



المدينة تكافل
Al Madina Takaful

Everything in harmony

ANNUAL REPORT 2017





المدينة تكافل
Al Madina Takaful

Al Madina Insurance Company SAOG
PO Box 80, PC 136, Muscat Grand Mall, Sultanate of Oman.

www.almadinatakaful.com



HIS MAJESTY SULTAN QABOOS BIN SAID





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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. Saleh Nasser Al Riyami
Director



Ms. Safana M. A. Al Barwani
Director



Mr. Ali Salim Al Kharusi
Director



Dr. Khalid Al Amri
Advisor to the Board

Shari'ah Supervisory Committee



Sheikh Dr. Abdul Sattar Abughuddah
Chairman Shari'ah Supervisory Committee



Sheikh Dr. Mohammad Daud Bakar
Vice Chairman Shari'ah
Supervisory Committee



Sheikh Abdul Sattar Al Kattan
Executive Member Shari'ah
Supervisory Committee



Sheikh Dr. Amin Fateh
Secretary Shari'ah Supervisory Committee



Executive Management



Mr. Usama Al Barwani
Chief Executive Officer



Mr. Ajay Srivastava
Chief Operating Officer



Mr. Shakaib Mahmood
Chief Financial Officer

Management Team



Mr. Hilal Salim Al Rashdi
Manager HRA - Services
- Board Secretary



Mr. Muamen Ali Ibrahim
Senior Manager - Legal



Mr. Ranganathan Chakrapani
Head - Business Strategy and
Life & Medical



Mr. Suresh Kumar
Senior Manager -
Motor Claims



Chairman's Report



Dear Shareholders,

Assalamu alaikum wa rahamatullahi wa Barakatuh!
(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 performance of the Company during the financial year 2017.

The global economy, particularly the GCC markets, continued to suffer due to the weak oil prices, although It showed some signs of corrections during the closing periods of the financial year. This naturally impacted Insurance spending and in turn put further pressure on prices and limiting potential for profit. However, your Company delivered a very impressive profit from insurance operations on the back of significantly improved underwriting income and drastically reduced Management expense.

The 2017 financial results delivered by your Company reflect our intent to deliver consistent surplus from Insurance operations so that the Policyholder's interest is safeguarded while we continue to reward our shareholders. The reduction in the Wakala fees charge from 20% during 2016 to 14% in the current financial year shows our resolve to reduce the deficit in the policyholders account in line with the recommendations of the Regulators and keeping in mind the best interest of the Company.

I am very pleased that the Company has maintained its Ba1 rating during the current year.

Operating Environment

Despite the tough economic environment and the pricing challenges prevailing in the insurance market, your company has achieved a Gross Written Premium of RO 29.91 million as against RO 27.19 million in 2016, your company has shown a growth of 10% over the year 2016 in both Gross as well as Net retained premiums.

Results from Operations

The company continues in its path of stable growth with strong reserves. This discipline has reflected in the Surplus from Takaful operations before Wakala fees (Underwriting Income) in 2017 of RO 4.36 million, compared to RO 4.30 million in 2016. On the other hand, the Management expenses for the year 2017 fell by 6%, from RO 4.29 million in 2016 to RO 4.00 million in 2017 resulting in an impressive overall operational Profit.

The Profit from Insurance Operations was achieved despite the Company incurring one of the largest insurance claim in the history of Oman. The Claim was estimated at well above USD 250 million, testing Al Madina's Claims servicing capabilities, soundness of Reinsurance programmes & its Financial robustness. Despite Global stakeholders involved in the claim adjudication process, the claim was approved in less than 6 weeks with the first on account payment made within 3 months of the claim notification.

Al Madina also got the claim reserves for all lines of business, assessed by an independent Actuary, thereby adopting the best practices for representing the Company's claim related liabilities.

Investment Income

The company continues to monitor its investment book well while ensuring that all the investments are diversified and constantly monitored for Shariah' Compliance. Despite the continuing pressure on the stock markets due to oil prices and one off impairment allowance in the amount of RO435K on one of the investment, the company has been prudently managing its investments and has made an Investment Income of RO 334 K as at Dec 2017 (Dec 2016: Investment income of RO 771K). The company will continue to look at growing opportunities within the Islamic Finance space for optimizing the Investment Income in line with the company's risk appetite.

Shareholders' profit

Despite the economic environments affecting the insurance sector reduction in wakala fee, impairment allowance of investment and sluggish stock markets, the company reports a profit attributable to the shareholders of 397 K, as compared to RO 1.6 million last year. This reflects a decrease of 75% due to the fact that the Company reduced wakala fees from 20% to 14% during current year and booked an impairment allowance of RO 435 K on investment.

Risk Management

The company constantly evaluates its risks associated with the insurance business as well as its Investments and adopts necessary measures to manage these risks.

Company's Outlook & Vision

The global economy, and especially the region, continues to suffer from low oil prices. The oil prices have started to show improvement during the latter part of 2017. This is a welcome development and we continue to be optimistic about the future. Our focus is on stability and sustainable growth while keeping the focus on Customer service.

The Company continues to maintain its steady track record of having always been driven by and supportive of national objectives, such as in job creation, and Omanization.

Al Madina has always been following and promoting best practices in the Takaful Industry and having adopted the best practices in Claim Reserving in 2017, the Company will implement the best practices in the area of Premium Reserving during 2018 even though this may have some impact on the operational results for the year.

The Company will continue to invest heavily on IT to bring efficiency in our service deliverables through Process automation. The Company expects IT to act a catalyst to business growth & customer satisfaction by transitioning IT from a support function to a Business enabler, driving sales and growth through web-enabled applications and friendly user interfaces.

The Company will continue to look at growing opportunities within the Islamic finance space for optimizing the Investment Income in line with the Company's risk appetite.

Acknowledgements

On behalf of the Board, we extend our thanks to our customers, business partners, shareholders and staff members for their support. We also thank and appreciate the Capital Market Authority for their constant support and their initiatives oriented towards the Insurance Market, with special emphasis on the development of Takaful Insurance in the country.

We extend our gratitude and appreciation to His Majesty Sultan Qaboos Bin Said for his vision and leadership.

May God Bless you all.



Dr. Mohammed Ali Al Barwani
Chairman of the Board

Management Discussion & Analysis Report

Introduction

The year 2017 has yet again been a challenging year for countries in the GCC region. The economic situation as a result of low oil prices in 2014-16 continued to have its impact. The recovery in the later part of the year has caused some rebound in market sentiments but it is still too little and too late in the year. The Automobile industry sales witnessed a decline for second year running, impacting Motor insurance sales. Businesses & commercial establishments explored options to optimize expenses on the face of falling margins. On the other hand, there continued to be excessive capital in the reinsurance market which led to significant reduction of insurance premiums in Oman.

In spite of the challenges, Al Madina continued to record consistent and positive performance in all key areas of

insurance operations – Gross Premium, Net Revenue, Underwriting income, Loss Ratios and Combined Operating ratios. This was achieved through strict underwriting discipline, effective claims administration, prudent expense management and a focused sales strategy.

There was considerable activity related to regulations with promulgation of Broker regulation, issuance of draft takaful regulation, implementation of minimum capital requirement for insurers and high level deliberations on Compulsory Health insurance. Insurers will have to realign their business processes to respond to these far reaching changes in the conduct of Insurance business in Oman. Al Madina is fully geared up to address the emerging regulatory changes.

Operational Performance

(in OMR '000)	Shareholders	General Takaful	Family Takaful	Consolidated	
				2017	2016
Gross Written Contributions	-	26,273	3,642	29,915	27,191
Net Retained Contributions	-	14,554	1,060	15,614	14,190
Net Earned Contributions	-	14,009	1,028	15,037	13,708
Net Claims Incurred	-	(8,878)	(326)	(9,204)	(8,391)
Provision for impairment of receivables	-	(80)	(10)	(90)	(297)
Surplus from Takaful Operations	-	3,863	506	4,369	4,302
Investment income-net	193	111	30	334	771
Wakala Fees	4,160	(3,650)	(510)	-	-
Mudaraba Fee	77	(61)	(16)	-	-
Other Income	1	-	-	1	5
General and administrative expenses	(4,022)	-	-	(4,022)	(4,291)
Policy Holder Surplus / (Deficit)	-	263	10	273	(1,043)
Profit before tax	409	-	-	409	1,830
Taxation	(12)	-	-	(12)	(205)
Profit after tax	397	-	-	397	1,625
Earnings per share (in Baiza)	0.002	-	-	0.002	0.009
Book value per share (in Baiza)	0.133	-	-	0.133	0.137

Note: Investment income consists of the impairment booked in one of the Company's investment in National Takaful Company (Watania)

Business

The economic scenario in Oman and GCC remained challenging in 2017. Availability of capacity in the Reinsurance market, Regulatory increase in insurer's capital to RO 10 million and pressure on margins amongst corporates led to an unprecedented softening of insurance rates with risk premiums falling considerably in 2017. The premium rates continued to be under pressure in Retail & Personal lines as well as Corporate & Specialty lines.

Despite the market conditions, Al Madina posted a 10% growth in both Gross and Net Written Premiums in 2017. Al Madina's Underwriting income increased to RO. 4.36 million in 2017. On the other hand, the Management expense of the company reduced by 6%. The combined impact of higher Underwriting income and reduced Management

expense resulted in the Company posting an impressive RO 348,000 Profit from Operations in 2017 compared to RO 22,000 in 2016.

The Company won many large Insurance contracts and consolidated its position as a formidable and important insurer from Oman even in the international Reinsurance market.

Despite the soft market conditions and challenging economic situation prevailing in GCC, Financial strength rating of Al Madina was maintained at the same level as last year by Moody's with a Financial rating of Ba1 (stable outlook).

Al Madina rolled out the upgraded IT Platform for its core application and also its front-end software Tameenet. This is expected to significantly improve the Company's service deliverables and enhance customer experience.

Claims

Al Madina exhibited strong operational fundamentals and credibility of its reinsurance programs by expeditiously and efficiently processing and concluding the adjudication of Oman's largest industrial claim that occurred in 2017 which involved global reinsurers and lenders. Despite the large claim incurred during the financial year, Al Madina's overall loss ratio remained at the same level as last year, while the profit from insurance operations increased manifold in 2017 compared to 2016.

Several customer service initiatives were also taken this year. The Company started Direct Bank transfer for medical reimbursement claims for most of the major clients. It conducted several Health awareness campaigns for its Corporate Health Insurance Policyholders and regular communications were made to update on the availability of better managed health care services/ facilities especially the treatment outside of Oman. The Garage network for vehicle repair was considerably improved in 2017 as part of bringing in efficiency in supply chain management. SMS alert system was implemented this year to update the customers on the claim status.

Al Madina is committed to follow best industry practices and in line with that, the Company's Claim reserves for all lines of business were actuarially certified in 2017.

Investment

The investment performance of the Company in 2017 was impacted adversely due to the following 2 reasons:

1. 18% fall in MSM Sharia Index in the year 2017 leading to underperformance of company's equity portfolio.
2. Impairment loss of RO 435,000 booked in the 'Income Statement' in 2017 due to fall in share price of National Takaful Company, Watania (where Company holds a strategic investment).

The Management expects better performance in 2018 from companies which forms part of the MSM Sharia Index which should lead to a better performance of the index itself. The impairment loss of RO 435,000 which the Company had to book in 2017 was due to the fall in Share price of Watania (listed in Abu Dhabi Stock Exchange). The performance of Watania has shown encouraging trend over the last 2 years and we believe that the improvement in performance should lead to an improvement in Share Price as well in due course of time. Hence, we believe that the impairment loss of RO 435,000 is a one-off item and should not recur.

The last quarter of 2017 has seen some improvement in the oil prices which if sustains in 2018 should translate into better performance of regional equity markets. The Company's strategy (since 2016) of increasing the exposure to fixed-income generating assets has paid off well as despite negative performance from the equity markets and falling rentals & occupancy levels in Oman Real Estate sector over the last 3 years, the company has been able to achieve the targeted investment returns (barring the one-off impairment loss booked in 2017).

HR & Manpower

Al Madina implemented series of measures to improve operational efficiencies. HRA team during the year has worked on job enrichment initiatives wherein employees have been encouraged to assume higher responsibilities by allocation of specific assignments. This initiative will continue in the next financial year and we believe that this in the long run will enhance overall efficiencies.

Omanization percentage of 68.31% was achieved for the year 2017.

IT

The Company firmly believes in a strong IT infrastructure that would act a catalyst to business growth & customer satisfaction. As a part of our strategic plan we upgraded our Core Insurance Application Premia in 2017. The new system covers all areas of insurance operations. The new system has the capacity to refine Business process and facilitate better customer service.

Al Madina's indigenous brand 'Tameenet' in-House developed system has been upgraded to the newest platform with various functionalities keeping in mind our aim to serve the customer efficiently & effectively and also help in achieving the Business objectives.

As a part of our road map to reach the customer efficiently, Al Madina is in the process of enhancing our e-portal which enables the customer to purchase the policy online and also to avail our various services online. The project is progressing as planned and will be completed by mid-2018.



The Internal Audit & Compliance department

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, financial, and administrative risks of the company.
- 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.
- Audit & follow up commitment to the decisions & instructions of the Sharia'a Committee with respect to all operational, financial, and administrative activities of the company.
- Supporting and developing the continuous training of the department's staff members and encourage them to get professional certificates to compliment the Company's progress.

Future Outlook

With perceptible improvement on Oil prices seen recently, Insurance industry in Oman seems to be moving towards stability and the outlook is positive. The GDP is expected to grow and the consequent increase in commercial & economic activity should result in rise in employment and give a boost for demand in insurance.

With relatively low insurance penetration particularly in Life/Family Takaful, the segment has potential for growth, particularly in the areas of investment related products and long-term family protection plans. Mandatory health insurance is also expected to contribute to insurance premium growth along with non-conventional products like Agriculture and Livestock insurances.

However, the Reinsurance market is expected to witness some reduction in capacity & possible price correction due to catastrophic claims across different territories. Its implication will have to be seen as Treaties get renewed in 2018.

Al Madina expects to build on the consistent performance of past 2 years and deliver positive Underwriting and Operational surplus in 2018. IT upgrades & other Process automations and enhancements will provide the necessary platform for a positive engagement with customers and grow on the back of a superior customer service. Al Madina will adopt the best Industry practice in Unearned Premium Reserve accounting though it will have impact on the operational performance of the company in 2018.

We expect the company to achieve a much better investment income in 2018 due to a positive climate aided by improvement in oil prices which should support the regional capital markets. High exposure to fixed income generating assets like Sukuk and Deposits and better performance of Company's strategic investment, will result in a higher Investment income.

The Company believes that while 2018 will be no less challenging, it offers opportunities to achieve stable growth in business, underwriting surplus and investment income through disciplined underwriting, Process efficiency, Expense management and a focused sales planning.



REPORT OF FACTUAL FINDINGS

TO THE SHAREHOLDERS OF AL MADINA INSURANCE COMPANY SAOG

1. We have performed the procedures agreed with you pursuant to the Capital Market Authority (CMA) circular no. E/4/2015, dated 22 July 2015 and circular number 7/1/2005 dated 1 August 2005, applicable for insurance companies, with respect to the Board of Directors' corporate governance report of Al Madina Insurance Company SAOG (the company) as at and for the year ended 31 December 2017 and application of the corporate governance practices in accordance with amendments to CMA Code of Corporate Governance issued under circular number E/10/2016 dated 1 December 2016 (collectively the 'Codes').
2. Our engagement was undertaken in accordance with the International Standard on Related Services 4400 applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in complying with the requirement of the Codes issued by the CMA.
3. We have performed the following procedures:
 - a) We have checked that the corporate governance report issued by the Board of Directors includes as a minimum, all items suggested by CMA to be covered by the report as detailed in the Annexure 3 of the Codes by comparing the report with such suggested content in the Annexure 3; and
 - b) We obtained the detailed list of areas of non-compliance identified by the company's Board of Directors with the Codes, included in the report together with the reasons for such non-compliance and agreed these to the discussions in the Board minutes or/and a checklist prepared by the Board of Directors to identify any non-compliance.
4. As a result of performing the above procedures, we have no exceptions to report.
5. Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the accompanying corporate governance report.
6. Had we performed additional procedures or had we performed an audit or a review 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.
7. Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the Board of Directors' corporate governance report included in its annual report for the year ended 31 December 2017 and does not extend to any financial statements of Al Madina Insurance Company SAOG taken as a whole.



