المدينة تكافل
Al Madina Takaful

شركة المدينة للتأمين ش.م.ع.ع، ص.ب ٨٠
مسقط جرند مول، الرمز البريدي ١٣٦، سلطنة عمان. س.ت رقم: ١/٨١٥٠٠/٨
Al Madina Insurance Company SAOG, PO Box 80
Muscat Grand Mall, PC 136, Sultanate of Oman. C.R. No. 1/81500/8

Al Madina Takaful
Chairman's Report 2016

Dear Shareholders,

Assalamu alaikum wa rahamatullahi wa Barakatuh!
(May the Peace, Mercy and Blessing of Allah be with you.)

On behalf of the Board of Directors, and Management team of Al Madina Insurance Co, I am pleased to present to you a report on the performance of your Company during the financial year 2016.

The financial results delivered by your Company is in line with the expectations that we set out as we started a challenging year in 2016. Against a backdrop of a global economy that was facing steadily declining oil prices, our approach was optimistic, positive and as always, reflective of the spirit of stability and continuous progress that our stakeholders have come to expect of Al Madina Takaful.

Times like these are especially challenging for market leaders, as we also carry the responsibility of increasing awareness, and developing the Takaful market, while competition continues to engage us on tactical campaigns.

Overall, the Company has demonstrated strengths with a disciplined approach to improve underwriting results, enhancing better control over costs and being more efficient and productive, and substantially delivered on investment returns compared to last year.

The year also saw the Company introduce new products in emerging market segments, and also enhance its portfolio through securing prestigious new accounts.

Operating Environment

Despite the tough economic environment and the pricing challenges prevailing in the insurance market, your Company has achieved a GWP of RO 27.19 million as against RO 31.05 million in 2015. After eliminating a one off long term policy booking during 2015 to the tune of RO 6.88 million, your Company has shown a positive growth of 12% over the year 2015.

Results from Operations

The Company continues on its journey of stable growth, with strong reserves while maintaining the balance to ensure that the underwriting results are above operating expenses. This discipline has reflected in the Surplus from Takaful operations, before Wakala fees, in December 2016 at RO 4.30 million which is in excess of the Management Expenses of RO 4.29 million, which compares positively with our performance in the previous year (2015 Surplus from Takaful Operations, before Wakala fees of RO 3.47 million & Management Expenses of RO 4.14 million).

Investment Income

The Company continues to monitor its investment book well while ensuring that all the investments are diversified and constantly examined for Shariah' Compliance. Despite the continuing pressure on the stock markets due to volatile oil prices, the Company has been prudently managing its investments and has made an Investment Income of RO 771K, compared to an Investment Loss of 112K in 2015.

Due to its dependence on hydrocarbons and the ensuing downturn at a global scale, Oman unfortunately had to face downgrade of its rating to Baa1 from A3 by Moody's Investment Services. However, Al Madina with its robust operations and market domination due to its high value products and remarkable services, was able to maintain the same rating of Ba1 same as in the previous year.

Shareholders' profit

In spite of the challenging economic environment, which has direct impact on the insurance and stock markets, the Company reported a profit attributable to the shareholders of RO 1,624K, showing a 96% increase from the previous year's profit of RO 828K.

Risk Management

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

المقر الرئيسي: ٢٢٠٣٣٨٨٨ ٩٦٨+ ، روي: ٢٤٧٧١٨٨٨ ٩٦٨+ ، نزوى: ٢٥٤١١٤٩٤ ٩٦٨+ ، السيب: ٢٤٤٢٢١٤٥ ٩٦٨+ ، جامعة السلطان قابوس: ٢٤٤١٤٤٢٢ ٩٦٨+ ، صحار: ٢٦٨٤٠٨١٦ ٩٦٨+ ، صلالة: ٢٣٢٩٢٧٢٥ ٩٦٨+
Corporate: +968 22033888 . Ruwi: +968 24771888 . Nizwa: +968 25411494 . Seeb: +968 24422145 . SQU: +968 24414422 . Sohar: +968 26840816 . Salalah: +968 23292725

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Beyond business

The year saw us continue with our legacy of pioneering and innovation in Oman's Takaful industry. 2016 saw a series of firsts in product offerings which have been insightful and well received. These included Individual Takaful for borrowers' Protection, Yacht Insurance, Haj & Umrah packages, and Critical Illness cover to name a few.

The Company also undertakes and supports many social initiatives. Of particular significance was the Takatuf Scholars programme – an apprenticeship program that is aimed at building future business leaders in Oman.

In line with our efforts to create more awareness for Takaful, your Company has participated in the various *Majlis* events of alizz islamic bank.

Company's Outlook & Vision

While the global economy, and especially the region, continues to feel the pressure of the low oil prices, the reasonable stability that is being seen continues to keep us optimistic about the future. As always, it is important to recognise that the recovery will be slow, which will have its continued impact on growth. Our focus is on stability and sustained progress, and make gains in customer confidence and trust.

The Company continues to maintain its steady track record of having always been driven by and supportive of national objectives, such as job creation, and Omanisation, whilst always looking for new and improved ways to offer better products and services, enhance quality of customer service and find new areas of growth and revenue.

The Company continuously invests in Information Technology (IT) to deliver better performance, transitioning IT from a support function to an enabler driving sales and growth through web-enabled applications and friendly user interfaces.

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

Acknowledgements

On behalf of the Board of Directors, I extend our thanks to our customers, business partners, shareholders and staff members for their constant belief and support. We also extend special thanks to the Capital Market Authority for their continued support and appreciation for their initiatives oriented towards the insurance industry, with special emphasis on the development of *Takaful*.

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

May God bless you all.

Dr. Mohammed Ali Al Barwani
Chairman of the Board.

AL MADINA INSURANCE COMPANY SAOG

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 2015. A director should hold at least 100,000 shares to qualify for election.

Details of Directors

Name	Position	Date of election	Executive/ non-executive	Independence of the director	No. of other Directorships held in Oman
H.E. DR Mohammed Ali Al Barwani	Chairman	24 March 2015	Non-executive	Independent	2
Eng. Abdulrahman Awadh Barham	Dy. Chairman	24 March 2015	Non-executive	Independent	1
H.E. Sh. Abdulrehman Mohammed Jabor Al Thani	Director	24 March 2015	Non-executive	Independent	1
Eng. Khamis Mubarak Al Kiyumi	Director	24 March 2015	Non-executive	Independent	1
Eng. Abdullah Ali Al Abdullah	Director	24 March 2015	Non-executive	Independent	1
Mr. Ali Salim Al Kharusi	Director	30 March 2016	Non-executive	Independent	1*
Mr . Saleh Nasser Al Riyami	Director	24 March 2015	Non-executive	Independent	2
Ms.Safana M.A.Al Barwani	Director	24 March 2015	Non-executive	Independent	6

* Effective from 30th March 2016, Mr. Ali Salim Al Kharusi replaced Mr. Hamed Mohammed Al-Wahaibi as Director representing Ministry of Defense Pension Fund.

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B THE BOARD OF DIRECTORS (continued)

The Board of Directors of the Company met four times during the year ended 31st December 2016--on 28th February, 15th May, 31st July, and 27th October. Three Directors attended the AGM held on 30th March 2016.

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

Name	28th February	15th May	31st July	27th Oct
H.E. Dr. Mohammed Ali Al Barwani	Yes	Yes	Yes	Yes
Eng. Abdulrahman Awadh Barham	Yes	Yes	Yes	Yes
H.E Shaikh Abdulrahman Mohammed Jabor Al Thani	No	Yes	Yes	Yes
Eng. Khamis Mubarak Al Kiyumi	Yes	Yes	Yes	Yes
Eng. Abdullah Ali Al Abdullah	Yes	Yes	No	Yes
Mr . Saleh Nasser Al Riyami	Yes	Yes	Yes	Yes
Mr. Hamed Mohammed AL-Wahaibi	Yes	No	No	No
Ms. Safana Mohammed AL-Barwani	Yes	Yes	Yes	Yes
Mr. Ali Salim Al Kharusi	No	Yes	Yes	Yes

Name	Position	No. of Board Meetings attended	Sitting Fees RO
H.E. Dr. Mohammed Ali Al Barwani	Chairman	4	4,000
Eng. Abdulrahman Awadh Barham	Dy. Chairman	4	4,000
H.E Shaikh Abdulrahman Mohammed Jabor Al Thani	Director	3	3,000
Eng. Khamis Mubarak Al Kiyumi	Director	4	4,000
Eng. Abdullah Ali Al Abdullah	Director	3	3,000
Mr . Saleh Nasser Al Riyami	Director	4	4,000
Mr. Hamed Mohammed AL-Wahibi	Director	1	1,000
Ms. Safana Mohammed AL-Barwani	Director	4	4,000
Mr. Ali Salim Al Kharusi	Director	3	3,000

Board Meeting	Date	Date Agenda was sent to the Board
1st Board Meeting	28-Feb-16	24-Feb-16
2nd Board Meeting	15-May-16	9-May-16
3rd Board Meeting	18-Aug-16	11-Aug-16
4th Board Meeting	27-Oct-16	23-Oct-16

As a practice the minutes of the previous board meeting are presented in the next board meeting for approval.

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B THE BOARD OF DIRECTORS (continued)

The Directors have not been paid any other remuneration.

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

Mr. Gautam Datta has joined as Advisor to the Board in 2016 and attended 3 Board Meetings in that capacity.

Responsibilities of Board of Directors

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

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

Profile of the members of the Board of directors

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

H.E. Dr. Mohammed al-Barwani is founder and Chairman of MB Holding and has investments in various companies with interest in oil, gas, mining, engineering, financial services, and real estate. He currently holds the position of Director in Al Madina Investment, Al Madina Real Estate Co., Oman Air, Nautilus Minerals (Toronto Stock Exchange), and UCL Resources (Australian Stock Exchange). Some of these companies are pioneers in conducting Islamic finance transactions in the country. This experience gives him a deep understanding of the subject and provides guidance to the Board and Management of the Company. He is also the Honorary Consul of the Republic of Poland to the Sultanate of Oman and has received various awards for achievement in business and public life.

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

Eng. Barham is the Vice Chairman of the Company and has over 25 years of experience in handling and planning projects. He currently holds the position of CEO and investment committee member in Al Madina Real Estate. He has a profound understanding of the products relevant to finance real estate projects. He also holds the position of Director in Salalah Mills Company SAOG, Tilal Development Company SAOC, Shaden Development Company SAOC and Shaza Muscat Hotel Company SAOC.

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

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

B THE BOARD OF DIRECTORS (continued)

Profile of the members of the Board of directors (continued)

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

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

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

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

Eng. Abdullah has over 35 years of experience in investments. He currently holds the position of Director in Trans Gulf Investment Holding, Al Madina Investment Finance and Al Madina Real State. 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 Taageer Finance. Mr. Riyami has put in an effort to attract key Islamic Shariah scholars who are experts in Islamic financial services in the GCC region to provide consultation in the field of Islamic financial services in coordination with Omani consulting firms.

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

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

h) Mr. Ali Salim Al Kharusi (Nationality: Omani)

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

i) Khalid Al Amri (Nationality: Omani)

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

B THE BOARD OF DIRECTORS (continued)

Profile of the members of the Board of directors (continued)

j) Gautam Datta

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. He is currently the Chief Executive Officer at National Takaful Company (Watania) .Previously, he held senior management posts at a number of leading insurance institutions including Al Madina Insurance Company SAOG, Chubb Insurance Group, Solidarity Group, Bahrain Kuwait Insurance, and New India Assurance. He has diverse experience in various aspects of insurance business, underwriting, claims adjustment, reinsurance treaty, establishment and management of green-field operations which includes Takaful companies.

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

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 2016 on 28th February, 20th April, 27th July, and 27th October.

