

Oman Reinsurance Company SAOC

**Financial statements for the year ended
31 December 2020**

Oman Reinsurance Company SAOC

Financial statements for the year ended 31 December 2020

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Oman Reinsurance Company SAOC
Administration and contact details as at 31 December 2020

Commercial registration number	1052000
Board of Directors	Dr. Juma Bin Ali Al Juma - Chairman Sheikh Nasser Bin Ali Bin Saud Al Thani - Deputy Chairman Mr. Talal Al Zain - Board Member Mr. Alaa Fares - Board Member Gamal Mohammed - Board Member Mr. Mohammed Al Busaidy - Board Member Pramod Kumar Hiran - Board Member
Registered office address	PO Box 1968, PC 114 Muscat Sultanate of Oman
Bankers	Bank Muscat Oman Arab Bank Bank Dhofar National Bank of Oman Ahli Bank Bank Nizwa Bank Sohar Bank Julius Baer & Co
Auditors	BDO LLC Suite No. 601 & 602 Pent House, Beach One Building Way No. 2601, Shatti Al Qurum PO Box 1176, Ruwi, PC 112 Muscat Sultanate of Oman



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Independent Auditor's Report to the Shareholders of Oman Reinsurance Company SAOC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Oman Reinsurance Company SAOG ("the Company"), which comprise the statement of financial position as at 31 December 2020, the statement of profit or loss and other comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Those Charged With Governance and the management of the Company are responsible for the other information. The other information comprises the Directors' report and Report on Corporate Governance.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regards.

Responsibilities of Management and Those Charged With Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and their preparation in compliance with the relevant requirements of the Capital Market Authority of the Sultanate of Oman and the applicable provisions of the Commercial Companies Law of the Sultanate of Oman, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Those Charged With Governance are responsible for overseeing the Company's financial reporting process.

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**Independent Auditor's Report to the Shareholders of
Oman Reinsurance Company SAOC (continued)**

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Those Charged With Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

We report that these financial statements as at, and for the year ended, 31 December 2020, in all material respects, comply with the applicable provisions of the Commercial Companies Law, Insurance Companies Law of the Sultanate of Oman and the relevant requirements of the Capital Market Authority.



Muscat
10 February 2021




B. Kapur
Bipin Kapur
Partner

Oman Reinsurance Company SAOC
Statement of financial position as at 31 December 2020
(Expressed in Omani Rial)

	Notes	2020	2019
ASSETS			
Non-current assets			
Property and equipment	6	109,536	151,690
Intangible assets	7	35,186	46,247
Investment property	8	1,900,000	1,900,000
Investment property under development	9	184,592	125,192
Investments at fair value through other comprehensive income	10	17,377,803	13,272,373
Non-current portion of bank deposits	22	6,000,000	7,878,268
Total non-current assets		<u>25,607,117</u>	<u>23,373,770</u>
Current assets			
Investments at fair value through profit or loss	11	871,000	-
Insurance and other receivables	12	6,884,831	5,302,358
Accrued income	13	10,390,102	8,660,833
Deferred policy acquisition costs	20	2,702,382	2,553,591
Reinsurers' share of insurance funds	18	32,428,370	24,179,307
Current portion of bank deposits	22	7,415,268	6,075,000
Cash and cash equivalents	23	8,662,776	6,360,654
Total current assets		<u>69,354,729</u>	<u>53,131,743</u>
Total assets		<u>94,961,846</u>	<u>76,505,513</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	14	30,000,000	30,000,000
Legal reserve	15	343,183	198,160
Investment fair value reserve	10	47,849	(975,461)
Contingency reserve	16	2,997,005	1,691,799
Accumulated losses		(7,783,883)	(7,835,209)
Total capital and reserves		<u>25,604,154</u>	<u>23,079,289</u>
Non-current liabilities			
Employees' benefit liabilities	17	188,961	156,531
Total non-current liabilities		<u>188,961</u>	<u>156,531</u>
Current liabilities			
Technical provisions	18	55,898,461	41,465,187
Reinsurers' premium and other payables	19	12,316,554	10,413,587
Deferred commission income	20	953,716	1,390,919
Total current liabilities		<u>69,168,731</u>	<u>53,269,693</u>
Total liabilities		<u>69,357,692</u>	<u>53,426,224</u>
Total equity and liabilities		<u>94,961,846</u>	<u>76,505,513</u>
Net assets per share	30	<u>0.85</u>	<u>0.77</u>

The financial statements, as set out on pages 4 to 38, were approved and authorised for issue by the Board of Directors on 10 February 2021 and were signed on their behalf by:


 Director





Director

Oman Reinsurance Company SAOC

Statement of profit or loss and other comprehensive income for the year ended 31 December 2020

(Expressed in Omani Rial)

	Notes	2020	2019
Income			
Gross premiums written	26	<u>24,773,893</u>	<u>20,413,600</u>
Net underwriting results	26	1,955,540	1,239,881
Investment and other income, net	25	<u>1,882,293</u>	<u>1,502,357</u>
		<u>3,837,833</u>	<u>2,742,238</u>
Expenses			
General and administrative expenses	27	(2,281,759)	(1,850,145)
Foreign exchange losses (net)		(74,584)	(77,756)
		<u>(2,356,343)</u>	<u>(1,927,901)</u>
Net profit before tax for the year		1,481,490	814,337
Income tax expense	24	(31,261)	-
Net profit after tax for the year		<u>1,450,229</u>	<u>814,337</u>
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
<i>Investments at fair value through other comprehensive income</i>			
Valuation losses on equity investments at fair value through other comprehensive income		11,227	(1,030,787)
Items that will or may be reclassified to profit or loss:			
<i>Investments at fair value through other comprehensive income</i>			
Valuation gains on debt instruments at fair value through other comprehensive income		1,063,409	969,626
Other comprehensive income / (loss) for the year		<u>1,074,636</u>	<u>(61,161)</u>
Total comprehensive income for the year		<u>2,524,865</u>	<u>753,176</u>
Earnings per share - basic and diluted	29	<u>0.048</u>	<u>0.027</u>

Oman Reinsurance Company SAOC
Statement of changes in shareholders' equity for the year ended 31 December 2020
(Expressed in Omani Rial)

	Notes	Share capital	Legal reserve	Investment fair value reserve	Contingency reserve	Accumulated losses	Total
As at 1 January 2019		30,000,000	116,726	(534,389)	958,896	(8,215,120)	22,326,113
Effect of first-time adoption of IFRS 9	10	-	-	(379,911)	-	379,911	-
Net profit after tax for the year		-	-	-	-	814,337	814,337
Net change in fair value of investments at fair value through other comprehensive income	10	-	-	(61,161)	-	-	(61,161)
Transferred to legal reserve	15	-	81,434	-	-	(81,434)	-
Transferred to contingency reserve	16	-	-	-	732,903	(732,903)	-
As at 31 December 2019		<u>30,000,000</u>	<u>198,160</u>	<u>(975,461)</u>	<u>1,691,799</u>	<u>(7,835,209)</u>	<u>23,079,289</u>
Net profit after tax for the year		-	-	-	-	1,450,229	1,450,229
Net change in fair value of investments at fair value through other comprehensive income	10	-	-	1,074,636	-	-	1,074,636
Realised gains/sale on sale of equity investments at fair value through other comprehensive income	10	-	-	(51,326)	-	51,326	-
Transferred to legal reserve	15	-	145,023	-	-	(145,023)	-
Transferred to contingency reserve	16	-	-	-	1,305,206	(1,305,206)	-
As at 31 December 2020		<u>30,000,000</u>	<u>343,183</u>	<u>47,849</u>	<u>2,997,005</u>	<u>(7,783,883)</u>	<u>25,604,154</u>

