

AL MADINA
INSURANCE



المدينة
للتأمين

ANNUAL REPORT 2012



HIS MAJESTY SULTAN QABOOS BIN SAID





CONTENTS

Chairman's Report	9
Auditor's Report on Corporate Governance	12
Report on Corporate Governance	13
Management Discussion and Analysis Report	17
Auditor's Report to Shareholders	20
Statement of Comprehensive Income	22
Statement of Financial Position	23
Statement of Changes in Equity	24
Statement of Cash Flows	26
Notes to the Financial Statements	28

With the advent of Islamic financial services in Oman, Al Madina Insurance is preparing itself to convert into a full-fledged Takaful Company.

Takaful is based on the principle of “Taawun” which is mutual assistance. It embodies the true spirit of insurance where parties come together to support their community at the time of misfortune. The participant’s pool (policyholder’s funds) is created through the concept of “Tabarru” (contribution – premium). The policyholders are owners of the fund and are entitled to its profits. The shareholders are managers of the fund and operate through Sharia compliant contracts of Wakala and/or Mudaraba. The whole transaction is free of Riba (interest), Gharar (uncertainty), and Maisar (gambling).

The theme of this year’s Annual Report is based on the spirit of solidarity offered by Takaful.



BOARD OF DIRECTORS



H.E. Dr. Mohammed Ali Al Barwani
Chairman

Eng. Abdulrahman Awadh Barham
Deputy Chairman

H.E. Shaikh Abdulrahman Mohamed Jabor M. Al Thani
Director

Eng. Khamis Mubarak Al Kiyumi
Director

Eng. Abdullah Ali Al Abdullah
Director

Mr. Salah Nasser Al Riyami
Director

Ms. Safana M.A. Al Barwani
Director

Mr. Hamed M. Al Wahaibi
Director

Mr. Sameer Ebrahim Al Wazzan
Advisor

FIRST ROW
(L2R)

SECOND ROW
(L2R)

THIRD ROW
(L2R)

MANAGEMENT TEAM



Mr. Sandeep Mahajan

General Manager Specialty & Reinsurance

Mr. Nasser Al Shueili

AGM Claims

Mr. R. M. Sundaram

General Manager Finance

Mr. Ajay Srivastava

General Manager Commercial

Mr. Mahmud Attar

Head of Audit & Compliance

Mr. Gautam Datta

CEO

Mr. Usama Al Barwani

General Manager, HR, Admin. & IT
Board Secretary

BACK ROW
(L2R)

FRONT ROW
(L2R)

CHAIRMAN'S REPORT

Dear Shareholders,

Assalamu alaikum wa rahamatullahi wa Barakatuh!

(May the Peace, Mercy and Blessing of Allah be with you)



It gives me great pleasure to report on the performance of your Company and submit the audited financial statement for the financial year 2012.

OVERVIEW

Since the financial crisis of 2008, the world political and economic system has witnessed some event or the other that has left an indelible mark on our socio-economic fabric. The debt crisis of 2009, slow global recovery impacted by the Greece debt crisis in 2010, collapse of governments in Egypt, Libya, Tunis and Yemen in 2011 and waking up to the Euro crisis in 2012. Economic disasters were accompanied by some of the most devastating natural disasters in shape of Tsunami, earthquake in New Zealand, flood in Thailand – all taking place in 2011, making it the biggest catastrophe loss year for global insurers and reinsurers.

Through this crisis, Oman charted a stable course, not totally immune to the turmoil and yet holding steady as the country launched an ambition 5-year plan ending in 2015. The plan has budgeted spending of RO 30 billion in the areas of Oil and Gas, Power

Plants, Roads, Sea and Airports, Education and Healthcare thereby forecasting GDP growth of 5% (real terms).

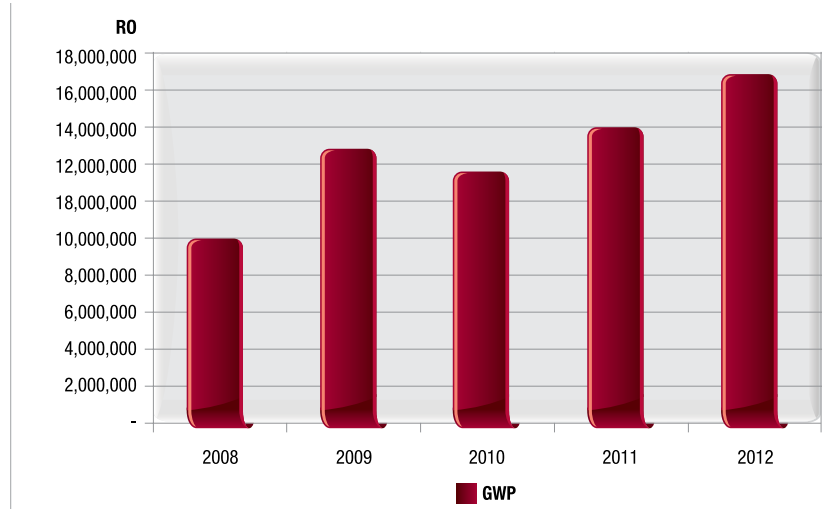
The Oman insurance industry was also influenced by the political and economic challenges faced by the country. Road accidents leading to tragic deaths and severe injuries continued to be a major cause of concern for the local authorities and insurance companies. An international expert on road traffic systems said that road accidents cost the Oman economy a staggering \$1.8 billion a year which is equivalent to 2.1% of national GDP (Anthony Pierce, former Director General of International Road Federation). However, it is heartening to note that the Government and various authorities including Oman Insurance Association are working together to reduce such accidents.

Your Company continued to build on its achievements of the past two years and carefully chart its course through these troubled times to return an impressive financial result for the year 2012.

FINANCIAL PERFORMANCE

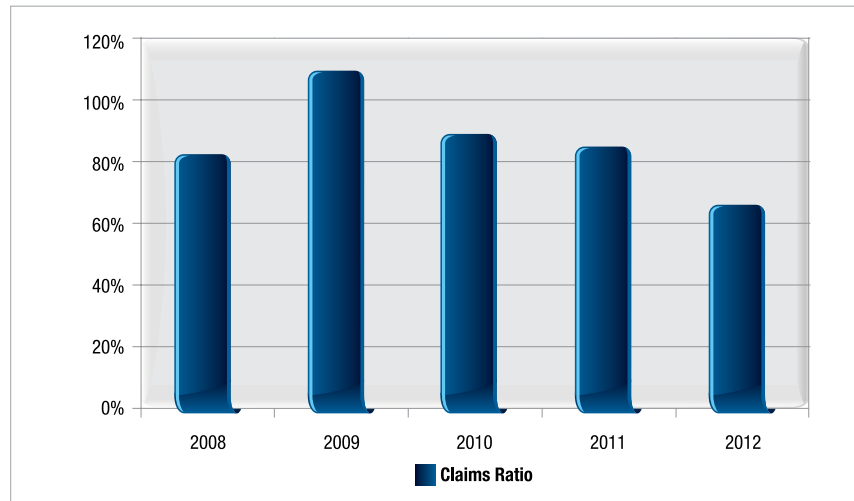
Gross Written Premium (GWP)

The GWP increased by 19% from RO 14.140 million to RO 16.885 million.



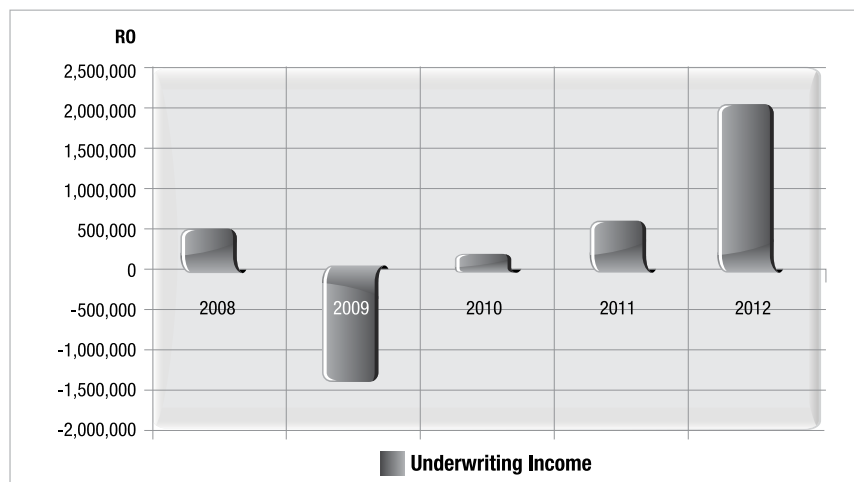
INCURRED CLAIMS RATIO (ICR)

The ICR dropped from 87% in 2011 to 66% in 2012.



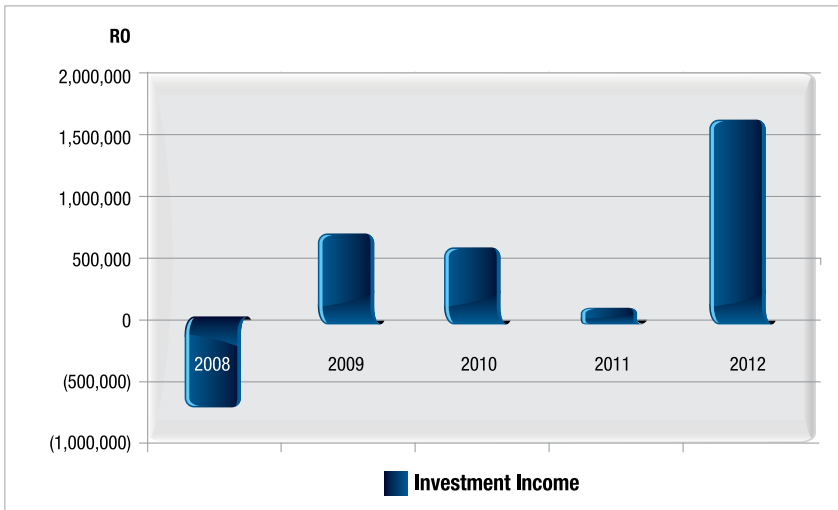
UNDERWRITING INCOME

The Underwriting Income of the Company increased by an impressive 246% from RO 592K in 2011 to RO 2.07 million in 2012.



INVESTMENT INCOME

The Investment Income (includes other income) increased by a staggering 10,160% from investment loss of RO 15K in 2011 to an income of RO 1.5 million 2012.



NET PROFIT

The Net Profit of the Company increased from a deficit of RO 1.44 million in 2011 to a profit of RO 1.067 million in 2012, a growth of 174%.



HUMAN RESOURCE (HR)

The consistent growth and achievement of our Company is a reflection of the quality and commitment of our human resource. I take pride in the Company's achievement of 65% Omanization at the end of 2012, meeting the requirement of the Capital Market Authorities (CMA). The Company has also embarked on an ambitious development program that will focus on training our national work force to take on higher responsibilities and leadership roles.

