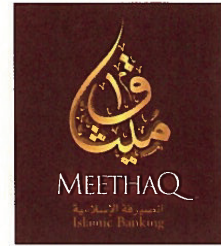


APPENDIX

PRONOUNCEMENT OF THE SHARI'A SUPERVISORY BOARD OF MEETHAQ ISLAMIC BANKING, BANK MUSCAT S.A.O.G.



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MEETHAQ SUKUK AL MUSHARAKA (BASED ON SHIRKAT-UL-MILK)

STRUCTURE PAPER

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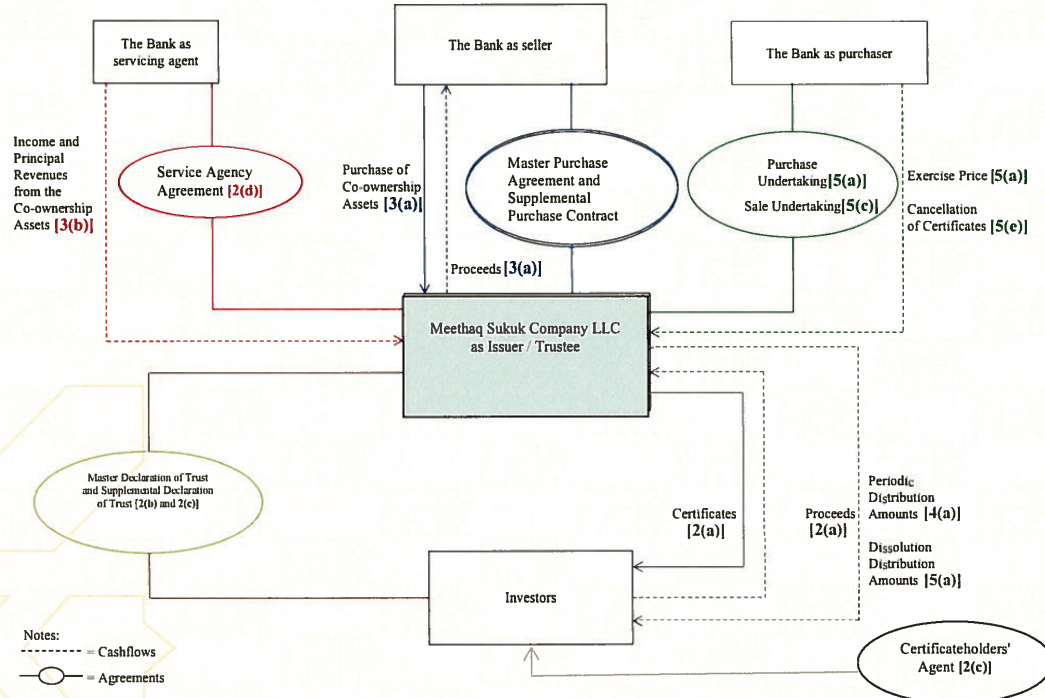


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This structure paper sets out the proposed structure for the establishment of an Omani Rial certificate (*Sukuk*) issuance programme (the **Sukuk Programme**) for Bank Muscat S.A.O.G., acting through its *Islamic* window, Meethaq (the **Bank**). The Certificates (as defined in paragraph 2 below) will be issued by a newly formed special purpose vehicle which will take the form of an Oman incorporated limited liability company. The Proceeds (as defined in paragraph 2(a) below) of any issuance of Certificates (as defined in paragraph 2 below) under the Sukuk Programme will be utilised by the Bank for its *Shari'a* compliant financing activities.

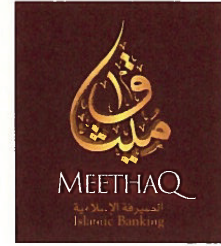
The Certificates issued under the Sukuk Programme will be listed on the Bond and Sukuk market of the Muscat Securities Market and may be offered on a private placement basis to investors and subject to CMA approval, may also be offered to the retail investors. The payment obligations of the Bank (acting in any capacity) under the transaction documents (as listed in paragraph 6 below) to which it is a party will constitute direct, unconditional, unsecured and general obligations of the Bank and will rank *pari passu* with all other unsecured, unsubordinated and general obligations of the Bank.

1. Structure Diagram



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The numbering in square brackets in the structure diagram above corresponds to the paragraph numbers below. The various steps in the above structure diagram will either occur simultaneously or otherwise as described in the relevant paragraph below.

