

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

31 DECEMBER 2017

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

**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 2017, 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 2017, 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 2017, 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 2017 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.

Muscat
[DATE]

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Statement of Financial Position
At 31 December 2017

	<i>Note</i>	2017 RO 000	2016 <i>RO 000</i>
Assets			
Cash and balances with Central Bank of Oman	5	81,398	38,949
Due from banks and financial institutions	6	41,606	68,355
Murabaha and other receivables	7	26,846	9,711
Mudaraba financing	8	23,259	24,608
Diminishing Musharaka financing	9	289,489	237,494
Investments at fair value through equity	10	22,342	16,561
Investment at amortised cost	11	10,000	10,000
Ijarah Muntahia Bittamleek	12	43,851	36,728
Property and equipment	13	1,401	1,474
Other assets	14	3,084	6,826
Total assets		543,276	450,706
Liabilities, equity of investment accountholders and owners' equity			
Liabilities			
Current accounts		72,155	39,886
Due to banks	15	71,950	79,340
Qard Hasan from Head office	16	23,956	17,420
Customer Wakala deposits		278,350	230,554
Other liabilities	17	8,407	9,291
Total liabilities		454,818	376,491
Equity of investment accountholders	18	26,287	15,239
Owners' equity			
Capital	19	55,000	55,000
Reserves		204	198
Retained Earnings		6,967	3,778
Total owners' equity		62,171	58,976
Total liabilities, equity of investment accountholders and owners' equity		543,276	450,706
Contingent liabilities and commitments	26	12,780	10,169

The Financial statements were approved by the Board of Directors on 29 January 2018 and signed on their behalf by

 Chairman

 Chief Executive Islamic Banking

The attached notes 1 to 30 form part of these financial statements.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Statement of income
For the year ended 31 December 2017

	<i>Note</i>	2017	2016
		RO 000	<i>RO 000</i>
Income			
Income from Islamic finances and investments	21	19,932	13,844
Income on Wakala placements		138	13
		20,070	13,857
Less:			
Return on equity of investment accountholders		(201)	(119)
Return on customer Wakala deposits		(9,762)	(5,128)
Return on interbank Wakala deposit		(358)	(653)
		(10,321)	(5,900)
Maisarah's share in income from investment as a Mudarib and Rabul Maal		9,749	7,957
Revenue from banking services		940	819
Foreign exchange gain – net		184	77
Other revenues		2	-
Total revenue		10,875	8,853
Staff costs	22	(4,162)	(3,380)
General and administrative expenses	23	(1,796)	(1,328)
Provision for financing impairment	24	(1,319)	(587)
Depreciation	13	(409)	(377)
Total expenses		(7,686)	(5,672)
Profit for the year before taxation		3,189	3,181

The attached notes 1 to 30 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 2017
31 December 2017

	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 2017	55,000	198	3,778	58,976
Profit for the year	-	-	3,189	3,189
Cumulative changes in fair value	-	6	-	6
Balance as at 31 December 2017	55,000	204	6,967	62,171

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)
Balance as at 31 December 2016	55,000	198	3,778	58,976

The attached notes 1 to 30 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 2017

	2017	2016
	RO 000	RO 000
Sources of charity funds		
Undistributed charity funds at beginning of the year	153	7
Shari'a non-compliant income	201	153
Donations	-	-
Total sources of funds during the year	<u>354</u>	<u>160</u>
Uses of charity funds		
University and school students	-	-
Health related organizations	(153)	(7)
Aid to needy families	-	-
Total uses of funds during the year	<u>(153)</u>	<u>(7)</u>
Undistributed charity funds at end of the year	<u>201</u>	<u>153</u>

The attached notes 1 to 30 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 2017