OUTLOOK FOR 2013

The economic outlook for the country is bright and with development taking place in key sectors like Energy, Infrastructure and Tourism, prospects of growth are promising. Our Company is ideally poised

to seize this opportunity and build on its successes so far.

Islamic Financial Services have become a reality with the opening of Bank Nizwa, the first Islamic Bank in the country followed by the Islamic windows of Bank Muscat, National Bank of Oman and Ahli bank. Our plans to convert our business into a full-fledged Takaful Company will also open doors to new opportunities. The Company is in advanced stages of its license approval process and has already formed some key alliances to penetrate new market segments of Family Takaful.

ACKNOWLEDGEMENT

On behalf of your Company's Board of Directors, I would like to express our

sincere thanks and deepest gratitude to HM Sultan Qaboos Bin Said for his wise vision and leadership in developing the Sultanate into a prosperous nation with a vibrant economy. We are grateful to the Ministry of Commerce and Industry, Capital Market Authority and other Regulatory Authorities for their guidance and support. We also acknowledge and appreciate the dedication and contribution of our staff members and the management.

May God Bless you all

Dr. Mohammed Ali Al Barwani
Chairman of the Board



REPORT OF FACTUAL FINDINGS

TO THE SHAREHOLDERS OF AL MADINA INSURANCE COMPANY SAOC

We have performed the procedures prescribed in Capital Market Authority (CMA) circular no. 16/2003, dated 29 December 2003 and circular no. 7/I/2005 dated 1 August 2005, applicable for insurance companies, with respect to the Board of Directors' corporate governance report of Al Madina Insurance Company SAOC (the company) as at and for the year ended 31 December 2012 and application of the corporate governance practices in accordance with CMA Code of Corporate Governance issued under circular no. 11/2002 dated 3 June 2002 and its amendments and as supplemented by the Rules and Guidelines on Disclosure by Issuers of Securities and Insider Trading approved by Administrative Decision No 5/2007 dated 27 June 2007 and the Executive Regulation of the Capital Market Law issued under the Decision number 1/2009 dated 18 March 2009 (collectively the Codes and additional regulations and disclosures). Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon-procedures engagements. The procedures, as stated in circular no. 16/2003 and circular no. 7/I/2005, were performed solely to assist you in evaluating the company's compliance with the Codes as issued by the CMA.

We report our findings on the procedures performed in the following paragraph.

We found the Board of Directors' corporate governance report reflects the company's application of the provisions of the Codes and is free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the accompanying corporate governance report.

Had we performed additional procedures or had we performed an audit or a review of the Corporate Governance Report in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the Board of Directors' corporate governance report included in its annual report for the year ended 31 December 2012 and does not extend to any financial statements of Al Madina Insurance Company SAOC taken as a whole.

6 March 2013

Muscat, Sultanate of Oman

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Chartered Accountants Licence No. MH/26, Management Consultants Licence No. ME/161, Commercial Register No. 1307665

REPORT ON CORPORATE GOVERNANCE

A COMPANY'S PHILOSOPHY

Al Madina Insurance Company SAOC (the Company) has the vision of being a leading insurance company in Oman where leadership is measured in terms of profitability for its stakeholders, satisfaction for its customers and commitment for its employees. The Company aims to provide insurance service that conforms to culture, social ethos and needs of the community. The Company operates on guiding principles of transparency, integrity, innovation, teamwork and social responsibility. The Company deploys appropriate business strategy that is supplemented by sound internal controls. The performance of the Company and realization of its business objectives are based on transparency in its disclosures and compliance of code of corporate governance.

B THE BOARD OF DIRECTORS

The Directors are elected for a period of three years. The re-election of the Board was conducted in 2012. A Director should hold at least 5,000 shares to qualify for election. The Board also has an advisory member, Mr. Sameer Ebrahim Al Wazzan, who is a well known insurance professional in the region and an erstwhile member of this Board.

Details of Directors

Name	Position	No. of other Directorships held in Oman
H.E. Dr. Mohammed Ali Al Barwani	Chairman	2
Eng. Abdulrahman Awadh Barham	Deputy Chairman	1
H.E. Shaikh Abdulrahman Mohamed Jabor M. Al Thani	Director	1
Eng. Khamis Mubarak Al Kiyumi	Director	2
Eng. Abdullah Ali Al Abdullah	Director	1
Mr. Saleh Nasser Al Riyami	Director	2
Ms. Safana M.A. Al Barwani	Director	3
Mr. Hamed M Al Wahaibi	Director	-

The Board of Directors of the Company met six times during the year ended 31 December 2012, on 25 February, 24 March, 7 May, 30 May, 29 September and 16 December 2012. All the Directors attended the AGM held on 24 March 2012.

Independence of Board Members

In order to effectively discharge its governance responsibilities, a majority of the Board members are non executive and independent. The Capital Market Authority has announced amendments to the definitions of independent director and related parties in the Code of Corporate Governance on 24 October 2012.

Companies are required to comply with regulations when they elect new directors in their next annual general meeting.



The details of Directors' attendance during Board meetings are given below.

Name	Position	No. of Board Meetings attended	Sitting Fees RO
H. E. Dr. Mohammed Ali Al Barwani	Chairman	6	6,000
Eng. Abdulrahman Awadh Barham	Dy. Chairman	6	6,000
H.E. Shaikh Abdulrahman Mohamed Jabor M. Al Thani	Director	4	4,000
Eng. Khamis Mubarak Al Kiyumi	Director	6	6,000
Eng. Abdullah Ali Al Abdullah	Director	6	6,000
Mr. Saleh Nasser Al Riyami	Director	6	6,000
Ms. Safana M. A. Al Barwani	Director	6	6,000
Mr. Hamed M. Al Wahaibi	Director	6	6,000
Mr. Sameer Ebrahim Al Wazzan	Advisor	4	4,000

The Directors have not been paid any other remuneration.

Responsibilities of Board of Directors

The Board's responsibilities are in compliance with all applicable laws of the Sultanate of Oman.

The Board of Directors responsibilities as per the laws applicable in the Sultanate of Oman, and determined in accordance with the Commercial Companies Law of 1974, as amended, and the Insurance Companies Law (12/1979) as amended, and as per the Executive Regulations Article No. 5 of the Code of Corporate Governance for Insurance Companies issued by Circular No. (7/T/2005) dated 1st August 2005, in addition to all other relevant laws.

C AUDIT & COMPLIANCE COMMITTEE

The Audit & Compliance Committee comprising of three non-executive and independent members is constituted by the Board, to guide the Finance, Audit and Accounting functions and to ensure adherence to best practices.

The Audit & Compliance Committee met four times during the year ended 31 December 2012, on 23 February, 6 May, 29 September and 15 December 2012.

The details of Audit & Compliance Committee meetings attended and sitting fees paid during 2012 are as follows:

Name	Position	No. of Meetings attended	Sitting Fees RO
Mr. Saleh Al Riyami	Chairman	4	3,200
Ms. Safana M. Al Barwani.	Member	4	3,200
Mr. Hamed Al Wahaibi	Member	4	3,200
Mr. Sameer Ebrahim Al Wazzan	Advisor	3	2,400

Audit & Compliance Committee Functions

The Audit & Compliance Committee undertakes its responsibilities as per Article No. (6) of the Code of Corporate Governance for Insurance Companies issued by Circular No. (7/T/2005) dated 1st August 2005 and as per Annexure No. (2).



D EXECUTIVE AND INVESTMENT COMMITTEE

The Executive Committee constituted by the Board, comprises of four non-executive members. The Committee provides guidance to the management on the implementation of the Company's strategies set by the Board and to review operational performance as well as investment objectives.

The meetings were held on 14 February, 30 April and 4 August 2012.

The details of Executive Committee meetings held during the year ended 31 December, 2012 are as given below:

Name	Position	No. of Meetings attended	Sitting Fees RO
H.E. Dr. Mohammed Ali Al Barwani	Chairman	3	2,400
Eng. Abdulrahman Awadh Barham	Member	3	2,400
Eng. Khamis Mubarak Al Kiyumi	Member	3	2,400
Eng. Abdullah Ali Al Abdullah	Member	2	1,600

E PROCESS OF NOMINATION OF DIRECTORS

Is as per article and Memorandum of Association of the Company.

F MANAGEMENT AND REMUNERATION MATTERS

The Company has appointed experienced and qualified professional managers as heads of departments. All employment is carried out on the basis of specific job profile and description. The goals of the CEO are set by the Board and, based on these goals, every department manager is given well set out goals that are clearly measurable. The CEO, in conjunction with the Human Resource department, conducts performance reviews, half yearly and annually, to ensure that targets are met. The remuneration package incentives are decided based on performance. Every employee holds a valid employment contract, signed by self and the Company. The contracts have been prepared in accordance with the guidelines issued by Omani Labour Law and the Ministry of Manpower in this regard.

The gross remuneration paid during the year to the top 5 officers of the Company including salary and allowances amounted to RO 266,823. In addition to this, a Company maintained car is provided to the CEO. The Company does not offer any stock options to any of its directors or employees.

G AREAS OF NON COMPLIANCE

During the year there have been no strictures or penalties imposed on the Company by the Muscat Security Market or Capital Market Authority for non compliance with the code of Corporate Governance for Insurance Companies.

H MEANS OF COMMUNICATION WITH SHAREHOLDERS

As per the legal requirements, a notice is sent to the shareholders for the Annual General Meeting together with the annual audited financial statements including details of related party transactions (which are entered into on an arm's length basis) along with the Chairman's Report and MD & A Report. The nature and value of related party transactions are disclosed by way of a note to the financial statements.



Pattern of Shareholding

The shareholders, during the Extra Ordinary Meeting dated 25 February 2012, approved a resolution for the change in the par value per share from RO 1 per share to RO 0.100 per share. In June 2012, the Company raised capital of RO 4,000,000 through rights issue of 40,000,000 shares.

Details of shareholders holdings 5% or more are given below.

Shareholder	No. Of Shares	% Holding
1. Mohammed Al Barwani Holding Co. L.L.C.	43,095,240	43
2. Al Madina Financial Services Co. S.A.O.C	12,000,000	12
3. Ministry of Defence Pension Fund	10,000,000	10

I DECLARATION BY THE BOARD OF DIRECTORS

We the Board of Directors hereby confirm that:

- The financial statements are prepared and presented in accordance with the International Financial Reporting Standards
- Necessary policies and procedures are approved which are necessary for strategy implementation and smooth operational performance
- The internal control system of the Company is efficient and adequate and complies with the internal rules and regulations of the Company
- There are no material matters which will affect the Company's ability to continue its operations in the coming financial years.

J PROFILE OF THE STATUTORY AUDITORS

PwC is a global network of firms, operating in 158 countries with more than 180,000 people, who are committed to delivering quality in assurance, tax and advisory services. PwC also provides corporate training and professional financial qualifications through PwC's Academy.

Established in the Middle East for 40 years, PwC has firms in Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, the Palestinian territories, Qatar, Saudi Arabia and the United Arab Emirates, with around 2,500 people. (www.pwc.com/middle-east).

