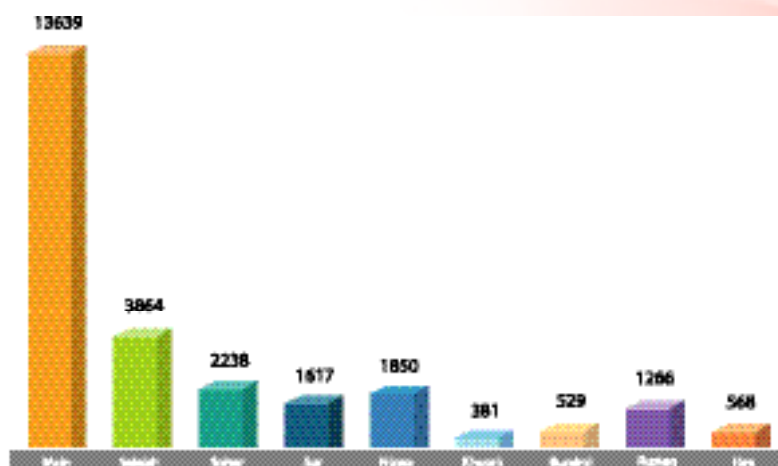
The following table shows the distribution of subsidized loans approved to the different income category borrowers during the years (2003-2004)

Monthly Income RO	Loans approved during 2003				Loans approved during 2004			
	No	%	Amount(RO)	%	No	%	Amount	%
Up to 200	55	8.9	542,400	4.5	58	9.2	553,300	4.6
Above 200 to 400	331	53.5	5,621,000	46.8	341	53.9	5,570,500	46.4
Above 400 to 600	200	32.3	4,895,300	40.8	211	33.4	5,217,000	43.5
Above 600 to 800	33	5.3	941,300	7.9	22	3.5	659,200	5.5
Total	619	100%	12,000,000	100	632	100	12,000,000	100

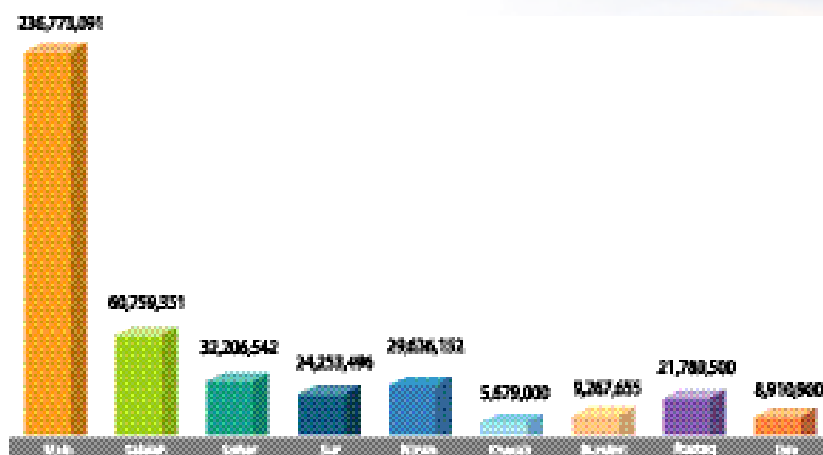


The following table shows the distribution of subsidized loans approved by the bank (branch wise) for various areas within the Sultanate during 2004 and since the establishment of each branch up to the end of 2004.

Branches	Loans approved during 2004				Loans approved since Est up to 2004			
	No	%	Amount(RO)	%	No	%	Amount(RO)	%
Main	221	35.0	4,670,400	38.9	13639	52.6	236,773,091	55.2
Salalah	63	10.0	1,234,800	10.3	3864	14.9	60,759,351	14.1
Sohar	67	10.6	1,222,300	10.2	2238	8.6	32,206,542	7.5
Sur	31	4.9	573,400	4.8	1617	6.2	24,253,496	5.6
Nizwa	62	9.8	1,034,900	8.6	1850	7.1	29,636,152	6.9
Khasab	23	3.6	358,100	3.0	381	1.5	5,679,000	1.3
Buraimi	26	4.1	507,500	4.2	529	2.0	9,267,655	2.2
Rustaq	102	16.1	1,804,800	15.0	1266	4.9	21,789,500	5.1
Ibra	37	5.9	593,800	5.0	568	2.2	8,910,900	2.1
Total	632	100	12,000,000	100	25952	100	429,275,687	100



No. of loans approved up to 2004



Amount of loans approved up to 2004

The following table shows the received loan applications , the primary approvals, cancelled applications and applications on the waiting list from the beginning of the year 2003 to 31/12/2004.

year	2003		2004	
	No	Amount	No	Amount
Applications at the beginning of the year	229	4,219,700	1268	23,602,100
Applications received during the year	1876	34,792,300	1029	18,994,700
Approved loans	619	12,000,000	632	12,000,000
Cancelled application	218	3,409,900	152	2,552,500
Applications at the end of the year	1268	23,602,100	1513	28,044,300



The above statement shows a remarkable increase in the number of the applicants seeking government subsidized loans, a matter that made an increase in number of applications and amount of money during the year 2004, as the number mounted to (1029) applications at value of R.O18,994,700 representing 81% of the total applications in the waiting list as per the situation at the end of 2003, which is 80 % of the total value.

The huge increase in the loan application created pressure on the bank as bank lending scheme of the year would put the waiting list period at (2 1/2) years. Such situation shall make us to seek support the financial resources of the bank and also make us take necessary procedures to reduce the waiting period in a bid to meet requirement of the citizens within a suitable time frame.

