

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

31 DECEMBER 2016

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

DRAFT

**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 2016, and the related statements of income, changes in owners' equity, sources and uses of charity fund and cash flows for the year then ended 31 December 2016, 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 2016, 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 2016 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.

[DATE]
Muscat

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Statement of Financial Position
At 31 December 2016

	<i>Note</i>	2016 RO 000	2015 RO 000
Assets			
Cash and balances with Central Bank of Oman	5	38,949	30,462
Due from banks and financial institutions	6	68,355	32,447
Murabaha and other receivables	7	9,711	12,854
Mudaraba financing	8	24,608	11,642
Diminishing Musharaka financing	9	237,494	150,550
Investments at fair value through equity	10	16,561	16,593
Investment at amortised cost	11	10,000	10,000
Ijarah Muntahia Bittamleek	12	36,728	32,439
Property and equipment	13	1,474	1,208
Other assets	14	6,826	1,209
Total assets		450,706	299,404
Liabilities, equity of investment accountholders and owners' equity			
Liabilities			
Current accounts		39,886	49,025
Due to Head office and other banks	15	79,340	52,325
Qard Hasan from Head office	16	17,420	10,227
Customer Wakala deposits		230,554	135,108
Other liabilities	17	9,291	3,866
Total liabilities		376,491	250,551
Equity of investment accountholders	18	15,239	8,027
Owners' equity			
Capital	19	55,000	40,000
Reserves		198	229
Retained Earnings		3,778	597
Total owners' equity		58,976	40,826
Total liabilities, equity of investment accountholders and owners' equity		450,706	299,404
Contingent liabilities and commitments	26	10,169	14,826

The Financial statements were approved by the Board of Directors on 25 January 2017 and signed on their behalf by

 Chairman

 Chief Islamic Banking Officer

The attached notes 1 to 31 form part of these financial statements.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG**Statement of income***For the year ended 31 December 2016*

	<i>Note</i>	2016	2015
		RO 000	RO 000
Income			
Income from Islamic finances and investments	21	13,844	8,278
Income on Wakala placements		13	5
		13,857	8,283
Less:			
Return on equity of investment accountholders		(119)	(83)
Return on customer Wakala deposits		(5,128)	(1,710)
Return on interbank Wakala deposit		(653)	(161)
		(5,900)	(1,954)
Maisarah's share in income from investment as a Mudarib and Rabul Maal		7,957	6,329
Revenue from banking services		819	513
Foreign exchange gain – net		77	58
Total revenue		8,853	6,900
Staff costs	22	(3,380)	(2,252)
General and administrative expenses	23	(1,328)	(889)
Provision for financing impairment	24	(587)	(936)
Depreciation	13	(377)	(254)
Total expenses		(5,672)	(4,331)
Profit for the year before taxation		3,181	2,569

The attached notes 1 to 31 form part of these financial statements.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Statement of changes in owners' equity
For the year ended 31 December 2016

31 December 2016				
	Capital	Investment revaluation Reserve	Retained earnings	Total
	<i>RO 000</i>	<i>RO 000</i>	<i>RO 000</i>	<i>RO 000</i>
Balance at 1 January 2016	40,000	229	597	40,826
Profit for the year	-	-	3,181	3,181
Cumulative changes in fair value	-	(31)	-	(31)
	40,000	198	3,778	43,976
Addition of capital during the year	15,000	-	-	15,000
Balance as at 31 December 2016	55,000	198	3,778	58,976
31 December 2015				
	Capital	Investment revaluation Reserve	Retained earnings / (accumulated losses)	Total
	<i>RO 000</i>	<i>RO 000</i>	<i>RO 000</i>	<i>RO 000</i>
Balance at 1 January 2015	25,000	198	(1,972)	23,226
Profit for the year	-	-	2,569	2,569
Cumulative changes in fair value	-	31	-	31
	25,000	229	597	25,826
Addition of capital during the year	15,000	-	-	15,000
Balance as at 31 December 2015	40,000	229	597	40,826

The attached notes 1 to 31 form part of these financial statements.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

Statement of sources and uses of charity fund
For the year ended 31 December 2016

	2016	2015
	RO 000	RO 000
Sources of charity funds		
Undistributed charity funds at beginning of the year	7	-
Shari'a non-compliant income	153	7
Donations	-	-
Total sources of funds during the year	<u>160</u>	<u>7</u>
Uses of charity funds		
University and school students	-	-
Health related organizations	(7)	-
Aid to needy families	-	-
Total uses of funds during the year	<u>(7)</u>	<u>-</u>
Undistributed charity funds at end of the year	<u>153</u>	<u>7</u>

The attached notes 1 to 31 form part of these financial statements.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Statement of cash flows
For the year ended 31 December 2016