PwC has been established in Oman for over 40 years and the Firm comprises 3 partners, including one Omani national, and over 135 professionals and support staff. Expert assurance, tax and advisory professionals are able to combine internationally acquired specialist consulting and technical skills with relevant local experience.

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity.

Please see www.pwc.com/structure for further details.

For **Al Madina Insurance Company SAOC**



MANAGEMENT DISCUSSION AND ANALYSIS REPORT

FOR THE YEAR ENDED 31 DECEMBER 2012

INTRODUCTION

The Omani economy continued to grow in a sustained manner during 2012. Oman's thrust on infrastructure spending contributed significantly to the increased economic activities. Resultant growth in ancillary industry and active Private Sector participation in both Service and Manufacturing continues to open new Insurance avenues. The Government's special drive, initiated in 2011 to increase employment opportunities for Omanis was continued with greater success during 2012. This has resulted in an overall improvement in the buying power with a significant increase in the number of vehicles on the road. With the increase in traffic accidents, the Government has initiated a number of steps to increase road safety awareness across the country. The development of the port at Duqm has raised the hopes for enhancing the cargo handling capacity in the country and is expected to be a vital driver to the growth of the country's economy.

OPERATIONAL PERFORMANCE

Sr. No.	Key Performance Indicators	2012	2011
1.	Gross Written Premium	16,885,090	14,143,038
2.	Net Earned Revenue	6,726,148	5,528,453
3.	Net Incurred Claims	(4,456,624)	4,908,816
4.	Net Incurred Claims - Motor	4,226,699	4,593,261
5.	Net Surplus from Operations	2,048,347	591,965
6.	Investment Income	1,508,728	(14,845)
7.	Expenses	(2,580,324)	(2,091,034)
8.	Net Income	1,067,345	(1,442,258)

BUSINESS

- With Oman's ongoing economic thrust in both Oil and Non-Oil segments, exciting business opportunities continue to arise both in Mega segments and in Small-Medium Enterprises. The Management has identified key growth segments and its medium term business strategy is aligned along these segments. The focus will be on measured growth and profitability.
- With the Insurance Industry likely to grow at a CAGR of 12% over the next 3 years, the Company is geared to play an important role in providing insurance support to insurance segments to which we can add value.
- With an eye to playing a bigger role in the market, the Company has recently established strategic partnerships with world leaders like Chubb and Allianz which will help in building local capacities with higher retentions.
- The Government's focus on social security will push insurance demand in Health and Life segments, not just in terms of volume but more importantly in product development. The Company's business strategies are increasingly focused to target these needs as well.

- The Company focuses on high levels of Customer Satisfaction.
- Considering the effects of natural catastrophic events on the business, the Company has strong reinsurance support from world leaders.
- The Company adopts standard best practices in prudent risk management, cautious underwriting, strong treaty support and Nat Cat Exposure Study so as to reduce the impact to the business.

INVESTMENTS

Initiatives taken by the Company in terms of diversification of investment book and better monitoring of equity portfolio paid off well in 2012. The Company's investment book generated an income of RO 1,508,728 in 2012, as against a loss of RO 14,846 in 2011. The surge in Investment Income was partly attributable to improved performance of the Company's 'held-for-trading investments' and partly attributable to the dividend income from Tilal Fund. Stock markets across the globe recovered in 2012 from the adverse impact of 2011 (Euro Zone debt crisis, downgrade of sovereign rating of the US and the Arab spring). The benchmark index of Oman (MSM30) delivered a return of only 1.15% lagging behind some of its GCC peers.

However stocks outside the benchmark index performed well in 2012, giving the Company a decent return on its equity book. The Company also diversified its investments in 2012 by adding real estate and fixed income securities to its Investment Book.

Further geographical diversification and better monitoring of equity portfolio will continue to be the key focus areas of 2013.

CLAIMS

Motor Claims continued to show a trend of sharp rise in road accidents and fatal/grievous injuries. The number of deaths relating to road traffic accidents continues to be a cause of concern. Further the trends of court awards for death/injury compensations have shown a significant increase presumably to reflect the increasing value attached to human life.

This trend results in a higher payout ratio and thus acts as a strain on profitability. The management has taken steps to address this aspect by carrying out a detailed analysis of its motor portfolio. The underwriting discipline has been strengthened by implementing IT tools for client segmentation and pricing policies. In addition, the Company has adopted aggressive cost control measures without impacting the quality of client service.

MANPOWER AND HR

- HR witnessed many initiatives in vital areas like selection, training, staff appraisal, grading and remuneration.
- A new Grading System based on Hay Methodology was implemented in 2011 and the salary structure was pegged to the Grading System. Annual increments and bonus was linked to employees, based on the new grading and salary structure as well as performance.
- Omanization percentage of 65% was achieved in line with the mandate from CMA keeping in view sustainability and cost feasibility.
- As a consistent training policy, various training initiatives were taken which resulted in marked improvement in employee skills. 2 employees obtained ACII, a coveted insurance qualification. The progress in this matter is consistent as 2 new employees were selected for ACII program by CMA. In addition to the above, 3 employees are pursuing



either Bachelor or Master degree programs under our sponsorship. This will definitely meet our future needs for trained and skilled manpower.

- As part of the commitment to improve the skill sets of the employees, we launched a Management Development Program for our middle management which focuses on up-scaling supervisory and team-leadership skills.
- As a result of the above initiatives a professional, congenial and positive work culture is inculcated. HR continues to play a proactive role in all staff related matters keeping in mind staff welfare and corporate objectives.

IT SERVICES

The management has recognized the need that utilization of innovative technological advancement in IT services can act as the driver to bring about great improvements in the quality of service rendered. Accordingly, the management has continued to increase its investment in this domain which has resulted in the following:

- Extension of online services to branches and intermediaries with all important retail products available online.
- Improvisation of claims processing and introduction of a file tracking system in order to improve process efficiency and turn around time.
- Implementation of a world class analytical and reporting tool to enhance and improve the product structure, rating and review of claims reserves.
- Signed Software ESCROW agreement with our Core Application System provider to ensure Service Availability.

In addition, as part of its commitment to all the goals set by the regulatory authorities, the management has updated the ROP database. Further Business Continuity Plan (BCP) and Disaster Recovery Plan (DR) have been established and initiated training the staff members. The Company plans to install a Document Archival System, Disaster Recovery Site and increase efficiency in our business processes thereby reducing operational cost.

INTERNAL AUDIT & COMPLIANCE

Al Madina Insurance also enhanced its Internal Audit & Compliance department by training its staff in Audit, Compliance and Anti Money Laundering regulations to complement the Company's progress. The Company intends to establish a strong culture of good Corporate Governance.

FUTURE OUTLOOK

Being the first insurance company in Oman to have obtained "in-principle" approval to convert to fully-fledged Takaful business, the Company is well positioned to implement necessary changes associated with such conversion. Overall, the Company has a sound business strategy to leverage the growth in Oman's economy. Our strategy is based on the quality of our resources, robust IT system, strong business partners, by strategic alliances with specialized global leaders and focusing on our customers needs.





Independent auditors' report to the shareholders of Al Madina Insurance Company SAOC

Report on the financial statements

We have audited the accompanying financial statements of **Al Madina Insurance Company SAOC** (the Company) which comprise the statement of financial position as at 31 December 2012 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Capital Market Authority and the Commercial Companies Law of 1974, as amended and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other legal and regulatory requirements

Further, as required by the Rules and Guideline on Disclosure by Issuers of Securities and Insider Trading (R&G) issued by the Capital Market Authority (CMA) of the Sultanate of Oman, we report that the accompanying financial statements have been properly prepared, in all material respects, in accordance with the R&G, with the Rules for Disclosure and Proformas issued by the CMA and with the Commercial Companies Law of 1974, as amended.

27 February 2013
Muscat, Sultanate of Oman

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AL MADINA INSURANCE COMPANY SAOC

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

REGISTERED OFFICE:

P.O. Box 1805, Postal Code 130, Athaiba, Sultanate of Oman

PRINCIPAL PLACE OF BUSINESS:

Fahad Plaza, Third Floor, CBD Area, Sultanate of Oman

AL MADINA INSURANCE COMPANY SAOC

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 RO	2011 RO
INCOME			
Gross premiums written	19	<u>16,885,090</u>	<u>14,143,038</u>
Underwriting results	19	2,048,347	591,965
Net investment income/(loss)	21	1,508,728	(14,846)
Other income		<u>90,594</u>	<u>71,657</u>
		<u>3,647,669</u>	<u>648,776</u>
EXPENSES			
General and administrative expenses	22	<u>(2,497,533)</u>	<u>(2,091,034)</u>
Profit/(loss) for the year before finance costs and tax		1,150,136	(1,442,258)
Finance costs	23	<u>(82,791)</u>	-
Net profit/(loss) for the year	24	<u>1,067,345</u>	<u>(1,442,258)</u>
Other comprehensive income:			
Net change in fair value of available-for-sale investments		<u>(566,136)</u>	<u>355,450</u>
Total comprehensive income/(loss) for the year		<u>501,209</u>	<u>(1,086,808)</u>
Profit/(loss) per share	25	<u>0.015</u>	<u>(0.018)</u>

The attached notes on pages 28 to 56 form an integral part of these financial statements.

AL MADINA
INSURANCE
COMPANY SAOC

AL MADINA INSURANCE COMPANY SAOC

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

	Note	2012 RO	2011 RO
ASSETS			
Non-current assets			
Property and equipment	4	786,736	216,909
Investment in properties	5	2,600,000	-
Available-for-sale investments	6	1,162,924	1,729,060
Investments held-to-maturity	7	<u>254,366</u>	-
		4,804,026	1,945,969
Current assets			
Held for trading investments	8	4,183,513	3,841,123
Bank deposits, cash and bank balances	9	7,432,262	4,861,717
Insurance and reinsurance contract receivables	10	5,114,918	4,527,339
Deferred commission expense	11	535,628	264,467
Reinsurers' share of insurance fund	17	6,013,663	5,301,962
Other receivables and prepayments		<u>352,497</u>	<u>373,698</u>
		23,632,481	19,170,306
Total assets		28,436,507	21,116,275
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	12	10,000,000	6,000,000
Legal reserve	13	216,226	109,491
Special reserve	14	150,310	150,310
Contingency reserve	15	175,483	175,483
Fair value reserve		233,609	799,745
Accumulated loss		<u>(811,960)</u>	<u>(1,750,570)</u>
Total equity		9,963,668	5,484,459
Non-current liabilities			
Employees' end of service benefits	16	85,531	71,357
Current liabilities			
Insurance funds	17	12,194,535	10,643,581
Deferred commission income	18	401,890	71,016
Due to reinsurers		4,036,146	2,927,184
Accounts and other payables		<u>1,754,737</u>	<u>1,918,678</u>
		18,387,308	15,560,459
Total liabilities		18,472,839	15,631,816
Total equity and liabilities		28,436,507	21,116,275
Net assets per share	25	0.099	0.091

The financial statements on pages 22 to 56 were approved and authorised to issue by the Board of Directors on 26th Feb, 2013 and were signed on their behalf by:



Mohammed Al Barwani
Chairman



Abdul Rehman Barham
Deputy Chairman

AL MADINA INSURANCE COMPANY SAOC

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

	Share capital RO	Legal reserve RO	Special reserve RO	Fair value reserve RO	Accumulated loss RO	Contingency reserve RO	Total RO
At 1 January 2012	6,000,000	109,491	150,310	799,745	(1,750,570)	175,483	5,484,459
Comprehensive income:							
Profit for the year	-	-	-	-	1,067,345	-	1,067,345
Other comprehensive loss:							
Net change in fair value of available-for-sale investments	-	-	-	(566,136)	-	-	(566,136)
Total comprehensive income/(loss) for the year	-	-	-	(566,136)	1,067,345	-	501,209
Transaction with owners:							
Rights issue of shares	4,000,000	-	-	-	-	-	4,000,000
Share issue expenses	-	-	-	-	(22,000)	-	(22,000)
Transfer to legal reserve	-	106,735	-	-	(106,735)	-	-
Total transactions with owners	4,000,000	106,735	-	-	(128,735)	-	3,978,000
At 31 December 2012	10,000,000	216,226	150,310	233,609	(811,960)	175,483	9,963,668

The attached notes on pages 28 to 56 form an integral part of these financial statements.

