



OMAN HOUSING BANK SAOC

Building the Future



Annual Report 2008



OMAN HOUSING BANK SAOC





“ It is essential that the plans should be carefully studied and prepared and that a distinction is made between houses, factories, schools and souqs. This will ensure ‘the right building for the right site’ ”

-His Majesty Sultan Qaboos bin Said



OMAN HOUSING BANK SAOC

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| SHAREHOLDERS |

Serial	Stockholders	No. of Shares	Authorized Capital RO	Paid-up value RO.	Percent %
1	Government of the Sultanate of Oman	18,300,000	18,300,000	18,300,000	61%
2	Internal Security Service Pension Fund	1,950,000	1,950,000	1,950,000	6.5%
3	Royal Guard of Oman Pension Fund	1,950,000	1,950,000	1,950,000	6.5%
4	Ministry of Defense Pension Fund	1,950,000	1,950,000	1,950,000	6.5%
5	Royal Oman Police Fund	1,950,000	1,950,000	1,950,000	6.5%
6	Civil Service Employees Pension Fund	1,950,000	1,950,000	1,950,000	6.5%
7	Pubic Authority for Social Insurance	1,950,000	1,950,000	1,950,000	6.5%
	Total	30,000,000	30,000,000	30,000,000	100%



BOARD OF DIRECTORS



H.E. Darwish bin Ismail bin Ali al Balushi
Chairman



Faisal bin Abdullah bin Shaban al Faresi
Vice Chairman



Sheikh Nasser bin Sulieman bin Hamed al Harthy
**Head of Financial Committee &
Risk Management**



Eng. Abdullah bin Rashed bin Salim al Kiyumi
Member



Said bin Abdullah bin Said al Hosni
Member



Rashed bin Mohammed bin Ali al Makhtumi
Member



Said bin Juma'a bin Hamed al Maalki
Member



BOARD OF DIRECTORS REPORT - 2008



Dear Shareholders...

It is my pleasure to meet you today in the thirty third annual general meeting for Oman Housing Bank. On behalf of the members of the Bank's Board of Directors, I am pleased to welcome you and to present to you the annual report for the final financial operations and auditor's report for the year ended 31st December 2008.

1- Lending Activity

Due to the continuous support of the wise government the Bank was enabled to present 607 subsidized loans the value of which is 14 million Omani Rial compared to 529 loans the value of which is 12)million Omani Rial at the end of the year 2007.

The citizens of lower income category had 457 approvals of the total approvals in year 2008, the value of which is 9,553,500 Omani Rial (75.3%) from its total number and 68.2% of its value, the following table shows the approved subsidized loans according to the income categories between years 2007-2008.

Monthly income categories	Approved subsidized loans during year 2007				Approved subsidized loans during year 2008			
	No.	Percent %	Amount RO	Percent %	No.	Percent %	Amount RO	Percent %
Up to 200 R.O	40	7.6	506,800	4.2	29	4.8	392200	2.8
More than 200 up to 400 RO	353	66.7	7491400	62.4	428	70.5	9161300	65.4
More than 400 up to 600 RO	136	25.7	4001000	33.4	150	24.7	4446500	31.8
More than 600 up to 800 RO	0	0	0	0	0	0	0	0
Total	529	100%	12,000,000	100%	607	100%	14000000	100%

* Loans granted for the income category RO 601-800 was passed on from un-subsidized loans as a support from the Bank to enable the passing around of the subsidized loan applications presented as early as possible to reduce waiting list period.

Dear shareholders

The Bank's contribution in the development of housing construction through subsidized housing loans which has been presented to the Omani Nationals since the establishment of each branch, till the end of the year 2008, is an amount of 28815 loans of a total value 487,275,687 Omani Rial. The citizens of a lower income category has the major part of these loans, whereas, the total loans granted to this category reached 25,230 with 87.6% of a total value 399,013,529 Omani Rial with 81.9% percent.

The following table shows the approved loans since the starting date of applying this system from the inauguration of the branch till the end of 2008.

Branches	Approved subsidized loans during year 2008				Approved subsidized loans from the inauguration till the end of 2008			
	No.	Percent %	Amount RO	Percent %	No.	Percent %	Amount RO	Percent %
(HQ)	22	3.6	626200	4.5	14222	49.4	248701291	51
Salalah	51	8.4	1280000	9.1	4101	14.2	65990251	13.5
Sohar	60	9.9	1371800	9.8	2500	8.7	37174242	7.6
Sur	54	8.9	1318400	9.4	1821	6.3	28486796	5.9
Nizwa	103	17	2362600	16.9	2302	8	38813352	8
Khasab	45	7.4	988700	7.1	489	1.7	7765800	1.6
Buraimi	31	5.1	682500	4.9	675	2.3	12163255	2.5
Rustaq	142	23.4	3221600	23	1825	6.3	33272500	6.8
Ibra	99	16.3	2146200	15.3	880	3.1	14908200	3.1
Total	607	100%	14,000,000	100%	28815	100%	487275687	100%



Branches

In 2008 the Bank was also enabled to finance housing loans for the Omani Nationals who did not satisfy the subsidized loans conditions with an amount of 15,633,100 Omani Rial, compared to an amount of 17 million Omani Rial in the year 2007.

The following table shows the granted loans during the year 2008 and the loans approved since the starting date of applying this system, starting 1/1/1993 until the end of 2008.

