

Strong foundation  
**SOLID GROWTH**



**Annual Report 2003**  
**Annual Report 2003**



**Oman Housing Bank S.A.O.C.**





His Majesty Sultan Qaboos Bin Said





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## **Bank Branches**

### **Head Office**

Post Box: 2555, Ruwi, Postal code: 112, Sultanate of Oman.  
Telephone: 704444 (10 lines), Telex: 3077 ISKAN ON  
Email: [ohb@i-ohb.com.om](mailto:ohb@i-ohb.com.om)  
Website: [www.i-ohb.com.om](http://www.i-ohb.com.om)

### **Main Branch**

P.O. Box -2555, Postal Code - 112,  
Sultanate of Oman  
Tel: 702887, Telefax: 704060

### **Salalah Branch**

P.O. Box -966, Postal Code - 211,  
Sultanate of Oman  
Tel: 291431, 292337, Telefax: 295652

### **Sohar Branch**

P.O. Box -252, Postal Code - 311,  
Sultanate of Oman  
Tel: 840366, 842366, Telefax: 841366

### **Sur Branch**

P.O. Box -300, Postal Code - 411,  
Sultanate of Oman  
Tel: 440324, 440242, Telefax: 443324

### **Nizwa Branch**

P.O. Box -7111, Postal Code - 611,  
Sultanate of Oman  
Tel: 410375, 410465, Telefax: 410075

### **Khasab Branch**

P.O. Box -28, Postal Code - 811,  
Sultanate of Oman  
Tel: 830448, Telefax: 830449

### **Buraimi Branch**

P.O. Box -370, Postal Code - 512,  
Sultanate of Oman  
Tel: 650706, Telefax: 650707

### **Rustraq Branch**

P.O. Box -222, Postal Code - 318,  
Sultanate of Oman  
Tel: 875800, 875799, Telefax: 878820

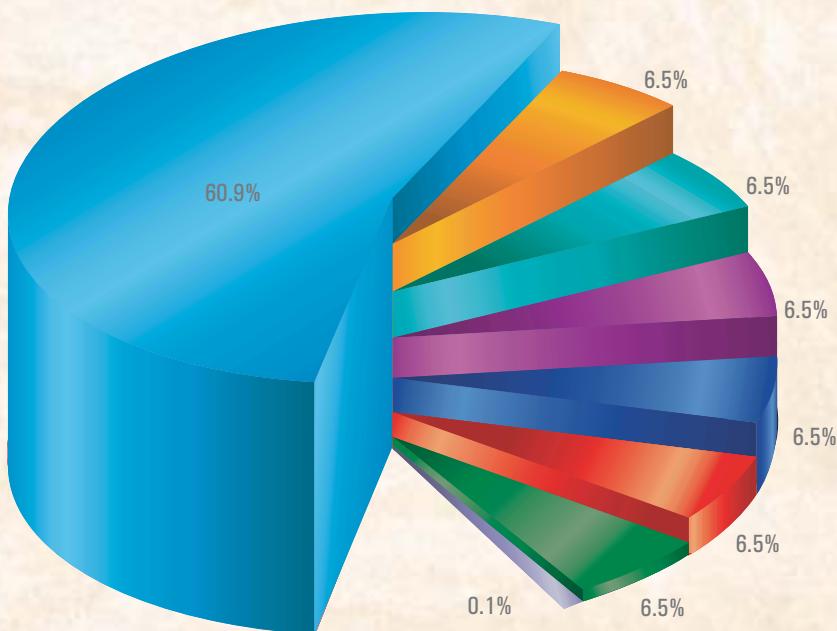
### **Ibra Branch**

P.O. Box -262, Postal Code - 413,  
Sultanate of Oman  
Tel: 470630, 471304, Telefax: 470830



# Stockholders

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



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



Annual General Meeting 2003

## Board of Directors

*Acting Chairman*

**H E Darwish bin Ismail bin Ali Al Bulushi**

*Undersecretary Ministry of Finance*

*Deputy Chairman*

**Mr. Saleh bin Nasser bin Juma Al Araimi**

*Director General of Civil Service Employee Fund*

*Representative of Civil Service Employee Fund*

### M e m b e r s

**Mr. Moh'd Jawad bin Hassan bin Suleiman**

*Director General of General Treasury and Accounts*

*Representative of Ministry of Finances*

**L.T Colonel Ali bin Mohsin Al Shanfari**

*Representative of internal Security services Pension Funds*

**Mr. Sultan bin Moh'd bin Sultan Al Mahrouqi**

*Director General , Administration & Finance Affairs*

*Representative of Ministry of Finances*

**Colonel (P.S.C) Masoud bin Humaid bin Malik Al Harty**

*Director MT, Wksps, Elect & Mech Engineers*

*Representative of Royal Guard of Oman Pension Fund*

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

*Director General of Land & Housing*

*Ministry of Housing, Electricity & Water*

*Representative of Ministry of Finances*

*Secretary*

**Mr. Adnan bin Haider bin Darwish**

*Acting General Manager*

*Auditors*

**Pricewater House Coopers**

*Legal Consultant*

**Abdullah Al Saidi Legal Firm**



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

## Board Report

### Dear Shareholders

It gives me great pleasure to welcome you on behalf of the members of the Board of Directors to the 28th general meeting and to put forward the annual report including the various activities of the bank, final accounts and the auditors' report for the financial year ending 31 Dec 2003.

### 1. Lending Activities

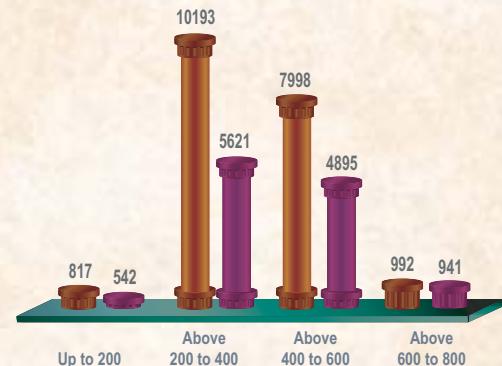
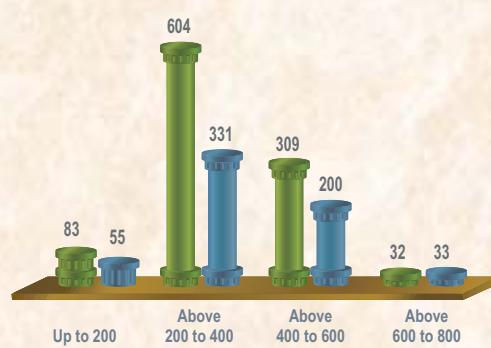
Granting Housing loans is the main activity of the bank in order to provide service to all brackets of the society and create opportunity for a large number of citizens to own a suitable houses for their families though the facilities provided in this area, as well as promoting constructional development throughout the Sultanate.

