

**MAISARAH ISLAMIC BANKING SERVICES -
WINDOW OF BANK DHOFAR SAOG**

Financial statements

31 December 2013

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 from 3 March 2013 to 31 December 2013

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MAISARAH ISLAMIC BANKING SERVICES – WINDOW OF BANK DHOFAR SAOG

Report on the financial statements

We have audited the financial statements of Maisarah Islamic Banking Services– Window of Bank Dhofar SAOG ("the Bank"), set out on pages 2 to 30 which comprise the statement of financial position as at 31 December 2013, and the income statement, statement of changes in owners' equity and statement of cash flows for the period from 3 March 2013 to 31 December 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Financial Institutions ("AAOIFI") and the Shari'a rules and principles determined by the Shari'a Supervisory Board of the Bank and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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 AAOIFI. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

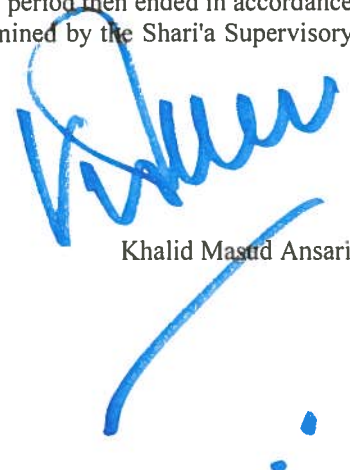
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2013 and its financial performance and its cash flows for the period then ended in accordance with the FAS issued by AAOIFI and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

29 January 2014



Khalid Masud Ansari

**MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR
SAOG**

Statement of Financial Position

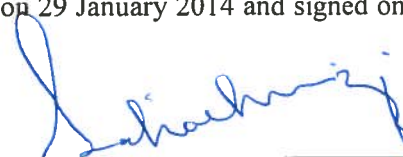
As on 31 December 2013

	<i>Note</i>	2013 RO
Assets		
Cash and balances with Central Bank of Oman	5	3,028,809
Due from banks and financial institutions	6	7,700,000
Murabaha receivables – net	7	231,824
Diminishing Musharaka financing	8	10,324,786
Financial assets at fair value through equity	9	10,000,000
Ijarah Muntahia Bittamleek – net	10	17,425,991
Property and equipment – net	11	287,383
Intangible asset – net	12	790,429
Other assets	13	230,096
Total assets		50,019,318
Liabilities, equity of unrestricted investment account holders and owners' equity		
Liabilities		
Due to Head office and other banks	14	30,200,000
Qard Hasan from Head office	15	3,287,038
Current accounts		2,542,147
Other liabilities	16	2,557,371
Total liabilities		38,586,556
Equity of unrestricted investment account holders	17	1,135,145
Owners' equity		
Capital	18	12,500,000
Accumulated losses		(2,202,383)
Total owners' equity		10,297,617
Total liabilities, equity of unrestricted investment account holders and owners' equity		50,019,318
Contingent liabilities	29	2,989,910

The financial statements were approved by the Board of Directors on 29 January 2014 and signed on its behalf by:



Chairman



Chief Islamic Banking Officer

The notes on pages 6 to 30 form an integral part of these financial statements.

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

**MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR
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Income Statement

For the period from 3 March 2013 to 31 December 2013

	<i>Note</i>	2013
Income		<i>RO</i>
Murabaha	20	5,673
Ijarah Muntahia Bittamleek	21	91,914
Diminishing Musharaka	22	55,901
Wakala placement	23	34,441
Profit on financial assets at fair value through equity	24	87,500
		<u>275,429</u>
Less:		
Return on unrestricted investment account holders		(4,590)
Return on interbank Wakala deposit		(10,639)
		<u>(15,229)</u>
Maisarah's share in income from investment as a Mudarib and Rabul Maal		260,200
Revenue from banking services		92,837
Foreign exchange gain – net		266
Total revenue		<u>353,303</u>
Pre-operating expenses	25	(495,517)
Staff costs	26	(1,058,132)
General and administrative expenses	27	(597,919)
Impairment allowance	7,8&10	(285,259)
Depreciation and amortization	11&12	(118,859)
Total expenses		<u>(2,555,686)</u>
Net loss for the period		<u>(2,202,383)</u>

The notes on pages 6 to 30 form an integral part of these financial statements.