During the year 2004, the bank approved (122) applications for unsubsidized loans amounting to (R.O 3,287,700) out of (R.O 6 million) reserve allotted for this purpose.

this makes , the total approved applications for unsubsidized loans reaches (1551) amounting to RO. 38,125,335.

The following table shows unsubsidized loans approved by the bank during 2004 and also those approved from 1/1/1993, when the system was established, to the end of 2004.

Branches	Un subsidized loans approved during the year 2004				Un subsidized loans approved from 1/1/1993 to the end of year 2004			
	No	%	Amount(RO)	%	No	%	Amount	%
Main	58	47.6	2,025,900	61.6	893	57.6	24,251,435	63.6
Salalah	16	13.1	435,300	13.2	170	10.9	4,222,400	11.1
Sohar	4	3.3	89,000	2.7	82	5.3	1,743,300	4.6
Sur	9	7.4	141,200	4.3	85	5.5	1,756,100	4.6
Nizwa	3	2.5	51,900	1.6	95	6.1	1,731,200	4.5
Khasab	12	9.8	144,900	4.4	16	1.0	184,600	0.5
Buraimi	6	4.9	126,400	3.9	59	3.8	1,279,100	3.4
Rustaq	12	9.8	212,300	6.5	113	7.3	2,262,200	5.9
Ibra	2	1.6	60,100	1.8	38	2.5	695,000	1.8
Total	122	100	3,287,000	100	1551	100	38,125,335	100



2) Financial Position

1) Assets:

The assets of the bank were (RO166, 416, 868) by 31/12/2004 compared to (RO (172,159,148) by the end of the year 2003 with a decrease of RO (5,742,820) or (3.3%) The decrease of the assets mainly attributed to the fall in the mortgage loan amount during in the year of 2004 by RO (5,685,449) to be (164,554,875) compared to (RO 170,240,324) by the end of the year 2003.

2) Liabilities:

The total liabilities of the bank has reached (RO 94,719,094) by 31/12/2004 in comparison to (RO 103,427,976) by the end of the year 2003 by a decrease of amount of (RO8,708,882) a percentage of 8.4 %. The decrease is mainly due to the decrease in the net loan balance from banks & financial institutions. Were the total shareholders equity has reached (RO 71,697,774) compared to (RO 68,731,172) in 2003. The increase is attributed to the increase in reserves and retained earnings.

3) Profits:

A total net profit achieved amount to (RO 5,366,602) was achieved during 2004 in comparison to (RO 8,167,582) by the end of the year 2003 with the decrease of (RO2,800,980) or (34.3%).leading to a decrease in the percent of return on paid up capital has increased from (27.3%)to 17.9 %.

The Board of Directors recommended the distribution of the dividend for year 2004 as follows:

- * An amount of R.O 536,660 equal to (10%) of the net profits for the year 2004, to the legal reserve.
- * An amount of R.O 1,800,000 to the shareholder as cash profits . equal to 6% a return to the amount of paid up capital
- * The reminder of (RO 3,029,942) distributed at a rate of i.e. 50% to special reserve and as retained earnings.

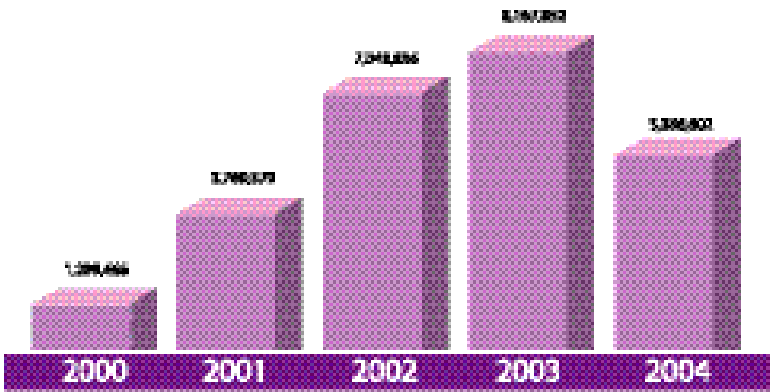


The following table shows the growing assets of the bank, mortgage accounts and net profits during the last five years from 2000 to 2004.

Year Assets

Year	Assets R.O	Mortgage Accounts
2000	165,005,004	162,112,555
2001	165,020,376	158,794,651
2002	162,822,317	160,785,705
2003	172,159,148	170,240,324
2004	166,416,868	164,554,875

Year	Net profit of Bank
2000	1,289,466
2001	3,769,379
2002	7,048,836
2003	8,167,852
2004	5,366,602



The decrease in profit from 2003 is mainly attribute to adopting a new policy of forming allotments for the loan risk managing in line with terms and requirement defended by instructions of the central bank which areas follows :-

1. Banks should make allotment for regularly being paid loans at a per-cent of 1% of the total portfolio assets complying with this , the bank made an allotment of R.O 1,650,927 for those loans as a new system applicable for the first time.



2. Adjust the criteria of calculating the allotments on the irregular loans as this made for doubling the allotment of irregular loans to around R.O 627,731 a matter that the allotments of the irregular loans less than the allotments of the regular loans. Thus the total allotment for both the loans (regular & irregular) become around (R.O 2,749,448) where the allotment for the year 2003 was R.O (625,157)

3) Recruitment and Training

The bank has a strong believe in improving the competence of the human resources by raising their capabilities and skills so they would be able offer quality service to customers.

