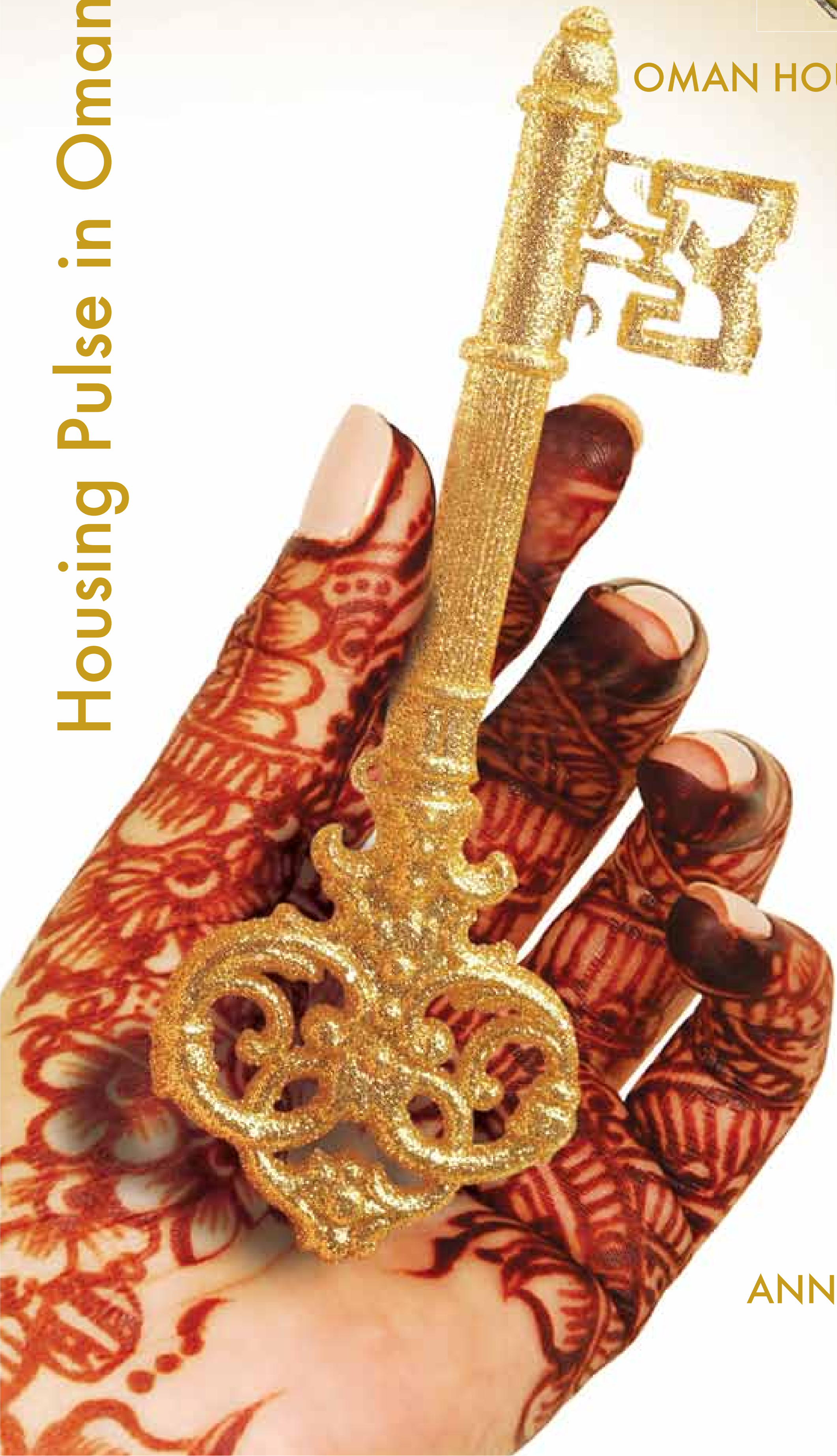
Housing Pulse in Oman

OMAN HOUSING BANK SAOC



ANNUAL REPORT 2009

"The Omani national is entitle to live a decent life
on the land of the Sultanate of Oman with dignity and pride."

His Majesty Sultan Qaboos bin Said
29/9/1973

"You have taught us to be solid as rock, Thank's to your high pride."
Oman Housing Bank

Contents

The Seventies of the last century witnessed the development of Oman as a modern state in all aspects. More importance was given to the development of human resources to achieve the goal. Importance was largely given to Omani citizens in all fields especially in housing. To achieve this goal, the Oman Housing Bank was established in 1977 for different housing schemes for Omanis.

Since that time till today Oman Housing Bank constructed houses for 30,000 Omani families and up to 2009. It has been more than three decades since the bank came into existence and has led the way for the construction of houses for Omanis.

Oman Housing Bank

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

Adnan bin Haider bin Darwish
General Manager
Secretary of Board

Dear respectable shareholders,

Undoubtedly, it is a lovely occasion to meet today in the thirty-fourth Annual General Meeting of Oman Housing Bank. On behalf of the board of directors, I m so pleased to welcome you and present the annual report concerning the results of the final financial operations and the auditors report for the year ending by 31 December 2009.

Respectable shareholders, The board of directors feels proud and satisfied with the role played by the bank to grant stability to the numerous families which are in need for houses in an achievement of the noble objectives for which the bank was established that reside in providing the citizens with residential loans through a governmental support manifested in incurring the largest portion of the banking and administrative services fees imposed on those loans and effectively contributing in the constructional growth witnessed by our beloved nation throughout the Sultanate. Despite the negative repercussions of the financial crisis seen by the region and the world, the bank was able to neutralize it thanks to the deliberate policy it follows. Hence, it was able to reach the targeted growth rate and continued to grant residential loans in amore effective pattern in comparison with the previous year through focusing on increasing the volume of supported loaning activity and enhancing the financial position of the bank. Hereinafter is the detailed activity of the bank during 2009.

Loaning Activity

Thanks to the continuous support of the wise government, the bank was able to continue granting supported loans to the citizens during the year 2009 as follows:

- The number of agreed upon loans reached 798 loans with the value of 22 million Omani Rials, i.e. with an increase rate 31.5 % in terms of number and 57.1 % in terms of value in com parison with the year 2008.

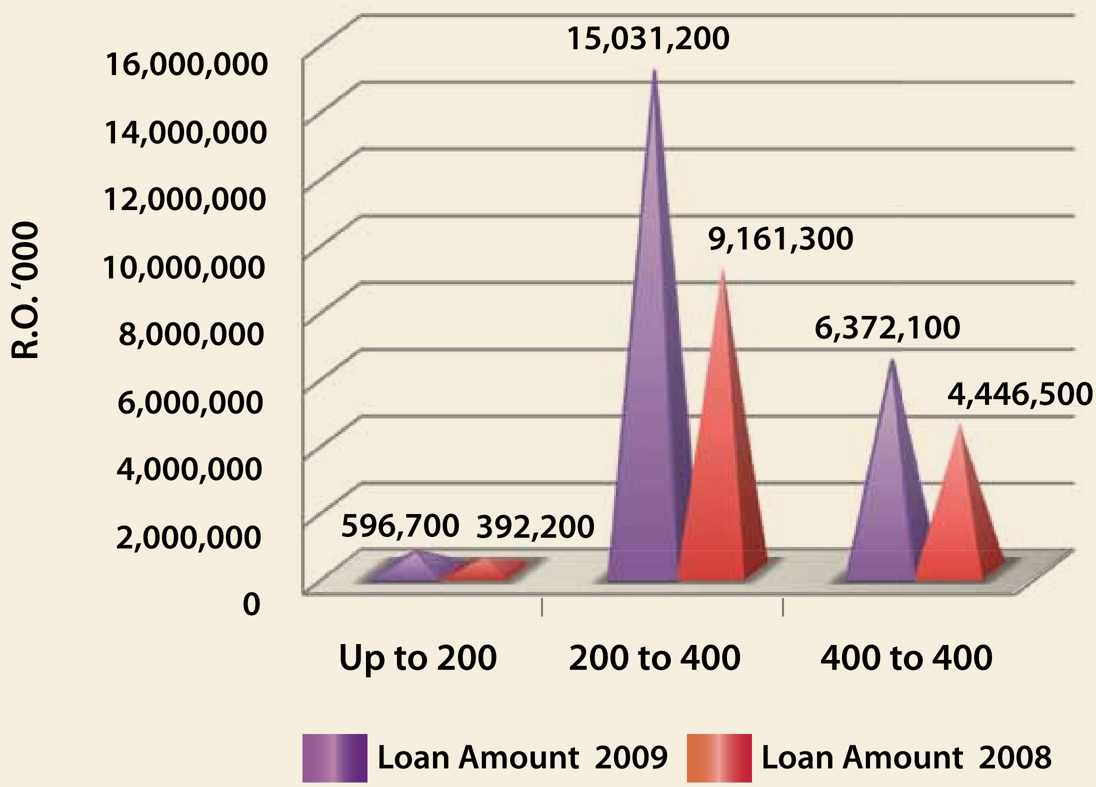
- The loans oriented to limited-income citizens (up to R.O. 400) reached 597 loans with a total amount of R.O. 15,627,900, i.e. with a rate of 74.8 % of the total number and 71 % of the total value and with an increase rate of 30.6 % in terms of number and 63.6 % in terms of value in comparison with the year 2008.
- The loans oriented to middle-income citizens (R.O. 400 up to 600 reached 201 loans with a total amount of R.O. 6,372,100, i.e. with a rate of 25.2 % of the total number and 29 % of the total value and with an increase rate of 34 % in terms of number and 43.3 % in terms of value in comparison with the year 2008