In order to achieve its objectives the bank continues its journey by granting (619) subsidized loans by fully utilizing subsidized loans reserves for the year 2003 amounting to R.O (12) million, of which (386) loans, amounting to (R.O 6,163,400) representing (62,4%) of the total loans and (51,4%) of their value, were allotted to limited income citizen. In fact, since the bank established till 31 Dec 2003, the bank had granted the limited income sector (22675) loans amounting to (R.O 354,739,429) from the (25320), total approved housing loans amounting to (R.O 417,275,687).



The following table shows the distribution of subsidized loans approved to the different income category borrowers during the years (2002-2003)

Monthly Income RO	Loans approved during 2002				Loans approved during 2003			
	No	%	Amount(RO)	%	No	%	Amount	%
Up to 200	83	8.1	817,400	4	55	8.9	542,400	4.5
Above 200 to 400	604	58.7	10,192,690	51	331	53.5	5,621,000	46.8
Above 400 to 600	309	30.1	7,998,200	40	200	32.3	4,895,300	40.8
Above 600 to 800	32	3.1	991,710	5	33	5.3	941,300	7.9
<b>Total</b>	<b>1028</b>	<b>100</b>	<b>20,000,000</b>	<b>100</b>	<b>619</b>	<b>100</b>	<b>12,000,000</b>	<b>100</b>

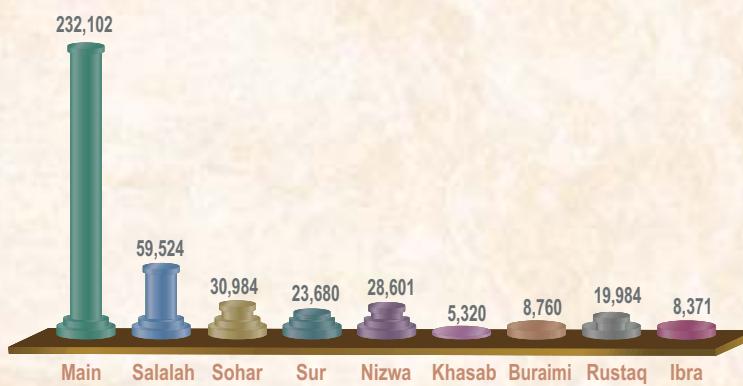


The following table shows the distribution of subsidized loans approved by the bank (branch wise) for various areas within the Sultanate during 2003 and since the establishment of each branch up to the end of 2003.

Branches	Loans approved during 2002				Loans approved during 2003			
	No	%	Amount(RO)	%	No	%	Amount	%
Main	206	33.3	4,463,200	37.2	13417	53,0	232,102,691	55.6
Salalah	55	8.9	1,057,200	8.8	3801	15,0	59,524,551	14.3
Sohar	93	15.0	1,751,500	14.6	2171	8,6	30,984,242	7.4
Sur	42	6.8	809,700	6.8	1586	6,2	23,680,096	5.7
Nizwa	63	10.2	1,118,600	9.3	1789	7,1	28,601,252	6.8
Khasab	30	4.8	409,200	3.4	358	1,4	5,320,900	1.3
Buraimi	16	2.6	326,100	2.7	503	2,0	8,760,155	2.1
Rustaq	80	12.9	1,588,800	13.2	1164	4,6	19,984,700	4.8
Ibra	34	5.5	475,700	4.0	531	2,1	8,317,100	2.0
<b>Total</b>	<b>619</b>	<b>100</b>	<b>12,000,000</b>	<b>100</b>	<b>25320</b>	<b>100</b>	<b>417,275,687</b>	<b>100</b>



The applications received during 2003 for subsidized loans were (1876) amounting to a total of (RO34,792,300) compared to (898) applications at the end of 2002 amounting to a total of (RO 16,879,400).



The following table shows the received loan applications , the primary approvals, cancelled applications and applications on the waiting list from the beginning of the year 2000 to 31/12/2003.

year	2000		2001		2002		2003	
	No	Amount	No	Amount	No	Amount	No	Amount
Applications at the beginning of the year	5886	117,025,800	4798	98,791,700	1455	24,580,500	229	4,219,700
Applications received during the year	439	8,262,400	351	6,729,700	898	16,879,400	1876	34,792,300
Approved loans	845	12,000,000	1438	24,000,000	1082	20,000,000	619	12,000,000
Cancelled applications	672	14,496,500	2256	56,940,900	1096	17,240,200	218	3,409,900
Applications at the end of the year	4798	98,791,700	1455	24,580,500	229	4,219,700	1268	23,602,100



The above table shows that after it took a loan application to be in the waiting list for (8) years at the beginning of the year 2000, the bank was able to process all applications except those dropped by applicants and therefore it was cancelled. Thanks to the additional support from the government which amount to (RO 20) millions. This has helped in minimizing the waiting list period to around (6) months at the beginning of the year 2003. However, due to large interest in the subsidized loans, the number and value of the received applications have increased during 2003 reaching (1876) applications amounting to a total of (RO 34,792,300). On the other hand, the total number of application received during the previous three years (2000 - 2002) was (1688) amounting to a total of (RO 31,871,500). Hence, the value of the applications received during the year 2003 is more than the value of the total applications received during the previous three years. This situation has created a pressure on the bank. As per the volume of the resources available to the bank and in line with its lending plan, the waiting list period has reached now around two years. We always seek to support the financial resources of the bank in order to enable it to meet the requirement of the citizens within a suitable timeframe.