A number of staff members were sent aboard for bachelor and master degrees in business & finance administration, accounts and computer. The bank also arranges training courses for its staff and different institutions locally & abroad in order to continue its pioneering role of achieving the government plans of omanization in addition to also work with highly qualified staff capable of producing quality service.

During the year (251) staff joined (95) training courses in different disciplines and areas of the bank.

The bank gives vital importance to Omanization policy by recruiting Omanis and qualify them. The percentage of Omanization has reached 96.6% of the total manpower amounting to (269) people.

4) Computer System Development

The efforts of the bank have kept pace with the development in technology and computer applications. The bank is now using state of the art technologies to improve activities in applied systems, instruments, communication network between branches to and creating a wide range of database that can be used in various ways. The bank has a strong 24 hour presence on international network where investors and loan beneficiaries can have access to network data to know their actual a financial positions .

This quality development in the area of services enables the bank to lay a strong base for the e -business supported by the government.



5) Construction of Sohar Branch Building

As part of 2004 plan the construction project of Sohar branch building, at the cost of R.O (182,719), are now under way with expectation that handing over during 2nd quarter 2005.

At the end , the board of directors have the honour to thank His Majesty Sultan Qaboos bin Said for his valuable directives and support to the bank.

His Majesty's future vision and explicit guidelines put this nation at the forefront of development and progress within a short span of the time.

The banks aim in providing quality social service in the field of housing shall continue endlessly until a descent house was made available to every and each family of our beloved Oman.

I further want to convey appreciations and greetings of the Board of Directors to all who made and contributed to the development of the bank. In this regard, special thanks are due to the wise government of Oman represented by the

Ministry of Finance and the Central Bank of Oman and all financial institutions and firms, government and private sector institutions for their absolute help and assistance with the bank to achieve its objective commitments to serve better all the citizens of our beloved country Oman.

The Board of Directors wishes to pay a special acknowledgement to our valued staff for their tireless and productive effort to serve our bank and improve our performance and services.

May the Almighty Allah give us the ability to serve better our beloved Oman under the wise leadership of His Majesty Sultan Qaboos bin Said.

Board of Directors



FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

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REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF OMAN HOUSING BANK (SAOC)

We have audited the accompanying balance sheet of Oman Housing Bank (SAOC) (the Bank) as at 31 December 2004 and the related income and cash flow statements for the year then ended. These financial statements set out on pages 22 to 36 are the responsibility of the Bank's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Oman Housing Bank (SAOC) as at 31 December 2004 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Kevin A. Stauffer
PriceWaterhouseCoopers LLP
13 March 2005



INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 RO	2003 RO
REVENUE			
Banking and administrative service fees on mortgage accounts		7,293,352	6,792,814
Government administration and service fee contribution receivable	2	5,500,000	6,000,000
Interest on short term deposits		732	1,187
Other income	3	898,128	1,095,006
Provision for impairment of loan written back	9 (a)	154,367	232,193
Total revenue		13,846,579	14,121,200
EXPENSES			
Interest on customers' deposits and due to banks		165,810	168,449
Interest on term loans		282,241	386,378
Interest on loans from the Government		2,407,497	2,041,507
General and administrative expenses	4	3,085,676	2,952,133
Provisions for impairment of loans - general portfolio		1,650,927	-
Provisions for impairment of loans - specific	9 (a)	627,731	161,641
Staff housing loan interest expenses		85,639	74,026
Bad debt write off		4,127	5,426
Depreciation		170,329	164,058
Total expenses		8,479,977	5,953,618
Net profit for the year	6	5,366,602	8,167,582
Earnings per share	7	0.179	0.273

The accounting policies and notes on pages **22** to **36** form an integral part of these financial statements. Report of the Auditors - **page 17**.

BALANCE SHEET AT 31 DECEMBER 2004



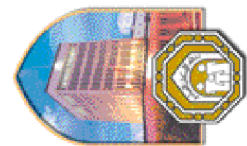
	Note	2004 RO	2003 RO
ASSETS			
Cash on hand and at banks		111,436	395,981
Time deposits with banks	8	200,000	-
Mortgage loan accounts	9	164,554,875	170,240,324
Fixed assets	10	1,118,713	1,096,824
Other assets	11	431,844	426,019
Total assets		166,416,868	172,159,148
LIABILITIES			
Due to other banks	12	9,100,000	10,700,000
Customers' deposits	13	6,699,287	6,594,975
Term loans from banks and financial institutions	14	9,063,236	16,423,725
Loans from the Government	15	64,830,142	64,830,142
Other liabilities	16	5,026,429	4,879,134
Total liabilities		94,719,094	103,427,976
SHAREHOLDERS' EQUITY			
Share capital	17	30,000,000	30,000,000
Legal reserve	18	7,686,134	7,149,474
Special reserve	19	26,045,069	24,530,098
Capital reserve	20	204,200	204,200
Proposed dividend	21	1,800,000	2,400,000
Retained earnings		5,962,371	4,447,400
Total shareholders' equity		71,697,774	68,731,172
Total equity and liabilities		166,416,868	172,159,148

The financial statements on page 20 to 38 were approved by the Board of Directors on 22 March 2005 and were signed on their behalf by:

DARWISH BEN ISMAIL BIN ALI AL-BULUSHI
ACTING CHAIRMAN OF THE BOARD
OF DIRECTORS

ADNAN BIN HAIDER BIN DARWISH
GENERAL MANAGER

The accounting policies and notes on pages 22 to 36 form an integral part of these financial statements. Report of the Auditors - page 17.



STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2004

	Share capital	Legal reserve	Special reserve	Capital reserve	Proposed dividend	Retained earnings	Total
Balance at 1 January 2003	30,000,000	6,332,716	22,054,686	204,200	2,400,000	1,971,988	62,963,590
Dividend paid for 2002	-	-	-	-	(2,400,000)	-	(2,400,000)
Net profit for the year	-	-	-	-	-	8,167,582	8,167,582
Transfer to legal reserve (note 18)	-	816,758	-	-	-	(816,758)	-
Transfer to special reserve (note 19)	-	-	2,475,412	-	-	(2,475,412)	-
Proposed dividend for 2003 (note 21)	-	-	-	-	2,400,000	(2,400,000)	-
Balance at 31 December 2003	30,000,000	7,149,474	24,530,098	204,200	2,400,000	4,447,400	68,731,172
Balance at 1 January 2004	30,000,000	7,149,474	24,530,098	204,200	2,400,000	4,447,400	68,731,172
Dividend paid for 2003	-	-	-	-	(2,400,000)	-	(2,400,000)
Net profit for the year	-	-	-	-	-	5,366,602	5,366,602
Transfer to legal reserve (note 18)	-	536,660	-	-	-	(536,660)	-
Transfer to special reserve (note 19)	-	-	1,514,971	-	-	(1,514,971)	-
Proposed dividend for 2004 (note 21)	-	-	-	-	1,800,000	(1,800,000)	-
Balance at 31 December 2004	30,000,000	7,686,134	26,045,069	204,200	1,800,000	5,962,371	71,697,774

The accounting policies and notes on pages **22** to **36** from an integral part of these financial statements.
Report of the Auditors - **page 17**.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2004



	Note	2004 RO	2003 RO
Operating activities			
Net profit for the year		5,366,602	8,167,582
Adjustments for:			
Depreciation		170,329	164,058
Profit on disposal of fixed assets		(5,330)	(190)
Provision for impairment of loans written back		(154,367)	(232,193)
Provision for impairment of loans - general portfolio		1,650,927	
Provision for impairment of loans - Specific		627,731	161,641
Write back of provision against staff loans and other assets		(43,840)	(7,762)
Operating profit before changes in operating assets and liabilities		7,612,052	8,253,136
Changes in operating assets and liabilities			
Mortgage loan accounts		3,561,158	(9,384,067)
Other assets		38,015	68,963
Due to other banks		(1,600,000)	6,100,000
Customers' deposits		104,312	187,856
Term loans from banks and financial institutions		(7,360,489)	(9,002,847)
Loans from the Government		-	6,000,000
Other liabilities		147,295	284,239
Net cash generated from operating activities		2,502,343	2,507,280
Investing activities			
Purchase of fixed assets		(195,429)	(151,233)
Proceeds from disposal of fixed assets		8,541	2,978
Net cash used in investing activities		(186,888)	(148,255)
Financing activities			
Dividend paid		(2,400,000)	(2,400,000)
Net cash used in financing activities		(2,400,000)	(2,400,000)
Net change in cash and cash equivalents		(84,545)	(40,975)
Cash and cash equivalents at beginning of the year		395,981	436,956
Cash and cash equivalents at end of the year	23	311,436	395,981

The accounting policies and notes on pages 22 to 36 form an integral part of these financial statements. Report of the Auditors - **page 17.**



STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

Basis of presentation

The financial statements are prepared on the historical cost basis, except as disclosed in the accounting policies below, and in accordance with International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the International Accounting Standards Board, applicable requirements of the Commercial Companies Law and applicable regulations issued by the Central Bank of Oman.

The principal accounting policies are set out below.

Recognition of banking and administrative fees on mortgage accounts

Banking and administrative service fees are accrued on a time proportion basis taking into account the principal outstanding and rate applicable. If the recovery of banking and administrative service fees on mortgage accounts is doubtful, its recognition in the income statement is deferred until it is received.

Recognition of interest income and expense

Interest income and expense are recognised in the income statement on the accruals basis using the effective yield method on the principal outstanding or the actual purchase price as applicable.

Recognition of fees and commission

Commission and fees are recognised in the income statement at the time of effecting the transactions to which they relate.

Recognition of Government subsidy

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

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, provisions for loan impairment and reserved banking and administrative service fees.

Provisions for loan impairment comprise both specific provisions as well as provision for potential losses not specifically identify but which experience indicates are present in the mortgage accounts portfolio. A loan impairment provision is established if there is objective evidence that the Bank will not be able to collect any of the amounts due. The amount of provision is the difference between the cash flows, including amounts recoverable from collateral, discounted based at inception interest rates.

When a loan is uncollectible, it is written off against the related provision for impairments. Subsequent recoveries are credited to the income statement.

All mortgaged loans are recognised when disbursed.



STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

(continued)

Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the assets' estimated useful lives at the following annual rates:

Buildings	25 years
Furniture, fixtures and equipment	5 to 10 years
Other equipment	5 years
Motor vehicles	5 years

Land is not depreciated as it has an indefinite life.

Capital work-in-progress is not depreciated until the asset is put to use.

Where the carrying amount of an asset is greater than its estimated recoverable amount it is written down immediately to its recoverable amount. Gains and losses on disposal of fixed assets are determined by reference to their carrying amount and are taken into account in determining net profit. Repairs and renewals are charged to the income statement when expenditure is incurred.

Liabilities

Liabilities are recognised for amounts to be paid for goods and services received, whether or not billed to the Bank.

