ANNUAL REPORT 2013

المدينة تكافل
Al Madina Takaful

Everything in harmony

HIS MAJESTY SULTAN QABOOS BIN SAID

Contents

المدينة تكافل
Al Madina Takaful

Board of Directors

H.E. Dr. Mohammed Ali Al Barwani
Chairman

Eng. Abdulrahman Awadh Barham
Deputy Chairman

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

Eng. Khamis Mubarak Al Kiyumi
Director

Eng. Abdullah Ali Al Abdullah
Director

Mr. Salah Nasser Al Riyami
Director

Ms. Safana M. A. Al Barwani
Director

Mr. Hamed M. Al Wahaibi
Director

المدينة تكافل
Al Madina Takaful

Management Team

Mr. Gautam Datta
CEO

Mr. Usama Al Barwani
General Manager, HR & Admin., Board Secretary, Sharia'a Board Secretary

Mr. Mahmud Attar
General Manager
Internal Audit & Compliance

Mr. Sandeep Mahajan
General Manager
Specialty & Reinsurance

Mr. Nasser Al Shueili
General Manager
Claims

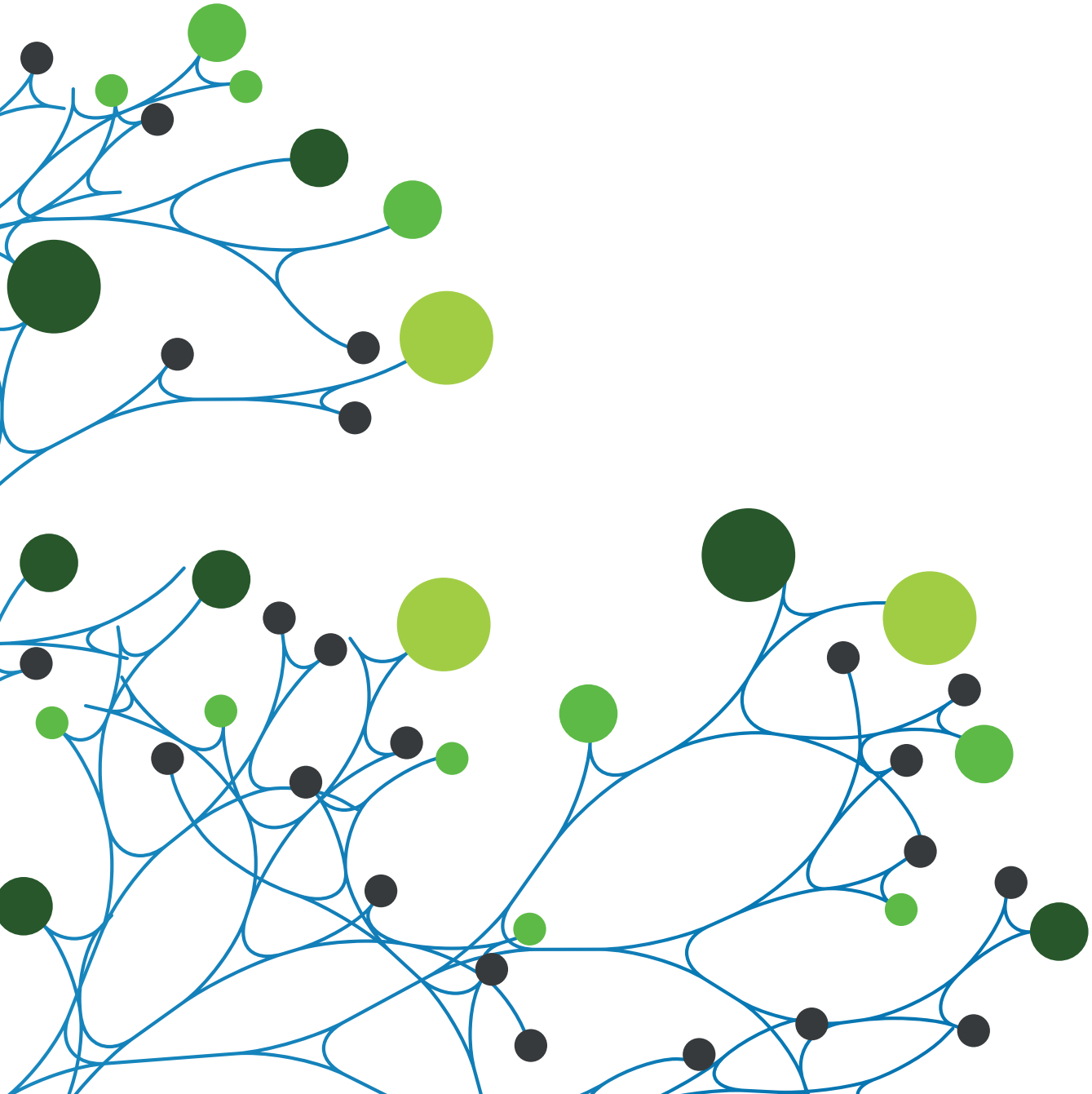
Mr. R.M. Sundaram
General Manager
Finance

Mr. Ajay Srivastava
General Manager
Commercial

Mr. Girish Gopinath
Senior Manager - IT

Mr. Jaspreet Chhabra
Senior Manager - Investment

Chairman's Report



Dear Shareholders,

السلام عليكم ورحمة الله وبركاته

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

It gives me great pleasure to report on the performance of your company and submit the audited financial statement for the financial year 2013.

Al Madina Insurance has successfully come through a process of positive transitional change. We are now proud to be the first Takaful insurance company in Oman to be approved by the Capital Markets Authority. We have restructured our business position to offer Sharia'a compliant products and services in compliance with Islamic values and principles. To facilitate this conversion the Board decided to float an IPO for 40% of the company's paid-up capital. This was a clear reflection of the confidence of the founder shareholders in the company. Interestingly, the IPO was oversubscribed five times, reflecting the trust of the public in the issue.

The company was also pleased to unveil its refreshing new brand identity under the concept of 'everything in harmony'. This truly enhances our brand and underlines the essence of Takaful and its benefits to all. This is also reflected in our corporate offices at Muscat Grand Mall, creating a more contemporary work environment.

Additionally, a sales kiosk has been opened at the Mall to facilitate customer interaction. The Ruwi office however, will be retained as a branch in addition to Seeb, Salalah, Sohar and Nizwa. Approval has also been obtained for a branch at the Sultan Qaboos University campus.

2013 has been a testing year for the insurance sector, with the operating environment remaining unpredictable and global economic conditions remaining predominantly fragile. Despite the turbulent environment, Al Madina Insurance witnessed steady growth across most business lines which bears testimony to the focused strategy of the company, its ingrained culture of effective risk management and financial discipline. Your company has continued to build on its foundations over the past three years to return an impressive financial result for 2013.

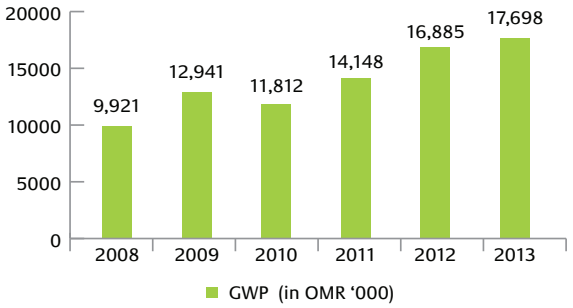
Our growth has been made possible within the context of Oman's relative stability and its ambitious 5-year plan. The plan has budgeted spending of RO 30 billion in Oil and Gas, Power, Roads, Sea and Airports, Education and Healthcare sectors thus forecasting a GDP growth of 5%. Road accidents, which has cost the Oman economy an astonishing $1.8 billion the previous year has dropped marginally, thanks to the concerted efforts of the Government, the various authorities and the Oman Insurance Association.

In tandem with reinforcing the company's capital base, the Board of Directors has taken practical steps to ensure best Corporate Governance practices by applying practical procedures and processes and assessment methods across all operating areas. Our aim is to ensure compliance with best international standards along with local regulatory requirements. At the same time we continue to explore opportunities with the sole objective of offering better products and services to meet customer needs and enhance our shareholder value, within a proper risk-return framework.

FINANCIAL PERFORMANCE

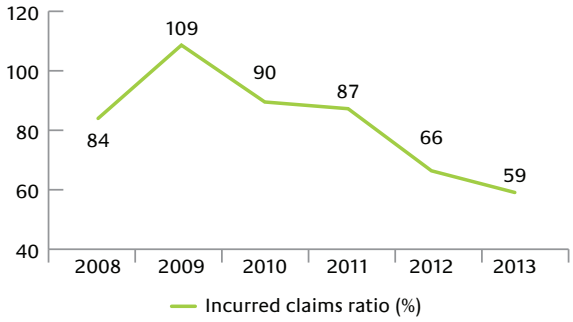
Gross Written Premium (GWP)

The GWP increased by 5% from RO 16.885 million in 2012 to RO 17.697 million in 2013.



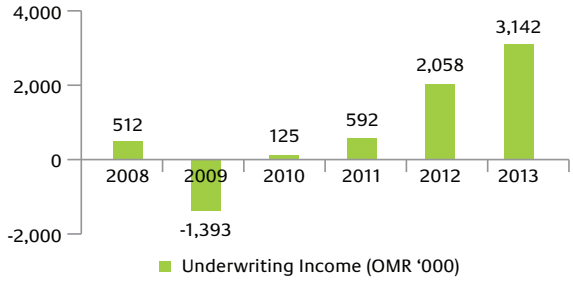
Incurred Claims Ratio (ICR)

The ICR dropped from 66% in 2012 to 59% in 2013.



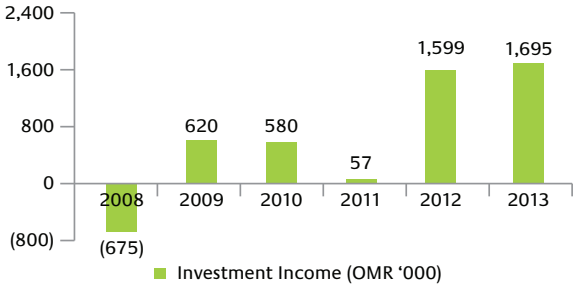
Underwriting Income

The Underwriting Income of the Company increased by an impressive 53% from RO 2.07 million in 2012 to RO 3.14 million in 2013.



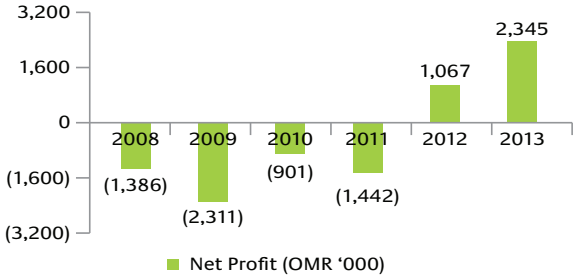
Investment Income

The Investment Income increased by 15% from RO 1.5 million in 2012 to an income of RO 1.7 million in 2013.