28 February 2018
Muscat, Sultanate of Oman

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Chartered Accountants Licence No. APC/17/2015, Management Consultants Licence No. OPC/11/2015, Commercial Register No. 1230865



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 Board has overall responsibility for the Company, including approving and overseeing the implementation of the Company's strategic objectives, governance framework and corporate culture. The Board is also responsible for providing oversight of Senior Management.

The Directors are elected for a period of three years. The re-election of the Board was conducted in 2015. A director should hold at least 100,000 shares to qualify for election.

Details of Directors

Name	Position	Date of election	Independence of the director	Nomination
H.E. Dr. Mohammed Ali Al Barwani	Chairman	24 March 2015	Non-Independent	Representative
Eng. Abdulrahman Awadh Barham	Dy. Chairman	24 March 2015	Independent	Personal
H.E. Sh. Abdulrehman Mohammed Jabor Al Thani	Director	24 March 2015	Non-Independent	Representative
Eng. Khamis Mubarak Al Kiyumi	Director	24 March 2015	Independent	Personal
Eng. Abdullah Ali Al Abdullah	Director	24 March 2015	Independent	Personal
Mr. Ali Salim Al Kharusi	Director	30 March 2016	Non-Independent	Representative
Mr. Saleh Nasser Al Riyami	Director	24 March 2015	Independent	Personal
Ms. Safana M.A. Al Barwani	Director	24 March 2015	Independent	Personal

The Board of Directors of the Company met four times during the year ended 31st December 2017--on 27th February 20th April 27th July, and 26th October. Six Directors attended the AGM held on 27th March 2017.

The Details of Directors attended the AGM on 27th March 2017.

Name	Attended
H.E. Dr. Mohammed Ali Al Barwani	Yes
Eng. Abdulrahman Awadh Barham	Yes
Eng. Khamis Mubarak Al Kiyumi	Yes
Eng. Abdullah Ali Al Abdullah	Yes
Mr. Saleh Nasser Al Riyami	Yes
Mr. Ali Salim Al Kharusi	Yes

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

Name	27th February	20th April	27th July	26th Oct
H.E. Dr. Mohammed Ali Al Barwani	Yes	Yes	Yes	Yes
Eng. Abdulrahman Awadh Barham	Yes	No	Yes	Yes
H.E Shaikh Abdulrahman Mohammed Jabor Al Thani	No	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	No	Yes	Yes	Yes
Ms. Safana Mohammed AL-Barwani	Yes	Yes	Yes	Yes
Mr. Ali Salim Al Kharusi	Yes	Yes	Yes	Yes

Name	Position	Board Meetings attended	Sitting Fees RO
H.E. Dr. Mohammed Ali Al Barwani	Chairman	4	4,000
Eng. Abdulrahman Awadh Barham	Dy. Chairman	3	3,000
H.E Shaikh Abdulrahman Mohammed Jabor Al Thani	Director	3	3,000
Eng. Khamis Mubarak Al Kiyumi	Director	4	4,000
Eng. Abdullah Ali Al Abdullah	Director	4	4,000
Mr. Saleh Nasser Al Riyami	Director	3	3,000
Ms. Safana Mohammed AL-Barwani	Director	4	4,000
Mr. Ali Salim Al Kharusi	Director	4	4,000

Board Meeting	Date	Date Agenda was sent to the Board
1st Board Meeting	27-Feb-17	21-Feb-17
2nd Board Meeting	20-Apr-17	17-Apr-17
3rd Board Meeting	27-Jul-17	20-Jul-17
4th Board Meeting	26-Oct-17	19-Oct-17

The minutes of the previous board meeting were presented in the next board meeting and approval has been obtained for the same from all the Board members.

The Directors have not been paid any other remuneration.

Dr. Khalid Al Amri has joined as Advisor to the Board in 2015 and attended 4 Board Meetings and 4 Audit Committee Meetings.

Mr. Gautam Datta has joined as Advisor to the Board in 2016 and attended 3 Board Meetings in that capacity. He resigned from the capacity of Advisor to the Board from 27th July 2017.

Responsibilities of Board of Directors

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

The Board of Directors responsibilities as per the laws applicable in 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 Counsel 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 25 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 Jabr 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. Also 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 Al Madina Investment. He also holds the position of Chairman in Gulf Mushroom Products Company SAOG, Vice Chairman in Al Madina Investment 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 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) Mr. 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 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.

g) Ms. 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) Mr. Ali Salim Al Kharusi (Nationality: Omani)

Mr. Ali Salim Ali Al Kharusi has 10 years of experience in Accounting and Pension fund. Currently he is the Assistant Director for Accounts in Ministry of Defense Pension Fund. He also serves as a member of the Investment Committee in Investment Stabilization Fund. Mr. Ali holds an MBA, specializing in Accounting and a bachelor degree in Accounting

i) Dr. Khalid Al Amri (Nationality: Omani)

Dr. Khalid Al Amri PhD, has joined as an Advisor to the Board of Directors of Al Madina Insurance Co. SAOG . Dr. Khalid has done his PhD in Risk Management and Insurance (Major) and Finance (2nd Major) from the Temple University – Fox School of Business Philadelphia, USA. He is a Msc. in Actuarial Science from Boston University, USA and is currently Assistant Professor at the College of Economics and Political Science, Sultan Qaboos University.

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 2017 on 21st February 20th April, 27th July, and 25th October.

The details of Audit Committee meetings attended and sitting fees paid during 2017 are as follows:

Name	21 st February	20 th April	27 th July	25 th Oct
Mr. Saleh Nasser Al Riyami	Yes	Yes	Yes	Yes
Ms. Safana Mohammed AL-Barwani	Yes	Yes	No	Yes
Mr. Ali Salim Al Kharusi	Yes	Yes	Yes	Yes

Name	Position	Meetings attended	Sitting Fees RO
Mr. Saleh Nasser Al Riyami	Chairman	4	3,200
Ms. Safana Mohammed AL-Barwani	Member	3	2,400
Mr. Ali Salim Al Kharusi	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) of the above circular.

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 arises.
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 Financial Reporting Standards (IFRS), as applicable and non compliance 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.

D. EXECUTIVE AND INVESTMENT COMMITTEE

The principal role of the Executive & Investment Committee is to monitor the performance of the business on an on-going basis, to review financial targets, Investment strategy, Investment performance, budgets and forecasts before they are presented to the Board for sign-off and to ensure that the business is operating within the prescribed regulatory limits. Also the principle role of investment committee is to ensure that the investments are as per the Islamic Shariah principles and the Board's approved investment plan for the year.



In performing its duties the committee will maintain effective working relationships with the Board of Directors, the Company's management, the external and internal auditors. To perform their role effectively, each committee member will need to develop and maintain their skills and knowledge, including an understanding of the committee's responsibilities and of the company's business, operations and risks.

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

There were no meetings held during 2017. The names of the Executive and Investment Committee members are as follows:

Name	Position
H.E. Dr. Mohammed Ali Al Barwani	Chairman
Eng. Abdulrahman Awadh Barham	Member
Eng. Khamis Mubarak Al Kiyumi	Member
Eng. Abdullah Ali Al Abdullah	Member

E. NOMINATION AND REMUNERATION COMMITTEE

The principal role of the Nomination and Remuneration Committee is to effectively manage Board and Board Committee appointments as required and to review the effectiveness of the Board on an annual basis. Further, the Committee are tasked with reviewing and approving any remuneration-based policy of the company including, and not limited to, senior management pay, company bonus schemes, company pay-rises, sales commission schemes, long term incentive plans and any changes to the HR policy.

In performing its duties the Committee will maintain effective working relationships with the Board of Directors, Al Madina Insurance management, and the external and internal auditors. To perform their role effectively, each committee member will need to develop and maintain their skills and knowledge, including an understanding of the committee's responsibilities and of the company's business, operations and risks.

In line with Code of Corporate Governance for Public Listed Companies issued in July 2016, on 18th August 2016, the Board has constituted a Nomination and Remuneration Committee consisting of following members from Board of Directors.

Name	27th February
H.E. Dr. Mohammed Ali Al Barwani	Yes
Eng. Abdulrahman Awadh Barham	Yes
Eng. Khamis Mubarak Al Kiyumi	Yes
Eng. Abdullah Ali Al Abdullah	Yes

The sitting fees paid to the members of nomination committee was as follows:

Name	Position	Meetings attended	Sitting Fees RO
H.E. Dr. Mohammed Ali Al Barwani	Member	1	800
Eng. Abdulrahman Awadh Barham	Chairman	1	800
Eng. Khamis Mubarak Al Kiyumi	Member	1	800
Eng. Abdullah Ali Al Abdullah	Member	1	800

The Board has named Eng. Abdul Rahman Awadh Barham as the Chairman. There was only one meetings held during the year 2017. The manual and action plan of the Nomination and Remuneration Committee was submitted to the Board on 27.02.2017.

F. CORPORATE SOCIAL RESPONSIBILITY

The executive management has initiated the process of setting out a strategy to deliver the company's CSR philosophy, policies and community-based principles. The Company has already earmarked a Budget for the year 2018. The company will decide the means of participating and disseminating the values and principles of its CSR philosophy through the different CSR activities by identifying the community segments and social fields targeted. During the year 2017, the company has spent an amount of RO 2,255 towards CSR activities.

G. PROCESS OF NOMINATION OF DIRECTORS

The Company follows the process of Nomination and Election of the Board of Directors as governed by the provision contained in the articles of Association, Commercial Companies Law, and memorandum of association of the Company.

During the year 2017, the overall performance of the board has been evaluated by an independent firm of consultants.

The Company has obtained quotations for the process of measuring the overall performance of the Board for the year 2018 through an independent firm of consultants who will be appointed during the forthcoming Annual General Meeting during March 2018.

H. 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 8 officers of the Company including salary and allowances amounted to RO 617,228. (Short term benefits 56,6017 and Employee end of services benefit 51,211) Company does not offer any stock options to any of its directors or employees.

Profile of the Executive Management of the Company

a) Usama Al Barwani, Chief Executive Officer

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 24 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.

b) Ajay Srivastava, Chief Operating Officer

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 24 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.

c) Shakaib Mahmood – Chief Financial Officer

Mr Shakaib is a fellow member of the Institute of Chartered Accountants of India. He also has Bachelor degrees in Law and commerce. Shakaib has more than 25 years of experience of providing assurance and advisory services to the Insurance sector in Sultanate of Oman. Prior to joining the Company, he was working as a Director, with one of the International big four Audit and Advisory firms in Oman since 1992, where his responsibilities included, apart from providing Assurance & Advisory services to Banking and Insurance sector, Risk Management and Quality control of the Firm. He also acted as Head of Islamic Finance for a couple of years with the International Firm in Oman.

d) Chakrapani Ranganathan, Head- Business Strategy/Life & Medical

Mr. Ranganathan has Insurance experience of over 20 years with 12 years in the Oman market. He has Bachelor degrees in Science and Law. He has been associated with two leading Insurance company with India, which were joint ventures with world Insurance leaders- Prudential, (UK) and Cardiff (France). He was in the core implementation team of Investment linked insurance schemes, during his tenure as Branch head in ICICI prudential in India. He has successfully managed various distribution channels, including the Bancassurance of the largest public sector bank (State bank of India) in the Southern region of India. His specialization is in the areas of Product distribution, Channel management and Life & Medical. He has the experience of handling large group insurances of public sector banks in India.

I. AREAS OF NON COMPLIANCE

During the year there has been penalty of RO 2,050.913 imposed on the Company by the Capital Market Authority for non-compliance with some of the articles of the Unified Motor Insurance policy code of Corporate Governance For Insurance Companies.

J. 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 & Company 's websites (www.almadinatakaful.com).

K. 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 year is as given below.

Month	Company's market price (Baiza)		MSM 30 Index	
	High	Low	High	Low
Jan 17	93	91	5,776	5,751
Feb 17	102	98	5,820	5,780
Mar 17	85	83	5,561	5,550
Apr 17	96	95	5,527	5,512
May 17	122	117	5,422	5,400



Month	Company's market price (Baiza)		MSM 30 Index	
	High	Low	High	Low
Jun 17	113	112	5,135	5,115
July 17	112	111	5,064	5,024
Aug 17	102	101	5,063	5,048
Sep 17	102	100	5,160	5,136
Oct 17	101	100	5,011	4,979
Nov 17	100	99	5,112	5,102
Dec 17	100	98	5,099	5,051

Pattern of Shareholding

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
Ministry of Defence Pension Fund	9,799,999	6
NBO A/C OGF A/C Vision Asset Mgt Co	9,082,483	5

L. 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 Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).
- 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.

M. PROFILE OF THE STATUTORY AUDITORS

PwC is a global network of firms operating in 158 countries with more than 236,000 people who are committed to delivering quality in assurance, tax and advisory services. PwC also provides corporate training and professional financial qualifications through PwC's Academy.

Established in the Middle East for over 40 years, PwC Middle East has firms in Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, the Palestinian territories, Qatar, Saudi Arabia and the United Arab Emirates, with around 4,200 people. (www.pwc.com/me).

PwC has been established in Oman for over 40 years and the Firm comprises 4 partners, including one Omani national, and over 130 professionals and support staff. Our experts in assurance, tax and advisory professionals are able to combine internationally acquired specialist consulting and technical skills with relevant local experience.

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

During the year 2017, audit fees amounting to RO 17,600 (including actuarial review) was charged by the external auditors in respect of the services provided by them to the company. No non-audit services were provided by the external auditors during the year 2017.

For **Al Madina Insurance Company SAOG**

**The report of the Shari'ah Supervisory Committee
of Al Madina Insurance (Takaful)
For the year ended on 31 December 2017**

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

To the Shareholders of Al Madina Insurance (Takaful):

Peace and Blessings be upon you and hereafter,

In compliance with our appointment to undertake the duties of Shari'ah supervision, and after observing the company's activities, businesses and investments we hereby submit the following report:

The Shari'ah Supervisory Committee reviewed the procedures relating to the Takaful transactions and the applications introduced by the company for the year ended on 31 December 2017. The Committee 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 Committee gave its Shari'ah directives for Takaful transactions and answered the queries made by the management.

It is the management 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 financials 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. The steps and actions were taken to spend any gains realized from prohibited sources or methods to charitable causes according to Charity Manual approved by us.
3. The calculations of Zakah is being calculated in compliance with Islamic Shari'ah rules and principles and as directed by the Shari'ah supervisory Committee. 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.

Peace and Blessings be upon you

10 Jumada Al Akhira, 1439 corresponding to 26 February 2018.



Chairman of the Shari'ah Supervisory Committee
Dr. Shaikh Abdulsattar Abughuddah,



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

Introduction

We have audited the accompanying financial statements of Al Madina Insurance Company SAOG (the Company) which comprise the statement of financial position as at 31 December 2017 and the statements of participants' revenue and expenses, comprehensive income, changes in shareholders' equity, changes in participants' fund, cash flows and sources and uses of funds in the charity fund for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with the Shari'a rules and principles as determined by the Shari'a Supervisory Committee 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 of 1974, as amended, of the Sultanate of Oman, the provisions for disclosure related to insurance companies issued by Capital Market Authority (CMA) and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The directors are also responsible for the Company's undertaking to operate in accordance with Islamic Shari'a rules and principles as determined by the Shari'a Supervisory Committee of the Company.