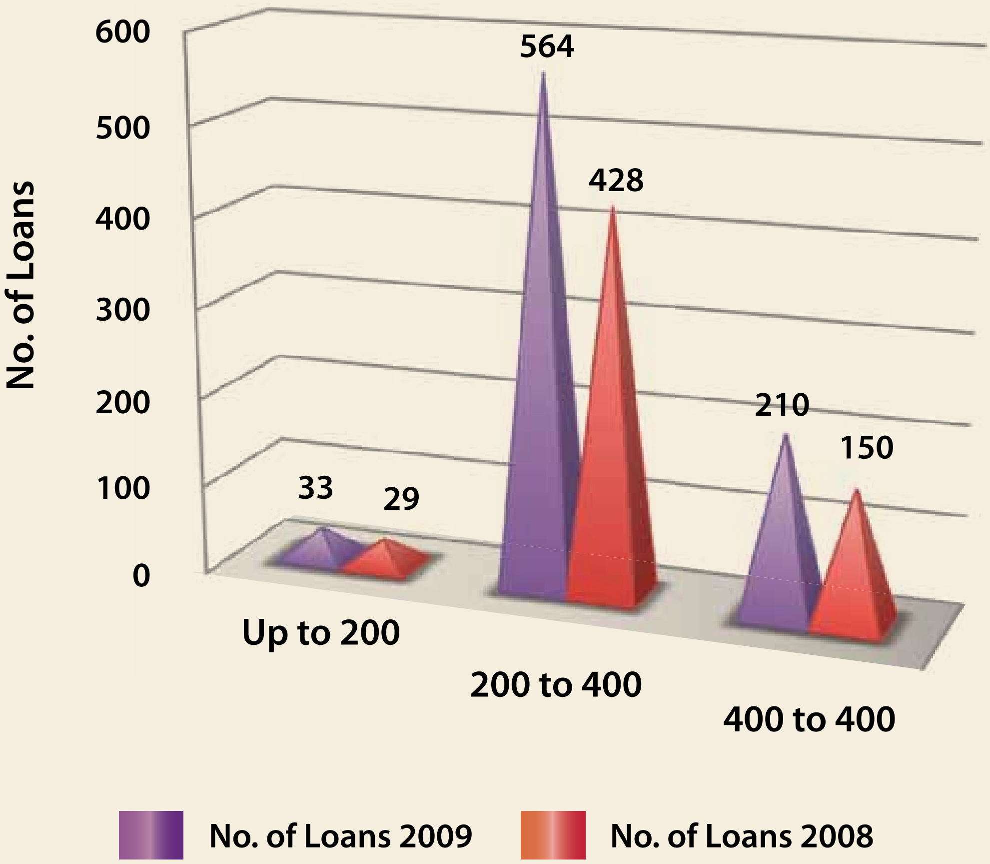
The number of agreed upon loans reached 798 loans with the value of 22 million Omani Rials

The following table shows the agreed upon fee-supported loans as per the income categories for the years 2008 and 2009:

Monthly Income Categories	Agreed upon fee-supported loans during the year 2009				Agreed upon fee-supported loans during the year 2008			
	No.	%	Amount (RO)	%	No.	%	Amount (RO)	%
Up to 200	33	4,1	596,700	2 7	29	4,8	392,200	2,8
200 Up to 400	564	70,7	15,031,200	68,3	428	70,5	9,161,300	65,4
400 Up to 400	201	25,2	6,372,100	29	150	24,7	4,446,500	31,8
Total	798	100%	22,000,000	100%	607	100%	14,000,000	100%

In addition, during the year 2009 the supported fee on the residential loans was applied for 68 limited and middle income citizens whose loans reached about