Net Profit

The Net Profit of the Company showed a strong increase from RO 1.067 million in 2012 to RO 2.344 million in 2013, a growth of 120%.



HUMAN RESOURCES

The quality of our human resource has been a major contributing factor to the sustained growth of our company and I take pride in the company's achievement of 70% Omanization at the end of 2013. This not only meets the requirement of the Capital Markets Authority (CMA) but is aligned to His Majesty's call for providing work opportunities to young Omanis in the private sector. The objective is to train a national workforce to take on higher responsibilities and leadership roles.

The company also took a major initiative by appointing an HR Consultant and a detailed Competency Framework is now in place to ensure that roles and responsibilities match individual skills and simultaneously provide a benchmark for fair appraisals.

LOOKING AHEAD TO 2014

Oman is poised for growth and the economic outlook for the country is positive and with developments taking place in key sectors like Banking and Finance, Energy, Infrastructure and the Free-zones. This presents the company with the ideal opportunity to capitalize on these developments and build on its successes.

What's heartening is that the Islamic Financial Services is making its presence felt with the opening of Bank Nizwa and alizz islamic bank, followed by Islamic windows of Bank Muscat, National Bank of Oman, Bank Dhofar and Ahli Bank. Our conversion to a full-fledged Takaful Company will further leverage this growth sector.

ACKNOWLEDGEMENT

I wish to express my deepest thanks and gratitude to HM Sultan Qaboos Bin Said for his vision and leadership in guiding the course of the Sultanate into a country with a flourishing economy.

I also wish to extend my thanks to the Ministry of Commerce and Industry, Capital Markets Authority and other regulators for their guidance and support. Of course, the achievements of 2013 would not have been possible without the backing of our shareholders, business partners and the dedication and hard work of our management and staff at all level. Dear Shareholders we are grateful for your trust in our management's abilities to deliver outstanding results. Your company moves forward with a renewed sense of purpose and confidence.

السلام عليكم ورحمة الله وبركاته

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

May God Bless you all.

Dr. Mohammed Ali Al Barwani
Chairman of the Board.

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REPORT OF FACTUAL FINDINGS

TO THE SHAREHOLDERS OF AL MADINA INSURANCE COMPANY SAOG

We have performed the procedures prescribed in Capital Market Authority (CMA) circular no. 16/2003, dated 29 December 2003 and circular no. 7/I/2005 dated 1 August 2005, applicable for insurance companies, with respect to the Board of Directors' corporate governance report of Al Madina Insurance Company SAOG (the company) as at and for the year ended 31 December 2013 and application of the corporate governance practices in accordance with CMA Code of Corporate Governance issued under circular no. 11/2002 dated 3 June 2002 and its amendments and as supplemented by the Rules and Guidelines on Disclosure by Issuers of Securities and Insider Trading approved by Administrative Decision No 5/2007 dated 27 June 2007 and the Executive Regulation of the Capital Market Law issued under the Decision number 1/2009 dated 18 March 2009 (collectively the Codes and additional regulations and disclosures). Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon-procedures engagements. The procedures, as stated in circular no. 16/2003 and circular no. 7/I/2005, were performed solely to assist you in evaluating the company's compliance with the Codes as issued by the CMA.

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

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

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the Board of Directors' corporate governance report included in its annual report for the year ended 31 December 2013 and does not extend to any financial statements of Al Madina Insurance Company SAOG taken as a whole.

PricewaterhouseCoopers LLP

27 February 2014
Muscat, Sultanate of Oman

PricewaterhouseCoopers LLP, Hatat House A, Suites 204-211, Wadi Adai, P. O. Box 3075, Ruwi, Post Code 112, Muscat, Sultanate of Oman, T: +968 2 455 9110, F: +968 2 456 4408, www.pwc.com/middle-east

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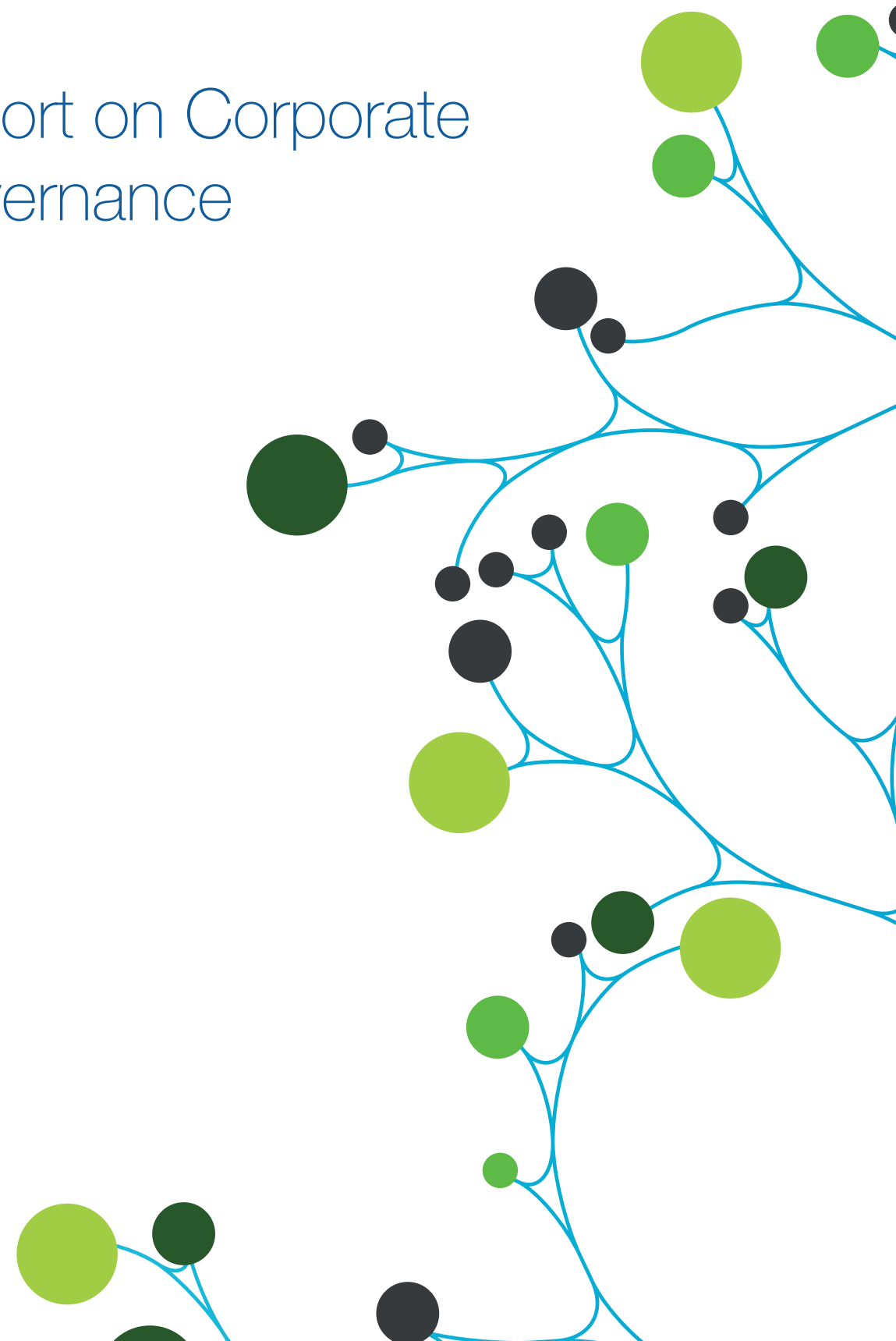
Report on Corporate Governance



A) COMPANY'S PHILOSOPHY

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

The Company has the vision of being a leading insurance company in Oman where leadership is measured in terms of profitability for its stakeholders, satisfaction for its customers and commitment for its employees. The Company aims to provide insurance service that conforms to culture, social ethos and needs of the community. The Company operates on guiding principles of transparency, integrity, innovation, teamwork and social responsibility.

The Board of Directors is committed to the highest standards of Corporate Governance. The Company deploys appropriate business strategy that is supplemented by sound internal controls. The performance of the Company and realization of its business objectives are based on transparency in its disclosures and compliance of code of corporate governance.

B) THE BOARD OF DIRECTORS

The Directors are elected for a period of three years. The re-election of the Board was conducted in 2012. A director should hold at least 100,000 shares to qualify for election.

Mr. Sameer Ebrahim Al Wazzan, who is a well known insurance professional in the region and an erstwhile member of this Board, was an advisor to the Board and Audit Committee. During the year, in view of his various commitments, he could not continue in the above role and hence he did not attend the meetings subsequent to 25 February 2013.

Details of Directors

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

The Board of Directors of the Company met five times during the year ended 31st December 2013, on 25th February, 2nd June, 25th July, 2nd September and 15th December 2013. All the Directors attended the AGM held on 24th March 2013.

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

Name	25th February	2nd June	25th July	2nd September	15th December
H.E. Dr. Mohammed Ali Al Barwani	Yes	Yes	Yes	Yes	Yes
Eng. Abdulrahman Awadh Barham	Yes	Yes	Yes	Yes	Yes
H.E. Shaikh Abdulrahman Mohammed Jabor Al Thani	Yes	Yes	Yes	No	Yes
Eng. Khamis Mubarak Al Kiyumi	Yes	Yes	Yes	Yes	Yes
Eng. Abdullah Ali Al Abdullah	Yes	Yes	Yes	No	Yes
Mr. Saleh Nasser Al Riyami	Yes	Yes	Yes	Yes	Yes
Ms. Safana M. A. Al Barwani	Yes	Yes	Yes	Yes	Yes
Mr. Hamed M. Al Wahaibi	Yes	Yes	Yes	Yes	Yes
Mr. Sameer Ebrahim Al Wazzan	Yes	No	No	No	No

Name	Position	No. of Board Meetings attended	Sitting Fees RO
H.E. Dr. Mohammed Ali Al Barwani	Chairman	5	5,000
Eng. Abdulrahman Awadh Barham	Dy. Chairman	5	5,000
H.E. Shaikh Abdulrahman Mohammed Jabor Al Thani	Director	4	4,000
Eng. Khamis Mubarak Al Kiyumi	Director	5	5,000
Eng. Abdullah Ali Al Abdullah	Director	4	4,000
Mr. Saleh Nasser Al Riyami	Director	5	5,000
Ms. Safana M. A. Al Barwani	Director	5	5,000
Mr. Hamed M. Al Wahaibi	Director	5	5,000
Mr. Sameer Ebrahim Al Wazzan	Advisor	1	1,000

The Directors have not been paid any other remuneration.

