



المدينة تكافل
Al Madina Takaful
Everything in harmony

Growth *for* Success



KNOWLEDGE INNOVATION TRAINING EXPANSION



HIS MAJESTY SULTAN QABOOS BIN SAID

Contents

Chairman's Report	9
Management Discussion and Analysis Report.....	12
Auditor's Report on Corporate Governance	17
Report on Corporate Governance.....	18
Shari'ah Supervisory Board's Report.....	26
Auditor's Report to Shareholders.....	27
Statement of Financial Position.....	29
Statement of Participants' Revenue and Expenses	32
Statement of Comprehensive Income.....	33
Statement of Changes in Equity.....	34
Statement of Cash Flows	36
Notes to the Financial Statements	37



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

Sharia Board Members



**Sheikh Dr. Abdul Sattar
Abughuddah**
Chairman
Shari'ah Supervisory Board



**Sheikh Dr. Mohammed
Daud Bakar**
Vice Chairman
Shari'ah Supervisory Board



**Shaikh Khalfan bin
Mohamed Al Esry**
Board Member
Shari'ah Supervisory Board



**Sheikh Abdul Sattar
Al Kattan**
Executive Member
Shari'ah Supervisory Board



Sheikh Dr. Amin Fateh
Secretary
Shari'ah Supervisory Board

Management Team



Mr. Gautam Datta
CEO



Mr. Usama Al Barwani
Deputy CEO - Board Secretary



Mr. Mahmud Attar
General Manager
Internal Audit & Compliance



Mr. Sandeep Mahajan
General Manager
Specialty & Reinsurance



Mr. Nasser Al Shueili
General Manager
Claims



Mr. R.M. Sundaram
General Manager
Finance & Accounts



Mr. Ajay Srivastava
General Manager
Commercial



Mr. Girish Gopinath
Senior Manager - IT



Mr. Jaspreet Chhabra
Senior Manager - Investment

Chairman's Report



Dear Shareholders,

السَّلَامُ عَلَيْكُمْ وَرَحْمَةُ اللَّهِ وَبَرَكَاتُهُ

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

On behalf of the Board of Directors, and Management team of Al Madina Insurance Co, I am pleased to present to you a report on the financial year 2014. The financial results delivered by your Company were successful and I believe that the company is well placed to reward all her Stakeholders in the future.

Being the first year of operation as a Takaful entity, the year saw your company successfully overcome many challenges namely, the regulatory framework, customer retention and service, growth and performance. The growth in gross contribution was over 30%, net retained income grew by 52%, and our underwriting surplus and profit grew by 33%. The Takaful fund had a surplus in the Policyholder's Takaful fund in the first year of its operations. We have also received positive feedback from public who have expressed an interest in learning more about Takaful.

Overall, the insurance industry in Oman experienced a good year, which is reflected in the growth in number of players, and positive Underwriting results. Particularly in the Takaful segment, Al Madina being

the first and flag bearer of the industry meant that the company also had the responsibility to increase awareness and promote the industry, beyond its own performance. And I must say that you will be pleased with how your company has done in that respect.

Among the many initiatives the company undertook, the Knowledge Forum series stands out. The Forum is intended to increase awareness in Takaful, its products and the need for protecting one's assets and lives amongst our community. The Company conducted 4 such events during the year with the support and appreciation of Capital Market Authority. The company also launched new products, and successfully migrated all of its customers into being Takaful policyholderse.

Currently, you will be pleased to know that your company ranks amongst the top 7 companies in the market and is the largest Takaful Company in the Sultanate. Moody's Investment Services (MIS) in recent evaluation of Company'r credit rating upgraded the Financial Strength rating to Ba1 with positive outlook. Notwithstanding volatility in the investment market the company was able to generate profits in investment as well from its operations.

As you will know, the global economy is experiencing a challenging period with softening in oil prices, resulting in challenging social and political situation in many countries in the world, and specifically in the region. At Al Madina we recognize that every challenge presents an opportunity. We aim to leverage these opportunities to drive efficiency in our operations and performance, while we continue to diversify our product lines, expand our distribution and improve our customer service and profitability.

Our key resources are our people and with right skill sets we are confident that your company will deliver on its business goals.

Speaking of people and human capital, the company has invested in creating a Learning & Development unit, specialised systems for setting goals, assessing performance, analysing training needs and creating individualised training calendars that are in alignment with business goals of the company. It is a 360 degree approach that factors in all the elements of business with the objective of developing Omanis who are productive and whose presence adds value and

revenue to our business. We aim to set an example for the industry in respect of Omanisation across all levels in the company.

Looking into the future, the company continues to explore expansion options through strategic partnerships and this will be an ongoing exercise waiting for the right opportunity.

Our journey starting from transformation to completing a full year as a Takaful company would not have been possible without the support of CMA and their dedicated members, particularly in the insurance directorate. In the absence of a published Law & Regulations we have needed their support and guidance in many areas and CMA has always risen up to the occasion and provided us with their unstinted support.

On behalf of the Board of Directors, I take this opportunity to thank the Insurance community, both in Oman and overseas, for the confidence reposed in the company. I would also like to thank the Management Team and all our employees for their dedication and commitment to press ahead amid the challenging situation to reach higher levels of excellence.

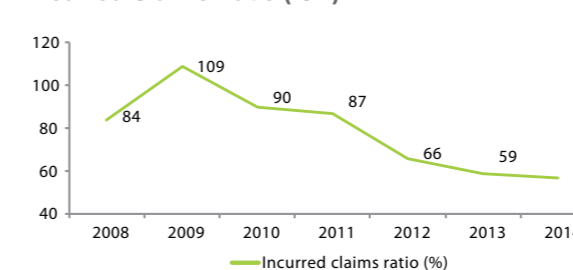
The Board of Directors is deeply grateful to His Majesty Sultan Qaboos Bin Said for his vision and guidance, which has helped the country along its path of growth and prosperity.

FINANCIAL PERFORMANCE

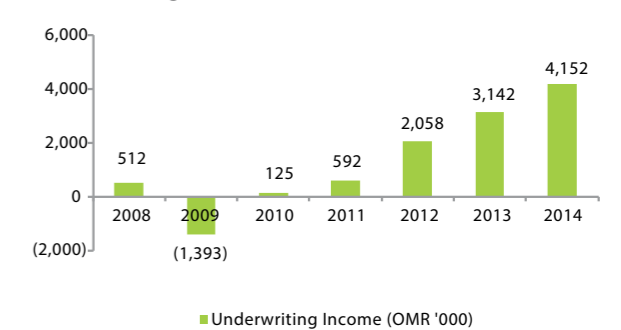
Gross Written Premium (GWP)



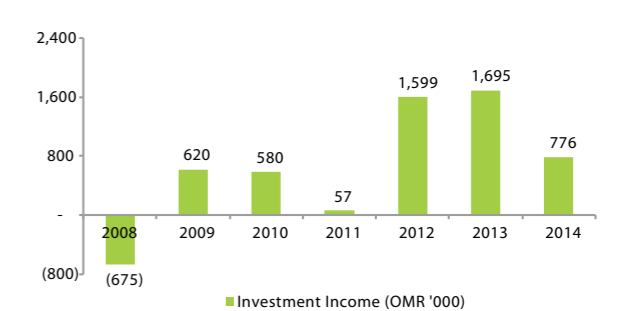
Incurred Claims Ratio (ICR)



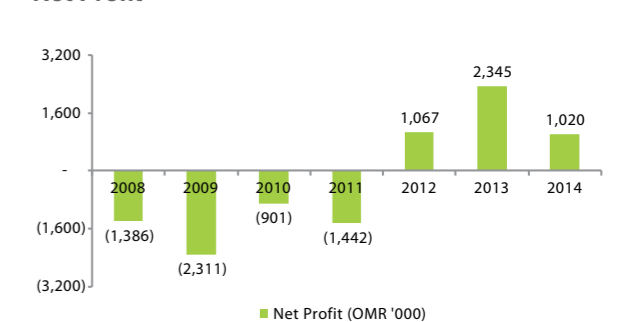
Underwriting Income



Investment Income



Net Profit



وَقْتَنَا اللَّهُ جَمِيعًا وَالسَّلَامُ عَلَيْكُمْ وَرَحْمَةُ اللَّهِ تَحِيَّاتِي إِلَى وَرَكَاتِي

May the Peace, Mercy and Blessing of Allah be with you. May God Bless you all.

Dr. Mohammed Ali Al Barwani
Chairman of the Board.

Management Discussion & Analysis Report

for the financial year ended 31st December 2014

INTRODUCTION

Al Madina Insurance Company, rebranded as Al Madina Takaful commenced its Takaful operations from 1st January 2014. The journey during the past 12 months as the first Takaful Company in the Oman has been blessed with many 'firsts'.

Al Madina Insurance Company is the first company in the region to convert its full conventional insurance business into Takaful business by converting its conventional insurance contracts to Takaful contracts. It is a matter of pride for the company that conversion was 100%, which reflected the faith and trust reposed by the policyholders on the company.

OPERATIONAL PERFORMANCE

(in OMR '000)	Shareholders	General Takaful	Family Takaful	Consolidated	
				2014	2013
Gross Written Contributions	-	21,579	1,535	23,114	17,698
Net Retained Contributions	-	12,462	436	12,898	8,504
Net Earned Contributions	-	10,546	388	10,934	7,989
Net Claims Incurred		(6,040)	(193)	(6,233)	(4,510)
Surplus from Takaful Operations before					
Wakala Fees	-	4,044	109	4,152	3,142
Investment income	693	81	2	776	1,694
Wakala Fees	4,160	(3,884)	(276)	--	-
Mudaraba Fee	69	(68)	(1)	--	-
Other Income	11	-	-	11	14
General and administrative expenses	(3,707)	-	-	(3,707)	(2,991)
Finance costs	-	-	-	-	1
Profit before tax	1,227	173	(167)	1,233	1,860
(Tax) / Refundable tax	(210)	-	-	(210)	484
Profit after tax	1,017	173	(167)	1,023	2,344
Earnings per share (in Baiza)	0.006	-	-	0.006	0.023
Book value per share (in Baiza)	0.120	-	-	0.120	0.127

Note: Year 2013 figures are for comparison purpose only. This figure pertains to the period prior to operations as a Takaful Company.

BUSINESS

Oman witnessed growth of 4.4% in its GDP and notwithstanding the volatility in MSM at the end of the year due to falling oil prices, businesses performed well during 2014. This was reflected in our growth of 31% in our Gross Written Contribution compared to insurance market growth of circa 11%. Underwriting surplus also grew by 33% maintaining the positive operating performance during last three years. This was possible due to prudent underwriting in all classes with special emphasis on Motor and

Al Madina Insurance Company in its first year of Takaful operation was able to declare a surplus in the Policyholders fund.

As part of promoting Takaful Al Madina launched 'Insure and win a car' scheme, the first of its kind in Oman.

The absence of Takaful law and regulations poses an operational challenge but the support received from Capital Market Authority has been very positive and there is a general expectation that the Law will be promulgated in the near future.

Medical insurances where the loss ratios were well below the market average. As it was the first year of Takaful operation whereby significant increase in expense resulted due to the transition process the net underwriting profit still showed an impressive increase of 33%. The overall profits however showed a decrease due to lower investment profit in comparison to 2013.

The Company focused on the following areas in its first year of operation as a Takaful Company:

Build awareness: The Company carried out dedicated workshops on AAOFI and Basics of Takaful in Muscat, Salalah and Sohar. In addition to Takaful the Company also conducted technical workshops as part of its 'Knowledge Forum'.

Build distribution: The Company continued to expand its existing distribution channels and build new ones like Bancatakaful.

IT platform: The Company made heavy investments into strengthening its existing platforms and build new ones to facilitate the process of service and delivery. The fruition of these projects will be seen in the first quarter of 2015.

INVESTMENTS

Performance of the Company's investment book was negatively impacted by the fall in the regional equity markets in the 4th quarter of 2014. Benchmark index (MSM Sharia index) for the company fell by 12.1% in 2014 (11% fall in the 4th quarter) impacting the performance of company's equity portfolio. Although company's fixed income generating assets provided some stability to the overall investment performance, still the total investment income fell well short of its budget.

The company generated total investment income of RO 0.79 million in 2014 as against RO 1.69 million in 2013.

The equity markets are expected to remain volatile in 2015 due to looming uncertainty over the fate of the oil prices and its impact on the regional economies. The company plans to further diversify its equity book by investing in regional blue chip stocks which will bring more stability in its equity portfolio performance.

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 continued to take steps to bring down the cost of repairs by negotiating higher discounts from repairing garages, being alert to fraudulent claims, proactively taking up and negotiating Third Party injury and property damage claims and better underwriting of risks that has resulted in reduction claims frequency and incurred claims ratio.

The agencies have changed their approach in extending the discounts which were offered by them in the previous past due to the growing awareness on the consumer protection act and the raising complaints on them to Public Authority for Consumer Protection. Also this has impacted in the vehicles that are greater than 1 year old where agencies were taking up the repairs on consolidated repairs using used parts, however there is a shift in their approach for not participating with an apprehension on the growing complaints to PACP.

The ROP has brought stringent regulations on vehicle safety and cancelling procedures leading to a dull climate in the salvage market and a dipping trend in the realization, to balance and look at for better realizations and disposal mechanism exploring an out of Oman approach, looking forward for getting into an agreement with Copart - UK based company, having their presence in UAE already.

MANPOWER AND HR

- HR embarked on automating core functions like performance management, Learning & Development, Succession planning during the year. These programs are scheduled to be launched in 2015.
- As part of the commitment to improve the skill sets of the employees, the learning and development interventions are anchored on the competency framework which provides a focused and inclusive approach to employee development and enhancing our competitive advantage.
- Omanization percentage of 68% was achieved in line with the mandate from CMA keeping in view sustainability and cost feasibility.
- As part of ongoing effort, HR during the year has embarked on processes improvement measures in order to enhance the HR service delivery.

