

**DAMAAN ISLAMIC INSURANCE COMPANY
"BEEMA" (Q.S.C.C)
DOHA - QATAR**

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2014**

DAMAAN ISLAMIC INSURANCE COMPANY "BEEMA" (Q.S.C.C)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the year ended December 31, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders

Damaan Islamic Insurance Company "BEEMA" (Q.S.C.C.)

Doha - Qatar

Report on the financial statements

We have audited the accompanying financial statements of Damaan Islamic Insurance Company "BEEMA" (Q.S.C.C) (the "Company"), which comprise the statement of financial position as at December 31, 2014 and the related statements of profit or loss and retained surplus for policyholders, profit or loss and other comprehensive income of shareholders, changes in shareholders' equity and cash flows for the year then ended and summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The management is also responsible for the Company's undertaking to operate in accordance with Islamic Sharia'a rules and principles.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions and International Standards on Auditing. Those standards require that we comply with relevant 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Damaan Islamic Insurance Company "BEEMA" (Q.S.C.C) as of December 31, 2014, and its financial performance and cash flows for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Other matter

The financial statements of Damaan Islamic Insurance Company "BEEMA" (Q.S.C.C) for the year ended December 31, 2013, were audited by another auditor who expressed an unqualified opinion on those financial statements on 15 January 2014.

Report on Other Legal and Regulatory Requirements

We are also of the opinion that proper books of account were maintained by the Company. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. To the best of our knowledge and belief and according to the information given to us, no contraventions of the Qatar Commercial Companies Law No. 5 of 2002 and the Company's Articles of Association were committed during the year which would materially affect the Company's activities or its financial position.

**Doha - Qatar
January 27, 2015**

**For Deloitte & Touche
Qatar Branch**

A large, bold, handwritten signature in black ink, appearing to be 'MB', is written over the printed name and title of the auditor.

**Muhammad Bahemia
Partner
License No. 103**


DAMAAN ISLAMIC INSURANCE COMPANY "BEEMA" (Q.S.C.C)

STATEMENT OF FINANCIAL POSITION

As at December 31, 2014

| | Notes | 2014 QR. | 2013 QR. |
|---|-------|--------------------|--------------------|
| Policyholders' assets | | | |
| Cash and bank balances | 5 | 129,250,930 | 133,536,286 |
| Available for sale financial assets | 6 | 173,736,891 | 114,293,102 |
| Due from related parties | 7 (b) | 13,066,855 | 9,005,848 |
| Retakaful contract assets | 8 | 29,204,425 | 21,542,338 |
| Takaful and other receivables | 10 | 77,782,948 | 54,920,575 |
| Total policyholders' assets | | 423,042,049 | 333,298,149 |
| Shareholders' assets | | | |
| Cash and bank balances | 5 | 11,815,932 | 24,861,721 |
| Available for sale financial assets | 6 | 255,104,951 | 305,179,386 |
| Other receivables | 10 | 1,114,570 | 659,961 |
| Due from policyholders | | 92,176,318 | 78,623,983 |
| Property and equipment | 9 | 42,160,376 | 2,731,538 |
| Total shareholders' assets | | 402,372,147 | 412,056,589 |
| Total assets | | 825,414,196 | 745,354,738 |
| Liabilities and surplus of policyholders | | | |
| Takaful contract liabilities | 8 | 212,822,391 | 152,848,873 |
| Due to related parties | 7 (c) | 20,428,004 | 19,519,206 |
| Provisions, takaful and other payables | 14 | 20,777,589 | 9,140,563 |
| Murabaha finance | 11 | 52,944,933 | 55,990,391 |
| Due to shareholders | | 92,176,318 | 78,623,983 |
| Distributable surplus payable | 15 | 10,542,038 | 6,977,558 |
| Policyholders' equity | | 13,350,776 | 10,197,575 |
| Total liabilities and surplus of policyholders | | 423,042,049 | 333,298,149 |
| Shareholders' liabilities | | | |
| Provisions and other payables | 14 | 20,218,030 | 11,438,573 |
| Murabaha finance | 11 | 105,775,312 | 144,044,247 |
| Employees' end of service benefits | 16 | 2,088,263 | 1,657,094 |
| Total liabilities of shareholders | | 128,081,605 | 157,139,914 |
| Shareholders' equity | | | |
| Share capital | 12 | 200,000,000 | 200,000,000 |
| Legal reserve | 13 | 8,921,080 | 4,951,700 |
| Fair value reserve | | 5,835,050 | 6,154,984 |
| Retained earnings | | 59,534,412 | 43,809,991 |
| Total shareholders' equity | | 274,290,542 | 254,916,675 |
| Total shareholders' liabilities and equity | | 402,372,147 | 412,056,589 |
| Total liabilities, surplus of policyholders and shareholders' equity | | 825,414,196 | 745,354,738 |

These financial statements were approved by the Board of Directors and signed on its behalf on January 27, 2015 by:


Sheikh. Jassim Bin Hamad Bin Jassim J. Al Thani
Chairman


Khalifa Abdulla Turki Al Subaey
Managing Director

DAMAAN ISLAMIC INSURANCE COMPANY "BEEMA" (Q.S.C.C)

STATEMENT OF PROFIT OR LOSS OF POLICYHOLDERS

For the year ended December 31, 2014

| | Notes | 2014 QR. | 2013 QR. |
|---|-------|----------------------|---------------------|
| Gross contributions | 17 | 254,484,605 | 204,113,611 |
| Re-Takaful share of gross contributions | 17 | (54,363,235) | (39,253,117) |
| Net contributions | | 200,121,370 | 164,860,494 |
| Movement in unearned contribution | 17 | (36,461,596) | (36,014,003) |
| Net earned contributions | | 163,659,774 | 128,846,491 |
| | | | |
| Gross claims paid | 17 | (141,173,450) | (106,730,242) |
| Re-Takaful and other recoveries | 17 | 57,029,017 | 40,732,676 |
| Movement in outstanding claims | 17 | (15,849,840) | (5,368,496) |
| Commission expense, net | 18 | (16,348,264) | (10,817,445) |
| | | <u>(116,342,537)</u> | <u>(82,183,507)</u> |
| | | | |
| Net surplus from Takaful operation | 17 | 47,317,237 | 46,662,984 |
| | | | |
| Investment income | 19 | 5,654,995 | 3,702,950 |
| Investment expenses | 19 | (765,472) | (1,262,324) |
| Mudarib share | 19 | (2,421,049) | (1,303,028) |
| Wakala fees | | (44,452,482) | (38,435,369) |
| Other income | | 2,908,694 | 997,578 |
| Other expenses | | (609,445) | (428,141) |
| Total surplus for the year | | 7,632,478 | 9,934,650 |

DAMAAN ISLAMIC INSURANCE COMPANY "BEEMA" (Q.S.C.C)