The details of Audit Committee meetings attended and sitting fees paid during 2016 are as follows:

Name	28th February	20th April	27th July	27th Oct
Mr . Saleh Nasser Al Riyami	Yes	Yes	Yes	Yes
Ms. Safana Mohammed AL-Barwani	Yes	Yes	No	Yes
Mr. Hamed Mohammed AL-Wahibi	Yes	No	No	No
Mr.Ali Salim Al Kharusi	NA	Yes	Yes	Yes
Mr. Khalid Al Amari	Yes	Yes	Yes	Yes

Name	Position	No. of Meetings attended	Sitting Fees RO
Mr . Saleh Nasser Al Riyami	Chairman	4	3,200
Ms. Safana Mohammed AL-Barwani	Member	3	2,400
Mr. Hamed Mohammed AL-Wahibi	Member	1	800
Mr.Ali Salim Al Kharusi	Member	3	2,400
Mr. Khalid Al Amari	Advisor	4	3,200

C AUDIT COMMITTEE (continued)

Audit Committee Functions

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

Terms of reference of the audit committee

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

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

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

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

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

6. Oversight and review of the annual financial statements, returns and solvency margin computation required to be submitted to the CMA and prepared in accordance with the Insurance Companies Law and its regulations. The audit committee shall review the regulatory returns before submission to the CMA. Review of the annual and quarterly accounts before issue, review of qualifications in the draft financial statements and discussion of accounting principles. In particular, change in accounting policies, principles and accounting estimates in comparison to previous year, any adoption of new accounting policy and departure from AAOIFI Standards or International Accounting Standards (IAS), as applicable and 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.

There were no meetings held during 2016. The names of the Executive Committee members are as follows:

1. H.E. Dr. Mohammed Ali Al Barwani
2. Eng. Abdulrahman Awadh Barham
3. Eng. Khamis Mubarak Al Kiyumi
4. Eng. Abdullah Ali Al Abdullah

E NOMINATION AND REMUNERATION COMMITTEE

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

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

The Board has named Eng. Abdul Rahman Awadh Barham as the Chairman. There were no meetings held during 2016. The meetings of the Committee will start during 2017. The manual and action plan of the Nomination and Remuneration Committee will be submitted to the Board on 27.02.2017.

F CORPORATE SOCIAL RESPONSIBILITY

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

G PROCESS OF NOMINATION OF DIRECTORS is as per article and memorandum of association of the Company.

The Company has obtained quotations for the process of measuring the overall performance of the Board through a third party who will be appointed during the forthcoming Annual General Meeting during March 2017.

H MANAGEMENT REMUNERATION MATTERS

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

I MANAGEMENT REMUNERATION MATTERS (continued)

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 505,640. Company does not offer any stock options to any of its directors or employees.

Profile of the Executive Management of the Company

a) Usama Al Barwani, Acting Chief Executive Officer

Mr. Usama is pursuing his MBA and has completed his Postgraduate Diploma in HRM and Diploma in Information System Management and Education. He is a Certified Islamic Specialist in Islamic Insurance and a Certified Compliance Officer. He has over 24 years of experience in HR and Administration. He is involved in the meetings held with specialists in Shariah consulting services in respect of transforming the Company's activities into Takaful based insurance.

c) Ajay Srivastava, Chief Operating Officer

Mr. Srivastava has completed his Bachelor of Science (Honors). He has a Bachelor's degree in Law and is an Associate of Insurance Institute of India (AIII), with over 24 years of insurance experience in Indian & London Insurance markets. Amongst his experiences, he has been involved in one of India's largest petrochemical plant (ONGC) and with one of the large auto manufacturer of India (Daewoo Motors). He developed and serviced one of UK's largest furnishing Chain (ROSEBYS) and Hotel Chains (Aurora group) during his career.

d) 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 30 years of experience in Insurance and Banking in India and the GCC.

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

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

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

f) Chakrapani Ranganathan, Senior Manager – Insurance Operations

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

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J AREAS OF NON COMPLIANCE

During the year there have been no other 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.

K MEANS OF COMMUNICATION WITH SHAREHOLDERS

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

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

L Market price data and distribution of holdings

Market price data

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

	Company's market price (Baiza)		MSM 30 Index	
Month	**High**	**Low**	**High**	**Low**
Jan 16	72	70	5,180	5,029
Feb 16	76	73	5,399	5,381
Mar 16	75	72	5,485	5,465
Apr 16	77	76	5,950	5,941
May 16	74	73	5,845	5,811
Jun 16	76	72	5,785	5,777
July 16	74	74	5,858	5,843
Aug 16	71	71	5,777	5,735
Sep 16	71	70	5,743	5,726
Oct 16	69	68	5,488	5,477
Nov 16	71	71	5,490	5,476
Dec 16	71	71	5,793	5,775

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Pattern of Shareholding

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

SHAREHOLDER	NO. OF SHARES	% HOLDING
1. Mohammed Al Barwani Holding Co. L.L.C.	45,250,001	26
2. Al Madina Investments	15,119,997	9
3. Ministry of Defence Pension Fund	9,799,999	6

M DECLARATION BY THE BOARD OF DIRECTORS

We the board of directors hereby confirms that:

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

N PROFILE OF THE STATUTORY AUDITORS

PwC is a global network of firms operating in 157 countries with more than 223,000 people who are committed to delivering quality in assurance, tax and advisory services. PwC also provides corporate training and professional financial qualifications through PwC's Academy.

Established in the Middle East for over 40 years, PwC Middle East has firms in Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, the Palestinian territories, Qatar, Saudi Arabia and the United Arab Emirates, with around 4,000 people. (www.pwc.com/me).

PwC has been established in Oman for over 45 years with 4 Partners, including one Omani national, and over 140 professionals. Our experts in assurance, tax and advisory services 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 the year 2016, professional fees (Statutory Audit RO 13,000) has been charged for RO 13,000 by them to the organization.

For **Al Madina Insurance Company SAOG**

Management Discussion & Analysis Report

Introduction

The year 2016 has been a challenging year for countries in the GCC region. The economic situation arising out of the steady fall in the oil prices in 2014/15 continued for the whole of the year. The impact of any sluggishness in the economy always has a delayed effect in the Insurance industry due to the cyclical nature of the business and the real effect of fall in Oil prices is being experienced only now. Regional economy and capital markets in 2016 were volatile due to huge volatility seen in oil prices. There has been some rebound in the overall market sentiments with little recovery in energy prices but the improvement may just be fragile. Even if the recovery in energy prices is sustainable, the trickle down impact on the economy always has a lag depending upon the quantum of recovery.

The contributions from the Energy and Construction sectors fell significantly in 2016 compared to the previous year. The sales in Automobile industry witnessed a decline of 9.6% in 2016, which has had a direct impact on insurance revenue, especially as Motor insurance is the dominant line of business in Oman. Corporates also looked to reassess Human Resource needs, which meant reduced demand for employee benefit covers. On the other hand, there continued to be excessive capital in the reinsurance market which led to significant reduction of insurance premiums in Oman.

Consequently the shrinking operating margins made cost optimization, process efficiency and cash flow management critical to the insurance businesses performance. Al Madina recorded consistently good performance in all key functional indicators of Loss Ratio, Net Earned Revenue, Underwriting Results and Expense throughout the year which resulted in turning around the losses in 2015 to profits from operation as well as investment in 2016. Simultaneously, the Company remained focused on its objective of spreading Takaful awareness in the Sultanate.

The Takaful Law was promulgated early this year and the industry awaits the regulation which is expected to clear many aspects of Takaful operations.

المدينة تكافل
Al Madina Takaful

شركة المدينة للتأمين ش.م.ع.ع، ص.ب ٨٠
مسقط جراند مول، الرمز البريدي ١٣٦، سلطنة عمان. س.ت رقم: ١/٨١٥٠٠/٨
Al Madina Insurance Company SAOG, PO Box 80
Muscat Grand Mall, PC 136, Sultanate of Oman. C.R. No. 1/81500/8

OPERATIONAL PERFORMANCE

(in OMR '000)	Shareholders	General Takaful	Family Takaful	Consolidated	
				2016	2015
Gross Written Contributions	-	23,955	3,236	27,191	31,045
Net Retained Contributions	-	13,344	846	14,190	12,960
Net Earned Contributions	-	12,938	769	13,707	12,943
Net Claims Incurred		(8,186)	(205)	(8,391)	(9,051)
Provision for bad and doubtful debt		(266)	(31)	(297)	(159)
Surplus from Takaful Operations before Wakala Fees	-	3,901	400	4,301	3,468
Investment income	672	98	1	771	662
Loss on AFS Investment	-	-	-	-	(773)
Wakala Fees	5,384	(4,737)	(647)	-	-
Mudaraba Fee	59	(58)	(1)	-	-
Other Income	6	-	-	6	1
General and administrative expenses	(4,291)	-	-	(4,291)	(4,141)
Policy Holder Surplus / Deficit	-	(796)	(247)	(1,043)	(1,681)
Profit before tax	**1,830**	-	-	**1,830**	**897**
(Tax) / Refundable tax	(205)	-	-	(205)	(69)
Profit after tax	**1,625**	-	-	**1,625**	**828**
Earnings per share (in Baiza)	**0.009**	-	-	**0.009**	**0.005**
Book value per share (in Baiza)	**0.137**	-	-	**0.137**	**0.129**

Note: The impairment in 2015 pertains to Company's investment in National Takaful Company (Watania)

Business

The general economic environment was difficult in 2016 and the MSM & Sharia index reflected the scenario and the negative sentiments. The insurance market in Oman didn't demonstrate the kind of growth it had witnessed in the earlier years and almost all major players remained at broadly the same level of Gross Premium as last year except for startup operations. The premium rates continued to be under pressure in Retail & Personal lines as well as Corporate & Specialty lines.

Al Madina made its presence felt in the Energy insurance space by becoming the largest downstream insurer in Oman when it got the prestigious Oman Oil Company insurance contract in 2016. The Company also won many other large Policies in various lines of businesses. Al Madina is today considered as a formidable and important insurer from Oman in the international Reinsurance market. With growing confidence in its underwriting skills and expertise, the Company also went for increased retentions which contributed significantly to the overall performance. The Company posted impressive Underwriting results. The Underwriting results as % to GWP was one of the highest in the industry increasing it from RO 3.4 million in 2015 to RO 4.3 million in 2016 while keeping the cost of operations at levels comparable to 2015.

المقر الرئيسي: +٩٦٨ ٢٢٠٣٣٨٨٨، روي: +٩٦٨ ٢٤٧٧١٨٨٨، لوى: +٩٦٨ ٢٥٤١١٤٩٤، السيب: +٩٦٨ ٢٤٤٢٢١٤٥، جامعة السلطان قابوس: +٩٦٨ ٢٤٤١٤٤٢٢، صحار: +٩٦٨ ٢٦٨٤٠٨١٦، صلالة: +٩٦٨ ٢٣٢٩٢٧٢٥
Corporate: +968 22033888 . Ruwi: +968 24771888 . Nizwa: +968 25411494 . Seeb: +968 24422145 . SQU: +968 24414422 . Sohar: +968 26840816 . Salalah: +968 23292725
reachus@almadinatakaful.com • www.almadinatakaful.com

Al Madina continued to invest heavily on information technology (IT) in 2016 particularly in the area of front-end distribution with almost all the Retail & Personal line products now on a web based IT platform.

In the increasing soft market conditions where business procurement is linked to pricing, Al Madina put in place a long-term Customer Satisfaction strategy at par with other critical business functions with a view to increase business from customers by efficiently and courteously satisfying their needs. The Company took several innovative steps towards providing a Superior customer experience.

The Company also initiated a robust Risk Regime by setting up the process of Enterprise Risk Management and creation of Risk Register to evaluate existing and emerging Risks which will help in setting up of appropriate measures to respond to contingencies.

Investment

Investment climate in 2016 was similar to the previous year. Regional equities continued their under-performance due to low oil prices, while Sukuk prices fell during the second half of the year due to increase in interest rates whereas real estate investments felt pressure on both the counts – rentals and occupancies. The silver lining during the year was the increase in profit rates given by Islamic banks during the year.