Branches	Approved non-subsidized loans during year 2008				Approved non-subsidized loans from the inauguration till the end of 2008			
	No.	Percent %	Amounts RO	Percent %	No.	Percent %	Amount RO	Percent %
(HQ)	179	30.9	6019700	38.5	1533	45.1	46973310	51.6
Salalah	68	11.7	1932100	12.4	400	11.8	11510900	12.7
Sohar	70	12.2	1513900	9.7	290	8.5	6551600	7.2
Sur	46	7.9	1303300	8.3	214	6.3	5055200	5.6
Nizwa	25	4.3	683100	4.3	196	5.8	4358000	4.8
Khasab	11	1.9	260400	1.7	56	1.6	1031100	1.1
Buraimi	16	2.8	574400	3.7	107	3.2	2489925	2.7
Rustaq	102	17.6	2211500	14.1	424	12.5	9695000	10.7
Ibra	62	10.7	1134700	7.3	177	5.2	3313700	3.6
Total	579	100	15633100	100	3397	100	90978735	100

Financial indicators

The efforts of the Bank's Board of Directors and the executive management concentrated on adopting clear policies depend basically upon enhancing the Bank's financial position, weighing between the dues of the assets and the obligations as close as possible with achieving reasonable development for the assets and shareholders' equity. It is clearly shown through exposing the numbers of the general budget of the financial year ended 31/12/2008, that the Bank achieved positive outcomes in its field of activity which depended mainly on granting housing loans to the Omani nationals and this is the consequence of the good performance and the team working spirit of the Bank's Board of Directors and its committees with the executive administration to execute the plans and the programs planned for, the most important outcomes are as follows:

- The shareholders' equity reached an amount of 96884 million Omani Rial at the end of the year 2008, marking a raise by 6.6% compared to an amount of 90,850 million Omani Rial at the end of the year 2007, and this increase is due to the increase in the retained reserves and profits.
- The total assets at the end of the year 2008 reached 180,281 million Omani Rial, marking a raise by 2.1% compared to 176,542 million Omani Rial at the end of 2007, this is due to the increase in the house loan portfolio.
- The total of obligations at the end of the year 2008 reached 83,397 million Omani Rial, marking a decrease of 2.7% compared to 85,692 million Omani Rial at the end of the year 2007, this is due to the decrease in customer's deposits.

- A total of 8,434 million Omani Rial has been achieved as net profits, the percentage of which has decreased by 1.8%, compared to the year 2007 profits which is an amount of 8,585 million Omani Rial. The earning for a single share is an amount of 0.281 Omani Rial compared to an amount of 0.286 Omani Rial at the end of the year 2007.

The Board of Director's proposal for distribution of dividends is as follows:

- 10% of the net profits to the legal reserve which is equal to an amount of 843,000 Omani Rial.
- 8% as cash profits to the shareholders as revenue of the paid share capital value at the end of the year 2008, which is equivalent to an amount of 2,400,000 Omani Rial.
- Transfer of an amount of 2,596,000 Omani Rial, as a reserve.
- Transference of an amount of 2,595,000 Omani Rial as retained profits.

The following table shows the situation of the Bank assets and housing loans balances accounts and also the Bank's net profit during the past five years from 2004 to 2008.

Years Assets (RO) Loans Balances (RO) Bank Net Profits (RO)

Years	Assets (RO)	Loans Balances (RO)	Bank Net Profits (RO)
2004	166,416,868	164,554,875	5,366,602
2005	162,634,656	159,297,827	8,557,939
2006	160,545,210	157,351,863	8,007,290
2007	176,542,738	146,179,200	8,585,639
2008	180,281,789	156,340,062	8,433,814

Commitment to the international financial report standards

The Bank has conformed to the new criterion of the international board of accounting standards in effect from 1 January 2008, when preparing this annual report for the ending year 31 December 2008 and it is represented to declare the included financial information related to financial tools and capital management.

Risk Management

The Bank established (introduced) a new department (Risk Management Department) that to execute its role and policies as per international standards and to fulfil the Central Bank of Oman instructions.

Training and qualification:

The Bank's Board of Directors and executives administration give due concern to the human resources as part of the real bank capital and its productive nucleus in the field of business. From these goals the staff is to be trained according to the different work needs so as to raise their capabilities and performance capacity to reach positive outcomes in the quality of the services presented to the Nationals. It also gives significant care to employ Omani Nationals whereas, the Omanisation percentage has now reached 96.1%.