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. 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with the Shari'a rules and principles as determined by the Shari'a Supervisory Committee of the Company and the FAS issued by the AAOIFI.

Other legal and regulatory requirements

Further, we report that the financial statements have been prepared and comply, in all material respects, with the relevant requirements of the CMA of the Sultanate of Oman and the Commercial Companies Law of 1974, as amended.


Kashif Kalam
28 February 2018
Muscat, Sultanate of Oman



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Chartered Accountants Licence No. APC/17/2015, Management Consultants Licence No. OPC/11/2015, Commercial Register No. 1230865

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017



STATEMENT OF FINANCIAL POSITION (continued)

AS AT 31 DECEMBER 2017

LIABILITIES, PARTICIPANTS' FUND AND SHAREHOLDERS' EQUITY	Note	Shareholders' fund			Participants' fund						Grand total			
		2017	2016		General takaful		Family takaful		2016		2017	2016		
			RO	RO	RO	RO	RO	RO	RO	RO		RO	RO	
LIABILITIES														
Takaful liabilities	9	-	-	128,194,278	19,573,582	1,795,063	1,369,318	129,989,341	20,942,900	129,989,341	20,942,900	20,942,900		
Unearned retakaful commission	22	-	-	51,486	43,496	-	647	51,486	44,143	51,486	44,143	44,143		
Retakaful/reinsurance payables	23	-	-	6,010,876	4,823,524	1,346,424	1,144,434	7,357,300	5,967,958	7,357,300	5,967,958	5,967,958		
Accounts and other payables		687,196	531,954	2,397,120	1,339,696	329,037	173,345	2,726,157	1,513,041	3,413,353	2,044,995	2,044,995		
Charity fund payable		20,047	18,842	-	-	-	-	-	-	20,047	18,842	18,842		
Payable to shareholders	8(b)	-	-	1,183,956	1,493,326	454,437	483,503	1,638,393	1,976,829	1,638,393	1,976,829	1,976,829		
Payable to participants' fund - general takaful		1,208,484	-	-	-	971,948	708,390	971,948	708,390	2,180,432	708,390	708,390		
Employees' end of service benefits	21	318,622	289,720	-	-	-	-	-	-	318,622	289,720	289,720		
Total liabilities		2,234,349	840,516	137,837,716	27,273,624	4,896,909	3,879,637	142,734,625	31,153,261	144,968,974	31,993,777	31,993,777		
PARTICIPANTS' FUND														
Deficit in participants' fund		-	-	(4,672,388)	(3,195,186)	(754,599)	(705,499)	(5,426,987)	(3,900,685)	(5,426,987)	(3,900,685)	(3,900,685)		
Contingency reserve	20	-	-	2,855,555	1,115,614	126,544	67,533	2,982,099	1,183,147	2,982,099	1,183,147	1,183,147		
Total participants' fund		-	-	(1,816,833)	(2,079,572)	(628,055)	(637,966)	(2,444,888)	(2,717,538)	(2,444,888)	(2,717,538)	(2,717,538)		
SHAREHOLDERS' EQUITY														
Capital and reserves														
Share capital	17	17,500,000	17,500,000	-	-	-	-	-	-	17,500,000	17,500,000	17,500,000		
Share premium	18	1,380,151	1,380,151	-	-	-	-	-	-	1,380,151	1,380,151	1,380,151		
Legal reserve	19	837,275	797,581	-	-	-	-	-	-	837,275	797,581	797,581		
Contingency reserve	20	-	1,206,553	-	-	-	-	-	-	-	1,206,553	1,206,553		
Investment fair value reserve		148,901	307,968	-	-	-	-	-	-	148,901	307,968	307,968		
Property fair value reserve		123,949	-	-	-	-	-	-	-	123,949	-	-		
Retained earnings		3,219,944	2,706,141	-	-	-	-	-	-	3,219,944	2,706,141	2,706,141		
Total shareholders' equity		23,210,220	23,898,394	-	-	-	-	-	-	23,210,220	23,898,394	23,898,394		
Total liabilities, participants' fund and shareholders' equity		25,444,569	24,738,910	136,020,883	25,194,052	4,268,854	3,241,671	140,289,737	28,435,723	165,734,306	53,174,633	53,174,633		
Net assets per share		0.133	0.137	-	-	-	-	-	-	-	-	-		
attributable to shareholders	29	0.133	0.137	-	-	-	-	-	-	-	-	-		

The financial statements on pages 32 to 70 were approved and authorised for issue by the Board of Directors on 27 February 2018 and were signed on their behalf by:



Director

Director

Independent auditor's report – page 22.



STATEMENT OF PARTICIPANTS' REVENUE AND EXPENSES

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	General takaful		Family takaful		Total	
		2017	2016	2017	2016	2017	2016
		RO	RO	RO	RO	RO	RO
Takaful revenues							
Gross contributions		26,273,252	23,955,271	3,641,376	3,235,953	29,914,628	27,191,224
Retakaful/reinsurance share		(11,719,357)	(10,611,580)	(2,581,126)	(2,389,955)	(14,300,483)	(13,001,535)
Retained contributions		14,553,895	13,343,691	1,060,250	845,998	15,614,145	14,189,689
Movement in unearned contributions reserve		(544,621)	(405,179)	(32,801)	(76,567)	(577,422)	(481,746)
Net earned contributions		14,009,274	12,938,512	1,027,449	769,431	15,036,723	13,707,943
Income earned from retakaful contracts	22	106,429	466,441	647	4,820	107,076	471,261
		14,115,703	13,404,953	1,028,096	774,251	15,143,799	14,179,204
Takaful expenses							
Gross claims settled	9(a)	(43,990,996)	(11,836,054)	(1,734,693)	(1,814,794)	(45,725,689)	(13,650,848)
Claims recovered from retakaful/reinsurance	9(a)	36,567,112	3,583,158	1,460,215	1,534,774	38,027,327	5,117,932
Net claims settled		(7,423,884)	(8,252,896)	(274,478)	(280,020)	(7,698,362)	(8,532,916)
Net movement in outstanding claims		(1,454,507)	66,741	(51,015)	74,973	(1,505,522)	141,714
Net claims incurred		(8,878,391)	(8,186,155)	(325,493)	(205,047)	(9,203,884)	(8,391,202)
Commission expense	10	(1,565,411)	(1,616,819)	(191,364)	(133,113)	(1,756,775)	(1,749,932)
		(10,443,802)	(9,802,974)	(516,857)	(338,160)	(10,960,659)	(10,141,134)
Takaful income	24	3,671,901	3,601,979	511,239	436,091	4,183,140	4,038,070
Provision for impairment of receivables	7(b)	285,058	746,306	6,467	1,816	291,525	748,122
Takaful expense		(80,000)	(265,727)	(10,000)	(30,749)	(90,000)	(296,476)
Surplus from takaful operations		(13,908)	(181,158)	(1,440)	(6,914)	(15,348)	(188,072)
Investment income - net		3,863,051	3,901,400	506,266	400,244	4,369,317	4,301,644
Mudarib share	26	110,790	97,714	29,862	987	140,652	98,701
Wakala fees	25	(60,934)	(58,628)	(16,424)	(593)	(77,358)	(59,221)
	25	(3,650,168)	(4,736,784)	(509,793)	(647,190)	(4,159,961)	(5,383,974)
Surplus / (deficit) from takaful operations		262,739	(796,298)	9,911	(246,552)	272,650	(1,042,850)

The notes and other explanatory information on pages 32 to 70 form an integral part of these financial statements. Independent auditor's report – page 22.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Shareholders' fund	
		2017	2016
		RO	RO
Wakala fees	25	4,159,961	5,383,974
Investment income - net	26(b)	192,232	672,612
Mudarib share	25	77,358	59,221
		<u>4,429,551</u>	<u>6,115,807</u>
General and administrative expenses	27	(4,021,927)	(4,291,067)
Other income		940	4,869
		<u>(4,020,987)</u>	<u>(4,286,198)</u>
Profit before taxation		408,564	1,829,609
Taxation	14(a)	(11,620)	(205,363)
Profit for the year		396,944	1,624,246
Other comprehensive income / (loss)			
<i>Items that may be reclassified to profit or loss</i>			
Net change in fair value of investments at fair value through equity	12(c)	(159,142)	(342,433)
Gain on revaluation of investment in real estate	15	145,822	-
Deferred tax impact directly charged to shareholders' equity	14(e)	(21,798)	-
Total other comprehensive loss		(35,118)	(342,433)
Total comprehensive income for the year		361,826	1,281,813
Earnings per share attributable to shareholders - basic and diluted	28	0.002	0.009

The notes and other explanatory information on pages 32 to 70 form an integral part of these financial statements.
Independent auditor's report – page 22.



STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital RO	Share premium RO	Legal reserve RO	Contingency reserve RO	Investment fair value reserve RO	Property fair value reserve RO	Retained earnings RO	Total RO
At 1 January 2017	17,500,000	1,380,151	797,581	1,206,553	307,968	-	2,706,141	23,898,394
Comprehensive income								
Profit for the year	-	-	-	-	-	-	396,944	396,944
Other comprehensive (loss) / income								
Net change in fair value of investments at fair value through equity [note 12(c)]	-	-	-	-	(159,142)	-	-	(159,142)
Gain on revaluation of investment in real estate (note 15)	-	-	-	-	-	145,822	-	145,822
Deferred tax impact directly credited/(charged) to shareholders' equity [note 14(e)]	-	-	-	-	75	(21,873)	-	(21,798)
Total other comprehensive income / (loss)	-	-	-	-	(159,067)	123,949	-	(35,118)
Total comprehensive (loss)/income for the year	-	-	-	-	(159,067)	123,949	396,944	361,826
Transactions with owner								
Transfer to participants' contingency reserve (note 20)	-	-	-	(1,206,553)	-	-	1,206,553	-
Dividend paid during the year (note 30)	-	-	-	-	-	-	(1,050,000)	(1,050,000)
Transfer to legal reserve (note 19)	-	-	39,694	-	-	-	(39,694)	-
	-	-	39,694	(1,206,553)	-	-	116,859	(1,050,000)
	-	-	837,275	-	148,901	123,949	3,219,944	23,210,220
At 31 December 2017	17,500,000	1,380,151	635,156	1,206,553	650,401	-	1,244,320	22,616,581
Comprehensive income								
Profit for the year	-	-	-	-	-	-	1,624,246	1,624,246
Other comprehensive loss								
Net change in fair value of investments at fair value through equity [note 12(c)]	-	-	-	-	(342,433)	-	-	(342,433)
Total comprehensive (loss)/income for the year	-	-	-	-	(342,433)	-	1,624,246	1,281,813
Transactions with owner								
Transfer to legal reserve (note 19)	-	-	162,425	-	-	-	(162,425)	-
At 31 December 2016	17,500,000	1,380,151	797,581	1,206,553	307,968	-	2,706,141	23,898,394

The notes and other explanatory information on pages 32 to 70 form an integral part of these financial statements. Independent auditor's report – page 22.

STATEMENT OF CHANGES IN PARTICIPANTS' FUND

FOR THE YEAR ENDED 31 DECEMBER 2017

	<u>Deficit in participants' fund</u>		<u>Contingency reserve</u>		<u>Total</u>
	<u>General takaful</u>	<u>Family takaful</u>	<u>General takaful</u>	<u>Family takaful</u>	
	<u>RO</u>	<u>RO</u>	<u>RO</u>	<u>RO</u>	
At 1 January 2017	(3,195,186)	(705,499)	1,115,614	67,533	(2,717,538)
Surplus / (deficit) for the year	262,739	9,911	-	-	272,650
Contingency reserve (note 20)	(555,985)	(36,414)	555,985	36,414	-
Transfer to contingency reserve (from shareholders' fund)	<u>(1,183,956)</u>	<u>(22,597)</u>	<u>1,183,956</u>	<u>22,597</u>	<u>-</u>
At 31 December 2017	<u>(4,672,388)</u>	<u>(754,599)</u>	<u>2,855,555</u>	<u>126,544</u>	<u>(2,444,888)</u>
At 1 January 2016	(1,988,354)	(426,587)	705,080	35,173	(1,674,688)
Deficit for the year	(796,298)	(246,552)	-	-	(1,042,850)
Contingency reserve (note 20)	<u>(410,534)</u>	<u>(32,360)</u>	<u>410,534</u>	<u>32,360</u>	<u>-</u>
At 31 December 2016	<u>(3,195,186)</u>	<u>(705,499)</u>	<u>1,115,614</u>	<u>67,533</u>	<u>(2,717,538)</u>

The notes and other explanatory information on pages 32 to 70 form an integral part of these financial statements.
Independent auditor's report – page 22.



STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 RO	2016 RO
Cash flows from operating activities			
Profit before tax for the year		408,564	1,829,609
Surplus / (deficit) from takaful operations		272,650	(1,042,850)
		<u>681,214</u>	<u>786,759</u>
Adjustments for:			
Depreciation	27	258,676	248,566
Dividend income	26	(161,654)	(220,482)
Profit on wakala deposits	26	(308,982)	(182,160)
Profit from investments carried at amortised cost	26	(288,239)	(207,571)
Amortisation of investments carried at amortised cost	13	9,115	8,013
End of service benefits charge for the year	27(a)	102,746	76,666
Rental income from investment in real estate	26	(456,960)	(491,075)
Fair value loss on investments carried at fair value through profit or loss	26	359,807	201,140
Provision for impairment of receivables	7(b)	90,000	296,476
Realised gain on sale of investments	26	(27,182)	(7,911)
Impairment loss on investments at fair value through equity	26	434,715	-
		<u>693,256</u>	<u>508,421</u>
Payment of end of service benefits	21	(73,844)	(55,161)
		<u>619,412</u>	<u>453,260</u>
Operating cash flows before working capital changes			
Working capital changes:			
Takaful and retakaful / reinsurance balance receivables		(2,169,709)	(2,316,860)
Due from retakaful / reinsurance companies in connection with takaful liabilities		(106,963,497)	1,205,445
Other receivables and takaful assets		411,592	(213,227)
Deferred policy acquisition cost		(36,024)	37,188
Takaful liabilities		109,046,441	(865,413)
Accounts and other payables		1,170,529	187,990
Retakaful / reinsurance payables		1,389,342	1,485,101
Unearned retakaful commission		7,343	(373,143)
		<u>3,475,429</u>	<u>(399,659)</u>
Net cash generated from / (used in) operating activities			
Cash flows from investing activities			
Purchase of property and equipment	16	(239,135)	(136,029)
Purchase of investments carried at fair value through profit or loss	6 (b)	(146,155)	(164,431)
Purchase of investments carried at fair value through equity	12 (a)	(915,120)	(69,127)
Purchase of investments carried at amortised cost	13	(751,500)	(1,500,000)
Proceeds from disposal of property and equipment	16	-	17,041
Proceeds from disposal of investments at fair value through profit or loss	6 (b)	826,946	1,147,057
Proceeds from disposal of investments carried at fair value through equity		468,023	238,144
Movement in bank deposits		(1,148,025)	(1,750,000)
Rent received		754,860	102,686
Profit received		639,808	218,568
Dividends received		161,654	220,482
		<u>(348,644)</u>	<u>(1,675,609)</u>
Net cash used in investing activities			
Cash flow from financing activity			
Dividends paid	30	(1,050,000)	-
		<u>2,076,785</u>	<u>(2,075,268)</u>
Net change in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year	31	2,349,117	4,424,385
Cash and cash equivalents at the end of the year	31	<u>4,425,902</u>	<u>2,349,117</u>

The notes and other explanatory information on pages 32 to 70 form an integral part of these financial statements.
Independent auditor's report – page 22.