2. Introduction

The Sukuk Programme will allow for the issuance of certificates (Sukuk) (the **Certificates**) in series (each a **Series**). The structure of the Sukuk Programme will be as follows:

- (a) a special purpose vehicle, Meethaq Sukuk Company LLC established as a limited liability company incorporated in Oman (the **Issuer**) will issue the Certificates to investors (the **Certificateholders**) and collect the proceeds (the **Proceeds**) from the investors. The Issuer will be required to have a minimum of two members/shareholders. The members/shareholders will be two Omani individuals each of whom will be a senior official of Bank Muscat who will each own 50% shareholding of the Issuer. The Issuer will be required to have a minimum issued share capital of RO20,000 and shall be registered with the Ministry of Commerce and Industry and licenced by the Capital Markets Authority (CMA). The Issuer will remain in existence for the duration of the Programme;
- (b) the Issuer, in its capacity as trustee (the **Trustee**), pursuant to a master declaration of trust (the **Master Declaration of Trust**), as supplemented for each Series by a supplemental declaration of trust (each a **Supplemental Declaration of Trust**), will declare a trust in favour of the relevant Certificateholders over, among other things, the Proceeds and the assets in which the Proceeds are invested in respect of that Series;
- (c) the Issuer, in its capacity as Trustee, pursuant to the Master Declaration of Trust, will appoint an independent third party as the certificateholders' agent (the **Certificateholders' Agent**) to protect the interests of the Certificateholders including monitoring the Issuer's compliance with its obligations under the offering documents (as required under Oman law). The Certificateholders' Agent can be Muscat Clearing and Depository Company S.A.O.C. (MCDC) or any other company appropriately licensed by the CMA; and
- (d) the Issuer will, pursuant to a service agency agreement (the **Service Agency Agreement**) entered into on the date that the Sukuk Programme is established, appoint the Bank as its servicing agent (in such capacity, the **Servicing Agent**) to service, on behalf of the Issuer, the Co-ownership Assets (as defined in paragraph 3(a) below) relating to each Series in respect of which the Issuer will pay the Servicing Agent a nominal fee.

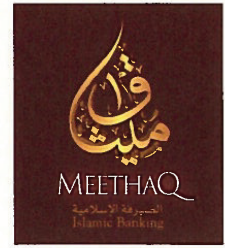
3. Co-ownership Assets

The structure of the Sukuk is based on "Shirkat-ul-Milk" i.e. co-ownership interest in tangible assets. On the issue date (the **Issue Date**) of each Series of the Certificates:

- (a) the Issuer will use the Proceeds of the relevant Series to purchase from the Bank pursuant to a master purchase agreement (entered into on the date that the Sukuk Programme is

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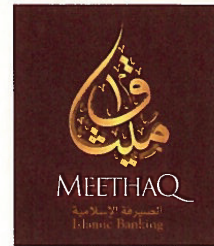
established) (the **Master Purchase Agreement**), as supplemented by a supplemental purchase contract relating to that Series (each a **Supplemental Purchase Contract**) an undivided co-ownership interest or "Shirkat-ul-Milk" (the **Co-ownership Assets**) in the Bank's existing co-ownership interest (such co-ownership interest of the Bank being derived from diminishing musharakah and ijarah arrangements with its customers) in Shari'a compliant income generating tangible co-ownership assets. The Supplemental Purchase Contract will specify in respect of each asset underlying the Co-ownership Assets: (i) the co-ownership interest of each of the Bank and the relevant customer; and (ii) the proportion of the Bank's co-ownership interest in the underlying asset that is to be sold to the Issuer. The Bank will hold the benefit of any existing security interest that it holds in respect of the Co-ownership Assets for itself and as agent for the Issuer;

- (b) the Servicing Agent will be obliged under the Service Agency Agreement to maintain three separate book-entry ledger accounts (such book-entry ledger accounts being referred to as the **Principal Collection Account**, the **Income Collection Account** and the **Income Reserve Collection Account**) in which all income and principal revenues from the Co-ownership Assets (the **Co-ownership Revenues**) will be recorded by the Servicing Agent. As these three accounts will be book-entry ledger accounts, and not actual bank accounts, there will be no physical transfer of funds to or from these book-entry ledger accounts. The Servicing Agent will record the following cash-flows in these book-entry ledger accounts:
- (i) a credit entry will be made to the Principal Collection Account in respect of all revenues (if any) in the nature of sale proceeds, capital or principal payments in respect of any Co-ownership Asset (the **Co-ownership Principal Revenues**);
- (ii) a credit entry will be made to the Income Collection Account in respect of all Co-ownership Revenues other than Co-ownership Principal Revenues (the **Co-ownership Income Revenues**); and
- (iii) a credit entry will be made to the Income Reserve Collection Account in respect of any surplus amounts remaining following payment to the Issuer of sufficient Co-ownership Income Revenues for the payment of each relevant periodic distribution under the Certificates of the relevant Series to be applied as follows:
- (A) 90 per cent. of such surplus amounts to be paid to the Servicing Agent as an incentive fee to be used for its own account; and
- (B) 10 per cent. of such surplus amounts to be credited to the Income Reserve Collection Account.