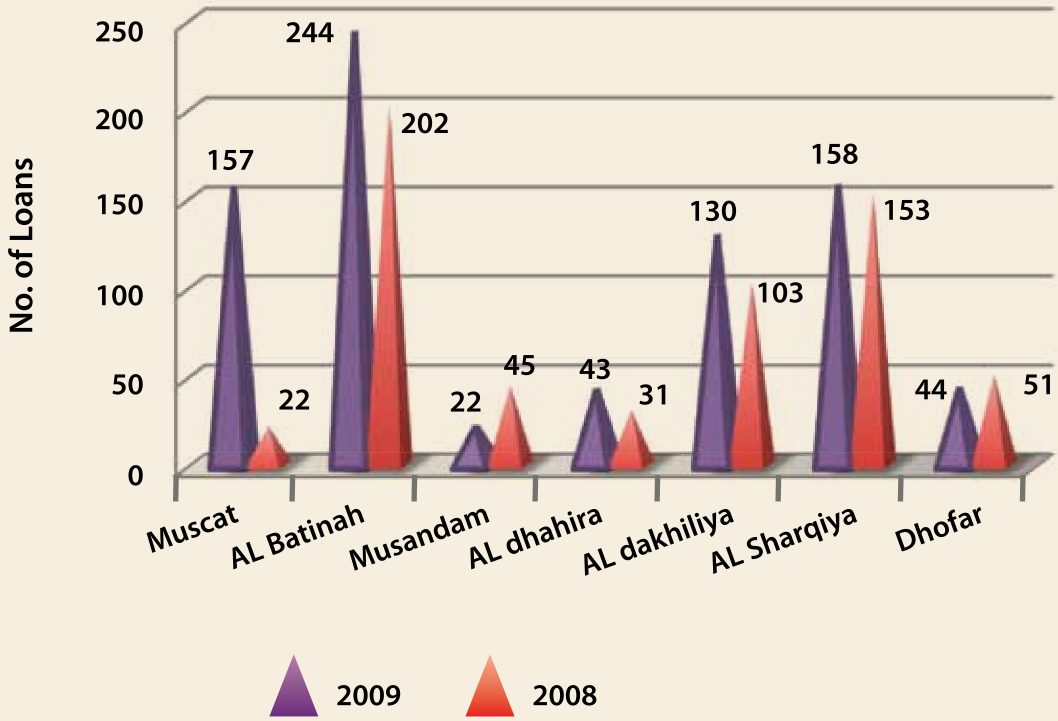


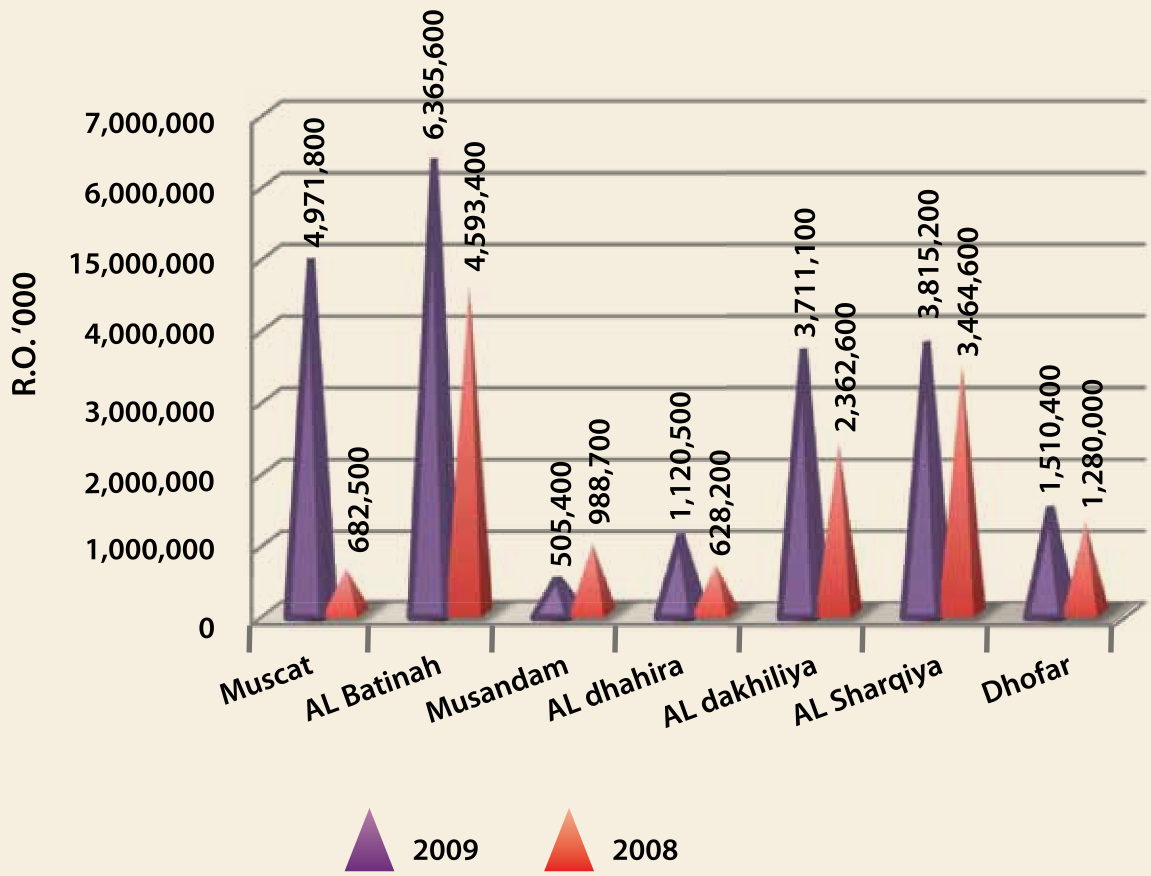
one million and fifty thousand Omani Rials after they had received non supported loans as their demands were passed exceptionally during the waiting period that lasted for the years 2004 and 2005. Also, in 2008 the supported loans for these two categories were increased from R.O. 40 thousand to R.O. 60 thousand in order they can provide decent homes for their families. On the other hand the bank did its best to deliver its services in the various regions of Sultanate especially those located outside Muscat governorate. The number of loans granted to the citizens living outside Muscat governorate reached 641 loans with a total amount of R.O. 17,078,200, i.e. with a rate of 80.3 % of the total number of loans and 77.4 % of the total value and with an increase rate of 9.6 % in terms of number and 27.3 % in terms of value in comparison with the year 2008.

The following two tables show the fee-supported loans that were distributed as per the administrative division of the regions of the Sultanate and were granted through the branches spread throughout the various governorates and states of the Sultanate during the years 2008 and 2009.

a - As per the Administrative Division of the Sultanate Regions:

Governorate / Region	2009			2008		
	No.	Value	%	No.	Value	%
Muscat	157	4,971,800	22,6	22	628,200	4,5
Al Batinah	244	6,365,600	28,9	202	4,593,400	32,8
Musandam	22	505,400	2,3	45	988,700	7,1
Al Dhahira	43	1,120,500	5,1	31	682,500	4,9
Al Dakhiliya	130	3,711,100	16,8	103	2,362,600	16,9
Al Sharqiya	158	3,815,200	17,4	153	3,464,600	24,7
Dhofar	44	1,510,400	6,9	51	1,280,000	9,1
Total	**798**	**22,000,000**	**100%**	**607**	**14,000,000**	**100%**


No. of Loans
250
200
150
100
50
0
157
22
244
202
22
45
43
31
130
103
158
153
44
51
Muscat
AL Batinah
Musandam
AL dhahira
AL dakhiliya
AL Sharqiya
Dhofar
2009
2008



b - As per the Bank Branches:

Branches	Agreed upon fee-supported loans during the year 2009				Agreed upon fee-supported loans during the year 2008			
	No.	%	Amount (RO)	%	No.	%	Amount (RO)	%
Main Branch	157	19,7	4,971,800	22,6	22	3,6	628,200	4,5
Salalah	44	5,5	1,510,400	6,9	51	8,4	1,280,000	9,1
Sohar	79	9,9	2,065,400	9,4	60	9,9	1,371,800	9,8
Sur	55	6,9	1,337,800	6,1	54	8,9	1,318,400	9,4
Nizwa	130	16,3	3,711,100	16,8	103	17,0	2,362,600	16,9
Khasab	22	2,7	505,400	2,3	45	7,4	988,700	7,1
Al Burimi	43	5,4	1,120,500	5,1	31	5,1	682,500	4,9
Al Rustaq	165	20,7	4,300,200	19,5	142	23,4	3,221,600	23,0
Ibra	103	12,9	2,477,400	11,3	99	16,3	2,146,200	15,3
Total	798	100%	22,000,000	100%	607	100%	14,000,000	100%

By the end of 2009, the total number of loans granted by the bank to the citizens since it was established in 1977 through its branches spread in the different governorates and states of the Sultanate reached 29613 loans with a total value of R.O. 509,275,687. Limited-income citizens got the biggest proportion of those loans. Hence, the total number of loans granted to this category reached 25827 loans with a rate of 87.2 % of their total number and the total value of those loans reached R.O. 414,641,429 with a rate of 81.4 0f their total value. The number of the loans granted to the citizens living outside Muscat governorate reached 15234 loans with a total value of R.O. 255,602,596, i.e. with a rate of 51.4 % of the total number of the granted loans and 50.2 % of their total value as shown in the table below:

Branches	Agreed upon fee-supported loans since the establishment of each branch and up to the end of 2009			
	No.	%	Amount (RO)	%
Main Branch	14379	48,7	253,673,091	49,8
Salalah	4145	14,0	67,500,651	13,3
Sohar	2579	8,7	39,239,642	7,7
Sur	1876	6,3	29 824,596	5,9
Nizwa	2432	8,2	42,524,452	8,3
Khasab	511	1,7	8,271,200	1,6
Al Burimi	718	2,4	13,283,755	2,6
Al Rustaq	1990	6,7	37,572,700	7,4
Ibra	983	3,3	17,385,600	3,4
Total	29613	100%	509,275,687	100%

Still, during 2009, the bank was able to grant residential loans to the citizens to whom the conditions of the supported loan (house) do not apply with a total value of R.O. 18 million compared with R.O. 15.6 million in 2008. The number of loans granted to the citizens living outside Muscat governorate reached 369 loans with a total value of R.O. 9,870,600, i.e. with a rate of 65.3 % of the total number of the granted loans and 54.8 % of their value.

The following two tables show the loans granted without supported fees (house) that were distributed as per the administrative division of the regions of the Sultanate and were granted through the branches spread throughout the various governorates and states of the Sultanate during the years 2008 and 2009.

c - As per the Administrative Division of the Sultanate Regions:

Governorate / Region	2009			2008		
	No.	Value	%	No.	Value	%
Muscat	196	8,129,400	45,2	179	6,019,700	38,5
Al Batinah	150	3,676,700	20,5	172	3,725,400	23,8
Musandam	13	299,900	1,7	11	260,400	1,7
Al Dhahira	11	249600	1,4	16	574,400	3,7
Al Dakhiliya	49	1,382,400	7,6	25	683,100	4,3
Al Sharqiya	72	1,737,100	9,6	108	2,438,000	15,6
Dhofar	74	2,524,900	14	68	1,932,100	12,4
Total	**565**	**18,000,000**	**100%**	**579**	**15,633,100**	**100%**

d - As per the Bank Branches:

Branches	Agreed upon fee-supported loans since the establishment of each branch and up to the end of 2009			
	No.	%	Amount (RO)	%
Main Branch	1729	43,6	55,102,710	50,51
Salalah	474	12	14,035,800	2,9
Sohar	341	8,6	7,930,500	7,3
Sur	254	6,4	6,180,900	5,7
Nizwa	245	6,2	5,740,400	5,3
Khasab	69	1,7	1,331,000	1,2
Al Burimi	118	3	2,739,525	2,5
Al Rustaq	523	13,2	11,992,800	11
Ibra	209	5,3	3,925,100	3,6
Total	**3962**	**100%**	**108,978,735**	**100%**

From the below table, we notice that starting from the application of this system

in 01.01.1993 and until the end of 2009, the number of the loans granted to the citizens living outside Muscat governorate reached 2233 loans with a total value of R.O. 53,876.025, i.e. with a rate of 56.1 % of the total number of the granted loans and 49.4 % of their value.