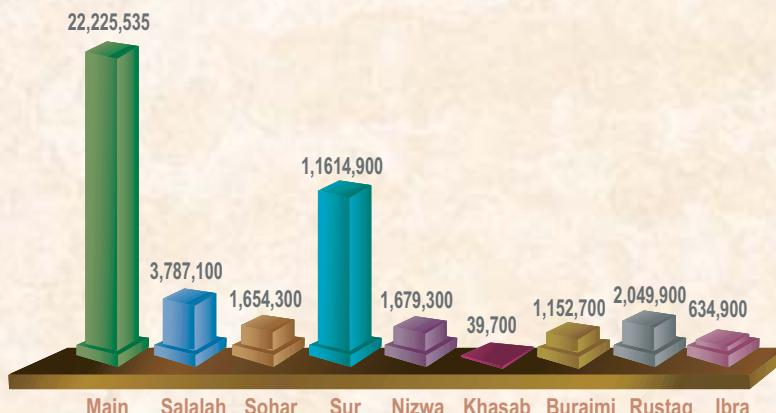
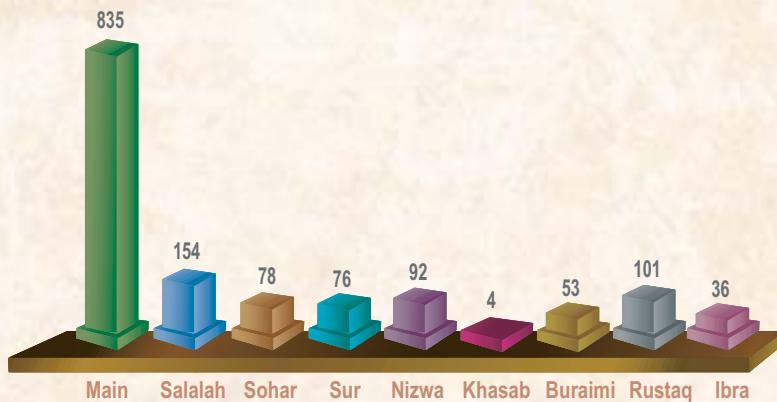




During the year 2003, the bank approved (151) applications for unsubsidized loans amounting to (R.O 3,591,800) out of (R.O 6 million) reserve allotted for this purpose. Therefore, the total approved applications for unsubsidized loans reaches (1429) amounting to RO. 34,838,335.

*The following table shows unsubsidized loans approved by the bank during 2003 and also those approved from 1/1/1993, when the system was established, to the end of 2003*

Branches	Loans approved				Loans approved from			
	during 200			31/1/1993 to the end of 2003				
	No	%	Amount(RO)	%	No	%	Amount	%
Main	79	52.3	2,298,800	64.0	835	58.4	22,225,535	63.8
Salalah	27	17.9	563,000	15.7	154	10.8	3,787,100	10.9
Sohar	7	4.6	63,800	1.7	78	5.5	1,654,300	4.8
Sur	12	7.9	146,100	4.1	76	5.3	1,1614,900	4.6
Nizwa	6	4.0	116,500	3.2	92	6.4	1,679,300	4.8
Khasab	3	2.0	20,400	0.6	4	0.3	39,700	0.1
Buraimi	5	3.3	109,800	3.1	53	3.7	1,152,700	3.3
Rustaq	11	7.3	263,900	7.3	101	7.1	2,049,900	5.9
Ibra	1	0.7	10,500	0.3	36	2.5	634,900	1.8
<b>Total</b>	<b>151</b>	<b>100</b>	<b>3,591,800</b>	<b>100</b>	<b>1429</b>	<b>100</b>	<b>34,838,335</b>	<b>100</b>





## 2- Financial Position

### 1) Assets:

The assets of the bank were (RO172, 159,148) by 31/12/2003 compared to (RO 162,822,317) by the end of the year 2002 with an increase of (RO 9,336,831) or (5.7%). The increase of the assets attributed to the increase in the total balance of the mortgage loan accounts during 2003 by RO (9,454,619) to reach (RO170,240,324) compared to (RO 160,785,705) by the end of the year 2002.

### 2) Liabilities:

The total liabilities of the bank has reached (RO 103,427,976) by 31/12/2003 compare to (RO 99,858,727) by the end of the year 2002 by an increase amounting to (RO 3,569,249) or (3.6 %). The increase was mainly concentrated on the increase of the level of the net borrowing from banks. In 2003, the total shareholders equity has reached (RO 68,731,172) compared to (RO 62,963,950) in 2002. The increase is attributed to the increase in reserves and retained earnings.

### 3) Profits:

Thanks to the balanced policies, the total net profit achieved for the year 2003 amount (RO 8,167,582) compared to (RO 7,048,863) by the end of the year 2002 with increase of (RO1,118,719) or (15.9%). Therefore, the percent of return on paid up capital has increased from (23.5%) to (27.3 %).

In view of these good results, the Board of Directors recommended the distribution of the profits as follows:

- ◆ The transfer of (RO 816,758), representing (10%) of the net profits for the year 2003, to the legal reserve.
- ◆ To distribute (RO 2,400,000), representing (8%) of the paid up capital, as cash profits to the shareholders.
- ◆ To transfer the balance profit of (RO 4,950,824) i.e. 50% to special reserve and as retained earnings.

The following table shows the growing assets of the bank, mortgage accounts and net profits during the last five years from 1999 to 2003.





Year	Assets	Mortgage Accounts
1999	170,932,467	167,274,835
2000	165,005,004	162,112,555
2001	165,020,376	158,794,651
2002	162,822,317	160,785,705
2003	172,159,148	170,240,324

Year	Net Profit of the Bank
1999	2,026,158
2000	1,289,466
2001	3,769,379
2002	7,048,863
2003	8,167,582



### 3) Recruitment and Training

The management of the bank made their best endeavours to improve the competence of Omani staff through training in order to raise their capabilities to the expected level. To that end, the bank continues to sponsor staff to obtain professional degrees in (Accounting and Computing). Many training courses were prepared and executed at the training centre of the bank. The bank also arranged training courses for the staff in different institution locally and abroad in order to continue its pioneering role to achieve the noble objective of the Government and contribute to increasing the number of qualified and highly trained people. During the year (109) staff joined (92) training courses in all aspects related to the activities of the bank.





The bank gives vital importance to Omanization by recruiting Omanis and qualify them. The percentage of Omanization has reached 97% of the total manpower amounting to (265) people. The bank was considered as being one of the highly Omanized financial institution in the country.

## 4) Computer System Development

The efforts of the bank have kept pace with the development in technology in order to improve its activities in applied systems, instruments or communication network between branches to reach a stage where we established a high quality and secured database using state of the art technology to serve the current and future requirements of the bank.



*Citrix Implementation Agreement*

In this area, the project of upgrading the computer network was completed by connecting branches with each other. The Emergency Centre project is in progress and it contains almost all the components of the network at the Head office.





The new network, therefore, will enable the bank to execute some of the important project under process such as upgrading the central servers and its operating systems, installation of e-mail system, commissioning of customer signature system between the administration and branches installation of Intranet to facilitate flow of information as well as provide access to the World Wide Web (Internet).

## 5) Construction of Sohar Branch Building

As part of 2004 plan the construction project of Sohar branch building will be executed and will be equipped with the latest technical specifications.