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**MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR
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Statement of changes in owners' equity

for the period from 3 March 2013 to 31 December 2013

	Capital 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

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**MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR
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Statement of cash flows

For the period from 3 March 2013 to 31 December 2013

	2013 <i>RO</i>
Cash flows from operating activities	
Net loss for the period	(2,202,383)
Adjustments for:	
Depreciation and amortization	118,859
Depreciation on Ijarah assets	334,478
Impairment allowance	285,259
Investment risk reserve	14
Profit equalization reserve	45
Cash flows used in operating activities before changes in operating assets and liabilities	<u>(1,463,728)</u>
Operating assets and liabilities:	
Murabaha receivables	(237,294)
Ijarah Muntahia Bittamleek assets	(17,999,158)
Proceeds from sale in Ijarah Muntahia Bittamleek assets	59,331
Diminishing Musharaka financing	(10,425,217)
Other asset	(153,540)
Other liabilities	2,557,371
Qard Hasan from Head Office	2,013,811
Net cash used in operating activities	<u>(25,648,424)</u>
Cash flows from investing activities	
Purchase of financial asset at fair value through equity	(10,000,000)
Net cash used in investing activities	<u>(10,000,000)</u>
Cash flows from financing activities	
Current account	2,542,147
Unrestricted investment account holders	1,135,086
Capital	12,500,000
Net cash from financing activities	<u>16,177,233</u>
Cash and cash equivalents at the end of the period	<u>(19,471,191)</u>
Cash and cash equivalents at the end of the period comprise:	
Cash and balances with CBO	3,028,809
Due from banks and financial institutions	7,700,000
Due to Head office and other banks	(30,200,000)
	<u>(19,471,191)</u>

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MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

Notes to the financial statements

For the period from 3 March 2013 to 31 December 2013

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 2 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 charity 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 - WINDOW OF BANK DHOFAR SAOG

Notes to the financial statements

For the period from 3 March 2013 to 31 December 2013

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with AAOIFI and IFRS requires management to make judgements, 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 judgements 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.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

Notes to the financial statements

For the period from 3 March 2013 to 31 December 2013

3.3 Derecognition 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.

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.

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.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

Notes to the financial statements

For the period from 3 March 2013 to 31 December 2013

3.8 Musharaka investments

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 is calculated using the straight-line method on all Ijarah Muntahia Bittamleek assets, at rates calculated to write off the cost of each asset over its useful life or period of the lease whichever is lower.

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

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 Intangibles

Intangible assets are classified according to their useful life for a specified or unspecified period of time. Intangible assets with definite useful life are amortized during that life, and amortization is recorded in income statement. Intangible assets with indefinite useful life, are reviewed at each reporting date and impairment, if any is recorded in income statement.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

Notes to the financial statements

For the period from 3 March 2013 to 31 December 2013

3.11 Intangibles (continued)

Intangible assets arising from Maisarah's operations are not capitalized and are charged to the income statement as incurred.

Any indications of impairment of intangible assets are reviewed at the reporting date; in addition, the useful lives of these assets are reviewed annually. If expected useful lives vary from the estimated ones the change in estimate is adjusted prospectively.

3.12 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.

3.13 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.

3.14 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.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

Notes to the financial statements

For the period from 3 March 2013 to 31 December 2013

3.15 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.

3.16 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.

3.17 Zakah

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

3.18 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".

3.19 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.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

Notes to the financial statements

For the period from 3 March 2013 to 31 December 2013

3.20 Revenue recognition

3.20.1 *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.

3.20.2 *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.

3.20.3 *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.

3.20.4 *Dividends*

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

3.20.5 *Fee and Commission income*

Fee and commission income is recognised when earned.

3.20.6 *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.

3.20.7 *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.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

Notes to the financial statements

For the period from 3 March 2013 to 31 December 2013

3.21 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.

3.22 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.

3.23 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

3.24 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.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

Notes to the financial statements

For the period from 3 March 2013 to 31 December 2013

3.25 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.

3.26 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 judgements 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.

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Notes to the financial statements

For the period from 3 March 2013 to 31 December 2013

5 Cash and balances with Central Bank of Oman

	2013 RO
Cash in hand	269,584
Balances with Central Bank of Oman	<u>2,759,225</u>
	<u>3,028,809</u>

6 Due from banks and financial institutions

	Self- Financed RO	Jointly Financed RO	Total RO
Wakala placement	<u>2,066,193</u>	<u>5,633,807</u>	<u>7,700,000</u>

The Wakala placement represents investment of RO 7.7 Million (USD 20 Million).