	2017	2016
	RO 000	RO 000
Cash flows from operating activities		
Profit for the year	3,189	3,181
Adjustments for:		
Depreciation	409	377
Depreciation on Ijarah assets	1,713	1,426
Gain on sale of property and equipment	(2)	-
Provision for financing impairment	1,319	587
Investment risk reserve	1	1
Profit equalisation reserve	3	2
Operating profit before changes in operating assets and liabilities	6,632	5,574
Operating assets and liabilities:		
Murabaha and other receivables	(17,351)	3,167
Ijarah Muntahia Bittamleek assets	(9,537)	(6,954)
Proceeds from sale of Ijarah Muntahia Bittamleek assets	619	1,241
Diminishing Musharaka financing	(53,038)	(87,438)
Mudaraba financing	1,371	(13,085)
Other asset	(936)	(677)
Other liabilities	3,730	515
Qard Hasan from Head Office	6,266	6,521
Net cash used in operating activities	(62,244)	(91,136)
Cash flows from investing activities		
Purchase of investments at fair value through equity	(5,775)	-
Net cash used in investing activities	(5,775)	-
Cash flows from financing activities		
Current account	32,269	(9,139)
Due to banks and financial institutions	(3,850)	3,850
Customer Wakala deposit	47,796	95,446
Unrestricted investment accountholders	11,044	7,209
Increase in allocated capital	-	15,000
Net cash from financing activities	87,259	112,366
Increase in cash and cash equivalents	19,240	21,230
Cash and cash equivalents at the beginning of the year	31,814	10,584
Cash and cash equivalents at the end of the year	51,054	31,814
Cash and cash equivalents at the end of the year comprise:		
Cash and balances with CBO	81,398	38,949
Due from banks and financial institutions	41,606	68,355
Due to banks	(71,950)	(75,490)
	51,054	31,814

The attached notes 1 to 30 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 2017

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 2017

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 recognised 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 2017, 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 2017.

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**FAS 30 *Impairment, Credit losses and onerous commitments***

In November 2017, AAOIFI issued FAS 30 – Impairment, credit losses and onerous commitments, the standard superseded the earlier FAS 11 – Provision and Reserves, effective from the financial periods beginning on or after 01 January 2020, with early adoption permitted.

However, during the year, the CBO has issue a circular BM 1149 dated 13 April 2017 governing implementation of IFRS 9 Financial Instruments (IFRS 9) for all the banks, which also apply to Islamic banks / windows subject to any specific instructions by the Central Bank for Islamic Banking entities on IFRS 9 if, as and when instructions are issued.

The Islamic window has assessed the estimated impact of the initial application of IFRS 9 and its initial estimate is expected to impact total owner's equity by 0.11% as of 01 January 2018. This is preliminary, because not all transition work has been finalized. The actual impact of adopting IFRS 9 on 01 January 2018 may change accordingly.

Notes to the financial statements

For the year ended 31 December 2017

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.

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 derecognised 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.

Notes to the financial statements

For the year ended 31 December 2017

3 SIGNIFICANT ACCOUNTING POLICIES (continued)**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.

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, and travel finance which is based on the on Islamic financial principle of Ujrah.

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.

Notes to the financial statements

For the year ended 31 December 2017

3 SIGNIFICANT ACCOUNTING POLICIES (continued)
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 is calculated as per Equal Monthly Instalment (EMI) method as per the terms agreed with customer.

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:

	Years
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 capitalised 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.

Notes to the financial statements

For the year ended 31 December 2017

3 SIGNIFICANT ACCOUNTING POLICIES (continued)**3.13 Equity of investment accountholders (continued)**

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.

3.14 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.

3.15 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.

3.16 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.

3.17 Earnings prohibited by Shari'a

All the funds mobilised 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.

3.18 Zakah

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

3.19 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".

Notes to the financial statements

For the year ended 31 December 2017

3 SIGNIFICANT ACCOUNTING POLICIES (continued)**3.20 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.

3.21 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.

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.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

Notes to the financial statements

For the year ended 31 December 2017

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recognised 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.

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 recognised 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.

Notes to the financial statements*For the year ended 31 December 2017***3 SIGNIFICANT ACCOUNTING POLICIES (continued)****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) 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.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Notes to the financial statements
For the year ended 31 December 2017
4 Critical Accounting Judgment And Key Sources Of Estimation Uncertainty (continued)
(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.