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:-

- Unique E Initiatives includes Product offering and Customer Services through Internet, Mobile devices and Interactive Kiosks as part of fulfilling our mission "to provide cost effective insurance and superior customer service in a manner that takes into account the culture, social ethos and needs of the community". With these applications one can:
 - Know about us and the way how we work by 'Takaful' model;
 - Contact the team for assistance;
 - Check offers, insurance packages and special pricing;
 - Buy a featured policy;
 - Get assisted when met with an accident;
 - Get notified on claim movements;
 - Sit back at home and track the claim;
 - Identify our nearest branch and agency network;
 - Identify the Garage and Hospital network;
- In-house developed 'Raffle Draw' system with an exclusivity to conduct the seasonal promotional schemes offered by the Company.
- Extension of online services to branches and intermediaries with all important retail products.
- Improvisation of document processing in order to improve process efficiency and Turn Around Time which includes the remote Branches.
- 100% converted to Takaful from Conventional with zero downtime.
- Signed agreement for Core Application System upgrade to ensure latest technological upgrade and Service Availability.
- Obtained Trade Marks for in-house Software applications 'Tameenet' and 'Tameenet Plus' in the Sultanate of Oman and United Arab Emirates.

In addition, the Company has installed an intra-mobile application to increase efficiency in our business processes thereby reducing operational cost.

INTERNAL AUDIT & COMPLIANCE

Al Madina Insurance Company continued to focus on the Internal Audit and Compliance Department through:

- Supporting and developing the Company's internal audit function through identifying operational and financial risks.
- Supporting and developing the Company's compliance function through consistent follow up on the Company's operations to be according to the rules and regulations governing the Sultanate of Oman.
- Supporting and developing of the Company's

complaints department through continuous coordination with the Capital Market Authority.

- Supporting and developing the continuous training of the department's staff members to complement the Company's progress.

FUTURE OUTLOOK

Oman, in its budget announcement for 2015 has raised its spending by 4.5% compared to 2014. The government will spend OMR 14.1 billion during this year, which will allow major projects like national railway network, road network projects, expansion of airports in Muscat and Salalah. This raises the prospect of increasing its fiscal deficit, which will be bridged through reserves and sovereign debt issuance. The Standard and Poor's (S&P) has predicted that budget is expected to remain in deficit until at least 2017.

Oman has already sought to find alternatives for oil and gas by investing heavily in agricultural, industrial, fisheries, tourism and other sectors. Indeed, the non-oil component of the economy recorded a solid growth rate in the first half of 7.3% against a modest contraction of the hydrocarbons sector of 0.4%. (Oman Year in Review 2014, Oxford Business Group)

S&P has commented that investment in transport infrastructure, petrochemicals, and development of Khazan tight gas field will drive economic activity in the next few years.

The outlook for the insurance industry based on this analysis remains positive with some caveats:

1. Focus on cutting or optimizing costs by customers will put downward pressure on insurance pricing.
2. New capital requirements and need for IPO for local insurance companies will drive companies to achieve higher top lines. This will result in lowering of insurance prices.
3. New Takaful Company that commenced operation in the fourth quarter will gain momentum in 2015 and in its bid to acquire market share will drive prices downwards.

At Al Madina Insurance Company the focus has been on adding value and developing business through service and relationship. We will continue to strengthen our core value propositions by:

1. Training our members to provide higher quality of service and fulfill customer needs
2. Innovating through the use of technology and bringing down costs
3. Ensuring profitability for all stakeholders.

clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte has in the region of 200,000 professionals, all committed to becoming the standard of excellence.

Deloitte's professionals are unified by a collaborative culture that fosters integrity, outstanding value to markets and clients, commitment to each other, and strength from cultural diversity. They enjoy an environment of continuous learning, challenging experiences, and enriching career opportunities. Deloitte's professionals are dedicated to strengthening corporate responsibility, building public trust, and making a positive impact in their communities.

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For Al Madina Insurance Company SAOG

TO THE SHAREHOLDERS OF AL MADINA INSURANCE COMPANY SAOG

We have performed the procedures prescribed in Capital Market Authority (CMA) circular no 16/2003, dated 29 December 2003 with respect to the accompanying corporate governance report of **Al Madina Insurance Company SAOG** and its application of corporate governance practices in accordance with the CMA Code of Corporate Governance issued under circular no. 11/2002 dated 3 June 2002. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the company's compliance with the code as issued by the CMA.

We report our findings as below:

We found that the Company's corporate governance report fairly reflects the Company's application of the provisions of the Code and is free from any material misrepresentation.

We draw attention to Article 4 of the CMA Code of Corporate Governance which requires the Board of Directors to meet four times in a year with a maximum time gap of four months between any two consecutive meetings. However, during the year the gap between second and third Board meetings has exceeded the maximum limit allowed.

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 corporate governance report.

Had we performed additional procedures or had we performed an audit or 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 accompanying corporate governance report of **Al Madina Insurance Company SAOG** to be included in its annual report for the year ended 31 December 2014 and does not extend to any financial statements of **Al Madina Insurance Company SAOG**, taken as a whole.



Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
23 February 2015

Report on Corporate Governance

A COMPANY'S PHILOSOPHY

Al Madina Insurance Company SAOG (the Company) has adopted the principles of Corporate Governance in accordance with the code of Corporate Governance for MSM listed companies and the principles of Corporate Governance for Insurance Companies, as pronounced by the Capital Market Authority (CMA) of the Sultanate of Oman.

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 Board of Directors is committed to the highest standards of Corporate Governance. 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 100,000 shares to qualify for election.

Details of Directors

Name	Position	Date of election	Executive/ non-executive	Independence of the director	No. of other Directorships held in Oman
H.E. Dr. Mohammed Ali Al Barwani	Chairman	24 March 2012	Non-executive	Independent	2
Eng. Abdulrahman Awadh Barham	Dy.Chairman	24 March 2012	Non-executive	Independent	1
H.E. Sh. Abdulrehman Mohammed Jabor Al Thani	Director	24 March 2012	Non-executive	Independent	1
Eng. Khamis Mubarak Al Kiyumi	Director	24 March 2012	Non-executive	Independent	3
Eng. Abdullah Ali Al Abdullah	Director	24 March 2012	Non-executive	Independent	1
Mr. Hamed M Al Wahaibi	Director	24 March 2012	Non-executive	Independent	-
Mr . Saleh Nasser Al Riyami	Director	24 March 2012	Non-executive	Independent	2
Ms.Safana M.A.Al Barwani	Director	24 March 2012	Non-executive	Independent	3

The Board of Directors of the Company met four times during the year ended 31st December 2014, on 20th February, 29th April, 26th October and 21st December. All the directors attended the AGM held on 26th March 2014

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

Name	20th February	29th April	26th Oct	21st December
H.E. Dr. Mohammed Ali Al Barwani	Yes	Yes	Yes	Yes
Eng. Abdulrahman Awadh Barham	Yes	Yes	Yes	Yes
H.E. Shaikh Abdulrahman Mohammed Jabor Al Thani	Yes	Yes	Yes	Yes
Eng. Khamis Mubarak Al Kiyumi	Yes	Yes	Yes	Yes
Eng. Abdullah Ali Al Abdullah	Yes	Yes	Yes	Yes
Mr . Saleh Nasser Al Riyami	Yes	Yes	Yes	Yes
Ms. Safana Mohammed Al-Barwani	Yes	Yes	Yes	Yes
Mr. Hamed Mohammed Al-Wahaibi	Yes	Yes	Yes	Yes

Name	Position	No. of Board Meetings attended	Sitting Fees RO
H.E. Dr. Mohammed Ali Al Barwani	Chairman	4	4,000
Eng. Abdulrahman Awadh Barham	Dy. Chairman	4	4,000
H.E. Shaikh Abdulrahman Mohammed Jabor Al Thani	Director	4	4,000
Eng. Khamis Mubarak Al Kiyumi	Director	4	4,000
Eng. Abdullah Ali Al Abdullah	Director	4	4,000
Mr . Saleh Nasser Al Riyami	Director	4	4,000
Ms. Safana Mohammed Al-Barwani	Director	4	4,000
Mr. Hamed Mohammed Al-Wahaibi	Director	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 are as per the laws applicable in 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.

Profile of the members of the Board of directors

a) H.E. Dr. Mohammed Ali Al Barwani (Nationality: Omani)

H.E. Dr. Mohammed Al Barwani is founder and Chairman of MB Holding and has investments in various companies with interest in oil, gas, mining, engineering, financial services, and real

estate. He currently holds the position of Director in Al Madina Investment , Al Madina Real Estate Co., Oman Air, Nautilus Minerals (Toronto Stock Exchange), and UCL Resources (Australian Stock Exchange). Some of these companies are pioneers in conducting Islamic finance transactions in the country. This experience gives him a deep understanding of the subject and provides guidance to the Board and Management of the Company. He is also the Honorary Consul of the Republic of Poland to the Sultanate of Oman and has received various awards for achievement in business and public life.

b) Eng. Abdulrehman Awadh Barham (Nationality: Omani)

Eng. Barham is the Vice Chairman of the Company and has over 24 years of experience in handling and planning projects. He currently holds the position of CEO and investment committee member in Al Madina Real Estate. He has a

profound understanding of the products relevant to finance real estate projects. He also holds the position of Director in Salalah Mills Company SAOG, Tilal Development Company SAOC, Shaden Development Company SAOC and Shaza Muscat Hotel Company SAOC.

c) H.E. Sheikh Abdulrehman Mohammed Jabor Al Thani (Nationality: Qatari)

H.E. Sheikh Al Thani has over 35 years of experience in industrial investments and private sector. He currently holds the position of Vice Chairman in Al Madina Investment , Director in Oman & Qatar Company and Qatar Industrial Manufacturing. He is involved closely with Islamic financial institutions in Qatar and is able to provide guidance based on his knowledge and expertise gained from these institutions.

d) Eng. Khamis Mubarak Al Kiyumi (Nationality: Omani)

Eng. Kiyumi, an Industrial Engineer, has over 30 years of experience in industrial investments and private sector.

He is one of the pioneers in introducing Islamic finance services in the country. His close relationship with leading experts in Islamic Financial Services in Malaysia helps him to bring the changes in the global Islamic financial services industry to Oman. He currently holds the position of CEO and Director in Almadina Investment He also holds the position of Chairman in Gulf Mushroom Products Company SAOG, , Al Madina Real Estate Company SAOC and Shaden Development Company SAOC.

e) Eng. Abdullah Ali Abdullah (Nationality: Qatari)

Eng. Abdullah has over 35 years of experience in investments. He currently holds the position of Director in Al Madina Investment, Al Madina Investment Finance and Al Madina Real Estate. He is closely associated with leading Islamic financial institutions in Qatar and brings a wealth of experience and knowledge gained from his dealings with such institutions.

f) Saleh Nasser Sulaiman Al Riyami (Nationality: Omani)

Mr. Riyami has more than 15 years of experience as an investment expert. He currently holds the

position of Vice Chairman at Oman Ceramics and Director in Oman, and Taageer Finance. Mr. Riyami has put in an effort to attract key Islamic Shariah scholars who are experts in Islamic financial services in the GCC region to provide consultation in the field of Islamic financial services in coordination with Omani consulting firms. He also follows the meetings held with Shariah specialists so as to transform the Company into a Takaful insurance company.

g) Safana Mohammed Ali Al Barwani (Nationality: Omani)

Ms. Safana has 10 years of experience in investment, insurance and real estate. She holds the position of Director in Mazoon Petro Gas, Risk Management Services and Interior Hotels.

h) Hamed Mohammed Al Wahaibi (Nationality: Omani)

Mr. Wahaibi has built a career with 15 years of experience in investments and asset management. Mr. Wahaibi holds a MBA in Finance from University of Technology, Sydney and is a Chartered Financial Analyst (CFA) Charter holder from CFA Institute Global. He graduated from Sultan Qaboos University in Bachelor of Science in Commerce & Economics in Operations Management. He currently holds the office of Director- Investment with the Ministry of Defense Pension Fund. He also holds the position of Director in Galfar Engineering and Contracting (SAOG), Voltamp Energy Co. (SAOG) and Shaden Development Co. (SAOC).

C) AUDIT COMMITTEE

The Audit 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 Committee met four times during the year ended 31st December 2014 on 20th February, 29th April, 21st July and 26th October 2014.

The details of Audit Committee meetings attended and sitting fees paid during 2014 are as follows:

Name	20th February 2014	29th April 2014	21st July 2014	26th October 2014
Mr. Saleh Nasser Al Riyami	Yes	Yes	Yes	Yes
Ms. Safana Mohammed Al-Barwani	No	Yes	Yes	Yes
Mr. Hamed Mohammed Al-Wahaibi	Yes	Yes	Yes	Yes

Name	Position	No. of Meetings attended	Sitting Fees RO
Mr . Saleh Nasser Al Riyami	Chairman	4	3,200
Ms. Safana Mohammed Al-Barwani	Member	3	2,400
Mr. Hamed Mohammed Al-Wahaibi	Member	4	3,200

Audit Committee Functions

The Audit 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).

Terms of reference of the audit committee

- 1) Considering the name of the statutory auditor in context of their independence (particularly with reference to any other non-audit services), fees and terms of engagement and recommending its name to the board for putting before AGM for appointment.
- 2) Reviewing audit plan and results of the audit and as to whether auditors have full access to all relevant documents.
- 3) Checking financial fraud particularly fictitious and fraudulent portions of the financial statements. They should put in place an appropriate system to ensure adoption of appropriate accounting policies and principles leading to fairness in financial statements.
- 4) Oversight of internal audit functions in general and with particular reference to reviewing of scope of internal audit plan for the year. Reviewing the report of internal auditors pertaining to critical areas like underwriting, settlement of claims, provisions of technical reserves (liabilities of policy holders) reinsurance management, solvency margin, investments etc. Reviewing the efficacy of internal auditing and reviewing whether

internal auditors have full access to all relevant documents.

- 5) Oversight of the adequacy of internal control systems as required by the Article 5(11) of the Code for Corporate Governance, through the regular reports of the internal and external auditors. They may appoint external consultants if the need arose.
- 6) Oversight and review of the annual financial statements, returns and solvency margin computation required to be submitted to the CMA and prepared in accordance with the Insurance Companies Law and its regulations. The audit committee shall review the regulatory returns before submission to the CMA. Review of the annual and quarterly accounts before issue, review of qualifications in the draft financial statements and discussion of accounting principles. In particular, change in accounting policies, principles and accounting estimates in comparison to previous year, any adoption of new accounting policy and departure from AAOIFI Standards or International Accounting Standards (IAS), as applicable and noncompliance with disclosure requirements prescribed by the CMA should be critically reviewed.
- 7) Serving as channel of communication between external auditors and the board. And also the internal auditors and the board.
- 8) Reviewing risk management policies of the insurer as required by the article 5 (3) of the Code for Corporate Governance of Insurance Companies.