Oman Reinsurance Company SAOC

Statement of cash flows for the year ended 31 December 2020

(Expressed in Omani Rial)

	Notes	2020	2019
Operating activities			
Net profit after tax for the year		1,450,229	814,337
Adjustments for:			
Depreciation on property and equipment	6	63,734	47,212
Amortisation of intangible assets	7	14,246	8,665
Interest income on bank deposits	25	(1,579,722)	(1,257,659)
Dividend income	25	(55,633)	(59,277)
Gains on sale of investments at fair value through other comprehensive income	25	(228,160)	(186,043)
Profit on sale of property and equipment		(49)	(4,100)
Provision for income tax	24	31,261	-
Provision for employees' benefit liabilities	17	55,727	68,699
Unrealised fair value gains on investments at fair value through profit or loss	11	(25,100)	-
Operating loss before working capital changes		(273,467)	(568,166)
Working capital changes			
Insurance and other receivables		(1,582,473)	(287,000)
Accrued income		(1,535,020)	622,089
Deferred policy acquisition costs		(148,791)	103,409
Deferred commission income		(437,203)	(194,182)
Reinsurers' share of insurance funds		(8,249,063)	(5,361,053)
Technical provisions		14,433,274	7,619,650
Reinsurers' premium and other payables		1,871,706	587,971
Cash generated from operating activities		4,078,963	2,522,718
Employees' benefit liabilities paid		(23,297)	(2,630)
Net cash generated from operating activities		4,055,666	2,520,088
Investing activities			
Purchase of investments at fair value through other comprehensive income	10	(7,231,082)	(4,506,710)
Purchase of investments at fair value through profit or loss	11	(845,900)	
Cost incurred on investment property under development	9	(59,400)	(76,953)
Interest income received on bank deposits		1,349,072	1,123,308
Dividend income received on equity instruments	25	55,633	59,277
Purchase of property and equipment	6	(21,611)	(94,362)
Proceeds from sale of property and equipment		80	4,100
Proceeds from sale of investments at fair value through other comprehensive income		4,464,849	5,029,526
Cost of acquisition of intangible assets	7	(3,185)	(51,572)
Net movement in bank deposits		538,000	(2,825,000)
Net cash used in investing activities		(1,753,544)	(1,338,386)
Net increase in cash and cash equivalents			
Cash and cash equivalents, beginning of the year		6,360,654	5,178,952
Cash and cash equivalents, end of the year	23	8,662,776	6,360,654

As there were no cash flows arising from financing activities during the year ended 31 December 2020, no disclosure has been made in the notes to the financial statements, as required by IAS 7 'Statement of Cash Flows'.

Oman Reinsurance Company SAOC

Notes to the financial statements for the year ended 31 December 2020

(Expressed in Omani Rial)

1 Legal status and principal activities

Oman Reinsurance Company SAOC ("the Company") is a closely-held Omani joint stock company registered on 4 August 2008 with the Ministry of Commerce and Industry, in accordance with the provisions of the Commercial Companies Law and the Oman Insurance Companies Law of the Sultanate of Oman. The Company obtained a license to operate reinsurance business on 2 July 2009 from the Capital Market Authority (CMA). The Company is principally engaged in underwriting reinsurance business including fire, engineering, accident, medical, motor and aviation classes.

The Company's principal place of business is located at Al Khuwair, Muscat, Sultanate of Oman.

The financial statements was approved for issue by the Board of Directors on 10 February 2021.

2 Basis of preparation

(a) Statement of compliance

The financial statements has been prepared in accordance with the International Financial Reporting Standards ("IFRS") as promulgated by the International Accounting Standards Board ("IASB"), interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), the requirements of the Commercial Companies Law of the Sultanate of Oman and the Insurance Companies Law.

(b) Basis of presentation

The financial statements have been prepared under the historical cost convention and going concern assumption, modified for certain assets and liabilities which are stated at their fair values as required by the IFRS. The preparation of financial statements is in conformity with IFRS that requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies.

(c) Functional currencies

The financial statements is presented in Omani Rials (RO) which is the functional and reporting currency for the Company.

3 Adoption of new and revised IFRS

Standards, amendments and interpretations effective and adopted in the year 2020

The following new standards, amendment to existing standards or interpretations to published standards are mandatory for the first-time and have been adopted in the preparation of the financial statements for the year ended 31 December 2020:

Standard or Interpretation	Title	Effective for annual periods beginning on or after
Amendments to IFRS 3	Business Combination: Definition of a Business	1 January 2020
Amendments to IFRS 16	Leases: COVID-19-Related Rent Concessions	1 June 2020

Definition of a Business (Amendments to IFRS 3)

Amendments to IFRS 3 are mandatorily effective for reporting periods beginning on or after 1 January 2020. The Company has applied the revised definition of a business for acquisitions occurring on or after 1 January 2020 in determining whether an acquisition is accounted for in accordance with IFRS 3 Business Combinations. The amendments do not permit the Company to reassess whether acquisitions occurring prior to 1 January 2020 met the revised definition of a business.

This amendment had no impact on the financial statements of the Company, as there were no business acquisitions during the year.

COVID-19-Related Rent Concessions (Amendments to IFRS 16)

Effective 1 June 2020, IFRS 16 was amended to provide a practical expedient for lessees accounting for rent concessions that arise as a direct consequence of the COVID-19 pandemic and satisfy the following criteria:

Oman Reinsurance Company SAOC

Notes to the financial statements for the year ended 31 December 2020

(Expressed in Omani Rial)

3 Adoption of new and revised IFRS (continued)

Standards, amendments and interpretations effective and adopted in the year 2020 (continued)

COVID-19-Related Rent Concessions (Amendments to IFRS 16) (continued)

- (a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (b) The reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- (c) There is no substantive change to other terms and conditions of the lease.

Rent concessions that satisfy these criteria may be accounted for in accordance with the practical expedient, which means the lessee does not assess whether the rent concession meets the definition of a lease modification. Lessees apply other requirements in IFRS 16 in accounting for the concession.

This amendment had no impact on the financial statements of the Company, as the Company's current leases fall under the exemption allowed in accordance with IFRS 16.

Standards, amendments and interpretations issued but not yet effective in the year 2020

The following new/amended accounting standards and interpretations have been issued, but are not mandatory and have not been adopted in preparing the financial statements for the year ended 31 December 2020:

Standard or Interpretation	Title	Effective for annual periods beginning on or after
Amendments to IFRS 4, 7, 9 and 16	Interest Rate Benchmark Reform	1 January 2021
Amendments to IAS 37	Onerous Contracts: Cost of Fulfilling a Contract	1 January 2022
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to IFRS 1, 9, 16 and IAS	Annual Improvements to IFRS 2018-2020	1 January 2022
Amendments to IFRS 3	References to Conceptual Framework	1 January 2022
Amendments to IAS 1 and 8	Disclosure Initiative: Definition of Material	1 January 2023
IFRS 17	Insurance Contracts	1 January 2023

Except for IFRS 17, the Company does not expect these amendments issued but not yet effective, to have a material impact on the financial statements of the Company.

