

**MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK
DHO FAR SAOG**

Financial statements

31 December 2014

Registered office and principal place of business:

Head office, Ground Floor, Al Sahwa Tower – 1
P.O. Box 1792
PC 130
Azaiba, Muscat
Sultanate of Oman

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

Financial statements

For the period ended 31 December 2014

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**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
Bank Dhofar SAOG (the "Bank")**

We have audited the accompanying statement of financial position of Maisarah Islamic Banking Services (the "Islamic Window") as of 31 December 2014, and the related statements of income, changes in owners' equity, statement of sources and uses of charity fund and statement of cash flows for the year then ended 31 December 2014, and a summary of significant accounting policies and other explanatory information. These financial statements and the Bank's undertaking to operate its Islamic Window in accordance with Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Islamic Window as of 31 December 2014, the results of its operations, changes in owner's equity, sources and uses of charity fund and cash flows for the year then ended 31 December 2014 in accordance with the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Islamic Window and the Financial Accounting Standards issued by AAOIFI.

Other matter

The financial statements of the Islamic Window for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those statements on 29 January 2014.

[Date]
Muscat

MAISARAH ISLAMIC BANKING SERVICES

Statement of Financial Position

As on 31 December 2014

	<i>Note</i>	2014 <i>RO</i>	2013 <i>RO</i>
Assets			
Cash and balances with Central Bank of Oman	5	44,510,564	3,028,809
Due from banks and financial institutions	6	207,421	7,700,000
Murabaha receivables – net	7	20,312,099	231,824
Mudaraba financing – net	8	2,256,171	-
Diminishing Musharaka financing	9	79,859,504	10,324,786
Financial assets at fair value through equity	10	10,197,500	10,000,000
Ijarah Muntahia Bittamleek – net	11	29,112,978	17,425,991
Property and equipment – net	12	1,056,561	1,077,812
Other assets	13	4,280,023	230,096
Total assets		191,792,821	50,019,318
Liabilities, equity of unrestricted investment account holders and owners' equity			
Liabilities			
Due to Head office and other banks	14	48,100,000	30,200,000
Qard Hasan from Head office	15	17,215,732	3,287,038
Customer Wakala deposits		72,725,000	-
Current accounts		14,897,238	2,542,147
Other liabilities	16	6,399,523	2,557,371
Total liabilities		159,337,493	38,586,556
Equity of unrestricted investment account holders	17	9,230,128	1,135,145
Owners' equity			
Capital	18	25,000,000	12,500,000
Reserves		197,500	-
Accumulated losses		(1,972,300)	(2,202,383)
Total owners' equity		23,225,200	10,297,617
Total liabilities, equity of unrestricted investment account holders and owners' equity		191,792,821	50,019,318
Contingent liabilities	25	16,204,593	2,989,910

The financial statements were approved by the Board of Directors on 27 January 2015 and signed on its behalf by:

Chairman

Chief Islamic Banking Officer

The notes on pages 7 to 36 form an integral part of these financial statements.

The independent auditor's report is set forth on page 1.

MAISARAH ISLAMIC BANKING SERVICES

Income Statement

For the year ended 31 December 2014

	Note	2014	2013
Income			RO
Income of investment and financings	20	4,060,080	240,988
Income on Wakala placements		71,850	34,441
		4,131,930	275,429
Less:			
Return on unrestricted investment account holders		(25,514)	(4,590)
Return on customer Wakala deposits		(262,669)	
Return on interbank Wakala deposit		(128,535)	(10,639)
		(416,718)	(15,229)
Maisarah's share in income from investment as a Mudarib and Rabul Maal		3,715,212	260,200
Revenue from banking services		556,039	92,837
Foreign exchange gain – net		24,798	266
Total revenue		4,296,049	353,303
Pre-operating expenses	21	-	(495,517)
Staff costs	22	(1,900,479)	(1,058,132)
General and administrative expenses	23	(758,539)	(597,919)
Impairment allowance	7,8,9 & 11	(1,208,326)	(285,259)
Depreciation and amortization	12	(198,622)	(118,859)
Total expenses		(4,065,966)	(2,555,686)
Net profit / (loss) for the period before taxation		230,083	(2,202,383)

The notes on pages 7 to 36 form an integral part of these financial statements.

The independent auditor's report is set forth on page 1.

* 2013 is first year of operation of the Window, accordingly, the comparative financial information included in financial statements cover the period from 3 March 2013 to 31 December 2013

MAISARAH ISLAMIC BANKING SERVICES
Statement of changes in owners' equity
For the year ended 31 December 2014

	31 December 2014			
	Capital RO	Investment Revaluation Reserve RO	Accumulated losses RO	Total RO
Balance at 1 January 2014	12,500,000	-	(2,202,383)	10,297,617
Addition of capital during the year	12,500,000	-	-	12,500,000
Cumulative changes in fair value Investment	-	197,500	-	197,500
Net profit for the period	-	-	230,083	230,083
Balance as at 31 December 2014	25,000,000	197,500	(1,972,300)	23,225,200

	31 December 2013			
	Capital RO	Investment Revaluation Reserve RO	Accumulated losses RO	Total RO
Capital	12,500,000	-	-	12,500,000
Net (loss) for the period	-	-	(2,202,383)	(2,202,383)
Balance as at 31 December 2013	12,500,000	-	(2,202,383)	10,297,617

The notes on pages 7 to 36 form an integral part of these financial statements.

The independent auditors' report is set forth on page 1.

MAISARAH ISLAMIC BANKING SERVICES**Statement of sources and uses of charity fund***For the year ended 31 December 2014*

	2014	2013
	RO	RO
Sources of charity funds		
Undistributed charity funds at beginning of the year	-	-
Sharia Non-compliant income	56	-
Donations	-	-
Total sources of funds during the year	<u>56</u>	<u>-</u>
Uses of charity funds		
University and school students	-	-
Philanthropic societies	-	-
Aid to needy families	-	-
Total uses of funds during the year	<u>-</u>	<u>-</u>
Undistributed charity funds at end of the year	<u>56</u>	<u>-</u>

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MAISARAH ISLAMIC BANKING SERVICES
Statement of cash flows
For the year ended 31 December 2014