In spite of the above challenges, the company generated a total net investment income of RO 771,313 in FY16 as against a loss of RO 112,177 in FY15. MSM Sharia Index under-performed the broader index and gained only 1.6% during FY16 as against a gain of 7.0% in MSM 30 Index. However company's fixed-income generating assets provided stability to the overall investment performance.

We expect the investment market to remain volatile in 2017 as well. Any further improvement in oil prices from the current levels would aid in the performance of overall investments, especially the regional equities markets. The company will continue to diversify its investment book further in 2017 which will help in achieving stable investment returns.

Claims

Oman witnessed a fall in the accident rate which was close to 35% compared to the previous year. A significant contribution has come due to important steps taken by the ROP which put in place strict safety regulations & imposed punitive traffic penalties. There was also a greater awareness from the public on adhering to safety measures.

Claims intimations at Al Madina fell significantly this year on account of better risk management, prudent risk profiling and improved portfolio management but there were challenges from Agencies who tightened their discount structures. The quality of repair was an important factor with PACP questioning work quality in complaints from consumers.

Al Madina's Motor Claims team did very well by managing to keep the claim cost down on one hand but retaining the highest level of Customer Service. The Consumer complaint went down by 78% reflecting Al Madina's commitment to service on the other hand.

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Al Madina took many service oriented initiatives such as real-time information and update on progress of Claims, single window claim intimation and follow up, fast-track claims and setting up of feedback mechanisms to name just a few. Al Madina also took steps towards an efficient Document Management System which enhanced the customer experience when making a claim submission.

HR & Manpower

Keeping in view the company's strategy to drive a performance-based culture, the HRA team devised mechanisms to enhance the performance management processes and bring about a higher level of transparency in the way the performance expectations are managed and monitored through the performance management system.

HRA team has designed 'Center of Excellence' which focuses on assisting employees through a structured development process to become subject matter experts. This initiative is in its pilot phase for the HRA team. The methodology shall be extended to other departments. This in the long run would benefit the organization.

Omanization percentage of 68.27% was achieved for the year 2016.

IT Services

The Company firmly believes in a strong IT infrastructure that would act a catalyst to business growth & customer satisfaction. 2016 saw heavy investments in major IT projects to strengthen the IT platforms of the Company. There was a major upgrade in the Core Application of Al Madina.

There was also the Al Madina's indigenous brand 'Tameenet' Collaborator upgrade and bringing in a Customer Services platform. The Core system and Tameenet frameworks are ready to go live and the data migration is nearing completion. There are multiple features that have been identified and added as part of the system upgrade by the business teams.

These Projects were started in the first quarter of 2016 with a very aggressive time frame. With a sustained focus, all the Projects progressed as planned and were completed by the end of year 2016. In addition to all the mentioned projects, a customer care and call center has also been created which is expected to aid in increased Customer retention.

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The Internal Audit & Compliance department

The Company continued to focus on the Internal Audit & Compliance Department through:

- Supporting and developing the Company's internal audit function by identifying operational, financial, and administrative risks of the company. In line with the objective of effective monitoring of the operations.
- Supporting and developing the Company's compliance function through consistent follow up on the Company's operations to be according to the rules and regulations governing the Sultanate of Oman.
- Supporting and developing the Company's complaints department through contacting the company's clients and coordination with the Capital Market Authority (CMA).
- Audit & follow up commitment to the decisions & instructions of the Sharia Board with respect to all operational, financial, and administrative activities of the company
- Supporting and developing the continuous training of the department's staff members and encourage them to get professional certificates to compliment the Company's progress.

Future Outlook

The current economic challenges and the consequent volatile market conditions are expected to continue in 2017. The increase of energy prices during the latter half of 2016 has created some positive sentiments however we will need to see stability in energy prices at the current levels before its impact can be analyzed on the economy. Liquidity will continue to pose challenge in 2017 for the general economy which may also keep the capital markets volatile. This will have impact on the insurance sector as well in terms of slow growth in top-line, delay in premium collections and volatile investment performance.

The Premiums may grow only moderately reflecting these challenges. However the Takaful industry which has seen a much higher growth despite competition from conventional insurers is expected to continue on its path by creating an effective alternative channel.

Life insurance segment is regarded as having a potential for growth due to it being perceived as largely under penetrated. In comparison to this vast scope for the life segment, the development in the non-life business lines is envisaged to be slower. The slow insurance growth and low primary insurance penetration will lead to stable reinsurance demand. The Reinsurance capital will continue to climb and the over capacity will lead to continued price pressure on Insurance premium.

To maintain Underwriting profitability Expense optimization and Operational efficiency would be the key to better productivity and underwriting surplus. Al Madina has invested heavily on Technology for making Insurance sales more accessible and easy for its customers. The Company is also looking to enhance its already wide range of product offerings particularly in the long term life products. We believe that the year 2017 will be equally challenging but with a disciplined underwriting approach and enhanced process efficiency, Al Madina expects to harness opportunities that will lead to a stable growth in Gross Premiums, Underwriting surplus and investment income.

المدينة تكافل
Al Madina Takaful

بسم الله الرحمن الرحيم

In the name of Allah,
The Most Merciful, the All Beneficent

The report of the Shari'ah Supervisory Board of Al Madina Insurance (Takaful) For the year ended 31 December 2016

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

To the Shareholders of Al Madina Insurance (Takaful):

Peace and Blessings be upon you and hereafter,

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

The Shari'ah Supervisory Board reviewed the procedures relating to the Takaful transactions and the applications introduced by the company for the year ended 31 December 2016. The Board has reviewed and confirmed the implementation of the principles and guidelines governing the relationship between the participants and shareholders in order to identify the rights of each side. Discussions took place with the Company's officers with regard to its items and the attached Notes.

The Board gave its Shari'ah directives for Takaful transactions and answered the queries made by the management.

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

1. The surplus distribution, charging of losses and expenses to the participants and shareholders fully confirm with the principles established by ourselves in compliance with Shari'ah rules and principles.

2. The steps and actions were taking to spend any gains realized from prohibited sources or methods to charitable causes according to Charity Manual approved by us.

3. The calculations of Zakah is being calculated in compliance with Islamic Shari'ah rules and principles and as directed by the Shari'ah supervisory Board. It should be noted that responsibility for payment of Zakah is undertake by the shareholders.

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

Peace and Blessings be upon you
23 Jumada Al Uola, 1438 corresponding to 20 February 2017.

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

المدينة تكافل
Al Madina Takaful
شركة المدينة للتأمين ش م ع ع
Al Madina Insurance Company SAOG
Sharia'a Supervisory Board
هيئة الرقابة الشرعية

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REPORT OF FACTUAL FINDINGS

TO THE SHAREHOLDERS OF AL MADINA INSURANCE COMPANY SAOG

1. We have performed the procedures agreed with you pursuant to the Capital Market Authority (CMA) circular no. E/4/2015, dated 22 July 2015 and circular number 7/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 2016 and application of the corporate governance practices in accordance with amendments to CMA Code of Corporate Governance issued under circular no. E/10/2016 dated 1 December 2016 (collectively the 'Codes').

2. Our engagement was undertaken in accordance with the International Standard on Related Services 4400 applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in complying with the requirement of the Codes issued by the CMA.

3. We have performed the following procedures:

   a) We have checked that the corporate governance report issued by the Board of Directors includes as a minimum, all items suggested by CMA to be covered by the report as detailed in the Annexure 3 of the Codes by comparing the report with such suggested content in the Annexure 3; and

   b) We obtained the detailed list of areas of non-compliance identified by the company's Board of Directors with the Codes, included in the report together with the reasons for such non-compliance and agreed these to the discussions in the Board minutes or/and a checklist prepared by the Board of Directors to identify any non-compliance.

4. As a result of performing the above procedures, we have no exceptions to report.

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

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

7. Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the Board of Directors' corporate governance report included in its annual report for the year ended 31 December 2016 and does not extend to any financial statements of Al Madina Insurance Company SAOG taken as a whole.

PricewaterhouseCoopers

28 February 2017
Muscat, Sultanate of Oman

AL MADINA INSURANCE COMPANY SAOG

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

AL MADINA INSURANCE COMPANY SAOG

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

Contents

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

Introduction

We have audited the accompanying financial statements of Al Madina Insurance Company SAOG (the Company) which comprise the statement of financial position as at 31 December 2016 and the statements of participants' revenue and expenses, comprehensive income, changes in shareholders' equity, changes in participants' fund and 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 presentation of these financial statements in accordance with the Sharia' rules and principles as determined by the Sharia' Supervisory Board of the Company, the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), applicable requirements of the Commercial Companies Law of 1974, as amended, of the Sultanate of Oman, the provisions for disclosure related to insurance companies issued by Capital Market Authority and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The directors are also responsible for the Company's undertaking to operate in accordance with Islamic Sharia' rules and principles as determined by the Sharia' Supervisory Board of the Company.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Al Madina Insurance Company SAOG as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with the Sharia' rules and principles as determined by the Sharia' Supervisory Board of the Company and the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions.

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

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.

Other matter – Prior year financial statements audited by a predecessor auditor

The financial statements of the Company for the year ended 31 December 2015 were audited by another firm of auditors whose report, dated 28 February 2016, expressed an unmodified opinion on these financial statements. Our opinion is not qualified in respect of this matter.

28 February 2017
Muscat, Sultanate of Oman

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

		Shareholders' fund		Participants' fund						Grand total	
				General takaful		Family takaful		Total participants' fund			
	Note	2016 RO	2015 RO	2016 RO	2015 RO	2016 RO	2015 RO	2016 RO	2015 RO	2016 RO	2015 RO
ASSETS											
Cash and bank balances	4	822,459	2,438,183	1,105,741	1,390,669	252,720	460,910	1,358,461	1,851,579	2,180,920	4,289,762
Bank deposits	5	3,825,108	2,168,098	3,502,980	4,176,416	897,084	97,084	4,400,064	4,273,500	8,225,172	6,441,598
Investments carried at fair value through profit or loss	6	3,190,997	4,379,752	-	-	-	-	-	-	3,190,997	4,379,752
Takaful and retakaful / reinsurance balance receivable	7	-	-	8,989,284	6,910,562	950,680	1,009,018	9,939,964	7,919,580	9,939,964	7,919,580
Receivable from participants' fund	8	1,976,829	672,232	-	-	-	-	-	-	1,976,829	672,232
Receivable from participants - family takaful		-	-	708,390	399,512	-	-	708,390	399,512	708,390	399,512
Due from retakaful / reinsurance companies in connection with takaful reserves	9	-	-	9,463,577	10,424,694	1,009,251	1,253,579	10,472,828	11,678,273	10,472,828	11,678,273
Deferred policy acquisition cost	10	-	-	706,451	753,386	64,285	54,538	770,736	807,924	770,736	807,924
Other receivables and takaful assets	11	1,442,477	791,802	717,629	663,176	67,651	-	785,280	663,176	2,227,757	1,454,978
Investments at fair value through equity	12	1,887,733	2,386,283	-	-	-	-	-	-	1,887,733	2,386,283
Investments carried at amortised cost	13	4,247,215	2,755,228	-	-	-	-	-	-	4,247,215	2,755,228
Deferred tax asset	14	-	205,363	-	-	-	-	-	-	-	205,363
Investment in real estate	15	6,245,911	6,245,911	-	-	-	-	-	-	6,245,911	6,245,911
Property and equipment	16	1,100,181	1,229,759	-	-	-	-	-	-	1,100,181	1,229,759
Total assets		24,738,910	23,272,611	25,194,052	24,718,415	3,241,671	2,875,129	28,435,723	27,593,544	53,174,633	50,866,155

The notes and other explanatory information on pages 10 to 44 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016 (CONTINUED)