In view of the above, it's clear that the main factor for improving the positions of the bank as well as achieving this good result is an outcome of the continued support from the Government in order to enable the bank to meet the housing needs of the citizens.

Another factor is the policy drawn by the Board of Directors during the year to optimize the available financial resources and implemented by the executive administration through rationalization of expenditure and enhancing internal control in terms of quantity and quality and improving the way service is render, production competence, sound procedures to collect the installations of the housing loans which will allow the bank to reinvest such fund and simplify procedures to provide a better service to citizens.

The board of directors takes this opportunity to thank His Majesty Sultan Qaboos bin Said for his valuable directives and support to the bank, future vision and clearly the ambitions of the citizens and while wishing him well, also commit our institution to the highest standards of corporate citizenship.

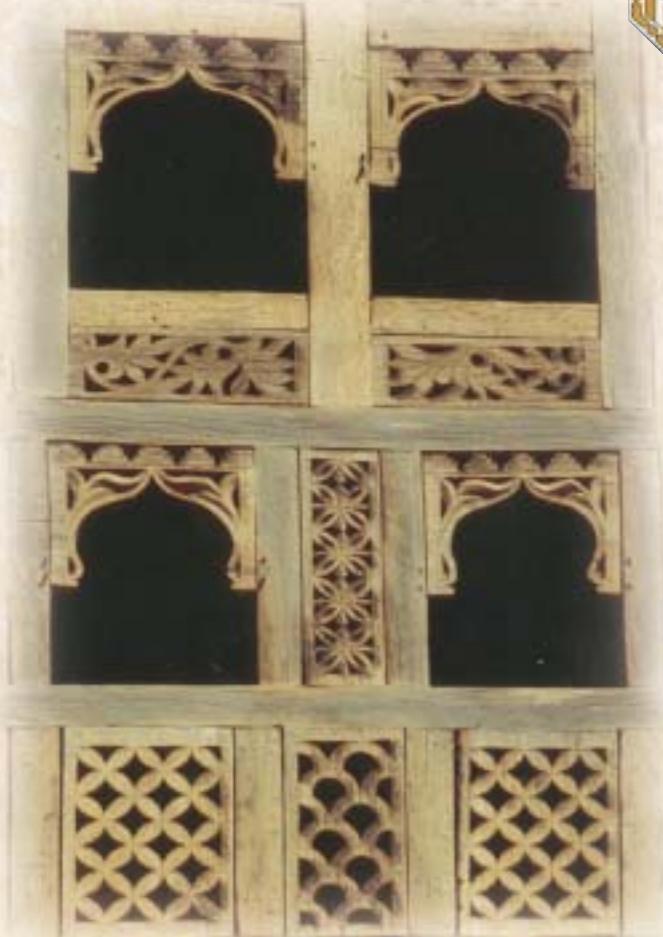


I would also take this chance to convey the appreciation of the Board of Directors to all those participating in developing our country and to thank in particular our government represented in the Ministry of Finance and the Central Bank of Oman and all other government and private sector institutions for their true cooperation with the bank to achieve its objective commitments to serve better all the citizens of our beloved country Oman.

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

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

### **Board of Directors**



**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2003**

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بنك الإسكان العمالي

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

We have audited the accompanying balance sheet of Oman Housing Bank (SAOC) (the Bank) as at 31 December 2003 and the related income statement and cash flow statement for the year then ended. These financial statements set out on pages 17 to 36 are the responsibility of the Bank's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of Oman Housing Bank (SAOC) as at 31 December 2003 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.





## **INCOME STATEMENT**

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### **FOR THE YEAR ENDED 31 DECEMBER 2003**

	Note	2003 RO	2002 RO
<b>REVENUE</b>			
Banking and administrative service fees on mortgage accounts		<b>6,792,814</b>	6,161,562
Government subsidy	2	<b>6,000,000</b>	6,500,000
Interest on short term deposits		<b>1,187</b>	7,641
Other income	3	<b>1,095,006</b>	934,157
Provision for impairment of loan written back	8 (a)	<b>232,193</b>	100,154
<b>Total revenue</b>		<b>14,121,200</b>	13,703,514
<b>EXPENSES</b>			
Interest on customers' deposits and due to banks		<b>168,449</b>	132,926
Interest on term loans		<b>386,378</b>	1,064,731
Interest on loans from the Government		<b>2,787,934</b>	2,833,642
Release of deferred income	16	<b>(746,427)</b>	<b>(792,135)</b>
		<b>2,041,507</b>	2,041,507
General and administrative expenses	4	<b>2,952,133</b>	2,815,681
Provisions for impairment of loans	8 (a)	<b>161,641</b>	358,395
Staff housing loan interest expenses		<b>74,026</b>	73,451
Bad debt write off		<b>5,426</b>	1,792
Depreciation		<b>164,058</b>	166,168
<b>Total expenses</b>		<b>(5,953,618)</b>	<b>(6,654,651)</b>
<b>Net profit for the year</b>	6	<b>8,167,582</b>	7,048,863
<b>Earnings per share</b>	7	<b>0.273</b>	0.235

The accounting policies and notes on pages 24 to 37 form an integral part of these financial statements.

Report of the Auditors - page 19.



## BALANCE SHEET AT 31 DECEMBER 2003

	Note	2003 RO	2002 RO
<b>ASSETS</b>			
Cash on hand and at banks		<b>395,981</b>	436,956
Mortgage loan accounts	8	<b>170,240,324</b>	160,785,705
Fixed assets	9	<b>1,096,824</b>	1,112,437
Other assets	10	<b>426,019</b>	487,219
<b>Total assets</b>		<b>172,159,148</b>	162,822,317
<b>LIABILITIES</b>			
Due to other banks	11	<b>10,700,000</b>	4,600,000
Customers' deposits	12	<b>6,594,975</b>	6,407,119
Term loans from banks and financial institutions	13	<b>16,423,725</b>	25,426,572
Loans from the Government	14	<b>57,637,107</b>	50,890,679
Other liabilities	15	<b>4,879,134</b>	4,594,895
Deferred income	16	<b>7,193,035</b>	7,939,462
<b>Total liabilities</b>		<b>103,427,976</b>	99,858,727
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	17	<b>30,000,000</b>	30,000,000
Legal reserve	18	<b>7,149,474</b>	6,332,716
Special reserve	19	<b>24,530,098</b>	22,054,686
Capital reserve	20	<b>204,200</b>	204,200
Proposed dividend	21	<b>2,400,000</b>	2,400,000
Retained earnings		<b>4,447,400</b>	1,971,988
<b>Total shareholders' equity</b>		<b>68,731,172</b>	62,963,590
<b>Total equity and liabilities</b>		<b>172,159,148</b>	162,822,317

The financial statements on page 2 to 19 were approved by the Board of Directors on 4 April 2004 and were signed on their behalf by:

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

ADNAN BIN HAIDER BIN DARWISH  
ACTING GENERAL MANAGER

The accounting policies and notes on pages 24 to 37 form an integral part of these financial statements.