IFRS 17 "Insurance Contracts"

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 "Insurance Contracts".

IFRS 17, "Insurance Contracts" requires entities to identify portfolios of insurance contracts, which comprises contracts that are subject to similar risks and are managed together. Each portfolio of insurance contracts issued shall be divided into a minimum of three groups:

- a group of contracts that are onerous at initial recognition, if any;
- a group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any; and
- a group of the remaining contracts in the portfolio, if any.

The Company is not permitted to include contracts issued more than one year apart in the same group. Furthermore, if a portfolio would fall into different groups only because law or regulation constrains the Company's practical ability to set a different price or level of benefits for policyholders with different characteristics, the Company may include those contracts in the same group.

IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

Oman Reinsurance Company SAOC

Notes to the financial statements for the year ended 31 December 2020

(Expressed in Omani Rial)

3 Adoption of new and revised IFRS (continued)

Standards, amendments and interpretations issued but not yet effective in the year 2020 (continued)

IFRS 17 "Insurance Contracts" (continued)

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

In June 2020, the IASB issued Amendments to IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 was published. The amendments defer the date of initial application of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023. At the same time, the IASB issued Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) that extends the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 to annual reporting periods beginning on or after 1 January 2023.

At the date of initial application of the standard, those entities already applying IFRS 9 may retrospectively re-designate and reclassify financial assets held in respect of activities connected with contracts within the scope of the standard.

IFRS 17 must be applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

The Company plans to adopt the new standard on the required effective date (see above).

Currently, the Company has been performing a high-level impact assessment of IFRS 17. The Company expects that the new standard will result in an important change to the accounting policies for insurance contract liabilities of the Company and is likely to have a significant impact on profit and total equity together with presentation and disclosure. However, as the Company has not yet completed the impact assessment, the likely impact on the profits and total equity has not yet been determined.

Early adoption of amendments or standards in the year 2020

The Company did not early-adopt any new or amended standards in the year ended 31 December 2020.

4 Summary of significant accounting policies

A summary of the significant accounting policies adopted in the preparation of these financial statements is set out below. These policies have been consistently applied to all the years presented, unless stated otherwise.

(a) Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and any impairment in value. Cost includes all costs directly attributable to bringing the asset to working condition for their intended use.

Depreciation is calculated in accordance with the straight-line method to write-off the cost of each asset to its estimated residual value over its useful economic life.

Depreciation has been calculated from the date of acquisition for the following number of years:

Description	Years
Motor vehicles	4
Furniture and fixtures	4
Office equipment	4

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written-off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the statement of profit or loss and other comprehensive income as the expense is incurred.

Oman Reinsurance Company SAOC

Notes to the financial statements for the year ended 31 December 2020

(Expressed in Omani Rial)

4 Summary of significant accounting policies (continued)

(a) Property and equipment (continued)

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gains or losses 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 and other comprehensive income in the year the asset is derecognised.

(b) Intangible assets

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Intangible assets of the Company include expenses relating to purchase of computer software licenses which are capitalised. Purchase costs for software license that are directly attributable to the systems used and controlled by the Company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Intangible assets are stated at cost less accumulated amortisation and impairment losses.

Computer software is amortised over a period of 4 years.

(c) Financial instruments

Financial instruments are recognised when the Company becomes a party to the contractual provisions of the instrument. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

The Company determines the classification of its financial assets at initial recognition. The classification depends on the business model for managing the financial assets and the contractual terms of the cash flows.

(i) Classification

The financial assets are classified in the following measurement categories:

- a) those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and
- b) those to be measured at amortised cost.

For assets measured at fair value, gains and losses will either be recorded in the Company's statement of profit and loss or other comprehensive income. For investments in equity instruments, the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

(ii) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of profit or loss and other comprehensive income as incurred.

Oman Reinsurance Company SAOC

Notes to the financial statements for the year ended 31 December 2020

(Expressed in Omani Rial)

4 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

Financial assets (continued)

(ii) Measurement (continued)

The Company has classified fair value measurements on a recurring basis using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. The Company classifies debt instruments at fair value through other comprehensive income based on the below:

- a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate (EIR).

Equity instruments

If the Company elects to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends from such investments shall continue to be recognised in the statement of profit or loss and other comprehensive income as other income when the Company's right to receive payments is established. There are no impairment requirements for equity investments measured at fair value through other comprehensive income. Changes in the fair value of financial assets at fair value through profit or loss shall be recognised in other gains/(losses) in the statement of profit or loss and other comprehensive income. The Company has elected to present fair value gains or losses on equity investments in the other comprehensive income.

(iii) De-recognition of financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the assets expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of the transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(iv) Income recognition

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets, interest income is recognised using the EIR, which is the rate that discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

Oman Reinsurance Company SAOC
Notes to the financial statements for the year ended 31 December 2020
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4 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

Financial assets (continued)

(iv) Income recognition (continued)

When a loan or receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original EIR of the instrument, and continues unwinding the discount as interest income. Interest income on impaired financial assets is recognised using the original EIR.

Financial liabilities

The Company determines the classification of its financial liabilities at initial recognition. The classification depends on the business model for managing the financial liabilities and the contractual terms of the cash flows.

(i) Classification

The financial liabilities are classified in the following measurement categories:

- a) those to be measured as financial liabilities at fair value through profit or loss; and
- b) those to be measured at amortised cost.

(ii) Measurement

All financial liabilities are recognised initially at fair value. Financial liabilities accounted at amortised cost like borrowings are accounted at the fair value determined based on the EIR method after considering the directly attributable transaction costs.

The Company classifies all its financial liabilities subsequently at amortised cost, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are subsequently measured at fair value.

The EIR method calculates the amortised cost of a debt instrument by allocating interest charged over the relevant EIR period. The EIR is the rate that exactly discounts estimated future cash outflows (including all fees and points paid or received that form an integral part of the EIR, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. This category generally applies to borrowings, trade payables, etc.

The Company's financial liabilities, such as other payables, are measured at amortised cost.

(iii) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When 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.

(d) Impairment of non-financial assets

The carrying amount of the Company's assets or its cash generating unit, other than financial assets, are reviewed at each statement of financial position date to determine whether there is any indication of impairment. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other asset and groups. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset or a cash generating unit is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the statement of profit or loss and other comprehensive income. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

Oman Reinsurance Company SAOC
Notes to the financial statements for the year ended 31 December 2020
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4 Summary of significant accounting policies (continued)

(e) Investment property

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss and other comprehensive income in the year in which they arise, including the corresponding tax effect. Fair values are evaluated annually by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognised either when they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss and other comprehensive income in the year of retirement or disposal.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

(f) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, bank balances and bank deposits with less than 3 months to maturity.

(g) Provisions

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

(h) Employees' benefit liabilities

In respect of Omani employees, contributions are made in accordance with the Oman Social Insurance Law and recognised as an expense in the statement of profit or loss and other comprehensive income as incurred.

For non-Omani employees, provision is made for amounts payable under the Oman Labour Law, based on the employees' accumulated periods of service at the statement of financial position date. This provision is classified as a non-current liability.

Employee entitlements to annual leave and air passage are recognised when they accrue to the employees and an accrual is made for the estimated liability for annual leave and air passage as a result of services up to the reporting date. The accruals relating to annual leave and air passage is disclosed as a part of current liabilities.