	2016 RO 000	2015 RO 000
Cash flows from operating activities		
Profit for the year	3,181	2,569
Adjustments for:		
Depreciation	377	254
Depreciation on Ijarah assets	1,426	1,229
Provision for financing impairment	587	936
Investment risk reserve	1	-
Profit equalization reserve	2	2
Operating profit before changes in operating assets and liabilities	5,574	4,990
Operating assets and liabilities:		
Murabaha and other receivables	3,167	7,510
Ijarah Muntahia Bittamleek assets	(6,954)	(6,261)
Proceeds from sale of Ijarah Muntahia Bittamleek assets	1,241	1,646
Diminishing Musharaka financing	(87,438)	(71,522)
Mudaraba financing	(13,085)	(9,483)
Other asset	(677)	(490)
Other liabilities	515	1,237
Qard Hasan from Head Office	6,521	(7,447)
Net cash used in operating activities	(91,136)	(79,820)
Cash flows from investing activities		
Purchase of investments at fair value through equity	-	(6,364)
Purchase of investment at amortised cost	-	(10,000)
Net cash used in investing activities	-	(16,364)
Cash flows from financing activities		
Current account	(9,139)	33,972
Due to banks and financial institutions	3,850	-
Customer Wakala deposit	95,446	62,383
Unrestricted investment accountholders	7,209	(1,205)
Capital	15,000	15,000
Net cash from financing activities	112,366	110,150
Cash and cash equivalents during the year	21,230	13,966
Cash and cash equivalents at the beginning of the year	10,584	(3,382)
Cash and cash equivalents at the end of the year	31,814	10,584
Cash and cash equivalents at the end of the year comprise:		
Cash and balances with CBO	38,949	30,462
Due from banks and financial institutions	68,355	32,447
Due to Head office and other banks	(75,490)	(52,325)
	31,814	10,584

The attached notes 1 to 31 form part of these financial statements.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

Notes to the financial statements

For the year ended 31 December 2016

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 10 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 through equity.

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. All financial information presented in Rial Omani has been rounded to the nearest thousands, unless mentioned otherwise.

Notes to the financial statements

For the year ended 31 December 2016

2 BASIS OF PREPARATION (continued)**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.

2.5 New standards, interpretations and amendments

For the year ended 31 December 2016, the Islamic window has adopted all of the amendments in standards issued by the AAOIFI that are relevant to its operations and effective for periods beginning on 1 January 2016.

The adoption of these standards has not resulted in changes to the Islamic Window accounting policy and has not affected the amounts reported for the current and prior periods.

Standards issued but not yet effective

There are no new standards issued by AAOIFI during the period which may impact the financial statements of the Bank.

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 statement of income.

Notes to the financial statements

For the year ended 31 December 2016

3 SIGNIFICANT ACCOUNTING POLICIES (continued)**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 statement of income. 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 accountholders 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 statement of income.

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.
- (iii) 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

Cash and cash equivalents as referred to in the statement of cash flows comprise cash in hand, balances with central bank (excluding mandatory reserves) and due from/ to banks and financial institutions with an original maturity of ninety days or less.

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 or religious 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.

Notes to the financial statements

For the year ended 31 December 2016

3.7 Murabaha and other receivables

Murabaha receivables are stated net of deferred profits, any amounts written off and provision for doubtful debts, if any.

In Murabaha transactions, the Bank purchases the goods and after taking the possession, sells them to the customer on cost plus profit basis.

Murabaha receivables are sales on deferred payment terms. The Bank arranges a Murabaha transaction by buying goods (which represents the object of the Murabaha) and then sells these goods to Customer (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is paid in instalments by the Customer over the agreed period. (Promise made in the Murabaha to the purchase orderer is not obligatory upon the customer or the Bank considers promise made in the Murabaha to the purchase orderer as obligatory).

Other receivables include credit card receivable which is based on the Islamic financial principle of profit-free Qard Hasan.

3.8 Mudaraba

Mudaraba is stated at the fair value of consideration given less any impairment.

Mudaraba is a partnership in profit whereby one party provides capital (Rab al-maal) and the other party provides labour (Mudarib).

In case mudaraba capital is lost or damaged without misconduct or negligence on the part of mudarib, then such losses are deducted from mudaraba capital and are treated as loss to the Bank. In case of termination or liquidation, unpaid portion by mudarib is recognised as receivable due from mudarib.

3.9 Diminishing Musharaka

Diminishing Musharaka is a contract, based on *Shirkat-ul-Mulk*, between the Bank and a customer for joint ownership of a fixed asset (e.g. house, land, plant or machinery). The Bank divides its share in the fixed asset into units and gradually transfers the ownership of these units to a customer (at carrying value). The use of Bank's share to the customer is based on an Ijarah agreement. Diminishing Musharaka is stated at the fair value of the consideration given, less any impairment.

3.10 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.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

Notes to the financial statements

For the year ended 31 December 2016

3.11 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 statement of income 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 statement of income as an expense when incurred.

3.12 Equity of investment accountholders

Equity of investment accountholders are carried at cost plus profit and related reserves less amounts settled.

Equity of investment accountholders' 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 equity of investment accountholders' share of income is total income from jointly financed Islamic assets less shareholders' income. Pre-agreed profit share generated from equity of investment accountholders is deducted as Mudarib's share after deducting profit equalisation reserve and the remaining amount is distributed to the equity of investment accountholders after deducting investment risk reserve.

3.13 Profit equalisation reserve

Maisarah appropriates certain amount in excess of the profit to be distributed to equity of 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 equity of investment accountholders.

3.14 Investment risk reserve

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

Notes to the financial statements

For the year ended 31 December 2016

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-Shari'a compliant 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 accountholders.

3.18 Joint and self-financed

Investments, financing and receivables that are jointly owned by Maisarah and the equity of 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.

3.20 Revenue recognition**3.20.1 Murabaha receivables**

Profit from Murabaha receivables is recognised on time apportioned basis from the date of Murabaha contract. Income related to non-performing accounts is excluded from statement of income.