End of service benefits and leave entitlements

End of service benefits are accrued in accordance with the terms of employment of the Bank's non Omani employees at the balance sheet date, having regard to the requirements of the Oman Labour Law 2003 and its amendments. Payment is made to the Public Authority for Social Insurance under the Royal Decree 71/91 for Omani employees. Employee entitlements to annual leave are recognised when they accrue to employees and an accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Foreign currencies

Transactions in foreign currencies are translated into Rials Omani at the rates of exchange prevailing on the dates of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Rials Omani at the exchange rate prevailing at the balance sheet date. Differences on exchange are dealt with in the income statement as they arise.

Cash equivalents

All placements, borrowings, and amounts due from and to banks with maturity of three months or less from the date of acquisition are considered as cash equivalents.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)

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 terms of Royal Decree No. 51/77. The principal activity of the Bank is to provide residential housing loans to Omani nationals through a network of branches in the Sultanate of Oman.

As per the articles of association of the bank, a minimum dividend of six percent of share capital should be paid to the shareholders. In the event of insufficient profits after legal and special reserve being available to meet the minimum dividend requirement, the short fall will be paid to the bank by the Government of the Sultanate of Oman. As the net profit for the year after transfers to Legal reserve has exceeded the minimum dividend, there is no amount due to be paid by Government of the Sultanate of Oman.

2 Government administration and services fee contribution receivable

In accordance with Article 6 of Royal Decree No. 51/77, 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, up to the ceiling of RO 5.5 million for the year ended 31 December 2004 (2003 - RO 6 million). The full amount of subsidy would have been RO 7,237,381 for the year ended 31 December 2004 (2003 - RO 7,145,383) had there not been a cap of RO 5.5 million (2003 - RO 6 million).

3 Other income

	2004 RO	2003 RO
Fees and commissions	756,797	1,019,873
Rental income	55,926	56,945
Profit on disposal of fixed assets	5,330	190
Miscellaneous income	80,075	17,998
	898,128	1,095,006

4 General and administrative expenses

	2004 RO	2003 RO
Staff costs (note 5)	2,611,628	2,488,059
Training expenses	107,233	59,337
Utilities and rent	62,588	63,507
Professional fees	57,231	53,623
Communication costs	51,042	58,871
Maintenance	31,006	47,245
Travelling expenses	25,148	25,668
Board of directors' meeting attendance fees	20,550	21,051
Board of directors remuneration - proposed note 24d)	40,000	40,000
Other administrative expenses	79,250	83,214
Software license fees	-	11,558
	3,085,676	2,952,133

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)



5 Staff costs

	2004 RO	2003 RO
Salary and allowances	2,391,946	2,281,746
End of service benefits	9,009	8,636
Social security costs	115,406	111,129
Other costs	95,267	86,548
	2,611,628	2,488,059
Number of persons employed the bank at the year end	2004 270	2003 265

6 Taxation

In accordance with the terms of Royal Decree No. 51/77, the Bank is exempted from Omani taxation.

7 Earnings per share

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

	2004	2003
Net profit for the year	5,366,602	8,167,582
Weighted average number of shares	30,000,000	30,000,000
Basic earnings per share	0.179	0.273

8 Time deposit with a bank

Time deposit with a bank at 31 December 2004 comprises a Rials Omani short term deposit with a commercial bank in the sultanate of Oman carrying an interest of 0.5 % per annum and having a maturity period of less than three months from the date of placement .

9 Mortgage loan accounts

	2004 RO	2003 RO
Gross mortgage loan accounts, as at 1 January	171,172,247	161,731,109
Loans disbursed during the year	17,811,208	28,770,470
Principal repayments during the year	(21,293,301)	(19,329,332)
Gross mortgage loan accounts as at 31 December	167,690,154	171,172,247
Provision for impairment (note 9a)	(2,749,448)	(625,157)
Reserved banking and administrative service fees (note 9b)	(385,831)	(306,766)
Net mortgage loan accounts as at 31 December	164,554,875	170,240,324



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)

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

	2004 RO	2003 RO
Balance as at 1 January	625,157	699,772
Provision made during the year - specific	627,731	161,641
Provision for impairment of loan- general portfolio	1,650,927	-
Provision written off during the year	-	(4,063)
Provision written back during the year	(154,367)	(232,193)
Balance as at 31 December	2,749,448	625,157

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

	2004 RO	2003 RO
Balance as at 1 January	306,766	245,632
Reserved during the year	131,184	166,671
Written off during the year	(7,888)	(4,718)
Written back during the year	(44,231)	(100,819)
Balance as at 31 December	385,831	306,766

- c) At 31 December 2004, mortgage loan accounts on which banking and administrative service fees have been reserved amounted to RO 2,970,001 (2003 - RO 2,377,093).
- d) At 31 December 2004, provisions for impairment represent 92.6% (2003 - 30%) of gross non-performing mortgage loan accounts net of reserved banking and administrative service fees.
- e) The banking and administrative service fees rates varied from 1% and 10% (2003 - between 1% and 10%) per annum, with a corresponding contribution received from the Government of Sultanate of Oman of up to 9% per annum.
- f) The mortgage loan accounts are in respect of loans granted in the Sultanate of Oman to Omani individuals.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)