Responsibilities of Board of Directors

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

The Board of Directors responsibilities as per the laws applicable in 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 Trans Gulf Investment Holding, Al Madina Real Estate Co., Oman Air, Nautilus Minerals (Toronto Stock Exchange), and UCL Resources (Australian Stock Exchange). Some of these companies are pioneers in conducting Islamic finance transactions in the country. This experience gives him a deep understanding of the subject and provides guidance to the Board and Management of the Company. He is also the Honorary Consul of

the Republic of Poland to the Sultanate of Oman and has received various awards for achievement in business and public life.

b) **Eng. Abdulrahman Awadh Barham (Nationality: Omani)**

Eng. Barham is the Vice Chairman of the Company and has over 24 years of experience in handling and planning projects. He currently holds the position of CEO and investment committee member in Al Madina Real Estate. He has a profound understanding of the products relevant to finance real estate projects. He also holds the position of Director in Salalah Mills Company SAOG, Tilal Development Company SAOC, Shaden Development Company SAOC and Shaza Muscat Hotel Company SAOC.

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

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

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

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

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

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

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

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

Mr. Riyami has more than 15 years of experience as an investment expert. He currently holds the position of Vice Chairman at Oman Ceramics and Director in Oman, Qatari Telecommunications Company SAOG (Nawras) and Taageer Finance. Mr. Riyami has put in an effort to attract key Islamic Shariah scholars who are experts in Islamic financial services in the GCC region to provide consultation in the field of Islamic financial services in coordination with Omani consulting firms. He also follows the meetings held with Shariah specialists so as to transform the Company into a Takaful-based insurance company.

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

Ms. Safana has 9 years of experience in investment, insurance and real estate. She holds the position of Director in Mazoon Petro Gas, Risk Management Services and Interior Hotels.

h) **Hamed Mohammed Al Wahaibi (Nationality: Omani)**

Mr. Wahaibi has built a career with 14 years of experience in investments and asset management. Mr. Wahaibi holds an MBA in Finance from University of Technology, Sydney and is a Chartered Financial Analyst (CFA) Charter holder from CFA Institute Global. He graduated from Sultan Qaboos University in Bachelor of Science in Commerce & Economics in Operations Management. He currently holds the office of Director- Investment with the Ministry of Defense Pension Fund. He also holds the position of Director in Galfar Engineering and Contracting (SAOG), Voltamp Energy Co. (SAOG) and Shaden Development Co. (SAOC).

C) AUDIT COMMITTEE

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

The Audit Committee met four times during the year ended 31st December 2013 on 25th February, 26th May, 31st July and 3rd December 2013.

The details of Audit Committee meetings attended and sitting fees paid during 2013 are as follows:

Name	25th February	26th May	31st July	3rd December
Mr. Saleh Nasser Al Riyami	Yes	Yes	Yes	Yes
Ms. Safana M. A. Al Barwani	No	Yes	Yes	Yes
Mr. Hamed M. Al Wahaibi	Yes	Yes	Yes	Yes
Mr. Sameer Ebrahim Al Wazzan	Yes	No	No	No

Name	Position	No. of Meetings attended	Sitting Fees RO
Mr. Saleh Al Riyami	Chairman	4	3,200
Ms. Safana M.Al Barwani	Member	3	2,400
Mr. Hamed Al Wahaibi	Member	4	3,200
Mr. Sameer Ebrahim Al Wazzan	Advisor	1	800

Audit Committee Functions

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

Terms of reference of the Audit Committee

1) Considering the name of the statutory auditor in context of their independence (particularly with reference to any other non-audit services), fees and terms of engagement and recommending its name to the Board for placing before AGM for appointment.

2) Reviewing audit plan and results of the audit and as to whether auditors have full access to all relevant documents.

3) Checking financial fraud particularly fictitious and fraudulent portions of the financial statements. They should put in place an appropriate system to ensure adoption of appropriate accounting policies and principles leading to fairness in financial statements.

4) Oversight of internal audit functions in general and with particular reference to reviewing of scope of internal audit plan for the year. Reviewing the report of internal auditors pertaining to critical areas like underwriting, settlement of claims, provisions of technical reserves (liabilities of policy holders) reinsurance management, solvency margin, investments etc. Reviewing the efficacy of internal auditing and reviewing whether internal auditors have full access to all relevant documents.

5) Oversight of the adequacy of internal control systems as required by the Article 5(11) of the Code for Corporate Governance, through the regular reports of the internal and external auditors. They may appoint external consultants if the need arose.

6) Oversight and review of the annual financial statements, returns and solvency margin computation required to be submitted to the CMA and prepared in accordance with the Insurance Companies Law and its regulations. The audit committee shall review the regulatory returns before submission to the CMA. Review of the annual and quarterly accounts before issue,

review of qualifications in the draft financial statements and discussion of accounting principles. In particular, change in accounting policies, principles and accounting estimates in comparison to previous year, any adoption of new accounting policy and departure from International Accounting Standards (IAS) 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 Executive Committee constituted by the Board, comprises of four non-executive members. The Committee provides guidance to the management on the implementation of the Company's strategies set by the Board and to review operational performance as well as investment objectives.

The meetings were held on 29th April and 31st December 2013.

The details of Executive Committee meeting attended and sitting fees paid during 2013 are as given below:

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

Eng. Abdullah Ali Al Abdullah is also a member of the committee but he did not attend either meetings convened in the year.

E) PROCESS OF NOMINATION OF DIRECTORS

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

F) MANAGEMENT REMUNERATION MATTERS

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

The gross remuneration paid during the year to the top 8 officers of the Company including salary and allowances amounted to RO 532,725. In addition to this a Company maintained car is provided to the CEO. Company does not offer any stock options to any of its Directors or employees.

Profile of the Executive Management of the Company

a) **Gautam Datta, Chief Executive Officer**
Mr. Datta has completed his B.A. (Honors in Economics) and is a Fellow of Insurance Institute of India (FIII) with over 30 years' experience in the insurance industry. Previously, he held senior management posts at a number of leading insurance institutions including Chubb Insurance Group, Solidarity Group, Bahrain Kuwait Insurance, and New India Assurance.

He has diverse experience in various aspects of insurance business, underwriting, claims adjustment, reinsurance treaty, establishment and management of green-field operations which includes Takaful companies.

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

b) **Usama Al Barwani, General Manager - HR & Admin., Board Secretary, Sharia'a Board Secretary**

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 21 years of experience in HR and Administration. He is involved in the meetings held with specialists in Shariah consulting services in respect of transforming the Company's activities into Takaful based insurance.

c) **Ajay Srivastava, General Manager - Commercial**

Mr. Srivastava has completed his Bachelor of Science (Honors). He has a Bachelor's degree in Law and is an Associate of Insurance Institute of India (AIII), with over 22 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 largest auto manufacturer of India (Daewoo Motors). He developed and serviced one of UK's largest furnishing Chain (ROSEBYS) and Hotel Chains (Aurora Group) during his career.

d) **Sandeep Mahajan, General Manager - Specialty**

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

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

Mr. Sundaram has completed his Bachelors in Science. He is also an Associate of Institute of Cost & Works Accountants of India and Certified Management Accountant, issued by the Institute of Certified Management Accountants, New Jersey, USA, with over 28 years of experience in Insurance and Banking in India and the GCC.

f) **Nasser Al Shueili, General Manager – Claims**

Mr. Nasser has completed his Diploma in Insurance (CIII). He has over 16 years of experience in underwriting, audit, non-motor and motor claims in Omani and multinational insurance companies in the region.

g) **Mahmud Attar, General Manager - Internal Audit & Compliance**

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

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

h) **Girish Gopinath, Senior Manager - IT**

Mr. Gopinath has more than 21 years of experience in software product development. He is the Chief architect for the Company's own brand 'Tameenet' which supports retail product development, customer services and online delivery. Prior to joining the Company, Mr. Girish has worked for Oman United Insurance and Veritas DGC Ltd. He has completed his Bachelor in Computer Science and Masters in Banking and Insurance from India.

i) **Jaspreet Chhabra, Senior Manager - Investments**

Mr. Chhabra has completed his Bachelor in Commerce and Chartered Accountancy, with over 7 years of experience in portfolio management, equity research and financial analysis in Indian and Omani equity markets.

G) AREAS OF NON COMPLIANCE

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

H) MEANS OF COMMUNICATION WITH SHAREHOLDERS

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

The Company has become a public joint stock company in December 2013. Therefore, no half yearly results were submitted to MSM. The Company posts its announcements regarding operations and developments of the company on its website www.almadinatakaful.com.

The Company has made presentations to institutional investors and to financial analysts before the initial public offering in the last quarter of 2013.

I) MARKET PRICE DATA AND DISTRIBUTION OF HOLDINGS

Market price data

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

	Company's market price (RO)		MSM 30 Index	
Month	**High**	**Low**	**High**	**Low**
Dec-13	0.148	0.135	6834.6	6737.1

Pattern of Shareholding

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

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

SHAREHOLDER	NO. OF SHARES	% HOLDING
Mohammed Al Barwani Holding Co. L.L.C.	43,095,240	26
Al Madina Financial Services	12,000,000	17
Ministry of Defence Pension Fund	10,000,000	6

J) DECLARATION BY THE BOARD OF DIRECTORS

We the Board of Directors hereby confirms that:

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

K) PROFILE OF THE STATUTORY AUDITORS

PwC is a global network of firms operating in 157 countries with more than 184,000 people who are committed to delivering quality in assurance, tax and advisory services. PwC also provides corporate training and professional financial qualifications through PwC's Academy.

Established in the Middle East for 40 years, PwC employs over 2780 people and has 21 offices across 12 countries: Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, the Palestinian Territories and the United Arab Emirates.

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

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

For Al Madina Insurance Company SAOG

Management Discussion & Analysis Report

for the year ended 31st December 2013

INTRODUCTION

The GDP of Oman grew at 5.1% for 2013 as compared to 4.5% in 2012 establishing another year of strong economic performance. This growth was driven by strong output and prices of both oil and gas and thereby spending ability of the public sector. The budget prepared by using oil price of $85 per barrel will in all likelihood turn the projected deficit into surplus taking into account current oil prices that are considerably higher than the budgeted price. Planned project spending of $65 billion between 2013 and 2017 provides a strong impetus for maintaining the rate of growth. Duqm continues to be a key factor in the future growth of the economy with industrial, tourism and infrastructure projects planned in and around that area.

Insurance industry witnessed a strong double-digit growth that was mainly driven by increase in medical insurance premium, which grew by 38% over 2012. Overall there was growth in all product lines with possible exception of Life insurance business. The insurance industry also enjoyed a profitable year driven by a strong performance in MSM and regional stock markets. Most insurance companies by and large focused on underwriting operation profit and the result was encouraging. The efforts of our company in improving underwriting result by a combination of measures like risk segmentation, technical pricing and better control using IT system yielded strong positive result. Fatalities arising out of road accidents and increase in court awards continue to challenge the Omani insurance industry and its members. The newly formed Oman Insurance Association where our Company is a member and vice chairman of the Board is a step in the right direction whereby the dialogue between the regulators and the industry is strengthened for mutual benefit.

The Company went through a public offering exercise to comply with CMA's requirement of converting our business into Takaful. The Company is now ready to start its Takaful operation with effect from 1st January 2014.