		Shareholders' fund		Participants' fund						Grand total	
				General Takaful		Family Takaful		Total participants' fund			
	Note	2016 RO	2015 RO	2016 RO	2015 RO	2016 RO	2015 RO	2016 RO	2015 RO	2016 RO	2015 RO
SHAREHOLDERS' EQUITY, PARTICIPANTS' FUND AND LIABILITIES											
SHAREHOLDERS' EQUITY											
Capital and reserves											
Share capital	17	17,500,000	17,500,000	-	-	-	-	-	-	17,500,000	17,500,000
Share premium	18	1,380,151	1,380,151	-	-	-	-	-	-	1,380,151	1,380,151
Legal reserve	19	797,581	635,156	-	-	-	-	-	-	797,581	635,156
Contingency reserve	20	1,206,553	1,206,553	-	-	-	-	-	-	1,206,553	1,206,553
Investment fair value reserve	12 (d)	307,968	650,401	-	-	-	-	-	-	307,968	650,401
Retained earnings		2,706,141	1,244,320	-	-	-	-	-	-	2,706,141	1,244,320
Total shareholders' equity		23,898,394	22,616,581	-	-	-	-	-	-	23,898,394	22,616,581
PARTICIPANTS' FUND											
Deficit in participants' fund		-	-	(3,195,186)	(1,988,354)	(705,499)	(426,587)	(3,900,685)	(2,414,941)	(3,900,685)	(2,414,941)
Contingency reserve	20	-	-	1,115,614	705,080	67,533	35,173	1,183,147	740,253	1,183,147	740,253
Total participants' fund		-	-	(2,079,572)	(1,283,274)	(637,966)	(391,414)	(2,717,538)	(1,674,688)	(2,717,538)	(1,674,688)
LIABILITIES											
Employees' end of service benefits	21	289,720	268,215	-	-	-	-	-	-	289,720	268,215
Takaful reserves	9	-	-	19,573,582	20,196,261	1,369,318	1,612,052	20,942,900	21,808,313	20,942,900	21,808,313
Unearned retakaful commission	22	-	-	43,496	413,259	647	4,027	44,143	417,286	44,143	417,286
Retakaful/reinsurance payables		-	-	4,823,524	4,000,287	1,144,434	482,570	5,967,958	4,482,857	5,967,958	4,482,857
Accounts and other payables	23	550,796	387,815	1,339,696	1,391,882	173,345	96,150	1,513,041	1,488,032	2,063,837	1,875,847
Payable to shareholders	8	-	-	1,493,326	-	483,503	672,232	1,976,829	672,232	1,976,829	672,232
Payable to participants - general takaful		-	-	-	-	708,390	399,512	708,390	399,512	708,390	399,512
Total liabilities		840,516	656,030	27,273,624	26,001,689	3,879,637	3,266,543	31,153,261	29,268,232	31,993,777	29,924,262
Total shareholders' equity, participants' fund and liabilities		24,738,910	23,272,611	25,194,052	24,718,415	3,241,671	2,875,129	28,435,723	27,593,544	53,174,633	50,866,155

The financial statements on pages 3 to 44 were approved and authorised for issue by the Board of Directors on 27 February 2017 and were signed on their behalf by:

Director **Director**

Independent auditor's report – pages 1-2.

STATEMENT OF PARTICIPANTS' REVENUE AND EXPENSES
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	General takaful		Family takaful		Total	
		2016 RO	2015 RO	2016 RO	2015 RO	2016 RO	2015 RO
Takaful revenues							
Gross contributions		23,955,271	29,062,744	3,235,953	1,982,616	27,191,224	31,045,360
Retakaful/reinsurance share		(10,611,580)	(16,619,448)	(2,389,955)	(1,465,589)	(13,001,535)	(18,085,037)
Retained contributions		13,343,691	12,443,296	845,998	517,027	14,189,689	12,960,323
Movement in unearned contributions		(405,179)	8,268	(76,567)	(25,252)	(481,746)	(16,984)
Net earned contributions		12,938,512	12,451,564	769,431	491,775	13,707,943	12,943,339
Commission income	22	466,441	880,955	4,820	7,880	471,261	888,835
		13,404,953	13,332,519	774,251	499,655	14,179,204	13,832,174
Takaful expenses							
Gross claims settled	9	(11,836,054)	(9,885,762)	(1,814,794)	(1,050,630)	(13,650,848)	(10,936,392)
Claims recovered from retakaful/reinsurance	9	3,583,158	2,345,808	1,534,774	888,956	5,117,932	3,234,764
Net movement in outstanding claims		66,741	(1,293,377)	74,973	(55,616)	141,714	(1,348,993)
Net claims incurred		(8,186,155)	(8,833,331)	(205,047)	(217,290)	(8,391,202)	(9,050,621)
Commission expense	10	(1,616,819)	(1,738,560)	(133,113)	(108,478)	(1,749,932)	(1,847,038)
		(9,802,974)	(10,571,891)	(338,160)	(325,768)	(10,141,134)	(10,897,659)
		3,601,979	2,760,628	436,091	173,887	4,038,070	2,934,515
Takaful income	24	746,306	809,692	1,816	298	748,122	809,990
Provision for impairment of receivables	7	(265,727)	(159,302)	(30,749)	-	(296,476)	(159,302)
Takaful expense		(181,158)	(114,765)	(6,914)	(2,200)	(188,072)	(116,965)
Surplus from takaful operations		3,901,400	3,296,253	400,244	171,985	4,301,644	3,468,238
Investment income	26	97,714	90,602	987	915	98,701	91,517
Mudarib share	25	(58,628)	(63,421)	(593)	(641)	(59,221)	(64,062)
Wakala fees	25	(4,736,784)	(4,779,812)	(647,190)	(396,523)	(5,383,974)	(5,176,335)
Deficit from takaful operations		(796,298)	(1,456,378)	(246,552)	(224,264)	(1,042,850)	(1,680,642)

The notes and other explanatory information on pages 10 to 44 form an integral part of these financial statements.

Independent auditor's report – pages 1-2.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Shareholders' fund 2016 RO	2015 RO
Wakala fees	25	**5,383,974**	5,176,335
Investment income / (loss) - net	26	**672,612**	(203,693)
Mudarib share	25	**59,221**	64,062
		6,115,807	5,036,704
General and administrative expenses	27	**(4,291,067)**	(4,140,800)
Other income		**4,869**	680
		(4,286,198)	(4,140,120)
Profit before taxation		**1,829,609**	896,584
Taxation	14	**(205,363)**	(68,750)
Profit for the year		**1,624,246**	827,834
Other comprehensive loss			
Items that may be reclassified to profit or loss			
Net change in fair value of investments at fair value through equity	12(a)	**(342,433)**	843,590
Total comprehensive income for the year		**1,281,813**	1,671,424
Earnings per share - basic and diluted	28	**0.009**	0.005

The notes and other explanatory information on pages 10 to 44 form an integral part of these financial statements.

Independent auditor's report – pages 1-2.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital RO	Share premium RO	Legal reserve RO	Contingency reserve RO	Investment fair value reserve RO	Retained earnings RO	Total RO
At 1 January 2016	**17,500,000**	**1,380,151**	**635,156**	**1,206,553**	**650,401**	**1,244,320**	**22,616,581**
Comprehensive income							
Profit for the year	-	-	-	-	-	**1,624,246**	**1,624,246**
Other comprehensive loss							
Net change in fair value of investments at fair value through equity	-	-	-	-	**(342,433)**	-	**(342,433)**
Total comprehensive (loss)/income for the year	-	-	-	-	**(342,433)**	**1,624,246**	**1,281,813**
Transaction with owner							
Transfer to legal reserve	-	-	**162,425**	-	-	**(162,425)**	-
At 31 December 2016	**17,500,000**	**1,380,151**	**797,581**	**1,206,553**	**307,968**	**2,706,141**	**23,898,394**
At 1 January 2015	17,500,000	1,380,151	552,373	1,206,553	(193,189)	499,269	20,945,157
Comprehensive income							
Profit for the year	-	-	-	-	-	827,834	827,834
Other comprehensive income							
Net change in fair value of investments at fair value through equity	-	-	-	-	843,590	-	843,590
Total comprehensive income for the year	-	-	-	-	843,590	827,834	1,671,424
Transaction with owner							
Transfer to legal reserve	-	-	82,783	-	-	(82,783)	-
At 31 December 2015	17,500,000	1,380,151	635,156	1,206,553	650,401	1,244,320	22,616,581

The notes and other explanatory information on pages 10 to 44 form an integral part of these financial statements.

Independent auditor's report – pages 1-2.

STATEMENT OF CHANGES IN PARTICIPANTS' FUND
FOR THE YEAR ENDED 31 DECEMBER 2016

	General takaful RO	Family takaful RO	Contingency reserve general takaful RO	Contingency reserve family takaful RO	Total RO
At 1 January 2016	**(1,988,354)**	**(426,587)**	**705,080**	**35,173**	**(1,674,688)**
Deficit for the year	**(796,298)**	**(246,552)**	**-**	**-**	**(1,042,850)**
Contingency reserve (note 20)	**(410,534)**	**(32,360)**	**410,534**	**32,360**	**-**
At 31 December 2016	**(3,195,186)**	**(705,499)**	**1,115,614**	**67,533**	**(2,717,538)**
At 1 January 2015	173,104	(167,150)	-	-	5,954
Deficit for the year	(1,456,378)	(224,264)	-	-	(1,680,642)
Contingency reserve (note 20)	(705,080)	(35,173)	705,080	35,173	-
At 31 December 2015	(1,988,354)	(426,587)	705,080	35,173	(1,674,688)

The notes and other explanatory information on pages 10 to 44 form an integral part of these financial statements.

Independent auditor's report – pages 1-2.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 RO	2015 RO
Operating activities			
Profit before tax for the year		1,829,609	896,584
Deficit from takaful operations		(1,042,850)	(1,680,642)
Adjustments for:			
Depreciation	27	248,566	210,855
Dividend income	26	(220,482)	(259,824)
Profit on wakala deposits	26	(182,160)	(125,713)
Profit from investments carried at amortised cost	26	(207,571)	(141,096)
Amortisation of investments carried at amortised cost	13	8,013	7,208
End of service benefits charge for the year	27 (a)	76,666	82,448
Rental income from investment in real estate	26	(491,075)	(565,100)
Fair value loss on investments carried at fair value through profit or loss	26	201,140	384,111
Provision for impairment of receivables	7 (b)	296,476	159,302
Realised gain on sale of investments	26	(7,911)	(75,016)
Impairment loss on investments at fair value through equity	26	-	773,279
		508,421	(333,604)
Payment of end of service benefits	21	(55,161)	(6,329)
Operating cash flows before working capital changes		453,260	(339,933)
Working capital changes:			
Takaful and retakaful / reinsurance balance receivables		(2,316,860)	266,225
Due from retakaful / reinsurance companies in connection with takaful reserves		1,205,445	760,041
Other receivables and takaful assets		(213,227)	(354,840)
Deferred policy acquisition cost		37,188	51,656
Takaful reserves		(865,413)	605,936
Accounts and other payables		187,990	(84,888)
Retakaful / reinsurance payables		1,485,101	(73,323)
Unearned retakaful commission		(373,143)	38,484
Net cash (used in) / generated from operating activities		(399,659)	869,358
Cash flows from investing activities			
Purchase of property and equipment	16	(136,029)	(493,527)
Purchase of investments carried at fair value through profit or loss	6 (b)	(164,431)	(127,036)
Purchase of investments carried at fair value through equity	12 (a)	(69,127)	(280,318)
Purchase of investment carried at amortised cost	13	(1,500,000)	-
Proceeds from disposal of property and equipment	16	17,041	-
Purchase of investment in real estate	15 (a)	-	(10,800)
Proceeds from disposal of investments at fair value through profit or loss	6 (b)	1,147,057	875,328
Proceeds from sale of investments carried at fair value through equity	12 (a)	238,144	6,793
Movement in bank deposits		(1,750,000)	-
Rent received		102,686	565,100
Profit received		218,568	114,655
Dividends received		220,482	259,824
Net cash (used in) / generated from investing activities		(1,675,609)	910,019
Net change in cash and cash equivalents		(2,075,268)	1,779,377
Cash and cash equivalents at the beginning of the year	30	4,424,385	2,645,008
Cash and cash equivalents at the end of the year	30	2,349,117	4,424,385

The notes and other explanatory information on pages 10 to 44 form an integral part of these financial statements.