STATEMENT OF RETAINED SURPLUS FOR POLICY HOLDERS

For the year ended December 31, 2014

| | Note | 2014 | 2013 |
|---|------|--------------------------|--------------------------|
| | | QR. | QR. |
| Balance at January 1, | | 10,197,575 | 6,001,248 |
| Surplus for the year | | 7,632,478 | 9,934,650 |
| Surplus declared during the year | 15 | (6,713,530) | (3,404,817) |
| Net change in fair value of available for sale financial assets | | 2,234,253 | (2,333,506) |
| Retained surplus at December 31, | | <u>13,350,776</u> | <u>10,197,575</u> |

DAMAAN ISLAMIC INSURANCE COMPANY "BEEMA" (Q.S.C.C.)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF SHAREHOLDERS

For the year ended December 31, 2014

| | Notes | 2014 QR. | 2013 QR. |
|---|-------|---------------------|---------------------|
| Income | | | |
| Income from shareholder's investments | | 18,564,434 | 15,083,497 |
| Wakala fee | | 44,452,482 | 38,435,369 |
| Mudarib share | 19 | 2,421,049 | 1,303,029 |
| Other income | | 1,388,071 | 459,899 |
| Total income | | <u>66,826,036</u> | <u>55,281,794</u> |
| Expenses | | | |
| Staff costs | | (14,330,927) | (11,806,721) |
| Depreciation of property and equipment | 9 | (1,668,938) | (1,677,721) |
| General and administrative expenses | 20 | (9,265,105) | (8,177,881) |
| Finance costs | | (416,041) | (62,040) |
| Investment expenses | | (1,451,224) | (2,914,038) |
| Total expenses | | <u>(27,132,235)</u> | <u>(24,638,401)</u> |
| Profit for the year | | <u>39,693,801</u> | <u>30,643,393</u> |
| Other comprehensive income : | | | |
| Items that may be reclassified subsequently to statement of profit or loss | | | |
| Net movement in changes in fair values of available for sale financial assets | | (319,934) | 746,498 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | <u>39,373,867</u> | <u>31,389,891</u> |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

DAMAAN ISLAMIC INSURANCE COMPANY "BEEEMA" (Q.S.C.C.)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2014

| | Share Capital | Legal reserve | Fair value reserve | Retained earnings | Total |
|---|--------------------|------------------|-----------------------|----------------------|--------------------|
| | QR. | QR. | QR. | QR. | QR. |
| Balance at January 1, 2013 | 200,000,000 | 1,887,360 | 5,408,486 | 16,230,938 | 223,526,784 |
| Total comprehensive income for the year | -- | -- | 746,498 | 30,643,393 | 31,389,891 |
| Transfer to legal reserve | -- | 3,064,340 | -- | (3,064,340) | -- |
| Balance at December 31, 2013 | 200,000,000 | 4,951,700 | 6,154,984 | 43,809,991 | 254,916,675 |
| Total comprehensive income for the year | -- | -- | (319,934) | 39,693,801 | 39,373,867 |
| Dividend paid for the year 2013 | -- | -- | -- | (20,000,000) | (20,000,000) |
| Transfer to legal reserve | -- | 3,969,380 | -- | (3,969,380) | -- |
| Balance at December 31, 2014 | 200,000,000 | 8,921,080 | 5,835,050 | 59,534,412 | 274,290,542 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

DAMAAN ISLAMIC INSURANCE COMPANY "BEEMA" (Q.S.C.C.)

STATEMENT OF CASH FLOWS

For the year ended December 31, 2014

| | Notes | 2014 QR. | 2013 QR. |
|---|-------|---------------------|----------------------|
| OPERATING ACTIVITIES | | | |
| Net profit for the year | | 39,693,801 | 30,643,393 |
| Surplus from takaful operations | | 7,632,478 | 9,934,650 |
| <i>Adjustments for :</i> | | | |
| Depreciation for property and equipment | 9 | 1,668,938 | 1,677,721 |
| Realized gain from investments | | (24,219,429) | (18,786,447) |
| Loss on disposal of property and equipment | | 50,918 | -- |
| Provision for employees' end of service benefits | | 581,285 | 1,170,525 |
| Operating profit before working capital changes | | 25,407,991 | 24,639,842 |
| Change in due from related parties | | (4,061,007) | (6,840,191) |
| Change in Takaful and other receivables | | (23,316,982) | (25,480,882) |
| Change in due to related parties | | 908,798 | 10,646,083 |
| Change in net Takaful contract liabilities | | 52,311,431 | 41,382,499 |
| Change in provisions, Takaful and other payables | | 20,416,483 | 1,060,472 |
| Cash flow generated from operating activities | | 71,666,714 | 45,407,823 |
| End of service benefits paid | | (150,116) | (60,156) |
| Net cash flows generated from operating activities | | 71,516,598 | 45,347,667 |
| INVESTING ACTIVITIES | | | |
| Acquisition of property and equipment | 9 | (41,342,119) | (1,110,790) |
| Proceeds from sale of property and equipment | | 193,425 | -- |
| Net movement in investments | | 16,764,394 | (133,630,255) |
| Net cash flows used in investing activities | | (24,384,300) | (134,741,045) |
| FINANCING ACTIVITIES | | | |
| Policyholders' surplus paid during the year | 15 | (3,149,050) | (561,659) |
| Dividends paid | | (20,000,000) | -- |
| Murabaha finance | | (41,314,393) | 156,038,927 |
| Net cash flows (used in) / generated from financing activities | | (64,463,443) | 155,477,268 |
| (Decrease) / Increase in cash and cash equivalents | | (17,331,145) | 66,083,890 |
| Cash and cash equivalents at the beginning of the year | | 155,098,007 | 89,014,117 |
| Cash and cash equivalents at the end of the year | 5 | 137,766,862 | 155,098,007 |

The changes in due from policyholders and in due to shareholders were netted off and not included in the above statement.

DAMAAN ISLAMIC INSURANCE COMPANY "BEEMA" (Q.S.C.C.)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

1. LEGAL STATUS AND OPERATIONS

Damaan Islamic Insurance Company "BEEMA" (Q.S.C.C) ("the Company") was incorporated in the State of Qatar on October 18, 2009 as a closed Qatari shareholder company under Qatar Commercial Companies Law No. 5 of 2002 with Registration No: 43652. The Head Office of the Company is in Doha, State of Qatar.

The Company is primarily engaged in the business of underwriting general, Takaful (Life) and health non-profit takaful in accordance with the provisions of Islamic Shari'a. The Company also invests its capital and other Islamic investments resources.

2. BASIS OF PREPARATION

Statement of compliance

These financial statements have been prepared in accordance with Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). In line with the requirements of AAOIFI, matters that are not covered by FAS, the Company uses guidance from the relevant International Financial Reporting Standard ("IFRS").