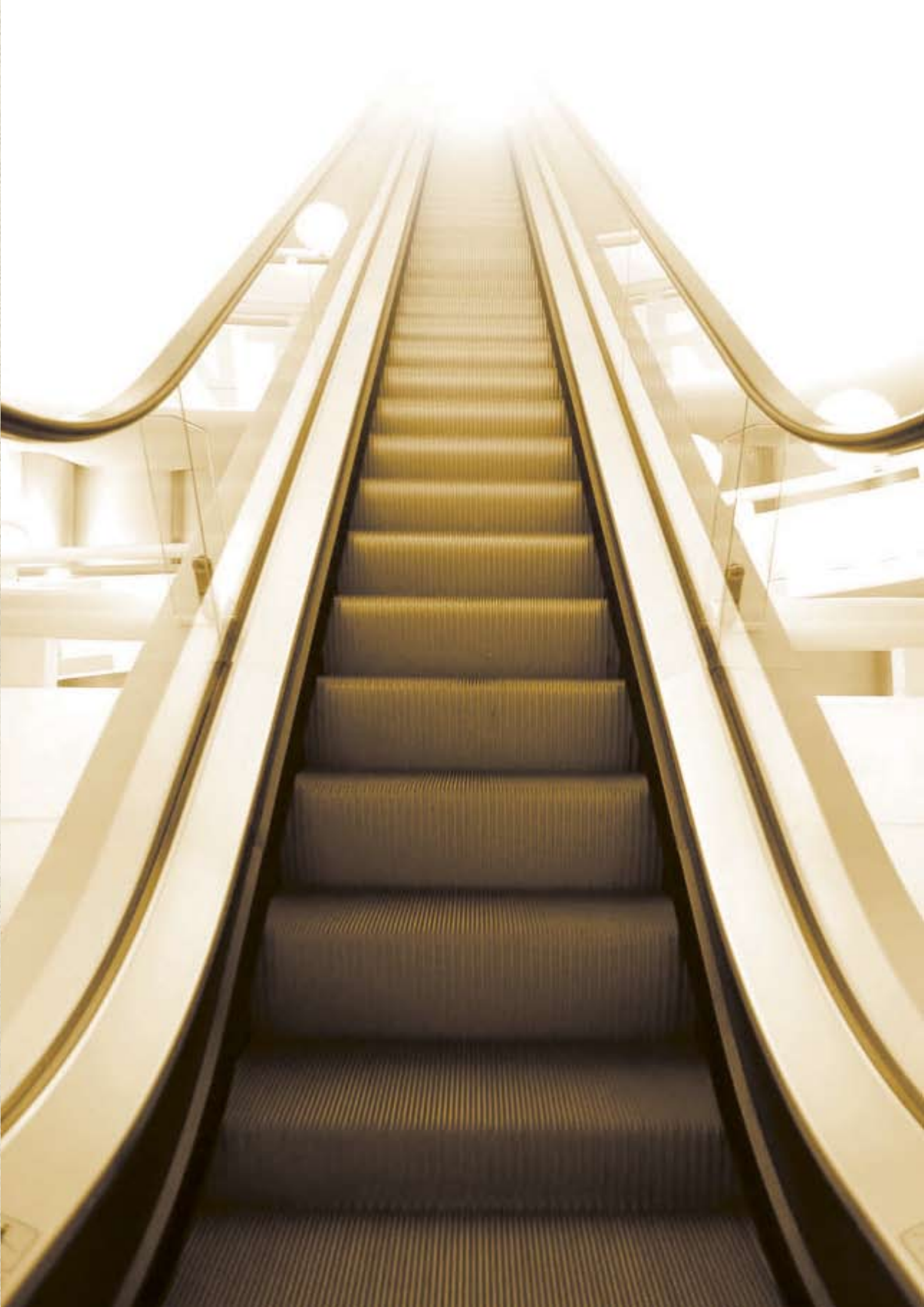
The Bank's Contributions

Finally, the Bank's Board of Directors has the honour to convey the heist gratitude and sincere thanks to his majesty Sultan Qaboos Bin Said for his patronage and generous welfare to the Bank, also great thanks are due to the wise government for the continuous support presented to the Bank to enable it to present a continuous services to the Nationals easily.

Also great thanks are due to the Ministry of Finance and Central Bank of Oman and to all Ministries, Governmental and National Institutions for their loyal and honest co-operation with the Bank to perform its duties and obligations.

Also the Board of Directors is pleased to record thanks and appreciations to the management and the bank member staff for their loyalty and exerted efforts in serving the bank for its development and success. May our God guide us together with you to give more and more to serve our beloved Oman under the wise leadership of his majesty Sultan Qaboos Bin Said.

Darwish Ismael Albalushi
Chairman





Peace be upon you and God's mercy and blessings,

The Omani Housing Bank witnessed various developments and achievements in the past year, which were an embodiment of the vision of his Majesty King Sultan Bin Qaboos Bin Sa'id (God protect and bless him), and with the support of our Government. These achievements were also aided by the Board of Directors and the executive management's adoption of a sound policy based on achieving the Bank's main objectives which are represented in providing facilitated loans to citizens, in addition to strengthening the Bank's financial standing.

The Bank's outcomes in 2008 reaffirmed the management's ability to formulate and implement action plans as well as achieve set objectives. As such, the lending portfolio increased by 6.9% on 31 December 2008, an increase of RO10.161.000 compared to 2007, to reach RO156.340.000. This has enabled the Bank to achieve steady growth in its operations through focusing on its main activities. Parallel to this growth has been the Bank's continued control of non-performing loans portfolio, which is a tangible result of the continuous efforts to ameliorate banking services to reflect on business management and service provision.

Thanks to its prudent policy to limit the negative effects of the financial crisis witnessed by the region and the World, the Bank was able to

achieve the planned growth and continued to grant loans with a higher rate compared to previous years.

As such, and in line with the Board of Directors' wise policies, our executive management will continue to develop the Bank's business and activities in accordance with the Bank's goals to ensure adequate and healthy shelter for all citizens across the Sultanate.

Finally, I would like to express my gratitude and appreciation to our distinguished Government for its continuous support of the Bank. Many thanks are also due to his Excellency the Chairman of the Board of Directors and to all the Board's members for their valuable guidance and continued involvement with the Bank's performance in order to achieve the Bank's goals. I would like also to thank our valued customers for their confidence and trust in us, as well as the entire team working in this establishment at various levels and positions for their efforts and dedication and ultimate role in the success of this institution.

Thank you one and all,

Adnan Bin Haydar Bin Darwish
General Manager
Secretary of Board

REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2008

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INDEPENDENT AUDITOR'S REPORT

to the shareholders' of Oman Housing Bank SAOC

Report on the financial statements

We have audited the accompanying financial statements of **Oman Housing Bank SAOC**, which comprise of the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 3 - 28.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

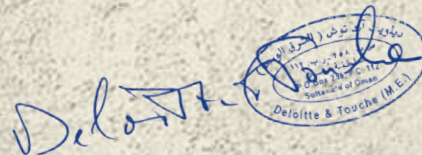
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements, present fairly in all material respects, the financial position of **Oman Housing Bank SAOC** as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended, of the Sultanate of Oman.