Report of the Auditors - page 19.



## STATEMENT OF CHANGES IN EQUITY

### FOR THE YEAR ENDED 31 DECEMBER 2003

	Share capital	Legal reserve	Special reserve	Capital reserve	Proposed dividend	Retained earnings	Total
<b>Balance at 1 January 2002</b>	30,000,000	5,627,830	20,082,697	204,200	2,400,000	-	58,314,727
Dividend paid for 2001	-	-	-	-	(2,400,000)	-	(2,400,000)
Net profit for the year	-	-	-	-	-	7,048,863	7,048,863
Transfer to legal reserve (note 18)	-	704,886	-	-	-	(704,886)	-
Transfer to special reserve (note 19)	-	-	1,971,989	-	-	(1,971,989)	-
Proposed dividend for 2002 (note 21)	-	-	-	-	2,400,000	(2,400,000)	-
<b>Balance at 31 December 2002</b>	<b>30,000,000</b>	<b>6,332,716</b>	<b>22,054,686</b>	<b>204,200</b>	<b>2,400,000</b>	<b>1,971,988</b>	<b>62,963,590</b>
<b>Balance at 1 January 2003</b>	<b>30,000,000</b>	<b>6,332,716</b>	<b>22,054,686</b>	<b>204,200</b>	<b>2,400,000</b>	<b>1,971,988</b>	<b>62,963,590</b>
Dividend paid for 2002	-	-	-	-	(2,400,000)	-	(2,400,000)
Net profit for the year	-	-	-	-	-	8,167,582	8,167,582
Transfer to legal reserve (note 18)	-	816,758	-	-	-	(816,758)	-
Transfer to special reserve (note 19)	-	-	2,475,412	-	-	(2,475,412)	-
Proposed dividend for 2003 (note 21)	-	-	-	-	2,400,000	(2,400,000)	-
<b>Balance at 31 December 2003</b>	<b>30,000,000</b>	<b>7,149,474</b>	<b>24,530,098</b>	<b>204,200</b>	<b>2,400,000</b>	<b>4,447,400</b>	<b>68,731,172</b>

The accounting policies and notes on pages 24 to 37 form an integral part of these financial statements.

Report of the Auditors - page 19.



## CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003 RO	2002 RO
<b>Operating activities</b>			
Net profit for the year	8,167,582	7,048,863	
<b>Adjustments for:</b>			
Depreciation	164,058	166,168	
Profit on disposal of fixed assets	(190)	(841)	
Provision for impairment of loans written back	(232,193)	(100,154)	
Provision for impairment of loans	161,641	358,395	
Write back of provision against staff loans and other assets	(7,762)	(5,235)	
<b>Operating profit before changes in operating assets and liabilities</b>	<b>8,253,136</b>	<b>7,467,196</b>	
<b>Changes in operating assets and liabilities</b>			
Mortgage loan accounts	(9,384,067)	(2,249,295)	
Other assets	68,963	(52,692)	
Customers' deposits	187,856	118,265	
Term loans from banks and financial institutions	(9,002,847)	(13,857,938)	
Loans from the Government	6,000,000	2,000,000	
Other liabilities	284,239	292,751	
<b>Net cash used in operating activities</b>	<b>(3,592,720)</b>	<b>(6,281,713)</b>	
<b>Investing activities</b>			
Purchase of fixed assets	(151,233)	(52,193)	
Proceeds from disposal of fixed assets	2,978	1,714	
<b>Net cash used in investing activities</b>	<b>(148,255)</b>	<b>(50,479)</b>	
<b>Financing activities</b>			
Dividend paid	(2,400,000)	(2,400,000)	
<b>Net cash used in financing activities</b>	<b>(2,400,000)</b>	<b>(2,400,000)</b>	
<b>Net change in cash and cash equivalents</b>	<b>(6,140,975)</b>	<b>(8,732,192)</b>	
<b>Cash and cash equivalents at beginning of year</b>	<b>(4,163,044)</b>	<b>4,569,148</b>	
<b>Cash and cash equivalents at end of year</b>	<b>23</b>	<b>(10,304,019)</b>	<b>(4,163,044)</b>

The accounting policies and notes on pages 24 to 37 form an integral part of these financial statements.

Report of the Auditors - page 19.



# STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

## Basis of presentation

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

The principal accounting policies are set out below.

## Recognition of banking and administrative fees on mortgage accounts

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

## Recognition of interest income and expense

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

## Recognition of fees and commission

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

## Recognition of Government subsidy

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

## Mortgage loan accounts

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

Provisions for loan impairment comprise only specific provisions. A loan impairment provision is established if there is objective evidence that the Bank will not be able to collect any of the amounts due. The amount of provision is the difference between the carrying amount and recoverable amount, being the present value of expected cash flows, including amounts recoverable from collateral, discounted based at inception interest rates.

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

All mortgaged loans are recognised when disbursed.

## Fixed assets

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

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



# STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

(continued)

Land is not depreciated as it has an indefinite life.

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

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

## Other liabilities

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

## End of service benefits and leave entitlements

End of service benefits are accrued in accordance with the terms of employment of the Bank's non Omani employees at the balance sheet date, having regard to the requirements of the Oman Labour Law 1973 and its amendments. Payment is made to the Public Authority for Social Insurance under the Royal Decree 71/91 for Omani employees. Employee entitlements to annual leave are recognised when they accrue to employees and an accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

## Foreign currencies

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

## Cash equivalents

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

## Loans from the Government and deferred income

Transfers from the Government are stated at the amortised cost being the aggregate of the loan repayments discounted at the market rate prevailing for similar loans on the date the loans were received ("the commercial rate"). The difference between the amortised cost and the carrying amount is treated as a Government grant in accordance with IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance and is included in liabilities as deferred income.

The interest expense appearing in the income statement in respect of these loans is based upon the commercial rate. The deferred income balance will be credited to the income statement over the remaining repayment period of the loan. The release from deferred income is calculated in such a way that the net of the interest expense and the deferred income release equates to the interest payable under the terms of the loan agreement.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 (continued)

### 1 Legal status and principal activities

Oman Housing Bank (SAOC) ("the Bank") was established as a closely held joint stock company in the Sultanate of Oman under the terms of Royal Decree No. 51/77. The principal activity of the Bank is to provide residential housing loans to Omani nationals through a network of branches in the Sultanate of Oman.