3.20.2 Diminishing Musharaka (DM) Financing

'Income from Diminishing Musharaka is recognised when Bank's right to receive payment is established. The right to receive payment is established when a customer enters into an Ijarah agreement for acquiring Bank's ownership in the fixed asset. Income related to non-performing accounts is excluded from statement of income.

3.20.3 Mudaraba financing

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 statement of income on declaration by the Mudarib. Income related to non-performing accounts is excluded from statement of income.

Notes to the financial statements

For the year ended 31 December 2016

3.20 Revenue recognition *(continued)***3.20.4 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 statement of income.

3.20.5 Dividends

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

3.20.6 Fee and Commission income

Fee and commission income is recognised when earned.

3.20.7 Maisarah's share as a Mudarib

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

3.20.8 Income allocation

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

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 Employees' end of service 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 statement of income as incurred.

Notes to the financial statements

For the year ended 31 December 2016

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.

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.

Notes to the financial statements*For the year ended 31 December 2016***4 Critical Accounting Judgment And Key Sources Of Estimation Uncertainty****(a) Going concern**

The Bank's management has made an assessment of the Islamic Window's ability to continue as a going concern and is satisfied that the Islamic Window's has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Islamic Window's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(b) Impairment provisions against financing contracts with customers

Management reviews its financing portfolio to assess impairment at each reporting date. In determining whether an impairment loss should be recorded in the statement of income, 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.

(c) Impairment of investments at fair value through equity

The Islamic Window treats investments carried at fair value through equity as impaired when there is a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Islamic Window evaluates factors, such as the historical share price volatility for comparable quoted equities and future cash flows and the discount factors for comparable unquoted equities.

(d) 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 ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Notes to the financial statements
For the year ended 31 December 2016
5 Cash and balances with Central Bank of Oman

	2016 <i>RO 000</i>	2015 <i>RO 000</i>
Cash in hand	1,812	607
Balances with Central Bank of Oman	37,137	29,855
	<u>38,949</u>	<u>30,462</u>

6 Due from banks and financial institutions

	2016 <i>RO 000</i>	2015 <i>RO 000</i>
Wakala placement – jointly financed	25,015	2,695
Qard Hasan placement – self financed	41,965	29,260
Current clearing account – self financed	1,375	492
	<u>68,355</u>	<u>32,447</u>

7 Murabaha and other receivables

	2016 <i>RO 000</i>	2015 <i>RO 000</i>
Gross Murabaha receivables – jointly financed	11,106	13,806
Less: Unearned income – jointly financed	<u>(1,292)</u>	<u>(754)</u>
	9,814	13,052
Credit card receivables – self financed	71	-
Less: Impairment on portfolio basis (note 24)	<u>(174)</u>	<u>(198)</u>
	<u>9,711</u>	<u>12,854</u>

Murabaha and other receivables past due but not impaired amounts to RO 447 thousand (2015: RO 139 thousand).

8 Mudaraba financing

	2016 <i>RO 000</i>	2015 <i>RO 000</i>
Mudaraba financing – jointly financed	24,852	11,767
Less: Impairment on portfolio basis (note 24)	<u>(244)</u>	<u>(125)</u>
	<u>24,608</u>	<u>11,642</u>

Mudaraba financing past due but not impaired amounts to RO Nil (2015: Nil).

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

Notes to the financial statements
For the year ended 31 December 2016
9 Diminishing Musharaka financing

	2016 <i>RO 000</i>	2015 <i>RO 000</i>
Diminishing Musharaka – jointly financed	239,693	152,255
Less: Impairment on portfolio basis (note 24)	(2,199)	(1,705)
	237,494	150,550

Diminishing Musharaka past due but not impaired amounts to RO 14,672 thousand (2015: RO 6,108 thousand).

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 Investment at fair value through equity

	2016 <i>RO 000</i>	2015 <i>RO 000</i>
Local listed Sukuk – jointly financed	10,198	10,198
Sovereign Sukuk – jointly financed	6,363	6,395
	16,561	16,593

At 31 December 2016, the market value of the Sovereign Sukuk was RO 1.000 per unit (2015: RO 1.005 per unit), whereas, the market value of the Modern Sukuk was RO 101.975 per unit (2015: RO 101.975 per unit).

11 Investment at amortised cost

	2016 <i>RO 000</i>	2015 <i>RO 000</i>
Sovereign Sukuk – jointly financed	10,000	10,000

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Notes to the financial statements
For the year ended 31 December 2016
12 Ijarah Muntahia Bittamleek

	2016 <i>RO 000</i>	2015 <i>RO 000</i>
<i>Cost – jointly financed</i>		
At 1 January	35,220	30,701
Additions	6,954	6,261
Disposals	<u>(1,336)</u>	<u>(1,742)</u>
At 31 December	40,838	35,220
<i>Accumulated depreciation – jointly financed</i>		
At 1 January	2,379	1,246
Charge for the period	1,426	1,229
Disposals	<u>(95)</u>	<u>(96)</u>
At 31 December	3,710	2,379
Net book value at 31 December	<u>37,128</u>	32,841
Less: Impairment on portfolio basis (note 24)	<u>(400)</u>	<u>(402)</u>
Net Ijarah Muntahia Bittamleek	<u>36,728</u>	<u>32,439</u>

Ijarah Muntahia Bittamleek past due but not impaired amounts to RO 1,642 thousand (2015: RO 1,066 thousand).