Deloitte & Touche (M.E.)

Muscat, Sultanate of Oman

7 March 2009

Signed by
Alfred Strolla
Partner



BALANCE SHEET

at 31 December 2008

	Notes	2008 RO'000	2007 RO'000
ASSETS			
Cash and balances with banks		771	124
Term deposits	5	21,250	28,300
Mortgage loan accounts	6	156,340	146,179
Property and equipment	7	944	1,031
Other assets	8	976	908
Total assets		<u>180,281</u>	<u>176,542</u>
LIABILITIES AND EQUITY			
LIABILITIES			
Customers' deposits	9	5,648	7,618
Loans from the Government	10	72,830	72,830
Other liabilities	11	4,919	5,244
Total liabilities		<u>83,397</u>	<u>85,692</u>
SHAREHOLDERS' EQUITY			
Share capital	12	30,000	30,000
Legal reserve	13	11,045	10,202
Special reserve	14	36,658	34,062
Revaluation reserve	15	189	189
Retained earnings		<u>18,992</u>	<u>16,397</u>
Total shareholders' equity		<u>96,884</u>	<u>90,850</u>
Total liabilities and shareholders' equity		<u>180,281</u>	<u>176,542</u>
Commitments	21	<u>18,078</u>	<u>25,096</u>

Chairman

General Manager

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

INCOME STATEMENT

for the year ended 31 December 2008

	Notes	2008 RO'000	2007 RO'000
Banking and administrative service fees		8,230	7,895
Government contribution in administrative fee	17	4,872	5,763
Provision for impairment of loans written back – Specific	6	398	454
Provision for impairment of loans written back – General	6	19	115
Other income	18	1,010	1,035
Interest on short term deposits		999	440
Total income		15,528	15,702
Interest on loans from the Government		2,286	2,253
Interest on customers' deposits and due to banks and government		178	169
General and administrative expenses	19	4,065	4,110
Provision for loan impairment – Specific	6	184	273
Provision for loan impairment– General	6	126	8
Bad debt written off directly		1	51
Staff housing loan interest expense		72	72
Depreciation of property and equipment		182	181
Total expenses		7,094	7,117
Profit for the year		8,434	8,585
Earnings per share (basic and diluted)	20	RO 0.281	RO 0.286

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



STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2008

	Share capital	Legal reserve	Special reserve	Revaluation reserve	Retained earnings	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Balance at 1 January 2007	30,000	9,343	30,799	189	13,734	84,065
Profit for the year	-	-	-	-	8,585	8,585
Total recognized income for the year	-	-	-	-	8,585	8,585
Transfer to legal reserve	-	859	-	-	(859)	-
Transfer to special reserve	-	-	3,263	-	(3,263)	-
Dividend paid for 2006	-	-	-	-	(1,800)	(1,800)
Balance at 1 January 2008	30,000	10,202	34,062	189	16,397	90,850
Profit for the year	-	-	-	-	8,434	8,434
Total recognized income for the year	-	-	-	-	8,434	8,434
Transfer to legal reserve	-	843	-	-	(843)	-
Transfer to special reserve	-	-	2,596	-	(2,596)	-
Dividend paid for 2007	-	-	-	-	(2,400)	(2,400)
Balance at 31 December 2008	30,000	11,045	36,658	189	18,992	96,884

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

CASH FLOWS STATEMENT

for the year ended 31 December 2008

	2008	2007
	RO'000	RO'000
Operating activities		
Net Profit for the year	8,434	8,585
Adjustments:		
Depreciation of property and equipment	182	181
Profit on disposal of fixed assets	(10)	-
Provision for impairment of loan written back	(417)	(569)
Provision for loan impairment – Specific	184	273
Provision for loan impairment– General	126	8
Operating profit before changes in operating assets and Liabilities	8,499	8,478
Changes in operating assets and liabilities		
Term deposits due after more than 3 months	6,850	(27,200)
Mortgage loan accounts	(10,054)	11,461
Other assets	(68)	(347)
Customers' deposits	(1,970)	860
Other liabilities	(325)	352
Net cash from / (used in) operating activities	2,932	(6,396)
Investing activities		
Proceed from sale of fixed assets	10	-
Purchase of property and equipment	(95)	(78)
Net cash used in investing activities	(85)	(78)
Financing activities		
Loans from the Government	-	8,000
Dividend paid	(2,400)	(1,800)
Net cash (used in) / from financing activities	(2,400)	6,200
Net change in cash and cash equivalents	447	(274)
Cash and cash equivalents, at the beginning of the year	724	998
Cash and cash equivalents at the end of the year (Note 22)	1,171	724

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



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008.

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. The registered address is P.O. Box 2555 Ruwi, Postal code 112.

The principal activity of the Bank is to provide housing loans to Omani Nationals through a network of branches in the Sultanate of Oman.

As per the Articles of Association of the Bank, a minimum dividend of 6% of the paid-up share capital should be paid to the shareholders. In the event of insufficient net profits, available to meet the minimum dividend requirement after transfers to legal and special reserve, the short fall will be paid to the bank by the Government of the Sultanate of Oman. There is no contribution from the Government of the Sultanate of Oman if the net profit after transfers to legal and special reserve exceeded the minimum dividend.

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

For the year ended 31 December 2008, the Bank has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2008.