AL MADINA INSURANCE COMPANY SAOC

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

	Share capital	Legal reserve	Special reserve	Fair value reserve	Accumulated loss	Contingency reserve	Total
	RO	RO	RO	RO	RO	RO	RO
At 1 January 2011	10,000,000	109,491	150,310	444,295	(4,308,312)	175,483	6,571,267
Comprehensive loss:							
Loss for the year	-	-	-	-	(1,442,258)	-	(1,442,258)
Other comprehensive income/loss:							
Net change in fair value of available-for-sale investments	-	-	-	355,450	-	-	355,450
Total comprehensive loss for the year	-	-	-	355,450	(1,442,258)	-	(1,086,808)
Transaction with owners:							
Reduction in share capital	(4,000,000)	-	-	-	4,000,000	-	-
	(4,000,000)	-	-	-	4,000,000	-	-
At 31 December 2011	6,000,000	109,491	150,310	799,745	(1,750,570)	175,483	5,484,459

The attached notes on pages 28 to 56 form an integral part of these financial statements.

AL MADINA INSURANCE COMPANY SAOC

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 RO	2011 RO
Operating activities			
Profit/(loss) for the year		1,067,345	(1,442,258)
Adjustments for:			
Depreciation		119,212	119,293
Finance cost		82,791	-
Dividend income		(760,909)	(207,875)
Income from bank deposit		(141,829)	(105,208)
Profit from investments held to maturity		(11,867)	-
End of service benefits charge for the year		20,847	22,529
Unrealised (gain)/loss on held-for-trading investments		(404,014)	164,878
		(28,424)	(1,448,641)
Working capital changes:			
Insurance and reinsurance contract receivables		(587,579)	53,192
Reinsurers' share of insurance fund		(711,701)	(450,024)
Other receivables and prepayments		21,201	(91,117)
Deferred commission expenses		(271,161)	102,433
Insurance funds		1,550,954	74,414
Accounts and other payables		(163,941)	(213,053)
Due to reinsurers		1,108,962	926,417
Deferred commission income		330,874	(101,678)
Cash flows from/(used in) operating activities before payment of end of service benefits		1,249,185	(1,148,057)
End of service benefits paid		(6,673)	(606)
Net cash flow from/(used in) operating activities		1,242,512	(1,148,663)
Investing activities			
Purchase of property and equipment	4	(689,039)	(94,015)
Purchases of held-for-trading investments		(1,198,036)	(879,559)
Proceeds from disposal of held-for-trading investments		1,259,660	1,247,495
Proceeds from redemption of investment in available for sale securities		-	105,000
Movement in bank deposits net of interest		3,490	(18,292)
Purchase of investment property		(2,600,000)	-
Purchase of investments held to maturity net of interest		(242,499)	-
Dividends received		760,909	207,875
Net cash (used in)/ from investing activities		(2,705,515)	568,504
Financing activities			
Payment of capital underwriting fees		(22,000)	-
Share capital issued		4,000,000	-
Finance cost paid		(82,791)	-
Net cash from financing activities		3,895,209	-
Net change in cash and cash equivalents		2,432,206	(580,159)
Cash and cash equivalents at the beginning of the year		294,177	874,336
Cash and cash equivalent at the end of the year	9	2,726,383	294,177
Cash and cash equivalents comprise of:			
Cash and bank balances		2,330,127	(68,043)
Cash balances with investment managers		156,399	144,369
Bank deposits with maturity of less than three months from date of placement	9	239,857	217,851
		2,726,383	294,177

The attached notes on pages 28 to 56 form an integral part of these financial statements.



AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Al Madina Insurance Company SAOC (formerly Al Madina Gulf Insurance Company SAOC) (the Company) was incorporated on 15 May 2006 as a closed joint stock company in the Sultanate of Oman. The Company operates in Oman and is engaged in the business of insurance within the Sultanate of Oman. The Company commenced commercial operations from 1 August 2006.

The Company was granted licence from Capital Market Authority on 15 July 2006.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board, and comply with the disclosure requirements set out in the Rules for Disclosure and Proformas issued by the Capital Market Authority and the requirements of the Commercial Companies Law of 1974, as amended.

The financial statements are prepared under the historical cost convention, except for the measurement of financial assets classified as held for trading and available-for-sale investments which are measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

(b) Changes in accounting policy and disclosures

(a) Standards, amendments and interpretation effective in 2012 and relevant for the Company's operations:

For the year ended 31 December 2012, the Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2012. The adoption of those standards and interpretations has not resulted in changes to the Company's accounting policies and has not affected the amounts reported for the current period.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company:

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2013 or later periods, but the Company has not early adopted them and the impact of these standards and interpretations is not reasonably estimable as at 31 December 2012:

IAS 1 (Amendments), 'Presentation of financial statements', (effective on or after 1 January 2013);

IAS 19 (Amendments), 'Employee benefits', (effective on or after 1 January 2013);

IFRS 9, 'Financial instruments', (effective on or after 1 January 2015);

IFRS 10, 'Consolidated financial statements' (effective on or after 1 January 2013);

IFRS 12, 'Disclosures of interests in other entities' (effective on or after 1 January 2013); and

IFRS 13, 'Fair value measurement' (effective on or after 1 January 2013).

AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Foreign currency

Functional and presentation currency

Items included in the financial statements of the Company are measured and presented in Rial Omani being the currency of the primary economic environment in which the Company operates (functional currency).

Transactions and balances

Foreign currency transactions are translated into Rial Omani at the exchange rate prevailing on the transaction date. Foreign currency assets and liabilities are translated into Rial Omani at the exchange rate prevailing at the statement of financial position date. Differences on exchange are dealt with in the comprehensive statement of income as they arise.

(d) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any identified impairment loss. The cost of property and equipment is their purchase price together with any incidental expenses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of items of property and equipment. The estimated useful economic lives are as follows:

Office furniture and equipment	3-5 years
Motor vehicles	5 years
Leasehold improvements	3-5 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

Where the carrying amount of an asset is greater than its estimated recoverable amount it is written down immediately to its recoverable amount.

Gains and losses on disposals of property and equipment are determined by reference to their carrying amounts, are recognised within 'other income' and are taken into account in determining operating profit.

Capital work-in-progress is stated at cost. When commissioned, capital work-in-progress is transferred to the appropriate property and equipment category and depreciated in accordance with the Company's policy.

Interest costs on borrowings to finance specific property, plant equipment are capitalised, during the period that is required to bring the asset to a condition when it is ready for use.

(e) Investment properties

Investment properties are properties which are held either to earn rental income, for capital appreciation or for both. Investment properties are stated at fair value. External independent valuers having appropriate recognised professional qualifications and experience, value the investment at every reporting date. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and willing seller in an arm's length transaction, after proper marketing, wherein the parties had each acted knowledgeably, prudently and without compulsion.

Any gain or loss arising from the change in fair value of the investments is recognised in the statement of comprehensive income.

AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments classified as available-for-sale investments, held for trading investments, held-to-maturity investments, insurance and reinsurance contract receivables, due to reinsurers, bank deposits, cash and bank balances and account and other payables. Management determines the classification of its financial assets at initial recognition.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income.

Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of other categories. Available-for-sale investments are initially recognised at fair value including transaction costs. Available-for-sale investments are subsequently carried at fair value. Changes in the fair value of available-for-sale investments are recognised in equity. When securities classified as available-for-sale are sold, the cumulative fair value changes recognised in equity are included in the statement of comprehensive income.

The fair value of available-for-sale investments is based on their quoted market prices as at the date of statement of financial position. The fair value of financial instruments that are not traded in an active market (for example, unquoted investments) is determined by using certain valuation techniques, unless it is impracticable to determine the fair value.

Held for trading investments

Held for trading investments are acquired or incurred principally for the purpose of selling or repurchasing in the short-term. These investments are initially recognised at fair value. Transaction costs for all held for trading investments are expensed as incurred. Held for trading investments are subsequently carried at fair value. The fair value of held for trading investments is based on their quoted market prices as at the date of statement of financial position. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the statement of comprehensive income in the period in which they arise.

Realised gains on sale of investments are determined by the difference between the sale proceeds and the carrying value and are included in the statement of comprehensive income in the period in which they arise. Dividend income from held for trading investments is recognised in the statement of comprehensive income when the Company's right to receive dividends is established.

Held-to-maturity investments

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. If the Company were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are initially recognised at fair value plus transaction costs. Held-to-maturity financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest method.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and arise during the ordinary course of the business. Loans and receivables are recognised initially at fair value plus transaction costs that are directly attributable to their acquisition origination.

They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. The Company's loans and receivables comprise 'insurance and reinsurance contracts receivables' and 'bank deposits, cash and bank balances' in the statement of financial position.

AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

De-recognition of financial instruments

The de-recognition of a financial instrument takes place when the Company no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

Trade and settlement date accounting

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

(g) Impairment Financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset or group of assets may be impaired. If such evidence exists, any impairment loss is recognised in the statement of comprehensive income.

Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of comprehensive income
- For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset
- For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

A provision for impairment of insurance receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the insurance receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of any provision is recognised in the statement of comprehensive income within "general and administrative expenses". Subsequent recoveries of amounts previously written of are credited against "general and administrative expenses" in the statement of comprehensive income.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset - previously recognised in the statement of comprehensive income is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on such equity instruments are not reversed through the statement of comprehensive income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in the statement of comprehensive income.

Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or cash generating unit exceeds its recoverable amount. Recoverable amount is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value

AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment Financial assets (continued)

using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specified to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Company intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

(i) Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances and bank deposits with a maturity of three months or less from the date of placement.