Branches	Agreed upon fee-supported loans during the year 2009				Agreed upon fee-supported loans during the year 2008			
	No.	%	Amount (RO)	%	No.	%	Amount (RO)	%
Main Branch	196	34,7	8,129,400	45,2	179	3,9	6,019,700	38,5
Salalah	74	13,1	2,524,900	14	68	11,7	1,932,100	12,4
Sohar	51	9	1,378,900	7,7	70	12,2	1,513,900	9,7
Sur	40	7,1	1,125,700	6,2	46	7,9	1,303,300	8,3
Nizwa	49	8,7	1,382,400	7,6	25	4,3	683,100	4,3
Khasab	13	2,3	299,900	1,7	11	1,9	260,400	1,7
Al Burimi	11	1,9	249,600	1,4	16	2,8	574,400	3,7
Al Rustaq	99	17,5	2,279,800	12,8	102	17,6	2,211,500	14,1
Ibra	32	5,7	611,400	3,4	62	10,7	1,134,700	7,3
Total	**565**	**100%**	**18,000,000**	**100%**	**579**	**100%**	**15,633,100**	**100%**

Institutional Organizing

Enhancing the role of the bank and managing it on safe bases, the board of directors made use of three important instruments during 2009. The first is the bank management organization convention (institutional governing) which organizes the authorities and relationships between the executive administration and board according to the best practices in this field and in accord with the instructions of the Central Bank of Oman. The second instrument is the policy of monitoring the commitment in the bank through issuing a control panel to make sure of the bank commitment to the systems and regulations concerning the bank scope of work issued by the different specialized authorities. The third instrument is an integral manual about the risk management policy followed by the bank. These policies helped in increasing the value of the loans portfolio and maintaining the strength of the financial position of the bank.

Financial Results

Regarding the financial results, through the presentation of the figures of the balance sheet for the fiscal year ending in 31.12.2009, it becomes clear that the bank has achieved positive results by recording good growth rates in most of the financial indicators. By the end of 2009 the total assets of the bank has increased to reach R.O. 194,416 million compared with R.O. 180,281 million by the end of 2008, i.e. with a growth rate of 7.84 %. The increase in the assets was essentially based on the increase in the portfolio of the residential loans. Hence, the total of the loans portfolio has increased in 31.12.2009 to reach R.O. 177.544 million in comparison with R.O. 156.340 million by the end of the previous year, i.e. with a growth rate of 13.56 %. Along with the increase in the loans portfolio, the total of the banking services revenues has increased to reach R.O. 16.447 million compared with R.O. 15.528 million during the same period of the previous year. Consequently, the bank has achieved net profits of R.O. 8,835 million with an increase rate of 5 % in comparison with the profits of 2008 that reached R.O. 8,434 million and hence the basic return of each share reached R.O. 0.295 compared with R.O. 0.281 by the end of 2008. Still, the total rights of the shareholders has increased to reach R.O. 103,337 million in comparison with R.O. 96,884 million for the previous year and with a growth rate of 6,6 %. This increase is due to the raise of the reserves and the retained profits. Further, the bank has kept maintaining good profit returns rates during 2009. Hence, the rate of the return on the shareholders average rights reached 9,53 % and the rate of the return on the assets average reached 4,77 % by the end of 2009.

The following table shows the position of the main financial indicators during the previous five years 2005 – 2009:

Statement	2005	2006	2007	2008	2009
Net Profits	8,558	8,007	8,585	8,434	8,853
Total Assets	162,635	160,545	176,542	180,281	194,416
Total Net Loans	159,298	157,352	146,179	156,340	177,544
Total Customers' Deposits	6,529	6,758	7,618	5,648	12,364
Total Shareholders' Rights	78,458	84,065	90,850	96,884	103,337

Through focusing on promoting the bank assets and maintaining the quality and strength of the assets, the bank management continues working according to the strategy planned by the board of directors in order to achieve remunerative returns for the shareholders. The board of directors proposes the distribution of the net profits of 2009 among the shareholders as follows:

Total of Net Profits of the Year	8,853
Net Profits Distribution:	
Transferring an amount to the legal reserve (10 % of the net profits)	885
Distributing cash profits among the shareholders (8 % of the paid capital)	2,400
Transferring an amount to the private reserve	2,784
Transferring an amount as retained profits	2,784
Total of Net Profits of the Year	8,853

Lastly, the board of directors of the bank would like to deeply thank appreciate the lofty direction and the special care of His Majesty Sultan Qaboos bin Said. The board would also like to show gratitude to the wise government for the continuous support provided for the bank in order it can go on submitting services to the citizens easily.

Future Vision

Along with the achievements realized during the previous years in the different activities of the bank such as the increase in the loans portfolio that reached more than R.O. 177 million, the raise in the shareholders› rights which approximately attained R.O. 103 million, the increase in the rate of Omanization that got up to 95 %, the increase in the number of beneficiaries from the bank loans that reached about 30 thousand Omani families with a total value of R.O. 509 million and the development and modernization of the entire mechanisms and systems of work, the bank management looks forward achieving more objectives of the bank through setting plans for the next ten years during the current year 2010 in the way that accords with the promotion plans set by the government and completing the noble mission of the bank which resides in providing decent houses for the Omani families that are in need of well equipped modern houses.

Still, the board would like to show appreciation to the Ministry of Finance and the Central Bank of Oman and to all other ministries, governmental and national authorities and institutions for their faithful a true cooperation with the bank in order it can achieve its missions and obligations. Thanks and appreciations are also expressed to all the bank employees for their endeavor and loyalty as well as their endless efforts they made to serve and promote this institution. May God help us in order we can afford more for our beloved Oman under the rule of His Majesty Sultan Qaboos bin Said and may God grant him health and long age and provide the Omani people with prosperity and welfare.

With best regards,

Darwish bin Ismail bin Ali Al Balushi
Chairman

G.M. WORD

After compliments,

Three decades after the establishment of Oman Housing Bank that was issued thanks to high intellect of the well-beloved leader of the nation His Majesty Sultan Qaboos bin Said, the bank has witnessed during the previous period so many developments and achievements in embodiment of the lofty intellect and the care and support of the wise government. The boards of directors – the executive management – has adopted an astute policy based on data and facts that enable to achieve the main objective of the bank residing the provision of facilitated loans for the citizens in order to possess decent houses relevant to their needs and aims.

The bank results for the year 2009 confirm the ability of its management to set and execute the work plans in the way that achieve the targeted objectives. Thus, the lending portfolio has increased as in 31.12.2009 to reach R.O. 177,544 million with a raise of R.O. 21,204 million and a growth rate of 14 % in comparison with the situation by the end of 2008. As a result, the bank has been able to realize a steady growth in terms of operations volume through focusing on its basic activity and promoting the level of the provided banking services which positively reflected on the business management and the services provision.

Through following the best professional practices as well as the high expertise in the field of housing, the bank has been able to reach the targeted growth rate and continued granting loans in pattern higher than that of the previous year.

Therefore, our executive management will continue hard work in order to promote the business and the activities of the bank to reach the planned objectives taking care of providing decent houses for the entire citizens allover the Sultanate.

At last, I am pleased to express thanks to the wise government for its constant support provided for the bank in order it can go on providing services for the citizens. I would also like to deeply thank His Highness the head of the board of directors and all the members of the board for their guidance and supervision of the bank performance in order that it can reach the objectives for which it was established. Still, I want to appreciate our dear customers and finally I thank all the employees of this institution for their efforts, loyalty and effective role.

May God help and protect everyone,,,

Adnan bin Haidar bin Darwish

General Manager
Board of Directors Secretary

Legal divulgement according to Bazel II, support III

1-RISK MANAGEMENT

The Board of Directors play an essential role in supervising the risk management operations to make sure that the risk management works are performed properly, and the bank transactions are done within the accredited limitations.

The Board of Directors confirm the risk management policies and determine the acceptable limitations of risks, in addition to confirming the estimation process of the capital adequacy. The Board of Directors have formed a (financial and risk management) committee to help the Board of Directors suggest the polices of risk management, develop those policies , suggest the accepted risks limitations, set up estimation schemes to estimate, measure and control risks as well as control the commitments of the bank units to the risks degrees and limitations, in addition to revising the competence and effectiveness of the risk management department through the supervision of the committee on the department operations.

DIVULGEMENT POLICY:

The bank has an official policy derived from Bazel II – The requirements of divulgement according to support III - stated and approved by the Board of Directors to be in conformity with the requirements of the Central Bank of Oman.

APPLICATION SCOPE:

The bank executes its works through a net of branches in the Sultanate of Oman and the Data presented below about the capital including the transactions of all the bank branches. The bank has no affiliated companies nor is it an affiliate to any group of banks.

THE STRUCTURE OF THE CAPITAL:

The regulatory capital can be divided into 3 levels:

***LEVEL (1):** The basic capital which includes:

The paid-in capital, the legal reserve, the private provision, retentive profits

There are no innovative financial instruments in the capital. The authorized and the fully paid- in capital compromises the amount of (30) million shares at the value of one rial per share. (10%) of the annual profits are deducted for the legal reserve account until the accumulated balance is equal to half of the paid capital. This reserve is not distributable. After the transfer transaction is processed, another amount, specified by the Board of Directors, is transferred into the special reserve until the accumulated balance is equal to (25%) of the paid-in capital.