STATEMENT OF SOURCES AND USES OF FUNDS IN THE CHARITY FUND

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017	2016
		RO	RO
<i>Sources of charity fund</i>			
At 1 January		18,842	7,555
Purification charges during the year	27	<u>1,205</u>	<u>11,287</u>
At 31 December	40	<u>20,047</u>	<u>18,842</u>

* The Company has not utilised the charity fund during the current year.

The notes and other explanatory information on pages 32 to 70 form an integral part of these financial statements.
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1 Legal status and principal activities

Al Madina Insurance Company SAOG (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 became a public joint stock company. The Company operates in Oman and is engaged in the business of General and Family Takaful activities and investments by adopting wakala and mudaraba models respectively, on behalf of the participants in accordance with the Islamic Shari’a principles. The retakaful / reinsurance activities organised on an underwriting year basis with the participants pooling their contributions to compensate 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

2.1 Basis of preparation

(a) These financial statements for the year ended 31 December 2017 have been prepared in accordance with the Shari’a rules and principles as determined by the Shari’a Supervisory Committee 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 of 1974, as amended, of the Sultanate of Oman and the provisions for disclosure related to insurance companies issued by Capital Market Authority.

(b) These financial statements have been prepared using historical cost convention except for investments carried at fair value through profit or loss, investments at fair value through equity and investment in real estate which are measured at fair value. The preparation of financial statements in conformity with applicable standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these financial statements are disclosed in note 3.

The accounting policies adopted are consistent with those of the previous financial year.

(c) Standards and amendments effective in 2017 and relevant for the Company’s operations:

For the year ended 31 December 2017, the Company has adopted all of the new and revised standards and interpretations issued by the AAOIFI that are relevant to its operations and effective for periods beginning on 1 January 2017. The adoption of these standards and interpretations has not resulted in changes to the Company’s accounting policies and has not affected the amounts reported for the current year.

(d) Standards that are not yet effective and have not been early adopted by the Company:

The following standards have been published by the AAOIFI and are mandatory for the Company’s accounting periods beginning on or after 1 January 2018, but the Company has not early adopted. These are not expected to have a significant effect on the financial statements of the Company.

FAS 28, ‘Murabaha and other deferred payment sales’ (effective on or after 1 January 2019); and
FAS 30, ‘Impairment, credit losses and onerous commitments’ (effective on or after 1 January 2020).

2.2 Takaful operations

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 as takaful contracts.

Takaful is a system where policyholders commit to donate all or part of the contributions to the takaful fund for paying the actual damages or to compensate any policyholder on occurrence of the insured risks according to the terms and conditions of the takaful contract. The Company’s role, acting on behalf of the client, is limited to managing the takaful operations and investment of the assets of the mudaraba takaful fund in compliance with Shari’a rules and principles.

The Company mainly issues short term takaful contracts which are principally divided into general takaful (medical, motor and non-motor) and short term family takaful (credit life and group life). The Company also issues long term family takaful contracts.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 Summary of significant accounting policies (continued)

2.3 Takaful and retakaful / reinsurance contracts

2.3.1 Takaful contracts

(a) Recognition and measurement

Takaful contracts are classified into two main categories, short term and long term takaful contracts.

Short term takaful contracts

For all the short term contracts, contributions are recognised as revenue (earned contributions). A proportion of net retained contribution is provided as 'unearned contribution reserve' to cover portions of risks which have not expired at the statement of financial position date. Unearned contribution reserve is calculated at 45% of the net retained contributions for the year for all classes of general takaful business as required by Oman Insurance Law of 1979.

Claim and loss adjustment expenses are charged to the statement of comprehensive income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the reporting date even if they have not yet been reported to the Company. The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analysis for the claims incurred but not reported and to estimate the expected ultimate cost of more complex claims that may be affected by external factors such as court decisions.

Long term takaful contracts

Contributions are recognised as revenue when they become payable by the contract holder. Contributions are shown before deduction of income from retakaful contracts.

Liabilities for contractual benefits that are expected to be incurred in the future are recorded when the contributions are recognised based on actuarial valuation. The liabilities are recalculated at each reporting date using the assumptions established at inception based on the actuarial valuation.

Benefits payable to contract holders are recorded as an expense when they are incurred.

(b) Deferred policy acquisition costs

The costs attributable to the acquisition of new business and renewing existing contracts are capitalised as an intangible asset under deferred acquisition costs. All other costs are recognised as expenses when incurred. The expense is subsequently amortised over the life of the contracts as contribution is earned. The deferred policy acquisition cost is calculated at 45% of the total commission expense for the year for general and family takaful business.

(c) Unearned retakaful income

The income from retakaful contracts attributable to the retakaful ceded contributions are deferred and classified as unearned retakaful income which is subsequently amortised over the life of the retakaful contracts as retakaful ceded contribution is expensed. Unearned retakaful commission is calculated at 45% of the retakaful commission income for the year for general and family takaful business.

(d) Liability adequacy test

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

(e) Claims

Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, are charged to the statement of comprehensive income as incurred.

Claims comprise the estimated amounts payable, in respect of claims reported to the Company and those not reported at the statement of financial position date.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 Summary of significant accounting policies (continued)

2.3 Takaful and retakaful / reinsurance contracts (continued)

2.3.1 Takaful contracts (continued)

(e) Claims (continued)

Provisions for reported claims not paid at the statement of financial position date are made on the basis of individual case estimates. In addition, a provision based on management's judgement and the management's prior experience is maintained for the cost of settling claims incurred but not reported (IBNR) at the date of the statement of financial position. 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 account for that year.

The Company may sell the salvaged vehicle or property to recover a part of the claim cost. The Company may also have the right to pursue third parties for payment of some or all costs (i.e. subrogation).

Estimates of salvage recoveries are included under other assets based on estimates through a tender mechanism. Subrogation reimbursements are also recognised under other assets based on the assessment of the amount that can reasonably be recovered from the action against the liable third party.

2.3.2 Retakaful / reinsurance contracts held

In order to minimise financial exposure, the Company enters into agreements with other parties for retakaful / reinsurance purposes. Under retakaful / reinsurance contracts, the Company is compensated for losses on one or more takaful contracts issued by the Company. Takaful contracts entered into by the Company under which the contract holder is another takaful company (inwards retakaful / reinsurance) are included within takaful contracts.

The benefits to which the Company is entitled under its retakaful / reinsurance contracts held are recognised as retakaful / reinsurance assets. These assets consist of short-term balances due from retakaful / reinsurance (classified within Retakaful / reinsurance balances receivable), as well as the retakaful / reinsurance portion of gross claims outstanding including IBNR and unearned contribution reserve that are dependent on the expected claims and benefits arising under the related retakaful / reinsurance contracts. Amounts recoverable from or due to retakaful / reinsurance are measured consistently with the amounts associated with the retakaful / reinsurance contracts and in accordance with the terms of each retakaful / reinsurance contract. Retakaful / reinsurance liabilities are primarily contributions payable for retakaful / reinsurance contracts.

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 comprehensive income. The Company gathers the objective evidence that a retakaful / reinsurance asset is impaired using the same process adopted for takaful balances receivable. The impairment loss is also calculated following the same method used for these financial assets.

2.4 Foreign currency

(a) Functional and presentation currency

The financial statements are presented in Rials Omani, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Translation differences on non-monetary financial assets and liabilities are recognised in the statement of comprehensive income as part of the fair value gain or loss. Translation differences on non-monetary financial assets measured at fair value, such as equities classified as investments at fair value through equity, are included in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 Summary of significant accounting policies (continued)

2.5 Revenue and income recognition

(a) Gross contributions

Gross contributions represent the total business written during the year and are recognised as revenue (contributions) at the time of entering into the takaful contract. A proportion of net retained contribution is provided as 'unearned contribution reserve' to cover portions of risks which have not expired at the statement of financial position date. In certain circumstances, the Company or the policyholder may cancel takaful contract and contribution refund is made as per the terms and conditions agreed with the policyholder and the local laws and regulations.

(b) Wakala fees and mudarib share

Wakala fees and mudarib share are recognised when the right to receive is established and are measured by applying a percentage approved by the Board of Directors and the Shari'a Supervisory Committee to the gross contributions and income generated by participants' fund respectively.

(c) Income earned from retakaful contracts

Income earned from retakaful contracts are recognised at the time when retakaful contracts are written.

(d) Investment and other income

Profit from investments carried at amortised cost and bank deposits is recognised on a time proportion basis using effective profit method. Rental income from investment in real estate, dividend income and other income is recognised when the right to receive is established.

2.6 Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly to 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 recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the statement of financial position date.

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

2.7 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any identified impairment loss. The cost of property and equipment is their purchase price together with any incidental expenses. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

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

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



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 Summary of significant accounting policies (continued)

2.7 Property and equipment (continued)

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

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

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

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.

2.8 Investment in real estate

Property that is held for rental yields or for capital appreciation or both, and that is not occupied by the Company is classified as investment in real estate.

Investment in real estate comprises residential and commercial building and the land on which it is constructed. After initial recognition, investment in real estate is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are carried out by third party property valuation consultant who has the necessary experience and qualifications to perform such valuations.

The fair value of investment in real estate assuming full vacant possession reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Subsequent expenditure is charged to the asset's carrying amount 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 costs are charged to the statement of comprehensive income during the financial year in which they are incurred.

Gains arising from change in fair value of investment in real estate is recognised directly in equity under 'property fair value reserve'. Losses resulting from fair valuation of investment in real estate are adjusted in equity against property fair value reserve to the extent of available credit balance of this reserve. In case such losses exceed the available balance, the losses are recognised in the statement of comprehensive income. If there are losses relating to investment in real estate that have been recognised in the statement of comprehensive income in a prior period, the gains relating to current financial period are recognised in the statement of comprehensive income to the extent of crediting back such previously recognised losses.

If an investment in real estate becomes owner-occupied, it is reclassified as property and equipment. Its fair value at the date of reclassification becomes its cost for subsequent accounting purposes. Investment in real estate under construction is measured at fair value if the fair value is considered to be reliably determinable.

2.9 Financial instruments

The Company classifies its financial assets in the following categories: investments carried at fair value through profit or loss, investments at fair value through equity, investments carried at amortised cost and loans and receivables. Management determines the classification of its investments at initial recognition. Investments out of shareholders' fund are approved by investment executive committee.

(a) Investments carried at fair value through profit or loss

Investments carried at fair value through profit or loss are investments held for trading. Investments held for trading are acquired or incurred principally for the purpose of selling or repurchasing in the short-term. These investments are initially recognised at fair value. Transaction costs for all investments carried at fair value through profit or loss are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 Summary of significant accounting policies (continued)

2.9 Financial instruments (continued)

(a) Investments carried at fair value through profit or loss (continued)

Investments carried at fair value through profit or loss are subsequently carried at fair value. The fair value of investments carried at fair value through profit or loss is based on their quoted market prices as at the date of statement of financial position.

Gains and losses arising from changes in the fair value of the investments carried at fair value through profit or loss category are included in the statement of comprehensive income in the year in which they arise.

Realised gains on sale of investments are determined by the difference between the sale proceeds and the carrying value and are included in the statement of comprehensive income in the year in which they arise.

Dividend income from investments carried at fair value through profit or loss is recognised in the statement of comprehensive income when the Company's right to receive payments is established.

(b) Investments at fair value through equity

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

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

(c) Investments carried at amortised cost

Investments which have fixed or determinable payments and where the Company has both the intent and ability to hold to maturity are classified as investments carried at amortised 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.

(d) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and arise during the ordinary course of the business. Loans and receivables are recognised initially at fair value plus transaction costs that are directly attributable to their acquisition origination. They are subsequently measured at amortised cost using the effective profit method, less provision for impairment. Qard hassan (receivable from participants) is profit free loan and accordingly no effective profit method will apply. The Company's loans and receivables comprise of 'takaful balance receivable, retakaful / reinsurance balance receivable, bank deposits, cash and bank balances, other receivables and takaful assets' in the statement of financial position.

Reclassification

The Company reclassifies its financial assets in case its intention relating to the holding of investments changes. The Company measures the financial asset that have been reclassified from one category to the other at fair value. Subsequently, the Company applies the accounting policy relating to the category to which the financial asset were reclassified.

Derecognition

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 Summary of significant accounting policies (continued)

2.9 Financial instruments (continued)

(d) Loans and receivables (continued)

Trade and settlement date accounting

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

Financial liabilities

Financial liabilities are measured at amortised cost using effective profit rate. The financial liabilities of the Company comprise of takaful liabilities, deferred income from retakaful contracts, payable to retakaful / reinsurance and accounts and other payables.

2.10 Impairment and uncollectability of financial assets

(a) Investments at fair value through equity

The Company assesses at the end of each reporting year whether there is objective evidence that a financial asset or a group of financial assets is impaired. 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 recognised in the statement of comprehensive income is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income.

(b) Assets carried at amortised cost

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, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the statement of comprehensive income.

A financial asset or a group of financial assets is impaired and an impairment loss is incurred if, and only if, there is evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in profit or principal payments;
- the Company granting to the borrower, for economic or legal reasons relating to the borrower’s financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; and,
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets, including adverse changes in the payment status of borrowers, or national or local economic conditions that correlate with defaults on the assets.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 Summary of significant accounting policies (continued)

2.10 Impairment and uncollectability of financial assets (continued)

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective profit rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income.

2.11 Offsetting

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

2.12 Impairment of non-financial assets

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

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.13 Takaful balances receivable

Takaful balances receivable are initially recognised at fair value and subsequently are stated at amortised cost using the effective profit method less impairment losses. A provision for impairment of takaful balances receivable is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the takaful balances receivable are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective profit rate. The amount of any provision is recognised in the statement of participants' revenue and expenses. Subsequent recoveries of amounts for which provision is created in prior periods are credited in the statement of participants' revenue and expenses.

2.14 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.

2.15 Legal reserve

In accordance with the Commercial Companies Law of Oman 1974, annual appropriations of 10% of the profit for the year are made to the legal reserve until the accumulated balance of the reserve is equal to one third of the value of the Company's paid up share capital.

Reserve is reviewed and transferred on a yearly basis.

2.16 Contingency reserve

In accordance with the Insurance Companies Law of Oman, the following contingency reserves are required to be established in the year of profits in respect of general and life insurance business:

General insurance - transfer equivalent to 10% of the net outstanding claims at the year end.

Life insurance - transfer equivalent to 1% of life assurance contributions for the year.

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. Transfers to these reserves are made until the total of both are equal to the paid up capital of the Company.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 Summary of significant accounting policies (continued)

2.17 Employees' end of service benefits and leave entitlements

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, as amended. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date.

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

2.18 Accounts and other payables

Accounts and other payables are initially measured at fair value and subsequently carried at amortised cost using the effective profit method. Liabilities are recognised for amount to be paid for goods or services received, whether or not billed to the Company.

2.19 Director's remuneration

The Directors' remuneration is governed as set out by the Commercial Companies Law and the rules prescribed by the Capital Market Authority.

The Annual General Meeting shall approve the remuneration and the sitting fees for the Board of Directors provided that such fees shall not exceed 5% of the annual net profit after deduction of the legal reserve and the optional reserve and the distribution of dividends to the shareholders. Such fees shall not exceed RO 200,000 in one year. The sitting fees for each Director shall not exceed RO 10,000 in one year.