(i) Reinsurance contracts

The core business of the Company is undertaking reinsurance business which comprises proportional and non-proportional reinsurance. Reinsurance is a business in which the Company gives protection to direct insurance companies by means of reinsuring risk insured by them.

Facultative reinsurance covers individual risks and is done on individual case basis, while treaty business is concerned with the whole portfolio of specific lines of business of the direct insurance Company. The Company reinsures fire, engineering, accident, medical, motor, marine and aviation business under facultative and treaty contracts.

(i) Premiums earned

Gross premium written is recognised as revenue when written business is confirmed, incepting in the financial year in which it arises, as well as adjustments arising in the current financial year for premiums receivable relating to business written in prior years, including an estimation of underwritten premiums that are not yet received from the ceding companies and in proportion with the period of coverage.

Oman Reinsurance Company SAOC

Notes to the financial statements for the year ended 31 December 2020

(Expressed in Omani Rial)

4 Summary of significant accounting policies (continued)

(i) Reinsurance contracts (continued)

The Company enters into contracts with retrocessionaires for minimising its financial exposure from ceded insurance risks. The retro-ceded premiums and recoveries on claims incurred are deducted from the gross premiums written and incurred claims respectively. This arrangement results in reinsurance assets and liabilities which include amounts recoverable from retrocessionaires for paid and outstanding losses, ceded unearned premiums and reinsurance balances payable.

Amounts due to retrocessionaires are estimated in a manner consistent with the related reinsurance contracts. The amounts receivable from retrocessionaires are calculated with reference to the incurred claims associated with the retroceded business. Retroceded premiums are recognised in the revenue account as the reinsurance business is confirmed.

(ii) Commission earned

This represents commission earned on ceded reinsurance. Commission earned is recognised when reinsurance business is confirmed.

(iii) Policy acquisition costs

All commissions and other acquisition costs related to securing reinsurance contracts and renewing existing reinsurance contracts are recognised as expenses when incurred. Policy acquisition costs, which correspond to the proportion of gross premium written that is unearned at the reporting date is deferred as deferred policy acquisition

(iv) Liability adequacy test

At each reporting date, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities. The Company makes use of the best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities in evaluating the adequacy of liability. Any deficiency is immediately charged to the statement of profit or loss and other comprehensive income.

(v) Unearned premium

Unearned premiums are those proportions of the premiums accounted for in the financial year, but which relate to periods of risks that extend beyond the end of the financial year. The provision for unearned premium is calculated in proportion to the period of the policy.

(vi) Claims

Claims, comprising amounts payable to insurance and reinsurance companies, are charged to statement of profit or loss and other comprehensive income as incurred. Claims comprise estimated amounts payable in respect of claims reported to the Company and those not reported at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques.

Oman Reinsurance Company SAOC

Notes to the financial statements for the year ended 31 December 2020

(Expressed in Omani Rial)

4 Summary of significant accounting policies (continued)

(i) Reinsurance contracts (continued)

(vi) Claims (continued)

The main assumption underlying these techniques is that the Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by underwriting years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (e.g., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decision and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Similar judgments, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgment is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

(vii) Retrocession contracts held

The benefits to which the Company is entitled under its retrocession contracts held are recognised as reinsurance assets. These assets consist of balances due from reinsurers (classified within insurance and other receivables), as well as the reinsurance portion of gross claims outstanding including IBNR and unearned premium reserve that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each retrocession contract. Reinsurance liabilities are primarily premiums payable for retrocession contracts and are recognised as an expense when due, net of commission income which represents income earned from reinsurance companies.

The Company assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the statement of profit or loss and other comprehensive income.

(j) Deferred policy acquisition costs / deferred commission income

The costs attributable to the acquisition of insurance policies are capitalised as an intangible asset under deferred policy acquisition costs. These are subsequently amortised over the period of the policies as premium is earned.

Commission income received is recorded as a liability under deferred commission income and is recognised as income over the period of policies in line with the retrocessionaires premium ceded.

(k) Leases - the Company as lessee

The Company assesses whether a contract is or contains a lease, at the inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

(l) Dividend income

Dividend income is recognised when the right to receive dividend is established, unless collectability is in doubt.

Oman Reinsurance Company SAOC

Notes to the financial statements for the year ended 31 December 2020

(Expressed in Omani Rial)

4 Summary of significant accounting policies (continued)

(m) Insurance and reinsurance receivables and accrued income

Insurance and reinsurance receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater 12 months after the reporting date, which are classified as non-current assets. The Company's receivables comprise insurance and other receivables, accrued income, reinsurers' share of insurance funds and cash and cash equivalents in the statement of financial position.

(n) Directors' remuneration

The Company follows the Commercial Companies Law of the Sultanate of Oman, and other latest relevant directives issued by the Capital Market Authority (CMA), in regard to determination of the amount to be paid as Directors' remuneration. Directors' remuneration is charged to the statement of profit or loss and other comprehensive income in the year to which they relate.

(o) Operating segments

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 Company's chief operating decision maker to make decisions about resources allocated to the segment and assess its performance, and for which discreet financial information is available. Segment results that are reported to the chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(p) Foreign currencies

Foreign currency transactions are accounted for at the rates of exchange prevailing at the dates of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation, at the year-end rates, of monetary assets and liabilities denominated in foreign currencies, are recognised in the statement of profit or loss and other comprehensive income. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the end of the year. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date when the carrying value was determined.

(q) Income tax

Income tax is provided for in accordance with the fiscal regulations of the Sultanate of Oman.

Current tax is recognised in the statement of profit or loss and other comprehensive income as 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 taxation is provided using the balance sheet liability method on all temporary differences at the reporting date. It is calculated adopting a tax-rate that is the rate that is expected to apply to the periods when it is anticipated the liabilities will be settled, and which is based on tax-rates (and laws) that have been 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 unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

(r) Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Fair values have been determined for measurement and/or disclosure purposes based on certain methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Oman Reinsurance Company SAOC

Notes to the financial statements for the year ended 31 December 2020

(Expressed in Omani Rial)

5 Critical accounting estimates and key source of estimation uncertainty

Preparation of financial statements in accordance with IFRS requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. The determination of estimates require judgments which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates. The most significant areas requiring the use of management estimates and assumptions in these financial statements relate to:

(i) Economic useful lives of property and equipment

The Company's property and equipment are depreciated on a straight-line basis over their economic useful lives. The economic useful lives of property plant and equipment are reviewed periodically by management. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Company.

(ii) Economic useful life of intangible assets

Intangible assets are amortised on a straight-line basis over their economic useful lives. The economic useful lives of intangible assets are reviewed periodically by management. The review is based on the current condition of the intangible assets and the estimated period during which they will continue to bring economic benefit to the Company.

(iii) Going concern

The management reviews the financial position of the Company on a periodical basis and assesses the requirement of any additional funding to meet the working capital requirements and estimated funds required to meet the liabilities as and when they become due.

(iv) Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

(v) Taxation

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and nature of the existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to the assumptions, could necessitate future adjustments to taxable income and expenses already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments of the Company. The amount of such provisions is based on various factors, such as experience of previous tax assessments and differing interpretations of tax regulations by the taxable entity and the responsible taxation authority.