5 Cash and balances with Central Bank of Oman

	2017 <i>RO 000</i>	2016 <i>RO 000</i>
Cash in hand	2,024	1,812
Balances with Central Bank of Oman	79,374	37,137
	<u>81,398</u>	<u>38,949</u>

6 Due from banks and financial institutions

	2017 <i>RO 000</i>	2016 <i>RO 000</i>
Wakala placement – jointly financed	23,100	25,015
Qard Hasan placement – jointly financed	17,325	41,965
Current clearing account – jointly financed	1,181	1,375
	<u>41,606</u>	<u>68,355</u>

During 2016, Qard Hasan placement and Current clearing account were classified under self-financed.

7 Murabaha and other receivables

	2017 <i>RO 000</i>	2016 <i>RO 000</i>
Gross Murabaha receivables – jointly financed	29,743	11,106
Gross Ujrah receivables – jointly financed	4	-
Less: Unearned income – jointly financed	(2,753)	(1,292)
	<u>26,994</u>	9,814
Credit card receivables – self financed	242	71
Less: Impairment on portfolio basis (note 24)	(390)	(174)
	<u>26,846</u>	<u>9,711</u>

Murabaha and other receivables past due but not impaired amounts to RO 185 thousand (2016: RO 447 thousand).

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG**Notes to the financial statements***For the year ended 31 December 2017***8 Mudaraba financing**

	2017	2016
	RO 000	RO 000
Mudaraba financing – jointly financed	23,481	24,852
Less: Impairment on portfolio basis (note 24)	(222)	(244)
	<u>23,259</u>	<u>24,608</u>

Mudaraba financing past due but not impaired amounts to RO Nil (2016: Nil).

9 Diminishing Musharaka financing

	2017	2016
	RO 000	RO 000
Diminishing Musharaka – jointly financed	292,731	239,693
Less: Impairment on portfolio basis (note 24)	(3,242)	(2,199)
	<u>289,489</u>	<u>237,494</u>

Diminishing Musharaka past due but not impaired amounts to RO 36,913 thousand (2016: RO 14,672 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

	2017	2016
	RO 000	RO 000
Local listed Sukuk – jointly financed	10,198	10,198
Sovereign Sukuk – jointly financed	12,144	6,363
	<u>22,342</u>	<u>16,561</u>

During the year, Maisarah has invested RO 5.775 million in internationally listed Sovereign Sukuk issued by Sovereign Sukuk SAOC.

At 31 December 2017, the market values of local and internationally listed Sovereign Sukuk were RO 1.000 per unit (2016: RO 1.000 per unit) and RO 100.113 per unit respectively. Whereas, the market value of the Modern Sukuk was RO 101.975 per unit (2016: RO 101.975 per unit).

11 Investment at amortised cost

	2017	2016
	RO 000	RO 000
Sovereign Sukuk – jointly financed	<u>10,000</u>	<u>10,000</u>

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Notes to the financial statements
For the year ended 31 December 2017
12 Ijarah Muntahia Bittamleek

	2017 <i>RO 000</i>	2016 <i>RO 000</i>
<i>Cost – jointly financed</i>		
At 1 January	40,838	35,220
Additions	9,537	6,954
Disposals	(753)	(1,336)
At 31 December	<u>49,622</u>	<u>40,838</u>
<i>Accumulated depreciation – jointly financed</i>		
At 1 January	3,710	2,379
Charge for the period	1,713	1,426
Disposals	(134)	(95)
At 31 December	<u>5,289</u>	<u>3,710</u>
Net book value at 31 December	<u>44,333</u>	<u>37,128</u>
Less: Impairment on portfolio basis (note 24)	(482)	(400)
Net Ijarah Muntahia Bittamleek	<u>43,851</u>	<u>36,728</u>

Ijarah Muntahia Bittamleek past due but not impaired amounts to RO 1,516 thousand (2016: RO 1,642 thousand).