2.20 Earnings per share

The Company presents basic and diluted 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. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

2.21 Provisions

Provisions are recognised in the statement of financial position when the Company has a present (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.

2.22 Dividend and underwriting surplus distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements only in the year in which the dividends are approved by the Company's shareholders.

The Company operates in accordance with Shari'a principles as a result, the net surplus from the operations of the takaful fund is attributable to policyholders in accordance with the terms and conditions of takaful contracts acquired by the policyholder. Any surplus distribution to the policyholders is done based on the advice of the Shari'a Supervisory Committee.

2.23 Earnings prohibited by Shari'a

The Company is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a separate account where the Company uses these funds based on advice from Shari'a Supervisory Committee.

2.24 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, whose operating results are reviewed regularly by the Chief Executive Officer (CEO) to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's shareholders), head office expenses, and income tax assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

2 Summary of significant accounting policies (continued)

2.25 Qard hassan

In the event of deficit in the participants' fund, the shareholders may cover the deficit in the participants' fund by granting an interest free loan i.e. Qard Hassan to the participants' fund. This will be repaid by the participants from the surpluses in subsequent periods.

3 Critical accounting estimates and judgements

In the preparation of financial statements and application of the accounting policies mentioned in note 2, management is required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and the resultant provisions and change in fair value for the year.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised and in any future period affected. Such estimates are necessarily based on assumptions about several factors involving varying, and possibly significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

(a) Outstanding claims

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 IBNR claims, is that of using past claims settlement trend to predict future claims settlement trends. The computation of IBNR is done using the services of independent actuary. 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 retakaful / reinsurance balances receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied on the basis of length of time past due and/or qualitative factors, based on historical recovery rates.

(c) Fair valuation of investment in real estate

The fair value of investment in real estate is determined by independent professional property valuation consultant. The basis of valuation was open market rate represented by the best price for which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of the valuation.

(d) Impairment of investments carried at fair value through equity

The Company follows guidance of AAOIFI standards to determine when investments carried at fair value through equity are impaired. This determination requires significant judgement. In making this judgement, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

(e) Fair valuation of unquoted investments

The fair value of investments that are not traded in an active market is determined using valuation techniques. The Company uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

3 Critical accounting estimates and judgements (continued)

(f) Mathematical reserve

The determination of the liabilities under long-term insurance contracts (mathematical reserve) is dependent on estimates made by the management through appointing an independent actuary. Estimates are made as to the expected number of deaths for each of the periods in which the Company is exposed to risk. The Company bases these estimates on standard industry and national mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Company's own experience. The estimated number of deaths allowing for discounting at the valuation rate of discount determines the present value of the benefit payments and the present value of the future premiums, the difference between the two being the reserve required at the valuation date. The main source of uncertainty is that epidemics such as AIDS, SARS and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the Company has significant exposure to mortality risk.

4 Cash and bank balances

	Shareholders	Participants		
	RO	General RO	Family RO	Total RO
2017				
Cash at bank in current accounts	108,508	1,704,750	418,354	2,123,104
Cash at bank in call accounts	1,119,761	660,272	76,638	736,910
Cash balances with investment managers	323,472	-	-	-
Cash in hand	2,769	11,350	28	11,378
	<u>1,554,510</u>	<u>2,376,372</u>	<u>495,020</u>	<u>2,871,392</u>
2016				
Cash at bank in current accounts	310,359	1,104,744	252,720	1,357,464
Cash at bank in call accounts	207,477	-	-	-
Cash balances with investment managers	301,889	-	-	-
Cash in hand	2,734	997	-	997
	<u>822,459</u>	<u>1,105,741</u>	<u>252,720</u>	<u>1,358,461</u>

The Company has call accounts with Islamic banks in Sultanate of Oman with profit rate of 1% per annum (2016 - 1% per annum). The above cash and bank balances include restricted cash for margin deposit for tender bonds amounting to RO 66,864 (2016 - RO 120,047).

5 Bank deposits

	Shareholders	Participants		
	RO	General RO	Family RO	Total RO
2017				
Bank deposits with maturity of more than three months	4,781,500	3,476,416	947,084	4,423,500
2016				
Bank deposits with maturity of less than three months	168,197	-	-	-
Bank deposits with maturity of more than three months	3,656,911	3,502,980	897,084	4,400,064
	<u>3,825,108</u>	<u>3,502,980</u>	<u>897,084</u>	<u>4,400,064</u>

5.1 There is no bank deposit denominated in foreign currencies as at 31 December 2017 (2016 - bank deposits of RO 51,975 were denominated in foreign currencies). Bank deposits carry profit rates in range of 3.5% to 4.2% per annum (2016 - 1.9% to 4.0% per annum).

5.2 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 8,655,000 (2016 - RO 7,005,000) to the CMA. The Company can only transfer these assets with the prior approval of the CMA.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

5 Bank deposits (continued)

5.3 The Company has kept a deposit of RO 50,000 (2016 - RO 51,975) which is under lien with Omani Unified Bureau for Orange Card Company SAOC in the Sultanate of Oman, against settlement of claims.

6 Investments carried at fair value through profit or loss

	Shareholders		Shareholders	
	2017		2016	
	Fair value	Cost	Fair value	Cost
	RO	RO	RO	RO
Local quoted				
Service sector	790,905	1,438,237	1,565,938	1,676,343
Industrial sector	1,304,988	1,017,463	1,463,328	1,541,677
Financial sector	2,508	2,508	-	-
	<u>2,098,401</u>	<u>2,458,208</u>	<u>3,029,266</u>	<u>3,218,020</u>
Local unquoted				
Industrial sector	-	-	3,400	3,400
Foreign quoted				
Industrial sector	-	-	158,331	170,717
Total investments	<u>2,098,401</u>	<u>2,458,208</u>	<u>3,190,997</u>	<u>3,392,137</u>

(a) At 31 December 2017, the financial assets at fair value through profit or loss are measured using level 1 of fair value hierarchy. The investments classified as 'investment carried at fair value through profit or loss' primarily include equity securities.

(b) Movement in investments at fair value through profit or loss is as follows:

	Shareholders	
	2017	2016
	RO	RO
At 1 January	3,190,997	4,379,752
Purchases during the year	146,155	164,431
Disposals during the year	(826,946)	(1,147,057)
Realised loss on disposal	(51,998)	(4,989)
Net change in fair value (note 26)	<u>(359,807)</u>	<u>(201,140)</u>
At 31 December	<u>2,098,401</u>	<u>3,190,997</u>

(c) Details of the Company's investments carried at fair value through profit or loss for which the Company's holding exceeds 10% of the fair value of investments held at fair value through profit or loss at 31 December are:

	% of Portfolio	Number of Securities	Fair value RO	Cost RO
2017				
Salalah Mills Company SAOG	16	256,556	341,219	378,420
Oman Oil Marketing Company SAOG	10	144,410	209,395	268,603
Oman Refreshment Company SAOG	10	99,802	204,594	214,540
	% of Portfolio	Number of Securities	Fair value RO	Cost RO
2016				
Oman Telecommunications Company SAOG	12	245,000	371,175	378,438
Salalah Mills Company SAOG	12	256,556	378,420	382,268
Omani Qatari Telecommunications Company SAOG	10	486,000	320,760	336,766

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

6 Investments carried at fair value through profit or loss (continued)

(d) 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 347,030 (2016 - RO 1,992,434) to the CMA. The Company can only transfer these assets with the prior approval of the CMA.

7 Takaful and retakaful / reinsurance balance receivable

	Participants		
	General RO	Family RO	Total RO
2017			
Takaful receivable including due from related parties	10,806,923	1,122,657	11,929,580
Less: specific and portfolio provision for impairment	(558,612)	(64,535)	(623,147)
	<u>10,248,311</u>	<u>1,058,122</u>	<u>11,306,433</u>
Retakaful / reinsurance balances receivable	768,530	218,524	987,054
Less: specific and portfolio provision for impairment	(236,739)	(37,075)	(273,814)
	<u>531,791</u>	<u>181,449</u>	<u>713,240</u>
	<u>10,780,102</u>	<u>1,239,571</u>	<u>12,019,673</u>
2016			
Takaful receivable including due from related parties	8,843,160	984,222	9,827,382
Less: specific and portfolio provision for impairment	(478,612)	(54,535)	(533,147)
	<u>8,364,548</u>	<u>929,687</u>	<u>9,294,235</u>
Retakaful / reinsurance balances receivable	861,475	58,068	919,543
Less: specific and portfolio provision for impairment	(236,739)	(37,075)	(273,814)
	<u>624,736</u>	<u>20,993</u>	<u>645,729</u>
	<u>8,989,284</u>	<u>950,680</u>	<u>9,939,964</u>

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 2017, receivables past due above 121 days amounting to RO 3,577,647 (2016 – RO 4,663,507) are not considered impaired as these are due from government, quasi-government entities, brokers and corporate clients with which the Company deals in the normal course of business and with which there is no recent history of default.

(a) An analysis of takaful balances receivable including due from related parties and retakaful / reinsurance balances receivable as at year end is as under:

	Participants		
	General RO	Family RO	Total RO
2017			
Neither past due nor impaired	7,465,378	976,648	8,442,026
Past due but not impaired	3,314,724	262,923	3,577,647
Past due and impaired	795,351	101,610	896,961
	<u>11,575,453</u>	<u>1,341,181</u>	<u>12,916,634</u>
2016			
Neither past due nor impaired	4,644,901	631,556	5,276,457
Past due but not impaired	4,344,383	319,124	4,663,507
Past due and impaired	715,351	91,610	806,961
	<u>9,704,635</u>	<u>1,042,290</u>	<u>10,746,925</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

7 Takaful and retakaful / reinsurance balance receivable (continued)

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

	Participants		
	General RO	Family RO	Total RO
At 1 January 2017	715,351	91,610	806,961
Charge for the year	80,000	10,000	90,000
At 31 December 2017	795,351	101,610	896,961
At 1 January 2016	449,822	60,861	510,683
Charge for the year	265,727	30,749	296,476
Reversals during the year	(198)	-	(198)
At 31 December 2016	715,351	91,610	806,961

(c) At 31 December 2017, 50% of the Company's takaful receivable is from 5 customers (2016 - 66% from 5 customers).

(d) At 31 December 2017, 62% of the Company's due from retakaful / reinsurance companies are from 5 retakaful / reinsurance companies (2016 - 71% from 5 retakaful / reinsurance companies).

8 Receivable from participants' fund

	Shareholders	
	2017 RO	2016 RO
At 1 January	1,976,829	672,232
Wakala fee income for the year (note 25)	4,159,961	5,383,974
Mudarib share for the year (note 25)	77,358	59,221
Amount received from policyholders	(5,954,707)	(4,550,000)
Net movement in policyholders' account	172,399	411,402
Receivable from participants excluding qard hassan	431,840	1,976,829
Qard hassan provided to participants' fund during the year	1,206,553	-
At 31 December	1,638,393	1,976,829

(a) Receivable from participants' fund includes due from general takaful and family takaful policyholders on account of qard hassan, wakala fees, mudarib share and inter-fund balances.

(b) The break-up of receivable from participants is as follows:

	Shareholders	
	2017 RO	2016 RO
On account of qard hassan		
From general takaful	1,183,956	-
From family takaful	22,597	-
	1,206,553	-
On account of wakala fees, mudarib share and inter-fund balances		
From general takaful	-	1,493,326
From family takaful	431,840	483,503
	431,840	1,976,829
	1,638,393	1,976,829

(c) During the current year, the Company has obtained approval from the CMA and Shari'a Supervisory Committee and transferred the balance in the contingency reserve amounting to RO 1,206,553 from the shareholders' fund to the participants' fund through retained earnings by way of granting Qard hassan (loan to participants' fund).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

9 Takaful liabilities

	2017			2016		
	Gross	Retakaful / reinsurance	Net	Gross	Retakaful / reinsurance	Net
	RO	RO	RO	RO	RO	RO
General takaful						
Claims incurred but not settled	113,710,973	(109,478,424)	4,232,549	7,666,094	(4,401,826)	3,264,268
Claims incurred but not reported	<u>2,660,341</u>	<u>(1,333,040)</u>	<u>1,327,301</u>	1,127,616	<u>(286,541)</u>	<u>841,075</u>
	116,371,314	(110,811,464)	5,559,850	8,793,710	(4,688,367)	4,105,343
Unearned contributions reserve	<u>11,822,964</u>	<u>(5,273,681)</u>	<u>6,549,283</u>	<u>10,779,872</u>	<u>(4,775,210)</u>	<u>6,004,662</u>
	128,194,278	(116,085,145)	12,109,133	19,573,582	(9,463,577)	10,110,005
Family takaful						
Claims incurred but not settled	397,311	(321,807)	75,504	279,749	(225,986)	53,763
Claims incurred but not reported	<u>642,155</u>	<u>(543,920)</u>	<u>98,235</u>	430,991	<u>(362,030)</u>	<u>68,961</u>
	1,039,466	(865,727)	173,739	710,740	(588,016)	122,724
Unearned contributions reserve	<u>755,597</u>	<u>(485,453)</u>	<u>270,144</u>	<u>658,578</u>	<u>(421,235)</u>	<u>237,343</u>
	1,795,063	(1,351,180)	443,883	1,369,318	(1,009,251)	360,067
	129,989,341	(117,436,325)	12,553,016	20,942,900	(10,472,828)	10,470,072

During the current year, the Company received a significant claim from one of its customers, which was adequately reinsured as per the Company's risk management policies, resulting in significant increase in 'gross claims incurred but not settled' and the corresponding retakaful / reinsurance share.