10 Fixed assets

Figures are in Rials Omani

	Land and buildings	Furniture, fixtures and equipment	Other equipment	Motor vehicles	Capital work in progress	Total
Cost						
1 January 2004	1,815,892	1,124,801	844,654	191,617	79,680	4,056,644
Additions	-	42,722	57,623	20,000	75,084	195,429
Transfers	-	-	79,680	-	(79,680)	-
Disposals	-	(120,364)	(291,015)	(25,855)	-	(437,234)
31 December 2004	1,815,892	1,047,159	690,942	185,762	75,084	3,814,839
Depreciation						
1 January 2004	986,480	1,085,171	711,355	176,814	-	2,959,820
Charge for the year	60,822	14,314	86,423	8,770	-	170,329
Disposals	-	(120,032)	(288,136)	(25,855)	-	(434,023)
31 December 2004	1,047,302	979,453	509,642	159,729	-	2,696,126
Net book value						
31 December 2004	768,590	67,706	181,300	26,033	75,084	1,118,713
31 December 2003	829,412	39,630	133,299	14,803	79,680	1,096,824

land and building includes land valued at RO 204,200 (Note 20).

11 Other assets

	2004 RO	2003 RO
Prepaid expenses	21,560	23,693
Staff personal loans	9,626	38,870
Other receivables	378,134	337,043
Stationery inventory	22,524	26,413
	431,844	426,019

Staff personal loans are loans given to employees at an interest rate of 4% per annum. These loans have maturity periods of five years from the date of disbursement. The staff personal loans are net of provisions for doubtful loans and reserved interest of RO 62,979 (2003 - RO 63,619). Other receivables are net of provisions for doubtful receivables and reserved interest of RO 33,161 (2003 - RO 24,882).

12 Due to other banks

Due to other banks at 31 December 2004 comprises Rials Omani short term loan from a commercial banks in the Sultanate of Oman carrying interest rates of between 1.5 and 2% (2003 - 0.6% and 0.75%) per annum and having a maturity period of less than three months from the date of acquisition.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)

13 Customers' deposits

	2004 RO	2003 RO
Savings accounts	3,021,511	3,005,091
Term deposits	3,677,776	3,589,884
	6,699,287	6,594,975

Interest rates on savings accounts varied between 1% and 2% (2003 - 1% and 2%) per annum. Interest rates on term deposits varied between 0.5% and 1.5% (2003 - 0.5% and 1.5%) per annum. All customers are based in the Sultanate of Oman. Customers' deposits include deposits denominated in US dollars with an equivalent Rial Omani value of RO 1,643,289 (2003 - RO 1,725,866). All other deposits are denominated in Rials Omani.

14 Term loans from banks and financial institutions

At 31 December 2004 and 2003, the entire amount of loans represented borrowings in US Dollars from financial institutions situated in Bahrain. Interest rates on these loans are at a fixed margin over the prevalent London Inter Bank Offered Rate ("LIBOR") on date of renewal.

15 Loans from the Government

	2004 RO	2003 RO
Loans from the Government - 1	34,830,142	34,830,142
Loan from the Government - 2	10,000,000	10,000,000
Subordinated loan	20,000,000	20,000,000
Total loan from the Government	64,830,142	64,830,142

- Loans 1 and 2 from the Government of the Sultanate of Oman are denominated in Rial Omani and carry interest rates of 8% and 3% respectively (2003 - 5% and 3%) per annum. These loans are repayable in 2011.
- During 2001, the Government of the Sultanate of Oman approved a secondary loan of RO 20,000,000 to the Bank, of which RO 12,000,000 was disbursed during year 2001 and RO 2,000,000 was distributed during 2002 and the balance of RO 6,000,000 was disbursed in 2003.
- Fair value of loan 1 and 2 from the Government as of the balance sheet date is RO 43,660,150 (2003-RO 43,512, 476). No fair value can be determined for the subordinated loan in the absence of a fixed repayment schedule .

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)



16 Other liabilities

	2004 RO	2003 RO
Accrued interest	1,729,943	1,357,940
Customers' insurance payable	1,033,412	1,136,572
Retention payable to contractors	1,168,444	1,271,105
End of service benefits	63,947	54,938
Others	1,030,683	1,058,579
	5,026,429	4,879,134

17 Share capital

The share capital of the Bank comprises 30,000,000 (2003 - 30,000,000) shares of RO 1 each fully paid. The shareholders of the Bank are as follows:

Government of the Sultanate of Oman	60.9%
Internal Security Services Pension Fund	6.5%
Royal Guard of Oman Pension Fund	6.5%
Ministry of Defence Pension Fund	6.5%
Royal Oman Police Pension Fund	6.5%
Civil Service Employees Pension Fund	6.5%
Public Authority for Social Insurance	6.5%
Oman Development Bank SAOG	0.1%

18 Legal reserve

In accordance with the Articles of Association of the Bank, annual appropriations of 10% of the profit for the year are made to this reserve. This deduction may be stopped if the accumulated balance of the reserve is equal to one half of the value of the Bank's paid up share capital. This reserve is not available for distribution.

19 Special reserve

In accordance with the Articles of Association of the Bank, after appropriation of legal reserve, an amount to be determined by the Board of Directors is transferred to special reserve. This reserve may be utilised to cover written off debts.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)

20 Capital reserve

This reserve represents the value of land in note 10 which was given to the bank by the Government of the Sultanate of Oman free of cost. The land valued during 2001, by independent professional valuers in the Sultanate of Oman. This reserve is not available for distribution.

21 Proposed dividend

A dividend of six percent of share capital has been proposed by the Banks Board of Directors and will be submitted for formal approval at the Annual General Meeting .The financial statements reflect the proposed dividend accounted for in equity as an appropriation of retained earnings.