13 Property and equipment

	2016				
	Furniture, fixtures & equipment <i>RO 000</i>	Motor vehicles <i>RO 000</i>	Computer equipment <i>RO 000</i>	Capital work in progress <i>RO 000</i>	Total <i>RO 000</i>
<i>Cost</i>					
At 1 January	573	42	1,116	45	1,776
Additions	302	12	371	129	814
Disposals / Transfers	-	-	-	(171)	(171)
At 31 December	<u>875</u>	<u>54</u>	<u>1,487</u>	<u>3</u>	<u>2,419</u>
<i>Accumulated depreciation</i>					
At 1 January	(188)	(24)	(356)	-	(568)
Provided during the year	(163)	(12)	(202)	-	(377)
Reversal of depreciation	-	-	-	-	-
At 31 December	<u>(351)</u>	<u>(36)</u>	<u>(558)</u>	<u>-</u>	<u>(945)</u>
Net book value at 31 December	<u>524</u>	<u>18</u>	<u>929</u>	<u>3</u>	<u>1,474</u>

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Notes to the financial statements
For the year ended 31 December 2016
13 Property and equipment (continued)

	2015				Total RO 000
	Furniture , fixtures & equipment RO 000	Motor vehicles RO 000	Computer equipment RO 000	Capital work in progress RO 000	
<i>Cost</i>					
At 1 January	283	28	1,037	25	1,373
Additions	293	14	79	62	448
Disposals / Transfers	(3)	-	-	(42)	(45)
At 31 December	573	42	1,116	45	1,776
<i>Accumulated depreciation</i>					
At 1 January	(86)	(12)	(218)	-	(316)
Provided during the year	(104)	(12)	(138)	-	(254)
Reversal of depreciation	2	-	-	-	2
At 31 December	(188)	(24)	(356)	-	(568)
Net book value at 31 December	385	18	760	45	1,208

14 Other assets

	2016 RO 000	2015 RO 000
Ijarah rental receivables	37	23
Other profit receivables	975	522
Prepayments	146	110
Others	412	219
Acceptances	5,256	335
Total	6,826	1,209

15 Due to Head office and other banks

	2016 RO 000	2015 RO 000
Due to other banks	79,340	52,325
Total	79,340	52,325

Due to Head office and other banks comprises of Wakala deposits. Wakala borrowing from Head office amounts to RO Nil (2015: RO Nil).

16 Qard Hasan from Head Office

	2016 RO 000	2015 RO 000
Qard e Hasan from Head Office (16.1)	15,000	9,360
Current clearing account (16.2)	2,420	867
Total	17,420	10,227

16.1 This amount represents profit-free Qard Hasan facility obtained on real need basis from Head Office for a specific period as part of its liquidity management.

16.2 This amount represents the vostro account of Head Office opened with Maisarah.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Notes to the financial statements
For the year ended 31 December 2016
17 Other Liabilities

	2016 <i>RO 000</i>	2015 <i>RO 000</i>
Payables	313	2,197
Accrued expenses	702	451
Profit payables	2,802	870
Others	65	6
Charity Payable	153	7
Acceptances contra	5,256	335
Total	9,291	3,866

18 Equity of investment accountholders

	2016 <i>RO 000</i>	2015 <i>RO 000</i>
Saving account	15,229	7,985
Term deposit	5	40
Profit equalisation reserve	4	2
Investment risk reserve	1	-
Total	15,239	8,027

There is no restricted investment at reporting date.

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

The investment profits are distributed between owners' equity and equity of investment accountholders for the period ended 31 December 2016 and 2015 as follows:

	<u>Percentage</u>
Equity of investment accountholders share	60%
Mudarib' s share	40%

The investment risk reserve is deducted from investment accountholders share after allocating the Mudarib' s share of profit as per the approved policy in order to cater against future losses of equity of investment accountholders. Investment risk reserve will revert to the investment accountholders 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 investment accountholders before allocating the Mudarib share of income to maintain a certain level of return. Profit equalization reserve will revert to owner's equity and equity of investment accountholders as per terms and condition of Mudaraba contract. Equity of investment accountholders 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.

19 Capital

During 2016, Head office has increased the assigned capital to RO 55 million (2015: RO 40 million) to Maisarah from the core paid up capital of the shareholders.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Notes to the financial statements

For the year ended 31 December 2016

20 Fiduciary assets

There were no funds under management with Maisarah (2015: RO Nil).

21 Income from Islamic finances and investments

	2016 RO 000	2015 RO 000
Murabaha receivables	451	453
Mudaraba	737	249
Ijarah muntahia bittamleek - net*	1,590	1,411
Diminishing Musharaka	9,983	5,565
Profit on investments at fair value through equity	732	543
Profit on investment at amortised cost	351	57
Total	13,844	8,278

* Depreciation on Ijarah Muntahia Bitamleek amounts to RO 1,426 thousand (2015: RO 1,210 thousand).