Independent auditor's report – pages 1-2.

1 Legal status and principal activities

Al Madina Insurance Company SAOG (the "Company") was incorporated on 15 May 2006 as a closed joint stock company in the Sultanate of Oman. On 10 December 2013, the Company has become a public joint stock company. The Company operates in Oman and is engaged in the business of General and Family Takaful activities and investments by adopting wakala and mudarabha model respectively, on behalf of the participants in accordance with the Islamic Sharia' principles. The retakaful / reinsurance activities organised on an underwriting year basis with the participants pooling their contributions to compensate for losses suffered in the pool on occurrence of a defined event.

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

2 Summary of significant accounting policies

2.1 Basis of preparation

(a) These financial statements for the year ended 31 December 2016 have been prepared in accordance with the Sharia' rules and principles as determined by the Sharia' Supervisory Board of the Company, the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), applicable requirements of the Commercial Companies Law of 1974, as amended, of the Sultanate of Oman and the provisions for disclosure related to insurance companies issued by Capital Market Authority.

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

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

2.2 Takaful operations

The Company issues contracts that are based on co-operative activity by risk sharing or financial risk, or both. The Company classifies all its contracts as takaful contracts.

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

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

2.3 Takaful and retakaful / reinsurance contracts

2.3.1 Takaful contracts

(a) Recognition and measurement

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

Short term takaful contracts

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

2 Summary of significant accounting policies (continued)

2.3 Takaful and retakaful / reinsurance contracts (continued)

2.3.1 Takaful contracts (continued)

(a) Recognition and measurement (continued)

Short term takaful contracts (continued)

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

Long term takaful contracts

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

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

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

(b) Deferred policy acquisition costs

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

(c) Deferred income from retakaful contracts

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

(d) Liability adequacy test

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

(e) Claims

Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, are charged to 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's judgement and the management's prior experience is maintained for the cost of settling claims incurred but not reported (IBNR) at the date of the statement of financial position. Any difference between the provisions at the statement of financial position date and settlements and provisions for the following year is included in the underwriting account for that year.

2 Summary of significant accounting policies (continued)

2.3 Takaful and retakaful / reinsurance contracts (continued)

2.3.1 Takaful contracts (continued)

(e) Claims (continued)

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

Estimates of salvage recoveries are included as an allowance in the measurement of the takaful liability for claims, and salvaged vehicles or property acquired are recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the vehicle or property.

Subrogation reimbursements are also considered as an allowance in the measurement of the takaful liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can reasonably be recovered from the action against the liable third party.

2.3.2 Retakaful / reinsurance contracts held

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

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

The Company assesses its retakaful / reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the retakaful / reinsurance asset is impaired, the Company reduces the carrying amount of the retakaful / reinsurance asset to its recoverable amount and recognises that impairment loss in the statement of comprehensive income. The Company gathers the objective evidence that a retakaful / reinsurance asset is impaired using the same process adopted for takaful balances receivable. The impairment loss is also calculated following the same method used for these financial assets.

2.4 Foreign currency

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

2.5 Revenue recognition

(a) Gross contributions

Gross contributions represent the total business written during the year and are recognised as revenue (earned contributions) at the time of entering into the takaful contract. A proportion of net retained contribution is provided as 'unearned contribution reserve' to cover portions of risks which have not expired at the statement of financial position date.

2 Summary of significant accounting policies (continued)

2.5 Revenue recognition (continued)

(b) Income from retakaful contracts earned and paid

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

(c) Investment income

Investment income is recognised on a time proportion basis using effective profit method.

2.6 Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in statement of comprehensive income except to the extent that it relates to items recognised directly to equity or in other comprehensive income.

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

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

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

2.7 Property and equipment

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

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

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

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.

2 Summary of significant accounting policies (continued)

2.8 Investment in real estate

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

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

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

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial year in which they are incurred.

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

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

2.9 Financial instruments

The Company classifies its financial assets in the following categories: investments carried at fair value through profit or loss, investments at fair value through equity, investments carried at amortised cost and loans and receivables. Management determines the classification of its investments at initial recognition.

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

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

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

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

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

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

2 Summary of significant accounting policies (continued)

2.9 Financial instruments (continued)

(b) Investments at fair value through equity

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

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

(c) Investments carried at amortised cost

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

(d) Loans and receivables

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

Reclassification

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

Derecognition

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

Trade and settlement date accounting

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

Financial liabilities

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

2 Summary of significant accounting policies (continued)

2.10 Impairment and uncollectability of financial assets

(a) Investments at fair value through equity

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

(b) Assets carried at amortised cost

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset or group of assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in the statement of comprehensive income.

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

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

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

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

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

2.11 Offsetting

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

2 Summary of significant accounting policies (continued)

2.12 Impairment of non-financial assets

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

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

2.13 Takaful balances receivable

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

2.14 Cash and cash equivalents

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

2.15 Legal reserve

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

Reserve is reviewed and transferred on a yearly basis.

2.16 Contingency reserve

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

General insurance - transfer equivalent to 10% of the net outstanding claims at the year end.
Life insurance - transfer equivalent to 1% of life assurance contributions for the year.

The company may discontinue this transfer when the reserve equals to the issued share capital. No dividend shall be declared in any year until the deficit in the reserve is covered from the retained profits. Transfers to these reserves are made until the total of both are equal to the paid up capital of the Company.

2.17 Employees' end of service benefits and leave entitlements

End of service benefits are accrued in accordance with the terms of employment of the Company's employees at the reporting date, having regard to the requirements of the Oman Labour Law 2003, as amended. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date.

2 Summary of significant accounting policies (continued)

2.17 Employees' end of service benefits and leave entitlements (continued)

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

2.18 Accounts and other payables

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

2.19 Director's remuneration

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

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

2.20 Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

2.21 Provisions

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

2.22 Dividend distribution

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

2.23 Earnings prohibited by Sharia'

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

2.24 Operating segment

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the Chief Executive Officer (CEO) to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's shareholders), head office expenses, and income tax assets and liabilities.

3 Critical accounting estimates and judgements

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

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

(a) Outstanding claims

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

(b) Impairment of receivables

An estimate of the collectible amount of takaful and retakaful / reinsurance balances receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied on the basis of length of time past due and/or qualitative factors, based on historical recovery rates.

(c) Fair valuation of investment in real estate

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

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

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

(e) Fair valuation of unquoted investments

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

4 Cash and bank balances

	Shareholders	Participants		
		General	Family	Total
2016	RO	RO	RO	RO
Cash at bank in current accounts	310,359	1,104,744	252,720	1,357,464
Cash at bank in call account	207,477	-	-	-
Cash balances with investment managers	301,889	-	-	-
Cash in hand	2,734	997	-	997
	822,459	1,105,741	252,720	1,358,461
2015				
Cash at bank	1,930,723	1,389,669	460,910	1,850,579
Cash balances with investment managers	504,160	-	-	-
Cash in hand	3,300	1,000	-	1,000
	2,438,183	1,390,669	460,910	1,851,579

The Company has call account with commercial bank in Sultanate of Oman with profit rate of 1% per annum (2015 - Nil).

5 Bank deposits

	Shareholders	Participants		
		General	Family	Total
2016	RO	RO	RO	RO
Bank deposits with maturity of less than three months	168,197	-	-	-
Bank deposits with maturity of more than three months	3,656,911	3,502,980	897,084	4,400,064
	3,825,108	3,502,980	897,084	4,400,064
2015				
Bank deposits with maturity of less than three months	134,623	-	-	-
Bank deposits with maturity of more than three months	2,033,475	4,176,416	97,084	4,273,500
	2,168,098	4,176,416	97,084	4,273,500

5.1 Bank deposits amounting to RO 51,975 (2015 - RO 51,975) are denominated in foreign currencies. Bank deposits carry profit rates in range of 1.9% to 4% per annum (2015 - 1.2% to 2.5% per annum).

5.2 Restrictions on transfer of assets

In accordance with the law governing the operation of insurance companies within the Sultanate of Oman, the Company identified certain specific bank deposits with carrying value of RO 7,005,000 (2015 - RO 6,255,000) to the Capital Market Authority (CMA). The Company can only transfer these assets with the prior approval of the CMA.

6 Investments carried at fair value through profit or loss

	Shareholders		Shareholders	
	2016		2015	
	Fair value	Cost	Fair value	Cost
Local quoted	RO	RO	RO	RO
Service sector	1,565,938	1,676,343	1,758,978	1,848,509
Industrial sector	1,463,328	1,541,677	1,562,678	1,685,876
Financial sector	-	-	7,116	8,195
	3,029,266	3,218,020	3,328,772	3,542,580
Local unquoted				
Industrial sector	3,400	3,400	3,400	3,400
Foreign quoted				
Service sector	-	-	643,898	754,037
Industrial sector	158,331	170,717	367,957	419,856
Financial sector	-	-	35,725	43,990
	158,331	170,717	1,047,580	1,217,883
Total investments	3,190,997	3,392,137	4,379,752	4,763,863

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

(a) At 31 December 2016, the financial assets at fair value through profit or loss are measured using level 1 of fair value hierarchy.

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

	Shareholders	
	2016 RO	2015 RO
At 1 January	4,379,752	5,437,139
Purchases during the year	164,431	127,036
Disposals during the year	(1,147,057)	(875,328)
Realised (loss) / gain on disposal	(4,989)	75,016
Net change in fair value	(201,140)	(384,111)
At 31 December	3,190,997	4,379,752

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

	% of Portfolio	Number of securities	Fair value RO	Cost RO
2016				
Oman Telecommunications Company SAOG	12	245,000	371,175	378,438
Salalah Mills Company SAOG	12	256,556	378,420	382,268
Omani Qatari Telecommunications Company SAOG	10	486,000	320,760	336,766

At 31 December 2015, there were no securities for which the Company's holding exceeded 10% of the fair value of investments classified as fair value through profit or loss.

(d) Restrictions on transfer of assets

In accordance with the law governing the operation of insurance companies within the Sultanate of Oman, the Company identified certain specific investments with the carrying value of RO 1,992,434 (2015 - RO 2,453,878) to the Capital Market Authority. The Company can only transfer these assets with the prior approval of the Capital Market Authority.

7 Takaful and retakaful / reinsurance balance receivable

	Participants		
2016	General RO	Family RO	Total RO
Takaful receivable including due from related parties	8,843,160	984,222	9,827,382
Retakaful / reinsurance balances receivable	861,475	58,068	919,543
	9,704,635	1,042,290	10,746,925
Less: specific and portfolio provision for impairment	(715,351)	(91,610)	(806,961)
	8,989,284	950,680	9,939,964
2015			
Takaful receivable	6,092,138	702,851	6,794,989
Retakaful / reinsurance balances receivable	1,268,246	367,028	1,635,274
	7,360,384	1,069,879	8,430,263
Less: specific and portfolio provision for impairment	(449,822)	(60,861)	(510,683)
	6,910,562	1,009,018	7,919,580

7 Takaful and retakaful / reinsurance balance receivable (continued)

Normal credit period allowed to takaful debtors and retakaful / reinsurance companies is 120 days after which amounts are considered as past due. As at 31 December 2016, receivables past due above 121 days amounting to RO 4,663,507 (2015 – RO 3,467,360) are not considered impaired as these are due from government, quasi-government entities, brokers and corporate clients with which the Company deals in the normal course of business and with which there is no recent history of default.