13 Property and equipment

	2017				
	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	875	54	1,487	3	2,419
Additions	164	7	113	58	342
Disposals / Transfers	-	-	-	(6)	(6)
At 31 December	<u>1,039</u>	<u>61</u>	<u>1,600</u>	<u>55</u>	<u>2,755</u>
<i>Accumulated depreciation</i>					
At 1 January	(351)	(36)	(558)	-	(945)
Provided during the year	(171)	(11)	(227)	-	(409)
At 31 December	<u>(522)</u>	<u>(47)</u>	<u>(785)</u>	<u>-</u>	<u>(1,354)</u>
Net book value at 31 December	<u>517</u>	<u>14</u>	<u>815</u>	<u>55</u>	<u>1,401</u>

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Notes to the financial statements
For the year ended 31 December 2017
13 Property and equipment (continued)

	2016				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	573	42	1,116	45	1,776
Additions	302	12	371	129	814
Disposals / Transfers	-	-	-	(171)	(171)
At 31 December	875	54	1,487	3	2,419
<i>Accumulated depreciation</i>					
At 1 January	(188)	(24)	(356)	-	(568)
Provided during the year	(163)	(12)	(202)	-	(377)
At 31 December	(351)	(36)	(558)	-	(945)
Net book value at 31 December	524	18	929	3	1,474

14 Other assets

	2017 RO 000	2016 RO 000
Ijarah rental receivables	37	37
Other profit receivables	1,584	975
Prepayments	142	146
Others	975	412
Acceptances	582	5,256
Less: Reserve for suspended profit	(136)	-
Less: Provision against other assets	(100)	-
Total	3,084	6,826

15 Due to banks

	2017 RO 000	2016 RO 000
Due to banks	71,950	79,340
Total	71,950	79,340

Due to banks comprises of Wakala deposits.

16 Qard Hasan from Head Office

	2017 RO 000	2016 RO 000
Qard Hasan from Head Office (16.1)	20,000	15,000
Current clearing account (16.2)	3,956	2,420
Total	23,956	17,420

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 2017
17 Other liabilities

	2017	2016
	RO 000	RO 000
Payables	650	313
Accrued expenses	853	702
Profit payables	6,065	2,802
Others	56	65
Charity payable	201	153
Acceptances contra	582	5,256
Total	8,407	9,291

18 Equity of investment accountholders

	2017	2016
	RO 000	RO 000
Saving account	26,278	15,229
Term deposit	-	5
Profit equalisation reserve	7	4
Investment risk reserve	2	1
Total	26,287	15,239

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 2017 and 2016 as follows:

	<u>2017</u>	<u>2016</u>
Equity of investment accountholders share	50%	60%
Mudarib's share	50%	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 equalisation 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 equalisation 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 2017, there was no increase in assigned capital to Maisarah from the core paid up capital of the shareholders. Whereas during 2016, the assigned capital to Maisarah was increased to OMR 15 million.

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Notes to the financial statements
For the year ended 31 December 2017
20 Fiduciary assets

There were no funds under management with Maisarah (2016: RO Nil).

21 Income from Islamic finances and investments

	2017 RO 000	2016 RO 000
Murabaha receivables	925	451
Mudaraba	1,493	737
Ijarah muntahia bittamleek – net*	2,073	1,590
Diminishing Musharaka	14,213	9,983
Profit on investments at fair value through equity	878	732
Profit on investment at amortised cost	350	351
Total	19,932	13,844

* Depreciation on Ijarah Muntahia Bitamleek amounts to RO 1,713 thousand (2016: RO 1,426 thousand).

22 Staff costs

	2017 RO 000	2016 RO 000
Salaries and allowances	3,471	2,835
Other personnel cost	635	501
Non-Omani employee terminal benefit	56	44
Total	4,162	3,380

23 General and administrative expenses

	2017 RO 000	2016 RO 000
Occupancy cost	517	454
Operating and administration cost	1,279	874
Total	1,796	1,328

24 Provision for financing impairment

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

	2017 RO 000	2016 RO 000
A- Impairment provision on portfolio basis		
Balance at the beginning of the year	3,017	2,430
Provided during the year	730	587
Balance at the end of the year	3,747	3,017
B- Impairment provision on specific basis		
Balance at the beginning of the year	-	-
Provided during the year	810	-
Less: provision written back during year	(221)	-
Balance at the end of the year	589	-