The adoption of these standards and interpretations has not resulted in changes to the Bank's accounting policies and has not affected the amounts reported for the current period.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008 (Continued)

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

	Effective for annual periods beginning or after
IFRIC 13: Customer Loyalty Programmes	1 July 2008
IFRIC 16: Hedges of a Net Investment in a Foreign Operation	1 October 2008
IFRS 1: (Revised) First-time adoption of International Financial Reporting Standards	1 January 2009
IFRS 2: (Revised) Share-based Payment	1 January 2009
IFRS 8: Operating Segments	1 January 2009
IAS 1: (Revised) Presentation of Financial Statements	1 January 2009
IAS 16: (Revised) Property, Plant and Equipment	1 January 2009
IAS 19: (Revised) Employee Benefits	1 January 2009
IAS 20: (Revised) Government Grants and Disclosure of Government Assistance	1 January 2009
IAS 23 : (Revised) Borrowing Costs	1 January 2009
IAS 29 : (Revised) Financial Reporting in Hyperinflationary Economies	1 January 2009
IAS 32 : (Revised) Financial Instruments : Presentation	1 January 2009
IAS 36 : (Revised) Impairment of Assets	1 January 2009
IAS 38 : (Revised) Intangible Assets	1 January 2009
IAS 40 : (Revised) Investment Property	1 January 2009
IAS 41 : (Revised) Agriculture	1 January 2009
IFRIC 15 : Agreements for the Construction of Real Estate	1 July 2009
IFRS 3 : (Revised) Business Combinations	1 July 2009
IFRS 5 : (Revised) Non-Current Assets held for Sale and Discontinued Operations	1 July 2009
IAS 27 : (Revised) Consolidated and Separate Financial Statements	1 July 2009
IAS 28 : (Revised) Investment in Associates	1 July 2009
IAS 31 : (Revised) Interests in Joint Ventures	1 July 2009
IAS 39 : (Revised) Financial Instruments: Recognition and Measurement	1 July 2009

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

The management anticipate that the adoption of the above standards and interpretations in future periods will have no material impact on the financial statements of the Bank.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008 (Continued)

3. Summary of significant accounting policies

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

Basis of Preparation

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

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. 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.

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 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 accrual basis using the effective yield method on the principal outstanding or the actual purchase price as applicable.

Recognition of commission and fees

Commission and fees are recognised in the income statement at the time of effecting the transaction 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008 (Continued)

3. Summary of significant accounting policies (continued)

Mortgage loan accounts

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

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

Property and equipment

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

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
Furniture and fixtures and equipments	5 - 10
Other equipments	5
Motor vehicles	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 is determined as the difference between the carrying amount of the asset and its selling price and dealt in the income statement.

Impairment

At each balance sheet date, the Bank reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

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 income statement.



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008 (Continued)

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 recognized for the asset in prior years. A reversal of an impairment loss is recognized 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.

3. Summary of significant accounting policies (continued)

Borrowings

Government loans are recognized 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 recognized in the income statement over the years of the borrowings on an effective interest basis.

Directors' remuneration

Director's 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 employee having regard to the requirements of the Omani Labour Law. For Omani employees the contributions are transferred to the Public Authority for Social Insurance in accordance with the terms of the Royal Decree 72/91.

Foreign currencies

Items included in the Bank's financial statements are measured using Rials 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 Rials 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 balance sheet date. The exchange gains and losses are included in the income statement.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008 (Continued)

Cash and cash equivalents

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

4. Critical Accounting Judgment and key sources of estimation uncertainty

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

5. Term deposits

	2008	2007
	RO'000	RO'000
Term deposits	21,250	28,300

Term deposits are in Rial Omani and comprise short term deposits maturing within 90 days and a deposit with maturity dates above 90 days from the date of placement. These deposits carry an interest of 3% to 4% per annum (2007: 1.25% to 3.5% per annum) and 2.5% to 6.25% per annum respectively (2007: 3.5% to 5.1% per annum).

6. Mortgage loan accounts

	2008	2007
	RO'000	RO'000
Gross mortgage loan accounts as at 1 January	148,706	160,325
Loans distributed during the year	36,039	29,624
Principal repayments during the year	(25,999)	(41,243)
Gross mortgage loan accounts, as at 31 December	158,746	148,706
Allowance for loan impairment (Refer "a" below)	(2,104)	(2,215)
Reserved banking and administrative services fees (Refer "b" below)	(302)	(312)
Net mortgage loan accounts as at 31 December	156,340	146,179

Included in principal repayments during the last year is an amount of RO 15,741 thousands; repaid by His Majesty Sultan Qaboos Bin Said's Royal Grant writing off the housing loans granted by Oman Housing Bank of the customers whose salaries do not exceed RO 300, fully or partially.

**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2008 (Continued)

6. Mortgage loan accounts (continued)

a) The movements in the allowance for loan impairment during the year are as follows:

	2008	2007
	RO'000	RO'000
Balance at the beginning of the year	2,215	2,515
Loan impairment expense – Specific	184	273
Loan impairment expense – General	126	8
Provision written back during the year – Specific	(398)	(454)
Provision written back during the year – General	(19)	(115)
Written off during the year	<u>(4)</u>	<u>(12)</u>
Balance at the end of the year	<u>2,104</u>	<u>2,215</u>

b) The movements in the reserved banking and administrative services fees during the year are as follows:

	2008	2007
	RO'000	RO'000
Balance at the beginning of the year	312	458
Reserved during the year	82	99
Written back during the year	(92)	(233)
Written off during the year	<u>-</u>	<u>(12)</u>
Balance at the end of the year	<u>302</u>	<u>312</u>

c) At 31 December 2008, non-performing loans on which banking and administrative service fees have been reserved amounted to **RO 2,092 thousand** (2007 – RO 2,837 thousand).d) At 31 December 2008 the specific allowance for loan impairment and the reserved banking and administrative service fees represents **40%** of gross non-performing mortgage accounts (2007 - 38%). Also, the Bank keeps 1% collective allowance for the performing loans amounting to **RO 1,566 thousand** (2007 – 1,459 thousand).e) The banking and administrative service fees rates varied from **1% to 9%** per annum (2007 - 1% to 9% per annum) in addition to the contribution received from the Government of the Sultanate of Oman.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008 (Continued)