The Servicing Agent will be entitled to deduct amounts standing to the credit of the Income Reserve Collection Account at any time prior to the scheduled dissolution date of the relevant Certificates and use such amounts for its own account, provided that such amounts must be re-credited to the Income Reserve Collection Account by the Servicing Agent if so required by the Issuer to fund a shortfall (see paragraph 4 (c) below) or upon a Dissolution Event (as defined in paragraph 5);

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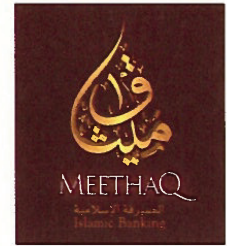
- (c) the Servicing Agent will also be obliged to provide certain other services in relation to its appointment for the servicing of the Co-ownership Assets including, but not limited to:
- (i) ensuring the timely receipt of all Co-ownership Revenues (if any);
 - (ii) doing all acts and things (including execution of such documents, issue of notices and commencement of any proceedings) that it considers reasonably necessary to ensure the assumption of, and compliance by each relevant obligor with its covenants, undertakings or other obligations under the contracts to which it is a party in respect of the relevant assets comprising the Co-ownership Assets;
 - (iii) discharging or procuring the discharge of all obligations to be discharged by the Bank (in whatever capacity) in respect of the relevant assets comprising the Co-ownership Assets, it being acknowledged that the Servicing Agent may appoint one or more agents to discharge these obligations on its behalf; and
 - (iv) to invest (for and on behalf of the Issuer) all Co-ownership Principal Revenues standing to the credit of the Principal Collection Account in additional eligible Co-ownership Assets;
- (d) under the terms of the Service Agency Agreement, the Servicing Agent will use its best endeavours to ensure (but shall not, for the avoidance of doubt, be obliged to guarantee) that, in respect of each Series, at all times the aggregate of:
- (i) the aggregate Value (as defined below) of the Co-ownership Assets; and
 - (ii) the amount of Co-ownership Principal Revenues standing to the credit of the Principal Collection Account,

is at least equal to the aggregate outstanding face amount of the Certificates for the relevant Series, where **Value** means the Issuer's co-ownership interest in the outstanding base or principal amounts payable by the relevant third party obligor(s) or other equivalent fixed instalment amounts payable by the relevant third party obligor(s) in the nature of capital or principal payments in respect of the relevant asset;

- (e) provided that no Dissolution Event has occurred and is continuing, the Servicing Agent may at any time substitute (in accordance with the Sale Undertaking) any Co-ownership Asset. In addition, the Bank (as Servicing Agent) shall use its reasonable endeavours to identify further Co-ownership Asset(s) in replacement for any Co-ownership Asset in respect of which there is a default, and, after such identification, the Bank (as Servicing Agent) shall deliver a substitution instruction to the Issuer (in accordance with the Service Agency Agreement) in respect of the relevant Co-ownership Assets (following which the Issuer shall be deemed to have exercised its right under the Purchase Undertaking to substitute those Co-ownership Assets), provided that the Value of any substitute assets shall be at least equal to the Value of the Co-ownership Assets to be so substituted;

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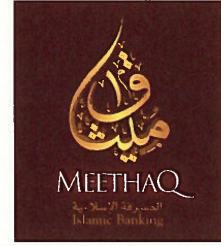
- (f) the Issuer and the Servicing Agent will agree in the Service Agency Agreement that any Servicing Agent Liabilities Amounts incurred by the Servicing Agent in providing the services to be undertaken under the Service Agency Agreement in relation to a Series shall be paid by the Issuer by way of the application of amounts standing to the credit of the Income Collection Account by the Servicing Agent on the Issuer's behalf in payment of such amounts on each distribution date. The Servicing Agent shall use its best endeavours to obtain the written approval of the Issuer prior to incurring any Servicing Agent Liabilities Amount and shall not incur any Servicing Agent Liabilities Amount if so expressly instructed in writing by the Trustee. For this purpose, **Servicing Agent Liabilities Amount** means, in relation to each Series, the amount of any claims, losses, costs and expenses properly incurred or suffered by the Servicing Agent or other payments made by the Servicing Agent on behalf of the Issuer (in each case as notified by the Service Agent in writing to the Issuer prior to the relevant distribution date), in each case in providing the services to be undertaken under the Service Agency Agreement during an income period; and
- (g) the Servicing Agent will be required under the Service Agency Agreement, at all times, to (i) keep accurate records of all of the Co-ownership Assets as may be reasonably necessary for the collection of all amounts due in respect of the Co-ownership Assets; and (ii) service the Co-ownership Assets in accordance with generally accepted *Shari'a* principles.