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Notes to the financial statements
For the year ended 31 December 2017
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:

	2017	2016
	RO 000	RO 000
Finances		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	743	597
Deposits and other accounts		
Directors, members of Shari'a Supervisory Board and shareholders holding 10% or more interest in the Bank	18,268	2,577
Remuneration paid to Shari'a Board members & Shari'a Supervisor		
Chairman		
– remuneration proposed	8	8
– sitting fees paid	3	3
Other Members		
– remuneration proposed	24	24
– sitting fees paid	7	8
Other transactions		
Rental payment to a related party	237	231
Key management compensation		
Salaries and other benefits	216	132
End of service benefits	13	6

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

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

	2017	2016
	RO 000	RO 000
Letters of credit	5,103	3,413
Guarantees	7,677	6,756
Total	12,780	10,169

(b) Capital and investment commitments

	2017	2016
	RO 000	RO 000
Contractual commitments for property and equipment	44	41

(c) The unutilised limits of Maisarah's financing for the year ended 31 December 2017 amounts to RO 110,693 thousand (2016: 95,463 thousand).

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

For the year ended 31 December 2017

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:

	2017 <i>RO 000</i>	2016 <i>RO 000</i>
	Contract / Notional Amount	
Forward exchange contracts		
Currency forward - purchase contracts	-	17,325
Currency forward - sale contracts	-	17,335

As of 31 December 2017, the Islamic window has not forward exchange contracts.

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	2017			
	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	12,144	10,198	-	22,342
Total	12,144	10,198	-	22,342
	2016			
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	6,363	10,198	-	16,561
Total	6,363	10,198	-	16,561

Notes to the financial statements*For the year ended 31 December 2017***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 2017
29 Financial risk management (continued)
Credit risk (continued)

An analysis of geographical concentration for relevant

(a) Geographical concentrations

	2017		
	Due from banks and financial institutions RO 000	Due to banks and financial institutions RO 000	Equity of investment accountholders RO 000
Sultanate of Oman	25,025	45,000	26,181
Other GCC Countries	15,614	11,550	106
Europe and North America	967	-	-
Africa and Asia	-	15,400	-
	41,606	71,950	26,287

	2016		
	Due from banks and financial institutions RO 000	Due to banks and financial institutions RO 000	Equity of investment accountholders RO 000
Sultanate of Oman	59,280	47,000	15,239
Other GCC Countries	7,967	20,790	-
Europe and North America	1,108	-	-
Africa and Asia	-	11,550	-
	68,355	79,340	15,239

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

	2017				
	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	-	8,555	-	104,382	44,333
Corporate	41,606	18,681	23,481	188,349	-
	41,606	27,236	23,481	292,731	44,333

	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	-
	68,355	9,885	24,852	239,693	37,128

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

For the year ended 31 December 2017

29 Financial risk management (continued)**Credit risk (continued)****(c) Economic sector concentrations (Gross)**

	2017			
	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	8,555	-	104,382	44,333
Construction	1,262	13,234	107,561	-
Manufacturing	7,215	4,519	6,832	-
Other services	54	1,986	66,456	-
Others	10,150	3,742	7,500	-
	27,236	23,481	292,731	44,333

	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

(d) Gross credit exposure

	2017	
	Total gross exposure <i>RO 000</i>	Monthly average gross exposure <i>RO 000</i>
Murabaha and other receivables	27,236	18,493
Mudaraba financing	23,481	27,399
Diminishing Musharaka Financing	292,731	271,931
Ijarah Muntahia Bittamleek	44,333	42,118

	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

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Notes to the financial statements
For the year ended 31 December 2017
29 Financial risk management (continued)
Credit risk (continued)
(e) Industry type distribution of exposures by major types of credit exposures:

	2017				
	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	7,545	2,074	708	-	3,711
Export trade	189	395	-	-	-
Wholesale & retail trade	2,286	741	2,152	-	1
Mining & quarrying	-	455	1,279	-	-
Construction	1,262	13,234	107,561	-	4,728
Manufacturing	7,215	4,519	6,832	-	3,615
Transport & communication	130	-	336	-	-
Financial institutions	-	77	-	-	-
Services	54	1,986	66,456	-	725
Retail	8,555	-	104,382	44,333	-
Others	-	-	3,025	-	-
	27,236	23,481	292,731	44,333	12,780