6. Mortgage loan accounts (continued)

f) Summary of mortgage loan accounts is as follows:

	2008	2007
	RO'000	RO'000
Performing accounts	156,370	145,666
Past due but not impaired	284	203
Non-performing mortgage loans	<u>2,092</u>	<u>2,837</u>
Total mortgage loans	158,746	148,706
Allowance for loan impairment	(2,104)	(2,215)
Reserved banking and administrative service fees	<u>(302)</u>	<u>(312)</u>
Net mortgage loan accounts as at 31 December	<u>156,340</u>	<u>146,179</u>
Past due but not impaired		

	2008	2007
	RO'000	RO'000
Past due 60 – 89 days	<u>284</u>	<u>203</u>
	<u>284</u>	<u>203</u>
Non-performing loans		

	2008	2007
	RO'000	RO'000
Substandard	963	1,453
Doubtful	418	644
Loss	<u>711</u>	<u>740</u>
Total	<u>2,092</u>	<u>2,837</u>
Fair value of collaterals	<u>5,505</u>	<u>6,459</u>



NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008 (Continued)

7. Property and equipment

	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
Cost / valuation						
At 1 January 2007	1,981	1,075	706	203	5	3,970
Additions	-	25	33	20	-	78
Disposals	-	(11)	(2)	-	-	(13)
Transfer	-	-	4	-	(4)	-
At 1 January 2008	1,981	1,089	741	223	1	4,035
Additions	-	13	39	42	1	95
Disposals	-	(4)	(22)	(46)	-	(72)
At 31 December 2008	1,981	1,098	758	219	2	4,058
Depreciation						
At 1 January 2007	1,179	972	550	135	-	2,836
Charge for the year	68	28	64	21	-	181
Disposals	-	(11)	(2)	-	-	(13)
At 1 January 2008	1,247	989	612	156	-	3,004
Charge for the year	68	28	62	24	-	182
Disposals	-	(4)	(22)	(46)	-	(72)
At 31 December 2008	1,315	1,013	652	134	-	3,114
Carrying amount						
At 31 December 2008	666	85	106	85	2	944
At 31 December 2007	734	100	129	67	1	1,031

Land and buildings includes land granted by the Government of Sultanate of Oman free of cost which has been valued at RO 189,200 (2007 :RO 189,200). The bank revalues its land on a regular basis.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008 (Continued)

8. Other assets

	2008	2007
	RO'000	RO,000
Prepayments	18	24
Staff personal loans	-	-
Other receivables	939	863
Stationary inventory	<u>19</u>	<u>21</u>
	976	908

Staff personal loans are advances to terminated employees amounting to **RO 152 thousand** (2007 : RO 136 thousand) for which full provision have been made. The increase in the staff personal loans is attributed to the interest charged to these balances during the year.

Other receivables are net of provision for doubtful receivables and reserved interest of **RO 61 thousand** (2007 : RO 57 thousand).

9. Customers' deposits

	2008	2007
	RO'000	RO,000
Savings account	2,840	3,166
Term deposits	<u>2,808</u>	<u>4,452</u>
	<u>5,648</u>	<u>7,618</u>

Interest rates on savings accounts varied between 1% to 2% (2007: 1% to 2%) per annum. Interest rates on term deposits varied between 2.8% to 3.75% (2007: 3.5% to 5.28%) per annum. Term deposits include deposits denominated in US Dollars with an equivalent Rial Omani Value of RO nil (2007 : RO 496,536).

10. Loans from the Government

	2008	2007
	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
Subordinated loan	<u>20,000</u>	<u>20,000</u>
	<u>72,830</u>	<u>72,830</u>

**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2008 (Continued)

10. Loans from the Government (continued)

a) Loans 1 and 2 from the Government of the Sultanate of Oman are denominated in Rials Omani and carry interest rates of 5% and 3% per annum respectively (2007: 5% and 3%) per annum. These loans are repayable in 2011.

b) Loan 3 from the Government of the Sultanate of Oman is denominated in Rials Omani and carries interest rates of 3% per annum to be paid on half yearly basis. This loan is repayable in four equal installments commencing from 13 February 2010.

c) During 2001, the Government 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. There are no fixed repayment terms for this loan.

11. Other liabilities

	2008	2007
	RO'000	RO,000
Accrued interest	1,480	1,509
Customers' insurance payable	693	752
Retention payable to contractors	1,395	1,036
End of service benefits	98	77
Personal contributions for housing loans	5	40
Sale proceeds for financing new residence	422	789
Other payables	826	1,041
	<u>4,919</u>	<u>5,244</u>

End of service benefits

The bank's net liability and the movement in the employee terminal benefits during the year are as follows:

	2008	2007
	RO'000	RO,000
1 January	77	73
Expense recognised in the income statement	21	10
Cash paid to employees	-	(6)
31 December	<u>98</u>	<u>77</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008 (Continued)

12. Share capital

The share capital of the Bank is divided into 30,000,000 shares (2007 : 30,000,000 shares) fully paid shares of RO 1 each. The shareholding pattern is as follows:

	2008	2007
Government of the Sultanate of Oman	61.0%	60.9%
Internal Security Service Pension Fund	6.5%	6.5%
Royal Guard of Oman Pension Fund	6.5%	6.5%
Ministry of Defense 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%
Oman Development Bank SAOC	-	0.1%
	100%	100%

During the year Government of Sultanate of Oman acquired the shares of Oman Development Bank.