(vi) Liability adequacy test

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

(vii) Fair value measurements

A number of assets and liabilities included in the Company's financial statements require measurement at, and/or disclosure of, fair value. The fair value measurement of the Company's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. The classification of an item into the level 1, level 2 and level 3 hierarchy is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

Oman Reinsurance Company SAOC
Notes to the financial statements for the year ended 31 December 2020
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5 Critical accounting estimates and key source of estimation uncertainty (continued)

(viii) Impairment reviews

IFRS requires management to undertake an annual test for impairment of indefinite lived assets and, for finite lived assets, to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment testing is an area involving management judgment, requiring inter alia an assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of:

- a) growth in earnings before interest, tax, depreciation and amortisation (EBITDA), calculated as adjusted operating profit before depreciation and amortisation;
- b) timing and quantum of future capital expenditure;
- c) long-term growth rates; and
- d) selection of discount rates to reflect the risks involved.

(ix) Provision for impaired insurance receivables

The Company reviews its insurance receivables on an annual basis to assess whether a provision for impaired receivables should be recorded in the statement of profit or loss and other comprehensive income. In particular, considerable judgment by management is required in the estimation of the amount and the 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 judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

(x) Unearned premium reserve

The provision for unearned premiums represents that portion of premiums received or receivable, after deduction of the reinsurance share, which relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the nature and type of reinsurance contract written by the Company.

Reinsurance contract liabilities are derecognised when the contract is expired, discharged or cancelled by any party to the insurance contract.

(xi) Accrued income

The Company makes estimates of accrued income. Accrued income includes estimates of pipeline premiums, net of commission which are premiums written but not booked as at the reporting date. The Company assesses at the end of each reporting period the pipeline premium, net of commission, by analysing the signed premium and the booked premium.

(xii) The ultimate liability arising from claims made under reinsurance contracts

The estimation of the ultimate liability arising from claims made under reinsurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. The management uses the initial value of the claim provided by the cedent companies for the expected ultimate cost of claims reported at the reporting date. However, for the IBNR, the Company is relying on an independent actuary to perform reserve review for the IBNR based on historical data of claims and premium development. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. General insurance claims provisions are not discounted for the time-value of money.

(xiii) COVID-19 impact

The outbreak of COVID-19, declared as a global pandemic by the World Health Organisation in March 2020, continues to spread across the world. The pandemic had significant impact on the Sultanate of Oman and other world economies and this is expected to continue for the near future.

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Notes to the financial statements for the year ended 31 December 2020

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5 Critical accounting estimates and key source of estimation uncertainty (continued)

(xiii) COVID-19 impact (continued)

The ongoing COVID-19 pandemic is a concern for reinsurers as the market will be exposed across many lines of business. However, the robust risk adjusted capitalisation would ensure that the reinsurers are in a good position to absorb any potential COVID-19 losses on both the underwriting and investments of the Company.

The Company's management has prudently and with a conservative approach, reviewed the potential impact of COVID-19 on its operations and is confident that most of the business areas are not expected to have any material impact from COVID-19 related stress.

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Notes to the financial statements for the year ended 31 December 2020

(Expressed in Omani Rial)

6 Property and equipment

(a) The movement in property and equipment is as set out below:

2020	Motor vehicles	Furniture and fixtures	Office equipment	Total
Cost				
At 1 January 2020	37,260	201,372	154,841	393,473
Additions during the year	-	5,067	16,544	21,611
Disposals during the year	-	-	(245)	(245)
At 31 December 2020	<u>37,260</u>	<u>206,439</u>	<u>171,140</u>	<u>414,839</u>
Accumulated depreciation				
At 1 January 2020	5,058	118,122	118,603	241,783
Charge for the year	9,315	34,684	19,735	63,734
Relating to disposals	-	-	(214)	(214)
At 31 December 2020	<u>14,373</u>	<u>152,806</u>	<u>138,124</u>	<u>305,303</u>
Net book amount				
At 31 December 2020	<u>22,887</u>	<u>53,633</u>	<u>33,016</u>	<u>109,536</u>
2019				
Cost				
At 1 January 2019	16,300	156,722	142,389	315,411
Additions during the year	37,260	44,650	12,452	94,362
Disposals during the year	(16,300)	-	-	(16,300)
At 31 December 2019	<u>37,260</u>	<u>201,372</u>	<u>154,841</u>	<u>393,473</u>
Accumulated depreciation				
At 1 January 2019	16,300	95,197	99,374	210,871
Charge for the year	5,058	22,925	19,229	47,212
Relating to disposals	(16,300)	-	-	(16,300)
At 31 December 2019	<u>5,058</u>	<u>118,122</u>	<u>118,603</u>	<u>241,783</u>
Net book amount				
At 31 December 2019	<u>32,202</u>	<u>83,250</u>	<u>36,238</u>	<u>151,690</u>

(b) The Company operates from premises leased at an annual rental of RO 65,663 (2019: RO 75,584 per annum).

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Notes to the financial statements for the year ended 31 December 2020

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7 Intangible assets

The movement in intangible assets is as follows:-

	31 December 2020	31 December 2019
Cost		
As at 1 January	195,058	143,486
Cost of acquisition during the year	3,185	51,572
As at 31 December	<u>198,243</u>	<u>195,058</u>
Accumulated amortisation		
As at 1 January	148,811	140,146
Charge for the year	14,246	8,665
As at 31 December	<u>163,057</u>	<u>148,811</u>
Net book amount		
As at 31 December	<u>35,186</u>	<u>46,247</u>

Intangible assets comprise of a software license fee which is being amortised over a period of 4 years. The management of the Company has performed an impairment testing of the license fee and, concluded that, no such impairment is considered necessary.

8 Investment property

	31 December 2020	31 December 2019
At 1 January and at 31 December	<u>1,900,000</u>	<u>1,900,000</u>

The carrying amount of the investment properties is the aggregate fair value (Level-3 fair value hierarchy) as determined by the independent property valuer on the basis of unobservable inputs. Fair value was determined as being the most probable price the property can fetch in a competitive open market. The property has been valued by an independent valuer on an open market basis as at 5 January 2021 at RO 2,000,000. However, based on current market situation and management's estimate of costs involved in disposing-off the property (land), management considers that the fair market value of investment property of RO 1,900,000 is appropriate. The land located at Ghala, Muscat, Sultanate of Oman is currently under development (See Note 9).

9 Investment property under development

	31 December 2020	31 December 2019
Opening balance	125,192	48,239
Additions during the year	59,400	76,953
Closing balance	<u>184,592</u>	<u>125,192</u>

Investment property under development represents amounts spent on designing and planning of the building and other directly attributable costs towards the development of the investment property located in Ghala, Muscat, Sultanate of Oman.