22 Staff costs

	2016 RO 000	2015 RO 000
Salaries and allowances	2,835	1,843
Other personnel cost	501	386
Non-Omani employee terminal benefit	44	23
Total	3,380	2,252

23 General and administrative expenses

	2016 RO 000	2015 RO 000
Occupancy cost	454	335
Operating and administration cost	874	554
Total	1,328	889

24 Provision for financing impairment

In accordance with the directives of CBO, the movement in the financing impairment provision is analysed as below:

	2016 RO 000	2015 RO 000
A- Impairment provision on portfolio basis		
Balance at the beginning of the year	2,430	1,494
Provided during the year	587	936
Balance at the end of the year	3,017	2,430
B- Impairment provision on specific basis		
Balance at the beginning of the year	-	-
Provided during the year	-	-
Balance at the end of the year	-	-

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Notes to the financial statements
For the year ended 31 December 2016
25 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:

	2016	2015
	RO 000	RO 000
Finances		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	597	505
Deposits and other accounts		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	2,577	17,133
Remuneration paid to Directors & Shari'a Supervisor		
Chairman		
– remuneration proposed	8	6
– sitting fees paid	3	3
Other Members		
– remuneration proposed	24	16
– sitting fees paid	8	7
Other transactions		
Rental payment to a related party	231	231
Key management compensation		
Salaries and other benefits	132	112
End of service benefits	6	4

26 Contingent liabilities and commitments
(a) Credit related contingent items

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

	2016	2015
	RO 000	RO 000
Letters of credit	3,413	4,512
Guarantees	6,756	10,314
Total	10,169	14,826

(b) Capital and investment commitments

	2016	2015
	RO 000	RO 000
Contractual commitments for property and equipment	41	109

(c) The unutilised limits of Maisarah's financing for the year ended 31 December 2016 amounts to RO 95,463 thousand (2015: 71,426 thousand).

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Notes to the financial statements

For the year ended 31 December 2016

27 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:

	2016 <i>RO 000</i>	2015 <i>RO 000</i>
	Contract / Notional Amount	
Forward exchange contracts		
Currency forward - purchase contracts	17,325	30,032
Currency forward - sale contracts	17,335	30,040

As at 31 December 2016, fair value of the exchange contracts remains equivalent to its notional amount.

28 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	2016			
	Level 1 <i>RO 000</i>	Level 2 <i>RO 000</i>	Level 3 <i>RO 000</i>	Total <i>RO 000</i>
Investments at fair value through equity	6,363	10,198	-	16,561
Total	6,363	10,198	-	16,561
	2015			
Fair value information	Level 1 <i>RO 000</i>	Level 2 <i>RO 000</i>	Level 3 <i>RO 000</i>	Total <i>RO 000</i>
Investment at fair value through equity	6,395	10,198	-	16,593
Total	6,395	10,198	-	16,593

Notes to the financial statements*For the year ended 31 December 2016***29 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.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Notes to the financial statements
For the year ended 31 December 2016
29 Financial risk management (continued)
Credit risk (continued)
(a) Geographical concentrations

	2016	
	Due from banks and financial institutions RO 000	Due to Banks and financial Institutions RO 000
Sultanate of Oman	59,280	47,000
Other GCC Countries	7,967	20,790
Europe and North America	1,108	-
Africa and Asia	-	11,550
	<u>68,355</u>	<u>79,340</u>
	2015	
	Due from banks and financial institutions RO 000	Due to Banks and financial Institutions RO 000
Sultanate of Oman	31,955	35,000
Other GCC Countries	238	-
Europe and North America	254	-
Africa and Asia	-	17,325
	<u>32,447</u>	<u>52,325</u>

(b) Customer concentrations
Customer concentrations on asset (Gross)

	2016				
	Due from banks and financial institutions RO 000	Murabaha and other receivables RO 000	Mudaraba Financing RO 000	Diminishing Musharaka financing RO 000	Ijarah Muntahia Bittamleek RO 000
Retail	-	5,422	-	84,374	37,128
Corporate	68,355	4,463	24,852	155,319	-
	<u>68,355</u>	<u>9,885</u>	<u>24,852</u>	<u>239,693</u>	<u>37,128</u>
	2015				
	Due from banks and financial institutions RO 000	Murabaha and other receivables RO 000	Mudaraba Financing RO 000	Diminishing Musharaka financing RO 000	Ijarah Muntahia Bittamleek RO 000
Retail	-	3,162	-	57,905	32,841
Corporate	32,447	9,890	11,767	94,350	-
	<u>32,447</u>	<u>13,052</u>	<u>11,767</u>	<u>152,255</u>	<u>32,841</u>

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Notes to the financial statements
For the year ended 31 December 2016
29 Financial risk management (continued)
Credit risk (continued)
(c) Economic sector concentrations (Gross)

	2016			
	Murabaha and other receivables <i>RO 000</i>	Mudaraba Financing <i>RO 000</i>	Diminishing Musharaka Financing <i>RO 000</i>	Ijarah Muntahia Bittamleek <i>RO 000</i>
Personal	5,422	-	84,374	37,128
Construction	226	10,607	104,868	-
Manufacturing	-	-	2,863	-
Other services	45	2,514	41,899	-
Others	4,192	11,731	5,689	-
	9,885	24,852	239,693	37,128

	2015			
	Murabaha and other receivables <i>RO 000</i>	Mudaraba Financing <i>RO 000</i>	Diminishing Musharaka Financing <i>RO 000</i>	Ijarah Muntahia Bittamleek <i>RO 000</i>
Personal	3,162	-	57,905	32,841
Construction	236	4,270	58,602	-
Manufacturing	-	-	1,582	-
Other services	9	2,457	29,869	-
Others	9,645	5,040	4,297	-
	13,052	11,767	152,255	32,841

(d) Gross credit exposure

	2016	
	Total gross exposure <i>RO 000</i>	Monthly average gross exposure <i>RO 000</i>
Murabaha and other receivables	9,885	8,777
Mudaraba financing	24,852	15,651
Diminishing Musharaka Financing	239,693	205,806
Ijarah Muntahia Bittamleek	37,128	33,980