13. Legal reserve

In accordance with the Bank's Articles of Association, the Bank is required to transfer 10% of its profit for the year, to a legal reserve until the accumulated balance of the reserve equals at least one half of the Bank's paid up share capital. The legal reserve is not available for distribution.

14. Special reserve

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

15. Revaluation reserve

This reserve represents the surplus arising from revaluation of land by independent valuers. This reserve is not available for distribution.

16. Proposed dividend

A dividend of 8% of share capital (2007 – 8%) has been proposed by the Bank's Board of Directors and will be submitted for formal approval at the annual general meeting.

**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2008 (Continued)

17. Government contribution in administrative fee

In accordance with Article 6 of the 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 a maximum limit of **RO 6,000,000** for the year ended 31 December 2008 (2007 : RO 6,000,000).

18. Other income

	2008	2007
	RO'000	RO,000
Fees and commissions	931	750
Rental income	55	52
Profit on disposal of fixed assets	10	-
Miscellaneous income	<u>14</u>	<u>233</u>
	1,010	1,035

19. General and administrative expenses

	2008	2007
	RO'000	RO,000
Staff expenses	3,400	3,159
Training expenses	101	108
Utilities and rent	71	70
Professional fees	54	124
Communication costs	59	63
Maintenance	77	48
Traveling expenses	27	24
Board of Directors' meeting expenses and sitting fees	24	23
Board of Directors' remuneration – proposed	84	84
Donations	1	250
Miscellaneous expenses	<u>167</u>	<u>157</u>
	4,065	4,110

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008 (Continued)

20. Earnings per share (basic and diluted)

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

	2008	2007
	RO'000	RO,000
Net profit for the year (RO'000)	<u>8,434</u>	<u>8,585</u>
Weighted average number of shares on issue (shares '000)	<u>30,000</u>	<u>30,000</u>
Earnings per share (RO) (basic and diluted)	<u>0.281</u>	<u>0.286</u>

21. Commitments

	2008	2007
	RO'000	RO,000
Mortgage loan accounts - approved but not disbursed	14,481	15,356
Mortgage loan accounts - preliminary approval given but not yet disbursed	<u>3,597</u>	<u>9,740</u>
Total mortgage loan commitments	<u>18,078</u>	<u>25,096</u>

22. Cash and cash equivalents

	2008	2007
	RO'000	RO,000
Cash and balances with banks	771	124
Term deposits (Note 5)	<u>21,250</u>	<u>28,300</u>
	22,021	28,424
Less: Term deposits with a maturity of more than 3 months from the date of placement	<u>(20,850)</u>	<u>(27,700)</u>
Cash and cash equivalents	<u>1,171</u>	<u>724</u>

23. Related parties

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 2008 (Continued)

The Bank enters into transactions with related parties in the normal course of business at the Bank's normal terms. All loans to related parties are performing loans and no provision for impairment have been made against these loans.

As at 31 December, the following related party balances are included in the financial statements:

	2008	2007
	RO'000	RO,000
Mortgage loan accounts	20	23

24. 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 balance.

The capital of the Bank consists of debt, which includes borrowings, cash and cash equivalents and equity attributable to shareholders of the Bank comprising issued capital, share premium, reserves and retained earnings as disclosed in notes 12 to 15.

Gearing ratio

The bank's Risk Management Committee ("the 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 gearing ratio at the year end was as follows:

	2008	2007
	RO'000	RO'000
Debt	72,830	72,830
Equity	<u>96,884</u>	<u>90,850</u>
Net debt to equity ratio	<u>75%</u>	<u>80%</u>

- Debt is defined as long-term borrowings.
- Equity includes all the capital and reserves of the bank.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008 (Continued)

Capital adequacy

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

	2008	2007
	RO'000	RO'000
Capital base		
Tier 1	94,295	88,261
Tier 2	1,554	1,459
Total capital base	<u>95,849</u>	<u>89,720</u>
Risk weighted assets		
Balance sheet items	<u>124,294</u>	<u>118,038</u>
Capital adequacy ratio%	<u>77.1%</u>	<u>76.0%</u>

25. Risk management policies

Oman Housing Bank SAOC is providing 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 activities undertaken by the Bank expose it to various types of risks. 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.

Credit risk

Credit risk is the risk that the borrower of a loan fails to adhere to the terms of borrowing, causing the Bank to incur a financial loss in terms of cash flow or market value.

To manage the level of credit risk, the Bank deals with counter-parties of good credit standing. The credit standing of a counter party and the feasibility of a particular project is evaluated by the loan committee to avoid any risk commitments.

**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2008 (Continued)

The following table shows the significant credit risk the bank exposure without taking into account the value of collaterals obtained which represent the book value of the financial assets recognised in the financial statements, net of any impairment loss:

	2008	2007
	RO'000	RO'000
Mortgage loan accounts	156,340	146,179
Other	<u>976</u>	<u>908</u>
	157,316	147,087

Liquidity risk

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

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

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

The Bank endeavors to obtain low cost borrowings either locally or internationally, on both a short and long term basis to finance its loans.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008 (Continued)

25. Risk management policies (continued)

Liquidity risk (continued)

a) The maturity profile of assets and liabilities determined on the basis of the period remaining to maturity as at 31 December 2008 is as set out below:

	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 balances with banks	771	-	-	-	-	-	-	-	771
Term deposits	1,900	3,950	700	1,000	700	13,000	-	-	21,250
Mortgage loan accounts	1,580	3,494	5,206	5,189	5,475	37,928	35,133	62,335	156,340
Property and equipment	-	-	-	-	-	-	-	944	944
Other assets	413	10	371	-	150	-	-	32	976
Total assets	4,664	7,454	6,277	6,189	6,325	50,928	35,133	63,311	180,281
Liabilities and equity									
Customers' deposits	244	146	1,342	922	841	710	710	733	5,648
Loans from the Government	-	-	-	-	-	48,830	4,000	20,000	72,830
Other liabilities	1,445	580	777	1,395	586	-	-	136	4,919
Shareholders' equity	-	-	2,400	-	-	-	-	94,484	96,884
Total liabilities and equity	1,689	726	4,519	2,317	1,427	49,540	4,710	115,353	180,281
Net liquidity gap	2,975	6,728	1,758	3,872	4,898	1,388	30,423	(52,042)	



NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2008 (Continued)

25. Risk management policies (continued)

Liquidity risk (continued)

b) The maturity profile of assets and liabilities determined on the basis of the period remaining to maturity as at **31 December 2007** is as set out below:

	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 balances with banks	124	-	-	-	-	-	-	-	124
Term deposits	1,800	6,600	9,600	700	9,600	-	-	-	28,300
Mortgage loan accounts	4,937	14,982	19,608	18,734	17,984	16,130	47,738	6,066	146,179
Property and equipment	-	-	-	-	-	-	-	1,031	1,031
Other assets	417	-	305	-	11	-	-	175	908
Total assets	7,278	21,582	29,513	19,434	27,595	16,130	47,738	7,272	176,542
Liabilities and equity									
Customers' deposits	586	481	2,305	1,000	2,454	264	264	264	7,618
Loans from the Government	-	-	-	-	-	-	48,830	24,000	72,830
Other liabilities	581	113	914	1,509	2,014	-	-	113	5,244
Shareholders' equity	-	-	2,400	-	-	-	-	88,450	90,850
Total liabilities and equity	1,167	594	5,619	2,509	4,468	264	49,094	112,827	176,542
Net liquidity gap	6,111	20,988	23,894	16,925	23,127	15,866	(1,356)	(105,555)	

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008 (Continued)

25. Risk management policies (continued)

Interest rate risk

Interest rate risk is the sensitivity of the Bank's net earnings to movements in interest rates. In order to minimise this risk, the Bank borrows locally, under arrangements which have a tenor of less than one year. In addition the interest rate on the government loans are low, which helps to minimise the interest rate risk.

The interest rate sensitivity analysis as at **31 December 2008** was as follows:

	Interest rate	Up to 1 months	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 & balances with banks		-	-	-	-	-	-	-	-	771	771
Term deposits	2.5 - 6.25	1,900	3,950	700	1,000	700	13,000	-	-	-	21,250
Mortgage loan accounts	1 - 9	1,580	3,493	5,206	5,189	5,475	37,928	35,133	62,336	-	156,340
Property and equipment		-	-	-	-	-	-	-	-	944	944
Other assets		-	-	-	-	-	-	-	-	976	976
Total assets		3,480	7,443	5,906	6,189	6,175	50,928	35,133	62,336	2,691	180,281
Liabilities and equity											
Customers' deposits	2.8 - 3.75	244	146	1,342	922	841	710	710	733	-	5,648
Loans from the Government	3 - 5	-	-	-	-	-	48,830	4,000	-	20,000	72,830
Other liabilities		-	-	-	-	-	-	-	-	4,919	4,919
Shareholders' equity		-	-	-	-	-	-	-	-	96,884	96,884
Total liabilities and equity		244	146	1,342	922	841	49,540	4,710	733	121,803	180,281
Interest rate sensitivity gap		3,236	7,297	4,564	5,267	5,334	1,388	30,423	61,603	(119,112)	



NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2008 (Continued)

25. Risk management policies (continued)

Interest rate risk (continued)

The interest rate sensitivity analysis as at 31 December 2007 was as follows:

	Interest rate	Up to 1 months	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 & balances with banks		-	-	-	-	-	-	-	-	124	124
Term deposits	1.25 - 5.1	1,800	6,600	9,600	700	9,600	-	-	-	-	28,300
Mortgage loan accounts	1 - 9	4,937	14,982	19,608	18,734	17,984	16,130	47,738	6,066	-	146,179
Property and equipment		-	-	-	-	-	-	-	-	1,031	1,031
Other assets		-	-	-	-	-	-	-	-	908	908
Total assets		6,737	21,582	29,208	19,434	27,584	16,130	47,738	6,066	2,063	176,542
Liabilities and equity											
Customers' deposits	3.5 - 4.5	586	481	2,305	1,000	2,454	264	264	264	-	7,618
Loans from the Government	3 - 5	-	-	-	-	-	-	48,830	4,000	20,000	72,830
Other liabilities		55	-	-	-	-	-	-	-	5,189	5,244
Shareholders' equity		-	-	-	-	-	-	-	-	90,850	90,850
Total liabilities and equity		641	481	2,305	1,000	2,454	264	49,094	4,264	116,039	176,542
Interest rate sensitivity gap		6,096	21,101	26,903	18,434	25,130	15,866	(1,356)	1,802	(113,976)	





NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2008 (Continued)

26. 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.

27. Taxation

In accordance with the Royal Decree No. 51/77 the Bank is exempt from income tax.

28. Fair values

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' estimate, except for the government and housing loans, the fair value of the assets and liabilities of the Bank are not materially different from their carrying amounts. The assumptions made to determine the fair value are as follows:

- Short term financial instruments

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

- Customers' deposits

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

- Term loans from banks

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

28. Fair values (continued)

- Loans from the Government

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

29. Comparative figures

Certain previous year figures have been reclassified to conform with the current year presentation.

30. Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue in their meeting held on 7 March 2009.