This reserve can be used to repay the bad debts. Forming retentive profits aims to reinforce the financial status of the bank to face any unexpected issues.

***LEVEL (2):** Additional capital includes:

General appropriations to meet the bank losses (not more than 1.25%) of the assets at risk

***LEVEL (3):** Supporting short-term loans to face market risks:

Level (3) is not currently available in the bank yet.

The proportions elements of the bank capital are shown as follows:

Composition of regulatory capital on 31/12/2009	(in thousands) RO
Level (1) the basic capital	
The paid-in capital	30,000
The legal reserve	11,930
The special reserve	39,442
The retentive profits	21,776
Total of level 1	103,148
Level (2)- the additional capital	
General provisions for the loan losses	1,717
Total of level (2)	1,717
Total of the qualifying capital	104,865

4. THE CAPITAL ADEQUACY:

The adequacy of capital is calculated in the bank according to (bazel II instructions) and the instructions of the Central Bank of Oman by using the standard approach to calculate credit and market risks, if any, and applying the simple approach to include guarantees and adopt the basic index to calculate the transactional risks. Modes institution categorization is adopted to calculate the risks of claims in other banks as well as other financial institutions. The bank maintains a policy to keep an adequate powerful capital basis to go along with the nature of its activities in long –term loans and to face the losses risks or unexpected difficulties. Although the bank has a powerful capital basis which enhances its good performance in all circumstances and fluctuations in the market, the Board of Directors, conservatively and thoroughly, decided to increase the rate of the capital adequacy at the rate of

The quantitative counting of the adequate capital of the bank can be represented in the following items.

Particulars The amounts in thousands (RO)	Total balance (book value)	Net balance (book value)	Risk exposed assets
Items recognized in the balance sheet		194,052	109,322
Items recognized outside the balance sheet		15,801	3,160
Capital- first level		1,031,148	103,418
Capital- second level		1,717	1,717
Capital- third level		-	-
Total of Qualifying capital		104,865	104,865
Requirements of the capital of credit risks		112,482	11,248
Requirements of the capital of the market risk.		-	-
Requirements of the operation risks		24,917	2,491
Total of the capital risk		137,399	13,739
Rate of the adequacy of the capital-first level		75	
Rate of the adequacy of the capital-Total			76,32

*The net balance after deducting the appropriations and qualifying interests

(2%) more than the regulatory level required and specified by Central Bank of Oman at the rate of (10%) to make the adequate rate of the bank capital 12%. It is clear from the following data that the actual rate of the adequate capital in the bank (76.32%) at the end of the year.

CREDIT RISKS:

The credit risks arise from all products and services when the bank related parties fail to meet their liabilities in accordance of the terms and conditions of the contract. Although the credit borrowed from the bank and represented in house loans for the public including property securities as well as it must be geographically located in Oman, the risks arise when the value of these securities do not meet the customer's liabilities when they fall as due. The approvals for getting credits can be obtained only through the executive management within specific limitations and criteria, careful practices and special powers authorized by the Board of Directors so as to avoid the probable losses and reduce the possibility of the exposure to the credit risks. The bank follows the standard method to calculate the credit assets at risk at the rate of (35%) for house loans supported by the Omani government, but (100%) for other loans. The bank determines the amount of the possible credit losses by apllying the stated categorization of credits according to the circular of the Central Bank of Oman (BM977) dated on 25th September 2004 taking into consideration the market value for property securities at the rate of (50) %. Considering that the credit borrowed from the bank is restricted in one type and within one geographical area, the quantities divulgement is as follows:

The type of credit (in thousands of RO)	**Average of current period**	**Status as in 31/12/2009**
Personal loans for employees	-	-
House loans for nationals, subsidized by the government of Oman	2,529	120,768
House loans, not subsidized by the government of Oman	3,195	56,776
Total	8,919	177,544

THE MOVEMENT OF LOANS TOTAL:

The amount in a thousand of Omani rials							
NO.	**particulars**	**regular loans**		**Irregular loans**			
1		**standard**	**Private index**	**Below standard loans**	**Doubtful loans**	**losses**	**total**
2	Opening balance	171,612	419	1,204	546	656	174,437
3	Incorporation- change	111	39	131	71	12	-
4	New loans	102,72	4	3	3	9	10,291
5	Settlement	4,494	3	44	12	16	4,569
6	Written-off loans	-	-	-	-	-	-
7	Closing balance	177,501	381	1,032	608	673	18,159
8	Retained appropriation	1,775	4	205	151	151	2,286
	Retained interests	-	5	38	53	233	329

2/6: MARKET RISKS

Market risks are the risks arising from the fluctuations in the value of securities and transactions according to the continuous movement of the market. The article of the balance sheet do not currently include any assets or liabilities exposed to foreign exchange rates , since all transactions are processed in the Omani rial, or the US dollar which is fixed to it. Concerning the interest rate risks, it can directly arise when there is an increase in the interest rate in the short term deposits or loans. The loan interest is fixed. The bank attempts to enter in long term loan agreements to avoid such kinds of interest risks by following the fixed interest rate. The final accounts of the bank distribution of assets and liabilities along a number of time ranges determined in advance to show the critical gap towards the interest rate.

3/6: LIQUIDITY RISKS

The bank is exposed to liquidity risks when there is not enough cash in the bank to meet its liabilities when they fall due. Liquidity risks always arise when there is no time correlation between incoming cash flow and out coming cash flow. The bank follows a careful policy cash management by maintaining sufficient cash ready to meet its short term liabilities.

Liquidity management can be done by shortening the gap between the assets dues and liabilities and by entering in long and medium term loan agreements when necessary to guarantee the availability of cash so as to meet its liabilities when they fall as due. The closing accounts of the bank include an analysis to the assets and liabilities dues in a number of time ranges specified in advance to show the liquid gap.

4/6: TRANSACTIONS RISKS.

Transactions risks can be defined as the losses risks arisen by the insufficiency of credits or the failure of internal transactions, staff, systems or external factors or other factors which arise from the legal or regulatory requirements. The bank follows the direct index system to estimate them. This system imposes deducting the rate of (25%) of the income average during the last three years to determine the capital of the transactions risks.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Contents

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 the balance sheet as at 31 December 2009 and statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The previous year financial statements as at 31 December 2008 were audited by another auditor; whose report dated 7 March 2009 expressed an unqualified opinion on the financial statements.

Directors' responsibility for the financial statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the Commercial Companies Law of 1974, as amended. 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 entity'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 entity'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 accompanying financial statements present fairly, in all material respects, the financial position of the bank as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Commercial Companies Law of 1974, as amended.

PricewaterhouseCoopers LLP
16 March 2010
Muscat, Sultanate of Oman

BALANCE SHEET
at 31 December 2009

	Notes	2009 RO'000	2008 RO'000
ASSETS			
Cash and balances with banks		**314**	771
Term deposits	4	**14,300**	21,250
Mortgage loan accounts	5	**177,544**	156,340
Property and equipment	6	**839**	944
Other assets	7	**1,419**	976
Total assets		**194,416**	180,281
LIABILITIES AND EQUITY			
LIABILITIES			
Customers' deposits	8	**12,364**	5,648
Loans from the Government	9	**72,830**	72,830
Other liabilities	10	**5,885**	4,919
Total liabilities		**91,079**	83,397
EQUITY			
Share capital	11	**30,000**	30,000
Legal reserve	12	**11,930**	11,045
Special reserve	13	**39,442**	36,658
Revaluation reserve	6, 14	**189**	189
Retained earnings		**21,776**	18,992
Total equity		**103,337**	96,884
Total liabilities and equity		**194,416**	180,281
Mortgage loan commitments	20	**15,801**	14,481

The financial statements on pages 2 to 29 were approved and authorised for issue by the Board of Directors 25 January 2010 and signed on their behalf by:

H.E. Darwish Bin Ismail Ali Al Balushi
Chairman

Adnan Bin Haidar Bin Darwish
General Manager

The notes on pages 6 to 28 form an integral part of these financial statements.
Report of the Auditors - page 1.