### 2 Government subsidy

In accordance with Article 6 of Royal Decree No. 51/77, borrowers are charged a proportion of the prevailing total rate of banking and administrative service fees, determined in accordance with their monthly income. The Government of the Sultanate of Oman bears the difference between the prevailing total rate of banking and administrative service fees and the reduced rate of banking and administrative service fees, up to a ceiling of RO 6 million for the year ended 31 December 2003 (2002 - RO 6.5 million). The full amount of subsidy would have been RO 7,145,383 for the year ended 31 December 2003 (2002 - RO 7,043,695) had there not been a cap of RO 6 million (2002 - RO 6.5 million).

### 3 Other income

	2003 RO	2002 RO
Fees and commissions	1,017,199	854,864
Agency commissions	2,674	3,097
Rental income	56,945	60,000
Profit on disposal of fixed assets	190	841
Miscellaneous income	17,998	15,355
	1,095,006	934,157

### 4 General and administrative expenses

	2003 RO	2002 RO
Staff costs (note 5)	2,488,059	2,362,962
Professional fees	53,623	88,276
Communication costs	58,871	59,940
Utilities and rent	63,507	57,387
Maintenance	47,245	21,219
Board of directors' meeting attendance fees	21,051	30,807
Board of directors remuneration - proposed (note 24d)	40,000	40,000
Training expenses	59,337	50,531
Travelling expenses	25,668	22,903
Other administrative expenses	83,214	81,656
Software license fees	11,558	-
	2,952,133	2,815,681



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 (continued)

### 5 Staff costs

	2003 RO	2002 RO
Salary and allowances	2,281,746	2,188,522
End of service benefits	8,636	7,915
Social security costs	111,129	107,011
Other costs	86,548	59,514
	<b>2,488,059</b>	<b>2,362,962</b>

	2003	2002
Actual number of persons employed by the Bank at the year end	265	266

### 6 Taxation

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

### 7 Earnings per share

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

	2003	2002
Net profit for the year	8,167,582	7,048,863
Weighted average number of shares	30,000,000	30,000,000
<b>Basic earnings per share</b>	<b>0.273</b>	<b>0.235</b>

### 8 Mortgage loan accounts

	2003 RO	2002 RO
Gross mortgage loan accounts, as at 1 January	161,731,109	159,418,685
Loans disbursed during the year	28,770,470	20,885,350
Principal repayments during the year	(19,329,332)	(18,572,926)
Gross mortgage loan accounts as at 31 December	171,172,247	161,731,109
Provision for impairment (note 8a)	(625,157)	(699,772)
Reserved banking and administrative service fees (note 8b)	(306,766)	(245,632)
<b>Net mortgage loan accounts as at 31 December</b>	<b>170,240,324</b>	<b>160,785,705</b>



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 (continued)

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

	2003 RO	2002 RO
Balance as at 1 January	699,772	447,696
Provision made during the year	161,641	358,395
Provision written off during the year	(4,063)	(6,165)
Provision written back during the year	(232,193)	(100,154)
<b>Balance as at 31 December</b>	<b>625,157</b>	<b>699,772</b>

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

	2003 RO	2002 RO
Balance as at 1 January	245,632	176,338
Reserved during the year	166,671	101,687
Written off during the year	(4,718)	(1,647)
Written back during the year	(100,819)	(30,746)
<b>Balance as at 31 December</b>	<b>306,766</b>	<b>245,632</b>

c) At 31 December 2003, mortgage loan accounts on which banking and administrative service fees have been reserved amounted to RO 2,377,093 (2002 - RO 2,598,468).

d) At 31 December 2003 provisions for impairment represent 30% (2002 - 30%) of gross non-performing mortgage loan accounts net of reserved banking and administrative service fees.

e) The banking and administrative service fees rates varied from 1% and 10% (2002 - between 1% and 10%) per annum, with a corresponding subsidy received from the Government of Sultanate of Oman ranging up to 9% per annum.

f) The mortgage loan accounts are in respect of loans granted in the Sultanate of Oman to Omani individuals.

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



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 (continued)

### 9 Fixed assets

*Figures are in Rials Omani*

	Land and buildings	Furniture, fixtures and equipment	Other equipment	Motor vehicles	Capital work in progress	Total
<b>Cost</b>						
1 January 2003	1,815,892	1,113,347	810,716	191,617	-	3,931,572
Additions	-	26,120	45,433	-	79,680	151,233
Disposals	-	(14,666)	(11,495)	-	-	(26,161)
<b>31 December 2003</b>	<b>1,815,892</b>	<b>1,124,801</b>	<b>844,654</b>	<b>191,617</b>	<b>79,680</b>	<b>4,056,644</b>
<b>Depreciation</b>						
1 January 2003	925,657	1,085,393	640,306	167,779	-	2,819,135
Charge for the year	60,823	13,578	80,622	9,035	-	164,058
Disposals	-	(13,800)	(9,573)	-	-	(23,373)
<b>31 December 2003</b>	<b>986,480</b>	<b>1,085,171</b>	<b>711,355</b>	<b>176,814</b>	<b>-</b>	<b>2,959,820</b>
<b>Net book value</b>						
<b>31 December 2003</b>	<b>829,412</b>	<b>39,630</b>	<b>133,299</b>	<b>14,803</b>	<b>79,680</b>	<b>1,096,824</b>
31 December 2002	890,235	27,954	170,410	23,838	-	1,112,437

Included in land and building above a land valued at RO 204,200 (Note 20).

### 10 Other assets

	2003 RO	2002 RO
Prepaid expenses	23,693	23,502
Staff personal loans	38,870	94,823
Other receivables	337,043	346,484
Stationery inventory	26,413	22,410
	<b>426,019</b>	<b>487,219</b>

Staff personal loans are loans given to employees at an interest rate of 4% per annum. These loans have maturity periods of five years from the date of disbursement. The staff personal loans are net of provisions for doubtful loans and reserved interest of RO 63,619 (2002 - RO 79,046). Other receivables are net of provisions for doubtful receivables and reserved interest of RO 24,882 (2002 - RO 27,300).