	2015	
	Total gross exposure <i>RO 000</i>	Monthly average gross exposure <i>RO 000</i>
Murabaha and other receivables	13,052	16,341
Mudaraba financing	11,767	5,281
Diminishing Musharaka Financing	152,255	119,611
Ijarah Muntahia Bittamleek	32,841	30,480

Notes to the financial statements

For the year ended 31 December 2016

29 Financial risk management (continued)

Credit risk (continued)

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

	2016				
	Murabaha and other receivables RO 000	Mudaraba financing RO 000	Diminishing Musharaka Financing RO 000	Ijarah Muntahia Bittamleek RO 000	Off balance sheet exposures RO 000
Import trade	4,074	3,148	38	-	3,421
Export trade	-	6,848	-	-	-
Wholesale & retail trade	18	893	739	-	1
Mining & quarrying	-	842	4,601	-	-
Construction	226	10,607	104,868	-	5,352
Manufacturing	-	-	2,863	-	1,298
Transport & communication	51	-	143	-	-
Services	45	2,514	41,899	-	97
Retail	5,422	-	84,374	37,128	-
Others	49	-	168	-	-
	9,885	24,852	239,693	37,128	10,169

	2015				
	Murabaha and other receivables RO 000	Mudaraba financing RO 000	Diminishing Musharaka Financing RO 000	Ijarah Muntahia Bittamleek RO 000	Off balance sheet exposures RO 000
Import trade	9,448	4,035	51	-	7,092
Export trade	-	-	-	-	121
Wholesale & retail trade	-	350	550	-	-
Mining & quarrying	38	655	3,479	-	-
Construction	236	4,270	58,602	-	7,004
Manufacturing	-	-	1,582	-	182
Transport & communication	99	-	184	-	-
Services	9	2,457	29,869	-	427
Retail	3,162	-	57,905	32,841	-
Others	60	-	33	-	-
	13,052	11,767	152,255	32,841	14,826

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Notes to the financial statements
For the year ended 31 December 2016
29 Financial risk management (continued)
Credit risk (continued)
(f) Residual contractual maturities of the portfolio by major types of credit exposures:

	2016				
	Murabaha and other receivables <i>RO 000</i>	Mudaraba financing <i>RO 000</i>	Diminishing Musharaka Financing <i>RO 000</i>	Ijarah Muntahia Bittamleek <i>RO 000</i>	Off Balance sheet exposures <i>RO 000</i>
Upto 1 month	510	24,852	-	-	1,060
1 - 3 months	1,388	-	530	-	2,125
3 - 6 months	2,029	-	-	-	3,227
6 - 9 months	145	-	70	-	1,363
9 - 12 months	18	-	52	-	1,131
1 - 3 years	587	-	7,287	161	1,263
3 – 5 years	949	-	17,411	450	-
Over 5 years	4,259	-	214,343	36,517	-
	9,885	24,852	239,693	37,128	10,169

	2015				
	Murabaha and other receivables <i>RO 000</i>	Mudaraba financing <i>RO 000</i>	Diminishing Musharaka Financing <i>RO 000</i>	Ijarah Muntahia Bittamleek <i>RO 000</i>	Off Balance sheet exposures <i>RO 000</i>
Upto 1 month	7,908	11,767	-	-	8,833
1 - 3 months	891	-	-	-	2,464
3 - 6 months	660	-	489	-	178
6 - 9 months	31	-	835	-	1,119
9 - 12 months	53	-	53	-	664
1 - 3 years	440	-	4,599	117	1,488
3 – 5 years	754	-	9,569	449	-
Over 5 years	2,315	-	136,710	32,275	80
	13,052	11,767	152,255	32,841	14,826

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Notes to the financial statements
For the year ended 31 December 2016
29 Financial risk management (continued)
Credit risk (continued)
(g) Distribution of past due and not past due financing by type of industry:

	2016				
	Performing Murabaha and other receivables RO 000	Performing Mudaraba Financing RO 000	Performing Diminishing Musharaka Financing RO 000	Performing Ijarah Muntahia Bittamleek RO 000	General provisions made during the year RO 000
Import trade	4,074	3,148	38	-	(64)
Export trade	-	6,848	-	-	(60)
Wholesale & retail trade	18	893	739	-	(14)
Mining & quarrying	-	842	4,601	-	(48)
Construction	226	10,607	104,868	-	(1,013)
Manufacturing	-	-	2,863	-	(25)
Transport & communication	51	-	143	-	(2)
Services	45	2,514	41,899	-	(390)
Retail	5,422	-	84,374	37,128	(1,399)
Others	49	-	168	-	(2)
	9,885	24,852	239,693	37,128	(3,017)

	2015				
	Performing Murabaha and other receivables RO 000	Performing Mudaraba Financing RO 000	Performing Diminishing Musharaka Financing RO 000	Performing Ijarah Muntahia Bittamleek RO 000	General provisions made during the year RO 000
Import trade	9,448	4,035	51	-	(147)
Wholesale & retail trade	-	350	550	-	(10)
Mining & quarrying	38	655	3,479	-	(46)
Construction	236	4,270	58,602	-	(688)
Manufacturing	-	-	1,582	-	(17)
Transport & communication	99	-	184	-	(3)
Services	9	2,457	29,869	-	(353)
Retail	3,162	-	57,905	32,841	(1,165)
Others	60	-	33	-	(1)
	13,052	11,767	152,255	32,841	(2,430)