OPERATIONAL PERFORMANCE

(IN OMR '000)	2013	2012	Y-O-Y CHANGE (%)
Gross written premium	17,697,698	16,885,090	5%
Underwriting results	**3,142,317**	**2,058,256**	53%
Investment income	1,694,585	1,469,195	15%
Other income	14,106	75,492	-81%
General and administrative expenses	(2,866,207)	(2,351,795)	22%
Investment related allocated costs	(125,120)	(97,403)	28%
Finance costs	859	(86,400)	-101%
Profit before tax	**1,860,540**	**1,067,345**	**74%**
Refundable tax	484,361	-	
Profit after tax	**2,344,901**	**1,067,345**	120%
Earnings per share (in Baiza)	**0.023**	**0.015**	53%
Book value per share (in Baiza)	**0.127**	**0.099**	28%

BUSINESS

- With Oman's ongoing economic thrust in both Oil and Non-Oil segments, exciting business opportunities continued to rise both in Mega segments and in Small-Medium enterprises. The Management was successful in identifying growth and profitable segments and expand its distribution channel and its share of business from these channels. The emphasis was on building a profitable motor portfolio and creating a robust platform for increasing our share in Employee Benefit portfolio typically comprising of Family and Medical Takaful. The success was evident in the growth of our Group Medical business by more than 100% and Motor portfolio grew by 15% with loss ratio dropping from 73% to 59%.
- With an eye on playing a bigger role in the market, the company established strategic partnerships with world leaders like Chubb and Allianz, which helped in building local capacities with higher retentions and take on some major accounts like Electricity Holding and OOECP projects.
- The Company continued to build on its customer service platform monitoring various TAT (Turn Around Times).
- Considering the effects of natural catastrophic events on the business the Company has strong reinsurance support from world leaders and Company's positive performance helped them to get higher capacities, wider and more flexible coverage.
- The Company adopts standard best practices in Prudent Risk Management, Cautious underwriting, Strong Treaty support and Nat Cat Exposure Study so as to reduce the impact to the business.

INVESTMENTS

Initiatives taken by the Company in terms of diversification of investment book and better monitoring of equity portfolio continued to build on the gains of 2012. The Company's investment book generated an income of RO 1.69 million in 2013 as against RO 1.47 million in 2012. The surge in Investment Income was partly attributable to improved performance of company's 'held-for-trading investments' and partly attributable to the dividend income from Tilal Fund and rent income from Real Estate investment.

The Equity investment generated gross return of 36% and net return of 33% on the listed equity portfolio against return of 18.6% for MSM index and 24.2% for Qatar index. The return on total investment book was 10.9%.

CLAIMS

Motor Claims continued to show a trend of sharp rise in road accidents and fatal/grievous injuries. The number of deaths relating to road traffic accidents continues to be a cause of concern. Further the trends of court awards for death/injury compensations have shown a significant increase presumably to reflect the increasing value attached to human life. This trend results in a higher payout ratio and thus acts as a strain on profitability. The management continued to take steps to bring down the cost of repairs by negotiating higher discounts from repairing garages, being alert to fraudulent claims, proactively taking up and negotiating Third Party injury and property damage claims and better underwriting of risks that has resulted in reduction claims frequency and incurred claims ratio.

MANPOWER AND HR

- HR witnessed many initiatives in vital areas like selection, training, staff appraisal, grading and remuneration.
- HR appointed a consultant to carry out a detailed study and create a Competency framework that now forms the basis for designing training program and career path for all employees with emphasis on Omanis.
- Omanization percentage of 70% was achieved in line with the mandate from CMA keeping in view sustainability and cost feasibility.
- As a consistent training policy, various training initiatives were taken which resulted in marked improvement in employee skills. 2 employees obtained ACII, a coveted insurance qualification. The progress in this matter is consistent as 2 new employees were selected for ACII program by CMA. In addition to the above 3 employees are pursuing either Bachelor or Master's degree programs under our sponsorship. This will definitely meet our future needs of trained and skilled manpower.

- As part of the commitment to improve the skill sets of the employees, we launched a Management Development Program for our Middle management which focuses on up-scaling supervisory and team-leadership skills.

As a result of above initiatives a professional, congenial and positive work culture is inculcated. HR continues to play a proactive role in all staff related matters keeping in mind staff welfare and corporate objectives.

IT SERVICES

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

- Extension of online services to branches and intermediaries with all important retail products available online.
- Improvisation of claims processing and introduction of File Tracking system in order to improve process efficiency and Turn Around Time.
- Implementation of state-of-the-art actuarial analytical and reporting tool to enhance and improve the product structure, rating and review of claims reserves.
- Signed Software ESCROW agreement with our Core Application System provider to ensure the Service Availability.

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

INTERNAL AUDIT & COMPLIANCE

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

FUTURE OUTLOOK

Being the first Takaful Company in Oman the opportunity of tapping into the niche market by associating with Islamic banks and windows are very promising.

With Insurance Industry likely to grow at a CAGR of 12% over the next 3 years, the Company is geared to play an important role in providing insurance support to insurance segments to which we can add value.

The Government's focus on social security will push insurance demand in Health and Life segments, not just in terms of volume but more importantly in Product development. The Company's business strategies are increasingly focused to target these needs as well.

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

Report on the financial statements

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 2013 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other legal and regulatory requirements

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

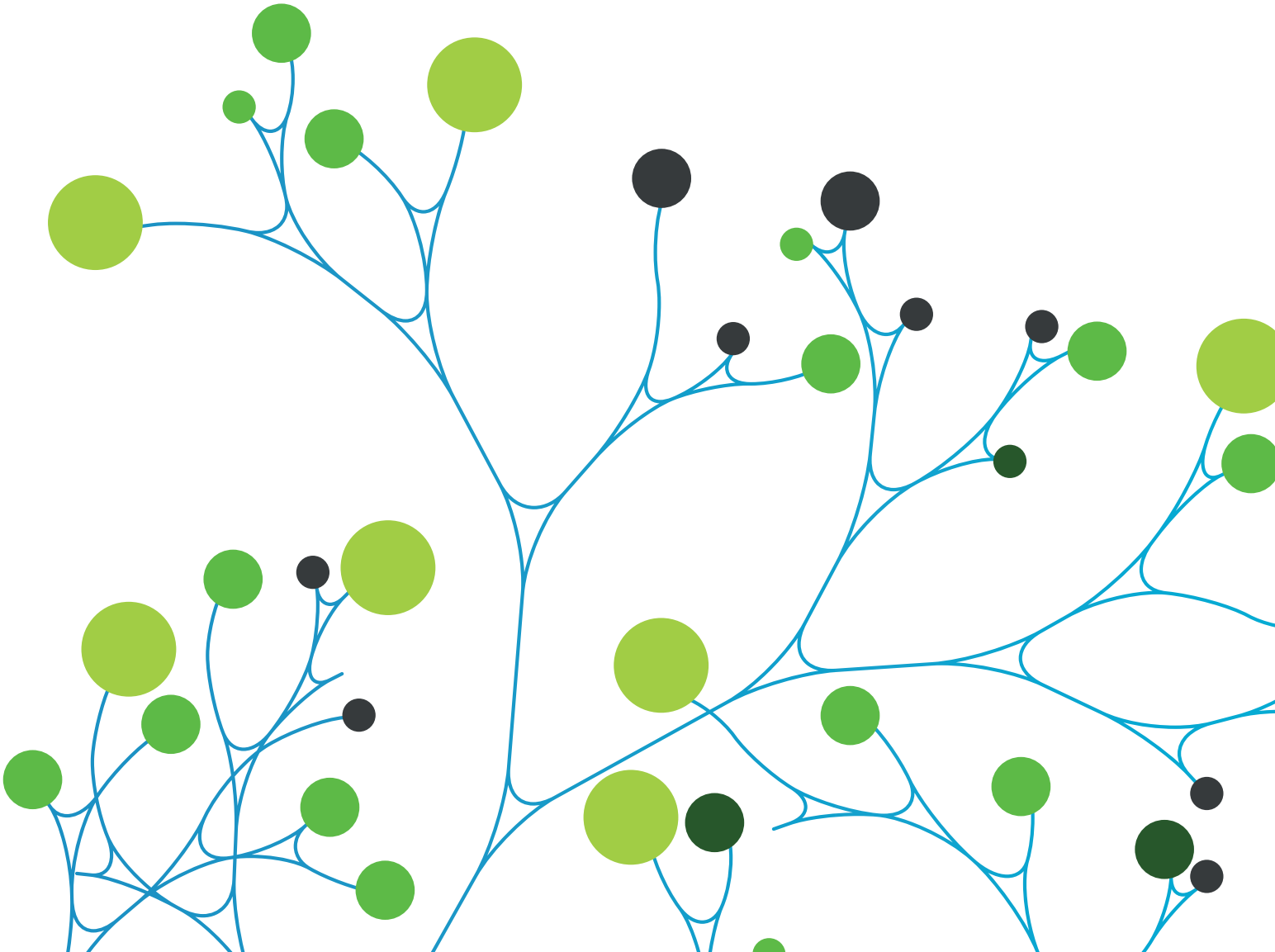
PricewaterhouseCoopers LLP

25 February 2014
Muscat, Sultanate of Oman

PricewaterhouseCoopers LLP, Hatat House A, Suites 204-211, Wadi Adai, P. O. Box 3075, Ruwi, Post Code 112, Muscat, Sultanate of Oman, T: +968 2 455 9110, F: +968 2 456 4408, www.pwc.com/middle-east

Financial Statements

for the year ended 31st December 2013

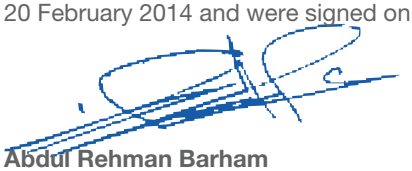


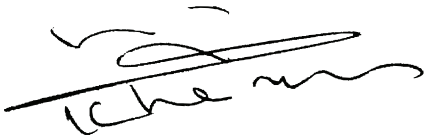
Statement of Financial Position

as at 31 December 2013

	Note	2013 RO	2012 RO
ASSETS			
Non-current assets			
Property and equipment	4	**912,762**	786,736
Investment property	5	**2,600,000**	2,600,000
Available-for-sale investments	6	**629,445**	1,162,924
Investments held-to-maturity	7	**1,754,112**	254,366
Deferred tax asset	24	**484,361**	-
		6,380,680	4,804,026
Current assets			
Held for trading investments	8	**3,957,221**	4,183,513
Bank deposits, cash and bank balances	9	**15,871,533**	7,432,262
Insurance and reinsurance contract receivables	10	**7,141,993**	5,114,918
Deferred commission expense	11	**590,899**	535,628
Reinsurers' share of insurance funds	17	**7,786,930**	6,013,663
Other receivables and prepayments		**456,067**	352,497
		35,804,643	23,632,481
Total assets		**42,185,323**	28,436,507
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	12	**16,666,667**	10,000,000
Share premium	12	**2,213,484**	-
Legal reserve	13	**450,716**	216,226
Special reserve	14	**-**	150,310
Contingency reserve	15	**421,767**	175,483
Fair value reserve		**141,282**	233,609
Retained earnings / (accumulated losses)		**1,202,477**	(811,960)
Total equity		**21,096,393**	9,963,668
Non-current liabilities			
Employees' end of service benefits	16	**146,930**	85,531
Current liabilities			
Insurance funds	17	**14,042,130**	12,194,535
Deferred commission income	18	**288,069**	401,890
Due to reinsurers		**4,853,341**	4,036,146
Accounts and other payables	19	**1,758,460**	1,754,737
		20,942,000	18,387,308
Total liabilities		**21,088,930**	18,472,839
Total equity and liabilities		**42,185,323**	28,436,507
Net assets per share	25	**0.127**	0.099

The financial statements on pages 28 to 32 were approved and authorised to issue by the Board of Directors on 20 February 2014 and were signed on their behalf by:





Abdul Rehman Barham
Deputy Chairman

Director

Independent auditors' report - page 26.