	2014	2013
	<i>RO</i>	<i>RO</i>
Cash flows from operating activities		
Net profit/(loss) for the period before taxation	230,083	(2,202,383)
Adjustments for:		
Depreciation and amortization	198,622	118,859
Depreciation on Ijarah assets	1,185,393	334,478
Impairment allowance	1,208,326	285,259
Investment risk reserve	76	14
Profit equalization reserve	255	45
Cash flows used in operating activities before changes in operating assets and liabilities	2,822,755	(1,463,728)
Operating assets and liabilities:		
Murabaha receivables	(20,324,415)	(237,294)
Ijarah Muntahia Bittamleek assets	(14,040,871)	(17,999,158)
Proceeds from sale in Ijarah Muntahia Bittamleek assets	1,006,135	59,331
Diminishing Musharaka financing	(70,308,199)	(10,425,217)
Mudaraba financing	(2,284,519)	-
Other asset	(103,848)	(153,540)
Other liabilities	(273,641)	2,557,371
Qard Hasan from Head Office	13,765,287	2,013,811
Net cash used in operating activities	(89,741,316)	(25,648,424)
Cash flows from investing activities		
Purchase of financial asset at fair value through equity	-	(10,000,000)
Net cash used in investing activities	-	(10,000,000)
Cash flows from financing activities		
Current account	12,355,091	2,542,147
Customer Wakala deposit	72,725,000	-
Margin accounts	155,748	-
Unrestricted investment account holders	8,094,653	1,135,086
Capital	12,500,000	12,500,000
Net cash from financing activities	105,830,492	16,177,233
Cash and cash equivalents during the period	16,089,176	(19,471,191)
Cash and cash equivalents at the beginning of the period	(19,471,191)	-
Cash and cash equivalents at the end of the period	(3,382,015)	(19,471,191)
Cash and cash equivalents at the end of the period comprise:		
Cash and balances with CBO	44,510,564	3,028,809
Due from banks and financial institutions	207,421	7,700,000
Due to Head office and other banks	(48,100,000)	(30,200,000)
	(3,382,015)	(19,471,191)

The notes on pages 7 to 36 form an integral part of these financial statements.

The independent auditor's report is set forth on page 1.

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Notes to the financial statements

For the year ended 31 December 2014

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Maisarah Islamic Banking Services (“Maisarah”) was established in Sultanate of Oman as window of Bank Dhofar SAOG. Maisarah’s operations commenced on 3 March 2013 and it currently operates through 3 branches in the Sultanate under the license issued by the Central Bank of Oman on 27 February 2013.

The principle activities of Maisarah is taking demand, saving and deposit accounts, providing Murabaha finance, Ijarah financing and other Shari’a compliant forms of financing as well as managing investor’s money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities.

Maisarah’s activities are regulated by the Central Bank of Oman (“CBO”) and supervised by Shari’a Supervisory Board (“SSB”) comprising of five members.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements of Maisarah Islamic Banking Services are prepared in accordance with the Financial Accounting Standards (“FAS”) issued by the Accounting and Auditing Organization for Financial Institutions (“AAOIFI”), the Shari’a rules and principles as determined by the SSB of Maisarah and the applicable laws and regulations issued by the CBO.

Maisarah complies with the requirements of AAOIFI, for matters for which no AAOIFI standards exist, Maisarah uses the relevant International Financial Reporting Standards (“IFRS”) or International Accounting Standards (“IAS”) as issued by International Accounting Standards Board (“IASB”).

Statement of changes in restricted investment amount, statement of sources of funds in zakah and statement of sources and uses of funds in Qard Fund have not been presented as these are not applicable / relevant to Maisarah’s operations.

2.2 Basis of measurement

The financial statements are prepared on a historical cost basis, except for certain investments carried at fair value.

2.3 Functional and presentation currency

Items included in Maisarah’s financial statements are measured using Rials Omani (“RO”) which is the currency of the primary economic environment in which Maisarah operates, rounded off to the nearest Rial Omani.

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements

For the year ended 31 December 2014

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with AAOIFI and IFRS requires management to make judgments, estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in note 4.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set below have been consistently applied in dealing with items that are considered material in relation to Maisarah's financial statements to the period presented.

3.1 Foreign currency translations

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in income statement.

3.2 Investments

Equity and debt type instruments at fair value through equity

This includes all equity and debt type instruments that are not fair valued through income statement. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owners' equity and equity of unrestricted investment account holders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity or equity of investment accountholders is recognised in income statement.

3.3 De-recognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or part of a group of similar assets) is derecognized when:

- (i) the right to receive cash flows from the asset has expired;
- (ii) Maisarah has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements

For the year ended 31 December 2014

3.3 De-recognition of financial assets and liabilities (continued)

A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

3.4 Fair value measurement principles

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), Maisarah establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions.

3.5 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash on hand, non-restricted cash deposited with the Central Bank of Oman, amounts due to / from other banks including nostro accounts.

3.6 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously in accordance with Shari'a principles and guidelines.

Income and expenses are presented on a net basis only for permitted transactions.

3.7 Murabaha receivables

Murabaha receivables are stated net of deferred profits and provisions for impairment.

3.8 Mudaraba and Musharaka investments

Mudaraba and Musharaka investments are stated at the fair value less provision for impairment.

3.9 Ijarah Muntahia Bittamleek assets

Ijarah Muntahia Bittamleek assets are initially recorded at cost. Ijarah Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijarah (lease term), provided that all Ijarah instalments are settled.

Depreciation will be calculated as per Equal Monthly Instalment (EMI) method as per the terms agreed with customer.

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Notes to the financial statements

For the year ended 31 December 2014

3.10 Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment loss. Depreciation is calculated so as to write off the cost of property and equipment, other than freehold land and capital work-in-progress, by equal installments over their estimated economic useful lives from the date the asset is brought into use, as follows:

	<i>Years</i>
Furniture, fixtures and equipment	3 - 7
Motor vehicles	3 - 5
Computer equipment	4
Core banking system	10

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to income statement when the expense is incurred. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognized in income statement as an expense when incurred.

3.11 Equity of unrestricted investment accountholders

All unrestricted investment accounts are carried at cost plus profit and related reserves less amounts settled.

Unrestricted investment account holders' share of income is calculated based on the income generated from investment accounts after deducting Mudarib's share. Operating expenses are charged to shareholders' funds and not included in the calculation.

The basis applied by Maisarah in arriving at the unrestricted investment account holders' share of income is total income from jointly financed Islamic assets less shareholders' income. Pre-agreed profit share generated from unrestricted investment account holders is deducted as Mudarib's share after deducting profit equalisation reserve and the remaining amount is distributed to the unrestricted investment account holders after deducting investment risk reserve.

3.12 Profit equalisation reserve

Maisarah appropriates certain amount in excess of the profit to be distributed to unrestricted investment accounts before taking into consideration the Mudarib share of income. This will be used to maintain a certain level of return on investment for unrestricted investment account holders.

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Notes to the financial statements

For the year ended 31 December 2014

3.13 Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of unrestricted investment account holders, after allocating the Mudarib's share, to cater against future losses for unrestricted investment account holders.

3.14 Provisions

A provision is recognised in the statement of financial position when Maisarah has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated.

3.15 Earnings prohibited by Shari'a

All the funds mobilized and income earned by Maisarah is from Islamic sources. Maisarah is committed to avoid recognizing any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where Maisarah uses these funds for social welfare activities. It includes but not limited to cases/transactions classified by Shari'a as non-compliant income and approved by the SSB to be forfeited, interest paid by other banks on Nostro accounts, late payment fee received from the customer in financing and investment transaction.

3.16 Zakah

The responsibility of payment of zakah is on individual shareholders and investment account holders.

3.17 Joint and self-financed

Investments, financing and receivables that are jointly owned by Maisarah and the unrestricted investment accounts holders are classified under the caption "jointly financed" in the financial statements. Investments, financing and receivables that are financed solely by Maisarah are classified under "self-financed".

3.18 Funds for Maisarah

Maisarah functions with funds specifically available for Islamic Banking activities and there is no commingling of funds with conventional banking financial business.