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2009

	Notes	2009 RO'000	2008 RO'000
Banking and administrative service fees		**9,306**	8,230
Government contribution in administrative fee	16	**5,071**	4,872
Provision for impairment of loans written back – Specific	5	**245**	398
Provision for impairment of loans written back – General	5	**-**	19
Other income	17	**1,041**	1,010
Interest on short-term deposits		**784**	999
Total income		**16,447**	15,528
Interest on loans from the Government	9	**(2,282)**	(2,286)
Interest on customers' deposits		**(134)**	(178)
General and administrative expenses	18	**(4,468)**	(4,065)
Provision for impairment of loans – Specific	5	**(219)**	(184)
Provision for impairment of loans– General	5	**(213)**	(126)
Bad debt directly written off		**(11)**	(1)
Interest on staff housing loans		**(93)**	(72)
Depreciation of property and equipment	6	**(174)**	(182)
Total expenses		**(7,594)**	(7,094)
Profit for the year		**8,853**	8,434
Total comprehensive income for the year		**8,853**	8,434
Earnings per share (basic and diluted)	19	**0.295**	0.281

The notes on pages 6 to 29 form an integral part of these financial statements.

Report of the Auditors - page 1

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2009

	Share capital	reserve	Legal reserve	Special reserve	Revaluation earnings	Retained Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
At 1 January 2008	30,000	10,202	34,062	189	16,397	90,850
Comprehensive income:						
Profit for the year	-	-	-	-	8,434	8,434
Total comprehensive income for the year	-	-	-	-	8,434	8,434
Dividend paid for 2007	-	-	-	-	(2,400)	(2,400)
Transfer to legal reserve	-	843	-	-	(843)	-
Transfer to special reserve	-	-	2,596	-	(2,596)	-
At 31 December 2008	30,000	11,045	36,658	189	18,992	96,884
At 1 January 2009	**30,000**	**11,045**	**36,658**	**189**	**18,992**	**96,884**
Comprehensive income:						
Profit for the year	**-**	**-**	**-**	**-**	**8,853**	**8,853**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**8,853**	**8,853**
Dividend paid for 2008	**-**	**-**	**-**	**-**	**(2,400)**	**(2,400)**
Transfer to legal reserve	**-**	**885**	**-**	**-**	**(885)**	**-**
Transfer to special reserve	**-**	**-**	**2,784**	**-**	**(2,784)**	**-**
At 31 December 2009	**30,000**	**11,930**	**39,442**	**189**	**21,776**	**103,337**

The notes on pages 6 to 29 form an integral part of these financial statements.

Report of the Auditors - page 1

STATEMENT OF CASH FLOWS
for the year ended 31 December 2009

	2009	2008
	RO'000	RO'000
Operating activities		
Profit for the year	**8,853**	8,434
Adjustments:		
Depreciation of property and equipment	**174**	182
Profit on disposal of fixed assets	**-**	(10)
Provision for impairment of loans written back – Specific and general	**(245)**	(417)
Provision for impairment of loans - Specific	**219**	184
Provision for impairment of loans - General	**213**	126
Operating profit before changes in operating assets and liabilities	**9,214**	8,499
Changes in operating assets and liabilities:		
Term deposits due after more than 3 months	**6,550**	6,850
Mortgage loan accounts	**(21,391)**	(10,054)
Other assets	**(443)**	(68)
Customer's deposits	**6,716**	(1,970)
Other liabilities	**966**	(325)
Net cash from operating activities	**1,612**	2,932
Investing activities		
Proceed from sale of fixed assets	**-**	10
Purchase of property and equipment	**(69)**	(95)
Net cash used in investing activities	**(69)**	(85)
Financing activities		
Dividend paid	**(2,400)**	(2,400)
Net cash used in financing activities	**(2,400)**	(2,400)
Net change in cash and cash equivalents	**(857)**	447
Cash and cash equivalents at the beginning of the year	**1,171**	724
Cash and cash equivalents at the end of the year (note 21)	**314**	1,171

The notes on pages 6 to 29 form an integral part of these financial statements.

Report of the Auditors - page 1

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 exceeds the minimum dividend.

2 Summary of significant accounting policies

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

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

2 Summary of significant accounting policies (continued)

2.1 Basis of Preparation (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements as disclosed in note 3.

(a) Standards and amendments effective in 2009 and relevant for the bank's operations:

For the year ended 31 December 2009, 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 2009.

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.

The following standards and amendments to published standards are mandatory from accounting period beginning on or after 1 January 2009 and are relevant to the bank's operation:

IFRS 7 'Financial instruments – Disclosures' (amendment) – (effective from 1 January 2009);
IFRS 8, Operating segments (effective from 1 January 2009);
IAS 1 (Revised), Presentation of financial statements (effective from 1 January 2009);

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the bank:

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the bank's accounting periods beginning on or after 1 July 2009 or later periods, but the bank has not early adopted them:

IFRS 1 and IAS 27 (Revised), 'Cost of an investment in a subsidiary, jointly-controlled entity or associate' (effective from 1 July 2009);
IFRS 3 (Revised), Business combinations (effective from 1 July 2009);
IFRS 5 (Amendment), Non-current assets held-for-sale and discontinued operations (and consequential amendment to IFRS 1, First-time adoption) (effective from 1 January 2010);

2 Summary of significant accounting policies (continued)

2.1 Basis of Preparation (continued)

IFRS 9, 'Financial instruments part 1: Classification and measurement' (effective on or after 1 January 2013)

IAS 27 (Revised and Amendment), Consolidated and separate financial statements, (effective from 1 July 2009);

IAS 39, 'Financial instruments: Recognition and measurement – Eligible hedged items (effective from 1 July 2009);

IFRIC 9, Reassessment of embedded derivatives and IAS 39, 'Financial instruments – Recognition and measurements – embedded derivatives (effective on or after 1 July 2009);

IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009);

IFRIC 18, 'Transfers of assets from customers' (effective on or after 1 July 2009).

2.2 Revenue recognition

2.1 Recognition of banking and administrative service fees

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

2.2.2 Recognition of interest income and expense

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

2.2.3 Recognition of commission and fees

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

2.2.4 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.

2 Summary of significant accounting policies (continued)

2.2 Revenue recognition (continued)

2.3 Mortgage loan accounts

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

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

2.4 Property and equipment

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

Revaluations of lands are carried out every three years on an open market value for existing use basis, by an independent valuer. Net surpluses arising on revaluation are credited to a revaluation reserve, except that a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. A decrease as a result of a revaluation is recognised as an expense, except that it is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that asset. On disposal the related revaluation surplus is transferred directly to retained earnings. Transfers from revaluation surplus to retained earnings are not made through the statement of comprehensive income.

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

	Years
Buildings	25
Furniture and fixtures and equipments	5 - 10
Other equipments	5
Motor vehicles	5

2 Summary of significant accounting policies (continued)

2.4 Property and equipment (continued)

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 deal with in the statement of comprehensive income.

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2.5 Financial assets and liabilities

2.5.1 Classification

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

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The bank's loans and receivables comprise mortgage loans and cash and cash equivalents in the balance sheet (notes 2.3 and 2.13).

2.5.2 Recognition

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

2.5.3 Derecognition

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

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

2 Summary of significant accounting policies (continued)

2.5 Financial assets and liabilities (continued)

2.5.4 Offsetting

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

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

2.5.5 Amortised cost measurement

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

2.5.6 Fair value measurement

A number of the bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on a number of accounting policies and methods. Where applicable, information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

2.6 Impairment of financial assets

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

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

2 Summary of significant accounting policies (continued)

2.6 Impairment of financial assets (continued)

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

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

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

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

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

2 Summary of significant accounting policies (continued)

2.6 Impairment of financial assets (continued)

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

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

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

2.7 Borrowings

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

2.8 Dividend distribution

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

2.9 Directors' remuneration

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

2.10 End of service benefits

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

2 Summary of significant accounting policies (continued)

2.11 Foreign currencies

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

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

2.12 Earnings per share

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

2.13 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.

2.14 Operating lease payments

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

3 Critical accounting estimates and judgements

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

3 Critical accounting estimates and judgements (continued)

(a) Impairment losses on mortgage loans

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

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

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

(b) Fair value estimation

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

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

Short-term financial instruments

The carrying amount of cash on hand and at banks, due from other banks and the short-term financial instruments recognised in the 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 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.

3 Critical accounting estimates and judgements (continued)

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.

Loans from the Government

The fair values of loans 1, 2 and 3 (note 9) 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.

4 Term deposits

	2009 RO'000	2008 RO'000
Term deposits	**14,300**	21,250

Term deposits are in Rial Omani and include deposits with maturity dates above 90 days from the date of placement. These deposits carry interest rate of 3.75% to 6.25% (2008 - 2.5% to 6.25%) per annum.