7 Murabaha receivables –net

	Self- Financed RO	Jointly Financed RO	Total RO
Gross Murabaha receivables	73,394	200,120	273,514
Less: Unearned income	<u>(9,719)</u>	<u>(26,501)</u>	<u>(36,220)</u>
	63,675	173,619	237,294
Less: impairment allowance	<u>(1,468)</u>	<u>(4,002)</u>	<u>(5,470)</u>
	<u>62,207</u>	<u>169,617</u>	<u>231,824</u>

Murabaha receivables past due but not impaired with the period less than 30 days amount to RO 14,144.

8 Diminishing Musharaka Financing

	Self – Financed RO	Jointly Financed RO	Total RO
Diminishing Musharaka	2,797,468	7,627,749	10,425,217
Less: impairment allowance	<u>(26,949)</u>	<u>(73,482)</u>	<u>(100,431)</u>
	<u>2,770,519</u>	<u>7,554,267</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.

**MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR
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For the period from 3 March 2013 to 31 December 2013

9 Financial asset at fair value through equity

	Self- Financed RO	Jointly Financed RO	2013 Total RO
Local un-listed sukuk	2,683,370	7,316,630	10,000,000

Maisarah has invested RO 10 million in Ijarah Sukuk issued by Modern Sukuk SAOC. At 31 December 2013, the market value of the Sukuk approximates to the carrying value.

10 Ijarah Muntahia Bittamleek – net

	Self- Financed RO	Jointly Financed RO	Total RO
<i>Cost</i>			
Additions	4,829,834	13,169,324	17,999,158
Disposals	(16,100)	(43,900)	(60,000)
At 31 December 2013	4,813,734	13,125,424	17,939,158
<i>Accumulated depreciation</i>			
Charge for the period	89,753	244,725	334,478
Disposals	(180)	(489)	(669)
At 31 December 2013	89,573	244,236	333,809
Net book value at 31 December	4,724,161	12,881,188	17,605,349
Less: impairment allowance	(48,128)	(131,230)	(179,358)
Net Ijarah Muntahia Bittamleek	4,676,033	12,749,958	17,425,991

Ijarah Muntahia Bittamleek past due but not impaired is as follows:

Past due up to 30 days	673,526
Past due 30 – 60 days	25,195
Total	698,721

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For the period from 3 March 2013 to 31 December 2013

11 Property and equipment - net

	Furniture , fixtures & equipment	Motor vehicles	Computer equipment	Capital work in progress	Total
	RO	RO	RO	RO	RO
<i>Cost</i>					
Additions	191,935	18,100	117,787	15,311	343,133
At 31 December 2013	<u>191,935</u>	<u>18,100</u>	<u>117,787</u>	<u>15,311</u>	<u>343,133</u>
<i>Accumulated depreciation</i>					
Provided during the year	(28,927)	(4,199)	(22,624)	-	(55,750)
At 31 December 2013	<u>(28,927)</u>	<u>(4,199)</u>	<u>(22,624)</u>	<u>-</u>	<u>(55,750)</u>
Net book value at 31 December 2013	<u>163,008</u>	<u>13,901</u>	<u>95,163</u>	<u>15,311</u>	<u>287,383</u>

12 Intangible asset - net

	2013
	RO
Computer software	853,538
Amortization	<u>(63,109)</u>
Net book value at 31 December 2013	<u>790,429</u>

13 Other assets

Profit receivable	133,702
Prepaid expenses	73,108
Other	<u>23,286</u>
	<u>230,096</u>

14 Due to Head office and other banks

Due to Head office	22,500,000
Due to other banks	<u>7,700,000</u>
	<u>30,200,000</u>

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

15 Qard Hasan from Head Office

Qard Hasan from Head Office	<u>3,287,038</u>
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This amount represents profit-free Qard Hasan facility from Head Office.

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16 Other liabilities

	2013 RO
Payables	2,361,438
Profit payable	9,093
Accrued expenses	186,840
	<u>2,557,371</u>

17 Equity of unrestricted investment accountholders

Savings account	1,117,586
Term deposit	17,500
Profit equalization reserve	45
Investment risk reserve	14
	<u>1,135,145</u>

There is no restricted investment at reporting date.

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 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.

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17 Equity of unrestricted investment accountholders (continued)

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

The Head office has assigned a capital of RO 12.5 million to Maisarah from the core paid up capital of the shareholders.

19 Fiduciary assets

At 31 December 2013, there were no funds under management with Maisarah.