3.19 Revenue recognition

3.19.1 Murabaha receivables

Where the income is quantifiable and contractually determined at the commencement of the contract, income is recognized on a time-apportioned basis over the period of the contract based on the principal amounts outstanding. Where the income from a contract is not quantifiable, it is recognized when realized. Income related to non-performing accounts is excluded from income statement.

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements

For the year ended 31 December 2014

3.19 Revenue recognition (continued)

3.19.2 Musharaka investments

Income is recognised when the right to receive payment is established or on distribution by the Musharik, whereas the losses are charged to income on their declaration by the Musharik. Income related to non-performing accounts is excluded from income statement.

3.19.3 Mudaraba investments

Income on Mudaraba financing is recognised when the right to receive payment is established or on distribution by the Mudarib, whereas the losses are charged to income on declaration by the Mudarib. Income related to non-performing accounts is excluded from income statement.

3.19.4 Ijarah Muntahia Bittamleek

Income from Ijarah Muntahia Bittamleek assets is recognised on a time-apportioned basis over the lease term, net of depreciation. Income related to non-performing Ijarah Muntahia Bittamleek assets is excluded from income statement.

3.19.5 Dividends

Dividends are recognised when the right to receive payment is established.

3.19.6 Fee and Commission income

Fee and commission income is recognised when earned.

3.19.7 Maisarah's share as a Mudarib

Maisarah's share as a Mudarib for managing unrestricted investment accounts is accrued based on the terms and conditions of the related Mudaraba agreements.

3.19.8 Income allocation

Income from jointly financed activities is allocated proportionately between unrestricted investment accounts in accordance to their pre-agreed assigned weightages and shareholders on the basis of the average balances outstanding during the year.

3.20 Taxation

Maisarah is Islamic Banking Window of Bank Dhofar SAOG, hence it is not taxable on a stand-alone basis as per the prevailing tax laws. Accordingly, no current tax and deferred tax has been accounted for in these financial statements.

Bank Dhofar SAOG is taxable on combined results i.e. including Maisarah's financial results, accounted for as per IFRS.

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Notes to the financial statements

For the year ended 31 December 2014

3.21 Employee benefits

End of service benefits are accrued in accordance with the terms of employment of Maisarah's employees at the reporting date, having regard to the requirements of the Oman Labour Law. Employee entitlements to annual leave and leave passage are recognized when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date.

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 and its subsequent amendments are recognized as an expense in income statement as incurred.

3.22 Shari'a supervisory board

All business activities, products, transactions, agreements, contracts and other relevant documents are subject to the supervision of the Shari'a Supervisory Board of Maisarah, which meets quarterly and consists of five prominent Shari'a scholars appointed by the Shareholders for a period of three years, namely:

Sr. No.	Name	Title
1	Sheikh Dr. Salim Bin Ali Bin Ahmed Al Dhahab	Chairman
2	Sheikh Dr. Mohammed bin Ali bin Mahmoud Al Lawati	Member
3	Sheikh Ahmed bin Awadh bin Abdul-Rahman Al-Hassaan	Member
4	Sheikh Dr. Abdullah bin Mubarak Al Abri	Member
5	Sheikh Dr. Mohammad Ameen Ali Qattan	Member

3.23 Trade date accounting

All "regular way" purchases and sales of financial assets are recognized on the trade date, i.e. that date Maisarah commits to purchase or sell the assets. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or convention in the market place.

3.24 Segment reporting

A segment is a distinguishable component of Maisarah that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Maisarah currently operates only in the Sultanate of Oman. Maisarah's primary format for reporting segmental information is business segments, based upon management and internal reporting structure. Maisarah's main business segments are retail banking, corporate banking, treasury and investments.

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Notes to the financial statements

For the year ended 31 December 2014

3.25 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of Maisarah in the statement of financial position.

4 Critical accounting judgment and key sources of estimation uncertainty

(a) Impairment

Management reviews its financing portfolio to assess impairment at each reporting date. In determining whether an impairment loss should be recorded in the income statement, management makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of finances before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers in a group that correlates with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Useful life of property and equipment and Ijarah Muntahia Bittamleek

Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates. Maisarah prospectively adopted EMI method as set out in note 3.9 for estimating depreciation on Ijarah Muntahia Bittamleek assets during 2014.

5 Cash and balances with Central Bank of Oman

	2014	2013
	<i>RO</i>	RO
Cash in hand	507,828	269,584
Balances with Central Bank of Oman	44,002,736	2,759,225
	<u>44,510,564</u>	<u>3,028,809</u>

6 Due from banks and financial institutions

	Self-Financed	2014 Jointly Financed	Total
Wakala placement	-	-	-
Current clearing account	207,421	-	207,421
	<u>207,421</u>	<u>-</u>	<u>207,421</u>

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Notes to the financial statements

For the year ended 31 December 2014

6 Due from banks and financial institutions (continued)

	2013			
	Self Financed	Self- Financed	Jointly Financed	Total
Wakala placement	7,621,617		78,383	7,700,000
Current clearing account		-	-	-
	<u>7,621,617</u>		<u>78,383</u>	<u>7,700,000</u>

7 Murabaha receivables – net

	2014		
	Self- Financed RO	Jointly Financed RO	Total RO
Gross Murabaha receivables	20,752,347	205,304	20,957,651
Less: Unearned income	(392,063)	(3,879)	(395,942)
	<u>20,360,284</u>	<u>201,425</u>	<u>20,561,709</u>
Less: impairment allowance	(247,165)	(2,445)	(249,610)
	<u>20,113,119</u>	<u>198,980</u>	<u>20,312,099</u>

	2013		
	Self- Financed RO	Jointly Financed RO	Total RO
Gross Murabaha receivables	270,730	2,784	273,514
Less: Unearned income	(35,851)	(369)	(36,220)
	<u>234,879</u>	<u>2,415</u>	<u>237,294</u>
Less: impairment allowance	(5,414)	(56)	(5,470)
	<u>229,465</u>	<u>2,359</u>	<u>231,824</u>

8 Mudaraba financing – net

	2014		
	Self – Financed RO	Jointly Financed RO	Total RO
Mudaraba financing	2,262,140	22,379	2,284,519
Less: impairment allowance	(28,070)	(278)	(28,348)
	<u>2,234,070</u>	<u>22,101</u>	<u>2,256,171</u>

During 2013, Mudaraba financing portfolio was RO Nil.

Mudaraba financing past due but not impaired amounts to RO Nil (2013: Nil).