10 Investments at fair value through other comprehensive income

	Fair value		Average amortised cost	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Equity shares	839,712	660,139	2,244,853	2,025,181
Bonds	16,538,091	12,612,234	15,180,799	12,383,335
	<u>17,377,803</u>	<u>13,272,373</u>	<u>17,425,652</u>	<u>14,408,516</u>

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Notes to the financial statements for the year ended 31 December 2020

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10 Investments at fair value through other comprehensive income (continued)

(a) At reporting date, the geographic dispersion of the investment at fair value through other comprehensive income are as follows:

	Fair value		Average amortised cost	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Local				
Equity	613,081	660,139	2,025,181	2,025,181
Bonds	2,037,376	2,037,376	2,053,367	2,053,367
	<u>2,650,457</u>	<u>2,697,515</u>	<u>4,078,548</u>	<u>4,078,548</u>
Overseas market securities				
Equity	226,631	-	219,672	-
Bonds	14,500,715	10,574,858	13,127,432	10,329,968
	<u>14,727,346</u>	<u>10,574,858</u>	<u>13,347,104</u>	<u>10,329,968</u>

(b) Movement in investments can be summarised as below:

	Year ended 31 December 2020	Year ended 31 December 2019
At 1 January	13,272,373	13,679,809
Purchases during the year	7,231,082	4,506,710
Sales during the year	(4,185,363)	(4,843,483)
Net change in fair value	1,023,310	(61,161)
Amortisation charge for the year	36,401	(9,502)
At 31 December	<u>17,377,803</u>	<u>13,272,373</u>

(c) Investment fair value reserve:

The movement in investment fair value reserve can be summarised as below:

	Year ended 31 December 2020	Year ended 31 December 2019
Opening balance	(975,461)	(534,389)
Effect of first-time adoption of IFRS 9	-	(379,911)
At 1 January	<u>(975,461)</u>	<u>(914,300)</u>
Net change in fair value during the year	1,023,310	(61,161)
Closing balance	<u>47,849</u>	<u>(975,461)</u>

(d) The bonds are held under lien at cost by the following:

	31 December 2020	31 December 2019
Capital Market Authority	<u>4,860,026</u>	<u>2,617,305</u>

11 Investments at fair value through profit or loss

The debt instruments which do not qualify for measurement at either amortised cost or fair value through other comprehensive income is as follows:

	Fair value		Average cost	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Multi-reverse callable notes	871,000	-	845,900	-
	<u>871,000</u>	<u>-</u>	<u>845,900</u>	<u>-</u>

(a) Movement in investments can be summarised as below:

	Year ended 31 December 2020	Year ended 31 December 2019
Purchases during the year	845,900	-
Net change in fair value recognised in profit or loss	25,100	-
At 31 December	<u>871,000</u>	<u>-</u>

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11 Investments at fair value through profit or loss (continued)

Multi-Reverse callable notes issued and distributed by Julius Baer & Co., which are denominated in US Dollars, have a nominal redemption value of the investment (equivalent to RO 845,900), subject to certain conditions being met. The notes carry fixed income coupon rates ranging between 7.69% and 15.6% per annum. These notes have a maturity date of 21 July 2021, unless auto recalled at an earlier date based on the terms agreed upon.

The maximum exposure to credit risk at the reporting date is the fair value of the investments classified as investments at fair value through profit or loss.

12 Insurance and other receivables	31 December 2020	31 December 2019
Due from insurance and reinsurance companies (gross)	5,123,175	4,015,532
Less: provision for impaired receivables	(1,053,719)	(1,053,719)
Due from insurance and reinsurance companies (net)	<u>4,069,456</u>	<u>2,961,813</u>
Loans and advances (gross)	446,488	426,972
Less: provision for impaired loans and advances	(18,380)	(18,380)
Loans and advances (net)	<u>428,108</u>	<u>408,592</u>
Reserves withheld by cedents	2,289,519	1,886,037
Prepaid expenses	97,748	45,916
	<u><u>6,884,831</u></u>	<u><u>5,302,358</u></u>

- (a) The reserves withheld by cedants comprise of insurance premium deposits of RO 1,234,778 (2019 - RO 1,122,368) and loss deposit of RO 1,054,741 (2019 - RO 763,699). These deposits are held in normal course of the business by the insurance companies. These deposits are unsecured.
- (b) The insurance receivables comprise balances against which credit notes/treaty statements have been received.
- (c) As at 31 December 2020, there are certain past due from insurance and reinsurance companies which are not considered impaired by the management. The Company does not hold any collateral as security against potential default by insurance and reinsurance counterparties.
- (d) The carrying amounts of insurance and reinsurance companies are denominated in Omani Rial, UAE Dirhams, United States Dollar, Euro and various other currencies.
- (e) Due from insurance and reinsurance companies comprise of number of customers within the Sultanate of Oman and foreign insurers/reinsurers. The Company monitors these receivables on a regular basis. The Company establishes an allowance for impairment that represents its estimate of likely losses in respect of these receivable accounts. With respect to reinsurers, contracts are placed with only internationally reputed well rated foreign insurers and reinsurers.

The amounts are considered by the Company to be due on the date of credit note/treaty statement. The aging analysis of due from insurance and reinsurance companies is as follows:

	31 December 2020	31 December 2019
Less than 180 days	3,423,512	869,638
Between 181 - 365 days	341,840	1,174,136
More than 365 days	1,357,823	1,971,758
Total	<u><u>5,123,175</u></u>	<u><u>4,015,532</u></u>

The movement in provision for impaired receivables is as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
At 1 January and at 31 December	<u><u>1,053,719</u></u>	<u><u>1,053,719</u></u>
	<u><u>1,053,719</u></u>	<u><u>1,053,719</u></u>

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12 Insurance and other receivables

(e) The movement in provision for impaired loans and advances is as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
At 1 January and at 31 December	18,380	18,380
13 Accrued income	31 December 2020	31 December 2019
Accrued insurance premium	9,564,787	8,029,767
Impairment provision	(15,000)	(15,000)
	<u>9,549,787</u>	<u>8,014,767</u>
Interest accrued on bank deposits	840,315	646,066
	<u>10,390,102</u>	<u>8,660,833</u>
The movement in provision for impaired accrued insurance premium is as follows:	Year ended 31 December 2020	Year ended 31 December 2019
At 1 January and at 31 December	15,000	15,000

14 Share capital

The authorised, issued and fully paid-up share capital of the Company, registered with the Ministry of Commerce and Industry, is RO 30,000,000 (2019: RO 30,000,000), comprising of 30,000,000 shares of RO 1 each (2019: 30,000,000 shares of RO 1 each).

The shareholders of the Company who own 10% or more of the Company's shares, in their name, and the percentage of shares held by them are as follows:

Major shareholders	31 December 2020	31 December 2019
Trust International Insurance & Reinsurance Company B.S.C. (Bahrain)	29.97%	29.97%
Qatar General Insurance & Reinsurance Company S.A.Q.	24.58%	24.58%
Omar Zawawi Establishment LLC	15.50%	15.50%
Ziliano Investments	10.00%	10.00%

15 Legal reserve

In accordance with Article 106 of the Commercial Companies Law of the Sultanate of Oman, 10% of the Company's net profit for the year is to be transferred to a non-distributable legal reserve until such time as the amount of the legal reserve becomes equal to one-third of the Company's issued and fully paid-up share capital. During the year ended 31 December 2020, the Company has transferred an amount of RO 145,023 to the legal reserve (2019: RO 81,434).

16 Contingency reserve

In accordance with the CMA Decision No. 19/2007 issued on 4 June 2007, as authorised by Royal Decree number 34/2007, 10% of the outstanding claims at the reporting date is required to be transferred to a contingency reserve which is not distributable without the prior approval of the CMA. The Company may discontinue such annual transfers when the contingency reserve equals the Company's paid-up share capital.

During the year ended 31 December 2020, an amount totalling to RO 1,305,206 has been transferred to the contingency reserve (2019: RO 732,903).