(j) Premium and insurance receivables

Premium and insurance receivables are initially recognised at fair value and subsequently measured at amortised cost less provision for impairment. An estimate is made for impairment of receivables based on a review of all outstanding amounts at the year end. Bad debts are written off during the year in which they are identified.

(k) Insurance contracts

The Company mainly issues short term insurance contracts in connection with property and motor (collectively known as fire and accident) and marine risks. The Company also issues life insurance contracts.

Property insurance

Property insurance is designed to compensate contract holders for damage suffered to properties or for the value of property lost. Contract holders could also receive compensation for the loss of earnings caused by the inability to use the insured properties.

Motor insurance

Motor insurance is designed to compensate contract holders for damage suffered to their vehicles or liability to third parties arising through accidents. Contract holders could also receive compensation for fire or theft of their vehicles.

Marine insurance

Marine insurance is designed to compensate contract holders for damage and liability arising through loss or damage to marine craft and accidents at sea or land resulting in the total or partial loss of cargo.

Life insurance

Life insurance is designed to compensate contract holders for loss of life or limbs of the insured.

(l) Reinsurance contracts held

In order to minimise financial exposure from large claims the Company enters into agreements with other parties for reinsurance purposes. Claims receivable from reinsurers are estimated in a manner consistent with the claim liability and in accordance with the reinsurance contract.

These amounts are shown as reinsurance share of insurance funds in the statement of financial position until the claim is paid by the Company. Once the claim is paid the amount due from the reinsurer in connection with the paid claim is transferred to "insurance and reinsurance contracts receivables".

AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Reinsurance contracts held *(continued)*

At each reporting date, the Company assesses whether there is any indication that a reinsurance asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of recoverable amount. Where the carrying amount of a reinsurance asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

(m) Liability adequacy test

At each statement of financial position date the Company assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in the statement of comprehensive income and an unexpired risk provision is created

(n) Claims

Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, are charged to statement of comprehensive income as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Company and those not reported at the statement of financial position date.

Provisions for reported claims not paid at the statement of financial position date are made on the basis of individual case estimates. In addition, a provision based on managements judgement and the Company's prior experience is maintained for the cost of settling claims incurred but not reported (IBNR) at the statement of financial position date. Any difference between the provisions at the statement of financial position date and settlements and provisions for the following year is included in the underwriting result for that year. The Company does not discount its liability for unpaid claims.

(o) Contingency reserve

In accordance with Article 20 (2) (c) amended by Royal Decree No. 35/95 of the Oman Insurance Companies Law 1979, and Capital Market Authority letter CMA 4952/2005 dated 22 November 2005, 10% of the net outstanding claims at the statement of financial position date for general insurance and 1% of the premiums for the year for life business are transferred from retained earnings to contingency reserve.

The Company may discontinue this transfer when the reserve equals to the issued share capital.

(p) Other liabilities and accruals

Liabilities are recognised initially at fair value and subsequently measured at amortised cost. Liabilities are recognised for amounts to be paid for goods and services received, whether or not billed to the Company.

(q) Employee benefits

End of service benefits are accrued in accordance with the terms of employment of the Company's employees at the reporting date, having regard to the requirements of the Oman Labour Law 2003 and its amendments. 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. These accruals are included in current liabilities, while that relating to end of service benefits is disclosed as a non-current liability.

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

(r) Provisions

A provision is recognised in the statement of financial position when the Company 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.

(s) Earnings per share

The Company presents basic earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Revenue recognition

Premiums earned

Premiums are recognised as revenue (earned premium) proportionally over the period of coverage. A proportion of net retained premiums is provided as 'unearned premium reserve' (UPR) to cover portions of risks which have not expired at the statement of financial position date. An additional provision created to cover shortfall, if any, for each class of business between the total amount in the unearned premium reserve and the amount required by the Oman Insurance Company Law of 1979 calculated at 45% of the net retained premiums for the year for all classes of business.

Commissions earned and paid

Commissions earned and paid are recognized on pro-rata basis over the term of the related policy coverage.

Interest income

Interest income is recognised on a time proportion basis using the effective interest rate method.

Dividends

Dividend income is recognised when the right to receive dividend is established.

(u) Dividends distribution

Dividends distribution to the Company's shareholders is recognised as a liability in the period in which the dividends are approved by the Company's shareholders.

(v) Income tax

Income tax on the statement of comprehensive income for the year comprises current and deferred tax. Current tax and deferred tax are recognised in statement of comprehensive income except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(w) Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Financial instruments

For investments traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the statement of financial position date, adjusted for transaction costs necessary to realise the asset.

The fair value of investments that are not traded in an active market is determined by using estimated discounted cash flows or other valuation techniques.

The carrying amount of other financial assets and liabilities with a maturity of less than one year approximates their fair values.

AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3 CRITICAL ACCOUNTING ESTIMATE AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and the resultant provisions and change in fair value for the year.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised and in any future period affected.

Such estimates are necessarily based on assumptions about several factors involving varying, and possibly significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

Impairment of available-for-sale investments

The Company follows the guidance of IAS 39 to determine when an available-for-sale equity investment is impaired.

This determination requires significant judgement. In making this judgement, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Claims outstanding

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the statement of financial position date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the statement of financial position date.

The management uses the initial value of the claim provided by the surveyor for the expected ultimate cost of claims reported at the financial position date. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends.

At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. General insurance claims provisions are not discounted for the time value of money.

Impairment of receivables

An estimate of the collectible amount of insurance and other receivables is made when collection of the full amount is no longer probable. This determination of whether these insurance and other receivables are impaired entails the Company evaluating, the credit and liquidity position of the policy holders and the insurance companies, historical recovery rates including detailed investigations carried out during the year and feedback received from their legal department.

The difference between the estimated collectible amount and the carrying value is recognised as an expense in the statement of comprehensive income.

Any difference between the amounts actually collected in the future periods and the amounts expected will be recognised in the statement of comprehensive income at the time of collection.



AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

4 PROPERTY AND EQUIPMENT

	Leasehold improvements	Office furniture and equipment	Motor vehicles	Capital work-in-progress	Total
	RO	RO	RO	RO	RO
Cost					
At 1 January 2012	21,356	572,607	39,427	-	633,390
Additions	<u>17,370</u>	<u>118,970</u>	-	<u>552,699</u>	<u>689,039</u>
At 31 December 2012	<u>38,726</u>	<u>691,577</u>	<u>39,427</u>	<u>552,699</u>	<u>1,322,429</u>
Depreciation					
At 1 January 2012	938	393,852	21,691	-	416,481
Charge for the year	<u>7,006</u>	<u>107,720</u>	<u>4,486</u>	-	<u>119,212</u>
At 31 December 2012	<u>7,944</u>	<u>501,572</u>	<u>26,177</u>	-	<u>535,693</u>
Net book value					
At 31 December 2012	<u>30,782</u>	<u>190,005</u>	<u>13,250</u>	<u>552,699</u>	<u>786,736</u>

	Leasehold im- provements	Office furniture and equipment	Motor vehicles	Capital work-in-progress	Total
	RO	RO	RO		RO
Cost					
At 1 January 2011	-	499,948	39,427	-	539,375
Additions	<u>21,356</u>	<u>72,659</u>	-	-	<u>94,015</u>
At 31 December 2011	<u>21,356</u>	<u>572,607</u>	<u>39,427</u>	-	<u>633,390</u>
Depreciation					
At 1 January 2011	-	280,984	16,204	-	297,188
Charge for the year	<u>938</u>	<u>112,868</u>	<u>5,487</u>	-	<u>119,293</u>
At 31 December 2011	<u>938</u>	<u>393,852</u>	<u>21,691</u>	-	<u>416,481</u>
Net book value					
At 31 December 2011	<u>20,418</u>	<u>178,755</u>	<u>17,736</u>	-	<u>216,909</u>

During the year the Company has purchased an office space in Tital Complex from Tital Development Company SAOC, a related party (the seller). The building is under construction at the reporting date. RO 97,441 is payable to the seller and is included in the statement of financial position under accounts and other payables (refer note 26(b)).

AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

5 INVESTMENT PROPERTY

During the year, the Company has invested in a building situated in Al Hail, at a cost of RO 2,600,000. The property is under construction as at the reporting date and is held to earn rentals and for capital appreciation and, accordingly, has been classified as investment property. As the property has been purchased during the current year, accordingly, the management considers the carrying amount approximates its fair value at the reporting date.

6 AVAILABLE-FOR-SALE INVESTMENTS

	% of overall portfolio	Number of securities	Fair value RO	Cost RO
31 December 2012				
Tilal Fund	62.13	618,750	710,325	570,938
National Mass Housing	13.47	150,000	160,950	157,500
Shazah Hotel, Muscat	8.89	100,000	106,200	102,500
Omani Unified Bureau for the Orange Card SAOC	13.26	71,428	158,499	71,427
U.S. Residential Condominium Fund II	2.25	1,750	26,950	69,666
			<u>1,162,924</u>	<u>972,031</u>
31 December 2011				
Tilal Fund	75.82	618,750	1,299,375	570,938
National Mass Housing	9.32	150,000	156,150	157,500
Shazah Hotel, Muscat	6.16	100,000	106,300	102,500
Omani Unified Bureau for the Orange Card SAOC	7.13	71,428	140,285	71,427
U.S. Residential Condominium Fund II	1.57	1,750	26,950	69,666
			<u>1,729,060</u>	<u>972,031</u>

Included under available-for-sale investments are unquoted local and foreign investments that are carried at fair value and include amounts invested in certain real estate funds.

The fair value of the foreign real estate fund investment is RO 26,950 at 31 December 2012 (2011 - RO 26,950) and its cost was RO 69,666 (2011 - RO 69,666). During the year 2010, the Company recognised impairment loss of RO 42,716 on the foreign real estate investment.

Movement in available-for-sale investments:	2012	2011
	RO	RO
Balance at 1 January	1,729,060	1,478,610
Net change in fair value	(566,136)	355,450
Redemption of investment	-	(100,000)
Realised loss on redemption of investment	-	(5,000)
	<u>1,162,924</u>	<u>1,729,060</u>

AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

6(a) RESTRICTIONS ON TRANSFER OF ASSETS

In accordance with the law governing the operation of insurance companies within the Sultanate of Oman, the Company has identified to a bank the investment in Tilal Fund (of 562,500 units), for the purpose of credit facility taken from the bank. The fair value of these units is included in the statement of financial position amounting to RO 647,750 (2011 - RO 1,181,250).

7 INVESTMENTS HELD-TO-MATURITY

During the year, the Company has invested in sukuks listed in the international bond market. The company has a positive intention and ability to hold these until their maturity in November 2018 and, accordingly, they have been classified as held-for-maturity.

The effective rate of return on the investments held-to-maturity at 31 December 2012 is 2.44%, semi-annual.