Principal financial statements

As per FAS - 12 General Presentation and Disclosure in the Financial Statements of Islamic Insurance Companies issued by the AAOIFI, the Company is required to present the statement of financial position comprising shareholder and policyholder assets and liabilities, shareholders' statement of income, the statement of policyholders' income, the statement of policyholders' surplus or deficit, the statement of changes in shareholders' equity, and the statement of cash flows.

Basis of preparation

The financial statements have been prepared under the historical cost basis except for certain financial instruments that are measured at fair value, in accordance with the principal accounting policies as set out below.

These financial statements are presented in Qatari Riyal (QR), which is the Company's functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Gross contributions

Gross contributions comprise the total contributions in relation to contracts entered into during the financial year, together with adjustments arising in the financial year to contributions receivable in respect of business written in previous financial years.

Contributions, net of re-takaful, are taken to income over the terms of the related contracts or policies. Gross contributions are recognised in the policyholders' statement of revenue and expenses from the date of attachment of risk over the policy period. The unexpired portion of such contributions relating to the period of risk extending to beyond the financial year is included under "technical reserves" in the statement of financial position. The earned proportion of contributions is recognised as revenue in the policyholders' statement of income.

Retakaful share of contributions

Retakaful share of contributions are amounts paid to reinsurers in accordance with the re-takaful contracts of the Company.

DAMAAN ISLAMIC INSURANCE COMPANY "BEEMA" (Q.S.C.C.)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Net commission expenses and advance commission fee

Net commission expenses are amortised over the period in which the related contributions are earned. Net commission income that relate to periods of risk that extend beyond the end of the financial year is included under "other receivables and prepayments" in the statement of financial position.

Islamic deposits

Income from deposits with Islamic banks is accounted for on the basis of profits advised by the Islamic banks taking into account the principal outstanding.

Dividends income

Dividend revenue from investments is recognised when the Company's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably.

Claims

Gross claims are recognised in the policyholders' statement of income when the claim amount payable to policyholders and third parties is determined as per the terms of the re-takaful contracts. Claims incurred comprise the settlement and the handling costs of paid and outstanding claims arising from events occurring during the financial period.

Takaful contract liabilities

Takaful contract liabilities are recognised when contracts are entered into and premiums are charged. The Company set aside following technical provisions for general and takaful businesses.

Unearned contributions provision

Unearned contributions provision represents the estimated portion of net premium income after deduction of the re-takaful share which relates to the period subsequent to the reporting date. The provision is calculated at 40% of net retained annual premiums on non marine class of business, and 25% of net retained annual premiums in case of Marine class of business.

For Takaful (Credit Life) business the unexpired risks reserve is determined based on an actuarial valuation.

Provision for outstanding claims

Provision for outstanding claims is recognized at the date the claims are known and covers the liability for loss and loss adjustment expenses based on loss reports from independent loss adjusters and management best estimate. The methods for making such estimates and for establishing the resulting liability are continually reviewed.

Claims incurred but not reported (IBNR)

Claims provision also include a liability for claims incurred but not reported as at the reporting date. The provision for IBNR is an amount of claims estimated by the Company, based on the Company's past experience related to the most recent reported claims and various statistical methods to arrive at the value expected to be paid. The liability is not discounted for the time value of money.

The provision for claims incurred but not reported (IBNR) is made as follows;

- For Takaful (Credit Life) business, based on a report provided by an independent actuarial value.
- For the Motor and Non-Motor class of business, 5% of net premium for the year or 10% of net outstanding claims, whichever is higher.

The takaful contract liabilities are derecognised when the contract expires, discharged or cancelled.

DAMAAN ISLAMIC INSURANCE COMPANY "BEEMA" (Q.S.C.C.)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Surplus in policyholders' funds

Surplus in policyholders' funds represents accumulated gains on takaful activities and are distributed among the participants by underwriting year on development of business. The timing, quantum and the basis of distribution is decided by the Shari'a Supervisory Board of the Company.

Financial assets

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL") and available for sale investments. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition to the net carrying amount on initial recognition.

- Financial assets at fair value through profit or loss (FVTPL)

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- (i) It has been acquired principally for the purpose of selling in the near future;
- (ii) On initial recognition it is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- (iii) it is a derivative that is not designated and effective as a hedging instrument.

- Available for sale financial assets

The Company's investments in equity securities are classified as available for sale financial assets and are stated at fair value. The fair value of investment securities trading in active markets is based on market prices or broker/dealer valuations. Gains and losses arising from changes in fair value are recognised directly in equity in the fair value reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in the statement of profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the fair value reserve is taken to the statement of profit or loss.

- Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances and short term deposits with an original maturity of three months or less.

- Contributions receivable

Contributions receivable are stated at original invoice amount, less any impairment for doubtful debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

For the year ended December 31, 2014

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

- Impairment of financial assets

An assessment is made at each end of the reporting period to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of profit or loss. Impairment is determined as follows:

- (a) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- (b) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of profit or loss.

For available for sale equity investment, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

When an available for sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to the statement of profit or loss in the period.

With the exception of available for sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the statement of profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

DAMAAN ISLAMIC INSURANCE COMPANY "BEEMA" (Q.S.C.C.)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

In respect of available for sale equity securities, impairment losses previously recognised through the statement of profit or loss are not reversed through the statement of profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of available for sale debt securities, impairment losses are subsequently reversed through the statement of profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

- Derecognition of financial assets

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

Financial liabilities

Accounts payable

Trade and other payables are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss and other comprehensive income.

Property and equipment

Items of property and equipment are carried at historical cost less accumulated depreciation less any impairment losses. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss in the year the asset is derecognised.

Depreciation is provided on cost by the straight-line method and is charged to the statement of profit or loss, at annual rates which are intended to write off the cost of the assets over their estimated useful lives as follows:

| | |
|------------------------|-----------|
| Furniture and fixtures | 6-7 years |
| Computer equipment | 3 years |
| Motor vehicles | 5 years |
| All other assets | 5 years |

DAMAAN ISLAMIC INSURANCE COMPANY "BEEMA" (Q.S.C.C.)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employees' end of services benefits

End of service Benefits

The Company provides for employees' end of service benefits for the expatriates employees determined in accordance with the provision of the Qatar Labour Law No 14 of 2004 based on employees' salaries and period of employment and are paid to the employees on termination of employment with the Company.

Under Law No. 24 of 2002 on Retirement and Pension, the Company is required to make contributions to a Government fund scheme for Qatari employees calculated as a percentage of the Qatari employees' salaries. The Company's obligations are limited to these contributions, which are expensed when due.

The Company has no expectation of settling its employees' end of service benefits obligation in near term. The provision is not discounted as the difference between the provision stated in the statement of financial position and net present value is not expected to be significant.

Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the takaful liabilities. In performing these tests, current best estimates of future cash flows and claims handling and administration expenses are used. Any deficiency is presented separately, under the policyholders' equity in the statement of financial position.