- 9) Reviewing proposed specific transactions with the related parties for making suitable recommendations to the board.

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 30th January, 26th March, 29th April, 7th September and 5th November 2014.

The details of Executive Committee meeting attended and sitting fees paid during 2014 are as given below:

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

Name	Position	No. of Meetings attended	Sitting Fees RO
H.E. Dr. Mohammed Ali Al Barwani	Chairman	5	4,000
Eng. Abdulrahman Awadh Barham	Member	4	3,200
Eng. Khamis Mubarak Al Kiyumi	Member	5	4,000
Eng. Abdullah Ali Al Abdullah	Member	4	3,200
Mr . Saleh Nasser Al Riyami	Member	1	800

E) PROCESS OF NOMINATION OF DIRECTORS

Is as per article and memorandum of association of the Company.

F) MANAGEMENT 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 Chief Executive Officer (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 9 officers of the Company including salary and allowances amounted to RO 568,498. In addition to this a Company maintained car is provided to the CEO. Company does not offer any stock options to any of its directors or employees.

Profile of the Executive Management of the Company

a) Gautam Datta, Chief Executive Officer

Mr. Datta has completed his B.A. (Honors in Economics) and is a Fellow of Insurance Institute of India (FIII) with over 30 years' experience in the insurance industry. Previously, he held senior management posts at a number of leading insurance institutions including Chubb Insurance Group, Solidarity Group, Bahrain Kuwait Insurance, and New India Assurance. He has diverse experience in various aspects of insurance business, underwriting, claims adjustment, reinsurance treaty, establishment and management of green-field operations which includes Takaful companies.

He has a long experience in the area of Takaful since 1999. He was a member of the start-up team working at Solidarity, the largest Takaful company in the world in terms of paid-up capital in 2004. He led the initiative to obtain a license for the company in KSA. He participated actively with members of the Shariah Board in the process of establishing structures for Wakala fees and wrote a number of essays in tackling this topic. The Company was established as a joint project with Solidarity with all its systems created by the latter to be compatible with the Takaful system.

He joined as the CEO of the Company to help it understand the model of Takaful business and operations.

b) Usama Al Barwani, Deputy CEO

Mr. Usama is pursuing his MBA and has completed his Postgraduate Diploma in HRM and Diploma in Information System Management and Education. He is a Certified Islamic Specialist in Islamic Insurance and a Certified Compliance Officer. He has over 22 years of experience in HR and Administration. He is involved in the meetings held with specialists in Shariah consulting services in respect of transforming the Company's activities into Takaful based insurance.

c) Ajay Srivastava, General Manager – Commercial

Mr. Srivastava has completed his Bachelor of Science (Honors). He has a Bachelor's degree in Law and is an Associate of Insurance Institute of India (AIII), with over 23 years of insurance experience in Indian & London Insurance markets. Amongst his experiences, he has been involved in one of India's largest petrochemical plant (ONGC) and with one of the large auto manufacturer of India (Daewoo Motors). He developed and serviced one of UK's largest furnishing Chain (ROSEBYS) and Hotel Chains (Aurora group) during his career.

d) Sandeep Mahajan, General Manager – Specialty

Mr. Mahajan has completed his BE (Mechanical), MBA (Finance) & is a Fellow of Insurance Institute of India (FIII). He has over 20 years' experience in technical departments of various local and multinational insurance companies in India and GCC including AIG and Oriental Insurance. As a loss control engineer, he has more than 500 risk surveys to the credit, including petrochemicals and major properties like Zuari Agro Chemicals, Deepak Fertilizers, Tata Motors, etc. Over the period, he moved to underwriting and reinsurance and has handled major programs including Sohar Aluminum, Ministry of Defence and Oman Gas amongst others. He has been dealing with major international reinsurers and brokers in the current role.

e) R. M. Sundaram, General Manager - Finance and Accounts

Mr. Sundaram has completed his Bachelors in Science. He is also an Associate of Institute of Cost & Works Accountants of India and Certified Management Accountant, issued by the Institute of Certified Management Accountants, New Jersey, USA, with over 29 years of experience in Insurance and Banking in India and the GCC.

f) Nasser Al Shueili, General Manager – Claims

Mr. Nasser has completed his Diploma in Insurance (CIII). He has over 17 years of experience in underwriting, audit, non-motor and motor claims in Omani and multinational insurance companies in the region.

g) Mahmud Attar, General Manager - Compliance and Internal Audit

Mr. Mahmud has completed his Bachelor in Administrative Science & Accounting. He has over 30 years of experience in Islamic Banking and retail sector in the Gulf, expertise in audit and compliance functions.

Whilst at Bahrain Islamic Bank, he was instrumental in defining audit manual and overseeing the audit programs, risk assessments criteria and risk assessment audits. He was a key member of the team that was responsible for changing the Company's activities to the Takaful insurance system and its obtainment of the necessary license from the CMA.

h) Girish Gopinath, Senior Manager – IT

Mr. Gopinath has more than 22 years of experience in software product development. He is the Chief for the Company's own brand 'Tameenet' which supports retail product development, customer services and online delivery. Prior to joining the Company, Mr. Girish has worked for Oman United Insurance and Veritas DGC Ltd. He has completed his Bachelor in Computer Science and Masters in Banking and Insurance from India.

i) Jaspreet Chhabra, Senior Manager - Investments

Mr. Chhabra has completed his Bachelor in Commerce and Chartered Accountancy, with over 8 years of experience in portfolio management, equity research and financial analysis in Indian and Omani equity markets.

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.

The Company has become a public joint stock company in December 2013. The quarterly results of the company are disclosed to the public through announcements in MSM website as per statutory requirements.

I) MARKET PRICE DATA AND DISTRIBUTION OF HOLDINGS

Market price data

Shares of the Company have been listed on the Muscat Securities Market on 10 December 2013. The market price data of the shares for the month of December is as given below.

Month	Company's market price (RO)		MSM 30 Index	
	High	Low	High	Low
Jan 14	140	133	7,201	6,872
Feb 14	148	133	7,189	7,054
Mar 14	137	120	7,129	6,857
Apr 14	127	118	6,844	6,727
May 14	120	109	6,857	6,718
Jun 14	126	116	7,008	6,888
July 14	130	117	7,204	7,020
Aug 14	122	115	7,367	7,226
Sep 14	123	111	7,548	7,356
Oct 14	112	88	7,484	6,872
Nov 14	107	89	7,139	6,506
Dec 14	97	72	6,594	5,409

Pattern of Shareholding

The shareholders through a resolution in the EGM on 29.4.2014 resolved to increase the Share Capital of the Company from RO 16,666,667 to RO 17,500,000 by issuance of Bonus shares for a total value of RO 833,333.

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

SHAREHOLDER	NO. OF SHARES	% HOLDING
Mohammed Al Barwani Holding Co. L.L.C.	45,250,001	26
Al Madina Investment SAOGs	16,411,563	9
Ministry of Defence Pension Fund	10,499,999	6

J) DECLARATION BY THE BOARD OF DIRECTORS

We the board of directors hereby confirms that:

- the financial statement 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;
- internal control system of the Company is efficient and adequate and complies with the internal rules and regulations of the Company; and
- there are no material matters, which will affect the Company's ability to continue its operations in the coming financial years.

K) PROFILE OF THE STATUTORY AUDITORS

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Deloitte provides audit, tax, consulting, and financial advisory services to public and private

Shari'ah Supervisory Board's Report

For the year ended 31 December 2014

Thanks to Allah, the Almighty, Prayers and Peace be Upon the True Messenger, His Relatives and All His Companions.

To the Shareholders and Participants of Takaful International

Assalam Alaikum Wa Rahmat Allah Wa Barakatuh

In compliance with our appointment to undertake the duties of Sharia'a supervision, we hereby submit the following report.

The Sharia'a Supervisory Board reviewed the procedures relating to the Takaful transactions and the applications introduced by the company for the year ended 31 December 2014. The Board has reviewed and confirmed the implementation of the principles and guidelines governing the relationship between the participants and shareholders in order to identify the rights of each side. Discussions took place with the Company's officers with regard to its items and the attached Notes. The Board gave its Shari'ah directives for Takaful transactions and answered the queries made by the management.

It is the management's responsibility to ensure that the company conducts its business in accordance with Islamic Shari'ah principles, our responsibility is to express an opinion on the company operations and that the financial are prepared on the basis of and in accordance with the principle of Islamic Shari'ah.

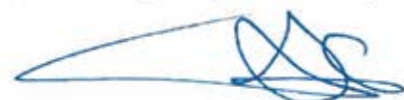
In our opinion:

1. The surplus distribution, charging of losses and expenses to the participants and shareholders fully confirm with the principles established by ourselves in compliance with Shari'ah rules and principles.
2. Necessary actions were taken in respect of the gains realized from prohibited sources or from methods that are forbidden by donating to charity according to the Charity Manual.
3. The calculations of Zakah is in compliance with Islamic Shari'ah rules and principles and as directed by the Shari'ah supervisory Board. It should be noted that responsibility for payment of Zakah is undertaken by the shareholders.

We pray to Allah the Almighty to grant the Company continuous success for purifying business transactions from suspicions and prohibitions.

Assalam Alaikum Wa Rahmat Allah Wa Barakatuh

02 Jumada I, 1436 corresponding to 21 February 2014.



Dr. Shaikh Abdulsattar Abdul Karim Abughuddah,
Shari'ah Supervisory Board Chairman



Independent auditor's report to the Shareholders' of Al Madina Insurance Company SAOG

1

Introduction

We have audited the accompanying financial statements of **Al Madina Insurance Company SAOG** (the "Company") as at 31 December 2014, comprising the financial position as at 31 December 2014 and statement of policyholders' revenues and expenses and profit or loss and other comprehensive income, changes in equity, changes in participants' fund and cash flows for the year ended and a summary of significant accounting policies and other explanatory information thereof.

Board of Director's responsibility for the financial statements

The Board of Directors is responsible for the preparation and presentation of these financial statements in accordance with the Sharia'a rules and principles as determined by the Sharia'a Supervisory Board of the Company, the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI"), applicable requirements of the Commercial Companies Law, as amended, of the Sultanate of Oman, the provisions for disclosure included in the Executive Regulations of the Capital Market Law and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board is also responsible for the Company's undertaking to operate in accordance with Islamic Sharia'a rules and principles.

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 Auditing Standards for Islamic Financial Institutions and 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 judgment, 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 Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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.

**Independent auditor's report
to the Shareholders' of
Al Madina Insurance Company SAOG**

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Al Madina Insurance Company SAOG** as of 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with the Sharia'a rules and principles as determined by the Sharia'a Supervisory Board of the Company, the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI").



Report on other legal and regulatory requirements

In our opinion, the financial statements comply in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the provisions for disclosure included in the Executive Regulations of the Capital Market Law.

Other matters

The financial statements of the Company for the year ended 31 December 2013 was audited by another auditor who expressed an unmodified opinion on the statements on 27 February 2014.

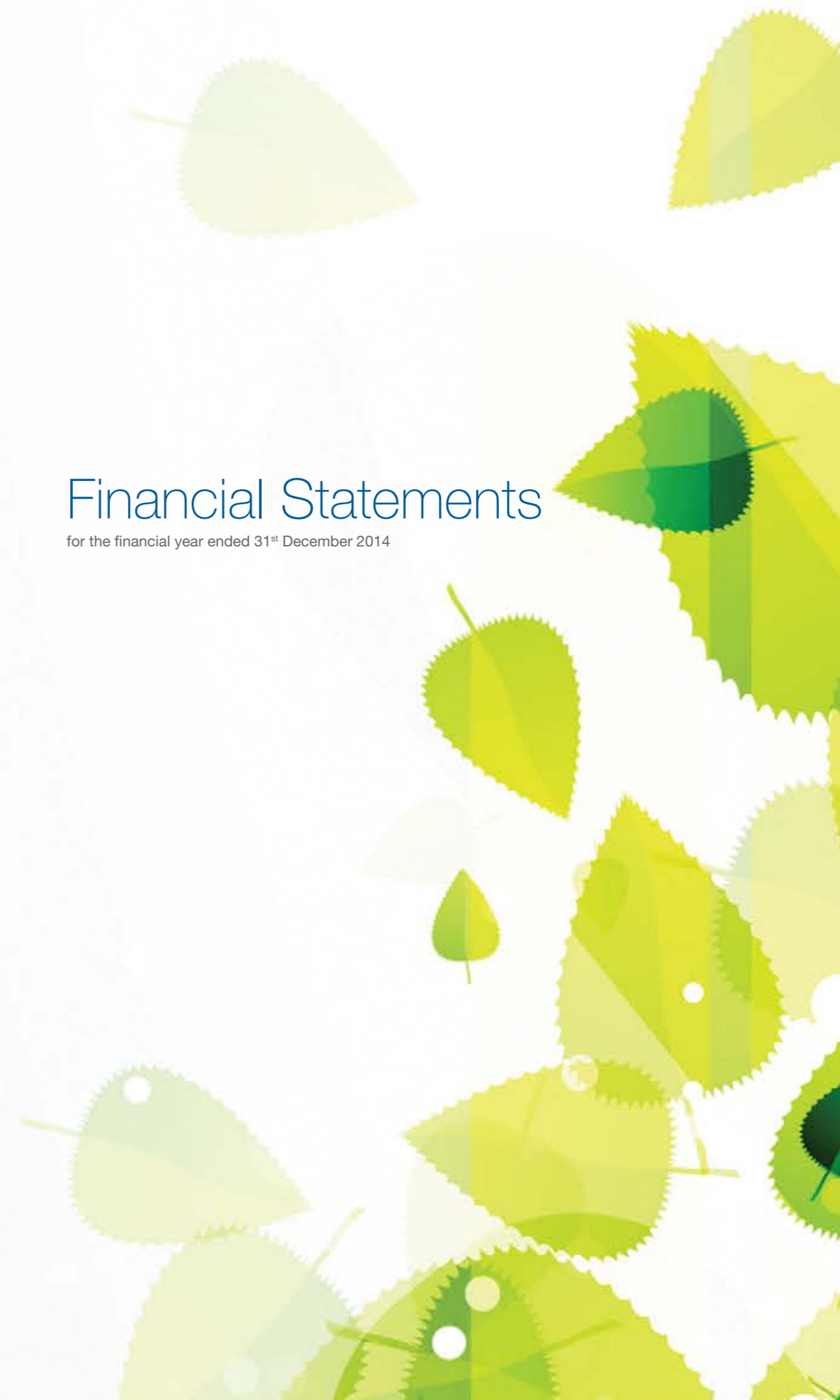
Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
23 February 2015