8 HELD FOR TRADING INVESTMENTS

	2012	2012	2011	2011
	Fair value	Cost	Fair value	Cost
	RO	RO	RO	RO
Services sector	2,029,354	1,861,726	2,034,340	1,978,822
Industrial sector	1,984,095	1,737,653	1,609,548	1,837,017
Financial sector	170,064	180,121	197,235	190,163
	<u>4,183,513</u>	<u>3,779,500</u>	<u>3,841,123</u>	<u>4,006,002</u>

Trading investments are local and foreign quoted investments. The cost of the foreign investments is RO 412,123 (2011 - RO 692,706) and the fair value of foreign investments at 31 December 2012 is RO 421,691 (2011 - RO 694,688).

8(a) RESTRICTIONS ON TRANSFER OF ASSETS

In accordance with the law governing the operation of insurance companies within the Sultanate of Oman, the Company has identified to the Capital Market Authority certain specific investments held-for-trading, included in the statement of financial position at fair value, amounting to RO 2,213,834 (2011 - RO 1,071,799). Under the terms of the legislation, the Company can transfer these assets only with the prior approval of the Capital Market Authority.

9 BANK DEPOSITS, CASH AND BANK BALANCES

Bank balances and cash in the statement of financial position comprise of the following:

	2012	2011
	RO	RO
Current		
Cash and bank balances	2,330,127	(68,043)
Cash balances with investment managers	156,399	144,369
Bank deposits with maturity of less than three months from the date of placement	239,857	217,851
Bank deposits with maturity of more than three months from the date of placement	4,705,879	4,567,540
	<u>7,432,262</u>	<u>4,861,717</u>

Bank deposits amounting to RO 52,552 (2011 - RO 1,746,596) are denominated in foreign currencies. Bank deposits carry interest at rates in the range of 0.55% to 5.00% (2011 - 0.35% to 4.75%) per annum.

AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

9 BANK DEPOSITS, CASH AND BANK BALANCES (continued)

9(a) RESTRICTIONS ON TRANSFER OF ASSETS

In accordance with the law governing the operation of insurance companies within the Sultanate of Oman, the Company has identified to the Capital Market Authority certain specific bank deposits, included in the statement of financial position, amounting to RO 4,555,879 (2011 - RO 4,567,540). Under the terms of the legislation, the Company can transfer these assets only with the prior approval of the Capital Market Authority.

10 INSURANCE AND REINSURANCE CONTRACT RECEIVABLES

	2012	2011
	RO	RO
Premiums receivable	5,060,753	3,718,385
Insurer's balances receivable	<u>382,986</u>	<u>1,053,314</u>
Gross receivables	5,443,739	4,771,699
Less: provision for impairment of receivables	<u>(328,821)</u>	<u>(244,360)</u>
	<u>5,114,918</u>	<u>4,527,339</u>
	2012	2011
	RO	RO
Not due	<u>3,387,174</u>	<u>3,142,300</u>
Past due but not impaired:		
Above 121 days	<u>1,727,744</u>	<u>1,385,039</u>
Past due and impaired:		
Above 121 days	<u>328,821</u>	<u>244,360</u>

The normal credit period allowed to insurance debtors and reinsurance companies is 120 days, after which amounts are considered past due. As at 31 December 2012, past due receivables above 121 days of RO 1,727,744 (2011 - RO 1,385,039) were considered recoverable, as these are due from government and quasi-government entities, brokers and corporate with which the company deals in the normal course of insurance business and with which there is no recent history of default. On assessment of these individual receivables for recovery and enquiries with them, the management believes that these amounts are collectible and hence are not considered impaired.

At 31 December 2012, insurance debtors of RO 328,821 (2011 - RO 244,360) were impaired and provided for fully.

Movement in the provision for impairment of receivables during the year is as follows:

	2012	2011
	RO	RO
At 1 January	244,360	91,943
Provision made during the year	101,032	152,417
Reversals of provisions during the year	<u>(16,571)</u>	-
At 31 December	<u>328,821</u>	<u>244,360</u>

AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

11 DEFERRED COMMISSION EXPENSE

	2012	2012	2012
	General Business	Life Business	Total
	RO	RO	RO
Deferred commission expense	<u>534,542</u>	<u>1,086</u>	<u>535,628</u>
	2011	2011	2011
	General Business	Life Business	Total
	RO	RO	RO
Deferred commission expense	<u>251,861</u>	<u>12,606</u>	<u>264,467</u>

12 SHARE CAPITAL

	2012	2011
	RO	RO
Authorised share capital	<u>25,000,000</u>	<u>25,000,000</u>
Issued and fully paid up capital	<u>10,000,000</u>	<u>6,000,000</u>

The shareholders during the Extra Ordinary Meeting dated 25 February 2012 approved a resolution, for the change in the par value per share from RO 1 per share to RO 0.100 per share. In June 2012, the Company raised capital of RO 4,000,000 through rights issue of 40,000,000 shares.

Significant shareholders

Shareholders of the Company who own 10% or more of the Company's shares, whether in their name, or through a nominee account, and the number of shares they hold are as follows:

	% of holding	2012	2011
		Number of shares	Number of shares
Mohammed Al Barwani Holding Company LLC	43	43,095,240	1,500,000
Al Madina Financial Services Company SAOC	12	12,000,000	720,000
Ministry of Defense Pension Fund	10	10,000,000	600,000

13 LEGAL RESERVE

As required by the Commercial Companies Law of Oman, 10% of the profit after tax for the year is transferred to legal reserve. The Company may resolve to discontinue such annual transfers when the reserve equals one third of the Company's paid up capital. The reserve is not available for distribution.

AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

14 SPECIAL RESERVE

In accordance with Article 78 of the Commercial Companies Law of 1974, the surplus of share issue fees over pre-formation expenses was transferred to a non-distributable special reserve.

15 CONTINGENCY RESERVE

Contingency reserve is not distributable without prior approval of the Capital Market Authority (CMA). No transfer has been made during the year ended 31 December 2012 since the Company does not have accumulated profits at 31 December 2012.

16 EMPLOYEES' END OF SERVICE BENEFITS

	2012	2011
	RO	RO
Liability as at 1 January	71,357	49,434
Accrued during the year	20,847	22,529
Payments during the year	(6,673)	(606)
Liability as at 31 December	85,531	71,357

17 INSURANCE FUNDS

	2012			2011		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	RO	RO	RO	RO	RO	RO
A) General business						
Claims outstanding	4,102,334	(1,330,750)	2,771,584	3,976,897	(1,534,548)	2,442,349
Claims incurred but not reported	171,470	(64,858)	106,612	148,700	(14,765)	133,935
Unearned premium reserve	7,088,470	(3,976,789)	3,111,681	5,784,890	(3,167,361)	2,617,529
	11,362,274	(5,372,397)	5,989,877	9,910,487	(4,716,674)	5,193,813
B) Life business						
Claims outstanding	307,086	(271,050)	36,036	388,553	(320,197)	68,356
Claims incurred but not reported	15,354	(13,553)	1,801	186,243	(153,478)	32,765
Unearned premium reserve	509,821	(356,663)	153,158	158,298	(111,613)	46,685
	832,261	(641,266)	190,995	733,094	(585,288)	147,806
	12,194,535	(6,013,663)	6,180,872	10,643,581	(5,301,962)	5,341,619

Substantially all of the claims are expected to be paid within twelve months of the statement of financial position date. The amounts due from reinsurers are contractually due within a maximum of three months from the date of payment of the claims.

AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

18 DEFERRED COMMISSION INCOME

	2012	2012	2012
	General Business	Life Business	Total
	RO	RO	RO
Deferred commission income	<u>401,890</u>	<u>-</u>	<u>401,890</u>
	2011	2011	2011
	General Business	Life Business	Total
	RO	RO	RO
Deferred commission income	<u>71,016</u>	<u>-</u>	<u>71,016</u>

19 UNDERWRITING RESULTS

	2012	2012	2012
	General Business	Life Business	Total
	RO	RO	RO
Revenue			
Gross premiums written	15,752,154	1,132,936	16,885,090
Movement in unearned premium reserve	<u>(1,303,580)</u>	<u>(351,523)</u>	<u>(1,655,103)</u>
Insurance premium revenue, net	<u>14,448,574</u>	<u>781,413</u>	<u>15,229,987</u>
Insurance premium ceded to reinsurers	(8,765,734)	(792,585)	(9,558,319)
Movement in unearned premium reserve	<u>809,428</u>	<u>245,050</u>	<u>1,054,478</u>
Insurance premium ceded to reinsurers, net	<u>(7,956,306)</u>	<u>(547,535)</u>	<u>(8,503,841)</u>
Net insurance premium earned	<u>6,492,268</u>	<u>233,878</u>	<u>6,726,146</u>
Commission received on business ceded to reinsurers	871,560	-	871,560
Commissions paid	(1,118,253)	(69,691)	(1,187,944)
Movement in deferred commission income and expense - net	<u>(78,468)</u>	<u>18,755</u>	<u>(59,713)</u>
Net commission expense	<u>(325,161)</u>	<u>(50,936)</u>	<u>(376,097)</u>
Policy fee and other underwriting income	<u>154,807</u>	<u>115</u>	<u>154,922</u>
Gross claims incurred (note 20)	(5,391,479)	(738,602)	(6,130,081)
Reinsurers' share of claims (note 20)	<u>1,024,590</u>	<u>648,867</u>	<u>1,673,457</u>
Net claims incurred	<u>(4,366,889)</u>	<u>(89,735)</u>	<u>(4,456,624)</u>
Net underwriting results	<u>1,955,025</u>	<u>93,322</u>	<u>2,048,347</u>

AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

19 UNDERWRITING RESULTS (continued)

	2011	2011	2011	
	General Business	Life Business	Total	
	RO	RO	RO	
Revenue				
Gross premiums written	13,196,596	946,442	14,143,038	
Movement in unearned premium reserve	(426,175)	170,510	(255,665)	
Insurance premium revenue, net	12,770,421	1,116,952	13,887,373	
Insurance premium ceded to reinsurers	(7,745,828)	(678,138)	(8,423,966)	
Movement in unearned premium reserve	318,896	(118,985)	199,911	
Insurance premium ceded to reinsurers, net	(7,426,932)	(797,123)	(8,224,055)	
Net insurance premium earned	5,343,489	319,829	5,663,318	
Commission received on business ceded to reinsurers	725,906	456	726,362	
Commissions paid	(920,532)	(67,631)	(988,163)	
Movement in deferred commission income and expense - net	23,784	(10,373)	13,411	
Net commission income/ (expense)	(170,842)	(77,548)	(248,390)	
Policy fee and other underwriting income	85,742	111	85,853	
Gross claims incurred (note 18)	(5,883,629)	(687,461)	(6,571,090)	
Reinsurers' share of claims (note 18)	1,119,970	542,304	1,662,274	
Net claims incurred	(4,763,659)	(145,157)	(4,908,816)	
Net underwriting results	494,730	97,235	591,965	
	2012		2011	
	Net premiums	Insurance premium revenue before reinsurance	Net premiums	Insurance premium revenue before reinsurance
	RO	RO	RO	RO
Fire, general accident, engineering and others	580,955	6,191,227	325,377	4,660,326
Motor	5,584,114	706,455	4,821,874	(51,395)
Marine cargo and hull	154,090	758,308	134,358	1,328,351
Life and medical	406,989	91,639	409,382	416,167
	6,726,148	7,747,629	5,690,991	6,353,449

AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

The net claims ratios are as follows:

	2012	2011
	%	%
Motor	76	95
Fire, general accident, engineering and others	3	1
Marine cargo and hull	(24)	46
Life and medical	61	61

The net claims ratio is calculated by dividing the net incurred claims (gross claims less reinsurance and other recoveries) by the net earned premiums (gross premiums less premiums ceded add/less movement in unearned premium reserve).