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17 Employees' benefit liabilities	Year ended 31 December 2020	Year ended 31 December 2019
As at 1 January	156,531	90,462
Provision for the year	55,727	67,187
Charged to investment property under development	-	1,512
Payments during the year	(23,297)	(2,630)
As at 31 December	<u>188,961</u>	<u>156,531</u>

18 Reinsurers share of insurance funds and technical provisions

The movement in reinsurer's share of insurance funds and technical provisions is given below.

31 December 2020	Gross	Reinsurance	Net
Claims			
Balance at 1 January	30,834,082	18,774,545	12,059,537
Increase in the provision for the year	21,332,419	13,981,710	7,350,709
Claims settled during the year	(7,686,749)	(4,363,528)	(3,323,221)
Balance at 31 December	<u>44,479,752</u>	<u>28,392,727</u>	<u>16,087,025</u>
Unearned premium			
At 1 January	10,631,105	5,404,762	5,226,343
Increase in the provision for the year	11,418,709	4,035,643	7,383,066
Release of unearned premium during the year	(10,631,105)	(5,404,762)	(5,226,343)
Balance at 31 December	<u>11,418,709</u>	<u>4,035,643</u>	<u>7,383,066</u>
Total technical provisions	<u>55,898,461</u>	<u>32,428,370</u>	<u>23,470,091</u>
31 December 2019			
Claims			
Balance at 1 January	23,435,411	13,313,017	10,122,394
Increase in the provision for the year	14,763,444	8,959,241	5,804,203
Claims settled during the year	(7,364,773)	(3,497,713)	(3,867,060)
Balance at 31 December	<u>30,834,082</u>	<u>18,774,545</u>	<u>12,059,537</u>
Unearned premium			
Balance at 1 January	10,410,126	5,505,237	4,904,889
Increase in the provision for the year	10,631,105	5,404,762	5,226,343
Release of unearned premium during the year	(10,410,126)	(5,505,237)	(4,904,889)
Balance at 31 December	<u>10,631,105</u>	<u>5,404,762</u>	<u>5,226,343</u>
Total technical provisions	<u>41,465,187</u>	<u>24,179,307</u>	<u>17,285,880</u>

(a) Insurance funds and technical provisions denominated in foreign currencies have been translated at 31 December using year-end closing rates of exchange.

(b) Claims include incurred but not reported (IBNR) provision as follows:

31 December 2020	Gross	Reinsurance	Net
IBNR			
Balance at the beginning of the year	7,419,138	3,820,032	3,599,106
Movement of IBNR	1,033,302	(555,990)	1,589,292
Balance at the end of the year	<u>8,452,440</u>	<u>3,264,042</u>	<u>5,188,398</u>
31 December 2019			
IBNR			
Balance at the beginning of the year	8,517,860	4,522,929	3,994,931
Movement of IBNR	(1,098,722)	(702,897)	(395,825)
Balance at the end of the year	<u>7,419,138</u>	<u>3,820,032</u>	<u>3,599,106</u>

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19 Reinsurance premium and other payables	31 December 2020	31 December 2019
Reinsurance premium accrued	4,442,167	4,039,549
Payable to cedents and retro-cessionaires	6,302,156	5,110,676
Advances and deposits retained	1,195,426	1,131,847
Other payables	376,805	131,515
	<u>12,316,554</u>	<u>10,413,587</u>

Advances and deposits retained include reinsurance premium deposits and loss deposits retained as a share of retrocessionaires from the premium and loss deposited retained by the cedant companies under treaty and facultative arrangements for reinsurance.

20 Deferred policy acquisition costs and deferred commission income

(a) The movement in deferred policy acquisition costs is as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
As at 1 January	2,553,591	2,657,000
Charge for the year	(5,322,192)	(4,614,551)
Payments during the year	5,470,983	4,511,142
As at 31 December	<u>2,702,382</u>	<u>2,553,591</u>

(b) The movement in deferred commission income is as follows:

	31 December 2020	31 December 2019
As at 1 January	1,390,919	1,585,101
Commission income recognised during the year	(2,799,879)	(2,830,732)
Commission income received during the year	2,362,676	2,636,550
As at 31 December	<u>953,716</u>	<u>1,390,919</u>
	<u>1,748,666</u>	<u>1,162,672</u>

21 Related party transactions and balances

Related parties comprise the shareholders, directors, business entities in which they have the ability to control or exercise significant influence in financial and operating decisions and with senior management. The Company has entered into transactions with entities related to the shareholders or directors. In the ordinary course of business, such related parties provide services to the Company. The transactions are carried on mutually agreed terms and are at arms length. During the year, the following transactions were entered into with the related parties:

(a) Significant transactions during the year with related parties are as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
Shareholders with significant influence:		
Gross premium	<u>4,868,085</u>	<u>13,540,636</u>
Commission expense	<u>939,980</u>	<u>2,454,828</u>
Claims expense	<u>688,586</u>	<u>11,853,497</u>
Management fees	<u>64,084</u>	<u>21,361</u>
Reinsurance premium ceded	<u>1,721,848</u>	<u>1,588,468</u>
Commission income	<u>345,652</u>	<u>358,259</u>
Claims recovery	<u>(275,710)</u>	<u>2,311,382</u>

The management fee represents the amount charged by Trust International Insurance and Reinsurance Company B.S.C. for actuarial and risk management services, IT support services and retrocession services at USD 200,000 per annum, excluding any withholding tax, with effect from 1 October 2019.

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21 Related party transactions and balances (continued)

(b) Key management compensation:

	Year ended 31 December 2020	Year ended 31 December 2019
Directors' remuneration		
Directors' sitting fees	43,000	38,600
Key management remuneration	Year ended 31 December 2020	Year ended 31 December 2019
Salaries and other employment benefits	355,600	284,476

(c) Related party balances

	Year ended 31 December 2020	Year ended 31 December 2019
Shareholders with significant influence:		
Gross		
Premiums receivables, net of commissions and claims	139,014	2,289,855
Outstanding claims	8,426,718	14,847,040
Reinsurance		
Premium payable, net of commissions and claims	54,451	4,512
Outstanding claims receivable	1,354,255	2,043,392

22 Bank deposits

	31 December 2020	31 December 2019
Non-current portion of bank deposits	6,000,000	7,878,268
Current portion of bank deposits	7,415,268	6,075,000
	<u>13,415,268</u>	<u>13,953,268</u>

Bank deposits represent deposits placed with a commercial bank in the Sultanate of Oman, which are denominated in Omani Rial and earn interest at commercial rates ranging between 3.75% to 4.90% per annum (31 December 2019: between 3.6% and 4.9% per annum). The deposits which are due for maturity after one year have been disclosed as part of non-current assets.

The current portion of bank deposits represents deposits which will mature after 3 months but before 1 year. Deposits maturing within 3 months have been disclosed as part of cash and cash equivalents.

The fixed deposits are held under lien by the following:

	31 December 2020	31 December 2019
Capital Market Authority	14,953,268	16,453,268
National Bank of Oman	-	1,500,000

23 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	31 December 2020	31 December 2019
Cash on hand	379	774
Current and call account balances with banks	4,124,397	2,359,880
Short-term fixed deposits	4,538,000	4,000,000
	<u>8,662,776</u>	<u>6,360,654</u>

The current account balances with banks are non-interest bearing.

Balances in call accounts and short-term fixed deposits with local commercial banks earn interest rates ranging between 0.1% and 4.0% per annum (31 December 2019: between 0.1% and 4% per annum).