Signed by
Mark David Dunn
Partner

Financial Statements

for the financial year ended 31st December 2014



Statement of Financial Position

as at 31 December 2014

	Notes	Shareholders		General Takaful		Family Takaful		Total	
		2014 RO	2013 RO	2014 RO	2013 RO	2014 RO	2013 RO	2014 RO	2013 RO
ASSETS									
Cash and bank balances	4	955,645	9,541,640	1,441,913	-	104,771	-	2,502,329	9,541,640
Bank deposits	5	2,176,154	6,329,893	4,251,416	-	22,084	-	6,449,654	6,329,893
Investment carried at fair value through profit or loss	6	5,437,139	3,957,221	-	-	-	-	5,437,139	3,957,221
Takaful and retakaful/reinsurance balance receivable	7	-	7,141,993	6,778,660	-	1,407,145	-	8,185,805	7,141,993
Receivable from participants –family takaful	8	4,812	-	801,925	-	-	-	806,737	-
Due from retakaful / reinsurance companies in connection with outstanding claims and deferred retakaful / reinsurance contribution	9	-	7,786,930	7,795,909	-	1,544,377	-	9,340,286	7,786,930
Deferred policy acquisition cost	10	-	590,899	817,760	-	41,820	-	859,580	590,899
Other receivables and takaful assets		699,655	456,067	282,068	-	-	-	981,723	456,067
Investments at fair value through equity	11	2,042,447	629,445	-	-	-	-	2,042,447	629,445
Investments carried at amortised cost	12	2,762,436	1,754,112	-	-	-	-	2,762,436	1,754,112
Deferred tax asset	13	274,113	484,361	-	-	-	-	274,113	484,361
Investment in real estate	14	6,235,111	2,600,000	-	-	-	-	6,235,111	2,600,000
Property and equipment	15	947,087	912,762	-	-	-	-	947,087	912,762
Total assets		21,534,599	42,185,323	22,169,651	-	3,120,197	-	46,824,447	42,185,323
EQUITY, PARTICIPANTS' FUND AND LIABILITIES									
Capital and reserves									
Share capital	16	17,500,000	16,666,667	-	-	-	-	17,500,000	16,666,667
Share premium		1,380,151	2,213,484	-	-	-	-	1,380,151	2,213,484
Legal reserve	17	552,373	450,716	-	-	-	-	552,373	450,716
Contingency reserve	18	1,206,553	421,767	-	-	-	-	1,206,553	421,767
Investment fair value reserve		(193,189)	141,282	-	-	-	-	(193,189)	141,282
Retained earnings		499,269	1,202,477	-	-	-	-	499,269	1,202,477
Total shareholders' equity		20,945,157	21,096,393	-	-	-	-	20,945,157	21,096,393
Participants' fund									
Surplus / (deficit) in participants' fund		-	-	173,104	-	(167,150)	-	5,954	-
Liabilities									
End of service benefits	19	192,096	146,930	-	-	-	-	192,096	146,930
Gross outstanding claims	9	-	6,230,191	6,445,857	-	1,460,759	-	7,906,616	6,230,191
Unearned contributions reserve	9	-	7,811,939	9,710,946	-	361,224	-	10,072,170	7,811,939
Unearned retakaful/reinsurance commission	20	-	288,069	375,848	-	2,955	-	378,803	288,069
Retakaful/reinsurance payables		-	4,853,341	3,945,287	-	610,892	-	4,556,179	4,853,341
Accounts and other payables	21	397,346	1,758,460	1,518,609	-	44,780	-	1,960,735	1,758,460
Payable to shareholders	8	-	-	-	-	4,812	-	4,812	-
Payable to participants – general takaful	8	-	-	-	-	801,925	-	801,925	-
Total liabilities		589,442	21,088,930	21,996,547	-	3,287,347	-	25,873,336	21,088,930
Total shareholders' equity, participants' fund and liabilities		21,534,599	42,185,323	22,169,651	-	3,120,197	-	46,824,447	42,185,323



Director



Director

The accompanying notes form an integral part of these financial statements.

Statement of participants' revenue and expenses

for the financial year ended 31st December 2014

	Notes	General Takaful		Family Takaful		Total 2013 RO
		2014 RO	2013 RO	2014 RO	2013 RO	
Takaful revenues						
Gross contributions	22	21,579,879	-	1,534,675	-	23,114,554
Retakaful/reinsurance share	22	(9,118,213)	-	(1,098,721)	-	(10,216,934)
Retained contributions	22	12,461,666	-	435,954	-	12,897,620
Movement in unearned contributions		(1,915,496)	-	(48,381)	-	(1,963,877)
Net earned contributions		10,546,170	-	387,573	-	10,933,743
Net commission and other takaful income / (expense)	22	(439,641)	-	(86,390)	-	(526,031)
Total takaful revenue	22	10,106,529	-	301,183	-	10,407,712
Takaful expenses						
Gross claims settled	24	(7,180,253)	-	(1,052,272)	-	(8,232,525)
Claims recovered from retakaful/reinsurance	24	1,520,216	-	898,988	-	2,419,204
Net movement in outstanding claims		(380,119)	-	(39,304)	-	(419,423)
Net claims incurred	24	(6,040,156)	-	(192,588)	-	(6,232,744)
Provision for bad and doubtful debt		(22,560)	-	-	-	(22,560)
Total takaful expenses		(6,062,716)	-	(192,588)	-	(6,255,304)
Surplus from takaful operations		4,043,813	-	108,595	-	4,152,408
Investment income	25	81,277	-	1,988	-	83,265
Mudarib share	27	(67,608)	-	(1,491)	-	(69,099)
Wakala fees	27	(3,884,378)	-	(276,242)	-	(4,160,620)
Surplus / (deficit) from takaful operations		173,104	-	(167,150)	-	5,954

Statement of Comprehensive Income

for the financial year ended 31st December 2014



المدينة تكافل
Al Madina Takaful

	Notes	Shareholders' fund	
		2014 RO	2013 RO
Net insurance income	22	-	7,651,972
Net claims incurred	24	-	(4,509,655)
Insurance income		-	3,142,317
Investment income (net)	25	692,841	1,694,585
Wakala fees	27	4,160,620	-
Mudarib share	27	69,099	-
General and administrative expenses	26	(3,707,036)	(2,991,327)
Other income		11,292	14,965
		(3,695,744)	(2,976,362)
Profit before tax		1,226,816	1,860,540
Taxation	27	(210,248)	484,361
Profit for the year		1,016,568	2,344,901
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Net change in fair value of investments at fair value through equity	6	(334,471)	(92,327)
Total comprehensive income for the year		682,097	2,252,574
Earnings per share	30	0.006	0.023

The accompanying notes form an integral part of these financial statements.

Statement of changes in Equity

for the financial year ended 31st December 2014

	Share capital	Share premium	Legal reserve	Special reserve	Contingency reserve	Investment fair value reserve	(Accumulated losses) / retained earnings	Total
	RO	RO	RO	RO	RO	RO	RO	RO
At 1 January 2014	<u>16,666,667</u>	<u>2,213,484</u>	<u>450,716</u>	-	<u>421,767</u>	<u>141,282</u>	<u>1,202,477</u>	<u>21,096,393</u>
Profit for the year	-	-	-	-	-	-	<u>1,016,568</u>	<u>1,016,568</u>
Other comprehensive income	-	-	-	-	-	<u>(334,471)</u>	-	<u>(334,471)</u>
Total comprehensive income for the year	-	-	-	-	-	<u>(334,471)</u>	<u>1,016,568</u>	<u>682,097</u>
Transaction with owner								
Dividends paid	-	-	-	-	-	-	<u>(833,333)</u>	<u>(833,333)</u>
Transfer from share premium as free shares	<u>833,333</u>	<u>(833,333)</u>	-	-	-	-	-	-
Total transactions with owners	<u>833,333</u>	<u>(833,333)</u>	-	-	-	-	<u>(833,333)</u>	<u>(833,333)</u>
Transfer from special reserve	-	-	-	-	-	-	-	-
Transfer to contingency reserve	-	-	-	-	<u>784,786</u>	-	<u>(784,786)</u>	-
Transfer to legal reserve	-	-	<u>101,657</u>	-	-	-	<u>(101,657)</u>	-
At 31 December 2014	<u>17,500,000</u>	<u>1,380,151</u>	<u>552,373</u>	-	<u>1,206,553</u>	<u>(193,189)</u>	<u>499,269</u>	<u>20,945,157</u>

The accompanying notes form an integral part of these financial statements.

Statement of changes in Equity (continued)

for the financial year ended 31st December 2014

	Share capital	Share premium	Legal reserve	Special reserve	Contingency reserve	Investment fair value reserve	(Accumulated losses) / retained earnings	Total
	RO	RO	RO	RO	RO	RO	RO	RO
At 1 January 2013	<u>10,000,000</u>	-	<u>216,226</u>	<u>150,310</u>	<u>175,483</u>	<u>233,609</u>	<u>(811,960)</u>	<u>9,963,668</u>
Profit for the year	-	-	-	-	-	-	<u>2,344,901</u>	<u>2,344,901</u>
Other comprehensive income	-	-	-	-	-	<u>(92,327)</u>	-	<u>(92,327)</u>
Total comprehensive income for the year	-	-	-	-	-	<u>(92,327)</u>	<u>2,344,901</u>	<u>2,252,574</u>
Transaction with owner								
Dividends paid	-	-	-	-	-	-	-	-
Transfer from share premium as free shares	-	-	-	-	-	-	-	-
Total transactions with owners	-	-	-	-	-	-	-	-
Transfer from special reserve	-	-	-	<u>(150,310)</u>	-	-	<u>150,310</u>	-
Proceeds from the initial public offering	<u>6,666,667</u>	<u>2,666,667</u>	-	-	-	-	-	<u>9,333,334</u>
Expenses incurred on initial public offering	-	<u>(453,183)</u>	-	-	-	-	-	<u>(453,183)</u>
Transfer to contingency reserve	-	-	-	-	<u>246,284</u>	-	<u>(246,284)</u>	-
Transfer to legal reserve	-	-	<u>234,490</u>	-	-	-	<u>(234,490)</u>	-
At 31 December 2013	<u>16,666,667</u>	<u>2,213,484</u>	<u>450,716</u>	-	<u>421,767</u>	<u>141,282</u>	<u>1,202,477</u>	<u>21,096,393</u>

The accompanying notes form an integral part of these financial statements.

Statement of Cash Flows

for the financial year ended 31st December 2014

	Note	2014 RO	2013 RO
Cash flows from operating activities			
Profit before tax for the year (including surplus / (deficit) from takaful operations)		1,232,770	1,860,540
Adjustments for :			
Depreciation		186,546	132,708
Gain on disposal of fixed assets		(10,515)	-
Finance income		-	(859)
Dividend income		(210,490)	(272,146)
Income from bank deposit		(118,251)	(99,450)
Profit from investments carried at amortized cost		-	(25,394)
Amortisation of investments carried at amortized cost		6,837	-
End of service benefits charge for the year		46,783	69,180
Rental income on investment in real estate		388,000	208,000
Unrealised gains on investments at fair value through equity		222,231	(746,418)
Provision for bad and doubtful debt		22,560	-
Realised gain on investments carried at fair value through profit or loss		(207,878)	(399,496)
Impairment loss on investments at fair value through equity		-	12,821
Realised profit on redemption of investments at fair value through equity		(11,954)	(35,733)
		1,546,639	703,753
Working capital changes:			
Takaful and retakaful/reinsurance balance receivables		(1,066,372)	(2,027,075)
Retakaful / reinsurance share of outstanding claims and unearned premium reserve		(1,553,356)	(1,773,267)
Other receivables, prepayments and other assets		(525,656)	(103,570)
Deferred policy acquisition cost		(268,681)	(55,271)
Outstanding claims and unearned premium reserve		3,936,656	1,847,595
Accounts and other payables		202,275	3,723
Due to retakaful / reinsurance		(297,162)	817,195
Unearned retakaful/reinsurance commission		90,734	(113,821)
Cash generated from / (used in) operating activities		2,065,924	(700,738)
End of service benefits paid		(1,617)	(7,781)
Net cash from / (used in) operating activities		2,064,307	(708,519)
Cash flows from investing activities			
Purchase of property and equipment	15	(222,859)	(258,734)
Purchases of investments carried at fair value through profit or loss		(4,958,923)	(438,419)
Purchase of investments at fair value through equity		12,503	-
Proceeds from disposal of fixed assets		(1,890,207)	-
Proceeds from disposal of investments carried at fair value through profit or loss		3,464,652	1,810,625
Proceeds from redemption of investment at fair value through equity		154,688	464,064
Movement in bank deposits		118,828	(1,502,223)
Rent on investment in real estate received		(388,000)	(208,000)
Purchase of investment in real estate		(3,635,111)	-
Purchase of investments carried at amortized cost – net of income		(1,015,161)	(1,474,352)
Dividends received		210,490	272,146
Net cash (used in) / generated from investing activities		(8,149,100)	(1,334,893)
Cash flows from financing activities			
Proceeds from share capital issued		-	6,666,667
Proceeds from share premium collected (net of IPO expenses)		-	2,213,484
Dividends paid		(833,333)	-
Finance cost paid		-	859
Net cash (used in) / from financing activities		(833,333)	8,881,010
Net (decrease) / increase in cash and cash equivalents		(6,918,973)	6,837,598
Cash and cash equivalents at the beginning of the year	31	9,563,981	2,726,383
Cash and cash equivalents at the end of year	31	2,645,008	9,563,981

Notes to the financial statements

for the financial year ended 31st December 2014

1 General

Al Madina Insurance Company SAOG (formerly Al Madina Insurance Company SAOC) (the “Company”) was incorporated on 15 May 2006 as a closed joint stock company in the Sultanate of Oman. On 10 December 2013, the Company has become a public joint stock company. The Company operates in Oman and is engaged in the business of general and Family Takaful activities by adopting a Wakala mode the Company also adopts a Mudarabha model for its investments, on behalf of the participants in accordance with the Islamic Sharia’a principles. The retakaful/reinsurance activities organised on an underwriting year basis with the participants pooling their contributions to cover for losses suffered in the pool on occurrence of a defined event.