4. Periodic Distributions

- (a) Prior to each periodic distribution date under each Series of Certificates, the amounts standing to the credit of the Income Collection Account will be applied by the Servicing Agent in the following order of priority: (i) first in payment of any Servicing Agent Liabilities Amounts then due; (ii) second, an amount equal to the lesser of the Expected Amount (as defined below) payable on such periodic distribution date and the balance of the Income Collection Account will be paid by the Servicing Agent, in accordance with the Service Agent Agreement, into a bank account (the Transaction Account) which will be opened in the Issuer's name and will be held with the principal paying agent in Oman (the Bank will have no control over the Transaction Account nor any amounts standing to the credit thereto and the Transaction Account will be the only account into which any cash amounts will be paid by the Bank for the purposes of discharging its obligations under the transaction documents); and (iii) third, in repayment of any amounts advanced under the non-interest bearing liquidity facility referred to in paragraph 4(c) below. The Expected Amount means the aggregate periodic distribution amounts then due and payable under the Certificates of the relevant Series;
- (b) the balance of any amounts still standing to the credit of the Income Collection Account following payment of all of the above amounts will be applied as follows:
- (i) 90 per cent. of such amounts to be paid to the Servicing Agent as an incentive fee to be used for its own account; and
- (ii) 10 per cent. of such amounts to be credited to the Income Reserve Collection Account; and

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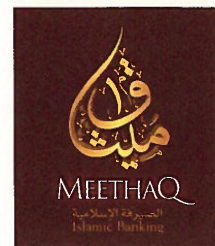
- (c) in the event that the relevant Co-ownership Income Revenues is less than the Expected Amount in respect of any periodic distribution date, the Servicing Agent will apply any amounts standing to the credit of the relevant Income Reserve Collection Account (after the re-crediting of previously deducted amounts as described in paragraph 3(b) above) to cover such shortfall and in the event such amounts are insufficient for this purpose, the Servicing Agent may, in its sole discretion, provide a Shari'a compliant financing or non-interest bearing loan to the Issuer (**Interest Free Loan**), in the amount required to ensure that the Issuer receives no later than the business day immediately preceding such periodic distribution date, the full amount of the periodic distribution amount payable on such date. The Servicing Agent must inform the Issuer in writing at least five (5) Business Days prior to the relevant periodic distribution date of its intention to provide an Interest Free Loan to the Issuer and if the Issuer responds to such notice by instructing the Service Agent not to make the proposed Interest Free Loan then the Service Agent must not make the proposed Interest Free Loan.

5. Redemption of the Certificates

- (a) upon the occurrence of a Dissolution Event (as defined below) or the maturity of each Series of the Certificates, the Issuer will be entitled to exercise a purchase undertaking (the **Purchase Undertaking**) granted by the Bank in favour of the Issuer pursuant to which the Bank would purchase the Co-ownership Assets at a price (the **Exercise Price**) equal to the aggregate of: (i) the aggregate Value of the Co-ownership Assets; (ii) all accrued and unpaid periodic distribution amounts (if any) *less* an amount equal to the aggregate of (iii) any outstanding Servicing Agent Liabilities Amount (to the extent not waived by the Servicing Agent in its discretion); and (iv) any outstanding Interest Free Loan provided in accordance with the terms of the Service Agency Agreement (to the extent not waived by the Servicing Agent in its discretion);
- (b) if so specified in the applicable Final Terms relating to the Series, and provided that an outstanding exercise notice has not been delivered by the Bank under the Sale Undertaking, the Issuer will also be entitled to exercise the Purchase Undertaking on a Certificateholder Put Option Date, which will result in a Certificateholder of that Series having the right to require the early redemption (the **Certificateholder Put Option**) of some or all of the Certificates held by it, in which case the Bank would purchase a portion of the Co-ownership Assets the Value of which is not greater than the aggregate face amount of the Certificates of that Series in respect of which Certificateholders have exercised their Certificateholder Put Option on the relevant Certificateholder Put Option Date at a price (the **Put Right Exercise Price**) equal to the aggregate of: (i) the aggregate face amount of the Certificates being redeemed; and (ii) all accrued and unpaid periodic distributions (if any) relating to the Certificates to be redeemed and only where all of the Certificates are to be redeemed, less an amount equal to the aggregate of (iii) any outstanding Servicing Agent Liabilities Amount (to the extent not waived by the Servicing Agent in its discretion); and (iv) any outstanding Interest Free Loan provided in accordance with the terms of the Service Agency Agreement (to the extent not waived by the Servicing Agent in its discretion);
- (c) following the occurrence of a typical tax event, the Bank will be entitled to exercise a sale undertaking (the **Sale Undertaking**) granted by the Issuer in favour of the Bank pursuant to