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Notes to the financial statements

For the year ended 31 December 2014

9 Diminishing Musharaka financing - net

	Self – Financed RO	2014 Jointly Financed RO	Total RO
Diminishing Musharaka	79,942,540	790,876	80,733,416
Less: impairment allowance	(865,351)	(8,561)	(873,912)
	<u>79,077,189</u>	<u>782,315</u>	<u>79,859,504</u>

	Self – Financed RO	2013 Jointly Financed RO	Total RO
Diminishing Musharaka	10,319,093	106,124	10,425,217
Less: impairment allowance	(99,409)	(1,022)	(100,431)
	<u>10,219,684</u>	<u>105,102</u>	<u>10,324,786</u>

Fair value of collaterals

Upon initial recognition of Diminishing Musharaka, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

10 Financial asset at fair value through equity

	Self- Financed RO	2014 Jointly Financed RO	Total RO
Local un-listed sukuk	10,097,604	99,896	10,197,500
	<u>10,097,604</u>	<u>99,896</u>	<u>10,197,500</u>
	Self- Financed RO	2013 Jointly Financed RO	Total RO
Local un-listed sukuk	9,898,204	101,796	10,000,000
	<u>9,898,204</u>	<u>101,796</u>	<u>10,000,000</u>

Maisarah has invested RO 10 million in Ijarah Sukuk issued by Modern Sukuk SAOC. At 31 December 2014, the market value of the Sukuk was RO 1.975 per unit (2013: RO Nil).

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11 Ijarah Muntahia Bittamleek – net

	Self- Financed RO	2014 Jointly Financed RO	Total RO
<i>Cost</i>			
At 1 January	4,813,734	13,125,424	17,939,158
Additions	13,903,325	137,546	14,040,871
Disposals	(1,266,801)	(12,533)	(1,279,334)
At 31 December	17,450,258	13,250,437	30,700,695
<i>Accumulated depreciation</i>			
At 1 January	89,573	244,236	333,809
Charge for the period	1,173,781	11,612	1,185,393
Disposals	(270,523)	(2,676)	(273,199)
At 31 December	992,831	253,172	1,246,003
Net book value at 31 December	16,457,427	12,997,265	29,454,692
Less: impairment allowance	(338,367)	(3,347)	(341,714)
Net Ijarah Muntahia Bittamleek	16,119,060	12,993,918	29,112,978
	Self- Financed RO	2013 Jointly Financed RO	Total RO
<i>Cost</i>			
Additions	17,815,933	183,225	17,999,158
Disposals	(59,389)	(611)	(60,000)
At 31 December	17,756,544	182,614	17,939,158
<i>Accumulated depreciation</i>			
Charge for the period	331,073	3,405	334,478
Disposals	(662)	(7)	(669)
At 31 December	330,411	3,398	333,809
Net book value at 31 December	17,426,133	179,216	17,605,349
Less: impairment allowance	(177,532)	(1,826)	(179,358)
Net Ijarah Muntahia Bittamleek	17,248,601	177,390	17,425,991
Ijarah Muntahia Bittamleek past due but not impaired is as follows:			
	2014	2013	
Past due up to 30 days	-	673,526	
Past due 30 – 60 days	-	25,195	
Total	-	698,721	

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For the year ended 31 December 2014

12 Property and equipment – net

	2014				Total RO
	Furniture , fixtures & equipment RO	Motor vehicles RO	Computer equipment RO	Capital work in progress RO	
	<i>Cost</i>				
At 1 January	191,935	18,100	971,325	15,311	1,196,671
Additions	93,782	9,652	66,280	29,875	199,589
Disposals / Transfers	(2,992)			(20,328)	(23,320)
At 31 December	<u>282,725</u>	<u>27,752</u>	<u>1,037,605</u>	<u>24,858</u>	<u>1,372,940</u>
<i>Accumulated depreciation</i>					
At 1 January	(28,927)	(4,199)	(85,733)	-	(118,859)
Provided during the year	(57,691)	(8,184)	(132,747)	-	(198,622)
Reversal of depreciation	1,102	-	-	-	1,102
At 31 December	<u>(85,516)</u>	<u>(12,383)</u>	<u>(218,480)</u>	<u>-</u>	<u>(316,379)</u>
Net book value at 31 December	197,209	15,369	819,125	24,858	1,056,561

	2013				Total RO
	Furniture , fixtures & equipment RO	Motor vehicles RO	Computer equipment RO	Capital work in progress RO	
	<i>Cost</i>				
Additions	191,935	18,100	971,325	15,311	1,196,671
At 31 December	<u>191,935</u>	<u>18,100</u>	<u>971,325</u>	<u>15,311</u>	<u>1,196,671</u>
<i>Accumulated depreciation</i>					
Provided during the period	(28,927)	(4,199)	(85,733)	-	(118,859)
At 31 December	<u>(28,927)</u>	<u>(4,199)</u>	<u>(85,733)</u>	<u>-</u>	<u>(118,859)</u>
Net book value at 31 December	163,008	13,901	885,592	15,311	1,077,812

13 Other assets

	2014	2013
	RO	RO
Ijarah rental receivables	20,558	12,561
Other profit receivables	220,633	121,141
Prepayments	62,592	73,108
Others	16,197	23,286
Acceptances	3,960,043	-
Total	<u>4,280,023</u>	<u>230,096</u>

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For the year ended 31 December 2014

14 Due to Head office and other banks

	2014	2013
	<i>RO</i>	<i>RO</i>
Due to Head office	25,000,000	22,500,000
Due to other banks	23,100,000	7,700,000
Total	48,100,000	30,200,000

Due to Head office and other banks comprises of Wakala deposits.

15 Qard Hasan from Head Office

	2014	2013
	<i>RO</i>	<i>RO</i>
Qard e Hasan from Head Office (15.1)	5,732,877	3,287,038
Current clearing account (15.2)	11,482,855	-
Total	17,215,732	3,287,038

15.1 This amount represents profit-free Qard Hasan facility from Head Office to meet Maisarah's capital and operating expenditures.

15.2 This amount represents the vostro account of parent bank opened with Maisarah.

16 Other liabilities

	2014	2013
	<i>RO</i>	<i>RO</i>
Payables	1,474,233	2,361,438
Accrued expenses	519,156	186,840
Profit payables	287,885	9,093
Margins received	155,748	-
Others	2,402	-
Charity Payable	56	-
Acceptances contra	3,960,043	-
Total	6,399,523	2,557,371

17 Equity of unrestricted investment accountholders

	2014	2013
	<i>RO</i>	<i>RO</i>
Saving account	9,156,444	1,117,586
Term deposit	73,295	17,500
Profit Equalisation reserve	300	45
Investment Risk Reserve	89	14
Total	9,230,128	1,135,145

There is no restricted investment at reporting date.

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For the year ended 31 December 2014

17 Equity of unrestricted investment accountholders (continued)

Basis of distribution of the profit between owners' equity and unrestricted investment accountholders

The investment profits are distributed between owners' equity and unrestricted investment account holders for the period ended 31 December 2014 and 2013 as follows:

	<u>Percentage</u>
Unrestricted investment account holders share	60%
Mudarib' s share	40%

The investment risk reserve is deducted from investment account holders share after allocating the Mudarib' s share of profit as per the approved policy in order to cater against future losses of equity of unrestricted investment account holders. Investment risk reserve will revert to the investment account holders as per terms and conditions of Mudaraba contract.

The profit equalization reserve is the amount Maisarah appropriates in excess of the profit to be distributed to equity of unrestricted account holders before allocating the Mudarib share of income to maintain a certain level of return. Profit equalization reserve will revert to owner's equity and unrestricted investment accountholders as per terms and condition of Mudaraba contract. Unrestricted investment account holders funds are commingled with Maisarah's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits. The administration expenses are only charged on the Maisarah expenses.