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

Notes to the financial statements

For the year ended 31 December 2016

29 Financial risk management (continued)
Credit risk (continued)
(h) Maximum exposure to credit risk without consideration of collateral held:

	2016 <i>RO 000</i>	2015 <i>RO 000</i>
Due from banks and financial institutions	68,355	32,447

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.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Notes to the financial statements
For the year ended 31 December 2016
29 Financial risk management (continued)
Liquidity risk (continued)
Maturity profile of assets and liabilities

	2016					Total RO 000
	Due on demand and up to 30 days RO 000	More than 1 month to 6 months RO 000	More than 6 months to 12 months RO 000	More than 1 year to 5 years RO 000	Over 5 years RO 000	
Cash and balances with Central Bank of Oman	38,949	-	-	-	-	38,949
Due from banks and financial institutions	68,355	-	-	-	-	68,355
Murabaha and other receivables	4,170	531	584	3,537	889	9,711
Mudaraba financing	1,243	2,485	2,424	12,426	6,030	24,608
Diminishing Musharaka financing	4,507	23,039	25,247	114,695	70,006	237,494
Investments at fair value through equity	-	-	-	16,561	-	16,561
Investment at amortised cost	-	-	-	10,000	-	10,000
Ijarah Muntahia Bittamleek	279	1,393	1,572	12,921	20,563	36,728
Property and equipment	-	-	-	-	1,474	1,474
Other asset	2,277	3,991	-	-	558	6,826
Total assets	119,780	31,439	29,827	170,140	99,520	450,706
Current accounts	9,616	13,243	7,568	-	9,459	39,886
Due to Head office and other banks	67,790	11,550	-	-	-	79,340
Qard Hasan from Head Office	2,420	-	-	15,000	-	17,420
Customer Wakala Deposit	20,768	82,380	31,446	59,784	36,176	230,554
Other liabilities	5,300	3,991	-	-	-	9,291
Equity of unrestricted investment accountholders	766	1,523	1,523	7,615	3,812	15,239
Owner's equity	-	-	-	-	58,976	58,976
Total liabilities and accountholders owners' equity	106,660	112,687	40,537	82,399	108,423	450,706

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Notes to the financial statements
For the year ended 31 December 2016
29 Financial risk management (continued)
Liquidity risk (continued)
Maturity profile of assets and liabilities (continued)

	2015					Total RO 000
	Due on demand and up to 30 days RO 000	More than 1 month to 6 months RO 000	More than 6 months to 12 months RO 000	More than 1 year to 5 years RO 000	Over 5 years RO 000	
Cash and balances with Central Bank of Oman	30,462	-	-	-	-	30,462
Due from banks and financial institutions	32,447	-	-	-	-	32,447
Murabaha and other receivables	9,543	355	412	2,193	351	12,854
Mudaraba financing	588	1,177	1,177	5,884	2,816	11,642
Diminishing Musharaka financing	3,786	13,905	15,621	66,170	51,068	150,550
Investments at fair value through equity	-	-	-	16,593	-	16,593
Investment at amortised cost	-	-	-	10,000	-	10,000
Ijarah Muntahia Bittamleek	240	1,199	1,439	11,222	18,339	32,439
Property and equipment	-	-	-	-	1,208	1,208
Other asset	729	151	-	-	329	1,209
Total assets	77,795	16,787	18,649	112,062	74,111	299,404
Current accounts	11,050	16,614	9,494	-	11,867	49,025
Due to Head office and other banks	52,325	-	-	-	-	52,325
Qard Hasan from Head Office	867	-	-	9,360	-	10,227
Customer Wakala Deposit	25,552	75,371	15	34,170	-	135,108
Other liabilities	2,470	696	311	-	389	3,866
Equity of unrestricted investment accountholders	399	798	808	4,022	2,000	8,027
Owner's equity	-	-	-	-	40,826	40,826
Total liabilities and account holders & owners' equity	92,663	93,479	10,628	47,552	55,082	299,404

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.

Notes to the financial statements

For the year ended 31 December 2016

29 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 - WINDOW OF BANK DHOFAR SAOG
Notes to the financial statements
For the year ended 31 December 2016
29 Financial risk management (continued)
Market risk (continued)
Profit rate sensitivity gap (continued)
2016

	Effective average profit rates %	Due on demand and within 30 days RO 000	Due within 1 to 6 months RO 000	Due within 7 to 12 months RO 000	Due within 1 to 5 years RO 000	Due after 5 years RO 000	Non- profit bearing RO 000	Total RO 000
Cash and balances with Central Bank of Oman	-	-	-	-	-	-	38,949	38,949
Due from banks and financial institutions	0.49%	25,015	-	-	-	-	43,340	68,355
Murabaha and other receivables	4.97%	4,099	531	584	3,537	889	71	9,711
Mudaraba financing	4.98%	24,608	-	-	-	-	-	24,608
Diminishing Musharaka Financing	4.96%	4,507	23,039	25,247	114,695	70,006	-	237,494
Investments at fair value through equity	4.84%	-	-	-	16,561	-	-	16,561
Investment at amortised cost	3.50%	-	-	-	10,000	-	-	10,000
Ijara Muntahia Bittamleek	4.70%	279	1,393	1,572	12,921	20,563	-	36,728
Property and equipment	-	-	-	-	-	-	1,474	1,474
Other asset	-	-	-	-	-	-	6,826	6,826
Total assets		58,508	24,963	27,403	157,714	91,458	90,660	450,706
Current accounts	1.97%	5,639	9,869	5,639	-	7,049	11,690	39,886
Due to Head office and other banks	1.08%	67,790	11,550	-	-	-	-	79,340
Qard Hasan from Head office	-	-	-	-	-	-	17,420	17,420
Customer Wakala deposit	2.97%	20,768	82,380	31,446	59,784	36,176	-	230,554
Other liabilities	-	-	-	-	-	-	9,291	9,291
Equity of unrestricted investment acountholders	1.09%	15,234	-	-	-	-	5	15,239
Owner's equity	-	-	-	-	-	-	58,976	58,976
Equity of acountholders & Total liabilities and shareholders' equity		109,431	103,799	37,085	59,784	43,225	97,382	450,706
On-balance sheet gap		(50,923)	(78,836)	(9,682)	97,930	48,233	(6,722)	-
Cumulative profit sensitivity gap		(50,923)	(129,759)	(139,441)	(41,511)	6,722	-	-