(a) An analysis of premium receivables and due from related parties as at period end is as under:

	Participants		
	General	Family	Total
2016	**RO**	**RO**	**RO**
Neither past due nor impaired	**4,644,901**	**631,556**	**5,276,457**
Past due but not impaired	**4,344,383**	**319,124**	**4,663,507**
Past due and impaired	**715,351**	**91,610**	**806,961**
	9,704,635	**1,042,290**	**10,746,925**
2015			
Neither past due nor impaired	4,164,705	287,515	4,452,220
Past due but not impaired	2,745,857	721,503	3,467,360
Past due and impaired	449,822	60,861	510,683
	7,360,384	1,069,879	8,430,263

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

	Participants		
	General	Family	Total
	RO	RO	RO
At 1 January 2016	**449,822**	**60,861**	**510,683**
Charge for the year	**265,727**	**30,749**	**296,476**
Reversals during the year	**(198)**	**-**	**(198)**
At 31 December 2016	**715,351**	**91,610**	**806,961**
At 1 January 2015	312,240	39,141	351,381
Charge for the year	159,302	-	159,302
At 31 December 2015	449,822	60,861	510,683

(c) At 31 December 2016, 66% of the Company's takaful receivable is from 5 customers (2015 - 66% from 5 customers).

(d) At 31 December 2016, 71% of the Company's due from retakaful / reinsurance companies are from 5 retakaful / reinsurance companies (2015 - 76% from 5 retakaful / reinsurance companies).

8 Receivable from participants' fund

	Shareholders	
	2016	2015
	RO	RO
At 1 January	**672,232**	4,812
Wakala fee income for the year (note 25)	**5,383,974**	5,176,335
Mudarib share for the year (note 25)	**59,221**	64,062
Amount received from policyholders	**(4,550,000)**	(4,080,800)
Net movement in policyholders' account	**411,402**	(492,177)
At 31 December	**1,976,829**	672,232

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

8 Receivable from participants' fund (continued)

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

	Shareholders 2016 RO	Shareholders 2015 RO
General takaful	**1,493,326**	-
Family takaful	**483,503**	672,232
	1,976,829	672,232

9 Takaful reserves

	2016 Gross RO	2016 Retakaful / reinsurance RO	2016 Net RO	2015 Gross RO	2015 Retakaful / reinsurance RO	2015 Net RO
General Takaful						
Claims incurred but not settled	**7,666,094**	**(4,401,826)**	**3,264,268**	6,734,664	(2,799,225)	3,935,439
Claims incurred but not reported	**1,127,616**	**(286,541)**	**841,075**	383,362	(146,717)	236,645
	8,793,710	**(4,688,367)**	**4,105,343**	7,118,026	(2,945,942)	4,172,084
Unearned contributions reserve	**10,779,872**	**(4,775,210)**	**6,004,662**	13,078,235	(7,478,752)	5,599,483
	19,573,582	**(9,463,577)**	**10,110,005**	20,196,261	(10,424,694)	9,771,567
Family Takaful						
Claims incurred but not settled	**279,749**	**(225,986)**	**53,763**	528,592	(452,690)	75,902
Claims incurred but not reported	**430,991**	**(362,030)**	**68,961**	467,873	(346,078)	121,795
	710,740	**(588,016)**	**122,724**	996,465	(798,768)	197,697
Unearned contributions reserve	**658,578**	**(421,235)**	**237,343**	615,587	(454,811)	160,776
	1,369,318	**(1,009,251)**	**360,067**	1,612,052	(1,253,579)	358,473
	20,942,900	**(10,472,828)**	**10,470,072**	21,808,313	(11,678,273)	10,130,040

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

(a) Claims and loss adjustment expenses

2016	**Gross RO**	**Retakaful / reinsurance RO**	**Net RO**
Notified claims	**7,263,256**	**(3,251,915)**	**4,011,341**
Incurred but not reported	**851,235**	**(492,795)**	**358,440**
Total at the beginning of the year	8,114,491	(3,744,710)	4,369,781
Cash paid for claims settled during the year	**(13,650,848)**	**5,117,932**	**(8,532,916)**
Increase in liabilities arising from current and prior period claims	**15,040,807**	**(6,649,605)**	**8,391,202**
Total at the end of the year	9,504,450	(5,276,383)	4,228,067
Notified claims	**7,945,843**	**(4,627,812)**	**3,318,031**
Incurred but not reported	**1,558,607**	**(648,571)**	**910,036**
Total at the end of the year	9,504,450	(5,276,383)	4,228,067

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

9 Takaful reserves (continued)

(a) Claims and loss adjustment expenses (continued)

2015	Gross RO	Retakaful / reinsurance RO	Net RO
Notified claims	6,577,036	(3,756,625)	2,820,411
Incurred but not reported	1,455,143	(1,254,766)	200,377
Total at the beginning of the year	8,032,179	(5,011,391)	3,020,788
Cash paid for claims settled during the year	(10,936,392)	3,234,764	(7,701,628)
Increase in liabilities arising from current and prior periods claims	11,018,704	(1,968,083)	9,050,621
Total at the end of the year	8,114,491	(3,744,710)	4,369,781
Notified claims	7,263,256	(3,251,915)	4,011,341
Incurred but not reported	851,235	(492,795)	358,440
Total at the end of the year	8,114,491	(3,744,710)	4,369,781

10 Deferred policy acquisition cost

	General takaful RO	**Family takaful RO**	**Total RO**
At 1 January 2016	**753,386**	**54,538**	**807,924**
Cost incurred during the year	**1,569,884**	**142,860**	**1,712,744**
Amortised during the year	**(1,616,819)**	**(133,113)**	**(1,749,932)**
At 31 December 2016	**706,451**	**64,285**	**770,736**

	General takaful RO	Family takaful RO	Total RO
At 1 January 2015	817,760	41,820	859,580
Cost incurred during the year	1,674,186	121,196	1,795,382
Amortised during the year	(1,738,560)	(108,478)	(1,847,038)
As at 31 December 2015	753,386	54,538	807,924

11 Other receivables and takaful assets

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

2015	Shareholders	Participants		
		General takaful	Family takaful	Total
	RO	RO	RO	RO
Rent receivable	230,901	-	-	-
Accrued profit on bank deposits	201,914	-	-	-
Advances	81,659	-	-	-
Prepayments	157,955	-	-	-
Other	119,373	663,176	-	663,176
	791,802	663,176	-	663,176

12 Investments at fair value through equity

	Shareholders			
	2016 Fair value RO	2016 Cost RO	2015 Fair value RO	2015 Cost RO
Local unquoted				
Service sector	560,685	331,428	505,884	331,428
Foreign quoted				
Financial sector	1,327,048	1,248,337	1,880,399	1,404,453
Total investments	1,887,733	1,579,765	2,386,283	1,735,882

(a) Movement in investments at fair value through equity

	Shareholders	
	2016 RO	2015 RO
At 1 January	2,386,283	2,042,447
Purchases	69,127	280,318
Net change in fair value	(343,443)	843,590
Disposals	(237,134)	(6,793)
Realised gain	12,900	-
Impairment loss on investment	-	(773,279)
At 31 December	1,887,733	2,386,283

(b) At the reporting date, the Company's investments at fair value through equity portfolio is as follows:

2016	% of portfolio	Basis of valuation RO	Number of securities RO	Fair Value RO
Investment from shareholders' fund				
National Takaful Company (Watania) - listed	64	Fair value	14,303,596	1,207,252
Omani Unified Bureau Orange Card SAOC	12	Fair value	71,428	224,784
National Mass Housing Company SAOC	9	Fair value	150,000	172,200
Shaza Oman Company SAOC	9	Fair value	100,000	163,700
Dubai Islamic bank - listed	4	Fair value	150,000	86,590
Emirates REIT - listed	2	Fair value	75,000	33,207
	100			1,887,733
2015				
Investment from shareholders' fund				
National Takaful Company (Watania) - listed	67	Fair value	14,303,596	1,609,669
Omani Unified Bureau Orange Card SAOC	9	Fair value	71,428	224,784
National Mass Housing Company SAOC	7	Fair value	150,000	172,200
Dubai Islamic bank - listed	6	Fair value	212,000	134,530
Shaza Oman Company SAOC	5	Fair value	100,000	108,900
Al Rajhi - listed	4	Fair value	18,850	99,827
Emirates REIT - listed	2	Fair value	75,000	36,373
	100			2,386,283

(c) Movement in investments fair value reserve:

	Shareholders	
	2016 RO	2015 RO
At 1 January	650,401	(193,189)
Transfer of fair value reserve on sale of investment	1,010	-
Net change in fair value of investment during the year	(343,443)	843,590
At 31 December	307,968	650,401

13 Investments carried at amortised cost

	Shareholders	
	2016 RO	2015 RO
At 1 January	**2,755,228**	2,762,436
Purchased during the year	**1,500,000**	-
Amortised during the year	**(8,013)**	(7,208)
At 31 December	**4,247,215**	2,755,228

(a) The Company has invested in sukuks listed in the local and international markets. The Company has a positive intention and ability to hold sukuks until their maturity which ranges from October 2018 to June 2021. The effective average rate of return on investments carried at amortised cost at 31 December 2016 ranges from 2.33% to 4.25% (2015 – from 2.33% to 3.71%) per semi-annum with coupon receipts on a semi-annual basis.

(b) Restrictions on transfer of assets

In accordance with the law governing the operation of insurance companies within the Sultanate of Oman, the Company identified 1,525,000 units (2015 - 25,000 units) with total face value of RO 4,000,000 (2015 - RO 2,500,000) to the Capital Market Authority (CMA). The Company can only transfer these assets with the prior approval of the CMA.

(c) Currently the percentage of Modern Sukuk and MB Holding Sukuk investment in relation to overall investments of the Company is 9.65% and 5.77% respectively which exceeds the limit prescribed by Regulations for Investing Assets for Insurance Companies issued by the CMA. As per the Regulation, investments in bond of any one company should not exceed 5% of the total investments of the insurer. The Company has obtained exemptions from the CMA for these investments. The Company also has investment in foreign bond which has rating below "BBB" as at 31 December 2016 and the Company has informed the CMA about this investment.

14 Taxation

(a) The Company is subject to income tax at the rate of 12% (2015 - 12%) of the taxable income in excess of RO 30,000 in accordance with the income tax law of the Sultanate of Oman. No current tax provision has been made in these financial statements in view of the tax loss for the year.

	Shareholders	
	2016 RO	2015 RO
Deferred tax		
- For the year	**205,363**	274,113
- For prior years	**-**	(205,363)
	205,363	68,750

(b) Reconciliation of income tax

	Shareholders	
	2016 RO	2015 RO
Accounting profit / (loss) for the year (note c)	**786,759**	(784,058)
Tax expense / (saving) at the rates mentioned in 'a' above	**90,811**	(94,087)
Effect of minimum tax exemption	**-**	3,600
Non-deductible expense	**743**	138,599
Tax exempt income	**(225)**	(20,360)
Tax losses expired during the year	**76,642**	-
Others	**37,392**	40,998
	205,363	68,750

14 Taxation (continued)

(c) Accounting profit for the year includes deficit of RO 1,042,850 (2015 - RO 1,680,642) as per the statement of participants' revenues and expenses and profit of RO 1,829,609 (2015 - RO 896,584) as per the statement of shareholders' comprehensive income.

(d) Status of tax assessments

The Company's income tax assessments have been finalised upto 2012 by the Secretariat General for Taxation at the Ministry of Finance. The management is of the opinion that additional taxes, if any, relating to the income tax return for the year would not be significant to the Company's financial position as at 31 December 2016.

(e) Deferred tax

Deferred income tax is calculated on all temporary differences under the liability method using a principal tax rate of 12% (2015 - 12%).