20 NET CLAIMS INCURRED

	2012			2011		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	RO	RO	RO	RO	RO	RO
Claims outstanding (note 17)	4,409,420	(1,601,800)	2,807,620	4,365,450	(1,854,745)	2,510,705
IBNR (note 17)	186,824	(78,411)	108,413	334,943	(168,243)	166,700
Outstanding at end of year (a)	4,596,244	(1,680,211)	2,916,033	4,700,393	(2,022,988)	2,677,405
Insurance claims paid during the year (b)	6,234,230	(2,016,234)	4,217,996	6,752,340	(1,412,164)	5,340,176
Claims outstanding (note 17)	4,365,450	(1,854,745)	2,510,705	4,090,571	(1,519,942)	2,570,629
IBNR (note 17)	334,943	(168,243)	166,700	791,072	(252,936)	538,136
Outstanding at the beginning of the year (c)	4,700,393	(2,022,988)	2,677,405	4,881,643	(1,772,878)	3,108,765
Claims recorded in the statement of comprehensive income (a+b-c) - (note 19)	6,130,081	(1,673,457)	4,456,624	6,571,090	(1,662,274)	4,908,816

21 NET INVESTMENT INCOME

	2012	2011
	RO	RO
Dividend income	760,909	207,875
Income from bank deposits	141,829	105,208
Realised gain/(loss) on sale of held for trading investments	67,371	(158,051)
Unrealised gain/(loss) on held for trading investments	404,014	(164,878)
Rental income from investment properties	122,738	-
Profit from investments held-to-maturity	11,867	-
Realised loss on sale of available-for-sale investments	-	(5,000)
	1,508,728	(14,846)

AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

22 GENERAL AND ADMINISTRATIVE EXPENSES

	2012	2011
	RO	RO
Staff costs	1,529,498	1,219,189
Depreciation	119,212	119,293
Rent and utilities	118,865	88,859
IT expenses	98,929	44,633
Provision for impairment of insurance and reinsurance receivables (net)	84,461	152,418
Board expenses	74,200	51,200
Public relation expenses	64,553	43,266
Professional charges	62,102	117,585
Takaful expenses	59,610	-
Business travel	58,982	46,557
Communication	58,032	87,652
Miscellaneous expenses	<u>169,089</u>	<u>120,382</u>
	<u>2,497,533</u>	<u>2,091,034</u>

23 FINANCE COSTS

	2012	2011
	RO	RO
Interest expense:		
Short term bank borrowings	73,815	-
Bank overdraft	5,220	-
Amortisation cost	<u>3,756</u>	-
	<u>82,791</u>	-

24 TAXATION

a) Income tax expense

The Company is subject to income tax at the rate of 12% of the taxable income in excess of RO 30,000 in accordance with the income tax law of the Sultanate of Oman. No income tax provision has been made in these financial statements in view of the carried forward tax losses of RO 5,175,273 (2011 - RO 4,036,978) exceeding the taxable income earned during the year.

b) Current status of tax assessments

The Company's income tax assessments for the years 2006 to 2007 have been finalised by the Secretariat General for Taxation at the Ministry of Finance. The Management is of the opinion that additional taxes, if any, related to the open tax years would not be significant to the Company's financial position as at 31 December 2012.

c) Deferred tax

No deferred tax asset on the carried forward tax losses has been recognised in these financial statements due to uncertainty regarding the availability of future taxable profits.

AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

25 PROFIT/(LOSS) PER SHARE AND NET ASSETS PER SHARE

	2012	2011
	RO	RO
Net profit/(loss) for the year	<u>1,067,345</u>	(1,442,258)
Weighted average number of shares outstanding during the year	<u>71,123,288</u>	<u>80,000,000</u>
Profit/(loss) per share	<u>0.015</u>	<u>(0.018)</u>
Net assets	<u>9,963,668</u>	5,484,459
Number of shares at the reporting date	<u>100,000,000</u>	<u>60,000,000</u>
Net assets per share	<u>0.099</u>	<u>0.091</u>

Basic earnings per share are calculated by dividing the loss for the year by the weighted average number of shares outstanding during the year. Net assets per share are calculated by dividing net assets by the number of shares at the reporting date.

26 RELATED PARTIES

The Company, during the course of its normal business, enters into transactions with directors, key management personnel, shareholders and entities in which certain shareholders and directors have the ability to control or exercise significant influence in financial and operating decisions. The transactions are entered into at terms and conditions which the directors consider to be comparable with those adopted for arms length transactions with third parties. The approximate volumes of such transactions involving related parties and holders of 10% or more of the Company's shares or their family members other than those separately disclosed, during the year were as follows:

(a) Transactions with related parties

Transactions with related parties or holders of 10% or more of the Company's shares or their family members, included in the statement of comprehensive income are as follows:

	2012	2011
	RO	RO
Premiums written	<u>3,435,546</u>	<u>3,050,121</u>
Claims	<u>1,321,732</u>	<u>1,116,786</u>
Rental income from investment property	<u>122,738</u>	-
Directors sitting fees	<u>74,200</u>	<u>51,200</u>

(b) Balances with related parties, included under the following headings, are as follows:

Balances due from related parties or holders of 10% or more of the Company's shares, or their family members, less provisions and write offs, and is analysed as follows:

	2012	2011
	RO	RO
Insurance and reinsurance contract receivables - Premium balances receivable from related parties	<u>165,145</u>	<u>200,397</u>
Available-for-sale investments - Tilal Fund at fair value	<u>710,325</u>	<u>1,299,375</u>
Accounts and other payables - Tilal Development Company SAOC	<u>97,441</u>	-
Other receivables and prepayments - Shaden Development Company SAOC	<u>52,000</u>	-

AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

26. RELATED PARTIES (continued)

Terms and conditions of transactions with related parties

Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables. Assessment for impairment of receivables is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates. Amount due to, and from, related parties are interest free and payable on demand.

(c) Compensation of key management personnel of the Company:

Compensation of key management personnel of the Company, consisting of salaries and benefits, was RO 97,263 (2011 - RO 87,950) made up as follows:

	2012	2011
	RO	RO
Short-term benefits	94,200	85,200
Employee end of service benefits	<u>3,063</u>	<u>2,750</u>
	<u>97,263</u>	<u>87,950</u>

27 CONTINGENCIES

Contingent liabilities

At 31 December 2012, the Company had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to RO 171,845 (2011 - RO 165,299).

Legal claims

The Company, in common with the significant majority of insurers, is subject to litigation in the normal course of its business. The Company, based on independent legal advice, does not believe that the outcome of these court cases will have a material impact on the Company's financial performance.

28 SEGMENTAL INFORMATION

The Company has two reportable segments, as described below. The strategic business units offer different products and services, and are managed separately because they require different marketing strategies. For each of the strategic business units, the Chief Executive Officer ("CEO") reviews internal management reports on at least a monthly basis. The following summary describes the operations in each of the Company's reportable segments:

- General Business - covering motor, marine cargo, marine hull and machinery, aviation, fire, engineering, energy, general accident and third party liability
- Life Insurance - includes group life insurance, group credit life, workmen's compensation and medical insurance.

Information regarding the results of each reportable segment is detailed in note 19. Performance is measured based on segment net insurance income, as included in the internal management reports that are reviewed by the CEO. Inter-segment pricing is determined on an arm's length basis.

29 RISK MANAGEMENT

a) Governance framework

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of the set financial performance objectives. Key management recognises the critical importance of having efficient and effective risk management systems in place.

AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

29 RISK MANAGEMENT *(continued)*

a) Governance framework *(continued)*

The Company is in the process of establishing a risk management function with clear terms of reference from the Board of Directors, its committees and the associated executive management committees. This will be in addition to a clear organisational structure with documented delegated authorities and responsibilities from the Board of Directors to executive management committees and senior managers.

b) Regulatory framework

Regulators are primarily interested in protecting the rights of the policyholders and monitor them closely to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

The operations of the Company are also subject to regulatory requirements within the jurisdictions where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

c) Insurance risk

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The Company manages the insurance risk through the careful selection and implementation of its underwriting strategy guidelines together with the adequate reinsurance arrangements and proactive claims handling.

The concentration of insurance risk exposure is mitigated by the implementation of the underwriting strategy of the Company, which attempts to ensure that the risks underwritten are well diversified across a large portfolio in terms of type, level of insured benefits, amount of risk, industry and geography. Underwriting limits are in place to enforce risk selection criteria.

The Company principally issues general insurance contracts which constitutes mainly motor, marine and aviation and fire and general risks as well as life and medical insurance contracts.

The Company, in the normal course of business, in order to minimise financial exposure arising from large claims, enters into contracts with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is effected under treaty, facultative and excess-of-loss reinsurance contracts.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts.

To minimise its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers.

The Company only deals with reinsurers approved by the management, which are generally international companies that are rated by international rating agencies.

Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract.

The Company does not foresee any major impact from insurance operations due to the following reasons:

AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

29 RISK MANAGEMENT (continued)

c) Insurance risk (continued)

The Company's premium retention levels are shown below:

	2012	2011
	%	%
Motor	90	95
Fire, general accident, engineering and others	8	5
Marine cargo and hull	9	8
Life and medical	25	32
Overall	40	41

The amount and timing of claims payments is expected to be settled within one year. Additional claim liabilities that could reasonably occur due to changes in key variables used in estimating the outstanding claims provision are considered to be adequately catered for through the IBNR provision.

Moreover, the Company limits insurance risk by monitoring changes in key variables that could give rise to additional claim liabilities.

Key assumptions

The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example one-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

Sensitivities

The general insurance claims provision is sensitive to the above key assumptions. The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant showing the impact on liabilities and underwriting results.

31 December 2012

	Change in assumptions	Impact on liabilities	Impact on Underwriting results
		RO	RO
Net incurred claims	+10%	445,662	(445,662)
	-10%	(445,662)	445,662
31 December 2011			
Net incurred claims	+10%	490,882	(490,882)
	-10%	(490,882)	490,882

Claims development

The Company maintains strong reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. The uncertainties about the amount and timing of claim payments are normally resolved within one year.

AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

29 RISK MANAGEMENT (continued)

d) Financial risks

The Company's principal financial instruments are receivables arising from insurance and reinsurance contracts, listed and unlisted investments, cash and cash equivalents and interest bearing deposits. The main risks arising from the Company's financial instruments are:

- Credit risk
- Liquidity risk
- Market risk
 - Foreign currency risk
 - Interest rate risk
 - Price risk

The Company reviews and agrees policies for managing each of these risks and they are summarised below.