18 Capital

During 2014, Head office has increased the assigned capital to RO 25 million (2013: RO 12.5 million) to Maisarah from the core paid up capital of the shareholders.

19 Fiduciary assets

There were no funds under management with Maisarah (2013: RO Nil).

20 Income of investment and financings

	2014	2013
	RO	RO
Murabaha receivables	322,421	5,673
Mudaraba	83,190	-
Ijarah muntahia bittamleek - net*	1,133,463	91,914
Diminishing Musharaka	2,014,062	55,901
Profit on financial assets at fair value through equity	506,944	87,500
Total	<u>4,060,080</u>	<u>240,988</u>

* Depreciation on Ijarah Muntahia Bitamleek amounts to RO 927,674 (2013: RO 334,478).

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21 Pre-operating expenses

	2014	2013
	RO	RO
Staff cost	-	238,814
General administration cost	-	188,127
Others	-	68,576
Total	-	495,517

22 Staff costs

	2014	2013
	RO	RO
Salaries and allowances	1,662,969	981,984
Other personnel cost	214,193	73,535
Non-Omani employee terminal benefit	23,317	2,613
Total	1,900,479	1,058,132

23 General and administrative expenses

	2014	2013
	RO	RO
Occupancy cost	251,417	190,464
Operating and administration cost	507,122	407,455
Total	758,539	597,919

24 Related parties transactions

In the ordinary course of business, Maisarah conducts transactions with certain of its Directors, members of Shari'a Supervisory Board, shareholders and companies over which they are able to exert significant influence. The aggregate amounts of balances with such related parties are as follows:

	2014	2013
	RO	RO
Finances		
Directors, members of Sharia Supervisory Board and shareholders holding interest in the Bank	330,654	-
Deposits and other accounts		
Directors, members of Sharia Supervisory Board and shareholders holding interest in the Bank	7,018,923	-

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For the year ended 31 December 2014

24 Related parties transactions (continued)

	2014	2013
	RO	RO
Remuneration paid to Directors & Sharia Supervisor		
Chairman		
– remuneration proposed	6,000	6,000
– sitting fees paid	2,800	4,800
Other Members		
– remuneration proposed	16,000	12,000
– sitting fees paid	7,500	9,300
Other transactions		
Rental payment to a related party	34,560	69,120
Other transactions	-	-
Key management compensation		
Salaries and other benefits	103,348	139,944
End of service benefits	2,741	2,087

25 Contingent liabilities and commitments**(a) Credit related contingent items**

Letters of credit and other commitments for which there are corresponding customer liabilities:

	2014	2013
	RO	RO
Letters of credit	10,223,708	2,989,910
Guarantees	5,980,885	-
Total	16,204,593	2,989,910

(b) Capital and investment commitments

	2014	2013
	RO	RO
Contractual commitments for property and equipment	57,102	279,367

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26 Islamic financial derivatives

Forward exchange contracts represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. The values of the derivative instruments held are set out as below:

At 31 December 2014

	Contract / Notional Amount	RO
Forward exchange contracts		
Currency forward - purchase contracts	30,965,091	
Currency forward - sale contracts	30,963,968	

As at 31 December 2014, fair value of the exchange contracts remains equivalent to its notional amount. During 2013, Maisarah did not enter into any Islamic financial derivative contracts.

27 Fair value information

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between the carrying value and fair value estimates. As at the reporting date the fair values of Maisarah's financial instruments are not significantly different from their carrying values.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value information	2014			Total
	Level 1	Level 2	Level 3	
	RO	RO	RO	RO
Financial asset at fair value through Equity	-	10,197,500	-	10,197,500
Total	-	10,197,500	-	10,197,500

As at 31 December 2013, investment in Sukuk was stated at cost.

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28 Financial risk management

The important types of financial risks to which Maisarah is exposed are credit risk, liquidity risk and market risk. The risk management division of Maisarah is an independent and dedicated unit reporting directly to the Risk Management Committee (“RMC”) of the Board. The division’s primary responsibility is to assess, monitor and recommend strategies for control of credit, market and operational risk. The absence of any direct or indirect reporting lines and permanent membership in all Maisarah’s committees are among the factors which reflect the independence of the Risk Management Division’s working and the key role it plays within Maisarah.

The risk management framework is pivoted on a host of committees involving the executive management and the Board of Directors (“the Board”) for approval and reporting purposes. The Board has the overall authority for approval of strategies and policies, which it exercises through its various sub-committees. RMC of the Board is responsible for reviewing and recommending to the full Board, approval risk policies and procedures. RMC also reviews the risk profile of Maisarah as presented to it by the Risk Management Division and appraises the full Board in its periodic meetings.

Credit risk

The most important risk to which Maisarah is exposed is credit risk. To manage the level of credit risk, Maisarah deals with counter-parties of good credit. Board Credit Committee is the final credit approving authority of Maisarah which is mainly responsible for approving all credit proposals beyond the authority level of the management. RMC is the management decision making body which is empowered to consider all credit related issues upto certain limits.

Credit risk is managed by the Risk Management Division (“RMD”) through a system of independent risk assessment in credit proposals before they are considered by the appropriate approving authorities. Maisarah has in place a risk grading system for analysing the risk associated with credit. This facilitates the approving authorities in making their credit decision. Maximum counterparty/group exposures are limited to 15% of the Bank’s capital base as stipulated by CBO and where a higher limit is required for projects of national importance prior CBO approval is obtained. Individual country limits using Moody’s, S&P and Fitch ratings have also been set up to ensure portfolio diversification in terms of sovereign risk ratings and geographical exposure. These limits are approved by the Board. Retail financing is strictly in accordance with the CBO guidelines. The analysis of credit portfolio is provided below. It is pertinent to mention that the credit portfolio consists of all standard accounts and there is no impairment in the portfolio.

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28 Financial risk management (continued)

Credit risk (continued)

(a) Geographical concentrations

	2014	
	Due from banks and financial institutions RO	Due to Banks and financial Institutions RO
Sultanate of Oman	-	25,000,000
Other GCC Countries	183,247	3,850,000
Europe and North America	24,174	-
Africa and Asia	-	19,250,000
	207,421	48,100,000

During 2013, Maisarah did not have any exposure outside Sultanate of Oman.