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 YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

9 Takaful liabilities (continued)

(a) Claims and loss adjustment expenses

	2017			2016		
	Gross RO	Retakaful / reinsurance RO	Net RO	Gross RO	Retakaful / reinsurance RO	Net RO
General takaful						
Notified claims	7,666,094	(4,401,826)	3,264,268	6,734,664	(2,799,225)	3,935,439
Incurring but not reported	1,127,616	(286,541)	841,075	383,362	(146,717)	236,645
Total at the beginning of the year	8,793,710	(4,688,367)	4,105,343	7,118,026	(2,945,942)	4,172,084
Cash paid for claims settled during the year	(43,990,996)	36,567,112	(7,423,884)	(11,836,054)	3,583,158	(8,252,896)
Increase in liabilities arising from current and prior period claims	151,568,600	(142,690,209)	8,878,391	13,511,738	(5,325,583)	8,186,155
Total at the end of the year	116,371,314	(110,811,464)	5,559,850	8,793,710	(4,688,367)	4,105,343
Notified claims	113,710,973	(109,478,424)	4,232,549	7,666,094	(4,401,826)	3,264,268
Incurring but not reported	2,660,341	(1,333,040)	1,327,301	1,127,616	(286,541)	841,075
Total at the end of the year	116,371,314	(110,811,464)	5,559,850	8,793,710	(4,688,367)	4,105,343
Family takaful						
Notified claims	279,749	(225,986)	53,763	528,592	(452,690)	75,902
Incurring but not reported	430,991	(362,030)	68,961	467,873	(346,078)	121,795
Total at the beginning of the year	710,740	(588,016)	122,724	996,465	(798,768)	197,697
Cash paid for claims settled during the year	(1,734,693)	1,460,215	(274,478)	(1,814,794)	1,534,774	(280,020)
Increase in liabilities arising from current and prior period claims	2,063,419	(1,737,926)	325,493	1,529,069	(1,324,022)	205,047
Total at the end of the year	1,039,466	(865,727)	173,739	710,740	(588,016)	122,724
Notified claims	397,311	(321,807)	75,504	279,749	(225,986)	53,763
Incurring but not reported	642,155	(543,920)	98,235	430,991	(362,030)	68,961
Total at the end of the year	1,039,466	(865,727)	173,739	710,740	(588,016)	122,724

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

9 Takaful liabilities (continued)

(b) Provisions for unearned contributions and unexpired short term takaful risks

	2017			2016		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	RO	RO	RO	RO	RO	RO
Unearned contributions reserves	10,779,872	(4,775,210)	6,004,662	13,248,237	(7,642,516)	5,605,721
Mathematical reserves	658,578	(421,235)	237,343	445,585	(291,047)	154,538
Total at the beginning of the year	11,438,450	(5,196,445)	6,242,005	13,693,822	(7,933,563)	5,760,259
Gross contributions during the year	29,914,628	(14,300,483)	15,614,145	27,191,224	(13,001,535)	14,189,689
Net (release) / increase during the year	(28,774,517)	13,737,794	(15,036,723)	(29,446,596)	15,738,653	(13,707,943)
Total at the end of the year	12,578,561	(5,759,134)	6,819,427	11,438,450	(5,196,445)	6,242,005
Unearned contributions reserves	11,822,964	(5,273,681)	6,549,283	10,779,872	(4,775,210)	6,004,662
Mathematical reserves	755,597	(485,453)	270,144	658,578	(421,235)	237,343
Total at the end of the year	12,578,561	(5,759,134)	6,819,427	11,438,450	(5,196,445)	6,242,005

10 Deferred policy acquisition cost

	General takaful RO	Family takaful RO	Total RO
At 1 January 2017	706,451	64,285	770,736
Cost incurred during the year	1,561,746	231,053	1,792,799
Amortised during the year	(1,565,411)	(191,364)	(1,756,775)
At 31 December 2017	702,786	103,974	806,760
	General takaful RO	Family takaful RO	Total RO
At 1 January 2016	753,386	54,538	807,924
Cost incurred during the year	1,569,884	142,860	1,712,744
Amortised during the year	(1,616,819)	(133,113)	(1,749,932)
At 31 December 2016	706,451	64,285	770,736

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

11 Other receivables and takaful assets

	Shareholders	Participants		Total
	RO	General takaful RO	Family takaful RO	
2017				
Rent receivable	330,490	-	-	-
Accrued profit on bank deposits	321,390	-	-	-
Advances	143,985	-	132,025	132,025
Prepayments	64,683	14,914	-	14,914
Other	63,475	404,716	-	404,716
	<u>924,023</u>	<u>419,630</u>	<u>132,025</u>	<u>551,655</u>

	Shareholders	Participants		Total
	RO	General takaful RO	Family takaful RO	
2016				
Rent receivable	619,290	-	-	-
Accrued profit on bank deposits	373,077	-	-	-
Advances	143,897	-	55,183	55,183
Prepayments	150,932	-	-	-
Other	155,281	717,629	12,468	730,097
	<u>1,442,477</u>	<u>717,629</u>	<u>67,651</u>	<u>785,280</u>

12 Investments at fair value through equity

	Shareholders			
	2017	2017	2016	2016
	Fair value RO	Cost RO	Fair value RO	Cost RO
Local quoted				
Service sector	169,275	203,632	-	-
Industrial sector	43,007	60,165	-	-
	<u>212,282</u>	<u>263,797</u>	-	-
Local unquoted				
Service sector	272,569	71,428	388,485	173,928
Industrial sector	157,200	157,500	172,200	157,500
	<u>429,769</u>	<u>228,928</u>	<u>560,685</u>	<u>331,428</u>
Total Local	<u>642,051</u>	<u>492,725</u>	<u>560,685</u>	<u>331,428</u>
Foreign quoted				
Financial sector	853,653	859,830	1,293,841	1,215,092
Service sector	170,170	167,019	33,207	33,245
Real estate development	100,895	99,308	-	-
Food and beverages	53,384	52,445	-	-
	<u>1,178,102</u>	<u>1,178,602</u>	<u>1,327,048</u>	<u>1,248,337</u>
Total Foreign	<u>1,178,102</u>	<u>1,178,602</u>	<u>1,327,048</u>	<u>1,248,337</u>
Total investments	<u>1,820,153</u>	<u>1,671,327</u>	<u>1,887,733</u>	<u>1,579,765</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

12 Investments at fair value through equity (continued)

(a) Movement in investments at fair value through equity

	Shareholders	
	2017	2016
	RO	RO
At 1 January	1,887,733	2,386,283
Purchases	915,120	69,127
Disposals	(468,023)	(237,134)
Realised gain	22,220	12,900
Net change in fair value [see note (c) below]	(102,182)	(343,443)
Impairment loss on investment (note 26)	(434,715)	-
At 31 December	1,820,153	1,887,733

(b) At the reporting date, details of the Company's investments at fair value through equity for which the Company's holding exceeds 10% of investments held at fair value through equity at 31 December are:

	% of portfolio	Basis of valuation	Number of securities	Fair Value RO
2017				
Investment from shareholders' fund				
National Takaful Company (Watania) - listed	38	Fair value	14,303,596	689,548
Omani Unified Bureau Orange Card SAOC	15	Fair value	71,428	272,569
2016				
Investment from shareholders' fund				
National Takaful Company (Watania) - listed	64	Fair value	14,303,596	1,207,252
Omani Unified Bureau Orange Card SAOC	12	Fair value	71,428	224,784

(c) Movement in investments fair value reserve:

	Shareholders	
	2017	2016
	RO	RO
At 1 January	307,968	650,401
Transfer of fair value reserve on sale of investment	(56,960)	1,010
Net change in fair value of investment during the year	(102,182)	(343,443)
	(159,142)	(342,433)
At 31 December	148,826	307,968

(d) Investments classified as 'investments at fair value through equity' consists of investments in equity securities.

(e) 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 103,286 (2016 - nil) to the CMA. The Company can only transfer these assets with the prior approval of the CMA.

13 Investments carried at amortised cost

	Shareholders	
	2017	2016
	RO	RO
At 1 January	4,247,215	2,755,228
Purchased during the year	751,500	1,500,000
Amortised during the year	(9,115)	(8,013)
At 31 December	4,989,600	4,247,215

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

13 Investments carried at amortised cost (continued)

(a) The Company has invested in sukuku listed in the local and international markets. The Company has a positive intention and ability to hold sukuku until their maturity which ranges from October 2018 to June 2022. The effective average rate of return on investments carried at amortised cost at 31 December 2017 ranges from 4.22% to 8.50% (2016 – from 4.22% to 8.50%) per annum with coupon receipts on a semi-annual basis. All the investments classified as ‘investments carried at amortised cost’ are debt instruments. The fair value of investments carried at amortised cost at 31 December 2017 is RO 4,984,931 (2016 – RO 4,239,243).

(b) Restrictions on transfer of assets

In accordance with the law governing the operation of insurance companies within the Sultanate of Oman, the Company identified 2,275,000 units (2016 - 1,525,000 units) with total face value of RO 4,750,000 (2016 - RO 4,000,000) to the CMA. The Company can only transfer these assets with the prior approval of the CMA.

(c) Currently, the percentage of Modern Sukuk and MB Holding Sukuk investment in relation to overall investments of the Company is 8.55% and 5.12% respectively which exceeds the limit prescribed by Regulations for Investing Assets for Insurance Companies issued by the CMA. As per the Regulation, investments in bond of any one company should not exceed 5% of the total investments of the insurer. The Company has obtained exemptions from the CMA for these investments. The Company also has investment in foreign bond which has a rating below “BBB+” as at 31 December 2017 and the Company has informed the CMA about this investment.

14 Taxation

(a) The Company is subject to income tax at the rate of 15% (2016 - 12% of the taxable income in excess of RO 30,000 of the taxable income) in accordance with the income tax law of the Sultanate of Oman.

	<u>Shareholders</u>	
	2017	2016
	RO	RO
Current tax		
- For the current year	<u>199,034</u>	-
Deferred tax		
- For the current year	<u>(73,748)</u>	205,363
- For the prior year	<u>(113,666)</u>	-
	<u>(187,414)</u>	205,363
Tax expense for the year	<u>11,620</u>	<u>205,363</u>

(b) Reconciliation of income tax

	<u>Shareholders</u>	
	2017	2016
	RO	RO
Accounting profit for the year (note c)	<u>681,214</u>	786,759
Tax expense at the rates mentioned in ‘a’ above	<u>102,182</u>	90,811
Non-deductible expense	<u>75,192</u>	743
Tax exempt income	<u>(23,671)</u>	(225)
Tax losses expired during the year	-	76,642
Deferred tax impact of prior year	<u>(113,666)</u>	-
Impact of change in tax rate	<u>(28,417)</u>	-
Others	-	37,392
	<u>11,620</u>	<u>205,363</u>

(c) Accounting profit for the year includes surplus of RO 272,650 (2016 – deficit of RO 1,042,850) as per the statement of participants’ revenues and expenses and profit of RO 408,564 (2016 – profit of RO 1,829,609) as per the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

14 Taxation (continued)

(d) Status of tax assessments

The Company's income tax assessments have been finalised upto 2012 by the Secretariat General for Taxation at the Ministry of Finance. The management is of the opinion that additional taxes, if any, relating to the income tax return for the year would not be significant to the Company's financial position as at 31 December 2017.

(e) Deferred tax

Deferred income tax is calculated on all temporary differences under the liability method using a principal tax rate of 15% (2016 - 12%).

	At 1 January 2017 RO	Credit to the statement of comprehensive income RO	Credit/ (charge) to shareholders' equity RO	At 31 December 2017 RO
Deferred tax asset / (liability)				
Depreciation on property and equipment	(210)	17,008	-	16,798
Investment in real estate	(145,779)	1,752	(21,873)	(165,900)
Provision for doubtful debts	96,835	37,709	-	134,544
Unrealised income on investments	49,154	130,945	75	180,174
	-	187,414	(21,798)	165,616

	At 1 January 2016 RO	(Charge) / credit to the statement of comprehensive income RO	Credit/(charge) to shareholders' equity RO	At 31 December 2016 RO
Deferred tax asset / (liability)				
Depreciation on property and equipment	(11,741)	11,531	-	(210)
Investment in real estate	(64,909)	(80,870)	-	(145,779)
Provision for doubtful debts	61,283	35,552	-	96,835
Unrealised income on investments	20,436	28,718	-	49,154
Carried forward tax losses	200,294	(200,294)	-	-
	205,363	(205,363)	-	-

15 Investment in real estate

Movement of carrying amounts of investment in real estate:

	Shareholders	
	2017 RO	2016 RO
At 1 January	6,245,911	6,245,911
Fair value gain during the year	145,822	-
At 31 December	6,391,733	6,245,911

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

15 Investment in real estate (continued)

(a) Following are the details related to the fair valuation estimation:

Property description	Valuation RO	Valuation technique	Valuation date	Valuer name	Fair value level hierarchy	Impact of 5% change RO
Building at Al Khuwair	3,145,911	Market value	31 December 2017	Manaba Al Atta Trading and Services Establishment	Level 2	157,296
Building at Al Hail	2,600,000	Market value	31 December 2017	Manaba Al Atta Trading and Services Establishment	Level 2	130,000
Land at Al Hail	645,822	Market value	31 December 2017	Al Osool Real Estate LLC	Level 2	32,291
	<u>6,391,733</u>					

(b) At 31 December 2017, the Company has investment in investment real estate of RO 6,391,733 (2016 - RO 6,245,911) which is 22% 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 exemption from CMA for this investment.

16 Property and equipment

	Shareholders					Total RO
	Buildings RO	Leasehold improvements RO	Office furniture and equipment RO	Motor vehicles RO	Capital work in progress RO	
Cost						
At 1 January 2017	724,462	75,071	1,451,884	34,327	74,767	2,360,511
Additions	-	39,998	143,514	4,000	51,623	239,135
Transfer	-	-	126,390	-	(126,390)	-
At 31 December 2017	<u>724,462</u>	<u>115,069</u>	<u>1,721,788</u>	<u>38,327</u>	<u>-</u>	<u>2,599,646</u>
Accumulated depreciation						
At 1 January 2017	86,412	54,534	1,086,297	33,087	-	1,260,330
Charge for the year	27,732	19,791	205,915	5,238	-	258,676
At 31 December 2017	<u>114,144</u>	<u>74,325</u>	<u>1,292,212</u>	<u>38,325</u>	<u>-</u>	<u>1,519,006</u>
Carrying value						
At 31 December 2017	<u>610,318</u>	<u>40,744</u>	<u>429,576</u>	<u>2</u>	<u>-</u>	<u>1,080,640</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

16 Property and equipment (continued)

	Shareholders						Total RO
	Buildings	Leasehold	Office	Motor	Capital		
	RO	improvements	furniture and	vehicles	work in		
	RO	RO	equipment	RO	progress	RO	
Cost							
At 1 January 2016	704,351	50,306	1,427,601	62,827	7,897		2,252,982
Additions	20,111	24,765	16,386	-	74,767		136,029
Disposals	-	-	-	(28,500)	-		(28,500)
Transfer	-	-	7,897	-	(7,897)		-
At 31 December 2016	<u>724,462</u>	<u>75,071</u>	<u>1,451,884</u>	<u>34,327</u>	<u>74,767</u>		<u>2,360,511</u>
Accumulated depreciation							
At 1 January 2016	57,205	40,661	886,569	38,788	-		1,023,223
Charge for the year	29,207	13,873	199,728	5,758	-		248,566
Disposals	-	-	-	(11,459)	-		(11,459)
At 31 December 2016	<u>86,412</u>	<u>54,534</u>	<u>1,086,297</u>	<u>33,087</u>	<u>-</u>		<u>1,260,330</u>
Carrying value							
At 31 December 2016	<u>638,050</u>	<u>20,537</u>	<u>365,587</u>	<u>1,240</u>	<u>74,767</u>		<u>1,100,181</u>

17 Share capital

	2017 RO	2016 RO
Authorised - shares of RO 0.1 each	<u>25,000,000</u>	<u>25,000,000</u>
Issued and fully paid - shares of RO 0.1 each	<u>17,500,000</u>	<u>17,500,000</u>

(a) 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 2017	% of holding	Number of shares 2016
Mohammed Al Barwani Holding Company LLC	<u>25.86</u>	<u>45,250,001</u>	<u>25.86</u>	<u>45,250,001</u>

18 Share premium

Share premium represents the premium of RO 0.038 per share collected at the time of initial public offering of 66,666,670 shares and incurred expenses of RO 319,849 relating to initial public offering. During the year 2014, the Company utilised share premium of RO 833,333 to issue free shares.

19 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.

20 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 period 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 (CMA).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

20 Contingency reserve (continued)

The CMA has issued Takaful Insurance Law, however, the detailed rules and regulations are not available for the calculation of the contingency reserve for takaful business operations. During the year, the Company has added an amount of 555,985 (2016 - RO 410,534) and 36,414 (2016 - RO 32,360) to the contingency reserve, with respect to the general and family takaful business, respectively. The Company has made profit of RO 690,447 (2016 – RO 581,396) on an overall basis and accordingly, created contingency reserve which has been charged to the participants' fund.

During the year, the contingency reserve in the shareholders' fund was transferred to Qard hassan, hence showing nil RO (2016 - RO 1,206,553). This represented the contingency reserve created prior to the conversion of the Company from conventional to takaful.