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which the Issuer will sell the whole (and not part only) of the Co-ownership Assets to the Bank at the Exercise Price ;

- (d) if so specified in the applicable Final Terms relating to the Series, the Bank will also be entitled to exercise the Sale Undertaking to require the Issuer to sell all or some of the Co-ownership Assets to the Bank on any optional dissolution date for an "issuer call" at a price calculated in the same manner as the Put Right Exercise Price;
- (e) provided that an outstanding exercise notice under the Purchase Undertaking has not been delivered by or on behalf of the Issuer, following any purchase of Certificates by the Bank or any of their respective subsidiaries in the open market or otherwise, the Bank shall be entitled to exercise the Sale Undertaking to request the Issuer to cancel the relevant Certificates so purchased and transfer to the Bank certain Co-ownership Assets the Value of which is not greater than the aggregate face amount of the Certificates so cancelled;
- (f) in the event of any exercise of the Purchase Undertaking or Sale Undertaking as described in paragraphs (a) to (e) above, the Servicing Agent will pay to the Issuer the Co-ownership Principal Revenues standing to the credit of the Principal Collection Account or, where some, but not all of the Certificates are to be redeemed or cancelled, the relevant proportion of such Co-ownership Revenues as determined by reference to the proportion of the aggregate outstanding Certificates which are to be redeemed or cancelled;
- (g) the Service Agency Agreement will provide that, following redemption of the Certificates in full, any amounts standing to the credit of the relevant Income Reserve Collection Account on the applicable scheduled dissolution date (or any earlier dissolution date on which all of the Certificates are to be redeemed) may be retained by the Servicing Agent for its own account as an incentive payment for its performance as servicing agent; and
- (h) to the extent that any amounts which have been advanced under an Interest Free Loan referred to in paragraph 4(c) above remain outstanding upon the redemption of all of the Certificates in full, the Servicing Agent may, in its sole discretion, waive the repayment of such outstanding amounts.

For these purposes, **Dissolution Event** means an event of default in respect of the Issuer and/or the Bank, including but not limited to, the non-payment of certain amounts due under the applicable transaction documents; default in the performance of or compliance with any obligations under the applicable transaction documents (save as set out in the final sentence of this paragraph) or the insolvency or winding up of such party.

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6. Transaction Documents

The table below sets out the documentation that will be required to establish the Sukuk Programme and the additional documentation required to complete the issuance of each Series. All of the documents will be governed by Oman law.

Sukuk Programme Establishment:	Each Series Issuance: ¹
Islamic documents	
Master Purchase Agreement	Supplemental Purchase Contract
Transfer Deed	
Service Agency Agreement	
Purchase Undertaking from Bank at maturity.	
Sale Undertaking from Sukuk holders at the time of event specified in the contract	
Capital Markets documents	
Master Declaration of Trust	Supplemental Declaration of Trust
Programme Agreement	Subscription Agreement (only if there is a syndicate of managers and the issue will be privately placed)
Agency Agreement	Paying Agency Agreement
	The Registrar Agreement
	Final Terms / Prospectus Supplement
Disclosure Documents	
Prospectus	

¹ The agreed form of each supplemental document will be included in the relevant master document.



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7. Shari'a Approval

The Shari'a Supervisory Board, having reviewed the structure, mechanism and documentation, as set out above, hereby rules that the proposed Sukuk issuance by Meethaq Sukuk Company LLC, is in compliance with the rules and principles of Shari'a.

Allah grants success!



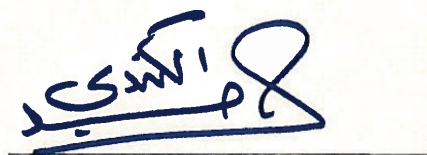
Prof. Ali Muhyealdin Ali Al-Quradaghi

Chairman of SSB



Shaikh Esam Mohammed Ishaq

Executive Member of SSB



Dr. Majid bin Mohamed Al-Kindi

Executive Member of SSB



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