22 Commitments

	2004 RO	2003 RO
Mortgage accounts finally approved but not disbursed	6,169,366	10,128,275
Mortgage accounts primarily approved but not disbursed	3,182,600	1,987,600
	9,351,966	12,115,875
Capital commitment	107,635	-
	9,459,601	12,115,875

23 Cash and cash equivalents

	2004 RO	2003 RO
Cash on hand and at banks	111,436	395,981
Time deposit with a bank	200,000	-
	311,436	395,981

24 Related party transactions

- a) In accordance with IAS 24 the Government of the Sultanate of Oman is not a related party for the purposes of this note.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)



b) At 31 December the related party balances were as follows:

	2004 RO	2003 RO
Mortgage loan accounts	16,585	58,486

c) Proposed Board of Directors remuneration is RO 40,000 (2003 - RO 40,000)

25 Assets and liabilities analysis

a) The maturity profile of assets and liabilities determined on the basis of the period remaining to maturity as at 31 December 2004 is as set out below.

Figures are in Rials Omani

	Total	Less than three months	Three months to one year	One year to five years	More than five years
Assets					
Cash on hand and at banks	111,436	111,436	-	-	-
Term deposit with banks	200,000	200,000	-	-	-
Mortgage loan accounts	164,554,875	5,617,635	12,314,851	74,465,165	72,157,224
Fixed assets	1,118,713	-	-	-	1,118,713
Other assets	431,844	4,547	68,135	359,162	-
Total assets	166,416,868	5,933,618	12,382,986	74,824,327	73,275,937
Liabilities					
Due to other banks	9,100,000	9,100,000	-	-	-
Customers' deposits	6,699,287	822,758	5,876,529	-	-
Term loans	9,063,236	-	9,063,236	-	-
Loans from the Government	64,830,142	-	-	-	64,830,142
Other liabilities	5,026,429	2,762,062	2,160,857	63,947	39,563
Shareholders' equity	71,697,774	-	1,800,000	-	69,897,774
Total liabilities and equity	166,416,868	12,684,820	18,900,622	63,947	134,767,479
Net liquidity gap		(6,751,202)	(6,517,636)	74,760,380	(61,491,542)



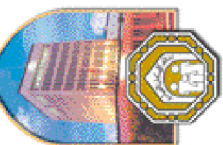
NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)

- b) Liabilities denominated in foreign currencies consist of US dollar term loans (note 14) and accrued interest on these loans which amounted in total to the equivalent of RO 9,076,740 as at 31 December 2004 (2003 - RO 16,441,197) and customers' deposits equivalent of RO 1,651,002 (2003 - RO 1,743,339). All other assets are denominated in Rial Omani.
- c) The banking and administrative service fees on mortgage accounts can be varied as required by the Bank. For other interest bearing assets and liabilities, in general interest rate re-pricing can only occur on maturity, as summarised in (a) above.
- d) The maturity profile of assets and liabilities determined on the basis of the period remaining to maturity as at 31 December 2003 was as follows:

Figures are in Rials Omani

	Total	Less than three months	Three months to one year	One year to five years	More than five years
Assets					
Cash on hand and at banks	395,981	395,981	-	-	-
Mortgage loan accounts	170,240,324	5,686,979	14,850,726	75,610,171	74,092,448
Fixed assets	1,096,824	-	-	-	1,096,824
Other assets	426,019	7,905	383,614	34,500	-
Total assets	172,159,148	6,090,865	15,234,340	75,644,671	75,189,272
Liabilities					
Due to other banks	10,700,000	10,700,000	-	-	-
Customers' deposits	6,594,975	689,793	5,905,182	-	-
Term loans	16,423,725	-	7,357,778	9,065,947	-
Loans from the Government	64,830,142	-	806,141	5,107,651	58,916,350
Other liabilities	4,879,134	1,705,444	3,078,049	54,938	40,703
Shareholders' equity	68,731,172	-	2,400,000	-	66,331,172
Total liabilities and equity	172,159,148	13,095,237	19,547,150	14,228,536	125,288,225
Net liquidity gap	-	(7,004,372)	(4,312,810)	61,416,135	(50,098,953)



NOTES TO THE FINANCIAL STATEMENTS

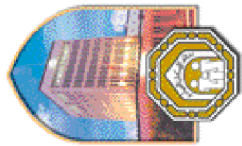
FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)

26 Interest rate re-pricing analysis

The interest rate re-pricing analysis as at 31 December 2004 was as follows:

Figures are in Rials Omani

	Effective interest rate%	Less than three months	Three months to one year	One year to five years	More than five years	Non-interest sensitive	Total
Assets	%						
Cash on hand and at banks	NA	-	-	-	-	111,436	111,436
Time deposit with a bank	0.5	200,000	-	-	-	-	200,000
Mortgaged loan accounts	1-10	5,617,635	12,314,851	74,465,165	72,157,224	-	164,554,875
Fixed assets	NA	-	-	-	-	1,118,713	1,118,713
Other assets	4	2,525	7,101	-	-	422,218	431,844
Total		5,820,160	12,321,952	74,465,165	72,157,224	1,652,367	166,416,868
Liabilities							
Due to other banks	1.25- 2	9,100,000	-	-	-	-	9,100,000
Customers' deposits	1.25 - 3.5	822,758	5,876,529	-	-	-	6,699,287
Term loans	1.7 - 3.2	-	9,063,236	-	-	-	9,063,236
Government loans	3 - 8	-	-	-	44,830,142	20,000,000	64,830,142
Other liabilities	NA	-	-	-	-	5,026,429	5,026,429
Shareholders' equity	NA	-	-	-	-	71,697,774	71,697,774
Total		9,922,758	14,939,765	-	44,830,142	96,724,203	166,416,868
Interest sensitivity gap		(4,102,598)	(2,617,813)	74,465,165	27,327,082	(95,071,836)	