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

Deferred tax asset / (liability)	At 1 January 2015 RO	(Charge) / credit to statement of comprehensive income RO	At 31 December 2015 RO
Depreciation on property and equipment	7,158	(18,899)	(11,741)
Investment in real estate	(33,684)	(31,225)	(64,909)
Provision for doubtful debts	42,166	19,117	61,283
Unrealised income on investments	(23,974)	44,410	20,436
Carried forward tax losses	282,447	(82,153)	200,294
	274,113	(68,750)	205,363

15 Investment in real estate

Movement of carrying amounts of investment in real estate:

	2016 RO	2015 RO
At 1 January	**6,245,911**	6,235,111
Purchases during the year	**-**	10,800
At 31 December	**6,245,911**	6,245,911

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FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

15 Investment in real estate (continued)

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

Property description	Valuation RO	Valuation technique	Valuation date	Valuer name	Fair value level hierarchy	Impact of 5% change RO
Building at Al Khuwair	3,100,000	Market value	25 January 2017	First Choice LLC	Level 2	155,000
Building at Al Hail	2,464,000	Market value	23 February 2017	First Choice LLC	Level 2	123,200
Land at Al Hail	645,420	Market value	5 February 2017	Al Osool Real Estate LLC	Level 2	32,271
	6,209,420					

(b) At 31 December 2016, the Company has investment in investment real estate of RO 6,245,911 (2015 - RO 6,245,911) which is 24% of overall investments of the Company, which exceeds the limit prescribed by Regulations for Investing Assets for Insurance Companies issued by CMA. As per the Regulation, investments in real estate should not exceed 20% of the total investments of the insurer. The Company has obtained exemption from CMA for this investment.

16 Property and equipment

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

	Shareholders					
	Buildings RO	Leasehold improvements RO	Office furniture and equipment RO	Motor vehicles RO	Capital work in progress RO	Total RO
Cost						
At 1 January 2015	704,351	50,306	949,834	47,627	7,897	1,760,015
Additions	-	-	478,327	15,200	-	493,527
Disposals	-	-	(560)	-	-	(560)
At 31 December 2015	704,351	50,306	1,427,601	62,827	7,897	2,252,982
Accumulated depreciation						
At 1 January 2015	26,749	40,165	725,215	20,799	-	812,928
Charge for the year	30,456	496	161,914	17,989	-	210,855
Disposals	-	-	(560)	-	-	(560)
At 31 December 2015	57,205	40,661	886,569	38,788	-	1,023,223
Carrying value						
At 31 December 2015	647,146	9,645	541,032	24,039	7,897	1,229,759

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FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

17 Share capital

	2016 RO	2015 RO
Authorised - shares of RO 0.1 each	25,000,000	25,000,000
Issued and fully paid - shares of RO 0.1 each	17,500,000	17,500,000

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

	% of holding	Number of shares 2016	% of holdin g	Number of shares 2015
Mohammed Al Barwani Holding Company LLC	25.86	45,250,001	25.86	45,250,00 1

18 Share premium

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

19 Legal reserve

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

20 Contingency reserve

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

The CMA has issued Takaful Insurance Law, however, the detailed rules and regulations are not available for the calculation of the contingency reserve for takaful business operations. During the year, the Company has added an amount of RO 410,534 (2015 - RO 705,080) and RO 32,360 (2015 - RO 35,173) to the contingency reserve, with respect to the general and family takaful business, respectively. Although, the participants' fund is in accumulated losses, the Company has made profit of RO 581,396 on an overall basis and accordingly, created contingency reserve which has been charged to the participants' fund.

The amount of RO 1,206,553 (2105 - RO 1,206,553) in the shareholders' fund represents contingency reserve created prior to the conversion of the Company from conventional to takaful.

21 Employees' end of service benefits

	Shareholders	
	2016 RO	2015 RO
At 1 January	268,215	192,096
Charge for the year [note 27(a)]	76,666	82,448
Payments made during the year	(55,161)	(6,329)
At 31 December	289,720	268,215

22 Unearned retakaful commission

Movement in unearned retakaful commission is shown below:

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

	General takaful RO	Family takaful RO	Total RO
At 1 January 2015	375,848	2,955	378,803
Income from retakaful contracts accrued during the year	918,366	8,952	927,318
Amortised during the year	(880,955)	(7,880)	(888,835)
At 31 December 2015	413,259	4,027	417,286

23 Accounts and other payables

2016	Shareholders RO	Participants General takaful RO	Family takaful RO	Total RO
Accounts payables	**108,853**	**776,226**	**156,318**	**932,544**
Government tax payable	-	**364,841**	**17,027**	**381,868**
Accrued expenses	**268,291**	-	-	-
Leave salary provision	**89,668**	-	-	-
Other payables	**83,984**	**198,629**	-	**198,629**
	550,796	**1,339,696**	**173,345**	**1,513,041**

2015	Shareholders RO	Participants General takaful RO	Family takaful RO	Total RO
Accounts payables	47,972	731,026	87,819	818,845
Government tax payable	-	449,117	8,331	457,448
Accrued expenses	119,071	-	-	-
Leave salary provision	146,122	-	-	-
Other payables	74,650	211,739	-	211,739
	387,815	1,391,882	96,150	1,488,032

24 Takaful income

	Participants					
	2016			2015		
	General takaful RO	**Family takaful RO**	**Total RO**	General takaful RO	Family takaful RO	Total RO
Policy fees and service income	**599,921**	**1,816**	**601,737**	690,541	298	690,839
Other	**146,385**	-	**146,385**	119,151	-	119,151
	746,306	**1,816**	**748,122**	809,692	298	809,990

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

25 Wakala fees and mudarib share

The shareholders manage the general and family takaful operations for the participants and charge 20% (2015 - 20%) of gross contributions as a wakala fee except for business from a specific customer for which the wakala fee is charged at 5% (2015 - 5%) as approved by the Board of Directors. The shareholders also manage the participants' fund as a mudarib and charge 60% (2015 - 70%) of the general takaful and family takaful investment income earned by the participants' investment funds. The maximum chargeable wakala fee and mudharaba share as approved by the Sharia' Supervisory Board are 20% and 60% (2015 - 20% and 70%) respectively.

26 Investment income – net

	Shareholders	
	2016 RO	2015 RO
Rental income from investment in real estate	491,075	565,100
Profit from investment carried at amortised cost	207,571	141,096
Dividend income	220,482	259,824
Profit on wakala bank deposits	182,160	125,713
Realised gain on sale of investments - net	7,911	75,016
Fair value loss on investments carried at fair value through profit or loss - net [note 6 (b)]	(201,140)	(384,111)
Impairment loss on investments at fair value through equity [note 12 (a)]	-	(773,279)
Investment management costs	(136,746)	(121,535)
	771,313	(112,176)

Investment income / (loss) allocated to participants and shareholders is as follows:

	Shareholders	
	2016 RO	2015 RO
Participants	98,701	91,517
Shareholders	672,612	(203,693)
	771,313	(112,176)

27 General and administrative expenses

	Shareholders	
	2016 RO	2015 RO
Staff costs [note (a) below]	3,002,876	2,838,635
Rent and utilities	308,238	292,750
Depreciation (note 16)	248,566	210,855
IT expenses	159,755	177,790
Legal and professional	112,834	150,253
Advertisement and publicity	101,900	117,354
Communication	92,340	97,697
Business travel	79,410	57,514
Directors' sitting fee [note 31 (a)]	50,800	78,200
Sharia' Supervisory Board's sitting fee [note 31 (a)]	21,050	24,800
Directors' travel and other expenses [note 31 (a)]	11,527	11,925
Purification charges	10,535	-
Sharia' Supervisory Board's travel and other expenses [note 31 (a)]	5,262	10,199
Other	85,974	72,828
	4,291,067	4,140,800

27 General and administrative expenses (continued)

(a) Staff costs

	Shareholders	
	2016 RO	2015 RO
Salaries and benefits	2,399,027	2,483,510
Employees' end of service benefits charge (note 21)	76,666	82,448
Social security cost	122,693	115,961
Leave salary	150,000	100,000
Other staff cost	254,490	56,716
	3,002,876	2,838,635

28 Earnings per share attributable to shareholders

	Shareholders	
	2016	2015
Shareholders' profit for the year - RO	1,624,246	827,834
Weighted average number of shares outstanding during the year - number	175,000,000	175,000,000
Shareholders' earnings per share – basic and diluted - RO	0.009	0.005

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

29 Net assets per share attributable to shareholders

	2016	2015
Shareholders' net assets - RO	23,898,394	22,616,581
Weighted average number of shares outstanding - number	175,000,000	175,000,000
Shareholders' net assets per share - RO	0.137	0.129

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

30 Cash and cash equivalents

	Shareholders RO	Participants RO	Total RO
2016			
Cash and bank balances			
Cash at bank in current accounts	310,359	1,357,464	1,667,823
Cash at bank in call account	207,477	-	207,477
Cash balances with investment managers	301,889	-	301,889
Cash in hand	2,734	997	3,731
	822,459	1,358,461	2,180,920
Bank deposits			
Bank deposits with maturity of less than three months	168,197	-	168,197
	990,656	1,358,461	2,349,117
2015			
Cash and bank balances			
Cash at bank	1,930,723	1,850,579	3,781,302
Cash balances with investment managers	504,160	-	504,160
Cash in hand	3,300	1,000	4,300
	2,438,183	1,851,579	4,289,762
Bank deposits			
Bank deposits with maturity of less than three months	134,623	-	134,623
	2,572,806	1,851,579	4,424,385

31 Related parties

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

(a) Transactions with related parties

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

	2016 RO	2015 RO
Gross contributions	3,936,834	4,595,544
Retakaful / reinsurance contribution ceded	66,508	77,363
Gross outstanding claims	2,810,087	856,018
Gross claims settled	2,106,638	319,139
Retakaful / reinsurance claims	1,469,738	32,399
Commission paid	423,726	495,838
Directors' sitting fees	50,800	78,200
Directors' travel and other expenses	11,527	11,925
Sharia' Supervisory Board sitting fee	21,050	24,800
Sharia' Supervisory Board's travel and other expenses	5,262	10,199
Rental income	166,625	205,100
Income from investment in Modern Sukuk	191,187	124,725
Amortisation of investment in Modern Sukuk	3,620	3,376
Professional and consultancy	11,200	15,851
Investment management cost	39,965	23,053

(b) Balances with related parties

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

	2016 RO	2015 RO
Contribution balances receivables from other related parties	2,217,542	1,832,733
Rental income receivable	169,780	101,100
Accrued profit on investment in Modern Sukuk Company SAOC	20,948	20,948
Investment in Modern Sukuk SAOC	2,507,972	2,511,592
Investment in Mohammed Al Barwani Sukuk Issue SAOC	1,500,000	-
Investment in real estate	500,000	500,000
Investments at fair value through equity	1,543,152	1,890,769
Other receivable	160,155	99,682

Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables. For the year ended 31 December 2016, the Company has not established any provision for doubtful debts relating to amounts owed by related parties as the payment history has been good. This assessment is undertaken each financial period through examining the financial position of the related party and the market in which the related party operates. Amount due to, and from, related parties are profit free and payable on demand.

31 Related parties (continued)

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

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

	2016 RO	2015 RO
Short-term benefits	481,132	553,983
Employee end of service benefits	24,508	57,945
	505,640	611,928

32 Contingencies

Contingent liabilities

At 31 December 2016, the Company had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business amounts to RO 120,047 (2015 - RO 134,623).

Capital commitment

At 31 December 2016, the Company has capital commitment of RO 76,147 (2015 - RO 37,580) in respect of office renovation work.

Legal claims

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

33 Segment information

Business segments – primary reporting segment

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

Operating segments

The Company has the following operating segments:

(a) General takaful

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

(b) Family takaful

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

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33 Segment information (continued)

Operating segments (continued)

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

2015	General Takaful RO	Family Takaful RO	Total RO
Takaful revenue (net of retakaful / reinsurance)	13,332,519	499,655	13,832,174
Takaful expenses (net of retakaful / reinsurance)	(10,571,891)	(325,768)	(10,897,659)
Segment results	2,760,628	173,887	2,934,515
Takaful income	809,692	298	809,990
Provision for doubtful debts	(159,302)	-	(159,302)
Takaful expense	(114,765)	(2,200)	(116,965)
Investment income	90,602	915	91,517
Mudarib share	(63,421)	(641)	(64,062)
Wakala fees	(4,779,812)	(396,523)	(5,176,335)
Deficit for the year	(1,456,378)	(224,264)	(1,680,642)
Segment assets	24,718,415	2,875,129	27,593,544
Assets allocated to shareholders			23,272,611
Total assets			50,866,155
Segment liabilities	26,001,689	3,266,542	29,268,232
Liabilities allocated to shareholders			656,030
Total liabilities			29,924,262

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

Geographical segments – secondary reporting segment

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

34 Risk management

(a) Governance framework

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

(b) Regulatory framework

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

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

(c) Takaful risk

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

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

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

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

The Company principally issues general takaful contracts which constitute mainly motor, fire and allied perils, marine and general risks as well as life and medical takaful contracts.