(1) Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The carrying amount of the financial assets, other than those relating to reinsurance contracts, represents the maximum credit exposure. The Company monitors receivables on a regular basis and ensures bank balances and deposits are placed with reputable financial institutions with minimum credit rating of P-2 as per Moody's Investors Service.

Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location. The maximum credit exposure to credit risk for premium and insurance receivables and other receivables at the reporting date by type was shown as below:

	2012	2011
	RO	RO
Insurance and reinsurance contract receivables	5,114,918	4,527,339
Other receivables excluding prepayments	350,659	237,291
Cash balance with investment managers	156,399	144,369
Bank deposits, cash and bank balances	<u>7,275,863</u>	<u>4,717,348</u>
	<u>12,897,839</u>	<u>9,626,347</u>

Ageing of the insurance and reinsurance contract receivables at the reporting date and movement of the provision of impairment of receivables during the year is disclosed in note 10 to the financial statements.

Insurance and reinsurance contract receivables

Insurance receivables comprise a number of customers within Oman and local and foreign reinsurers. The Company monitors these receivables on a regular basis. Most of the credit customers have been dealing with the Company for over 2 years and losses have occurred infrequently. The Company establishes an allowance for impairment that represents its estimate of likely losses in respect of these receivable accounts in accordance with the guidelines of the credit policy along with individually assessing each receivable for impairment. This assessment is carried out every six months and the adequacy of the provision for impairment is also assessed.

With respect to reinsurers, as per Company policy of managing insurance risk, such contracts are placed only with internationally reputed well rated reinsurers.

The other classes within receivables do not contain impaired assets. The Company does not hold any collateral as security.

AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

29 RISK MANAGEMENT (continued)

d) Financial risks (continued)

(1) Credit risk (continued)

The maximum credit exposure to credit risk for insurance and reinsurance contract receivables at the reporting date by geographic region is as follows:

	2012	2011
	RO	RO
Oman	4,901,432	3,643,125
Middle East	11,428	839,449
Others	<u>202,058</u>	<u>44,765</u>
	<u>5,114,918</u>	<u>4,527,339</u>

The maximum credit exposure to credit risk for insurance and reinsurance contract receivables at the reporting date by classification of counterparties is as follows:

	2012	2011
	RO	RO
Brokers and agents	4,358,322	2,927,176
Individuals and corporate clients	542,531	643,222
Reinsurers	<u>214,065</u>	<u>956,941</u>
	<u>5,114,918</u>	<u>4,527,339</u>

The 5 largest reinsurers account for 50% of the credit exposure at 31 December 2012 (2011- 85%).

The maximum credit exposure to credit risk for bank deposits and bank balances at the reporting date, by classification of counterparties, is as follows:

		2012
		RO
Bank A	A1	3,201,932
Bank B	A2	637,797
Bank C	A3	1,346,431
Bank D, E and balances with investment managers	Unrated	<u>1,740,009</u>
		<u>6,926,169</u>

AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

29 RISK MANAGEMENT (continued)

d) Financial risks (continued)

(1) Credit risk (continued)

			2011
			RO
Bank A and Bank B	P1		3,638,045
Bank C	P2		11,740
Bank D	Unrated		150,000
Balance with investment managers			<u>56,909</u>
			<u>3,856,694</u>

(2) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity requirements are monitored on a weekly basis and management ensures that sufficient funds are available to meet any commitments as they arise.

Maturity profiles

The table below summarises the maturity profile of the financial liabilities of the Company based on remaining undiscounted contractual obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

	Within 1 year	1-3 years	Non fixed maturity	Total
	RO	RO	RO	RO
31 December 2012				
Insurance funds	4,596,244	-	-	4,596,244
Accounts and other payables	1,754,737	-	-	1,754,737
Due to reinsurers	<u>4,036,146</u>	-	-	<u>4,036,146</u>
Net principal liabilities	<u>10,387,127</u>	-	-	<u>10,387,127</u>
31 December 2011				
Insurance funds	4,700,393	-	-	4,700,393
Accounts and other payables	1,918,678	-	-	1,918,678
Due to reinsurers	<u>2,927,184</u>	-	-	<u>2,927,184</u>
Net principal liabilities	<u>9,546,255</u>	-	-	<u>9,546,255</u>

AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

29 RISK MANAGEMENT (continued)

d) Financial risks (continued)

(2) Liquidity risk (continued)

The maturity profiles of Company's assets are given below:

31 December 2012	Within1 year	1-3 years	Non fixed maturity	Total
	RO	RO	RO	RO
Investment in properties	-	-	2,600,000	2,600,000
Investments held-to-maturity	-	-	254,366	254,366
Bank deposits, cash and bank balances	7,275,863	-	-	7,275,863
Cash balances with investment managers	156,399	-	-	156,399
Held for trading investments	4,183,513	-	-	4,183,513
Insurance and reinsurance contract receivables	5,114,918	-	-	5,114,918
Reinsurers' share of insurance fund	1,680,211	-	-	1,680,211
Other receivables and prepayments	352,497	-	-	352,497
Available-for-sale investments	-	-	1,162,924	1,162,924
	<u>18,763,401</u>	<u>-</u>	<u>4,017,290</u>	<u>22,780,691</u>
31 December 2011				
Bank deposits, cash and bank balances	4,717,348	-	-	4,717,348
Cash balances with investment managers	144,369	-	-	144,369
Held for trading investments	3,841,123	-	-	3,841,123
Insurance and reinsurance contract receivables	4,527,339	-	-	4,527,339
Reinsurers' share of insurance fund	2,022,988	-	-	2,022,988
Other receivables and prepayments	373,698	-	-	373,698
Available-for-sale investments	-	-	1,729,060	1,729,060
	<u>15,626,865</u>	<u>-</u>	<u>1,729,060</u>	<u>17,355,925</u>

Given the total value of total investments to total liabilities, management does not believe there is significant exposure to liquidity risk.

(3) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. These changes could be factors specific to the individual security, or its issuer, or factors affecting all securities in the market. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

29 RISK MANAGEMENT (continued)

d) Financial risks (continued)

(3) Market risk (continued)

The Company is exposed to market risk with respect to its investments. The Company limits market risk by maintaining a diversified portfolio and by continuous monitoring of the market. In addition, the Company monitors actively the key factors that effect stock market movements.

(a) Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Company is exposed to foreign exchange risk arising from currency exposures primarily with respect to US Dollar, AED, Qatari Rial, Saudi Rial and Pounds Sterling.

The Company's exposure to foreign currency risk was as follows:

	Amounts shown in RO			
	2012		2011	
	USD	Other currencies	USD	Other currencies
Cash and bank balances	59,331	-	2,791	-
Held for trading investments	-	421,691	-	694,688
Available-for-sale investments	26,950	-	26,950	-
Bank deposits	52,552	-	1,746,596	-

Sensitivity analysis

The rate of exchange between the US Dollar and the Rial Omani has remained unchanged since 1986. Management, therefore, does not consider any significant risk arise from transactions in US Dollar.

During 2012, if Rial Omani were to have strengthened or weakened by 10% against currencies other than US Dollar with all other variables held constant, pre-tax losses for the year would have been higher or lower by approximately RO 42,169 (2011- RO 69,469).

(b) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate. The Company invests in securities and has deposits that are subject to interest rate risk. Interest rate risk to the Company is the risk of changes in market interest rates reducing the overall return on its interest bearing securities. The Company limits interest rate risk by monitoring changes in interest rates.

	Change in assumptions	2012	2011
		RO	RO
Income from bank deposits	+0.5%	24,729	23,927
	-0.5%	(25,729)	(23,927)

AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

29 RISK MANAGEMENT (continued)

d) Financial risks (continued)

(3) Market risk (continued)

At the reporting date, the interest rates (given in note 9) and maturity profile of the Company's interest bearing financial instruments was as follows:

The Company's interest rate risk based on contractual maturity at 31 December 2012 was as follows:

31 December 2012	Less than 1 year	Over 1 year	Total
	RO	RO	RO
Bank deposits	<u>4,945,736</u>	<u>-</u>	<u>4,945,736</u>

31 December 2011	Less than 1 year	Over 1 year	Total
	RO	RO	RO
Bank deposits	<u>3,091,351</u>	<u>1,694,040</u>	<u>4,785,391</u>

(4) Price risk

The Company is exposed to market price risk with respect to its investments. The Company limits market risk by maintaining a diversified portfolio and by continuous monitoring of the market. In addition, the Company monitors actively the key factors that affect stock market movements.

90% (2011 - 83%) of the Company's equity investments at the statement of financial position date are within the Sultanate of Oman.

A 10% change in fair value of the Company's held for trading investments would have impact on profit/(loss) of approximately RO 418,351 (2011 - RO 384,112).

A 10% change in fair value of the Company's available-for-sale investments would have impact on equity of approximately RO 116,292 (2011 - RO 172,906).

e) Fair value estimation

The table below analyses financial instruments that are measured subsequent to initial recognition at fair value, by valuation techniques. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: 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)

Level 3: inputs for the asset or liability that are not based on observable market data.

AL MADINA INSURANCE COMPANY SAOC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

29 RISK MANAGEMENT (continued)

e) Fair value estimation (continued)

	31 December 2012			31 December 2011		
	Level 1	Level 3	Total	Level 1	Level 3	Total
	RO	RO	RO	RO	RO	RO
Held for trading investments	4,183,513	-	4,183,513	3,841,123	-	3,841,123
Available-for-sale investments	-	1,692,924	1,692,924	-	1,729,060	1,729,060
	<u>4,183,513</u>	<u>1,692,924</u>	<u>5,876,437</u>	<u>3,841,123</u>	<u>1,729,060</u>	<u>5,570,183</u>

The fair values of other financial assets and liabilities with a maturity of less than one year approximates to their carrying amounts.

f) Capital management

The Company manages its capital so as to maintain both adequate working capital as well as meet regulatory solvency margin requirements as prescribed by the CMA and the Commercial Companies Law of 1974, as amended.

The board policy is to maintain a strong capital base so as to maintain investor and counter party confidence and to maintain future development of the business. The Company objective for managing capital are:

- To safeguard the entity ability to continue as a going concern so that it can contribute to provide return for the shareholders and benefit for the other stakeholders.
- Provide an adequate return to shareholders by pricing products and services in commensuration with the level of risk.

The Company is also subject to the capital requirement impose by the local regulatory authority. It is the Company's policy to hold capital as an aggregate of the capital requirement of the capital market authority and a specified margin to absorb charges in both capital and capital requirements.

Insurance risk is also carefully managed as described in note 29(c) to ensure that the Company underwrites risk commensurate to its capital base. The Company has reinsurance treaties and excess of loss covers to manage retention levels of the premium, thereby safeguarding the capital from any significant insurance risk exposure.

30 COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform with the presentation adopted for the current year. Such reclassifications do not affect previously reported results or equity.