Foreign currency transactions

Transactions in foreign currencies are recorded in Qatari Riyal at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the rate of exchange at the reporting date. All exchange differences are taken to the statement of profit or loss. Non-monetary assets and liabilities are translated at rates ruling at the date of the transaction.

4. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION

In the application of the Company's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

4. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION (CONTINUED)

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

Claims made under takaful contracts

Claims and loss adjustment expenses are charged to the statement of profit or loss of policyholders as incurred based on the estimated liability for compensation owed to contract holders or third parties for loss resulting from contract holders' action. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and management estimations for the claims incurred but not reported. The method for making such estimates and for establishing the resulting liability is continually reviewed. Any difference between the actual claims and the provisions made are included in the statement of profit or loss of policyholders in the year of settlement.

Classification of investments

Management decides on the acquisition of an investment whether to classify it as available for sale or financial assets at fair value through profit or loss. The Company classifies investments as financial assets at fair value through profit or loss if the investment is classified as held for trading and upon initial recognition it is designated by the Company as at fair value through profit or loss. All other investments are classified as available for sale financial assets.

Impairment of tangible assets

The Company's management tests whether tangible assets have suffered impairment in accordance with accounting policies stated in note 3. The recoverable amount of an asset is determined based on value-in-use method. This method uses estimated cash flow projections over the estimated useful life of the asset discounted using market rates.

Tangible assets useful lives

The Company's management determines the useful lives and related depreciation or amortization charge. The depreciation or amortization charge for the year will change significantly if actual life is different from the estimated useful life of the asset.

Impairment of contributions receivable

The Company's management reviews periodically items classified as receivables to assess whether a provision for impairment should be recorded in the statement of profit or loss. Management estimates the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty.

Impairment of available for sale financial assets

The Company follows the guidance of IAS 39 "Financial Instruments: Recognition and measurement" to determine when an available for sale financial assets is impaired. This determination requires significant judgment. In making this judgement, the Company assesses, among other factors, whether objective evidence of impairment exists.

DAMAAN ISLAMIC INSURANCE COMPANY "BEEMA" (Q.S.C.C.)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

5. CASH AND BANK BALANCES

For the purposes of statement of cash flows, cash and cash equivalents include cash on hand and in banks and term deposits with original maturities of three months or less. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

| | <u>2014</u> | <u>2013</u> |
|--|---------------------------|---------------------------|
| | QR. | QR. |
| Shareholders: | | |
| Investment deposits (Islamic Banks) | 300,000 | 300,000 |
| Saving accounts (Islamic Banks) | 12,302,460 | 24,857,076 |
| Current accounts (Islamic Banks) | <u>(786,528)</u> | <u>(295,355)</u> |
| Total | <u>11,815,932</u> | <u>24,861,721</u> |
| Policyholders: | | |
| Investment deposits (Islamic Banks) | 83,000,000 | 3,000,000 |
| Saving accounts (Islamic Banks) | 39,426,890 | 129,533,044 |
| Current accounts (Islamic Banks) | <u>6,824,040</u> | <u>1,003,242</u> |
| Total | <u>129,250,930</u> | <u>133,536,286</u> |
| Total cash and bank balances | 141,066,862 | 158,398,007 |
| Less: deposits with original maturity over ninety days | <u>(3,300,000)</u> | <u>(3,300,000)</u> |
| Total cash and cash equivalents of the year | <u>137,766,862</u> | <u>155,098,007</u> |

- Investment deposits earn profit at rates ranging from 2% to 2.15 % (2013: 1.75% to 2.5%).

- Saving accounts earn profit at rates ranging from 0.12% to 0.25 % (2013: 0.1% to 0.2%).

6. AVAILABLE FOR SALE FINANCIAL ASSETS

| | <u>2014</u> | <u>2013</u> |
|---------------------|---------------------------|---------------------------|
| | QR. | QR. |
| Managed funds | 421,341,842 | 411,972,488 |
| Unquoted securities | <u>7,500,000</u> | <u>7,500,000</u> |
| | <u>428,841,842</u> | <u>419,472,488</u> |

DAMAAN ISLAMIC INSURANCE COMPANY "BEEMA" (Q.S.C.C.)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

6. AVAILABLE FOR SALE FINANCIAL ASSETS (CONTINUED)

| | <u>Policyholders</u> QR. | <u>Shareholders</u> QR. | <u>Total</u> QR. |
|--|-----------------------------|----------------------------|---------------------------|
| Managed funds | 171,065,324 | 244,269,901 | 415,335,225 |
| Fair value reserve | 171,567 | 5,835,050 | 6,006,617 |
| Managed funds at fair value | <u>171,236,891</u> | <u>250,104,951</u> | <u>421,341,842</u> |
| Unquoted securities | 2,500,000 | 5,000,000 | 7,500,000 |
| Available for sale financial assets as at December 31, 2014 | <u>173,736,891</u> | <u>255,104,951</u> | <u>428,841,842</u> |
| Available for sale financial assets as at December 31, 2013 | <u>114,293,102</u> | <u>305,179,386</u> | <u>419,472,488</u> |

The fair value of equity investments pledged against the Murabaha financing taken by the Company amounted to QR. 130,720,245.

The above investments of shareholders and policyholders managed by reputed fund managers who take investment decisions on behalf of the Company.

7. RELATED PARTY DISCLOSURES

(a) Transactions with related parties

These represent transactions with related parties, i.e. parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions and directors of the Company and entities of which they are key management personnel. Pricing policies and terms of these transactions are approved by the Company management and are negotiated under normal commercial terms.

The following transactions were carried out with related parties:

| | <u>2014</u> QR | <u>2013</u> QR |
|-------------------------------------|--------------------------|--------------------------|
| Takaful contribution written | | |
| <i>Qatar Islamic Bank</i> | 14,444,175 | 17,842,476 |
| <i>Others</i> | <u>18,032,756</u> | <u>14,077,875</u> |
| | <u>32,476,931</u> | <u>31,920,351</u> |
| Claims Paid | | |
| <i>Qatar Islamic Bank</i> | 8,618,680 | 2,622,823 |
| <i>Others</i> | <u>726,108</u> | <u>1,168,615</u> |
| | <u>9,344,788</u> | <u>3,791,438</u> |

DAMAAN ISLAMIC INSURANCE COMPANY "BEEMA" (Q.S.C.C.)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

7. RELATED PARTY DISCLOSURES (CONTINUED)

(b) Due from related parties

| | <u>2014</u> | <u>2013</u> |
|----------------------------------|-------------------|------------------|
| | QR. | QR. |
| Qatar Islamic Bank S.A.Q. | 3,978,020 | 4,716,540 |
| Barwa Real Estate Company S.A.Q. | 6,424,568 | 449,936 |
| Q-Invest L.L.C. | 98,366 | 3,839,372 |
| Qatar Insurance Company | 2,565,901 | -- |
| | <u>13,066,855</u> | <u>9,005,848</u> |