Statement of Comprehensive Income

for the year ended 31 December 2013

المدينة تكافل
Al Madina Takaful

	Note	2013 RO	2012 RO
INCOME			
Gross premiums written	20	**17,697,698**	16,885,090
Underwriting results	20	**3,142,317**	2,058,256
Net investment income	22	**1,694,585**	1,469,195
Other income		**14,106**	75,492
		4,851,008	3,602,943
EXPENSES			
General and administrative expenses	23	**(2,866,207)**	(2,351,795)
Investment related allocated costs	23(a)	**(125,120)**	(97,403)
Profit for the year before finance costs and income tax		**1,859,681**	1,153,745
Finance income / (costs) - net		**859**	(86,400)
Profit before income tax		**1,860,540**	1,067,345
Income tax	24	**484,361**	-
Profit for the year		**2,344,901**	1,067,345
Other comprehensive income:			
Net change in fair value of available-for-sale investments		**(92,327)**	(566,136)
Total comprehensive income for the year		**2,252,574**	501,209
Profit per share	25	**0.023**	0.015

The attached notes on pages 33 to 66 form an integral part of these financial statements.

Statement of changes in Equity

for the year ended 31 December 2013

	Share capital	Share premium	Legal reserve	Special reserve	Contingency reserve	Fair value reserve	(Accumulated losses)/ Retained earnings	Total
	RO	RO	RO	RO	RO	RO	RO	RO
At 1 January 2013	10,000,000	-	216,226	150,310	175,483	233,609	(811,960)	9,963,668
Comprehensive income:								
Profit for the year	-	-	-	-	-	-	2,344,901	2,344,901
Other comprehensive income:								
Gain transferred to comprehensive income on derecognition of available-for-sale investments	-	-	-	-	-	(104,414)	-	(104,414)
Net change in fair value of available-for-sale investments	-	-	-	-	-	12,087	-	12,087
Total comprehensive income for the year	-	-	-	-	-	(92,327)	2,344,901	2,252,574
Transaction with owner								
Transfer from special reserves (note 14)	-	-	-	(150,310)	-	-	150,310	-
Proceeds from the initial public offering	6,666,667	2,666,667	-	-	-	-	-	9,333,334
Expenses incurred on initial public offering	-	(453,183)	-	-	-	-	-	(453,183)
Transfer to contingency reserve	-	-	-	-	246,284	-	(246,284)	-
Transfer to legal reserve	-	-	234,490	-	-	-	(234,490)	-
Total transactions with owners	6,666,667	2,213,484	234,490	(150,310)	246,284	-	(330,464)	8,880,151
At 31 December 2013	16,666,667	2,213,484	450,716	-	421,767	141,282	1,202,477	21,096,393

The attached notes on pages 33 to 66 form an integral part of these financial statements.
Independent auditors' report - page 26.

Statement of changes in Equity (continued)

for the year ended 31 December 2013

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

The attached notes on pages 33 to 66 form an integral part of these financial statements.
Independent auditors' report - page 26.

Statement of Cash Flows

for the year ended 31 December 2013

	Note	2013 RO	2012 RO
Operating activities			
Profit for the year		**1,860,540**	1,067,345
Adjustments for:			
Depreciation		**132,708**	119,212
Finance (income) / cost		**(859)**	82,791
Dividend income		**(272,146)**	(760,909)
Income from bank deposit		**(99,450)**	(141,829)
Profit from investments held to maturity		**(25,394)**	(11,867)
End of service benefits charge for the year		**69,180**	20,847
Unrealised gain on held for trading investments		**(746,418)**	(404,014)
Realised gain on held for trading investments		**(399,496)**	(67,371)
Realised gain on available-for-sale investments		**(35,733)**	-
Impairment loss on available-for-sale investment		**12,821**	-
		495,753	(95,795)
Working capital changes:			
Insurance and reinsurance contract receivables		**(2,027,075)**	(587,579)
Reinsurers' share of insurance fund		**(1,773,267)**	(711,701)
Other receivables and prepayments		**(103,570)**	21,201
Deferred commission expenses		**(55,271)**	(271,161)
Insurance funds		**1,847,595**	1,550,954
Accounts and other payables		**3,723**	(163,941)
Due to reinsurers		**817,195**	1,108,962
Deferred commission income		**(113,821)**	330,874
Cash flows (used in) / generated from operating activities		**(908,738)**	1,181,814
End of service benefits paid		**(7,781)**	(6,673)
Net cash flow (used in) / generated from operating activities		**(916,519)**	1,175,141
Investing activities			
Purchase of property and equipment	4	**(258,734)**	(689,039)
Purchases of held for trading investments		**(438,419)**	(1,198,036)
Proceeds from disposal of held for trading investments		**1,810,625**	1,327,031
Proceeds from redemption of investment in available for sale securities		**464,064**	-
Movement in bank deposits net of interest		**(1,502,223)**	3,490
Purchase of investment property		**-**	(2,600,000)
Purchase of investments held to maturity net of interest		**(1,474,352)**	(242,499)
Dividends received		**272,146**	760,909
Net cash used in investing activities		**(1,126,893)**	(2,638,144)
Financing activities			
Share capital issued		**6,666,667**	4,000,000
Share premium collected		**2,666,667**	-
IPO expenses		**(453,183)**	-
Payment of capital underwriting fees		**-**	(22,000)
Finance income earned/ (cost paid)		**859**	(82,791)
Net cash generated from financing activities		**8,881,010**	3,895,209
Net change in cash and cash equivalents		**6,837,598**	2,432,206
Cash and cash equivalents at the beginning of the year		**2,726,383**	294,177
Cash and cash equivalent at the end of the year	9	**9,563,981**	2,726,383
Cash and cash equivalents comprise of:			
Cash and bank balances		**8,160,102**	2,330,127
Cash balances with investment managers		**1,381,538**	156,399
Bank deposits with maturity of less than three months from date of placement		**22,341**	239,857
	9	**9,563,981**	2,726,383

The attached notes on pages 33 to 66 form an integral part of these financial statements.

Independent auditors' report - page 26.

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

Al Madina Insurance Company SAOG (formerly Al Madina Insurance Company SAOC) (the Company) was incorporated on 15 May 2006 as a closed joint stock company in the Sultanate of Oman. On 10 December 2013, the company has become a public joint stock company. The Company operates in Oman and is engaged in the business of insurance within the Sultanate of Oman. The Company commenced commercial operations from 1 August 2006. The Company was granted licence from Capital Market Authority on 15 July 2006.

The shareholders of the Company in the Extra Ordinary General Meeting held on 25 February 2012 decided to convert the Company's operations into Islamic Insurance. Subsequently, the Company has obtained a license from the Capital Market Authority (CMA) to carryout Takaful insurance effective from 1 January 2014.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

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

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

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

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

Effective from 1 January 2014 and in accordance with the Company's conversion to a Takaful Company, the accounts as presented herein will be modified in order to conform to and to be in compliance with the applicable standards and appropriate regulatory requirements as and when these are issued by Capital Market Authorities.

b) Changes in accounting policy and disclosures

(a) Standards, amendments and interpretation effective in 2013 and relevant for the Company's operations:

For the year ended 31 December 2013, the Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2013.

The adoption of those standards and interpretations has not resulted in changes to the Company's accounting policies and has not affected the amounts reported for the current period.

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2014 or later periods, but the Company has not early adopted them and the impact of these standards and interpretations is not reasonably estimable as at 31 December 2013:

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Foreign currency

Functional and presentation currency

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

Transactions and balances

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

(d) Property and equipment

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

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

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

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

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

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

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

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

(e) Investment properties

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Financial instruments

Non-derivative financial instruments

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

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs for all financial assets other than carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Available-for-sale investments

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

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

Held for trading investments

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

Held for trading investments are subsequently carried at fair value. The fair value of held for trading investments is based on their quoted market prices as at the date of statement of financial position. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the statement of comprehensive income in the period in which they arise.

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

Dividend income from held for trading investments is recognised in the statement of comprehensive income when the Company's right to receive dividends is established.

Held-to-maturity investments

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Financial instruments *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and arise during the ordinary course of the business. Loans and receivables are recognised initially at fair value plus transaction costs that are directly attributable to their acquisition/ origination. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. The Company's loans and receivables comprise 'Insurance and reinsurance contracts receivables' and 'bank deposits, cash and bank balances' in the statement of financial position.

De-recognition of financial instruments

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

Trade and settlement date accounting

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

(g) Impairment

Financial assets

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

Impairment is determined as follows:

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Impairment *(continued)*

Financial assets *(continued)*

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

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

Non-financial assets

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

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

(h) Offsetting

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

(i) Cash and cash equivalents

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

(j) Premium and insurance receivables

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

(k) Insurance contracts

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

Property insurance

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Insurance contracts *(continued)*

Motor insurance

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

Marine insurance

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

Life insurance

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

(l) Reinsurance contracts held

In order to minimise financial exposure from large claims the Company enters into agreements with other parties for reinsurance purposes. Claims receivable from reinsurers are estimated in a manner consistent with the claim liability and in accordance with the reinsurance contract. These amounts are shown as "reinsurance share of insurance funds" in the statement of financial position until the claim is paid by the Company. Once the claim is paid the amount due from the reinsurer in connection with the paid claim is transferred to "insurance and reinsurance contracts receivables".

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

(m) Liability adequacy test

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

(n) Claims

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

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

The Company does not discount its liability for unpaid claims.

(o) Contingency reserve

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Other liabilities and accruals

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

(q) Employee benefits

End of service benefits are accrued in accordance with the terms of employment of the Company's employees at the reporting date, having regard to the requirements of the Oman Labour Law 2003 and its amendments. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date. These accruals are included in current liabilities, while that relating to end of service benefits is disclosed as a non-current liability.

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

(r) Provisions

A provision is recognised in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(s) Earnings per share

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

(t) Revenue recognition

Premiums earned

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

Commissions earned and paid

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

Interest income

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

Dividends

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

(u) Deferred commission income

The commission income attributable to the reinsurance ceded premiums are deferred and classified as deferred commission income. Deferred commission income is subsequently amortised over the life of the reinsurance contracts as reinsurance ceded premium is expensed.