	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	-	-
Financial institutions	-	-	-	-	-
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

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Notes to the financial statements
For the year ended 31 December 2017
29 Financial risk management (continued)
Credit risk (continued)
(f) Residual contractual maturities of the portfolio by major types of credit exposures:

	2017				
	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	5,818	23,481	-	-	1,417
1 - 3 months	5,331	-	13	-	6,947
3 - 6 months	3,504	-	35	-	2,648
6 - 9 months	1,510	-	1,792	4	108
9 - 12 months	26	-	1,095	3	891
1 - 3 years	730	-	8,254	220	294
3 – 5 years	950	-	18,142	378	475
Over 5 years	9,367	-	263,400	43,728	-
	27,236	23,481	292,731	44,333	12,780

	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

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Notes to the financial statements
For the year ended 31 December 2017
29 Financial risk management (continued)
Credit risk (continued)
(g) Distribution of performing and non-performing financing by type of industry:

	2017						
	Performing Murabaha and other receivables RO 000	Performing Mudaraba Financing RO 000	Performing Diminishing Musharaka Financing RO 000	Performing Ijarah Muntahia Bittamleek RO 000	Non-performing Financing RO 000	General provisions as of year end RO 000	Specific provisions as of year end RO 000
Import trade	7,545	2,074	708	-	-	(98)	-
Export trade	189	395	-	-	-	(6)	-
Wholesale & retail trade	2,286	741	2,152	-	-	(34)	-
Mining & quarrying	-	455	1,279	-	-	(18)	-
Construction	1,262	13,234	105,723	-	1,838	(935)	(566)
Manufacturing	7,215	4,519	6,832	-	-	(190)	-
Transport & communication	130	-	336	-	-	(3)	-
Financial institutions	-	77	-	-	-	(1)	-
Services	54	1,986	66,456	-	-	(670)	-
Retail	8,555	-	104,326	44,298	91	(1,761)	(23)
Others	-	-	3,025	-	-	(31)	-
	27,236	23,481	290,837	44,298	1,929	(3,747)	(589)

	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	Non-performing Financing RO 000	General provisions made during the year RO 000	Specific 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)	-
Financial institutions	-	-	-	-	-	-	-
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)	-

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG

Notes to the financial statements
For the year ended 31 December 2017
29 Financial risk management (continued)
Credit risk (continued)
(h) Maximum exposure to credit risk without consideration of collateral held:

	2017 <i>RO 000</i>	2016 <i>RO 000</i>
Due from banks and financial institutions	<u>41,606</u>	<u>68,355</u>

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 2017
29 Financial risk management (continued)
Liquidity risk (continued)
Maturity profile of assets and liabilities

	2017					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	81,398	-	-	-	-	81,398
Due from banks and financial institutions	33,906	7,700	-	-	-	41,606
Murabaha and other receivables	16,322	1,460	1,617	5,750	1,697	26,846
Mudaraba financing	1,147	2,348	2,292	11,741	5,704	23,259
Diminishing Musharaka financing	5,063	28,118	33,524	126,334	96,450	289,489
Investments at fair value through equity	-	-	10,000	6,561	5,781	22,342
Investment at amortised cost	-	-	-	10,000	-	10,000
Ijarah Muntahia Bittamleek	333	1,697	1,910	15,770	24,141	43,851
Property and equipment	-	-	-	-	1,401	1,401
Other asset	1,531	536	-	-	1,017	3,084
Total assets	139,727	41,859	49,343	176,156	136,191	543,276
Current accounts	15,969	24,582	14,046	-	17,558	72,155
Due to banks	71,950	-	-	-	-	71,950
Qard Hasan from Head Office	3,956	-	-	20,000	-	23,956
Customer Wakala Deposit	38,333	88,965	43,173	70,422	37,457	278,350
Other liabilities	7,871	536	-	-	-	8,407
Equity of unrestricted investment acountholders	1,314	2,627	2,627	13,140	6,579	26,287
Owner's equity	-	-	-	-	62,171	62,171
Total liabilities and acountholders owners' equity	139,393	116,710	59,846	103,562	123,765	543,276