(c) Due to related parties

| | <u>2014</u> | <u>2013</u> |
|--------------------------------|-------------------|-------------------|
| | QR. | QR. |
| Masraf Al Rayyan Q.S.C. | 3,313,252 | 9,742,441 |
| Qatar Insurance Company S.A.Q. | 8,463,241 | 432,618 |
| Barwa Village S.P.C | 87,763 | 47,941 |
| Qatar Islamic Bank | 8,563,748 | 9,296,206 |
| | <u>20,428,004</u> | <u>19,519,206</u> |

(d) Compensation of key management personnel

| | <u>2014</u> | <u>2013</u> |
|---------------------------------|------------------|------------------|
| | QR. | QR. |
| Short term benefits | 3,753,444 | 2,835,000 |
| Board of directors remuneration | 900,000 | 900,000 |
| Termination benefits | 435,386 | 435,527 |
| | <u>5,088,830</u> | <u>4,170,527</u> |

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DAMAAN ISLAMIC INSURANCE COMPANY "BEEMA" (Q.S.C.C.)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

8. TAKAFUL CONTRACT LIABILITIES AND RETAKAFUL CONTRACT ASSETS

| | 2014 | 2013 |
|---|--------------------|--------------------|
| | QR. | QR. |
| <i>Gross insurance contract liabilities</i> | | |
| Claims reported unsettled | 71,314,405 | 50,368,495 |
| Claims incurred but not reported | 5,840,511 | 3,274,494 |
| Unearned contributions | 135,667,475 | 99,205,884 |
| Total | 212,822,391 | 152,848,873 |
| <i>Reinsurers' share of insurance liabilities</i> | | |
| Claims reported unsettled | 29,204,425 | 21,542,338 |
| Total | 29,204,425 | 21,542,338 |
| <i>Net insurance liabilities</i> | | |
| Claims reported unsettled | 42,109,980 | 28,826,157 |
| Claims incurred but not reported | 5,840,511 | 3,274,494 |
| Unearned contributions | 135,667,475 | 99,205,884 |
| Total | 183,617,966 | 131,306,535 |

The amounts due from reinsurers are contractually due within a maximum of 3 months from the date of payment of the claims.

DAMAAN ISLAMIC INSURANCE COMPANY "BEEMA" (Q.S.C.C.)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

9. PROPERTY AND EQUIPMENT

| | Freehold land | | Furniture and equipment | | Computer equipment | | Fixtures and fittings | | Motor vehicle | | Total | |
|------------------------------------|-------------------|------------------|-------------------------|------------------|--------------------|------------------|-----------------------|------------------|---------------|-------------------|-------|--|
| | QR. | | QR. | | QR. | | QR. | | QR. | | QR. | |
| Cost: | | | | | | | | | | | | |
| At January 1, 2013 | -- | 1,200,425 | | 3,377,293 | | 3,775,452 | | 997,500 | | 9,350,670 | | |
| Additions | -- | 111,775 | | 605,089 | | 331,926 | | 62,000 | | 1,110,790 | | |
| At December 31, 2013 | | 1,312,200 | | 3,982,382 | | 4,107,378 | | 1,059,500 | | 10,461,460 | | |
| Additions during the year | 39,435,688 | 296,450 | | 307,576 | | 507,205 | | 795,200 | | 41,342,119 | | |
| Disposals during the year | -- | -- | | -- | | (34,000) | | (699,000) | | (733,000) | | |
| At December 31, 2014 | 39,435,688 | 1,608,650 | | 4,289,958 | | 4,580,583 | | 1,155,700 | | 51,070,579 | | |
| Accumulated Depreciation: | | | | | | | | | | | | |
| At January 1, 2013 | -- | 429,588 | | 2,892,335 | | 2,161,435 | | 568,843 | | 6,052,201 | | |
| Charge for the year | -- | 181,494 | | 465,415 | | 820,987 | | 209,825 | | 1,677,721 | | |
| At December 31, 2013 | | 611,082 | | 3,357,750 | | 2,982,422 | | 778,668 | | 7,729,922 | | |
| Charge for the year | -- | 205,381 | | 311,611 | | 917,040 | | 234,906 | | 1,668,938 | | |
| Disposals / charge during the year | -- | -- | | -- | | (13,812) | | (474,845) | | (488,657) | | |
| At December 31, 2014 | -- | 816,463 | | 3,669,361 | | 3,885,650 | | 538,729 | | 8,910,203 | | |
| Carrying value : | | | | | | | | | | | | |
| At December 31, 2014 | 39,435,688 | 792,187 | | 620,597 | | 694,933 | | 616,971 | | 42,160,376 | | |
| At December 31, 2013 | -- | 701,118 | | 624,632 | | 1,124,956 | | 280,832 | | 2,731,538 | | |

DAMAAN ISLAMIC INSURANCE COMPANY "BEEMA" (Q.S.C.C.)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

10. TAKAFUL AND OTHER RECEIVABLES

| | <u>2014</u> QR. | <u>2013</u> QR. |
|----------------------------------|--------------------|--------------------|
| Due from reinsurers | 13,014,247 | 10,116,915 |
| Contribution receivable | 36,616,241 | 25,884,536 |
| Other receivable and prepayments | <u>29,267,030</u> | <u>19,579,085</u> |
| | <u>78,897,518</u> | <u>55,580,536</u> |

11. MURABAHA FINANCE

| | <u>2014</u> QR. | <u>2013</u> QR. |
|-----------------------------------|---------------------|--------------------|
| Balance at the beginning of year | 200,034,638 | 43,995,711 |
| Net movement made during the year | <u>(69,314,393)</u> | <u>156,038,927</u> |
| | <u>130,720,245</u> | <u>200,034,638</u> |

- The Company has entered in a murabaha financing agreement with Bank Sarasin & Co. Limited, Switzerland to finance the shareholders' investment. The financing is pledged against all the accounts, the Company holds with the bank and repayable within 1 year.

| | <u>2014</u> QR. | <u>2013</u> QR. |
|-----------------------------------|--------------------|--------------------|
| Balance at the beginning of year | -- | -- |
| Murabaha obtained during the year | <u>28,000,000</u> | <u>--</u> |
| | <u>28,000,000</u> | <u>--</u> |

- The Company has entered in a murabaha financing agreement with Qatar Islamic Bank, to finance the purchase of land for the new office. The financing is repayable over the period of five years.

12. SHARE CAPITAL

| | <u>Authorized, issued and fully paid up 2014</u> | <u>Authorized, issued and fully paid up 2013</u> |
|--------------------------------|--|--|
| Share capital (QR.) | <u>200,000,000</u> | <u>200,000,000</u> |
| Number of shares of QR 10 each | <u>20,000,000</u> | <u>20,000,000</u> |

DAMAAN ISLAMIC INSURANCE COMPANY "BEEMA" (Q.S.C.C.)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

13. STATUTORY RESERVE

Legal reserve is to be computed at the higher of Qatar Commercial Companies' Law No. 5 of 2002 and the company's Articles of Association at 10% of the net profit for the year, until it equates 100% of the paid up capital. This reserve is not available for distribution except in circumstances specified in the Qatar Commercial Companies' law, and Qatar Central Bank (QCB) regulations.