21 Employees' end of service benefits

	Shareholders	
	2017	2016
	RO	RO
At 1 January	289,720	268,215
Charge for the year [note 27(a)]	102,746	76,666
Payments made during the year	(73,844)	(55,161)
At 31 December	318,622	289,720

22 Unearned retakaful commission

Movement in unearned retakaful commission is shown below:

	Participants		
	General takaful RO	Family takaful RO	Total RO
At 1 January 2017	43,496	647	44,143
Income from retakaful contracts accrued during the year	114,419	-	114,419
Amortised during the year	(106,429)	(647)	(107,076)
At 31 December 2017	51,486	-	51,486
	General takaful RO	Family takaful RO	Total RO
At 1 January 2016	413,259	4,027	417,286
Income from retakaful contracts accrued during the year	96,678	1,440	98,118
Amortised during the year	(466,441)	(4,820)	(471,261)
At 31 December 2016	43,496	647	44,143

23 Accounts and other payables

	Shareholders	Participants		
	RO	General takaful RO	Family takaful RO	Total RO
2017				
Accounts payables	224,249	2,050,406	313,368	2,363,774
Government tax payable	-	346,714	15,669	362,383
Provision for taxation (note 14)	199,034	-	-	-
Accrued expenses	103,491	-	-	-
Leave salary provision	101,000	-	-	-
Other payables	59,422	-	-	-
	687,196	2,397,120	329,037	2,726,157

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

23 Accounts and other payables (continued)

	Shareholders	Participants		
		General takaful	Family takaful	Total
2016	RO	RO	RO	RO
Accounts payables	90,011	776,226	156,318	932,544
Government tax payable	-	364,841	17,027	381,868
Accrued expenses	268,291	-	-	-
Leave salary provision	89,668	-	-	-
Other payables	83,984	198,629	-	198,629
	<u>531,954</u>	<u>1,339,696</u>	<u>173,345</u>	<u>1,513,041</u>

24 Takaful income

	Participants					
	2017			2016		
	General takaful	Family takaful	Total	General takaful	Family takaful	Total
	RO	RO	RO	RO	RO	RO
Policy fees and service income	67,481	6,467	73,948	599,921	1,816	601,737
Other	217,577	-	217,577	146,385	-	146,385
	<u>285,058</u>	<u>6,467</u>	<u>291,525</u>	<u>746,306</u>	<u>1,816</u>	<u>748,122</u>

25 Wakala fees and mudarib share

The shareholders manage the general and family takaful operations for the participants and charge 14% (2016 - 20%) of gross contributions as a wakala fee except for business from a specific customer for which the wakala fee is charged at 5% (2016 - 5%) as approved by the Board of Directors. The shareholders also manage the participants' fund as a mudarib and charge 55% (2016 - 60%) of the general takaful and family takaful investment income earned by the participants' investment funds. The maximum chargeable wakala fee and mudarib share for the year 2017 as approved by the Shari'a Supervisory Committee are 14% and 55% (2016 - 20% and 60%) respectively. During the current year, the wakala fee was reduced from 20% to 14% and mudarib share was reduced from 60% to 55%. The reduction of wakala fee and mudarib share was recommended by the Board of Directors and approved by the Shari'a Supervisory Committee.

26 Investment income - net

	2017	2016
	RO	RO
Rental income from investment in real estate [refer note (a) below]	341,349	354,329
Profit on wakala bank deposits	308,982	182,160
Profit from investment carried at amortised cost	288,239	207,571
Dividend income	161,654	220,482
Realised gain on sale of investments - net	27,182	7,911
Fair value loss on investments carried at fair value through profit or loss - net [note 6 (b)]	(359,807)	(201,140)
Impairment loss on investments at fair value through equity [note 12 (a)]	(434,715)	-
	<u>332,884</u>	<u>771,313</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

26 Investment income – net (continued)

(a) Rental income from investment in real estate amounting to RO 456,960 (2016 - RO 491,075) is netted of with investment management costs of RO 115,611 (2016 – RO 136,746).

(b) Allocation of investment income to participants and shareholders is as follows:

	2017	2016
	RO	RO
General takaful	110,790	97,714
Family takaful	29,862	987
Shareholders	192,232	672,612
	<u>332,884</u>	<u>771,313</u>

27 General and administrative expenses

	Shareholders	
	2017	2016
	RO	RO
Staff costs [note (a) below]	2,840,132	3,002,876
Depreciation (note 16)	258,676	248,566
Rent and utilities	252,365	308,238
IT expenses	128,080	159,755
Communication	112,656	92,340
Legal and professional	94,964	112,834
Advertisement and publicity	79,545	101,900
Directors' sitting fee [note 32(a)]	51,200	50,800
Business travel	40,320	79,410
Directors' travel and other expenses [note 32(a)]	21,184	11,527
Shari'a Supervisory Committee's sitting fee [note 32(a)]	18,000	21,050
Shari'a Supervisory Committee's travel and other expenses [note 32(a)]	14,363	5,262
Corporate social responsibility	2,255	-
Purification charges	1,205	11,287
Others	106,982	85,222
	<u>4,021,927</u>	<u>4,291,067</u>

(a) Staff costs

	Shareholders	
	2017	2016
	RO	RO
Salaries and benefits	2,343,139	2,399,027
Employees' end of service benefits charge (note 21)	102,746	76,666
Social security cost	122,840	122,693
Leave salary	31,317	150,000
Other staff cost	240,090	254,490
	<u>2,840,132</u>	<u>3,002,876</u>

28 Earnings per share attributable to shareholders - basis and diluted

	Shareholders	
	2017	2016
Shareholders' profit for the year - RO	396,944	1,624,246
Weighted average number of shares outstanding during the year - number	175,000,000	175,000,000
Shareholders' earnings per share – basic and diluted - RO	0.002	0.009

Shareholders' basic earnings per share is calculated by dividing the shareholders' profit for the year by the weighted average number of shares outstanding during the year. There is no effect on diluted earnings per share as the Company has not issued any instruments having diluting effects.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

29 Net assets per share attributable to shareholders

	2017	2016
Shareholders' net assets - RO	<u>23,210,220</u>	<u>23,898,394</u>
Weighted average number of shares outstanding - number	<u>175,000,000</u>	<u>175,000,000</u>
Shareholders' net assets per share - RO	<u>0.133</u>	<u>0.137</u>

Net assets per share attributable to shareholders is calculated by dividing the shareholders' net assets at the year end by the number of shares outstanding at 31 December.

30 Dividend distributions

During the current year, the Board of Directors proposed cash dividend of 6% (2016 – nil) of the share capital amounting to RO 1,050,000 (2016 - nil) for the year ended 31 December 2016. The proposed cash dividend was approved in the Annual General Meeting held on 27 March 2017.

31 Cash and cash equivalents

	Shareholders	Participants	Total
	RO	RO	RO
2017			
Cash and bank balances			
Cash at bank in current accounts	108,508	2,123,104	2,231,612
Cash at bank in call account	1,119,761	736,910	1,856,671
Cash balances with investment managers	323,472	-	323,472
Cash in hand	<u>2,769</u>	<u>11,378</u>	<u>14,147</u>
	<u>1,554,510</u>	<u>2,871,392</u>	<u>4,425,902</u>
2016			
Cash and bank balances			
Cash at bank in current accounts	310,359	1,357,464	1,667,823
Cash at bank in call account	207,477	-	207,477
Cash balances with investment managers	301,889	-	301,889
Cash in hand	<u>2,734</u>	<u>997</u>	<u>3,731</u>
	822,459	1,358,461	2,180,920
Bank deposits			
Bank deposits with maturity of less than three months	<u>168,197</u>	<u>-</u>	<u>168,197</u>
	<u>990,656</u>	<u>1,358,461</u>	<u>2,349,117</u>

The above cash and cash equivalents include restricted cash and bank balances amounting to RO 66,864 (2016 - RO 120,047).

32 Related parties

Related parties represent associated companies, major shareholders, directors, Shari'a Supervisory Committee members, 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:

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

32 Related parties (continued)

(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 comprehensive income are as follows:

	2017	2016
	RO	RO
Gross contributions	4,022,878	3,936,834
Retakaful / reinsurance contribution ceded	56,477	66,508
Gross outstanding claims	831,032	2,810,087
Gross claims settled	529,084	2,106,638
Retakaful / reinsurance claims	-	1,469,738
Commission paid	474,043	423,726
Directors' sitting fees (note 27)	51,200	50,800
Directors' travel and other expenses (note 27)	21,184	11,527
Shari'a Supervisory Committee sitting fee (note 27)	18,000	21,050
Shari'a Supervisory Committee's travel and other expenses (note 27)	14,363	5,262
Rental income	132,960	166,625
Income from investment in Modern Sukuk Company SAOC	253,193	191,187
Amortisation of investment in Modern Sukuk Company SAOC	3,620	3,620
Professional and consultancy charges	7,000	11,200
Investment management cost	21,173	39,965

(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:

	2017	2016
	RO	RO
Contribution balances receivables from other related parties	2,494,477	2,217,542
Rental income receivable	222,980	169,780
Accrued profit on investment in Modern Sukuk Company SAOC	62,499	20,948
Investment in Modern Sukuk Company SAOC	2,503,168	2,507,972
Investment in Mohammed Al Barwani Sukuk Issue SAOC	1,500,000	1,500,000
Investment in real estate	645,420	500,000
Investments at fair value through equity	1,119,317	1,543,152
Investments at fair value through profit or loss	403,045	-
Other receivable	-	160,155

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 2017, the Company has not established any provision for doubtful debts relating to amounts owed by related parties as the payment history has been good. This assessment is undertaken each financial period 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 profit free and payable on demand.

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

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

	2017	2016
	RO	RO
Short-term benefits	566,017	481,132
Employee end of service benefits	51,211	24,508
	617,228	505,640

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

33 Contingencies

Contingent liabilities

At 31 December 2017, 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 66,864 (2016 - RO 120,047).

Capital commitment

At 31 December 2017, the Company has no capital commitment (2016 – capital commitment of RO 76,147 in respect of office renovation work).

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 marketing strategies. For each of the strategic units, the Company's CEO reviews internal management reports on regular basis.

Operating segments

The Company has the following operating segments:

(a) General takaful

General business includes takaful and retakaful / reinsurance of motor; fire and general accident; marine cargo and hull; medical; workmen compensation; engineering and aviation.

(b) Family takaful

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

	General takaful	Family takaful	Total
	RO	RO	RO
2017			
Takaful revenue (net of retakaful / reinsurance)	14,115,703	1,028,096	15,143,799
Takaful expenses (net of retakaful / reinsurance)	<u>(10,443,802)</u>	<u>(516,857)</u>	<u>(10,960,659)</u>
Segment results	3,671,901	511,239	4,183,140
Takaful income	285,058	6,467	291,525
Provision for impairment of receivables	(80,000)	(10,000)	(90,000)
Takaful expense	(13,908)	(1,440)	(15,348)
Investment income - net	110,790	29,862	140,652
Mudarib share	(60,934)	(16,424)	(77,358)
Wakala fees	<u>(3,650,168)</u>	<u>(509,793)</u>	<u>(4,159,961)</u>
Surplus for the year	<u>262,739</u>	<u>9,911</u>	<u>272,650</u>
Segment assets	136,020,883	4,268,854	140,289,737
Assets allocated to shareholders			<u>25,444,569</u>
Total assets			<u>165,734,306</u>
Segment liabilities	137,837,716	4,896,909	142,734,625
Liabilities allocated to shareholders			<u>2,234,349</u>
Total liabilities			<u>144,968,974</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

34 Segment information (continued)

Operating segments (continued)

(b) Family takaful (continued)

	General takaful	Family takaful	Total
2016	RO	RO	RO
Takaful revenue (net of retakaful / reinsurance)	13,404,953	774,251	14,179,204
Takaful expenses (net of retakaful / reinsurance)	(9,802,974)	(338,160)	(10,141,134)
Segment results	3,601,979	436,091	4,038,070
Takaful income	746,306	1,816	748,122
Provision for impairment of receivables	(265,727)	(30,749)	(296,476)
Takaful expense	(181,158)	(6,914)	(188,072)
Investment income - net	97,714	987	98,701
Mudarib share	(58,628)	(593)	(59,221)
Wakala fees	(4,736,784)	(647,190)	(5,383,974)
Deficit for the year	(796,298)	(246,552)	(1,042,850)
Segment assets	25,194,052	3,241,671	28,435,723
Assets allocated to shareholders			24,738,910
Total assets			53,174,633
Segment liabilities	27,273,624	3,879,637	31,153,261
Liabilities allocated to shareholders			840,516
Total liabilities			31,993,777

The activities of the Company are restricted to carrying out takaful, on the principles of Shari'a significant portion of which is 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.

35 Risk management

(a) Governance framework

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

(b) Regulatory framework

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

The operations of the Company are also subject to regulatory requirements within the jurisdiction 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

35 Risk management (continued)

(c) Takaful risk

The risk under any takaful contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the nature of a takaful contract, this risk is random and therefore unpredictable. For a portfolio of takaful contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its takaful contracts is that the actual claims and benefit payments may exceed the carrying amount of the takaful liabilities. This could occur because of the frequency or severity of claims and benefits are greater than estimated. Takaful events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques. 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, amount of risk, industry and geography. Underwriting limits are in place to enforce risk selection criteria.

The Company principally issues general takaful contracts which constitute mainly motor, fire and allied perils, marine 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 minimise 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.

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 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 provision for claims incurred but not reported (IBNR).

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

The results from takaful operations before retakaful / reinsurance recoveries and wakala fee are analysed as follows:

	2017	2016
General takaful	RO	RO
Motor	3,355,130	2,469,166
Fire, general accidents, engineering and others	(131,465,472)	8,460,259
Marine cargo and hull	677,521	163,076
Medical	(199,893)	597,824
	<u>(127,632,714)</u>	<u>11,690,325</u>
Family takaful		
Life	1,114,984	1,525,683
Total	<u>(126,517,730)</u>	<u>13,216,008</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

35 Risk management (continued)

(c) Takaful risk (continued)

The net claims ratios are as follows:

	2017	2016
	%	%
Motor	<u>50</u>	<u>62</u>
Fire, general accidents, engineering and others	<u>37</u>	<u>11</u>
Medical	<u>98</u>	<u>92</u>
Life	<u>32</u>	<u>27</u>

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).

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 period. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example one-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key assumptions include variation in mortality, longevity, profit rates and delays in settlement. Discount rate used is determined with reference to risk free rate adjusted for country risk premium.

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.

	Change in assumptions	Impact on liabilities	Impact on underwriting results
	%	RO	RO
2017			
Incurring claims – net	<u>+10%</u>	<u>920,388</u>	<u>(920,388)</u>
	<u>-10%</u>	<u>(920,388)</u>	<u>920,388</u>
	Change in assumptions	Impact on liabilities	Impact on underwriting results
	%	RO	RO
2016			
Incurring claims – net	<u>+10%</u>	<u>839,120</u>	<u>(839,120)</u>
	<u>-10%</u>	<u>(839,120)</u>	<u>839,120</u>

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 for short term contracts are normally resolved within one year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

35 Risk management (continued)

(d) Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (exchange rate risk, profit rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company. Risk management is carried out by the management under policies approved by the Board of Directors.

(i) Market risk

Exchange rate risk

Exchange rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company is exposed to foreign exchange risk primarily from USD which is pegged to Omani Rial. The Company's exposure to foreign currency risk was as follows:

	2017		2016	
	USD	Other foreign currencies	USD	Other foreign currencies
Assets				
Cash and bank balances	434,618	-	72,052	-
Investments carried at fair value through profit or loss	-	-	-	158,331
Takaful and retakaful / reinsurance balance receivables	3,957,553	4,073	3,040,099	2,725
Investments at fair value through equity	170,170	1,033,914	33,206	1,293,842
Bank deposits	-	-	51,975	-
Investments carried at amortised cost	234,931	-	239,243	-
Liabilities				
Retakaful / reinsurance payables	2,402,467	1,325	1,851,810	463

Sensitivity analysis

The exchange rate for USD is pegged to Riyal Omani, therefore, management does not consider any significant risk arising from transactions in USD. During the year ended 31 December 2017, Rial Omani were to have strengthened or weakened by 1% against other foreign currencies with all other variables held constant, results for the year would have been higher or lower by approximately RO 10,367 (2016 - RO 14,544).