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

Amounts recoverable from retakaful / reinsurance companies are estimated in a manner consistent with the outstanding claims provision and are in accordance with the retakaful / reinsurance contracts. To minimise its exposure to significant losses from retakaful / reinsurance company insolvencies, the Company evaluates the financial condition of its retakaful / reinsurance companies and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the retakaful / reinsurance companies.

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

34 Risk management (continued)

(c) Takaful risk (continued)

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

The amount and timing of claims payments is expected to be settled within one year. Additional claim liabilities that could reasonably occur due to changes in key variables used in estimating the outstanding claims provision are considered to be adequately catered for through provision for claims incurred but not reported (IBNR).

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

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

	2016 RO	2015 RO
General takaful		
Motor	2,469,166	2,318,604
Fire, general accidents, engineering and others	8,460,259	12,162,698
Marine cargo and hull	163,076	676,028
Medical	597,824	8,816
	11,690,325	15,166,146
Family takaful		
Life	1,525,683	199,736
Total	13,216,008	15,365,882

The net claims ratios are as follows:

	2016 %	2015 %
Motor	62	68
Fire, general accidents, engineering and others	11	23
Medical	92	103
Life	27	44

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

Key assumptions

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

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

34 Risk management (continued)

(c) Takaful risk (continued)

Sensitivities

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

	Change in assumptions	Impact on liabilities	Impact on underwriting results
	%	RO	RO
2016			
Incurred claims – net	+10%	839,120	(839,120)
	-10%	(839,120)	839,120

	Change in assumptions	Impact on liabilities	Impact on underwriting results
	%	RO	RO
2015			
Incurred claims - net	+10	905,062	(905,062)
	-10	(905,062)	905,062

Claims development

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

(d) Financial risk factors

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

(i) Market risk

Exchange rate risk

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

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

	2016		2015	
Assets	**USD**	**Other foreign currencies**	USD	Other foreign currencies
Cash and bank balances	**72,052**	-	627,262	-
Investments carried at fair value through profit or loss	-	**158,331**	-	1,047,652
Takaful and retakaful / reinsurance balance receivables	**3,040,099**	**2,725**	2,262,776	6,122
Investments at fair value through equity	**33,206**	**1,293,842**	36,373	1,844,026
Bank deposits	**51,975**	-	51,975	-
Investments carried at amortized cost	**239,243**	-	243,636	-

34 Risk management (continued)

(d) Financial risk factors (continued)

(i) Market risk (continued)

Exchange rate risk (continued)

	2016		2015	
Liabilities	**USD**	**Other foreign currencies**	USD	Other foreign currencies
Retakaful / reinsurance payables	**1,851,810**	**463**	2,178,320	9,238
Accounts and other payables	-	-	694	22

Sensitivity analysis

The exchange rate for USD is pegged to Riyal Omani, therefore, management does not consider any significant risk arising from transactions in USD. During the year ended 31 December 2016, Rial Omani were to have strengthened or weakened by 1% against other foreign currencies with all other variables held constant, results for the year would have been higher or lower by approximately RO 14,544 (2015 - RO 28,885).

Profit rate risk

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

The Company invests in securities and has deposits that are subject to profit rate risk. Profit rate risk to the Company is the risk of changes in market profit rates reducing the overall return on its profit bearing securities. The Company limits profit rate risk by monitoring changes in profit rates.

	Change in assumptions	**2016 RO**	2015 RO
Income from bank deposit and investments carried at amortised cost	**+0.5%**	**62,372**	45,984
	-0.5%	**(62,372)**	(45,984)

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

2016	**Less than 1 year RO**	**Over 1 year RO**	**Total RO**
Bank deposits	**7,411,878**	**938,749**	**8,350,627**
Investments carried at amortised cost	**267,011**	**4,434,261**	**4,701,272**

2015	Less than 1 year RO	Over 1 year RO	Total RO
Bank deposits	150,804	6,358,880	6,609,684
Investments carried at amortised cost	139,511	3,010,023	3,149,534

Price risk

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

34 Risk management (continued)

(d) Financial risk factors (continued)

(i) Market risk (continued)

Price risk (continued)

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

71% (2015 - 85%) of the Company's equity investments at the statement of financial position date are within the Sultanate of Oman.

A 10% change in fair value of the Company's investments carried at fair value through profit or loss would have impact on profit / (loss) of approximately RO 319,100 (2015 - RO 437,975).

A 10% change in fair value of the Company's investments at fair value through equity would have impact on equity of approximately RO 188,773 (2015 - RO 238,628).

Fair value estimation

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

Level 1: quoted prices (unadjusted) in active markets;
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3: inputs for the asset or liability that are not based on observable market data.

	Level 1 RO	**Level 2 RO**	**Total RO**
2016			
Investment in real estate	-	6,245,911	6,245,911
Investment at fair value through equity	1,327,048	560,685	1,887,733
Investments carried at fair value through profit or loss	3,187,597	3,400	3,190,997
	4,514,645	6,809,996	11,324,641

	Level 1 RO	Level 2 RO	Total RO
2015			
Investment in real estate	-	6,245,911	6,245,911
Investment at fair value through equity	1,880,399	505,884	2,386,283
Investments carried at fair value through profit or loss	4,376,352	3,400	4,379,752
	6,256,751	6,755,195	13,011,946

(ii) Credit risk

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

34 Risk management (continued)

(d) Financial risk factors (continued)

(ii) Credit risk (continued)

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

	2016 RO	2015 RO
Cash and bank balances (excluding cash in hand)	**2,177,189**	4,285,462
Bank deposits	**8,225,172**	6,441,598
Takaful and retakaful / reinsurance balance receivable	**9,939,964**	7,919,580
Other receivables and takaful assets (excluding advances and prepayments)	**1,932,928**	1,215,364
Investments carried at amortised cost	**4,247,215**	2,755,228
	26,522,468	22,617,232

The Company's bank balances and sukuk investments are maintained with a range of international and local banks in accordance with limits set by the board of directors. Debt type instruments carried at amortised cost is investment in Sukuk which are secured through underlying assets of the investee companies.

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

	2016 RO	2015 RO
P1	**355**	3,629,164
P2	**10,081,961**	6,475,448
Unrated	**320,045**	618,657
	10,402,361	10,723,269

Takaful receivables comprise a number of customers within Oman and local and foreign retakaful / reinsurance companies. At 31 December 2016, top 5 retakaful / reinsurance companies account for 71% (2015 – 76%) of the credit exposure. The Company monitors these receivables on a regular basis. Most of the credit customers and retakaful / reinsurance companies have been dealing with the Company for over 2 years and losses have occurred infrequently. The Company establishes an allowance for impairment that represents its estimate of likely losses in respect of these receivable accounts in accordance with the guidelines of the credit policy along with individually assessing each receivable for impairment. This assessment is carried out annually and the adequacy of the provision for impairment is also assessed.

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

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

	2016 RO	2015 RO
Oman	**9,715,359**	6,975,964
Middle east	**156,618**	830,356
Others	**67,987**	113,260
	9,939,964	7,919,580

34 Risk management (continued)

(d) Financial risk factors (continued)

(ii) Credit risk (continued)

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

	2016 RO	2015 RO
Brokers and agents	7,349,268	5,447,878
Individuals and corporate clients	1,944,905	1,080,574
Retakaful / reinsurance companies	645,791	1,391,128
	9,939,964	7,919,580

With respect to retakaful / reinsurance companies, as per Company policy of managing takaful risk, such contracts are placed only with internationally reputed well rated retakaful / reinsurance companies. The table below shows the gross retakaful / reinsurance receivables at the reporting date as rated by various rating agencies:

Rating	2016 RO	2015 RO
A	253,580	634,734
AA	79,254	91,329
B	76,407	78,070
Other rated	57,479	38,872
Unrated	452,823	792,269
	919,543	1,635,274

(iii) Liquidity risk

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

At 31 December 2016, the Company's solvency margin (as determine in accordance with the Oman Insurance regulations) indicates surplus of RO 5,904,900 (2015 - RO 7,445,251) against the regulatory requirement.

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

	1 month to 4 months RO	4 months to 12 months RO	Non Fixed maturity RO	Total RO
2016				
Liabilities				
Employees' end of service benefits	-	-	289,720	289,720
Takaful reserves	-	-	20,942,900	20,942,900
Retakaful / reinsurance payable		5,967,958	-	5,967,958
Accounts and other payables (excluding government tax payable)	1,681,969	-	-	1,681,969
Total	1,681,969	5,967,958	21,232,620	28,882,547

34 Risk management (continued)

(d) Financial risk factors (continued)

(iii) Liquidity risk (continued)

	1 month to 4 months RO	4 months to 12 months RO	Non Fixed maturity RO	Total RO
2015				
Liabilities				
Employees' end of service benefits	-	-	268,215	268,215
Takaful reserves	-	-	21,808,313	21,808,313
Retakaful / reinsurance payable	-	4,482,856	-	4,482,856
Accounts and other payables (excluding government tax payable)	1,418,399	-	-	1,418,399
Total	1,418,399	4,482,856	22,076,528	27,977,783

(e) Capital risk management

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

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

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

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

35 Financial assets by category

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

	Loans and receivables RO	**Investments carried at fair value through profit or loss RO**	**Investments at fair value through equity RO**	**Investments carried at amortised cost RO**	**Total RO**
2016					
Cash and bank balances	**2,180,920**	-	-	-	**2,180,920**
Bank deposits	**8,225,172**	-	-	-	**8,225,172**
Investments carried at fair value through profit or loss	-	**3,190,997**	-	-	**3,190,997**
Takaful and retakaful / reinsurance balance receivable	**9,939,964**	-	-	-	**9,939,964**
Other receivables and takaful assets	**2,227,757**	-	-	-	**2,227,757**
Investments at fair value through equity	-	-	**1,887,733**	-	**1,887,733**
Investments carried at amortised	-	-	-	**4,247,215**	**4,247,215**
	22,573,813	**3,190,997**	**1,887,733**	**4,247,215**	**31,899,758**

35 Financial assets by category (continued)

	Loans and receivables RO	Investments carried at fair value through profit or loss RO	Investments at fair value through equity RO	Investments carried at amortised cost RO	Total RO
2015					
Cash and bank balances	4,289,762	-	-	-	4,289,762
Bank deposits	6,441,598	-	-	-	6,441,598
Investments carried at fair value through profit or loss	-	4,379,752	-	-	4,379,752
Takaful and retakaful / reinsurance balance receivable	7,919,580	-	-	-	7,919,580
Other receivables and takaful assets	1,454,978	-	-	-	1,454,978
Investments at fair value through equity	-	-	2,386,283	-	2,386,283
Investments carried at amortised	-	-	-	2,755,228	2,755,228
	20,105,918	4,379,752	2,386,283	2,755,228	29,627,181

36 Zakat

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

37 Distribution of surplus in policyholders' fund

As per the Company's policy for distribution of surplus in participants' fund, 50% of surplus in policyholders' fund for the year shall be transferred to takaful reserve. Takaful reserve allocation will be made on the basis advised by the Sharia' Supervisory Board. During the period, no amount has been transferred to the takaful reserve.

38 Sharia' Supervisory Board

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

39 Earnings prohibited under Sharia'

Earnings retained during the previous year from transactions which are not permitted under Sharia' and are recorded as part of accounts and other payables amounted to RO 18,842 (2015 - RO 7,555). All non-Islamic income is credited to a charity account where the Company uses these funds for charitable purposes.

40 Corresponding figures

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