(b) Customer concentrations

Customer concentrations on asset (Gross)

	2014				
	Due from banks and financial institutions RO	Murabaha receivables RO	Mudaraba Financing RO	Diminishing Musharaka financing RO	Ijarah Muntahia Bittamleek RO
Retail	-	1,557,312	-	20,722,465	29,454,692
Corporate	207,421	19,004,397	2,284,519	60,010,951	-
	207,421	20,561,709	2,284,519	80,733,416	29,454,692

	2013				
	Due from banks and financial institutions RO	Murabaha receivables RO	Mudaraba Financing RO	Diminishing Musharaka financing RO	Ijarah Muntahia Bittamleek RO
Retail	-	237,294	-	-	17,605,349
Corporate	7,700,000	-	-	10,425,217	-
	7,700,000	237,294	-	10,425,217	17,605,349

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For the year ended 31 December 2014

28 Financial risk management (continued)

Credit risk (continued)

(c) Economic sector concentrations

	2014			
	Murabaha receivables	Mudaraba Financing	Diminishing Musharaka Financing	Ijarah Muntahia Bittamleek
	RO	RO	RO	RO
Personal	1,557,312	-	20,722,465	29,454,692
Construction	-	1,693,709	40,390,230	-
Manufacturing	11,583,787	-	1,724,611	-
Other services	-	2,347	15,718,454	-
Others	7,420,610	588,463	2,177,656	-
	20,561,709	2,284,519	80,733,416	29,454,692

	2013			
	Murabaha receivables	Mudaraba Financing	Diminishing Musharaka Financing	Ijarah Muntahia Bittamleek
	RO	RO	RO	RO
Personal	237,294	-	-	17,605,349
Construction	-	-	6,957,659	-
Manufacturing	-	-	1,670,200	-
Other services	-	-	303,683	-
Others	-	-	1,493,675	-
	237,294	-	10,425,217	17,605,349

(d) Gross credit exposure

	2014	
	Total gross exposure	Monthly average gross exposure
	RO	RO
Murabaha receivables	20,561,709	15,685,358
Mudaraba financing	2,284,519	1,781,264
Diminishing Musharaka Financing	80,733,416	42,852,556
Ijarah Muntahia Bittamleek	29,454,692	24,674,430

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28 Financial risk management (continued)

Credit risk (continued)

(d) Gross credit exposure (continued)

	2013	
	Total gross exposure	Monthly average gross exposure
	RO	RO
Murabaha receivables	237,294	167,425
Mudaraba financing	-	-
Diminishing Musharaka Financing	10,425,217	5,368,439
Ijarah Muntahia Bittamleek	17,605,349	8,603,110

(e) Industry type distribution of exposures by major types of credit exposures:

	2014				
	Murabaha receivables	Mudaraba financing	Diminishing Musharaka Financing	Ijarah Muntahia Bittamleek	Off balance sheet exposures
	RO	RO	RO	RO	RO
Import trade	7,310,196	300,981	-	-	16,204,593
Mining & quarrying	-	287,482	2,080,917	-	-
Construction	-	1,693,709	40,390,230	-	-
Manufacturing	11,583,787	-	1,724,611	-	-
Transport & communication	-	-	96,739	-	-
Services	-	2,347	15,718,454	-	-
Retail	1,557,312	-	20,722,465	29,454,692	-
Others	110,414	-	-	-	-
	20,561,709	2,284,519	80,733,416	29,454,692	16,204,593

	2013				
	Murabaha receivables	Mudaraba financing	Diminishing Musharaka Financing	Ijarah Muntahia Bittamleek	Off balance sheet exposures
	RO	RO	RO	RO	RO
Import trade	-	-	-	-	2,989,910
Mining and quarrying	-	-	1,493,675	-	-
Construction	-	-	6,957,659	-	-
Manufacturing	-	-	1,670,200	-	-
Services	-	-	303,683	-	-
Retail	237,294	-	-	17,605,349	-
	237,294	-	10,425,217	17,605,349	2,989,910

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28 Financial risk management (continued)

Credit risk (continued)

(f) Residual contractual maturities of the portfolio by major types of credit exposures:

	Murabaha receivables	Mudaraba financing	Diminishing Musharaka Financing	Ijarah Muntahia Bittamleek	Off Balance sheet exposures
	RO	RO	RO	RO	RO
31 December 2014					
Upto 1 month	6,676,319	2,284,519	-	-	10,524,911
1 - 3 months	4,921,489	-	10,000	-	4,553,113
3 - 6 months	7,296,175	-	-	-	577,223
6 - 9 months	-	-	-	-	343,588
9 - 12 months	-	-	-	-	-
1 - 3 years	128,422	-	1,909,433	-	190,758
3 - 5 years	488,504	-	5,695,221	319,286	15,000
Over 5 years	1,050,800	-	73,118,762	29,135,406	-
	20,561,709	2,284,519	80,733,416	29,454,692	16,204,593

	Murabaha receivables	Mudaraba financing	Diminishing Musharaka Financing	Ijarah Muntahia Bittamleek	Off Balance sheet exposures
	RO	RO	RO	RO	RO
31 December 2013					
Upto 1 month	4,768	-	195,851	125,592	-
1 - 3 months	9,536	-	391,702	251,184	-
3 - 6 months	14,304	-	587,553	376,776	2,989,910
6 - 9 months	14,304	-	531,276	376,776	-
9 - 12 months	14,304	-	512,128	376,776	-
1 - 3 years	109,088	-	5,470,115	3,014,208	-
3 - 5 years	70,990	-	1,953,190	2,965,652	-
Over 5 years	-	-	783,402	10,118,385	-
	237,294	-	10,425,217	17,605,349	2,989,910

(g) Distribution of past due and not past due financing by type of industry:

	2014				
	Performing Murabaha receivables	Performing Mudaraba Financing	Performing Diminishing Musharaka Financing	Performing Ijarah Muntahia Bittamleek	General provisions made during the year
	RO	RO	RO	RO	RO
Import trade	7,310,196	300,981	-	-	(82,574)
Mining & quarrying	-	287,482	2,080,917	-	(25,695)
Construction	-	1,693,709	40,390,230	-	(456,572)
Manufacturing	11,583,787	-	1,724,611	-	(144,384)
Transport & communication	-	-	96,739	-	(1,050)
Services	-	2,347	15,718,455	-	(170,556)
Retail	1,557,312	-	20,722,464	29,454,692	(611,556)
Others	110,414	-	-	-	(1,198)
	20,561,709	2,284,519	80,733,416	29,454,692	(1,493,585)

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28 Financial risk management (continued)

Credit risk (continued)

(g) Distribution of past due and not past due financing by type of industry (continued):

	2013				General provisions made during the year RO
	Performing Murabaha receivables RO	Performing Mudaraba Financing RO	Performing Diminishing Musharaka Financing RO	Performing Ijarah Muntahia Bittamleek RO	
Import trade	-	-	-	-	-
Mining & quarrying	-	-	1,493,675	-	(14,389)
Construction	-	-	6,957,659	-	(67,026)
Manufacturing	-	-	1,670,200	-	(16,090)
Transport & communication	-	-	-	-	-
Services	-	-	303,683	-	(2,926)
Retail	237,294	-	-	17,605,349	(184,828)
	<u>237,294</u>	<u>-</u>	<u>10,425,217</u>	<u>17,605,349</u>	<u>(285,259)</u>

(h) Maximum exposure to credit risk without consideration of collateral held:

During the year there is no credit exposure provided without collateral (2013: RO Nil).

Liquidity risk

Liquidity risk is the potential inability to meet Maisarah's liabilities as they become due, because of the difficulty in liquidating assets (market liquidity risk) or in obtaining adequate funding (funding liquidity risk). It arises when Maisarah is unable to generate cash to cope with a decline in deposits or increase in assets.