Profit rate risk

Profit rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market rates.

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	2017	2016
		RO	RO
Income from bank deposit and investments carried at amortised cost	+0.5%	70,973	62,372
	-0.5%	(70,973)	(62,372)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

35 Risk management (continued)

(d) Financial risk factors (continued)

(i) Market risk (continued)

Profit rate risk (continued)

The Company's profit rate risk based on contractual arrangements were as follows:

2017	Less than 1 year RO	Over 1 year RO	Total RO
Bank deposits	907,336	8,805,898	9,713,234
Investments carried at amortised cost	2,877,917	2,863,525	5,741,442
	Less than 1 year RO	Over 1 year RO	Total RO
2016			
Bank deposits	7,411,878	938,749	8,350,627
Investments carried at amortised cost	267,011	4,434,261	4,701,272

Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from profit rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices. The Company's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each country, sector and market and careful and planned use of derivative financial instruments.

70% (2016 - 71%) 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 would have impact on profit / (loss) of approximately RO 209,840 (2016 - RO 319,100).

A 10% change in fair value of the Company's investments at fair value through equity would have impact on equity of approximately RO 182,015 (2016 - RO 188,773).

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;

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); and

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

2017	Level 1 RO	Level 2 RO	Level 3 RO	Total RO
Investment in real estate	-	6,391,733	-	6,391,733
Investments at fair value through equity	1,390,384	-	429,769	1,820,153
Investments carried at fair value through profit or loss	2,098,401	-	-	2,098,401
	3,488,785	6,391,733	429,769	10,310,287

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

35 Risk management (continued)

(d) Financial risk factors (continued)

(i) Market risk (continued)

Fair value estimation (continued)

	Level 1	Level 2	Level 3	Total
	RO	RO	RO	RO
2016				
Investment in real estate	-	6,245,911	-	6,245,911
Investments at fair value through equity	1,327,048	-	560,685	1,887,733
Investments carried at fair value through profit or loss	<u>3,187,597</u>	<u>3,400</u>	<u>-</u>	<u>3,190,997</u>
	<u>4,514,645</u>	<u>6,249,311</u>	<u>560,685</u>	<u>11,324,641</u>

The net change in fair value of investments carried at fair value through profit or loss of RO 359,807 (2016 – RO 201,140) relates to level 1 of fair valuation hierarchy.

The change in fair value of investments at fair value through equity includes loss amounting to RO 134,967 (2016 - RO 398,243) which relates to level 1 and gain amounting to RO 32,785 (2016 – RO 54,800) which relates to level 3 of fair valuation hierarchy.

(ii) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

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

	2017	2016
	RO	RO
Cash and bank balances (excluding cash in hand)	4,411,755	2,177,189
Bank deposits	9,205,000	8,225,172
Takaful balance receivable	11,306,433	9,294,235
Retakaful / reinsurance balance receivable	713,240	645,729
Other receivables and takaful assets (excluding advances and prepayments)	1,267,010	1,932,928
Investments carried at amortised cost	<u>4,989,600</u>	<u>4,247,215</u>
	<u>31,893,038</u>	<u>26,522,468</u>

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

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:

	2017	2016
	RO	RO
P1	1,456,509	355
P2	11,836,773	10,081,961
Unrated	<u>323,473</u>	<u>320,045</u>
	<u>13,616,755</u>	<u>10,402,361</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

35 Risk management (continued)

(d) Financial risk factors (continued)

(ii) Credit risk (continued)

Takaful receivables comprise a number of customers within Oman and local and foreign retakaful / reinsurance companies. At 31 December 2017, top 5 retakaful / reinsurance companies account for 62% (2016 – 71%) of the credit exposure. 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.

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

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

	2017	2016
	RO	RO
Oman	11,269,952	9,715,359
Middle east	514,435	156,618
Others	235,286	67,987
	<u>12,019,673</u>	<u>9,939,964</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:

	2017	2016
	RO	RO
Brokers and agents	6,469,560	7,413,579
Individuals and corporate clients	4,836,873	1,880,656
Retakaful / reinsurance companies	713,240	645,729
	<u>12,019,673</u>	<u>9,939,964</u>

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 table below shows the gross retakaful / reinsurance receivables at the reporting date as rated by various rating agencies:

Rating	2017	2016
	RO	RO
A	429,498	253,580
AA	113,131	79,254
B	31,658	76,407
Other rated	9,814	57,479
Unrated	402,953	452,823
	<u>987,054</u>	<u>919,543</u>

(iii) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored regularly and the directors ensure that sufficient funds are available to meet any commitments as they arise. The Company considers their liquidity position to be satisfactory.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

35 Risk management (continued)

(d) Financial risk factors (continued)

(iii) Liquidity risk (continued)

At 31 December 2017, the Company's solvency margin (as determined in accordance with the Oman Insurance regulations) indicates surplus of 4,594,232 (2016 - RO 5,904,900) against the regulatory requirement.

At reporting date, the maturity profile of financial liabilities is as follows:

	1 month to 4 months	4 months to 12 months	Non-fixed maturity	Total
2017	RO	RO	RO	RO
Financial liabilities				
Takaful liabilities	-	-	129,989,341	129,989,341
Retakaful / reinsurance payable	-	7,357,300	-	7,357,300
Accounts and other payables (excluding government tax payable)	2,833,141	-	-	2,833,141
Charity fund payable	20,047	-	-	20,047
Total	2,853,188	7,357,300	129,989,341	140,199,829
	1 month to 4 months	4 months to 12 months	Non-fixed maturity	Total
	RO	RO	RO	RO
2016				
Financial liabilities				
Takaful liabilities	-	-	20,942,900	20,942,900
Retakaful / reinsurance payable	-	5,967,958	-	5,967,958
Accounts and other payables (excluding government tax payable)	1,663,127	-	-	1,663,127
Charity fund payable	18,842	-	-	18,842
Total	1,681,969	5,967,958	20,942,900	28,592,827

(e) Capital risk management

Capital Market Authority (CMA) has issued Takaful Insurance Law, however, the related regulations have not been issued yet. As and when any new regulations and instructions are issued by the CMA regarding Takaful Business, management will ensure that the solvency margin complies with such regulations. In the absence of specific takaful regulations, the Company has complied with the existing regulations for the conventional insurance companies in the Sultanate of Oman.

Externally imposed capital requirements are set and regulated by the CMA and are put in place to ensure sufficient solvency margin. Further objectives are set by the Company to maintain a strong credit rating and healthy capital ratios in order to support its business objectives and maximise shareholders and policyholders value.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and policyholders and to maintain an optimal capital structure to reduce the cost of capital. Further, the Insurance Companies Law of Oman of 1979 as amended requires a minimum capital of RO 10 million for insurance companies.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

36 Financial assets by category

The accounting policies for financial assets have been applied to the line items below:

	Loans and receivables	Investments carried at fair value through profit or loss	Investments at fair value through equity	Investments carried at amortised cost	Total
	RO	RO	RO	RO	RO
2017					
Cash and bank balances	4,425,902	-	-	-	4,425,902
Bank deposits	9,205,000	-	-	-	9,205,000
Investments carried at fair value through profit or loss	-	2,098,401	-	-	2,098,401
Takaful balance receivable	11,306,433	-	-	-	11,306,433
Retakaful / reinsurance balance receivable	713,240	-	-	-	713,240
Other receivables and takaful assets (excluding advances and prepayments)	1,267,010	-	-	-	1,267,010
Investments at fair value through equity	-	-	1,820,153	-	1,820,153
Investments carried at amortised cost	-	-	-	4,989,600	4,989,600
	<u>26,917,585</u>	<u>2,098,401</u>	<u>1,820,153</u>	<u>4,989,600</u>	<u>35,825,739</u>
	Loans and receivables	Investments carried at fair value through profit or loss	Investments at fair value through equity	Investments carried at amortised cost	Total
	RO	RO	RO	RO	RO
2016					
Cash and bank balances	2,180,920	-	-	-	2,180,920
Bank deposits	8,225,172	-	-	-	8,225,172
Investments carried at fair value through profit or loss	-	3,190,997	-	-	3,190,997
Takaful balance receivable	9,294,235	-	-	-	9,294,235
Retakaful / reinsurance balance receivable	645,729	-	-	-	645,729
Other receivables and takaful assets (excluding advances and prepayments)	1,932,928	-	-	-	1,932,928
Investments at fair value through equity	-	-	1,887,733	-	1,887,733
Investments carried at amortised cost	-	-	-	4,247,215	4,247,215
	<u>22,278,984</u>	<u>3,190,997</u>	<u>1,887,733</u>	<u>4,247,215</u>	<u>31,604,929</u>



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

37 Zakat

With regards to the zakat liability of the Company's shareholders, the Shari'a Supervisory Committee has approved the calculation of zakat in accordance with the guidance provided by AAOIFI. Such calculation is based on the net invested fund method. This has been communicated to the shareholders and is payable directly by them as per the Articles of Association of the Company.

38 Distribution of surplus in policyholders' fund

As per the Company's policy for distribution of surplus in participants' fund, 50% of surplus in policyholders' fund for the year shall be transferred to takaful reserve. Takaful reserve allocation will be made on the basis advised by the Shari'a Supervisory Committee. During the period, no amount has been transferred to the takaful reserve as there is no surplus for the current year after appropriation of contingency reserve.

39 Shari'a Supervisory Committee

The Company's business activities are subject to supervision of a Shari'a Supervisory Committee (SSC) consisting of three members appointed by the shareholders of the Company. The SSC performs supervisory role in order to determine whether the operations of the Company are conducted in accordance with the Islamic Shari'a rules and principles.

40 Earnings prohibited under Shari'a

Earnings retained during the previous year from transactions which are not permitted under Shari'a and are recorded as part of accounts and other payables amounted to RO 20,047 (2016 - RO 18,842). All non-Islamic income is credited to a charity account where the Company uses these funds for charitable purposes.

41 Corresponding figures

The corresponding figures for the previous year have been reclassified, where necessary, in order to conform to the current year's presentation. Such reclassifications do not affect the previously reported net profit / (loss), net assets or equity.

Independent auditor's report – page 22.



المدينة تكافل تفوز بجائزة أفضل شركة عربية للتأمين وجائزة أفضل ١٠٠ رئيس تنفيذي عربي في حفل توزيع جوائز أفضل العرب لعام ٢٠١٧

Al Madina Takaful wins Best Arab Insurance Company Award and Best Arabian 100 CEO Award at Arab Best Award 2017

حصلت شركة المدينة للتأمين على جائزة مرموقة أخرى، تُقيّم مكانة الشركة الرائدة في هذا المجال.

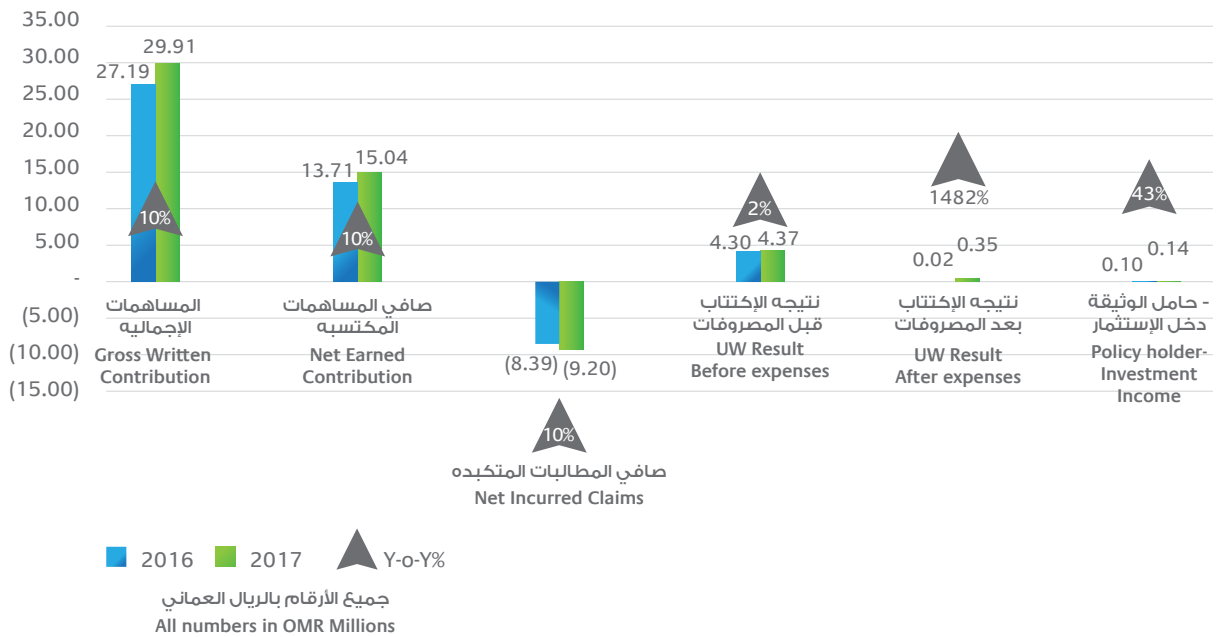
في حفل توزيع جوائز أفضل العرب لعام ٢٠١٧ والذي أُقيم بمدينة مراكش بالمملكة المغربية، حصدت شركة المدينة تكافل لقب أفضل شركة عربية عن فئة التأمين، كما حصل الفاضل أسامة البرواني، القائم بأعمال الرئيس التنفيذي للشركة على جائزة أفضل ١٠٠ رئيس تنفيذي عربي. وتأتي جائزة أفضل العرب تقديراً للأفضل من أفراد ومؤسسات في العالم العربي في قطاعات القيادة والأعمال والمجتمع والرياضة. ويتمثل الهدف السامي لهذه الجائزة فيد تحفيز المبدعين من الدول العربية وتشجيعهم على الابتكار والتميز المؤسسي في فئات الأعمال.

Al Madina Insurance, received yet another prestigious award benchmarking the company's industry-leading status.

The company was awarded the **Best Arab Company in the insurance category at the Arab Best Award 2017** and **Usama al Barwani, Acting CEO of Al Madina Takaful** received the **Best Arabian 100 CEO Award at the ceremony held in Marrakech, Morocco**. The 'Arab Best Award' recognizes the best in the Arab world in leadership, business and community and sports. The award aims at motivating innovators from Arab countries and encouraging them to innovate and excel in business categories.



AMI results - Policy holder



سنوي %	٢٠١٧	٢٠١٦	
%١٠	٢٩,٩١	٢٧,١٩	المساهمات الأجمالية
%١٠	١٥,٠٤	١٣,٧١	صافي الإشتراكات المكتسبه
%١٠	(٩,٢٠)	(٨,٣٩)	صافي المطالبات المتكبده
%٢	٤,٣٧	٤,٣٠	نتيجة الإكتتاب قبل المصروفات
%١٤٨٢	٠,٣٥	٠,٠٢	نتيجة الإكتتاب بعد المصروفات
%٤٣	٠,١٤	٠,١٠	حامل الوثيقة - دخل الإستثمار

	2016	2017	Y-o-Y %
Gross Written Contribution	27.19	29.91	10%
Net Earned Contribution	13.71	15.04	10%
Net Incurred Claims	(8.39)	(9.20)	10%
UW Result Before expenses	4.30	4.37	2%
UW Result After expenses	0.02	0.35	1482%
Policy holder - Investment Income	0.10	0.14	43%