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Notes to the financial statements
For the year ended 31 December 2016
29 Financial risk management (continued)
Market risk (continued)
Profit rate sensitivity gap (continued)

2015

	Effective average profit rates %	Due on demand and within 30 days RO 000	Due within 1 to 6 months RO 000	Due within 7 to 12 months RO 000	Due within 1 to 5 years RO 000	Due after 5 years RO 000	Non- profit bearing RO 000	Total RO 000
Cash and balances with Central Bank of Oman	-	-	-	-	-	-	30,462	30,462
Due from banks and financial institutions	0.11%	2,695	-	-	-	-	29,752	32,447
Murabaha and other receivables	2.79%	9,543	355	412	2,193	351	-	12,854
Mudaraba financing	5.41%	11,642	-	-	-	-	-	11,642
Diminishing Musharaka Financing	4.80%	3,786	13,905	15,621	66,170	51,068	-	150,550
Investments at fair value through equity	4.84%	-	-	-	16,593	-	-	16,593
Investment at amortised cost	3.50%	-	-	-	10,000	-	-	10,000
Ijara Muntahia Bittamleek	4.65%	240	1,199	1,439	11,222	18,339	-	32,439
Property and equipment	-	-	-	-	-	-	1,208	1,208
Other asset	-	-	-	-	-	-	1,209	1,209
Total assets		27,906	15,459	17,472	106,178	69,758	62,631	299,404
Current accounts	1.11%	8,753	12,279	7,017	-	8,774	12,382	49,025
Due to Head office and other banks	0.62%	52,325	-	-	-	-	-	52,325
Qard Hasan from Head office	-	-	-	-	-	-	10,227	10,227
Customer Wakala deposit	1.57%	25,552	75,371	15	34,170	-	-	135,108
Other liabilities		2,286	545	311	-	724	-	3,866
Equity of unrestricted investment acountholders	1.02%	-	-	10	30	-	7,987	8,027
Owner's equity	-	-	-	-	-	-	40,826	40,826
Equity of acountholders & Total liabilities and shareholders' equity		88,736	88,195	7,353	34,200	50,324	30,596	299,404
On-balance sheet gap		(60,380)	(72,736)	10,119	71,978	60,260	(8,791)	-
Cumulative profit sensitivity gap		(60,380)	(133,566)	(123,447)	(51,469)	8,791	-	-

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Notes to the financial statements

For the year ended 31 December 2016

29 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.

30 Segmental information

Maisarah is organised into three main business segments:

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

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

	2016			Total RO 000
	Retail banking RO 000	Corporate banking RO 000	Treasury and investments RO 000	
Segment operating revenues	5,102	7,661	13	12,776
Other revenues	103	673	1,201	1,977
Total segment operating revenues	5,205	8,334	1,214	14,753
Profit expenses	(307)	(4,940)	(653)	(5,900)
Net operating income	4,898	3,394	561	8,853
Segment cost				
Operating expenses including depreciation	(1,723)	(2,445)	(917)	(5,085)
Provision for impairment	(234)	(353)	-	(587)
Net profit for the year before tax	2,941	596	(356)	3,181
Segment assets	127,480	191,598	134,645	453,723
Less: Provision for impairment	(1,399)	(1,618)	-	(3,017)
Total segment assets	126,081	189,980	134,645	450,706
Segment liabilities	9,136	270,321	97,034	376,491

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Notes to the financial statements
For the year ended 31 December 2016
30 Segmental information (continued)

	2015			
	Retail banking <i>RO 000</i>	Corporate banking <i>RO 000</i>	Treasury and investments <i>RO 000</i>	Total <i>RO 000</i>
Segment operating revenues	3,348	4,330	5	7,683
Other revenues	169	343	659	1,171
Total segment operating revenues	3,517	4,673	664	8,854
Profit expenses	(134)	(1,659)	(161)	(1,954)
Net operating income	3,383	3,014	503	6,900
Segment cost				
Operating expenses including depreciation	(1,479)	(1,914)	(2)	(3,395)
Provision for impairment	(553)	(383)	-	(936)
Net profit / (loss) for the year before tax	1,351	717	501	2,569
Segment assets	94,576	117,277	89,981	301,834
Less: Provision for impairment	(1,165)	(1,265)	-	(2,430)
Total segment assets	93,411	116,012	89,981	299,404
Segment liabilities	17,591	169,514	63,446	250,551

31 Comparative amounts

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