### 11 Due to other banks

Due to other banks at 31 December 2003 comprises Rials Omani short term loan from a commercial bank in the Sultanate of Oman carrying interest rate of between 0.7 and 0.8% per annum and having a maturity period of less than three months from the date of acquisition.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 (continued)

### 12 Customers' deposits

	2003 RO	2002 RO
Savings accounts	3,005,091	2,821,504
Term deposits	3,589,884	3,585,615
	6,594,975	6,407,119

Interest rates on savings accounts varied between 1% and 2% (2002 - 1% and 2%) per annum. Interest rates on term deposits varied between 0.5% and 1.5% (2002 - 2% and 4%) per annum. All customers are based in the Sultanate of Oman. Customers' deposits include deposits denominated in US dollars with an equivalent Rial Omani value of RO 1,725,866 (2002 - RO 1,718,333). All other deposits are denominated in Rials Omani.

### 13 Term loans from banks and financial institutions

At 31 December 2003, the entire amount of loans represented borrowings in US Dollars (2002 - RO 23,784,029) from financial institutions situated in Bahrain. Interest rates on these loans are at a fixed margin over the prevalent London Inter Bank Offered Rate ("LIBOR") on date of renewal.

### 14 Loans from the Government

	2003 RO	2002 RO
Loans from the Government - 1	34,830,142	34,830,141
Loan from the Government - 2	10,000,000	10,000,000
Subordinated loan	20,000,000	14,000,000
Total loan from the Government	64,830,142	58,830,141
Less: Deferred income	(7,193,035)	(7,939,462)
	57,637,107	50,890,679

- 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% respectively (2002 - 5% and 3%) per annum. These loans are repayable in 2011.
  
- b) During 2001, the Government of the Sultanate of Oman approved a subordinated loan of RO 20,000,000 to the Bank, of which RO 12,000,000 was disbursed during year 2001 and RO 2,000,000 was distributed during 2002 and the balance of RO 6,000,000 was disbursed in 2003.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 (continued)

### 15 Other liabilities

	2003 RO	2002 RO
Accrued interest	1,357,940	1,423,991
Customers' insurance payable	1,136,572	1,198,289
Retention payable to contractors	1,271,105	985,903
End of service benefits	54,938	46,301
Others	1,058,579	940,411
	4,879,134	4,594,895

### 16 Deferred income

This relates to the Government grant associated with the interest benefit on the loans from the Government provided at subsidised interest rates that are lower than estimated market levels for loans with terms which are otherwise similar. The movement during the year is as follows:

	2003 RO	2002 RO
Recognised at the beginning of the year	7,939,462	8,731,597
Transferred to income statement	(746,427)	(792,135)
Balance at the end of the year	7,193,035	7,939,462

### 17 Share capital

The share capital of the Bank comprises 30,000,000 (2002 - 30,000,000) shares of RO 1 each fully paid. The shareholders of the Bank are as follows:

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

### 18 Legal reserve

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



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 (continued)

### 19 Special reserve

In accordance with the Articles of Association of the Bank, after appropriation of legal reserve, an amount to be determined by the Board of Directors is transferred to special reserve. This deduction may be stopped if the accumulated balance reaches 25% of the Bank's paid up capital. This reserve may be utilised to cover written off debts.

### 20 Capital reserve

This reserve represents the value of land in note 9 which given by the Government of the Sultanate of Oman free of cost and the value of which was, estimated during 2001, by independent professional valuers in the Sultanate of Oman. This reserve is not available for distribution.

### 21 Proposed dividend

As per the Articles of Association of the Bank, a minimum dividend of six percent of share capital should be paid to the shareholders. Further, in the event of insufficient profits being available to meet the minimum dividend requirement, the deficit is recoverable from Government of the Sultanate of Oman. As the net profit for the year after transfers to legal reserve has exceeded the minimum dividend, there is no amount recoverable from the Government of the Sultanate of Oman. A dividend of eight percent of the share capital has been proposed by the bank's Board of Directors and will be submitted for formal approval at the Annual General Meeting. The financial statements reflect the proposed dividend accounted for in equity as an appropriation of retained earnings.

### 22 Commitments

	2003 RO	2002 RO
Mortgage accounts finally approved but not disbursed	10,128,275	11,898,682
Mortgage accounts primarily approved but not disbursed	1,987,600	13,804,000
	12,115,875	25,702,682

### 23 Cash and cash equivalents

	2003 RO	2002 RO
Cash on hand and at banks	395,981	436,956
Due to other banks	(10,700,000)	(4,600,000)
	(10,304,019)	(4,163,044)



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 (continued)

### 24 Related party transactions

- a) In accordance with IAS 24 the Government of the Sultanate of Oman is not a related party for the purposes of this note.
- b) The Bank enters into transactions in the ordinary course of business with certain of its shareholders and concerns in which they have a significant influence. These transactions are entered into on terms which the Bank considers correspond to terms on normal arm's length transactions with third parties. The nature of significant related party transactions during the year were as follows:

	2003 RO	2002 RO
Interest on term loans	5,738	126,487

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

	2003 RO	2002 RO
Term loans from the Public Authority of Social Insurance	-	1,642,543
Mortgage loan accounts	58,486	82,566

- d) Proposed Board of Directors remuneration of RO 40,000 (2002 - RO 40,000) will be submitted for formal approval at the Annual General Meeting in April 2004.

### 25 Assets and liabilities analysis

- a) The maturity profile of assets and liabilities determined on the basis of the period remaining to maturity as at 31 December 2003 is as set out below.

	Figures are in Rials Omani				
	Total	Less than three months	Three months to one year	One year to five years	More than five years
<b>Assets</b>					
Cash on hand and at banks	395,981	395,981	-	-	-
Mortgage loan accounts	170,240,324	5,686,979	14,850,726	75,610,171	74,092,448
Fixed assets	1,096,824	-	-	-	1,096,824
Other assets	426,019	7,905	383,614	34,500	-
<b>Total assets</b>	<b>172,159,148</b>	<b>6,090,865</b>	<b>15,234,340</b>	<b>75,644,671</b>	<b>75,189,272</b>
<b>Liabilities</b>					
Due to other banks	10,700,000	10,700,000	-	-	-
Customers' deposits	6,594,975	689,793	5,905,182	-	-
Term loans	16,423,725	-	7,357,778	9,065,947	-
Loans from the Government	57,637,107	-	-	-	57,637,107
Other liabilities	4,879,134	1,705,444	3,078,049	54,938	40,703
Deferred income	7,193,035	-	806,141	5,107,651	1,279,243
Shareholders' equity	68,731,172	-	2,400,000	-	66,331,172
<b>Total liabilities and equity</b>	<b>172,159,148</b>	<b>13,095,237</b>	<b>19,547,150</b>	<b>14,228,536</b>	<b>125,288,225</b>
<b>Net liquidity gap</b>	<b>-</b>	<b>(7,004,372)</b>	<b>(4,312,810)</b>	<b>61,416,135</b>	<b>(50,098,953)</b>