5 Mortgage loan accounts

	2009 RO'000	2008 RO'000
Gross mortgage loan accounts as at 1 January	**156,340**	148,706
Loans distributed during the year	**38,903**	36,039
Principal repayments during the year	**(15,084)**	(25,999)
Gross mortgage loan accounts as at 31 December	**180,159**	158,746
Provision for impairment of loans (Refer 'a' below)	**(2,286)**	(2,104)
Unrecognised banking and administrative service fees (Refer 'b' below)	**(329)**	(302)
Net mortgage loan accounts as at 31 December	**177,544**	156,340

5 Mortgage loan accounts (continued)

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

	2009 RO'000	2008 RO'000
At 1 January	**2,104**	2,215
Provision for impairment of loans – Specific	**219**	184
Provision for impairment of loans – General	**213**	126
Provision for impairment of loans written back – Specific	**(245)**	(398)
Provision for impairment of loans written back – General	**-**	(19)
Written off during the year	**(5)**	(4)
At 31 December	**2,286**	2,104

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

	2009 RO'000	2008 RO'000
At 1 January	**302**	312
Unrecognised banking and administrative service fees during the year	**97**	82
Written back during the year	**(40)**	(92)
Written off during the year	**(30)**	-
At 31 December	**329**	302

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

c) At 31 December 2009, non-performing loans on which banking and administrative service fees have been unrecognised amounted to RO 2,277,000 (2008 - RO 2,092,000).

d) At 31 December 2009 the specific allowance for loan impairment and the unrecognised banking and administrative service fees represents 37% (2008 - 40%) of gross non-performing mortgage accounts. Also, the bank keeps 1% collective provision for impairment for the performing loans amounting to RO 1,779,000 (2008 - RO 1,566,000).

e) The banking and administrative service fees rates varied from 1% to 9% (2008 - 1% to 9%) per annum in addition to the contribution received from the Government of the Sultanate of Oman.

5 Mortgage loan accounts (continued)

f) Summary of mortgage loan accounts is as follows:

	2009 RO'000	2008 RO'000
Performing accounts	**177,501**	156,370
Past due but not impaired	**381**	284
Non-performing mortgage loans	**2,277**	2,092
Total mortgage loans	**180,159**	158,746
Provision for impairment of loans	**(2,286)**	(2,104)
Unrecognised banking and administrative service fees	**(329)**	(302)
Net mortgage loan accounts as at 31 December	**177,544**	156,340

Past due but not impaired	2009 RO'000	2008 RO'000
Past due 60 – 89 days	**381**	284

Non-performing loans

	2009 RO'000	2008 RO'000
Substandard	**1,032**	963
Doubtful	**608**	418
Loss	**637**	711
Total	**2,277**	2,092
Fair value of collateral	**7,550**	5,505

6 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 2009	**1,981**	**1,098**	**758**	**219**	**2**	**4,058**
Additions	**-**	**8**	**39**	**-**	**22**	**69**
Disposals	**-**	**(6)**	**(53)**	**-**	**-**	**(59)**
Transfer	**-**	**3**	**(3)**	**-**	**-**	**-**
At 31 December 2009	**1,981**	**1,103**	**741**	**219**	**24**	**4,068**
Depreciation						
At 1 January 2009	**1,315**	**1,013**	**652**	**134**	**-**	**3,114**
Charge for the year	**69**	**26**	**50**	**29**	**-**	**174**
Disposals	**-**	**(6)**	**(53)**	**-**	**-**	**(59)**
At 31 December 2009	**1,384**	**1,033**	**649**	**163**	**-**	**3,229**
Net book value						
At 31 December 2009	**597**	**70**	**92**	**56**	**24**	**839**
Cost/valuation						
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 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
Net book value						
At 31 December 2008	666	85	106	85	2	944

Land and buildings includes land granted by the Government of Sultanate of Oman free of cost which has been valued at RO 189,200 (2008 - RO 189,200). The bank revalues its land on a regular basis.

7 Other assets

	2009	2008
	RO'0000	RO'000
Other receivables	**1,388**	939
Prepayments and others	**31**	37
	1,419	976

7 Other assets (continued)

Staff personal loans to terminated employees included under other receivables amounting to RO 170,000 (2008 - RO 152,000) 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 unrecognised banking and administrative service fees of RO 71,000 (2008 - RO 61,000).

8 Customers' deposits

	2009 RO'000	2008 RO'000
Savings accounts	**2,920**	2,840
Term deposits	**9,444**	2,808
	12,364	5,648

Interest rates on savings accounts varied between 1% to 2% (2008 - 1% to 2%) per annum. Interest rates on term deposits varied between 0.85% to 3.75% (2008 – 2.8% to 3.75%) per annum.

9 Loans from the Government

	2009 RO'000	2008 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	**20,000**	20,000
	72,830	72,830

a) Loans 1 and 2 from the Government of the Sultanate of Oman are denominated in Rial Omani and carry interest rates of 5% and 3% (2008 - 5% and 3%) per annum respectively . These loans are repayable in 2011.

b) Loan 3 from the Government of the Sultanate of Oman is denominated in Rial Omani and carries interest rates of 3% (2008 - 3%) per annum also. This loan is repayable in four equal half yearly 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. This is an interest free loan and there are no fixed repayment terms for this loan.

10 Other liabilities

	2009 RO'000	2008 RO'000
Accrued interest	**1,485**	1,480
Retention payable to contractors	**1,786**	1,395
Customers' insurance payable	**667**	693
Sale proceeds for financing new residences	**647**	422
End of service benefits	**102**	98
Other payables	**1,198**	831
	5,885	4,919

10 Other liabilities (continued)

End of service benefits

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

	2009 RO'000	2008 RO'000
1 January	**98**	77
Expense recognised in the statement of comprehensive income	**19**	21
Cash paid to employees	**(15)**	-
31 December	**102**	98

11 Share capital

The share capital of the bank is divided into 30,000,000 (2008 - 30,000,000) fully paid shares of RO 1 each. The shareholding pattern is as follows:

	2009	2008
Government of the Sultanate of Oman	**61.0%**	61.0%
Internal Security Service Pension Fund	**6.5%**	6.5%
Royal Guard of Oman Pension Fund	**6.5%**	6.5%
Ministry of 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%
	100%	100%

12 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.

13 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.

14 Revaluation reserve

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

15 Proposed dividend

A dividend of 8% (2008 - 8%) of share capital has been proposed by the bank's Board of Directors in a meeting dated 25 January 2010 and will be submitted for formal approval at the annual general meeting held on 28 March 2010.

16 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 (2008 - RO 6,000,000) for the year.

17 Other income

	2009 RO'000	2008 RO'000
Fees and commissions	**974**	931
Rental income	**56**	55
Profit on disposal of fixed assets	**-**	10
Miscellaneous income	**11**	14
	1,041	1,010

18 General and administrative expenses

	2009 RO'000	2008 RO'000
Staff expenses	**3,649**	3,400
Legal expenses	**122**	-
Training expenses	**93**	101
Professional fees	**84**	54
Utilities and rent	**71**	71
Maintenance	**68**	77
Communication costs	**56**	59
Travelling expenses	**22**	27
Board of Directors' meeting expenses and sitting fees	**22**	24
Board of Directors' remuneration – proposed	**84**	84
Donations	**10**	1
Miscellaneous expenses	**187**	167
	4,468	4,065

19 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.

	2009	2008
Net profit for the year (RO'000)	**8,853**	8,434
Weighted average number of shares on issue (shares '000)	**30,000**	30,000
Earnings per share (RO) (basic and diluted)	**0.295**	0.281

20 Mortgage loan commitments

	2009 RO'000	2008 RO'000
Mortgage loan accounts - approved but not disbursed	**15,801**	14,481

21 Cash and cash equivalents

	2009 RO'000	2008 RO'000
Cash and balances with banks	**314**	771
Term deposits (note 4)	**14,300**	21,250
	14,614	22,021
Less: Term deposits with a maturity of more than 3 months from the date of placement	**(14,300)**	(20,850)
Cash and cash equivalents	**314**	1,171

22 Related parties

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

(a) Transactions included in statement of comprehensive income are as follows:

	2009 RO'000	2008 RO'000
Government		
Government contribution in administrative fee	**5,071**	4,872
Interest on loans from the Government	**(2,282)**	(2,286)
Directors		
Banking and administrative fees	**1**	1
Key management		
Banking and administrative fees	**51**	26

22 Related parties (continued)

(b) Amount due to/from related parties

	2009 RO'000	2008 RO'000
Government		
Loans from the Government	**(72,830)**	(72,830)
Interest accrued on loans from the Government	**(1,443)**	(1,443)
Receivable against Government contribution in administrative fee	**452**	413
Directors		
Mortgage loan accounts	**10**	11
Key management		
Mortgage loan accounts	**744**	510

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

(c) Compensation of the key management personnel is as follows:

	2009 RO'000	2008 RO'000
Salaries and allowances	**504**	480
Other benefits	**140**	59
	644	539

23 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 bank's capital comprises debts that include borrowings and equity attributable to shareholders, comprising issued capital, reserves and retained earnings in notes 11 to 14.