14. TAKAFUL AND OTHER LIABILITIES

| | <u>2014</u> | <u>2013</u> |
|-------------------------------|-------------------|-------------------|
| | QR. | QR. |
| Due to reinsurers | 13,065,007 | 3,442,135 |
| Contribution payable | 268,426 | 314,055 |
| Provisions and other payables | <u>27,662,186</u> | <u>16,822,946</u> |
| | <u>40,995,619</u> | <u>20,579,136</u> |

15. DISTRIBUTABLE SURPLUS PAYABLE

| | <u>2014</u> | <u>2013</u> |
|-------------------------------------|--------------------|------------------|
| | QR. | QR. |
| Balance at January 1, | 6,977,558 | 4,134,400 |
| Surplus distributed during the year | 6,713,530 | 3,404,817 |
| Payments made during the year | <u>(3,149,050)</u> | <u>(561,659)</u> |
| Balance at December 31, | <u>10,542,038</u> | <u>6,977,558</u> |

The Board of directors have proposed to distribute 7% (2013: 7%) of contribution amounting to QR. 6,499,446 as surplus for policyholders for the year (2013: QR 6,713,530) out of the results of insurance operations. The proposal to distribute surplus will be submitted for formal approval at the Annual General Meeting. The balance of the retained surplus will be distributed to the policyholders in future years in accordance with the decision of the Shari'a Supervisory Board.

The surplus is allocated to all policyholders according to their pro-rata share of premium contribution for those who have not made claims during the financial year.

16. EMPLOYEES' END OF SERVICE BENEFITS

| | <u>2014</u> | <u>2013</u> |
|---|------------------|------------------|
| | QR. | QR. |
| Provision at January 1, | 1,657,094 | 546,725 |
| Charge for the year | 581,285 | 1,170,525 |
| Employees' end of service benefits – paid | <u>(150,116)</u> | <u>(60,156)</u> |
| Provision at December 31, | <u>2,088,263</u> | <u>1,657,094</u> |

DAMAAN ISLAMIC INSURANCE COMPANY "BEEMA" (O.S.C.C.)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

17. NET UNDERWRITING RESULTS

| | Marine and Aviation | | Motors | | Fire and general Accident | | Takaful and Health | | Total | |
|---|---------------------|-------------|--------------|--------------|---------------------------|--------------|--------------------|--------------|---------------|---------------|
| | 2014 QR. | 2013 QR. | 2014 QR. | 2013 QR. | 2014 QR. | 2013 QR. | 2014 QR. | 2013 QR. | 2014 QR. | 2013 QR. |
| Gross contributions | 3,401,710 | 3,313,094 | 125,122,011 | 106,376,044 | 26,940,258 | 17,940,765 | 99,020,626 | 76,483,708 | 254,484,605 | 204,113,611 |
| Re-Takaful share of gross contribution | (1,411,524) | (1,369,376) | (441,980) | (1,146,362) | (17,904,945) | (11,900,596) | (34,604,786) | (24,836,783) | (54,363,235) | (39,253,117) |
| Net contributions | 1,990,186 | 1,943,718 | 124,680,031 | 105,229,682 | 9,035,313 | 6,040,169 | 64,415,840 | 51,646,925 | 200,121,370 | 164,860,494 |
| Movement in unearned contribution | 18,230 | 2,473 | (19,624,743) | (17,871,517) | (1,198,059) | (338,212) | (15,657,024) | (17,806,747) | (36,461,596) | (36,014,003) |
| Net earned contributions | 2,008,416 | 1,946,191 | 105,055,288 | 87,358,165 | 7,837,254 | 5,701,957 | 48,758,816 | 33,840,178 | 163,659,774 | 128,846,491 |
| Expenses: | | | | | | | | | | |
| Gross claims paid | (307,092) | (559,183) | (95,869,499) | (73,241,886) | (16,279,125) | (3,870,206) | (28,717,734) | (29,058,967) | (141,173,450) | (106,730,242) |
| Re-Takaful and other recoveries | 234,192 | 480,688 | 23,183,647 | 16,871,585 | 15,591,236 | 3,480,239 | 18,019,942 | 19,900,164 | 57,029,017 | 40,732,676 |
| Movement in outstanding claims and IBNR | 6,242 | 25,246 | (12,357,748) | (3,403,541) | (131,834) | (276,929) | (3,366,500) | (1,713,272) | (15,849,840) | (5,368,496) |
| Commission, net | (161,442) | (83,740) | (969,900) | (1,615,769) | (699,169) | (1,063,469) | (14,517,753) | (8,054,467) | (16,348,264) | (10,817,445) |
| Net claims incurred | (228,100) | (136,989) | (86,013,500) | (61,389,611) | (1,518,892) | (1,730,365) | (28,582,045) | (18,926,542) | (116,342,537) | (82,183,507) |
| Net underwriting results | 1,780,316 | 1,809,202 | 19,041,788 | 25,968,554 | 6,318,362 | 3,971,592 | 20,176,771 | 14,913,636 | 47,317,237 | 46,662,984 |

DAMAAN ISLAMIC INSURANCE COMPANY "BEEMA" (Q.S.C.C.)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

18. COMMISSION EXPENSE - NET

| | <u>2014</u> | <u>2013</u> |
|-------------------------------------|--------------------------|--------------------------|
| | QR. | QR. |
| Profit from reinsurers | (314,236) | (36,400) |
| Commission to agents and reinsurers | <u>16,662,500</u> | <u>10,853,844</u> |
| | <u><u>16,348,264</u></u> | <u><u>10,817,444</u></u> |

19. INVESTMENT INCOME

| | <u>2014</u> | <u>2013</u> |
|---|-------------------------|-------------------------|
| | QR. | QR. |
| Income from investment of policyholders | 5,654,995 | 3,702,950 |
| Dividend income of policyholders | 200,000 | 50,000 |
| Income from Islamic deposits of policyholders | 963,099 | 766,946 |
| Investment expenses of policyholders | (765,472) | (1,262,324) |
| Net investment income | <u>6,052,622</u> | <u>3,257,572</u> |
| Shareholders' share in policyholders income * | <u><u>2,421,049</u></u> | <u><u>1,303,029</u></u> |

* This represents management fee payable to the shareholders by the policyholders for managing the investments. The fees are calculated at a rate of 40% (2013: 40%) of the net income received on the investments of the policyholders. The actual rate for each year is determined by the Shari'a Supervisory Board with co-ordination with the Company's Board of Directors.