20 Murabaha income

	Self- Financed RO	Jointly Financed RO	2013 Total RO
Murabaha income	1,522	4,151	5,673

21 Ijarah Muntahia Bittamleek income

	Self- Financed RO	Jointly Financed RO	Total RO
Income from Ijarah Muntahia Bittamleek	114,417	311,975	426,392
Less: Depreciation	(89,753)	(244,725)	(334,478)
	<u>24,664</u>	<u>67,250</u>	<u>91,914</u>

22 Diminishing Musharaka income

	Self- Financed RO	Jointly Financed RO	Total RO
Diminishing Musharaka income	15,000	40,901	55,901

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23 Income on Wakala placement

	Self- Financed RO	Jointly Financed RO	2013 Total RO
Income on Wakala placement	9,242	25,199	34,441

24 Profit on financial assets at fair value through equity

	Self- Financed RO	Jointly Financed RO	Total RO
Local un-listed sukuk	23,479	64,021	87,500

25 Pre-operating expenses

Staff cost	238,814
General administration cost	188,127
Others	68,576
	<u>495,517</u>

26 Staff costs

Salaries and allowances	981,984
Other personnel cost	73,535
Non-Omani employee terminal benefit	2,613
	<u>1,058,132</u>

27 General and administrative expenses

	RO
Occupancy cost	190,464
Operating and administration cost	407,455
	<u>597,919</u>

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28 Related parties transactions

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

During the current year, there have been no financing, deposits and other facilities been provided by Maisarah to the Directors, Shari'a Supervisory Board and shareholders holding 10% or more.

	2013 RO
Remuneration paid to Shari'a Supervisory Board	
Chairman	
– remuneration proposed	6,000
– sitting fees paid	4,800
Other members	
– remuneration proposed	12,000
– sitting fees paid	9,300
Other transactions	
Rental payment to a related party	69,120
Key management compensation	
Salaries and other benefits	139,944
End of service benefits	<u>2,087</u>

29 Contingent liabilities and commitments

(a) Credit related contingent items

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

Letters of credit	<u>2,989,910</u>
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(b) Capital and investment commitments

Contractual commitments for property and equipment	<u>279,367</u>
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30 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).

At reporting date, Maisarah has investments in Sukuk, which are stated at cost.

31 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.

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31 Financial risk management (continued)

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.

(a) Geographical concentrations

All the financial asset and financial liabilities balance are based in Sultanate of Oman.

(b) Customer concentrations

Customer concentrations on asset (Gross)

	Due from banks and financial institutions RO	Murabaha receivables RO	Diminishing Musharaka financing RO	Ijarah Muntahia Bittamleek RO
31 December 2013				
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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31 Financial risk management (continued)

Credit risk (continued)

(c) Economic sector concentrations

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

(d) Gross credit exposure

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

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

	Murabaha receivables	Diminishing Musharaka Financing	Ijarah Muntahia Bittamleek	Off balance sheet exposures
	RO	RO	RO	RO
31 December 2013				
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	-
	<u>237,294</u>	<u>10,425,217</u>	<u>17,605,349</u>	<u>2,989,910</u>

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31 Financial risk management (continued)

Credit risk (continued)

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

	Murabaha receivables RO	Diminishing Musharaka Financing RO	Ijarah Muntahia Bittamleek RO	Off Balance sheet exposures 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	-
	<u>237,294</u>	<u>10,425,217</u>	<u>17,605,349</u>	<u>2,989,910</u>

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

	Performing Murabaha receivables RO	Performing Diminishing Musharaka Financing RO	Performing Ijarah Muntahia Bittamleek RO	General provisions made during the year RO
31 December 2013				
Mining and quarrying	-	1,493,675	-	(14,389)
Construction	-	6,957,659	-	(67,026)
Manufacturing	-	1,670,200	-	(16,090)
Services	-	303,683	-	(2,926)
Retail	237,294	-	17,605,349	(184,828)
	<u>237,294</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:

There is no credit exposure provided without collateral.

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.

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31 Financial risk management (continued)

Liquidity risk (continued)

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.

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 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
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	-	-	-	-	287,383	287,383
Intangible asset	-	-	-	-	790,429	790,429
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
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

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31 Financial risk management (continued)

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.

(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.

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31 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
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%	-	-	-	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	-	-	-	-	-	-	287,383	287,383
Intangible asset	-	-	-	-	-	-	790,429	790,429
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
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	-	-

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31 Financial risk management (continued)**Market risk (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.

32 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.

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32 Segmental information (continued)

At 31 December 2013	Retail banking	Corporate banking	Treasury and investments	Total
	RO	RO	RO	RO
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	(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

33 Comparative

No comparative information has been presented as Maisarah has commenced its operation from 3 March 2013.