The Company commenced commercial operations from 1 August 2006. The Company was granted license from Capital Market Authority (CMA) on 15 July 2006. The Company started Takaful operations on 1 January 2014 after being granted the Takaful license by the CMA.

2. Summary of significant accounting policies

Statement of compliance

The financial statements have been prepared in accordance with the Financial Accounting Standards (“FAS”) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (“AAOIFI”), for the matters which are not covered by AAOIFI standards, International Financial Reporting Standards (“IFRS”) have been applied. The financial statements 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.

AAOIFI standards have been applied prospectively from the date of the 1 January 2014 as allowed under such standards. The application of AAOIFI has resulted in the additional disclosures relating to General Takaful and Family Takaful Business, Shareholders’ Fund and Participants’ Fund. The statement of profit or loss and other comprehensive income has been divided into two statements namely “Statement of Participants’ Revenues and Expenses” and “Statement of Profit or Loss and Other Comprehensive Income”. Further, statement of change in equity has been divided into two statements namely “Statement of changes in Participants’ Fund” and “Statement of change in Owners’ Equity”.

CMA has issued the Draft Takaful Law which under final stages of approval. As and when any new regulations and instructions are issued by CMA regarding Takaful Business management will ensure that the basis of preparation of financial statements complies with such regulations.

Basis of preparation

The financial statements are prepared under the historical cost convention and using going concern assumption, except for the measurement of financial assets classified as held for trading and Equity type instruments carried at fair value through equity investments and investment property which are measured at fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The financial statements are presented in Rials Omani (“RO”), which is the Company’s functional and presentation currency.

The Company presents its statement of financial position broadly in order of liquidity.

The preparation of financial statements in conformity with FAS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies.

Notes to the financial statements

for the financial year ended 31st December 2014

2. Summary of significant accounting policies (continued)

Basis of preparation (continued)

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year except for the takaful accounting policies which have been applied prospectively as allowed by AAOIFI.

The principal accounting policies are set out as below:

Foreign currency

Functional and presentation currency

Items included in the financial statements of the Company are measured and presented in Rial Omani ("RO") 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 profit or loss as they arise.

Takaful operations

As an Islamic insurance (takaful) provider, the Company issues contracts that are based on co-operative activity by risk sharing or financial risk, or both. The Company classifies all its contracts individually as either takaful contracts or investment contracts.

Takaful contracts are those contracts where the insurer accepts significant takaful risk from the participants by agreeing to cover the participants if a specified uncertain future event adversely affects the participants. As a general guideline, the Company defines significant takaful risk as the possibility of having to pay benefits on the occurrence of an insured event.

Investment contracts are contracts where there is insignificant transfer of insurance risk from the participants to the Company. They are accounted for as financial instruments under IAS 39: "Financial Instruments: Recognition and Measurement" and Revenue arising from such contracts is recognized in accordance with IAS 18: "Revenue Recognition".

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

Property takaful

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

Motor takaful

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

Marine takaful

Marine takaful is designed to cover 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 and family takaful

Life and family takaful is designed to cover contract holders for loss of life or limbs of the insured.

Notes to the financial statements

for the financial year ended 31st December 2014

2. Summary of significant accounting policies (continued)

General takaful

Gross contributions represent the total business written in the year, including contributions on annual takaful contracts covering part or all of the year. In addition, gross contributions include certain contributions derived from local inward business under co-takaful arrangements. Gross contributions in respect of annual takaful contracts are recognized in the statement of income at takaful contract inception. In respect of longer term takaful contracts, contributions are spread over the tenure of the takaful contracts on a straight-line basis and the unexpired portion of such contributions is included within "unearned contributions" in the statement of financial position for the initial period of the year and the balance unexpired portion of such contribution is included in the other payables.

Unearned contributions represent the portion of contributions received on in-force contracts that relate to unexpired risks at the statement of financial position date. Takaful contributions are recognized as revenue (earned contributions) proportionally over the period of coverage. A proportion of net retained premiums is provided as 'unearned contribution 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.

In order to minimize financial exposure from large claims the Company enters into agreements with other parties for retakaful/reinsurance purposes. Claims receivable from retakaful/reinsurance companies are estimated in a manner consistent with the claim liability and in accordance with the retakaful/reinsurance contract. These amounts are shown as "Due from retakaful/reinsurance companies in connection with outstanding claims and deferred retakaful/reinsurance contribution" in the statement of financial position until the claim is paid by the Company. Once the claim is paid the amount due from the retakaful/reinsurance company in connection with the paid claim is transferred to "takaful and retakaful/reinsurance balance receivables".

At each reporting date, the Company assesses whether there is any indication that a retakaful/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 re takaful asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Retakaful/reinsurance commission income and commission paid are recognized at the time when retakaful/reinsurance contracts are written.

The commission income attributable to the retakaful/reinsurance ceded contributions are deferred and classified as unearned retakaful/reinsurance commission. Unearned retakaful/reinsurance commission is subsequently amortised over the life of the retakaful/reinsurance contracts as retakaful/reinsurance ceded is expensed.

Gross claims settled are charged to the statement of income in the year in which the claims payable to policyholders and third parties is determined as per the terms of the takaful contracts. This includes the settlement and handling costs of paid and outstanding claims arising from events occurring during the financial year.

Claims, comprising amounts payable to takaful contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, are charged to statement of participants' revenue and expenses 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.

Claims recovered from retakaful/reinsurance and other parties include amounts recovered from retakaful/reinsurance companies in respect of the gross claims paid by the Company, in accordance with the retakaful/reinsurance contracts held, together with salvage and other claims recoveries.

Notes to the financial statements

for the financial year ended 31st December 2014

2. Summary of significant accounting policies (continued)

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the statement of financial position date, whether reported or not. Provisions for gross outstanding claims is based on estimates of the outstanding loss which will eventually be payable on each reported claim, established by management based on currently available information and past experience modified for changes reflected in current conditions, increased exposure, rising claims costs and the severity and frequency of recent claims, as appropriate.

In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported at the statement of financial position date. Outstanding claim provisions are not discounted for their value of money.

In addition a provision based on management judgment 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.

Liability adequacy tests are performed at each statement of financial position date to ensure the adequacy of the takaful liabilities using current best estimates of future contractual cash flows under takaful contracts. Any deficiency is immediately charged to the statement of income by establishing a provision for losses arising from liability adequacy tests.

Family takaful

Family takaful technical reserves represent the present value of future benefit obligations in respect of family takaful contracts in force at the statement of financial position date. The reserve consists of two types of funds namely protection takaful and savings takaful.

The protection takaful and savings takaful reserve is determined annually by the Company's appointed actuary. Reserves for individual family takaful contracts are calculated on a prospective method. The liabilities are valued using discounted cash flow (DCF) with a discount rate of 4.25% per annum (2012: 3.25% per annum).

Maturity and survival benefits are charged against the technical reserve when due. Encashment and surrenders are accounted for when paid or when cover ceases. Death and disability claims are accounted for when notified.

Gross contributions are recognized in the statement of income on the due date of the premium. Unearned contributions represent the portion of contributions received on in-force contracts that relate to unexpired risks at the statement of financial position date. Takaful contributions are recognized as revenue (earned contributions) proportionally over the period of coverage. A proportion of net retained premiums is provided as 'unearned contribution 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.

Gross claims settled are charged to the statement of income in the year in which the claims payable to policyholders and third parties is determined as per the terms of the takaful contracts. This includes the settlement and handling costs of paid and outstanding claims arising from events occurring during the financial year.

Claims, comprising amounts payable to takaful contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, are charged to statement of participants' revenue and expenses 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.

Notes to the financial statements

for the financial year ended 31st December 2014

2. Summary of significant accounting policies (continued)

Family takaful (continued)

Claims recovered from retakaful/reinsurance and other parties include amounts recovered from retakaful/reinsurance companies in respect of the gross claims paid by the Company, in accordance with the retakaful/reinsurance contracts held, together with salvage and other claims recoveries.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the statement of financial position date, whether reported or not. Provisions for gross outstanding claims is based on estimates of the outstanding loss which will eventually be payable on each reported claim, established by management based on currently available information and past experience modified for changes reflected in current conditions, increased exposure, rising claims costs and the severity and frequency of recent claims, as appropriate.

In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported at the statement of financial position date. Outstanding claim provisions are not discounted for their value of money.

In addition a provision based on management judgment 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.

Retakaful/reinsurance share represents amounts paid to retakaful/reinsurance companies in accordance with retakaful/reinsurance contracts entered into by the Company. In respect of proportional retakaful/reinsurance contracts and non-proportional retakaful/reinsurance contracts, the amounts are recognized in the statement of income in accordance with the terms of these contracts.

Retakaful/reinsurance commission income and commission paid are recognized at the time retakaful/reinsurance contracts are written.

Financial assets

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers and also incorporate other types of contractual monetary asset. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective profit rate method, less provision for impairment.

The Company's loans and receivables comprises of retakaful/reinsurance and takaful receivables, due from retakaful/reinsurance companies in connection with outstanding claims and cash and cash equivalents in the statement of financial position.

Retakaful/reinsurance and takaful receivables

The benefits to which the Company is entitled under its retakaful/reinsurance contracts held are recognized as retakaful/reinsurance assets. These assets consists of balances due from retakaful/reinsurance companies on settlement of claims and other receivables such as retakaful/reinsurance commissions and amounts recoverable from retakaful/reinsurance companies in connection with outstanding claims, that are dependent on the expected claims and benefits arising under the related takaful contracts. Amounts recoverable from or due to retakaful/reinsurance companies are recognized consistently with the amounts associated with the underlying takaful contracts and in accordance with the terms of each retakaful/reinsurance contract.

Retakaful/reinsurance and takaful balances receivable are stated at cost less any impairment losses. Amounts receivable from retakaful/reinsurance companies relating to claims are estimated in a manner consistent with the claim liability associated with the retakaful/reinsurance companies.

Notes to the financial statements

for the financial year ended 31st December 2014

2. Summary of significant accounting policies (continued)

Retakaful/reinsurance and takaful receivables (continued)

The Company assesses its retakaful/reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the retakaful/reinsurance asset is impaired, the Company reduces the carrying amount of the retakaful/reinsurance asset to its recoverable amount and recognises that impairment loss in the statement of income. Objective evidence for impairment is assessed as a result of an event that occurred after initial recognition of the retakaful/reinsurance asset that the Company may not be able to receive all the amounts due under the terms of the contract and that the event has a reliably measurable impact on the amounts that the Company will receive from the retakaful/reinsurance Company.

Investment real estate

Investment in real estate are properties which are held either to earn rental income, for capital appreciation or for both. Investment in real estate are stated at fair value module. External independent valuers having appropriate recognized professional qualifications and experience, value the investment. 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 recognized in the statement of financial position.

Investments

Investments comprise of investments carried at amortized cost, investments carried at fair value through profit or loss and investments at fair value through equity.

All investments, are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment, except in the case of investments carried at fair value through profit or loss.

Investments carried at amortized cost

Investments which have fixed or determinable payments and where the Window has both the intent and ability to hold to maturity are classified as investments carried at amortized cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such instruments is recognised in the statement of comprehensive income when the instruments are de-recognised or impaired.

Investments at fair value through equity

Subsequent to acquisition, equity type instruments are remeasured at fair value, with unrealized gains and losses recognised in a separate component of equity until the investment is derecognized or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously recorded in equity is recognised in the statement of comprehensive income for the year.

Impairment losses on equity type instruments carried at fair value through equity are not reversed through the statement of comprehensive income and increases in their fair value after impairment are recognised directly in owners' equity.

Investments carried at fair value through profit or loss

These are subsequently re-measured at fair value. All related realised and unrealized gains or losses are included in the statement of comprehensive income.

Fair values

Fair value is determined for each financial asset individually in accordance with the valuation policies set out below:

- i. For investments that are traded in organized financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the statement of financial position date.

Notes to the financial statements

for the financial year ended 31st December 2014

2. Summary of significant accounting policies (continued)

Fair values (continued)

- ii. For unquoted investments, fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.
- iii. For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Window using current profit rates for investments with similar terms and risk characteristics.
- iv. Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less accumulated impairment, if any.

Investment income

Investment income is recognized on a time proportion basis.

Dividends

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

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Window retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Window has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the assets, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Window has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Window's continuing involvement in the asset.

Financial liabilities

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

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 recognized in the profit or loss.

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 recognized in the statement of comprehensive income;
- for assets carried at cost, impairment is the difference between carrying value and the estimated recoverable value;

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.

Notes to the financial statements

for the financial year ended 31st December 2014

2. Summary of significant accounting policies (continued)

Financial assets (continued)

A provision for impairment of takaful and retakaful/reinsurance 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 reorganization, and default or delinquency in payments are considered indicators that the takaful receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the estimated recoverable value. The amount of any provision is recognized in the participants' revenue and expenses. Subsequent recoveries of amounts previously written off are credited in participants' revenue and expenses.

In the case of equity investments classified as investments at fair value through equity, 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 investments at fair value through equity, 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 recognized in the statement of comprehensive income is removed from equity and recognized in the statement of comprehensive income.

Impairment losses recognized in the profit or loss on such equity instruments are not reversed through the profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at cost, the reversal is recognized in the profit or loss.

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 recognized 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.

Impairment losses recognized in prior years 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 recognized.

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 recognized amounts and the Company intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Property and equipment and accumulated depreciation

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 recognized 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 profit or loss during the financial year in which they are incurred.

Notes to the financial statements

for the financial year ended 31st December 2014

2. Summary of significant accounting policies (continued)

Property and equipment and accumulated depreciation (continued)

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:

	Years
Buildings	20
Office furniture and equipment	3 - 5
Motor vehicles	5
Leasehold improvements	3 - 5

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

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 recognized 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.

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

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.

Financial liability

The financial liabilities of the Company consist of retakaful/reinsurance and takaful payables and other liabilities and provisions. These financial liabilities are initially recognized at fair value and are subsequently remeasured at amortised cost using the effective profit rate method.

Retakaful/reinsurance and takaful payables

Retakaful/reinsurance balances payable are primarily contributions payable for retakaful/reinsurance contracts and are recognized as an expense when due.