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Notes to the financial statements
For the year ended 31 December 2017
29 Financial risk management (continued)
Liquidity risk (continued)
Maturity profile of assets and liabilities (continued)

	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 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 acountholders	766	1,523	1,523	7,615	3,812	15,239
Owner's equity	-	-	-	-	58,976	58,976
Total liabilities and acountholders & owners' equity	106,660	112,687	40,537	82,399	108,423	450,706

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 2017

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 2017
29 Financial risk management (continued)
Market risk (continued)
Profit rate sensitivity gap (continued)
2017

	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	-	-	-	-	-	-	81,398	81,398
Due from banks and financial institutions	0.97%	15,400	7,700	-	-	-	18,506	41,606
Murabaha and other receivables	5.23%	16,080	1,460	1,617	5,750	1,697	242	26,846
Mudaraba financing	5.42%	23,259	-	-	-	-	-	23,259
Diminishing Musharaka Financing	5.26%	5,063	28,118	33,524	126,334	96,450	-	289,489
Investments at fair value through equity	4.44%	-	-	10,000	6,561	5,781	-	22,342
Investment at amortised cost	3.50%	-	-	-	10,000	-	-	10,000
Ijara Muntahia Bittamleek	4.94%	333	1,697	1,910	15,770	24,141	-	43,851
Property and equipment	-	-	-	-	-	-	1,401	1,401
Other asset	-	-	-	-	-	-	3,084	3,084
Total assets		60,135	38,975	47,051	164,415	128,069	104,631	543,276
Current accounts	2.49%	11,188	19,579	11,188	-	13,985	16,215	72,155
Due to banks	1.19%	71,950	-	-	-	-	-	71,950
Qard Hasan from Head office	-	-	-	-	-	-	23,956	23,956
Customer Wakala deposit	3.48%	38,333	88,965	43,173	70,422	37,457	-	278,350
Other liabilities	-	-	-	-	-	-	8,407	8,407
Equity of unrestricted investment accountholders	1.00%	26,278	-	-	-	-	9	26,287
Owner's equity	-	-	-	-	-	-	62,171	62,171
Equity of accountholders & Total liabilities and shareholders' equity		147,749	108,544	54,361	70,422	51,442	110,758	543,276
On-balance sheet gap		(87,614)	(69,569)	(7,310)	93,993	76,627	(6,127)	-
Cumulative profit sensitivity gap		(87,614)	(157,183)	(164,493)	(70,500)	6,127	-	-

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Notes to the financial statements
For the year ended 31 December 2017
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 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 accountholders	1.09%	15,234	-	-	-	-	5	15,239
Owner's equity	-	-	-	-	-	-	58,976	58,976
Equity of accountholders & 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 2017
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.

	2017			Total RO 000
	Retail banking RO 000	Corporate banking RO 000	Treasury and investments RO 000	
Segment operating revenues	7,290	11,414	138	18,842
Other revenues	186	603	1,565	2,354
Total segment operating revenues	7,476	12,017	1,703	21,196
Profit expenses	(452)	(9,511)	(358)	(10,321)
Net operating income	7,024	2,506	1,345	10,875
Segment cost				
Operating expenses including depreciation	(2,202)	(3,374)	(791)	(6,367)
Provision for impairment	(385)	(934)	-	(1,319)
Net profit for the year before tax	4,437	(1,802)	554	3,1889
Segment assets	157,836	233,133	156,643	547,612
Less: Provision for impairment	(1,784)	(2,552)	-	(4,336)
Total segment assets	156,052	230,581	156,643	543,276
Segment liabilities	15,934	342,511	96,373	454,818

MAISARAH ISLAMIC BANKING SERVICES - WINDOW OF BANK DHOFAR SAOG
Notes to the financial statements
For the year ended 31 December 2017
30 Segmental information (continued)

	2016			
	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	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