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)

26 Interest rate re-pricing analysis (continued)

The interest rate re-pricing analysis as at 31 December 2003 was as follows:

							Figures are in Riads Omani	
	Effective interest rate%	Less than three months	Three months to one year	One year to five years	More than five years	Non-interest sensitive	Total	
Assets								
Cash on hand and at banks	NA	-	-	-	-	395,981	395,981	
Mortgaged loan accounts	1-10	5,686,979	14,850,726	75,610,171	74,092,448	-	170,240,324	
Fixed assets	NA	-	-	-	-	1,096,824	1,096,824	
Other assets	4	7,650	31,219	-	-	387,150	426,019	
Total		5,694,629	14,881,945	75,610,171	74,092,448	1,879,955	172,159,148	
Liabilities								
Due to other banks	0.8	10,700,000	-	-	-	-	10,700,000	
Customers' deposits	1 - 2	689,793	5,905,182	-	-	-	6,594,975	
Term loans	1.9 - 5.7	-	7,357,778	9,065,947	-	-	16,423,725	
Government loans	3 - 5	-	-	806,141	42,744,758	21,279,243	64,830,142	
Other liabilities	NA	-	-	-	-	4,879,134	4,879,134	
Shareholders' equity	NA	-	-	-	-	68,731,172	68,731,172	
Total		11,389,793	13,262,960	9,872,088	42,744,758	94,889,549	172,159,148	
Interest sensitivity gap		(5,695,164)	1,618,985	65,738,083	31,347,690	(93,009,594)		

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004 (continued)



27 Financial instruments and fair value information

The Bank's financial instruments are accounted for under the historical cost convention. Fair value represents the value at which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Differences can therefore arise between book values under the historical cost method and fair value estimates.

Except for loans from Government and mortgaged loan accounts, the directors estimate that the fair values of the Bank's assets and liabilities are not materially different from the carrying value of those assets and liabilities. The assumptions for determining the fair value estimates are as follows:

Short term financial instruments

The carrying amount of cash on hand and at banks, due from other banks and the short term financial instruments recognised in the balance sheet under other assets and other liabilities 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 of Sultanate of Oman 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.

Customers' deposits

The fair values of savings accounts with no stated maturity approximates the amount repayable on demand. The fair value of term deposits is estimated using the rates offered for deposits having similar terms and conditions.

Term loans from banks

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

Loans from the Government

The fair values of loans 1 and 2 (see note 15 a) 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.

28 Segmental information

The Bank operates only one business segment of the banking industry and its operating revenues arise from providing finance for housing in the Sultanate of Oman. All the relevant information relating to the primary segment is disclosed in the balance sheet, income statement and notes to the financial statements.



RISK MANAGEMENT STATEMENT

Activities undertaken by the Bank are exposed to risk. 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.

Since the principal activity of the Bank is to provide loans, necessary procedures have been specified in the light of the lending regulations issued by the Central Bank of Oman, to minimise risks associated with this activity. These primarily include centralisation of the approval of providing housing loans, centralising the evaluation of defaulted loans and making provisions against such loans in accordance with a strict policy which aims to present the loans at the net present value of their recoverable amounts in the Bank's financial statements. These procedures include several stages of review, inspection, analyses, and evaluation at all levels. These loans are also reviewed by the inspectors of the Central Bank of Oman.

Credit risk

The risks to which the Bank is exposed are minimal as it manages its lending portfolio through specifying the conditions for approving and providing credit and by obtaining of guarantees to ensure repayment of the loans. Typical conditions the Bank insists upon are as follows:

- obtaining a salary certificate that shows the income of the applicant;
- obtaining a guarantee from the employer of the applicant confirming that the employer will deduct the monthly installments from the borrower's salary and remit them directly to the Bank;
- life insurance cover for the borrower against death and risks of total and permanent disability;
- insurance for the property against many risks, and
- Real estate mortgage.

In addition to the above, the credit provided is less than the estimated value of the property by a reasonable percentage so as to minimise the risk of fluctuations in property values as much as possible. The financial statements indicate the percentage of defaulted loans to total loans.

Credit risk is the risk that one party to a financial instrument will fail to discharge on obligation and cause the other party to incur a financial loss. The Bank control credit risk through regular analysis of the ability of borrowers to meet repayment obligations and by limiting transactions to a single obligor.

Liquidity risk

Liquidity risk is the risk the Bank will face in obtaining funds to meet its obligations at any given time.

The Bank's liquidity management policies are made to ensure that even under adverse conditions the Bank would be in a position to meet its obligations.

The Bank always tries to obtain low cost borrowings either locally or internationally, on both short and long term basis to finance its loans, within guidelines stipulated by the Central Bank of Oman.

Interest rate risk

Interest rate risk is the sensitivity of the Bank's financial condition to movements in interest rates. In order to minimise this risk, the bank borrows locally, under arrangements which have a tenor of less than six months. The Bank's foreign currency borrowings from abroad are medium term in nature and are repriced on six monthly "LIBOR" basis thereby mitigating interest rate risk.

In addition the interest rate on the Bank's Government loans are low which helps to minimise the interest rate risk and enhance the financial position of the Bank.