Liability adequacy tests are performed at each statement of financial position date to ensure the adequacy of the takaful liabilities using current best estimates of future contractual cash flows under takaful contracts. Any deficiency is immediately charged to the statement of income by establishing a provision for losses arising from liability adequacy tests.

Provisions

A provision is recognized 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.

Other liabilities and accruals

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

Notes to the financial statements

for the financial year ended 31st December 2014

2. Summary of significant accounting policies (continued)

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 recognized when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date. These accruals are included in current liabilities, while that relating to end of service benefits is disclosed as a liability.

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

Bonus is being paid on annual basis and accounting for bonus is been carried out based on actual payment basis.

Leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight-line basis over the year of the lease. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's ordinary shares are classified as equity instruments.

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.

Other income

Other income is accounted for on the accruals basis, unless collectability is in doubt.

Earnings prohibited by Sharia'a

The Company is committed to avoid recognizing any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Company uses these funds for charitable purposes.

Deferred policy acquisition cost

The costs attributable to the acquisition of new business and renewing existing contracts are capitalised as an intangible asset under deferred policy acquisition cost. All other costs are recognized as expenses when incurred. The expense is subsequently amortised over the life of the contracts as contribution is earned.

Dividends distribution

Dividends to the Company's shareholders is recognized as a liability in the year in which the dividends are approved by the Company's shareholders. In the case of interim dividends to equity shareholders, this is when declared by the directors. In the case of final dividends, this is when approved by the shareholders at the Annual General Meeting.

Directors' remuneration

The board of directors' remuneration is accrued within the limits specified by the Capital Market Authority and the requirements of the Commercial Companies Law of the Sultanate of Oman.

Notes to the financial statements

for the financial year ended 31st December 2014

2. Summary of significant accounting policies (continued)

General and administrative expenses

The expenses incurred in the normal course of business are recorded under general and administrative expenses. Of these expenses, the amounts incurred to operate and service the investment department are allocated and shown separately as "investment related allocated costs". General and administrative expenses which are allocated to the investment department include staff costs of the investment department, executive management, and the support service departments, depreciation, rent and utilities, IT expenses, communication, board expenses, business travel and others.

Income tax

Income tax on for the year comprises current and deferred tax. Current tax and deferred tax are recognized in the profit or loss except to the extent that it relates to a business combination, or items recognized 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 realization 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 recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Operating segment

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance.

3. Critical accounting estimates and judgments

In the process of applying the Company's accounting policies, which are described in Note 2, management has made judgements that have the most significant effect on the amounts recognized in the financial statements and applied certain assumptions, and other key sources of estimation uncertainty at the reporting date as discussed below

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the year in which the estimates are revised and in any future year 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 Investment at fair value through equity

The Company follows the guidance of IAS 39 to determine when an investment at fair value through equity is impaired. This determination requires significant judgements. In making this judgements, 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.

Notes to the financial statements

for the financial year ended 31st December 2014

3. Critical accounting estimates and judgments (continued)

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below :

a. 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 takaful claims provisions are not discounted for the time value of money.

b. Impairment of receivables

An estimate of the collectible amount of takaful and other receivables is made when collection of the full amount is no longer probable. This determination of whether these takaful and other receivables are impaired entails the Company evaluating, the credit and liquidity position of the policy holders and the takaful 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 recognized as an expense in the statement participants' revenue and expenses. Any difference between the amounts actually collected in the future years and the amounts expected will be recognized in the statement participants' revenue and expenses at the time of collection.

4. Cash and bank balances

	2014 RO	2013 RO
Cash and bank balances		
Cash and bank balances	1,910,842	8,160,102
Cash balances with investment managers	591,487	1,381,538
	<u>2,502,329</u>	<u>9,541,640</u>

5. Bank deposits

	2014 RO	2013 RO
Bank deposits		
Bank deposits with maturity of less than three months from the date of placement	142,679	22,341
Bank deposits with maturity of more than three months from the date of placement	6,306,975	6,307,552
	<u>6,449,654</u>	<u>6,329,893</u>

Notes to the financial statements

for the financial year ended 31st December 2014

5. Bank deposits (continued)

Bank deposits amounting to RO 51,975 (2013 - RO 52,552) are denominated in foreign currencies. Bank deposits carry profit rates in range of 1.20% to 2.50% per annum (2013 - RO 1.00% to 2.10% per annum).

Bank deposit amounting to RO 263,589 (2013 - nil) is allocated for payment to be made to retakaful/reinsurance reserve.

Restrictions on transfer of assets

In accordance with the law governing the operation of insurance companies within the Sultanate of Oman, the Company identified certain specific bank deposits with carrying value of RO 6,105,000 (2013 - RO 6,105,000) to the CMA. The Company can only transfer these assets with the prior approval of the Capital Market Authority.

6. Investments carried at fair value through profit or loss

Investments held for trading

	Fair value 2014 RO	Cost 2014 RO	Fair value 2013 RO	Cost 2013 RO
Service sector	2,959,186	2,917,495	1,892,295	1,600,623
Industrial sector	2,277,067	2,516,621	1,996,066	1,541,754
Financial sector	200,886	225,174	68,860	68,427
	<u>5,437,139</u>	<u>5,659,290</u>	<u>3,957,221</u>	<u>3,210,804</u>

The above investments are local and foreign quoted investments.

6. Investments carried at fair value through profit or loss

The cost and fair value of the foreign investments at the year-end as follows:

	2014 Fair value RO	2014 Cost RO	2013 Fair value RO	2013 Cost RO
Foreign investments	1,745,889	1,764,437	224,795	196,938

Restrictions on transfer of assets

In accordance with the law governing the operation of insurance companies within the Sultanate of Oman, the Company identified certain specific investments with the carrying value of RO 900,280 (2013 - RO 2,212,642) to the Capital Market Authority. The Company can only transfer these assets with the prior approval of the Capital Market Authority.

Notes to the financial statements

for the financial year ended 31st December 2014

7. Takaful and retakaful/reinsurance contract receivables

	2014 RO	2013 RO
Takaful receivable	7,323,452	6,413,300
Retakaful / reinsurance balances receivable	<u>1,213,734</u>	1,057,514
Gross receivables	8,537,186	7,470,814
Less: provision for impairment of receivables	<u>(351,381)</u>	(328,821)
	<u>8,185,805</u>	<u>7,141,993</u>
Not due	5,134,396	3,163,068
Past due but not impaired:		
Above 121 days	3,051,409	3,978,925
Past due and impaired:		
Above 121 days	<u>351,381</u>	328,821
	<u>8,537,186</u>	<u>7,470,814</u>

The normal credit period allowed to takaful debtors and retakaful/reinsurance companies is 120 days, after which amounts are considered as past due. As at 31 December 2014, past due receivables above 121 days of RO 3,051,409 (31 December 2013 - RO 3,978,925) 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 takaful business and with which there is no recent history of default.

At 31 December 2014, takaful debtors of RO 351,381 (31 December 2013 - RO 328,821) were impaired and provided for fully.

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

	2014 RO	2013 RO
At the beginning of the year	328,821	328,821
Provision made during the year	<u>22,560</u>	-
At the end of the year	<u>351,381</u>	<u>328,821</u>

Notes to the financial statements

for the financial year ended 31st December 2014

8. Receivable from shareholders' and payable to shareholders'

Receivable from participants includes due from General takaful and Family takaful policyholders' on account of wakala fees, mudarib share and inter-entity balances.

9. Outstanding claims and unearned contributions reserve

	2014 Retakaful /			2013		
	Gross RO	reinsurance RO	Net RO	Gross RO	Reinsurance RO	Net RO
General Takaful						
Claims outstanding	6,174,352	(3,520,609)	2,653,743	5,070,525	(2,796,933)	2,273,592
Claims incurred but not reported	<u>271,505</u>	<u>(172,105)</u>	<u>99,400</u>	237,992	(138,560)	99,432
	6,445,857	(3,692,714)	2,753,143	5,308,517	(2,935,493)	2,373,024
Unearned contributions reserve	<u>9,710,946</u>	<u>(4,103,195)</u>	<u>5,607,751</u>	7,559,776	(3,867,521)	3,692,255
	<u>16,156,803</u>	<u>(7,795,909)</u>	<u>8,360,894</u>	<u>12,868,293</u>	<u>(6,803,014)</u>	<u>6,065,279</u>
Family Takaful						
Claims outstanding	277,121	(236,016)	41,105	386,607	(336,641)	49,966
Claims incurred but not reported	<u>1,183,638</u>	<u>(1,082,661)</u>	<u>100,977</u>	535,067	(482,255)	52,812
	1,460,759	(1,318,677)	142,082	921,674	(818,896)	102,778
Unearned contributions reserve	<u>361,224</u>	<u>(225,700)</u>	<u>135,524</u>	252,163	(165,020)	87,143
	<u>1,821,983</u>	<u>(1,544,377)</u>	<u>277,606</u>	<u>1,173,837</u>	<u>(983,916)</u>	<u>189,921</u>
	<u>17,978,786</u>	<u>9,340,286</u>	<u>8,638,500</u>	<u>14,042,130</u>	<u>(7,786,930)</u>	<u>6,255,200</u>

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

Notes to the financial statements

for the financial year ended 31st December 2014

10. Deferred policy acquisition cost

2014	General	Life	Total
	business	business	
	RO	RO	RO
Deferred policy acquisition cost	817,760	41,820	859,580
2013			
Deferred policy acquisition cost	556,145	34,754	590,899
Movement in deferred policy acquisition cost			
		2014	2013
		RO	RO
At the beginning of the year		590,899	535,628
Cost incurred during the year		1,910,174	1,313,110
Amortised during the year		(1,641,493)	(1,257,839)
At end of the year		859,580	590,899

11. Investments at fair value through equity

2014	% of overall portfolio	Basis of valuation	Number of securities	Cost / fair value
		RO	RO	RO
Investment from shareholders' fund				
<u>Investment in equity</u>				
Omani Unified Bureau for the Orange Card SAOC	10	Fair value	71,428	200,141
National Mass Housing	8	Fair value	150,000	172,200
Shazah Hotel, Muscat	5	Fair value	100,000	108,900
National Takaful Company (Watania)	76	Fair value	14,303,596	1,547,077
<u>Investment in unit</u>				
U.S. Residential Condominium Fund II	1	Cost	1,750	14,129
	100			2,042,447

Notes to the financial statements

for the financial year ended 31st December 2014

11. Investments at fair value through equity (continued)

2013	% of overall portfolio	Basis of valuation	Number of securities	Cost / fair value
		RO	RO	RO
Investment from shareholders' fund				
<u>Investment in equity:</u>				
Omani Unified Bureau for the Orange Card SAOC	28	Fair value	71,428	177,856
National Mass Housing	26	Cost	150,000	160,950
Shazah Hotel, Muscat	17	Cost	100,000	106,200
<u>Investment in units:</u>				
Tilal Fund	27	Fair value	154,687	170,310
U.S. Residential Condominium Fund II	2	Cost	1,750	14,129
	100			629,445

In the current year, the Company has purchased of 9.53% shareholding in National Takaful Company (Watania) for a total consideration of RO 1,890,206. Currently the percentage of this investment in relation to overall investments of the Company is 6.79% which exceeds the limit prescribed by Regulations for Investing Assets for Insurance Companies issued by CMA. As per the Regulation, investments in any one listed company should not exceed 5% of the total investments of the insurer. The Company has obtained approval from CMA to purchase this investment with the condition that total investments by end of the year will be adjusted to comply as per the Regulation.

Movement in investments at fair value through equity

	2014	2013
	RO	RO
At the beginning of the year	629,445	1,162,924
Purchases	1,890,207	-
Net change in fair value	(334,471)	12,087
Redemption of investment	(154,688)	(464,064)
Realized profit/(loss) on redemption of investment	11,954	(68,681)
Impairment loss on investment	-	(12,821)
At the end of the year	2,042,447	629,445

Included in investments at fair value through equity are unquoted local and foreign investments that are carried at fair value / cost and comprise amounts invested in certain real estate funds. On 31 March 2014, the units in Tilal Fund were redeemed in full.

Notes to the financial statements

for the financial year ended 31st December 2014

11. Investments at fair value through equity (continued)

Movement in investments fair value reserve:

	2014 RO	2013 RO
At the beginning of the year	141,154	233,609
Add/(less) movement for the year		
Reversal of investment of fair value reserve of during the year	(27,576)	
Movement of investment fair value adjustment at the end of the year	(306,767)	(92,327)
Total movement for the year	(334,471)	(92,327)
At the end of the year	(193,189)	141,282

12. Instruments carried at amortised cost

The Company has invested in sukuks listed in the local and international markets. The Company has a positive intention and ability to hold sukuks until their maturity in October 2018 and November 2018, respectively.

The effective average rate of return on these investments at 31 December 2014 is 4.98% per annum (31 December 2013 - 4.91% per annum) with coupon receipts on a semi-annual basis for both the sukuks.

	2014 RO	2013 RO
At the beginning of the year	1,754,112	254,366
Purchased during the year	1,015,161	1,503,000
Amortized during the year	(6,837)	(3,254)
At the end of the year	2,762,436	1,754,112

The fair value of local and foreign sukuks as at 31 December 2014 is of RO 2,762,906.

Restrictions on transfer of assets

In accordance with the law governing the operation of insurance companies within the Sultanate of Oman, the Company identified 25,000 units (2013-10,000 units) with the carrying value of RO 2,515,205 (2013-RO 1,001,927) to the Capital Market Authority. The Company can only transfer these assets with the prior approval of the CMA.

Notes to the financial statements

for the financial year ended 31st December 2014

13. Taxation

	2014 RO	2013 RO
Deferred tax charge / (income):		
- Prior year	(11,333)	(543,888)
- Current year	221,581	59,527
	210,248	(484,361)

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.

b. Current status of tax assessments

The Company's income tax assessments for the years 2006 to 2009 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 2014.

c. Deferred tax

Deferred tax arises on account of temporary difference between the tax base of assets, liabilities and losses and their carrying values on the statement of financial position.