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 gearin g ratio at the year end was as follows:

23 Capital management (continued)

	2009 RO'000	2008 RO'000
Debt	**72,830**	72,830
Equity	**103,337**	96,884
Net debt to equity ratio	**70%**	75%

- Debt includes loan from Government.

- Equity includes all the capital and reserves of the bank.

Capital adequacy

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

	2009 RO'000	2008 RO'000
Capital base		
Tier 1	**100,748**	94,295
Tier 2	**1,717**	1,554
Total capital base	**102,465**	95,849
Risk weighted assets		
Balance sheet items	**137,399**	124,294
Capital adequacy ratio%	**74.58%**	77.1%

24 Risk management policies

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

- Market risk
- Credit risk
- Liquidity risk

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

24 Risk management policies (continued)

(a) Market risk

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

Interest rate risk

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

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

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

Interest rate risk arises in the bank's core balance sheet as a result of mismatches in the re-pricing of interest rate sensitive financial assets and liabilities. The bank mitigates this risk by matching the tenure of its assets and liabilities by availing long-term funds from its lenders at fixed interest rates. The bank's exposure to interest rate risk is shown in note 25 (a).

(b) Credit risk

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

24 Risk management policies (continued)

(b) Credit risk (continued)

Risk limit control and mitigation policies

The bank addresses credit risk through the following process:

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

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

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

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

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

- Regular review of the loans portfolio to identify any potential risk;
- 98.5% of the loans and advances portfolio are considered to be neither past due nor impaired (2008 – 98.5%);
- Impaired loan assessed on an individual basis amounted to RO 2,277,000 (2008 – RO 2,092,000) which is 1.28% (2008 - 1.32%) of total gross mortgaged loans.

Maximum exposure to credit risk

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

	2009		2008	
	RO'000	**%**	RO'000	%
Balances with banks	**230**	**0.11**	696	0.36
Term deposits	**14,300**	**6.83**	21,250	10.97
Mortgage loan accounts	**177,544**	**84.83**	156,340	80.69
Other assets	**1,419**	**0.67**	976	0.50
Mortgage loan commitments	**15,801**	**7.56**	14,481	7.48
	209,294	**100**	193,743	100

There is no significant credit exposure with any counter party.

24 Risk management policies (continued)

(c) Liquidity risk

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

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

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

The maturity profile of assets and liabilities is set out in note 25 (b).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2009 (cont.)

25 Financial risk management

(a) Interest rate risk

The table below summarises the bank's exposure to interest rate risks. Included in the table are the bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates as on 31 December 2009:

	Interest rate %	Up to 1 month RO'000	1-3 months RO'000	3-6 months RO'000	6-9 months RO'000	9-12 months RO'000	1-3 years RO'000	3-5 years RO'000	More than 5 years RO'000	Non sensitive RO'000	Total RO'000
Assets											
Cash and balances with banks		-	-	-	-	-	-	-	-	314	**314**
Term deposits	3.75 – 6.25	-	7,300	7,000	-	-	-	-	-	-	**14,300**
Mortgage loan accounts	1 – 9	1,898	3,790	5,660	5,670	6,000	43,146	38,374	73,006	-	**177,544**
Property and equipment		-	-	-	-	-	-	-	-	839	**839**
Other assets		-	-	-	-	-	-	-	-	1,419	**1,419**
Total assets		**1,898**	**11,090**	**12,660**	**5,670**	**6,000**	**43,146**	**38,374**	**73,006**	**2,572**	**194,416**
Liabilities and equity											
Customers' deposits	0.85 – 3.75	146	6,852	150	146	2,876	730	730	734	-	**12,364**
Loans from the Government	3 – 5	-	2,000	-	-	-	48,830	2,000	-	20,000	**72,830**
Other liabilities		-	-	-	-	-	-	-	-	5,885	**5,885**
Shareholders' equity		-	-	-	-	-	-	-	-	103,337	**103,337**
Total liabilities and equity		**146**	**8,852**	**150**	**146**	**2,876**	**49,560**	**2,730**	**734**	**129,222**	**194,416**
Interest rate sensitivity gap		**1,752**	**2,238**	**12,510**	**5,524**	**3,124**	**(6,414)**	**35,644**	**72,272**	**(126,650)**	
Cumulative gap		**1,752**	**3,990**	**16,500**	**22,024**	**25,148**	**18,734**	**54,378**	**126,650**		

25 Financial risk management (continued)

(a) Interest rate risk (continued)

The table below summarises the bank's exposure to interest rate risks. Included in the table are the bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates as on 31 December 2008:

	Interest rate %	Up to 1 month RO'000	1-3 months RO'000	3-6 months RO'000	6-9 months RO'000	9-12 months RO'000	1-3 years RO'000	3-5 years RO'000	More than 5 years RO'000	Non sensitive RO'000	Total RO'000
Assets											
Cash and balances with banks		-	-	-	-	-	-	-	-	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)	
Cumulative gap		3,236	10,533	15,097	20,364	25,698	27,086	57,509	119,112		

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2009 (cont.)

25 Financial risk management (continued)

(b) Liquidigty risk (continued)

The amounts disclosed in table below analyses the bank's financial assets and financial liabilities as on 31 December 2009 into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of the discounting is not significant.

	Up to 1 month RO'000	1-3 months RO'000	3-6 months RO'000	6-0 months RO'000	9-12 months RO'000	1-3 years RO'000	3-5 years RO'000	More than 5 years RO'000	Total RO'000
Assets									
Cash and balances with banks	314	-	-	-	-	-	-	-	314
Term deposits	-	7,300	7,000	-	-	-	-	-	14,300
Mortgage loan accounts	1,898	3,790	5,660	5,670	6,000	43,146	38,374	73,006	177,544
Property and equipment	-	-	-	-	-	-	-	839	839
Other assets	452	436	474	25	-	-	-	32	1,419
Total assets	**2,664**	**11,526**	**13,134**	**5,695**	**6,000**	**43,146**	**38,374**	**73,877**	**194,416**
Liabilities and equity									
Customers' deposits	146	6,852	150	146	2,876	730	730	734	12,364
Loans from the Government		2,000				48,830	2,000	20,000	72,830
Other liabilities	2,342	787	89	1,847	682			138	5,885
Shareholders' equity	-	-	2,400	-	-	-	-	100,937	103,337
Total liabilities and equity	**2,488**	**9,639**	**2,639**	**1,993**	**3,558**	**49,560**	**2,730**	**121,809**	**194,416**
Net liquidity gap	**176**	**1,887**	**10,495**	**3,702**	**2,442**	**(6,414)**	**35,644**	**(47,932)**	
Cumulative liquidity gap	**176**	**2,063**	**12,558**	**16,260**	**18,702**	**12,288**	**47,932**		
Liabilities off balance sheet									
Mortgage loan commitments	**-**	**-**	**205**	**-**	**-**	**1,022**	**5,377**	**9,197**	**15,801**
Total equity and liabilities									
(including off balance sheet)	**2,488**	**9,639**	**2,844**	**1,993**	**3,558**	**50,582**	**8,107**	**131,006**	**210,217**
Gap in maturity	**176**	**1,887**	**10,290**	**3,702**	**2,442**	**(7,436)**	**30,267**	**(57,129)**	**(15,801)**
Cumulativew gap in maturity including off-balance sheet items	**176**	**2,063**	**12,353**	**16,055**	**18,497**	**11,061**	**41,328**	**(15,801)**	

25 Financial risk management (continued)

(b) Liquidigty risk (continued)

The amounts disclosed in table below analyses the bank's financial assets and financial liabilities and as on 31 December 2008 into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of the discounting is not significant.

	Up to 1 month RO'000	1-3 months RO'000	3-6 months RO'000	6-0 months RO'000	9-12 months RO'000	1-3 years RO'000	3-5 years RO'000	More than 5 years RO'000	Total RO'000
Assets									
Cash and 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)	
Cumulative liquidity gap	2,975	9,703	11,461	15,333	20,231	21,619	52,042		
Liabilities off balance sheet									
Mortgage loan commitments	-	-	170	-	-	848	4,546	8,917	14,481
Total equity and liabilities (including off balance sheet)	1,689	726	4,689	2,317	1,427	50,388	9,256	124,270	194,762
Gap in maturity	2,975	6,728	1,588	3,872	4,898	540	25,877	(60,959)	(14,481)
Cumulative gap in maturity including off-balance sheet items	2,975	9,703	11,291	15,163	20,061	20,601	46,478	(14,481)	

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.

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

27 Taxation

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

28 Comparative figures

Certain corresponding figures for 2008 have been reclassified in order to conform with the presentation for the current year. Such reclassifications do not affect previously reported net profit or shareholders' equity.

29 Approval of financial statements

The financial statements were approved by the Board of Directors and authorised for issue in their meeting held on 25 January 2010.

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