Maisarah's liquidity risk management is governed by the treasury risk policy document approved by the Board of Directors as well as the provisions of relevant CBO guidelines on liquidity risk management. Maisarah monitors its liquidity risk through cash flow approach. Under cash flow approach Maisarah generates Maturity of Assets and Liabilities (MAL) report which captures all the maturing assets and liabilities into various pre-set time buckets ranging from one month to five years. The mismatches in various time buckets indicate liquidity gap and Maisarah strictly adheres to the CBO set limit of 15% of cumulative liabilities (outflows) on mismatches (liquidity gaps) in time buckets upto one year. In addition, Maisarah has also set up internal limit on mismatches in time buckets beyond one year.

Treasury department of Maisarah controls and monitors the liquidity risk and ensures that the window is not exposed to undue liquidity risk and at the same time makes optimum use of its funds. Middle office in Risk Management Division also monitors the liquidity position of Maisarah.

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28 Financial risk management (continued)

Liquidity risk (continued)

Maturity profile of assets and liabilities

	Due on demand and up to 30 days RO	More than 1 month to 6 months RO	More than 6 months to 12 months RO	More than 1 year to 5 years RO	Over 5 years RO	Total RO
31 December 2014						
Cash and balances with Central Bank of Oman ("CBO")	44,510,564	-	-	-	-	44,510,564
Due from banks and financial institutions	207,421	-	-	-	-	207,421
Murabaha receivables - net	6,891,330	12,183,100	118,057	1,056,810	62,802	20,312,099
Mudaraba financing – net	114,209	228,460	221,373	1,142,260	549,869	2,256,171
Diminishing Musharaka financing – net	1,482,666	7,423,110	8,665,702	41,632,980	20,655,046	79,859,504
Financial assets at fair value through equity	-	-	-	10,197,500	-	10,197,500
Ijarah Muntahia Bittamleek– net	209,183	1,045,920	1,169,671	9,899,730	16,788,474	29,112,978
Property and equipment – net	-	-	-	-	1,056,561	1,056,561
Other asset	4,201,234	-	-	-	78,789	4,280,023
Total assets	57,616,607	20,880,590	10,174,803	63,929,280	39,191,541	191,792,821
Due to Head office and other banks	48,100,000	-	-	-	-	48,100,000
Qard Hasan from Head Office	-	-	-	17,215,732	-	17,215,732
Customer Wakala Deposit	-	53,700,000	15,025,000	4,000,000	-	72,725,000
Current accounts	2,979,447	5,214,033	2,979,448	-	3,724,310	14,897,238
Other liabilities	6,274,924	54,512	31,150	-	38,937	6,399,523
Equity of unrestricted investment account holders	507,823	938,939	915,644	4,578,222	2,289,500	9,230,128
Owner's equity	-	-	-	-	23,225,200	23,225,200
Total liabilities and account holders & owners' equity	57,862,194	59,907,484	18,951,242	25,793,954	29,277,947	191,792,821

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements

For the year ended 31 December 2014

28 Financial risk management (continued)

Liquidity risk (continued)

Maturity profile of assets and liabilities (continued)

	Due on demand and up to 30 days RO	More than 1 month to 6 months RO	More than 6 months to 12 months RO	More than 1 year to 5 years RO	Over 5 years RO	Total RO
31 December 2013						
Cash and balances with Central Bank of Oman ("CBO")	3,028,809	-	-	-	-	3,028,809
Due from banks and financial institutions	7,700,000	-	-	-	-	7,700,000
Murabaha receivables - net	4,658	23,290	27,949	175,927	-	231,824
Mudaraba financing – net	-	-	-	-	-	-
Diminishing Musharaka financing	193,964	969,821	1,033,352	7,351,793	775,856	10,324,786
Financial assets at fair value through equity	-	-	-	10,000,000	-	10,000,000
Ijarah Muntahia Bittamleek– net	124,313	621,563	745,875	5,918,939	10,015,301	17,425,991
Property and equipment – net	-	-	-	-	1,077,812	1,077,812
Other asset	133,702	-	-	-	96,394	230,096
Total assets	11,185,446	1,614,674	1,807,176	23,446,659	11,965,363	50,019,318
Due to Head office and other banks	30,200,000	-	-	-	-	30,200,000
Qard Hasan from Head Office	-	-	-	3,287,038	-	3,287,038
Customer Wakala Deposit	-	-	-	-	-	-
Current accounts	508,429	889,751	508,429	-	635,538	2,542,147
Other liabilities	2,557,371	-	-	-	-	2,557,371
Equity of unrestricted investment account holders	55,879	126,259	114,759	558,793	279,455	1,135,145
Owner's equity	-	-	-	-	10,297,617	10,297,617
Total liabilities and account holders & owners' equity	33,321,679	1,016,010	623,188	3,845,831	11,212,610	50,019,318

Market risk

Market risk includes currency risk, profit rate risk and equity price risk.

(a) Currency risk

Maisarah is exposed to currency risk through its transactions in foreign currencies. The major foreign currency to which Maisarah is exposed is the US Dollar which is effectively pegged to Rial Omani. Presently Maisarah does not have major foreign exchange exposure. There is only one placement in US dollar which has been financed through Wakala deposit of the same tenure.

MAISARAH ISLAMIC BANKING SERVICES**Notes to the financial statements***For the year ended 31 December 2014***28 Financial risk management (continued)****Market risk (continued)****(b) Profit rate risk**

Profit rate risk (PRR) is the risk that Maisarah will incur a financial loss as a result of mismatch in the profit rates on assets & investment accountholders. The profit distribution to investment accountholders is based on profit sharing agreements. However, the profit sharing agreements will result in displaced commercial risk when Maisarah results do not allow it to distribute profits in line with the market rates.

Maisarah has a detailed profit distribution policy in place which details the process and management of profit distribution, including setting up of profit equalization & investment risk reserve. The responsibility of profit rate risk management rests with the Maisarah's Asset and Liability Management Committee (ALCO).

Profit rate sensitivity gap

Sensitivity to profit rates arises from mismatches in the period to repricing of assets and that of the corresponding liability. Maisarah manages these mismatches by following policy guidelines and reduces risk by matching the repricing of assets and liabilities.

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements

For the year ended 31 December 2014

28 Financial risk management (continued)

Market risk (continued)

Profit rate sensitivity gap (continued)