(v) Deferred commission expense

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

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Dividends distribution

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

(x) General and administrative expenses

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

(y) Income tax

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

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

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

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

(z) Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability:

Financial instruments

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

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Impairment of available-for-sale investments

The Company follows the guidance of IAS 39 to determine when an available-for-sale equity investment is impaired. This determination requires significant judgement. In making this judgement, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Claims outstanding

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the statement of financial position date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the statement of financial position date. The management uses the initial value of the claim provided by the surveyor for the expected ultimate cost of claims reported at the financial position date. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. General insurance claims provisions are not discounted for the time value of money.

Impairment of receivables

An estimate of the collectible amount of insurance and other receivables is made when collection of the full amount is no longer probable. This determination of whether these insurance and other receivables are impaired entails the Company evaluating, the credit and liquidity position of the policy holders and the insurance companies, historical recovery rates including detailed investigations carried out during the year and feedback received from their legal department. The difference between the estimated collectible amount and the carrying value is recognised as an expense in the statement of comprehensive income. Any difference between the amounts actually collected in the future periods and the amounts expected will be recognised in the statement of comprehensive income at the time of collection.

Notes to the financial statements

for the year ended 31 December 2013

4. PROPERTY AND EQUIPMENT

	Office building RO	Leasehold improvements RO	Office furniture and equipment RO	Motor vehicles RO	Capital work-in-progress RO	Total RO
Cost						
At 1 January 2013	-	38,726	691,577	39,427	552,699	1,322,429
Additions	-	11,580	116,097	10,000	121,057	258,734
Transferred from capital work-in-progress	665,859	-	-	-	(665,859)	-
At 31 December 2013	665,859	50,306	807,674	49,427	7,897	1,581,163
Accumulated depreciation						
At 1 January 2013	-	7,944	501,572	26,177	-	535,693
Charge for the year	-	11,525	119,184	1,999	-	132,708
At 31 December 2013	-	19,469	620,756	28,176	-	668,401
Net book value						
At 31 December 2013	665,859	30,837	186,918	21,251	7,897	912,762

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

At reporting date, the Company occupied the office building and accordingly, has transferred the amount from capital work-in-progress to building.

5. INVESTMENT PROPERTY

During the year 2012, the Company had invested in a building situated in Al Hail, at a cost of RO 2,600,000. The property has been valued on 17 July 2013 by an independent valuer on an open market basis at RO 2,600,000 (level 2 - fair values), which approximates its fair value at 31 December 2013.

6. AVAILABLE-FOR-SALE INVESTMENTS

	% of overall portfolio	Basis of valuation	Number of securities	Cost/fair value RO
31 December 2013				
Omani Unified Bureau for the Orange Card SAOC	**28.26**	**Fair value**	**71,428**	**177,856**
Tilal Fund	**27.06**	**Fair value**	**154,687**	**170,310**
National Mass Housing	**25.57**	**Cost**	**150,000**	**160,950**
Shazah Hotel, Muscat	**16.87**	**Cost**	**100,000**	**106,200**
U.S. Residential Condominium Fund II	**2.24**	**Cost**	**1,750**	**14,129**
	100.00			**629,445**
31 December 2012				
Omani Unified Bureau for the Orange Card SAOC	13.63	Fair value	71,428	158,499
Tilal Fund	61.08	Fair value	618,750	710,325
National Mass Housing	13.84	Cost	150,000	160,950
Shazah Hotel, Muscat	9.13	Cost	100,000	106,200
U.S. Residential Condominium Fund II	2.32	Cost	1,750	26,950
	100.00			1,162,924

Movement in available-for-sale investments:	**2013**	2012
	RO	RO
Balance at 1 January	**1,162,924**	1,729,060
Net change in fair value	**12,087**	(566,136)
Redemption of investment	**(464,064)**	-
Realised loss on redemption of investment	**(68,681)**	-
Impairment loss on investment	**(12,821)**	-
	629,445	1,162,924

7. INVESTMENTS HELD-TO-MATURITY

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

The effective rate of return on the investments held-to-maturity at 31 December 2013 is 4.91% per annum (2012 - 4.94% per annum) with coupon receipts on a semi-annual basis for both the sukuks.

7. INVESTMENTS HELD-TO-MATURITY *(continued)*

Movement in investments held-to-maturity	2013 RO	2012 RO
Balance at 1 January	**254,366**	-
Additions during the year	**1,503,000**	256,891
Amoritsation during the year	**(3,254)**	(2,525)
Balance at 31 December	**1,754,112**	254,366

(a) RESTRICTIONS ON TRANSFER OF ASSETS

In accordance with the law governing the operation of insurance companies within the Sultanate of Oman, the Company identified 10,000 units with the carrying value of RO 1,001,927 (2012 - RO nil) to the Capital Market Authority. The Company can only transfer these assets with the prior approval of the Capital Market Authority.

8. HELD FOR TRADING INVESTMENTS

	2013 Fair value RO	2013 Cost RO	2012 Fair value RO	2012 Cost RO
Service sector	**1,892,295**	**1,600,623**	2,029,354	1,861,726
Industrial sector	**1,996,066**	**1,541,754**	1,984,095	1,737,653
Financial sector	**68,860**	**68,427**	170,064	180,121
	3,957,221	**3,210,804**	4,183,513	3,779,500

Trading investments are local and foreign quoted investments. The cost of the foreign investments is RO 196,938 (2012 - RO 412,123) and the fair value of foreign investments at 31 December 2013 is RO 224,795 (2012 - RO 421,691).

(a) RESTRICTIONS ON TRANSFER OF ASSETS

In accordance with the law governing the operation of insurance companies within the Sultanate of Oman, the Company identified certain specific investments with the carrying value of RO 2,212,642 (2012 - RO 2,213,834) to the Capital Market Authority. The Company can only transfer these assets with the prior approval of the Capital Market Authority.

9. BANK DEPOSITS, CASH AND BANK BALANCES

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

	2013 RO	2012 RO
Cash and bank balances	**8,160,102**	2,330,127
Cash balances with investment managers	**1,381,538**	156,399
Bank deposits with maturity of less than three months from the date of placement	**22,341**	239,857
Bank deposits with maturity of more than three months from the date of placement	**6,307,552**	4,705,879
	15,871,533	7,432,262

9. BANK DEPOSITS, CASH AND BANK BALANCES *(continued)*

Bank deposits amounting to RO 52,552 (2012 - RO 52,552) are denominated in foreign currencies. Bank deposits carry interest at rates in the range of 1.00% to 2.10% (2012 - 0.25% to 2.10%) per annum.

(a) RESTRICTIONS ON TRANSFER OF ASSETS

In accordance with the law governing the operation of insurance companies within the Sultanate of Oman, the Company identified certain specific bank deposits with carrying value of RO 6,105,000 (2012 - RO 4,555,879) to the Capital Market Authority. The Company can only transfer these assets with the prior approval of the Capital Market Authority.

10. INSURANCE AND REINSURANCE CONTRACT RECEIVABLES

	2013	2012
	RO	RO
Premiums receivable	**6,413,300**	5,060,753
Reinsurance balances receivable	**1,057,514**	382,986
Gross receivables	**7,470,814**	5,443,739
Less: provision for impairment of receivables	**(328,821)**	(328,821)
	7,141,993	5,114,918
Not due	**3,163,068**	3,387,174
Past due but not impaired:		
Above 121 days	**3,978,925**	1,727,744
Past due and impaired:		
Above 121 days	**328,821**	328,821

The normal credit period allowed to insurance debtors and reinsurance companies is 120 days, after which amounts are considered past due. As at 31 December 2013, past due receivables above 121 days of RO 3,978,925 (2012 - RO 1,727,744) were considered recoverable, as these are due from government and quasi-government entities, brokers and corporate with which the company deals in the normal course of insurance business and with which there is no recent history of default.

At 31 December 2013, insurance debtors of RO 328,821 (2012 - RO 328,821) were impaired and provided for fully.

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

	2013	2012
	RO	RO
At 1 January	**328,821**	244,360
Provision made during the year	**-**	101,032
Reversals of provisions during the year	**-**	(16,571)
At 31 December	**328,821**	328,821

Notes to the financial statements

for the year ended 31 December 2013

11. DEFERRED COMMISSION EXPENSE

	2013 General business RO	2013 Life business RO	2013 Total RO
Deferred commission expense	**556,145**	**34,754**	**590,899**

	2012 General business RO	2012 Life business RO	2012 Total RO
Deferred commission expense	534,542	1,086	535,628

(a) Movement in deferred commission expense

	2013 RO	2012 RO
At 1 January	**535,628**	264,467
Costs incurred during the year	**1,313,110**	1,187,944
Amortised during the year	**(1,257,839)**	(916,783)
At 31 December	**590,899**	535,628

12 SHARE CAPITAL

	2013 RO	2012 RO
Authorised - shares of RO 0.1 each	**25,000,000**	25,000,000
Issued and fully paid - shares of RO 0.1 each	**16,666,667**	10,000,000

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

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

	31 December 2013 RO	31 December 2012 RO
At 1 January	**100,000,000**	6,000,000
Share split from RO 1.000 to RO 0.100	**-**	54,000,000
Right issue	**-**	40,000,000
Initial public offering	**66,666,670**	-
At 31 December	**166,666,670**	100,000,000

12 SHARE CAPITAL *(continued)*

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	**2013 Number of shares**	% of holding	2012 Number of shares
Mohammed Al Barwani Holding Company LLC	**26**	**43,095,240**	43	43,095,240
Al Madina Financial Services Company SAOC	**7**	**12,000,000**	12	12,000,000
Ministry of Defense Pension Fund	**6**	**10,000,000**	10	10,000,000

The details of share issue proceeds and expenses incurred thereof are as follows:

	2013 RO
Issue manager, legal advisor and other professional fees	**311,165**
Marketing, printing and advertisement expenses	**125,434**
Capital Market Authority and Muscat Clearing and Depository fees	**16,584**
Total issue expenses	**453,183**
Share issue proceeds collected towards issue expenses as per article 78 of the Commercial Companies Law 1974, as amended	**(133,333)**
Excess of share issue expenses over proceeds	**319,850**

13 LEGAL RESERVE

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

14 SPECIAL RESERVE

In accordance with Article 78 of the Commercial Companies Law of 1974, share issue expenses received, net of issue costs, were transferred to a non-distributable special reserve. On 28 March 2013, the shareholders passed a special resolution to transfer the amount of RO 150,310 from special reserve account to retained earnings.

15 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 amounting to RO 237,302 (31 December 2012 - RO nil) and 1% of the life assurance premiums for the year in case of life insurance business amounting to RO 8,982 (31 December 2012 - RO nil) at the reporting date is transferred from retained earnings to a contingency reserve. The Company may discontinue this transfer when the reserve equals to the issued share capital. No dividend shall be declared in any year until the deficit in the reserve is covered from the retained profits. The reserves shall not be used except by prior approval of the Capital Market Authority. No amounts for the years 2010 to 2012 are transferred to contingency reserve in view of accumulated losses in those years. The above regulation requires such deficit

15 CONTINGENCY RESERVE *(continued)*

in reserve to be made up in the year when there are available retained earnings. Had the cumulative amount for the years 2010 to 2012 were transferred from retained earnings, contingency reserve would have been increased by RO 781,213 and retained earnings would have been lower by RO 781,213.