2014	At 1 January RO	Credited to profit or loss RO	At 31 December RO
<u>Taxable temporary difference arising on:</u>			
Depreciation on property and equipment	8,536	(1,378)	7,158
Investment real estate	(12,480)	(21,204)	(33,684)
Unrealized income on investments	3,322	(27,296)	(23,974)
Deferred tax liability	(622)	(49,878)	(50,500)
<u>Deductible temporary difference arising on:</u>			
Provision for doubtful accounts	39,459	2,707	42,166
Tax losses	445,524	(163,077)	282,447
Deferred tax assets	484,983	(160,370)	324,906
Net deferred tax assets	484,361	(210,248)	271,405

Notes to the financial statements

for the financial year ended 31st December 2014

13. Taxation (continued)

Deferred tax (continued)

2013	At 1 January RO	Credited to profit or loss RO	At 31 December RO
<u>Taxable temporary difference arising on:</u>			
Depreciation on property and equipment	-	8,536	8,536
Investment in real estate	-	(12,480)	(12,480)
Unrealized income on investments	-	3,322	3,322
Deferred tax liability	-	(622)	(622)
<u>Deductible temporary difference arising on:</u>			
Provision for doubtful accounts	-	39,459	39,459
Tax losses	-	445,524	445,524
Deferred tax assets	-	484,983	484,983
Net deferred tax assets	-	484,361	484,361

d. Reconciliation of tax and accounting profit

The reconciliation of taxation and accounting profit for the year at 12% (2013: 12%) after basic exemption limit of RO 30,000 and taxation charge in the financial statements is as follows:

	2014 RO	2013 RO
Tax on accounting profit	122,090	219,665
Add / (less) tax effect of:		
Recognition of previously unrecognized deferred taxes	-	(543,506)
Prior year deferred tax	(11,333)	-
Adjustment in deferred tax - current year	221,581	-
Tax exempt revenue	(33,521)	(175,269)
Tax on disallowed expenses	1,276	11,141
Others	(89,845)	3,608
	<u>210,248</u>	<u>(484,361)</u>

Notes to the financial statements

for the financial year ended 31st December 2014

14. Investment in real estate

Movement of carrying amounts of investment in real estate:

	2014 RO	2013 RO
At the beginning of the year	2,600,000	2,600,000
Addition during the year	<u>3,635,111</u>	-
At the end of the year	<u>6,235,111</u>	<u>2,600,000</u>

The Company has purchased a real estate investment on 29 June 2014, a commercial property located in Al Khuwair which is currently leased out to Ministry of Health. Total cost of the investment property purchase in 2014 is RO 3,135,111, which approximates its fair value at 31 December 2014.

The Company has property in Al Hail costing of RO 2,600,000 which has been valued on 17 July 2013 by an independent valuer on an open market basis at RO 2,600,000 (level 2 – fair values), which approximates its fair value at 31 December 2014.

The investment property includes investment into a land located at Al Hail as an investor under agreement with Al Madina Investment Company SAOG for the purchase of investment property of RO 500,000.

As of 31 December 2014, the Company has investment in investment real estate of RO 6,235,111 which is 27% of overall investments of the Company, which exceeds the limit prescribed by Regulations for Investing Assets for Insurance Companies issued by CMA. As per the Regulation, investments in real estate should not exceed 20% of the total investments of the insurer. The Company has obtained approval from CMA to purchase this investment with the condition that total investments by end of the year will be adjusted to comply as per the Regulation.

Notes to the financial statements

for the financial year ended 31st December 2014

15. Property and equipment

	Office building RO	Leasehold improvements RO	Office furniture and equipment RO	Motor vehicles RO	Capital work-in-progress RO	Total RO
Cost						
At 1 January 2013	-	38,726	691,577	39,427	552,699	1,322,429
Additions	-	11,580	116,097	10,000	121,057	258,734
Transfers from capital work-in-progress	665,859	-	-	-	(665,859)	-
At 1 January 2014	665,859	50,306	807,674	49,427	7,897	1,581,163
Additions	38,492	-	155,867	28,500	-	222,859
Disposals	-	-	(13,707)	(30,300)	-	(44,007)
At 31 December 2014	704,351	50,306	949,834	47,627	7,897	1,760,015
Accumulated depreciation						
At 1 January 2013	-	7,944	501,572	26,177	-	535,693
Charge for the year	-	11,525	119,184	1,999	-	132,708
At 1 January 2014	-	19,469	620,756	28,176	-	668,401
Disposals	-	-	(11,719)	(30,300)	-	(42,019)
Charge for the year	26,749	20,696	116,178	22,923	-	186,546
At 31 December 2014	26,749	40,165	725,215	20,799	-	812,928
Carrying value						
At 31 December 2014	677,602	10,141	224,619	26,828	7,897	947,087
At 31 December 2013	665,859	30,837	186,918	21,251	7,897	912,762

Notes to the financial statements

for the financial year ended 31st December 2014

16. Share capital

	2014 RO	2013 RO
Authorised - shares of RO 0.1 each	25,000,000	25,000,000
Issued and fully paid - shares of RO 0.1 each	17,500,000	16,666,667

The shareholders through a special resolution converted the Company from 'closed joint stock company' to 'public joint stock company'. During December 2013, the Company also offered 66,666,670 shares through the initial public offering. The offer price was at RO 0.140 per share, comprising of RO 0.100 as face value, RO 0.038 as share premium and RO 0.002 towards issue expenses.

The Board of Directors on 5 March 2014 recommended the distribution of 8,333,330 free shares from the share premium which is equivalent to RO 833,333 or 5% of the issued share capital of RO 16,666,667. The free shares would equate to 5 shares for every 100 shares held.

Movement in the number of shares issued and fully paid up is as below:

	2014 RO	2013 RO
At the beginning of the year	166,666,670	100,000,000
Free shares	8,333,330	-
Initial public offering	-	66,666,670
At the end of the year	175,000,000	166,666,670

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	Number of shares	% of holding	Number of shares
		2014		2013
Mohammed Al Barwani Holding Company LLC	25.86	45,250,001	26	43,095,240

17. 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.

18. Contingency reserve

In accordance with Article 10(bis) (2)(c) and 10(bis) (3)(b) of Regulations for Implementing Insurance Companies Law (Ministerial Order 5/80), as amended, 10% of the net outstanding claims in case of the general insurance business and 1% of the life assurance contributions for the year for life insurance business at the reporting date is transferred from retained earnings to a contingency reserve. The Company may discontinue this transfer when the reserve equals to the issued share capital. No dividend shall be declared in any year until the deficit in the reserve is covered from the retained profits. The reserves shall not be used except by prior approval of the Capital Market Authority.

Notes to the financial statements

for the financial year ended 31st December 2014

18. Contingency reserve (continued)

The movement in contingency reserve is the catch up amount for the reserve that should have been recognized from 31 December 2007 to 31 December 2014. No amounts were recognized in the previous year in view of the accumulated losses in those years. The above regulation requires such deficit in reserve to be made up in the year when there are available retained earnings.

CMA has issued the Draft Takaful Law, however, the detailed rules and regulations are not available for the calculation of the Contingency reserve for Takaful Business operations. Accordingly, no transfer for contingency reserves has been recorded in these financial statements. Management understands that once the basis the rules and regulations are framed by CMA the Contingency / Takaful reserve will be recorded in the financial statements in accordance with the rules and regulations.

19. End of service benefits

	2014 RO	2013 RO
At the beginning of the year	146,930	85,531
Accrued during the year	46,783	69,180
Payments during the year	1,617	(7,781)
At the end of the year	192,096	146,930

20. Unearned retakaful/reinsurance commission

2014	General takaful RO	Family takaful RO	Total RO
Unearned retakaful/reinsurance commission	375,848	2,955	378,803
2013			
Unearned retakaful/reinsurance commission	288,069	-	288,069

Movement in unearned retakaful/reinsurance commission

	2014 RO	2013 RO
At the beginning of the year	288,069	401,890
Commission received during the year	841,788	640,152
Amortised during the year	(751,054)	(753,973)
At the end of the year	378,803	288,069

Notes to the financial statements

for the financial year ended 31st December 2014

21. Accounts and other payables

	2014 RO	2013 RO
Accounts payable	857,443	900,801
Government tax payable	336,027	255,251
Amounts due to a related party [note 32 (b)]	97,441	97,441
Premium received in advance	48,863	90,444
Provision for leave salary	69,046	86,666
Accrued expenses	104,024	111,550
Other payables	447,891	216,307
	1,960,735	1,758,460

22. Takaful revenue / insurance income

Gross contributions	23,114,554	17,697,698
Movement in unearned contributions reserve	(2,260,231)	(213,648)
Contributions before retakaful/reinsurance, net	20,854,323	17,484,050
Contributions ceded to retakaful/reinsurance, Movement in unearned contributions reserve	(10,216,934)	(9,193,787)
	296,354	(300,911)
Contributions ceded to retakaful/reinsurance, net	(9,920,580)	(9,494,698)
Net contributions earned	10,933,743	7,989,352
Commission received on business ceded to retakaful/reinsurance	841,788	640,152
Commissions paid	(1,910,180)	(1,313,110)
Movement in unearned commission reserve	177,947	169,092
Net commission expense	(890,445)	(503,866)
Takaful policy expenses (technical)	(56,957)	(14,234)
Policy fee and other takaful/insurance related income	421,371	180,718
Total takaful revenue	10,407,712	7,651,972

Notes to the financial statements

for the financial year ended 31st December 2014

23. Takaful / insurance revenue analysis

	2014		2013	
	Net contributions RO	Contributions revenue before retakaful/reinsurance RO	Net contributions RO	Contributions revenue before reinsurance RO
Motor	8,506,371	10,067,690	6,572,087	7,264,054
Fire, general accidents, engineering and others	981,546	7,908,468	676,328	7,434,499
Marine cargo and hull	80,066	1,080,551	110,649	1,134,944
Medical	978,188	2,523,170	265,373	966,006
Life	387,572	1,534,675	364,915	898,195
	10,933,743	23,114,554	7,989,352	17,697,698

Contributions revenue before retakaful/reinsurance is calculated as the sum of gross contributions and adjustment for unearned contributions reserve thereon, gross claims incurred, commission expense and adjustment for deferred commission expense thereon and policy fee and other income.

24. Net claims incurred

	2014			2013		
	Gross RO	Retakaful/reinsurance 'share RO	Net RO	Gross RO	Reinsurance 'share RO	Net RO
Claims outstanding	6,451,473	(3,756,625)	2,694,848	5,457,132	(3,133,574)	2,323,558
IBNR	1,455,143	(1,254,766)	200,377	773,059	(620,815)	152,244
Outstanding at end of the year	7,906,616	(5,011,391)	2,895,225	6,230,191	(3,754,389)	2,475,802
Takaful claims paid during the year	8,232,525	(2,419,204)	5,813,321	6,800,901	(1,851,015)	4,949,886
Claims outstanding	5,457,132	(3,133,574)	2,323,558	4,409,420	(1,601,800)	2,807,620
IBNR	773,059	(620,815)	152,244	186,824	(78,411)	108,413
Outstanding at beginning of the year	6,230,191	(3,754,389)	2,475,802	4,596,244	(1,680,211)	2,916,033
Claims incurred	9,908,950	(3,676,206)	6,232,744	8,434,848	(3,925,193)	4,509,655

Notes to the financial statements

for the financial year ended 31st December 2014

24. Net claims incurred (continued)

The net claims ratios are as follows:

	2014 %	2013 %
Motor	62	61
Fire, general accidents, engineering and others	4	17
Marine cargo and hull	5	11
Medical	64	74
Life	50	49

The net claims ratio is calculated by dividing the net incurred claims (gross claims less retakaful/reinsurance and other recoveries) by the net contributions earned (gross contributions less contributions ceded and adjustment for unearned contributions reserve).

25. Investment income (net)

	2014 RO	2013 RO
Net unrealised gain / (loss) on investments carried at fair value through profit or loss	(222,231)	746,417
Net realised gain / (loss) on investments at fair value through equity	207,878	399,496
Realised gain / (loss) on redemption of investments at fair value through equity - net	-	35,733
Income from investments carried at cost	137,455	25,394
Income on bank deposits	118,251	99,450
Rental income from investment in real estate	388,000	208,000
Dividend income	210,490	272,146
Investment management cost	(63,737)	(92,051)
	776,106	1,694,585

Investment income allocated to participant and shareholder is as follows:

Participants' share	83,265	-
Shareholders' share	692,841	1,694,585
	776,106	1,694,585

Participants' share of investment income relates to income on bank deposits and is the allocated based on respective bank deposits.

Notes to the financial statements

for the financial year ended 31st December 2014

26. General and administrative expenses

	2014	2013
	RO	RO
Staff costs	2,575,768	1,960,675
Takaful expenses	14,067	136,048
Professional charges	154,351	120,415
Depreciation	186,547	132,708
Rent and utilities	196,028	125,311
IT expenses	112,598	95,180
Communication	98,459	69,713
Board expenses	87,224	53,400
Business travel	59,821	39,462
Public relation expenses	129,979	36,375
Charges towards purification	847	-
Miscellaneous expenses	91,347	222,040
	<u>3,707,036</u>	<u>2,991,327</u>

27. Wakala fees and mudharaba share

The shareholders manage the General and Family Takaful operations for the participants and charge 18% and 18% respectively of gross contributions as a Wakala fee. The shareholders also manage the participants fund as a Mudharab and charge 75% and 75% of the General Takaful and Family Takaful investment income earned by the participants' investment funds, respectively. The maximum chargeable Wakala fee and Mudharaba share as approved by the Sharia Supervisory Board, are 20% and 75% respectively.

28. Sharia supervisory board

The Company business activities are subject to the supervision of a Sharia supervisory Board consisting of four members appointed by the Board of Directors. The Sharia Supervisory Board performs a supervisory role in order to determine whether the operations of the Company are conducted in accordance with Islamic Sharia rules and principles.

29. Takaful reserve

Sharia Board of the Company has formulated a policy for the Takaful Reserve. As per the policy in one year maximum of 50% of the Takaful Surplus for the year can be transferred to the Takaful Reserve until such balance equals the share capital. During the year the Company has not transferred any amount from Takaful Surplus to Takaful Reserve.

Notes to the financial statements

for the financial year ended 31st December 2014

30. Earnings per share and net assets per share

	2014	2013
	RO	RO
Profit for the year	<u>1,016,568</u>	2,344,901
Weighted average number of shares outstanding during the year	<u>172,123,289</u>	104,018,265
Earning per share	0.006	0.023
Net assets	<u>20,946,004</u>	21,096,393
Number of shares at the reporting date	<u>175,000,000</u>	166,666,670
Net assets per share	<u>0.120</u>	0.127

Basic earnings per share is calculated by dividing the profit 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.