20. GENERAL AND ADMINISTRATIVE EXPENSES

| | <u>2014</u> | <u>2013</u> |
|----------------------------------|-------------------------|-------------------------|
| | QR. | QR. |
| Rent | 3,521,707 | 3,549,809 |
| Printing and stationery | 324,678 | 336,937 |
| Advertisement expenses | 613,205 | 622,689 |
| Postage and telephone | 163,774 | 254,150 |
| IT support charges | 798,964 | 770,550 |
| Foreign travel expenses | 117,865 | 168,539 |
| Shari'a board remuneration | 150,000 | 150,000 |
| Board of directors' remuneration | 900,000 | 950,000 |
| Insurance expenses | 493,557 | 401,052 |
| Legal fee | 129,921 | 93,053 |
| Professional fee | 306,040 | 337,972 |
| Technical fee | 1,017,793 | -- |
| Other operating expenses | <u>727,601</u> | <u>543,130</u> |
| | <u><u>9,265,105</u></u> | <u><u>8,177,881</u></u> |

DAMAAN ISLAMIC INSURANCE COMPANY "BEEMA" (Q.S.C.C.)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

21. COMMITMENTS AND CONTINGENCIES

The Company had the following commitments and contingent liabilities outstanding at 31 December:

| | <u>2014</u> | <u>2013</u> |
|----------------|----------------|----------------|
| | QR | QR |
| Bank guarantee | <u>442,500</u> | <u>428,000</u> |

22. COMMITMENTS UNDER OPERATING LEASES

The Company has entered into several lease agreements for the lease of the head office and branch offices. The rental costs in respect of these properties are accounted for as operating leases.

The future lease commitments in respect of the above land lease agreement are as follows:

| | <u>2014</u> | <u>2013</u> |
|---|-------------------|-------------------|
| | QR | QR |
| Not later than 1 year | 3,455,658 | 3,521,707 |
| Later than 1 year and not longer than 5 years | 6,911,136 | 7,099,618 |
| | <u>10,366,794</u> | <u>10,621,325</u> |

23. FINANCIAL INVESTMENTS FAIR VALUES

Financial instruments include deposits, cash, investment securities, receivables, payables, and certain other assets and liabilities.

The fair values of the financial assets and liabilities, with the exception of certain available-for-sale investments carried at cost, are not materially different from their carrying values.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

DAMAAN ISLAMIC INSURANCE COMPANY "BEEMA" (Q.S.C.C.)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

23. FINANCIAL INVESTMENTS FAIR VALUES (CONTINUED)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

| December 31, 2014 | <u>Level 1</u> QR. | <u>Level 2</u> QR. | <u>Level 3</u> QR. | <u>latoT</u> QR. |
|--|-----------------------|-----------------------|-----------------------|---------------------|
| Available for sale financial assets | -- | 421,341,842 | 7,500,000 | 428,841,842 |
| | -- | 421,341,842 | 7,500,000 | 428,841,842 |
| December 31, 2013 | <u>Level 1</u> RQ. | <u>Level 2</u> RQ. | <u>Level 3</u> RQ. | <u>Total</u> RQ. |
| Available for sale financial assets | -- | 411,972,488 | 7,500,000 | 419,472,488 |
| | -- | 411,972,488 | 7,500,000 | 419,472,488 |

During the year ending December 31, 2014, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

24. CAPITAL MANAGEMENT

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Company's overall strategy remains unchanged from 2013.

The capital structure of the Company consists of net debt (Murabaha Financing as detailed in Note 11 offset by cash and bank balances) and equity of the Company (comprising issued capital, reserves and retained earnings as disclosed in notes 12 and 13 respectively).

The Company's management reviews the capital structure of the Company on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. The Company has a target gearing ratio of 5% determined as the proportion of net debt to equity. The gearing ratio at December 31, 2014 of 6.1% (2013: 15.71%) (see below) was in line with the target range.

DAMAAN ISLAMIC INSURANCE COMPANY "BEEMA" (Q.S.C.C.)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

24. CAPITAL MANAGEMENT (CONTINUED)

Gearing ratio

The gearing ratio at year end was as follows:

| | <u>2014</u> | <u>2013</u> |
|--------------------------|----------------------|----------------------|
| | <u>QR</u> | <u>QR</u> |
| Debt (i) | | |
| Cash and bank balance | 158,720,245 | 200,034,638 |
| Net debt | <u>(141,066,862)</u> | <u>(158,398,007)</u> |
| Equity (ii) | <u>17,653,383</u> | <u>41,636,631</u> |
| Net debt to equity ratio | <u>287,641,318</u> | <u>265,114,250</u> |
| | <u>6.1%</u> | <u>15.7%</u> |

(i) Debt is the long term debt obtained as Murabaha Financing, as detailed in note 11

(ii) Equity includes all capital and reserves of the Policyholders and Shareholders of the Company that are managed as capital.

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Governance framework

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

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The board of directors meets regularly to assess and identify the Company's risk, to review structure to ensure the appropriate quality and diversification of assets, and to ensure that underwriting and reinsurance are in line with the Company's strategy and goals. The Company's Board of Directors has overall responsibility to identify and analyses the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Capital management framework

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Company defines as net operating income divided by total shareholders' equity. The Company's objectives when managing capital is:

- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk.

The capital structure of the Company consists of issued capital, reserves and retained earnings.

DAMAAN ISLAMIC INSURANCE COMPANY "BEEMA" (Q.S.C.C.)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Capital management framework (continued)

The company in the normal course of its business derives its revenue mainly from assuming and managing insurance and investments risks for profit. The Company's lines of business are mainly exposed to the following risks;

- Insurance risk,
- Reinsurance risk
- Credit risk.
- Liquidity risk and
- Market risks
- Equity risk

- Insurance risk

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

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

The Company principally issues general insurance contracts which constitute mainly Marine and aviation, Motor, Fire and general, and Takaful and health. The concentration of insurance risk exposure is mitigated by diversifying the risk underwritten and ensuring that such risks are across a large portfolio in terms of type, level of insured benefits, amount of risk and industry.

The Company, in the normal course of business, in order to minimize financial exposure arising from large claims, enters into contracts with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is affected under treaty, facultative and excess-of-loss reinsurance contracts. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts.

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

The Company has in place strict claim review to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and prompt pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Capital management framework (continued)

- Insurance risk (continued)

- Key assumptions-Insurance risk

The principal assumption underlying the liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example one-off occurrence changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimated. Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

- Sensitivities

The general insurance claims provisions are sensitive to the key assumptions shown below. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

Claims development:

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

- Reinsurance risk

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

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

The company only deals with reinsurers approved by the management, which are generally international companies that are rated by international rating agencies or other GCC securities.

Reinsurance ceded contracts do not relieve the company from its obligations to policyholders and as a result the company remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Regulatory framework (continued)

- Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. For all classes of financial assets held by the Company, the maximum credit risk exposure to the Company is the carrying value as disclosed in the statement of financial position.

A credit risk policy setting out the assessment and determination of what constitutes credit risk for the Company has been established and policies and procedures are in place to mitigate the Company's exposure to credit risk:

Compliance with the policy is monitored and exposures and breaches are regularly reviewed for pertinence and for changes in the risk environment.