16 EMPLOYEES' END OF SERVICE BENEFITS

	2013	2012
	RO	RO
At 1 January	**85,531**	71,357
Accrued during the year	**69,180**	20,847
Payments during the year	**(7,781)**	(6,673)
At 31 December	**146,930**	85,531

17 INSURANCE FUNDS

	2013			2012		
	Gross	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
	RO	**RO**	**RO**	RO	RO	RO
A) General business						
Claims outstanding	**5,070,525**	**(2,796,933)**	**2,273,592**	4,102,334	(1,330,750)	2,771,584
Claims incurred but not reported	**237,992**	**(138,560)**	**99,432**	171,470	(64,858)	106,612
Unearned premium reserve	**7,559,776**	**(3,867,521)**	**3,692,255**	7,088,470	(3,976,789)	3,111,681
	12,868,293	**(6,803,014)**	**6,065,279**	11,362,274	(5,372,397)	5,989,877
B) Life business						
Claims outstanding	**386,607**	**(336,641)**	**49,966**	307,086	(271,050)	36,036
Claims incurred but not reported	**535,067**	**(482,255)**	**52,812**	15,354	(13,553)	1,801
Unearned premium reserve	**252,163**	**(165,020)**	**87,143**	509,821	(356,663)	153,158
	1,173,837	**(983,916)**	**189,921**	832,261	(641,266)	190,995
	14,042,130	**(7,786,930)**	**6,255,200**	12,194,535	(6,013,663)	6,180,872

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

18 DEFERRED COMMISSION INCOME

	2013 General business RO	2013 Total RO
Deferred commission income	**288,069**	**288,069**

	2012 General business RO	2012 Total RO
Deferred commission income	401,890	401,890

(a) Movement in deferred commission income

	2013 RO	2012 RO
At 1 January	**401,890**	71,016
Income during the year	**640,152**	871,560
Amortised during the year	**(753,973)**	(540,686)
At 31 December	**288,069**	401,890

19 ACCOUNTS AND OTHER PAYABLES

	2013 RO	2012 RO
Accounts payable	**900,801**	951,620
Government tax payable	**255,251**	257,897
Amounts due to a related party [note 26(b)]	**97,441**	97,441
Premium received in advance	**90,444**	122,360
Provision for leave salary	**86,666**	101,037
Accrued expenses	**111,550**	134,063
Other payables	**216,307**	90,319
	1,758,460	1,754,737

Notes to the financial statements

for the year ended 31 December 2013

20 UNDERWRITING RESULTS

	2013 General business RO	2013 Life business RO	2013 Total RO
Revenue			
Gross premiums written	16,799,503	898,195	17,697,698
Movement in unearned premium reserve	(471,306)	257,658	(213,648)
Insurance premium revenue - net	16,328,197	1,155,853	17,484,050
Insurance premium ceded to reinsurers	(8,594,492)	(599,295)	(9,193,787)
Movement in unearned premium reserve	(109,268)	(191,643)	(300,911)
Insurance premium ceded to reinsurers - net	(8,703,760)	(790,938)	(9,494,698)
Net insurance premium earned	7,624,437	364,915	7,989,352
Commission received on business ceded to reinsurers	640,154	-	640,154
Commissions paid	(1,235,861)	(77,249)	(1,313,110)
Movement in deferred commission income and expense – net	135,424	33,668	169,092
Net commission expense	(460,283)	(43,581)	(503,864)
Policy fee and other underwriting income	180,557	161	180,718
Gross claims incurred (note 21)	(7,103,717)	(1,331,131)	(8,434,848)
Reinsurers' share of claims (note 21)	2,774,383	1,150,810	3,925,193
Net claims incurred	(4,329,334)	(180,321)	(4,509,655)
Technical expenses	(13,560)	(674)	(14,234)
Net underwriting results	3,001,817	140,500	3,142,317

المدينة تكافل
Al Madina Takaful

20 UNDERWRITING RESULTS *(continued)*

	2012 General business RO	2012 Life business RO	2012 Total RO
Revenue			
Gross premiums written	15,752,154	1,132,936	16,885,090
Movement in unearned premium reserve	(1,303,580)	(351,523)	(1,655,103)
Insurance premium revenue, net	14,448,574	781,413	15,229,987
Insurance premium ceded to reinsurers	(8,765,734)	(792,585)	(9,558,319)
Movement in unearned premium reserve	809,428	245,050	1,054,478
Insurance premium ceded to reinsurers, net	(7,956,306)	(547,535)	(8,503,841)
Net insurance premium earned	6,492,268	233,878	6,726,146
Commission received on business ceded to reinsurers	871,560	-	871,560
Commissions paid	(1,118,253)	(69,691)	(1,187,944)
Movement in deferred commission income and expense - net	(78,468)	18,755	(59,713)
Net commission expense	(325,161)	(50,936)	(376,097)
Policy fee and other underwriting income	154,807	115	154,922
Gross claims incurred (note 21)	(5,372,768)	(738,602)	(6,111,370)
Reinsurers' share of claims (note 21)	1,024,590	648,867	1,673,457
Net claims incurred	(4,348,178)	(89,735)	(4,437,913)
Technical expenses	(8,802)	-	(8,802)
Net underwriting results	1,964,934	93,322	2,058,256

	2013		2012	
	Net premiums RO	**Underwriting results before reinsurance recoveries RO**	Net premiums RO	Underwriting results before reinsurance recoveries RO
Motor	**6,572,087**	**2,182,602**	5,584,114	6,480,495
Fire, general accident, engineering and others	**676,328**	**6,767,659**	580,955	801,888
Marine cargo and hull	**110,649**	**(937,183)**	154,090	112,654
Life and medical	**630,288**	**(55,231)**	406,989	952,917
	7,989,352	**7,957,847**	6,726,148	8,347,954

The net claims ratios are as follows:

	2013 %	2012 %
Motor	**61**	76
Fire, general accident, engineering and others	**17**	3
Marine cargo and hull	**11**	(24)
Life and medical	**60**	61

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

Notes to the financial statements

for the year ended 31 December 2013

21 NET CLAIMS INCURRED

	2013			2012		
	Gross RO	Reinsurers' share RO	Net RO	Gross RO	Reinsurers' share RO	Net RO
Claims outstanding (note 17)	5,457,132	(3,133,574)	2,323,558	4,409,420	(1,601,800)	2,807,620
IBNR (note 17)	773,059	(620,815)	152,244	186,824	(78,411)	108,413
Outstanding at end of year (a)	6,230,191	(3,754,389)	2,475,802	4,596,244	(1,680,211)	2,916,033
Insurance claims paid during the year (b)	6,800,901	(1,851,015)	4,949,886	6,215,519	(2,016,234)	4,199,285
Claims outstanding (note 17)	4,409,420	(1,601,800)	2,807,620	4,365,450	(1,854,745)	2,510,705
IBNR (note 17)	186,824	(78,411)	108,413	334,943	(168,243)	166,700
Outstanding at the beginning of the year (c)	4,596,244	(1,680,211)	2,916,033	4,700,393	(2,022,988)	2,677,405
Claims recorded in the statement of comprehensive income (a+b-c) - (note 20)	8,434,848	(3,925,193)	4,509,655	6,111,370	(1,673,457)	4,437,913

22 NET INVESTMENT INCOME

	2013 RO	2012 RO
Realised gain on sale of held for trading investments - net	399,496	67,371
Investment management costs	(92,051)	(39,533)
	307,445	27,838
Unrealised gain on held for trading investments - net	746,417	404,014
Dividend income	272,146	760,909
Rental income from investment properties	208,000	122,738
Income from bank deposits	99,450	141,829
Realised gain on redemption of available-for-sale investments - net	35,733	-
Profit from investments held-to-maturity	25,394	11,867
	1,694,585	1,469,195

23 GENERAL AND ADMINISTRATIVE EXPENSES

	2013 RO	2012 RO
Staff costs	**1,960,675**	1,529,498
Takaful expenses	**136,048**	59,610
Depreciation	**132,708**	119,212
Rent and utilities	**125,311**	118,865
Professional charges	**120,415**	22,569
IT expenses	**95,180**	98,929
Communication	**69,713**	58,032
Board expenses	**53,400**	74,200
Business travel	**39,462**	58,982
Public relation expenses	**36,375**	64,553
Provision for impairment of insurance and reinsurance receivables (net)	**-**	84,461
Miscellaneous expenses	**222,040**	160,287
Investment related allocated costs [note (a)]	**(125,120)**	(97,403)
	2,866,207	2,351,795

(a) These represent certain expenses allocated for investment related costs.

24 TAXATION

a) Income tax expense

The Company is subject to income tax at the rate of 12% of the taxable income in excess of RO 30,000 in accordance with the income tax law of the Sultanate of Oman. No income tax provision has been made in these financial statements in view of the carried forward tax losses being in excess of the taxable income earned during the year.

b) Current status of tax assessments

The Company's income tax assessments for the years 2006 to 2007 have been finalised by the Secretariat General for Taxation at the Ministry of Finance. The Management is of the opinion that additional taxes, if any, related to the open tax years would not be significant to the Company's financial position as at 31 December 2013.

c) Tax credit for the year comprises:

	2013 RO	2012 RO
Deferred tax		-
Current year	**59,527**	-
Previous years	**(543,888)**	-
	(484,361)	-

d) Deferred tax

Deferred tax asset on the carried forward tax losses has been recognised in these financial statements as the Company has projected taxable profits.

24 TAXATION *(continued)*

d) Deferred tax *(continued)*

Deferred tax asset

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

	Credited to statement of comprehensive income RO	2013 RO
Tax effect of tax depreciation on property and equipment	8,536	8,536
Tax effect of tax depreciation on investment property	(12,480)	(12,480)
Tax effect of unrealised income on investments	3,322	3,322
Tax effect of provision for doubtful debts	39,459	39,459
Tax losses	445,524	445,524
Net deferred tax asset	484,361	484,361

No deferred tax asset was recognised in previous periods due to uncertainty regarding the availability of future taxable profits.

(e) The reconciliation of taxation on the accounting profit for the year at 12% (2012 - 12%) after the basic exemption limit of RO 30,000 and the taxation charge in the financial statements is as follows:

	2013 RO	2012 RO
Tax on accounting profit	219,665	-
Add/(less) tax effect of:		
Recognition of deferred tax on carried forward tax losses	(543,506)	-
Tax exempt revenue	(175,269)	-
Tax on disallowed expenses	11,141	-
Others	3,608	-
Tax credit as per statement of comprehensive income	(484,361)	-

25 EARNING PER SHARE AND NET ASSETS PER SHARE

	2013 RO	2012 RO
Net profit for the year	2,344,901	1,067,345
Weighted average number of shares outstanding during the year	104,018,265	71,123,288
Earning per share	0.023	0.015
Net assets	21,096,393	9,963,668
Number of shares at the reporting date	166,666,670	100,000,000
Net assets per share	0.127	0.099

25 EARNING PER SHARE AND NET ASSETS PER SHARE *(continued)*

Basic earning per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year.