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 (continued)

b) Liabilities denominated in foreign currencies consist of US dollar term loans (note 13) and accrued interest on these loans which amounted in total to the equivalent of RO 16,441,197 as at 31 December 2003 (2002 - RO 23,812,668) and customers' deposits equivalent of RO 1,743,339 (2002 - RO 1,721,988). All other assets are denominated in Rial Omani.

c) The banking and administrative service fees on mortgage accounts can be varied as required by the Bank. For other interest bearing assets and liabilities, in general interest rate re-pricing can only occur on maturity, as summarised in (a) above.

d) The maturity profile of assets and liabilities determined on the basis of the period remaining to maturity as at 31 December 2002 was as follows:

Figures are in Rials Omani

	Total	Less than three months	Three months to one year	One year to five years	More than five years
<b>Assets</b>					
Cash on hand and at banks	436,956	436,956	-	-	-
Mortgage loan accounts	160,785,705	5,312,747	13,947,139	71,103,095	70,422,724
Fixed assets	1,112,437	-	-	-	1,112,437
Other assets	487,219	67,879	391,182	28,158	-
<b>Total assets</b>	<b>162,822,317</b>	<b>5,817,582</b>	<b>14,338,321</b>	<b>71,131,253</b>	<b>71,535,161</b>
<b>Liabilities</b>					
Due to other banks	4,600,000	4,600,000	-	-	-
Customers' deposits	6,407,119	3,103,891	3,303,228	-	-
Term loans	25,426,572	1,642,543	7,357,778	16,426,251	-
Loans from the Government	50,890,679	-	-	-	50,890,679
Other liabilities	4,594,895	1,894,149	2,613,508	46,301	40,937
Deferred income	7,939,462	-	746,427	3,632,561	3,560,474
Shareholders' equity	62,963,590	-	2,400,000	-	60,563,590
<b>Total liabilities and equity</b>	<b>162,822,317</b>	<b>11,240,583</b>	<b>16,420,941</b>	<b>20,105,113</b>	<b>115,055,680</b>
<b>Net liquidity gap</b>	<b>-</b>	<b>(5,423,001)</b>	<b>(2,082,620)</b>	<b>51,026,140</b>	<b>(43,520,519)</b>



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 (continued)

### 26 Interest rate re-pricing analysis

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

*Figures are in Rials Omani*

	Effective interest rate%	Less than three months	Three months to one year	One year to five years	More than five years	Non-interest sensitive	Total
<b>Assets</b>							
Cash on hand and at banks	NA	-	-	-	-	395,981	395,981
Mortgaged loan accounts	1-10	5,686,979	14,850,726	75,610,171	74,092,448	-	170,240,324
Fixed assets	NA	-	-	-	-	1,096,824	1,096,824
Other assets	4	7,650	31,219	-	-	387,150	426,019
<b>Total</b>		5,694,629	14,881,945	75,610,171	74,092,448	1,879,955	172,159,148
<b>Liabilities</b>							
Due to other banks	0.8	10,700,000	-	-	-	-	10,700,000
Customers' deposits	1 - 2	689,793	5,905,182	-	-	-	6,594,975
Term loans	1.9 - 5.7	-	7,357,778	9,065,947	-	-	16,423,725
Government loans	3 - 5	-	-	-	37,637,107	20,000,000	57,637,107
Other liabilities	NA	-	-	-	-	4,879,134	4,879,134
Deferred income	3 - 5	-	-	806,141	5,107,651	1,279,243	7,193,035
Shareholders' equity	NA	-	-	-	-	68,731,172	68,731,172
<b>Total</b>		11,389,793	13,262,960	9,872,088	42,744,758	94,889,549	172,159,148



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 (continued)

### 26 Interest rate re-pricing analysis (continued)

The interest rate re-pricing analysis as at 31 December 2002 was as follows:

*Figures are in Rials Omani*

	Effective interest rate%	Less than three months	Three months to one year	One year to five years	More than five years	Non-interest sensitive	Total
<b>Assets</b>							
Cash on hand and at banks	NA	-	-	-	-	-	436,956
Mortgaged loan accounts	1-10	5,312,747	13,947,139	71,103,095	70,422,724	-	160,785,705
Fixed assets	NA	-	-	-	-	-	1,112,437
Other assets	4	12,961	144,643	16,262	-	313,353	487,219
<b>Total</b>		5,325,708	14,091,782	71,119,357	70,422,724	1,862,746	162,822,317
<b>Liabilities</b>							
Due to other banks	0.57	4,600,000	-	-	-	-	4,600,000
Customers' deposits	1 - 3.5	3,103,891	3,303,228	-	-	-	6,407,119
Term loans	1.9 - 5.7	1,642,543	7,357,778	16,426,251	-	-	25,426,572
Government loans	3 - 5	-	-	-	36,890,679	-	50,890,679
Other liabilities	NA	-	-	-	-	4,594,895	4,594,895
Deferred income	3 - 5	-	746,427	3,632,561	3,560,474	-	7,939,462
Shareholders' equity	NA	-	-	-	-	62,963,590	62,963,590
<b>Total</b>		9,346,434	11,407,433	20,058,812	40,451,153	81,558,485	162,822,317



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003 (continued)

### 27 Financial instruments and fair value information

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

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

#### **Short term financial instruments**

The carrying amount of cash on hand and at banks, due from other banks and the short term financial instruments recognised in the balance sheet under other assets and other liabilities were considered to be a reasonable estimate of the fair value due to their short term nature.

#### **Mortgage loan accounts**

The mortgage loan accounts are expected to run to maturity. It is not practicable to determine the fair value of mortgage accounts as the subsidy received from the Government of Sultanate of Oman is capped at an amount that is determined by the Government annually. Consequently it is not feasible to assess the total return from these accounts for future periods.

#### **Customers' deposits**

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

#### **Term loans from banks**

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

#### **Loans from the Government**

The fair values of loans 1 and 2 (see note 14 a) from the Government were estimated using the interest rates offered for loans with similar terms and conditions. No fair value can be determined for the subordinated loan in the absence of a repayment schedule.

### 28 Segmental information

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



## RISK MANAGEMENT STATEMENT

Activities undertaken by the Bank are exposed to risk. The Bank continuously reviews its policies and internal control systems in order to ensure they include all reasonable procedures, to minimise the risks as much as possible.

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

### Credit risk

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

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

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

### Liquidity risk

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

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

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

### Interest rate risk

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

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