31. Cash and cash equivalents

	2014	2013
	RO	RO
Cash and bank balances		
Cash and bank balances	1,910,842	8,160,102
Cash balances with investment managers	<u>591,487</u>	1,381,538
	2,502,329	9,541,640
Bank deposits		
Bank deposits with maturity of less than three months from the date of placement	<u>142,679</u>	22,341
	<u>2,645,008</u>	<u>9,563,981</u>

Notes to the financial statements

for the financial year ended 31st December 2014

32. Related parties

These represent transactions with related parties, i.e. parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions and directors of the Company and companies of which they are key management personnel. Related parties comprise the shareholders, directors, key management personnel and business entities in which they are interested or 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 arm's 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 participants' revenue and expenses and statement of profit or loss and comprehensive income are as follows:

	2014	2013
	RO	RO
Premium	2,692,016	2,374,024
Retakaful/reinsurance premium	69,248	72,764
Claims	415,860	602,764
Retakaful/reinsurance claims	15,975	32,703
Board sitting fees	63,900	53,400
Rental income	208,000	208,000
Sharia committee fee	25,000	33,000

b. Balances with related parties

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:

	2014	2013
	RO	RO
Equity type instruments carried at fair value through equity investments		
Tilal fund	-	170,310
Takaful and retakaful/reinsurance contract receivables		
Premium balances receivables from other related parties	263,243	272,381
Net claim recoverable from related parties	2,954	6,442
Investment receivables		
Rental income receivable	104,000	104,000
Accounts and other payables		
Tilal Development Company SAOC	97,441	97,441

Notes to the financial statements

for the financial year ended 31st December 2014

32. Related parties (continued)

Balances with related parties (continued)

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. For the year ended 31 December 2014, the Company has not established any provision for doubtful debts relating to amounts owed by related parties as the payment history has been good (2013: same terms and conditions). This assessment 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 income free and payable on demand.

Compensation of key management personnel of the Company:

Compensation of key management personnel of the Company, consisting of salaries and benefits, was as follows:

	2014	2013
	RO	RO
Short-term benefits	468,568	511,711
Employee end of service benefits	20,407	21,014
	506,975	532,725

33. Contingencies

Contingent liabilities

At 31 December 2014, the Company had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business amounts to RO 142,679(31 December 2013 - RO 22,084).

Capital Commitment

At 31 December 2014, the Company had capital commitment in respect of design and interior fit-out work at head office of RO 109,500. (31 December 2013 - nil).

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.

34. Segment information

Business segments – Primary reporting segment

The Company has two reportable business segments, as described below, which are the Company's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic units, the Company's CEO reviews internal management reports on at least a quarterly basis.

Notes to the financial statements

for the financial year ended 31st December 2014

34. Segment information (continued)

Operating segments

The Company has the following operating segments:

General takaful

General business includes takaful and retakaful/reinsurance of motor; fire and general accident; and marine cargo and hull.

Family takaful

Family business relates to the takaful of the life of an individual.

Operating segments

	General	Family	Total
2014	takaful	takaful	Total
	RO	RO	RO
Takaful revenue (net of retakaful/reinsurance)	10,106,529	301,183	10,407,712
Takaful expenses (net of retakaful/reinsurance)	(6,062,716)	(192,588)	(6,255,304)
Segment results	4,043,813	108,595	4,152,408
Investment income	81,277	1,988	83,265
Mudarib share	(67,608)	(1,491)	(69,099)
Wakala fees	(3,884,378)	(276,242)	(4,160,620)
Surplus/(deficit)for the year	173,104	(167,150)	5,954
Segment assets	22,169,651	3,120,197	25,289,848
Assets allocated to shareholders'			21,534,599
Total assets			46,824,447
Segment liabilities	22,169,651	3,120,197	25,289,848
Liabilities allocated to shareholders'			21,534,599
Total liabilities			46,824,447

Notes to the financial statements

for the financial year ended 31st December 2014

34. Segment information (continued)

Operating segments (continued)

	General	Family	Total
2013	insurance	insurance	Total
	RO	RO	RO
Insurance revenue (net of reinsurance)	7,804,994	365,076	8,170,070
Insurance expenses (net of reinsurance)	(4,803,177)	(224,576)	(5,027,753)
Segment results	3,001,817	140,500	3,142,317
Segment expenses	(2,840,953)	(149,515)	(2,990,468)
Investment income	1,692,968	1,617	1,694,585
Allocated other income	14,106	-	14,106
Segment profit for the year	1,867,938	(7,398)	1,860,540
Unallocated income from deferred tax			484,361
Profit for the year			2,344,901
Segment assets	29,799,652	1,656,972	31,456,624
Unallocated assets			10,728,699
Total assets			42,185,323
Segment liabilities	18,996,945	1,408,709	20,405,654
Unallocated liabilities			683,276
Total liabilities			21,088,930

The activities of the Company are restricted to carrying out takaful, on the principles of Sharia'a significant portion of which is concentrated in the GCC countries which are subject to similar risks and rewards. Accordingly, no segmental information relating to products and services has been presented.

Geographical segments – secondary reporting segment

The Company has one geographical segment as all their operations are carried inside the Sultanate of Oman.

Notes to the financial statements

for the financial year ended 31st December 2014

35. Risk management

Governance framework

The primary objective of the Company's risk and financial management framework is to protect the Company's participants and 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.

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 takaful companies to meet unforeseen liabilities as these arise.

Takaful risk

The principal risk the Company faces under takaful 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 takaful risk through the careful selection and implementation of its underwriting strategy guidelines together with the adequate retakaful/reinsurance arrangements and proactive claims handling.

The concentration of takaful 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, and amount of risk, industry and geography. Underwriting limits are in place to enforce risk selection criteria.

The Company principally issues general takaful contracts which constitutes mainly motor, marine and aviation and fire and general risks as well as life and medical takaful 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 retakaful/reinsurance purposes. Such retakaful/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 retakaful/reinsurance is effected under treaty, facultative and excess-of-loss retakaful/reinsurance contracts.

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

To minimize its exposure to significant losses from retakaful/reinsurance company insolvencies, the Company evaluates the financial condition of its retakaful/reinsurance companies and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the retakaful/reinsurance companies.

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

Notes to the financial statements

for the financial year ended 31st December 2014

35. Risk management (continued)

Takaful risk (continued)

The Company's placement of retakaful/reinsurance is diversified such that it is neither dependent on a single retakaful/reinsurance company nor are the operations of the Company substantially dependent upon any single retakaful/reinsurance contract.

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

The Company's premium retention levels are shown below:

	2014	2013
	%	%
Motor	96	97
Fire, general accident, engineering and others	15	10
Marine cargo and hull	6	8
Medical	59	36
Life	28	33

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 takaful 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 delays in settlement and changes in foreign currency rates.

Notes to the financial statements

for the financial year ended 31st December 2014

35. Risk management (continued)

Sensitivities

The general takaful 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.

2014	Change in assumptions	Impact on liabilities RO	Impact on Underwriting results RO
Net incurred claims	+10%	623,274	(623,274)
	-10%	(623,274)	623,274
2013			
Net incurred claims	+10%	450,965	(450,965)
	-10%	(450,965)	450,965

Claims development

The Company maintains strong reserves in respect of its takaful 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.

Financial risks

The Company's principal financial instruments are receivables arising from takaful and retakaful/reinsurance contracts, listed and unlisted investments, cash and cash equivalents and bank deposits. The main risks arising from the Company's financial instruments are:

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 retakaful/reinsurance contracts and other receivables, represent 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.

Notes to the financial statements

for the financial year ended 31st December 2014

35. Risk management (continued)

Credit risk (continued)

The maximum credit exposure to credit risk at the reporting date by type was shown as below:

	2014 RO	2013 RO
Cash and bank balances	2,490,089	9,524,651
Bank deposits	6,449,654	6,329,893
Takaful and retakaful/reinsurance balance receivable	8,185,805	7,141,993
Receivable from participants	806,737	-
Other receivables and takaful assets	981,723	456,067
Investments in investments carried at amortized cost	2,762,436	1,754,112
	21,676,444	25,206,716

The Company's bank balances and sukuk investments are maintained with a range of international and local banks in accordance with limits set by the board of directors. For banks and financial institutions, banks with better ratings are accepted.

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

	2014 RO	2013 RO
P1	3,811,686	1,635,574
P2	4,424,208	12,805,733
Unrated	703,850	1,413,238
	8,939,744	15,854,545

Takaful receivables comprise a number of customers within Oman and local and foreign retakaful/reinsurance companies. The 5 largest retakaful/reinsurance companies account for 78% of the credit exposure at 31 December 2014 (31 December 2013 - 77%). The Company monitors these receivables on a regular basis. Most of the credit customers and retakaful/reinsurance companies 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 annually and the adequacy of the provision for impairment is also assessed. With respect to retakaful/reinsurance companies, as per Company policy of managing takaful risk, such contracts are placed only with internationally reputed well rated retakaful/reinsurance companies.

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

Notes to the financial statements

for the financial year ended 31st December 2014

35. Risk management (continued)

Credit risk (continued)

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

	2014 RO	2013 RO
Oman	7,225,017	5,304,433
Middle east	774,355	446,643
Others	186,433	256,071
	<u>8,185,805</u>	<u>6,007,147</u>

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

	2014 RO	2013 RO
Brokers and agents	6,030,664	4,490,642
Individuals and corporate clients	1,122,240	627,912
Retakaful/reinsurance companies	1,032,901	888,593
	<u>8,185,805</u>	<u>6,007,147</u>

Ageing of the takaful and retakaful/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.

Debt type instruments carried at amortised cost investment is in Sukuk which are secured through underlying assets of the investee companies.

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.

Notes to the financial statements

for the financial year ended 31st December 2014

35. Risk management (continued)

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 one year RO	Total RO
2014		
Gross outstanding claims	7,906,616	7,906,616
Accounts and other payables	1,505,952	1,505,952
Retakaful/reinsurance payables	4,556,179	4,556,179
Payable to shareholders	806,737	806,737
	<u>14,775,484</u>	<u>14,775,484</u>

	Within one year RO	Total RO
2013		
Gross outstanding claims	6,230,191	6,230,191
Accounts and other payables	1,026,099	1,026,099
Retakaful/reinsurance payables	4,853,341	4,853,341
Payable to shareholders	-	-
	<u>12,109,631</u>	<u>12,109,631</u>

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange 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 optimizing the return on risk.

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 affect stock market movements.

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.

Notes to the financial statements

for the financial year ended 31st December 2014

35. Risk management (continued)

Foreign currency risk (continued)

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

	Amounts shown in RO			
	2014		2013	
	USD	Other currencies	USD	Other currencies
Cash and bank balances	325,091	-	161,414	-
Investments carried at fair value through profit or loss	-	1,745,889	-	244,795
Investments at fair value through equity	14,129	-	14,129	-
Bank deposits	51,975	-	52,552	-
Investments carried at amortized cost	247,468	-	251,213	-

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 2014, Rial Omani were to have strengthened or weakened by 1% 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 15,835 (2013- RO 2,448).

Profit rate risk

Profit 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 profit rate risk. Profit rate risk to the Company is the risk of changes in market profit rates reducing the overall return on its profit bearing securities. The Company limits profit rate risk by monitoring changes in profit rates.

	Change in assumptions	2014	2013
		RO	RO
Income from bank deposit and investments carried at amortized cost	+0.5%	46,060	40,420
	-0.5%	(46,060)	(40,420)

At the reporting date, the profit rates and maturity profile of the Company's profit bearing financial instruments was as follows:

The Company's profit rate risk based on contractual maturity at 31 December 2013 was as follows:

2014	Less than 1 year	Over 1 year	Total
	RO	RO	
Bank deposits	6,449,654	-	6,449,654
Investments carried at amortized cost	-	2,762,436	2,762,436
2013			
Bank deposits	6,329,893	-	6,329,893
Investments carried at amortized cost	-	1,754,112	1,754,112

Notes to the financial statements

for the financial year ended 31st December 2014

35. Risk management (continued)

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.

56% (2013 - 94%) 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 investments carried at fair value through profit or loss investments would have impact on profit/(loss) of approximately RO 543,714 (2013 - RO 395,722).

A 10% change in fair value of the Company's investments at fair value through equity would have impact on equity of approximately RO 204,245 (2013 - RO 34,817).

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.

2014	Level 1 RO	Level 2 RO	Level 3 RO	Total RO
Investments carried at cost through profit or loss	5,437,139	-	-	5,437,139
Investments at fair value through equity	1,547,077	200,141	-	1,747,218
	6,984,216	200,141	-	7,184,357

2013	Level 1 RO	Level 2 RO	Level 3 RO	Total RO
Investments carried at cost through profit or loss	3,957,221	-	-	3,957,221
Investments at fair value through equity	-	177,856	170,310	348,166
	3,957,221	177,856	170,310	4,305,387

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

Certain investments in equity instruments, classified as Equity type instruments carried at fair value through equity investments, are carried at cost. These investments do not have a quoted market price in an active market, range of reasonable fair value measurement is significant and probabilities of various estimates cannot be reasonably assessed.

Notes to the financial statements

for the financial year ended 31st December 2014

36. Capital risk 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.

CMA has issued the Draft Takaful Law which under final stages of approval. As and when any new regulations and instructions are issued by CMA regarding Takaful Business management will ensure that the solvency margin complies with such regulations.

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

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

The Company is also subject to the capital requirement imposed 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.

Takaful risk is also carefully managed as described in note 30 (c) to ensure that the Company underwrites risk commensurate to its capital base. The company has retakaful/reinsurance treaties and excess of loss covers to manage retention levels of the premium, thereby safeguarding the capital from any significant takaful risk exposure.

37. Earnings prohibited under Sharia'a

The Company have deposits and investments which are not complied with regulation of Sharia'a as at the reporting date. Management is in process to identify those assets which is not complied with Sharia'a regulation.

Earnings retained during the year from transactions which are not permitted under Sharia'a and are recorded as part of accounts and other payables amounted to RO 5,849. All non-Islamic income is credited to a charity account where the Company uses these funds for charitable purposes.

38. Comparative figures

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

39. Events after reporting date

No events have occurred subsequent to 31 December 2014 and before the date of the report that would have a significant effect on these financial statements.

40. Approval of financial statements

The financial statements were approved by the Board and authorized for issue on 23 February 2015.