Net assets per share are calculated by dividing net assets by the number of shares at the reporting date.

26 RELATED PARTIES

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

(a) Transactions with related parties

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

	2013	2012
	RO	RO
Premiums written	**2,374,024**	3,435,546
Reinsurance premium ceded	**72,764**	104,908
Claims	**602,764**	1,321,732
Claims recovered	**32,703**	-
Rental income from investment property	**208,000**	122,738
Directors sitting fees	**53,400**	74,200
Professional and consultancy fees paid	**33,000**	13,000

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

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

	2013	2012
	RO	RO
Insurance and reinsurance contract receivables		
Premium balances receivable from related parties	**272,381**	165,145
Net claim recoverable from related parties	**6,442**	74,707
Available-for-sale investments		
Tilal Fund at fair value	**170,310**	710,325
Accounts and other payables		
Tilal Development Company SAOC (note 19)	**97,441**	97,441
Other receivables and prepayments		
Shaden Development Company SAOC	**104,000**	52,000

26 RELATED PARTIES *(continued)*

Terms and conditions of transactions with related parties

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

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

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

	2013	2012
	RO	RO
Short-term benefits	**511,711**	384,144
Employee end of service benefits	**21,014**	10,022
	532,725	394,166

27 CONTINGENCIES

Contingent liabilities

At 31 December 2013 the Company had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to RO 22,084 (2012 - RO 171,845).

Legal claims

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

28 SEGMENTAL INFORMATION

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

Operating segments

The Company has the following operating segments:

General insurance: General business includes insurance and re-insurance of motor; fire and general accident; and marine cargo and hull.

Life insurance: Life business relates to the insuring of the life of an individual.

المدينة تكافل
Al Madina Takaful

28 SEGMENTAL INFORMATION *(continued)*

Operating segments (continued)

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

	General insurance RO	Life insurance RO	Total RO
31 December 2012			
Insurance revenue (net of reinsurance)	6,647,075	233,993	6,881,068
Insurance cost (net of reinsurance)	(4,682,141)	(140,671)	(4,822,812)
Segment results	1,964,934	93,322	2,058,256
Segment expenses	(2,420,735)	(114,863)	(2,535,598)
Investment income / (loss)	1,468,220	975	1,469,195
Allocated other income	72,072	3,420	75,492
Segment profit for the period	1,084,491	(17,146)	1,067,345
Segment assets	18,021,456	1,174,704	19,196,160
Unallocated assets			9,240,347
Total assets			28,436,507
Segment liabilities	17,113,875	952,383	18,066,258
Unallocated liabilities			406,581
Total liabilities			18,472,839

29 RISK MANAGEMENT

a) Governance framework

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

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

b) Regulatory framework

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

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

c) Insurance risk

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

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

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

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

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

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

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

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

29 RISK MANAGEMENT *(continued)*

c) Insurance risk *(continued)*

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

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

i) The Company's premium retention levels are shown below:

	2013	2012
	%	%
Motor	**97**	90
Fire, general accident, engineering and others	**10**	8
Marine cargo and hull	**8**	9
Life and medical	**34**	25
Overall	**48**	40

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

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

Key assumptions

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

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

Sensitivities

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

31 December 2013	**Change in assumptions**	**Impact on liabilities**	**Impact on Underwriting results**
		RO	**RO**
Net incurred claims	+10%	**450,965**	**(450,965)**
	-10%	**(450,965)**	**450,965**

29 RISK MANAGEMENT *(continued)*

c) Insurance risk *(continued)*

31 December 2012	Change in assumptions	Impact on liabilities RO	Impact on Underwriting results RO
Net incurred claims	+10%	443,791	(443,791)
	-10%	(443,791)	443,791

Claims development

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

d) Financial risks

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

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

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

(1) *Credit risk*

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

Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

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

	2013 RO	2012 RO
Bank deposits, cash and bank balances	**14,489,995**	7,275,863
Insurance and reinsurance contract receivables	**7,141,993**	5,114,918
Investments held-to-maturity	**1,754,112**	254,366
Cash balance with investment managers	**1,381,538**	156,399
Other receivables excluding prepayments	**327,637**	350,659
	25,095,275	13,152,205

29 RISK MANAGEMENT *(continued)*

d) Financial risks *(continued)*

(1) *Credit risk (continued)*

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:

	2013 RO
P1	**1,635,574**
P2	**12,805,733**
Unrated	**1,413,238**
	15,854,545

	2012 RO
P1	3,739,729
P2	2,813,594
Unrated	878,939
	7,432,262

Insurance receivables comprise a number of customers within Oman and local and foreign reinsurers. The 5 largest reinsurers account for 77% of the credit exposure at 31 December 2013 (2012 - 50%). The Company monitors these receivables on a regular basis. Most of the credit customers and reinsurers have been dealing with the Company for over 2 years and losses have occurred infrequently. The Company establishes an allowance for impairment that represents its estimate of likely losses in respect of these receivable accounts in accordance with the guidelines of the credit policy along with individually assessing each receivable for impairment. This assessment is carried out every six months and the adequacy of the provision for impairment is also assessed. With respect to reinsurers, as per Company policy of managing insurance risk, such contracts are placed only with internationally reputed well rated reinsurers.

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

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

	2013 RO	2012 RO
Oman	**6,439,279**	4,901,432
Middle east	**446,643**	11,428
Others	**256,071**	202,058
	7,141,993	5,114,918

29 RISK MANAGEMENT *(continued)*

d) Financial risks *(continued)*

(1) *Credit risk (continued)*

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

	2013	2012
	RO	RO
Brokers and agents	**5,625,488**	4,358,322
Individuals and corporate clients	**627,912**	542,531
Reinsurers	**888,593**	214,065
	7,141,993	5,114,918

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

Held to maturity investment is in Sukuk which are secured through underlying assets of the investee companies.

(2) *Liquidity risk*

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

Maturity profiles

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

	Within1 year	**Total**
	RO	**RO**
31 December 2013		
Insurance funds	**6,230,191**	**6,230,191**
Accounts and other payables	**1,758,460**	**1,758,460**
Due to reinsurers	**4,853,341**	**4,853,341**
Net principal liabilities	**12,841,992**	**12,841,992**
31 December 2012		
Insurance funds	4,596,244	4,596,244
Accounts and other payables	1,754,737	1,754,737
Due to reinsurers	4,036,146	4,036,146
Net principal liabilities	10,387,127	10,387,127

29 RISK MANAGEMENT*(continued)*

d) Financial risks *(continued)*

(2) *Liquidity risk* *(continued)*

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

31 December 2013	Within1 year RO	1-10 years RO	Non fixed maturity RO	Total RO
Investment in properties	-	-	2,600,000	2,600,000
Investments held-to-maturity	-	1,754,112	-	1,754,112
Bank deposits, cash and bank balances	14,489,995	-	-	14,489,995
Cash balances with investment managers	1,381,538	-	-	1,381,538
Held for trading investments	3,957,221	-	-	3,957,221
Insurance and reinsurance contract receivables	7,141,993	-	-	7,141,993
Reinsurers' share of insurance fund	3,754,389	-	-	3,754,389
Other receivables and prepayments	456,067	-	-	456,067
Available-for-sale investments	-	-	629,445	629,445
	31,181,203	1,754,112	3,229,445	36,164,760
31 December 2012				
Investment in properties	-	-	2,600,000	2,600,000
Investments held-to-maturity	-	-	254,366	254,366
Bank deposits, cash and bank balances	7,275,863	-	-	7,275,863
Cash balances with investment managers	156,399	-	-	156,399
Held for trading investments	4,183,513	-	-	4,183,513
Insurance and reinsurance contract receivables	5,114,918	-	-	5,114,918
Reinsurers' share of insurance fund	1,680,211	-	-	1,680,211
Other receivables and prepayments	352,497	-	-	352,497
Available-for-sale investments	-	-	1,162,924	1,162,924
	18,763,401	-	4,017,290	22,780,691

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

(3) Market risk

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

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

29 RISK MANAGEMENT *(continued)*

d) ***Financial risks*** *(continued)*

(3) **Market risk** *(continued)*

(a) ***Foreign currency risk***

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

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

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

	Amounts shown in RO			
	2013		2012	
	USD	**Other currencies**	USD	Other currencies
Cash and bank balances	**161,414**	**-**	59,331	-
Held for trading investments	**-**	**244,795**	-	421,691
Available-for-sale investments	**14,129**	**-**	26,950	-
Bank deposits	**52,552**	**-**	52,552	-
Held-to-maturity investments	**251,213**	**-**	254,366	-

Sensitivity analysis

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

During 2013, if Rial Omani were to have strengthened or weakened by 1% against currencies other than US Dollar with all other variables held constant, pre-tax losses for the year would have been higher or lower by approximately RO 2,448 (2012- RO 4,217).

Interest rate risk

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

	Change in assumptions	**2013 RO**	2012 RO
Income from bank deposit and held to maturity investments	**+0.5%**	**40,420**	26,001
	-0.5%	**(40,420)**	(26,001)

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

29 RISK MANAGEMENT *(continued)*

d) Financial risks *(continued)*

(3) Market risk *(continued)*

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

31 December 2013	**Less than 1 year RO**	**Over 1 year RO**	**Total RO**
Bank deposits	**6,329,893**	**-**	**6,329,893**
Held-to-maturity investments	**-**	**1,754,112**	**1,754,112**

31 December 2012	Less than 1 year RO	Over 1 year RO	Total RO
Bank deposits	4,945,736	-	4,945,736
Held-to-maturity investments	-	254,366	254,366

(4) Price risk

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

94% (2012 - 90%) of the Company's equity investments at the statement of financial position date are within the Sultanate of Oman.

A 10% change in fair value of the Company's held for trading investments would have impact on profit/(loss) of approximately RO 395,722 (2012 - RO 418,351).

A 10% change in fair value of the Company's available-for-sale investments would have impact on equity of approximately RO 34,817 (2012 - RO 86,882).

e) Fair value estimation

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

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

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

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

	31 December 2013				31 December 2012			
	Level 1 RO	**Level 2**	**Level 3 RO**	**Total RO**	Level 1 RO	Level 2 RO	Level 3	Total RO
Held for trading investments	**3,957,221**	**-**	**-**	**3,957,221**	4,183,513	-	-	4,183,513
Available-for-sale investments	**-**	**177,856**	**170,310**	**348,166**	-	158,499	710,325	868,824
	3,95,7221	**177,856**	**170,310**	**4,305,387**	4,183,513	868,824	710,325	5,052,337

29 RISK MANAGEMENT *(continued)*

e) Fair value estimation *(continued)*

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

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

f) Capital management

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

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

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

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

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

30 COMPARATIVE FIGURES

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

Report of the Auditors - page 26.