	Effective average profit rates %	Due on demand and within 30 days RO	Due within 1 to 6 months RO	Due within 7 to 12 months RO	Due within 1 to 5 years RO	Due after 5 years RO	Non-profit bearing RO	Total RO
31 December 2014								
Cash and balances with Central Bank of Oman	-	-	-	-	-	-	44,510,564	44,510,564
Due from banks and financial institutions	0.53%	207,421	-	-	-	-	-	207,421
Murabaha receivables	2.34%	6,891,330	12,183,100	118,057	1,056,810	62,802	-	20,312,099
Mudaraba financing	7.51%	114,209	228,460	221,373	1,142,260	549,869	-	2,256,171
Diminishing Musharaka Financing	4.95%	1,482,666	7,423,110	8,665,702	41,632,980	20,655,046	-	79,859,504
Financial assets at fair value through equity	5.00%	-	-	-	10,197,500	-	-	10,197,500
Ijara Muntahia Bittamleek – net	4.68%	209,183	1,045,920	1,169,671	9,899,730	16,788,474	-	29,112,978
Property and equipment – net	-	-	-	-	-	-	1,056,561	1,056,561
Other asset	-	-	-	-	-	-	4,280,023	4,280,023
Total assets		8,904,809	20,880,590	10,174,803	63,929,280	38,056,191	49,847,148	191,792,821
Due to Head office and other banks	0.20%	48,100,000	-	-	-	-	-	48,100,000
Qard Hasan from Head office	-	-	-	-	-	-	17,215,732	17,215,732
Customer Wakala deposit	1.24%	-	53,700,000	15,025,000	4,000,000	-	-	72,725,000
Current accounts	-	-	-	-	-	-	14,897,238	14,897,238
Other liabilities	-	-	-	-	-	-	6,399,523	6,399,523
Equity of unrestricted investment account holders	0.85%	507,823	938,939	915,644	4,578,222	2,289,500	-	9,230,128
Owner's equity	-	-	-	-	-	-	23,225,200	23,225,200
Equity of account holders & Total liabilities and shareholders' equity	-	48,607,823	54,638,939	15,940,644	8,578,222	2,289,500	61,737,693	191,792,821
On-balance sheet gap		(39,703,014)	(33,758,349)	(5,765,841)	55,351,058	35,766,691	(11,890,545)	-
Cumulative profit sensitivity gap		(39,703,014)	(73,461,363)	(79,227,204)	(23,876,146)	11,890,545	-	-

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements

For the year ended 31 December 2014

28 Financial risk management (continued)

Market risk (continued)

Profit rate sensitivity gap (continued)

	Effective average profit rates %	Due on demand and within 30 days RO	Due within 1 to 6 months RO	Due within 7 to 12 months RO	Due within 1 to 5 years RO	Due after 5 years RO	Non-profit bearing RO	Total RO
31 December 2013								
Cash and balances with Central Bank of Oman	-	-	-	-	-	-	3,028,809	3,028,809
Due from banks and financial institutions	0.91%	7,700,000	-	-	-	-	-	7,700,000
Murabaha receivables	5.13%	4,658	23,290	27,949	175,927	-	-	231,824
Mudaraba financing	-	-	-	-	-	-	-	-
Diminishing Musharaka Financing	5.28%	193,964	969,821	1,033,352	7,351,793	775,856	-	10,324,786
Financial assets at fair value through equity	5.00%	-	-	-	10,000,000	-	-	10,000,000
Ijara Muntahia Bittamleek – net	4.32%	124,313	621,563	745,875	5,918,939	10,015,301	-	17,425,991
Property and equipment – net	-	-	-	-	-	-	1,077,812	1,077,812
Other asset	-	-	-	-	-	-	230,096	230,096
Total assets	-	8,022,935	1,614,674	1,807,176	23,446,659	10,791,157	4,336,717	50,019,318
Due to Head office and other banks	0.47%	30,200,000	-	-	-	-	-	30,200,000
Qard Hasan from Head office	-	-	-	-	-	-	3,287,038	3,287,038
Customer Wakala deposit	-	-	-	-	-	-	-	-
Current accounts	-	-	-	-	-	-	2,542,147	2,542,147
Other liabilities	-	-	-	-	-	-	2,557,371	2,557,371
Equity of unrestricted investment account holders	0.52%	55,879	126,259	114,759	558,793	279,455	-	1,135,145
Owner's equity	-	-	-	-	-	-	10,297,617	10,297,617
Equity of account holders & Total liabilities and shareholders' equity		30,255,879	126,259	114,759	558,793	279,455	18,684,173	50,019,318
On-balance sheet gap		(22,232,944)	1,488,415	1,692,417	22,887,866	10,511,702	(14,347,456)	-
Cumulative profit sensitivity gap		(22,232,944)	(20,744,529)	(19,052,112)	3,835,754	14,347,456	-	-

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements

For the year ended 31 December 2014

28 Financial risk management (continued)

(c) Equity risk

Presently Maisarah is not exposed to any equity price risk.

Operational risk

Maisarah has adopted the Basic Indicator Approach under Basel II for the purpose of measuring capital charge for Operational Risk. The approach requires Maisarah to provide 15% of the average three years gross annual income as capital charge for operational risk.

29 Segmental information

Maisarah is organised into three main business segments:

- (1) Retail banking – incorporating private customer current accounts, savings account, term deposits, murabaha and ijarah muntahia bittamleek;
- (2) Corporate banking – incorporating current accounts, savings account, term deposits and diminishing musharaka financing; and
- (3) Treasury & investments

Transactions between the business segments are on normal commercial terms and conditions. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in operating income. Profit charged for these funds is based on Maisarah's cost of capital. There are no other material items of income or expense between the business segments.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position.

31 December 2014	Retail banking RO	Corporate banking RO	Treasury and investments RO	Total RO
Segment operating revenues	1,536,537	2,016,599	71,850	3,624,986
Other revenues	89,011	467,028	531,742	1,087,781
Total segment operating revenues	1,625,548	2,483,627	603,592	4,712,767
Profit expenses	(25,599)	(262,584)	(128,535)	(416,718)
Net operating income	1,599,949	2,221,043	475,057	4,296,049
Segment cost				
Operating expenses including depreciation	(1,211,279)	(1,589,720)	(56,641)	(2,857,640)
Impairment allowance	(426,728)	(781,598)	-	(1,208,326)
Net profit / (loss) for the year before tax	(38,058)	(150,275)	418,416	230,083
Segment assets				
Segment assets	52,091,046	85,856,375	55,338,985	193,286,406
Less: Impairment allowance	(611,556)	(882,029)	-	(1,493,585)
Total segment assets	51,479,490	84,974,346	55,338,985	191,792,821
Segment liabilities				
Segment liabilities	1,796,685	91,275,314	66,265,494	159,337,493

MAISARAH ISLAMIC BANKING SERVICES

Notes to the financial statements

For the year ended 31 December 2014

29 Segmental information (continued)

31 December 2013	Retail banking	Corporate banking	Treasury and investments	Total
	<i>RO</i>	<i>RO</i>	<i>RO</i>	<i>RO</i>
Segment operating revenues	97,587	55,901	121,941	275,429
Other revenues	17,637	75,378	88	93,103
Total segment operating revenues	115,224	131,279	122,029	368,532
Profit expenses	(4,577)	(13)	(10,639)	(15,229)
Net operating income	110,647	131,266	111,390	353,303
Segment cost				
Operating expenses including depreciation	(804,438)	(460,802)	(1,005,187)	(2,270,427)
Impairment allowance	(184,828)	(100,431)	-	(285,259)
Net (loss) for the year before tax	(878,619)	(429,967)	(893,797)	(2,202,383)
Segment assets	18,301,600	10,711,503	21,291,474	50,304,577
Less: Impairment allowance	(184,828)	(100,431)	-	(285,259)
Total segment assets	18,116,772	10,611,072	21,291,474	50,019,318
Segment liabilities	5,196,305	1,835,184	31,555,067	38,586,556

30 Comparative

The comparative financial information included in the financial statements cover the period from 3 March 2013 to 31 December 2013. Certain of the corresponding figures have been reclassified in order to conform with the presentation for the current year. Such reclassification do not affect previously reported loss or owners' equity.