- Age analysis of financial assets

December 31, 2014

| | <u>< 30 days</u> | <u>31 to 60</u> | <u>61 to 90</u> | <u>91 to above</u> | <u>Total</u> |
|-------------------------------------|---------------------|-----------------|-------------------|--------------------|--------------------|
| | QR. | days | days | 120 days | QR. |
| | QR. | QR. | QR. | QR. | QR. |
| Cash and banks | 137,766,862 | -- | -- | 3,300,000 | 141,066,862 |
| Available for sale financial assets | -- | -- | -- | 428,841,842 | 428,841,842 |
| Due from related parties | -- | -- | 13,066,855 | -- | 13,066,855 |
| Takaful and other receivables | -- | -- | 77,897,518 | -- | 77,897,518 |
| Retakaful contract assets | -- | -- | -- | 29,204,425 | 29,204,425 |
| Total | 137,766,862 | -- | 90,964,373 | 461,346,267 | 690,077,502 |

December 31, 2013

| | <u>< 30 days</u> | <u>31 to 60</u> | <u>61 to 90 days</u> | <u>91 to above</u> | <u>Total</u> |
|-------------------------------------|---------------------|-----------------|----------------------|--------------------|--------------------|
| | QR. | days | QR. | 120 days | QR. |
| | QR. | QR. | QR. | QR. | QR. |
| Cash and banks | 155,098,007 | -- | -- | 3,300,000 | 158,398,007 |
| Available for sale financial assets | -- | -- | -- | 419,472,488 | 419,472,488 |
| Due from related parties | -- | -- | 9,005,848 | -- | 9,005,848 |
| Takaful and other receivables | -- | -- | 55,580,536 | -- | 55,580,536 |
| Retakaful contract assets | -- | -- | -- | 21,542,338 | 21,542,338 |
| Total | 155,098,007 | -- | 64,586,386 | 444,314,826 | 663,999,217 |

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Regulatory framework (continued)

- Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial liabilities.

Liquidity requirements are monitored on a daily/weekly/monthly basis and management ensures that sufficient funds are available to meet any commitments as they arise.

- Maturity profiles

The table below summarises the maturity profile of the financial assets and financial liabilities of the Company based on remaining undiscounted contractual obligations, including interest payable and receivable. For insurance contracts liabilities and reinsurance assets, maturity profiles are determined based on estimated timing of net cash outflows from the recognized insurance liabilities. Unearned premiums and the reinsurer's share of unearned premiums have been excluded from the analysis as they are not contractual obligations.

| | Up to a year QR. | 1 to 5 years QR. | Total QR. |
|-------------------------------------|---------------------|---------------------|--------------------|
| December 31, 2014 | | | |
| <i>Financial assets</i> | | | |
| Available for sale financial assets | 428,841,842 | -- | 428,841,842 |
| Due from related parties | 13,066,855 | -- | 13,066,855 |
| Takaful and other receivables | 78,897,518 | -- | 78,897,518 |
| Retakaful contract assets | 29,204,425 | -- | 29,204,425 |
| Due from policyholders | 92,176,318 | -- | 92,176,318 |
| Cash and cash equivalents | 141,066,862 | -- | 141,066,862 |
| Total | 783,253,820 | -- | 783,253,820 |
| | Up to a year QR. | 1 to 5 years QR. | Total QR. |
| December 31, 2014 | | | |
| <i>Financial liabilities</i> | | | |
| Due to related parties | 20,428,004 | -- | 20,428,004 |
| Takaful contract liabilities | 212,822,391 | -- | 212,822,391 |
| Murabaha finance | 130,720,245 | 28,000,000 | 158,720,245 |
| Distributable surplus | 10,542,038 | -- | 10,542,038 |
| Due to shareholders | 92,176,318 | -- | 92,176,318 |
| Takaful payables | 13,333,433 | -- | 13,333,433 |
| Total | 480,022,429 | 28,000,000 | 508,022,429 |

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Regulatory framework (continued)

- Liquidity risk (continued)

| | Up to a year QR. | 1 to 5 years QR. | Total QR. |
|-------------------------------------|---------------------|---------------------|--------------------|
| December 31, 2013 | | | |
| <i>Financial assets</i> | | | |
| Available for sale financial assets | 419,472,488 | -- | 419,472,488 |
| Due from related parties | 9,005,848 | -- | 9,005,848 |
| Takaful and other receivables | 48,751,084 | -- | 48,751,084 |
| Retakaful contract assets | 21,542,338 | -- | 21,542,338 |
| Due from policyholders | 71,794,531 | -- | 71,794,531 |
| Cash and cash equivalents | 158,398,007 | -- | 158,398,007 |
| Total | <u>728,964,296</u> | -- | <u>728,964,296</u> |
| | Up to a year QR. | 1 to 5 years QR. | Total QR. |
| December 31, 2013 | | | |
| <i>Financial liabilities</i> | | | |
| Due to related parties | 19,519,206 | -- | 19,519,206 |
| Takaful contract liabilities | 152,848,873 | -- | 152,848,873 |
| Murabaha finance | 200,343,638 | -- | 200,343,638 |
| Distributable surplus | 6,977,558 | -- | 6,977,558 |
| Due to shareholders | 78,623,983 | -- | 78,623,983 |
| Takaful payables | 3,756,190 | -- | 3,756,190 |
| Total | <u>462,069,448</u> | -- | <u>462,069,448</u> |

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Company limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in international and local equity and bond markets. In addition, The Company actively monitors the key factors that affect stock and bond market movements, including analysis of the operational and financial performance of investees.

DAMAAN ISLAMIC INSURANCE COMPANY "BEEMA" (Q.S.C.C.)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2014

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Regulatory framework (continued)

Market risk (continued)

i. Currency risk

Currency 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 Qatari Riyal is effectively pegged to the United States dollar and thus currency risk occurs only in respect of currencies other than the United States Dollar. The Company's exposure to currency risk is minimal, since most of the transactions are either in Qatari Riyals or in US Dollars.

ii. Profit rate risk

The Company does not expose to interest rate risk as the Company does not have any interest sensitive financial instruments.

Equity price risk

The Company is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Company does not actively trade these investments.

Equity price sensitivity analysis

If equity prices had been 5% higher/lower, profit for the year ended December 31, 2014 would have been unaffected as the equity investments are classified as available-for-sale and no investments were disposed of or impaired; and other comprehensive income for the year ended December 31, 2014 would increase / decrease by QR. 991,875 (2013: increase / decrease by QR. 1,761,250) as a result of the changes in fair value of available-for-sale shares.

26. PRESENTATION CHANGES

During the year the Company has made presentation changes to show policyholders and shareholders' funds separately in the statement of financial position as compared to combined basis in the prior year.

27. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors and authorised for issue on January 27, 2015.