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23 Cash and cash equivalents (continued)

	2020	2019
Credit ratings of bank balances and bank deposits from rating agencies:		
Aa3	179,402	508,226
Ba1	-	11,956,839
Ba2	20,458,696	6,259,072
Baa2	-	-
Baa3	1,439,567	1,589,011
Unrated (Cash on hand)	379	774
	<u>22,078,044</u>	<u>20,313,922</u>

24 Taxation

Tax assessments of the Company for the years upto 2016 have been finalised. Tax assessments for the year 2017 to 2019 have not yet been agreed with the Tax Authority. The Company's management is of the opinion that additional taxes, if any, assessed for the open tax years would not be material to the Company's financial position as at 31 December 2020.

The Company has reported a net taxable profit for the year. After utilising losses from prior years to set-off from current years income, a provision for tax of RO 31,261 has been created in the current year. The average effective tax rate cannot be determined in view of reduced tax charge for the year.

The Company has accumulated unused tax losses amounting to RO Nil (2019: RO 2,526,587) based on the tax return for the tax year 2020 against which no deferred tax asset has been recognised as a matter of prudence as management is of the view that the Company's operations by their inherent nature are exposed to certain variables that have a bearing on the management's ability to determine with certainty whether it is probable that sufficient future taxable income will arise to derive the benefits therefrom prior to their expiry.

25 Investment and other income - net

	Year ended 31 December 2020	Year ended 31 December 2019
Interest on term deposits	1,579,722	1,257,659
Dividend income	55,633	59,277
Realised gains on sale of investments at fair value through other comprehensive income	228,160	186,043
Unrealised fair value gains on investments at fair value through profit or loss	25,100	-
Gains on sale of property and equipment	49	4,100
Custody expenses	(6,371)	(4,722)
	<u>1,882,293</u>	<u>1,502,357</u>

26 Net underwriting results

	Year ended 31 December 2020	Year ended 31 December 2019
Income		
Gross premium written	24,773,893	20,413,600
Movement in unearned premium reserve	(787,604)	(220,979)
Insurance premium revenue	<u>23,986,289</u>	<u>20,192,621</u>
Reinsurance premium ceded	(10,788,608)	(11,368,693)
Movement in unearned premium reserve	(1,369,120)	(100,474)
Insurance premium retroceded to reinsurers	<u>(12,157,728)</u>	<u>(11,469,167)</u>
Net insurance premium earned	<u>11,828,561</u>	<u>8,723,454</u>

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26 Net underwriting results (continued)	Year ended 31 December 2020	Year ended 31 December 2019
Gross claims paid	(7,686,749)	(7,364,773)
Reinsurance recoveries	4,363,528	3,497,713
Net claims paid	<u>(3,323,221)</u>	<u>(3,867,060)</u>
Change in provision for outstanding claims, gross	(13,645,670)	(7,398,671)
Change in provision for outstanding claims, reinsurance	<u>9,618,182</u>	<u>5,461,528</u>
Claims and related expenses	<u>(7,350,709)</u>	<u>(5,804,203)</u>
Policy acquisition costs	(5,484,337)	(4,556,380)
Policy acquisition costs recovered from reinsurers	2,362,677	2,740,999
Change in deferred policy acquisition costs	585,994	90,773
Interest on premium reserve	13,354	45,238
Total policy acquisition costs	<u>(2,522,312)</u>	<u>(1,679,370)</u>
Net insurance benefits and claims	<u>(9,873,021)</u>	<u>(7,483,573)</u>
Net underwriting results	<u>1,955,540</u>	<u>1,239,881</u>
27 General and administrative expenses	Year ended 31 December 2020	Year ended 31 December 2019
Salaries and other related staff costs (Note 28)	1,635,732	1,347,793
Legal and professional fees	258,543	96,292
Short-term leases	65,663	75,584
Meeting related expenses	59,393	68,273
Business travel expenses	6,285	71,896
Depreciation and amortisation (Notes 6 and 7)	77,980	55,877
Advertising and business promotion expenses	20,975	37,186
Computer expenses	43,551	31,862
Telephone, fax and postage	22,037	17,611
Office maintenance	12,038	12,891
Miscellaneous expenses	79,562	34,880
	<u>2,281,759</u>	<u>1,850,145</u>
28 Salaries and other related staff costs	31 December 2020	31 December 2019
Salaries and allowances	1,198,706	997,527
Provision for leave salaries	120,691	108,289
Employees' benefit liabilities	55,727	67,187
Social security costs	60,200	52,792
Other staff costs	200,408	121,998
	<u>1,635,732</u>	<u>1,347,793</u>

29 Earnings per share per share

Earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	31 December 2020	31 December 2019
Weighted average number of shares	<u>30,000,000</u>	<u>30,000,000</u>
Net profit for the year	<u>1,450,229</u>	<u>814,337</u>
Earnings per share - basic and diluted	<u>0.048</u>	<u>0.027</u>

As there are no dilutive potential shares issued by the Company, the diluted earnings per share is same as the basic earnings per share.

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30 Net assets per share

The calculation of the net assets per share is based on net assets as at 31 December 2020 attributable to ordinary shareholders of RO 25,604,154 (31 December 2019: RO 23,079,289) divided by the number of shares outstanding at the year end of 30,000,000 ordinary shares (31 December 2019: 30,000,000 ordinary shares).

	31 December 2019	31 December 2018
Net assets as at the year end (RO)	<u>25,604,154</u>	<u>23,079,289</u>
Number of shares outstanding at the year-end	<u>30,000,000</u>	<u>30,000,000</u>
Net assets per share (RO)	<u>0.85</u>	<u>0.77</u>

31 Operating segment

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

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31 Operating segment (continued)

The Company has the following operating segments:

	2020			2019		
	Facultative	Treaty	Total	Facultative	Treaty	Total
Reinsurance revenue:						
Gross written premiums	15,503,719	9,270,174	24,773,893	14,174,346	6,239,254	20,413,600
Less: premiums ceded	(8,781,801)	(2,006,807)	(10,788,608)	(8,938,086)	(2,430,607)	(11,368,693)
Net written premiums (a)	6,721,918	7,263,367	13,985,285	5,236,260	3,808,647	9,044,907
Gross unearned premiums (movement)	(313,717)	(473,887)	(787,604)	(2,034,254)	1,813,275	(220,979)
Less: Reinsurance unearned premiums (movement)	(735,705)	(633,415)	(1,369,120)	1,161,467	(1,261,941)	(100,474)
Net movement in unearned premiums (b)	(1,049,422)	(1,107,302)	(2,156,724)	(872,787)	551,334	(321,453)
Net insurance premium earned (c) = (a) + (b)	5,672,496	6,156,065	11,828,561	4,363,473	4,359,981	8,723,454
Cost of reinsurance revenue:						
Commission and tax paid	(3,132,214)	(2,352,123)	(5,484,337)	(3,028,614)	(1,527,766)	(4,556,380)
Reinsurance commission and tax recoveries	1,912,004	450,673	2,362,677	2,067,890	673,109	2,740,999
Net commission (d)	(1,220,210)	(1,901,450)	(3,121,660)	(960,724)	(854,657)	(1,815,381)
Deferred acquisition cost (movement)	9,821	138,970	148,791	368,118	(471,527)	(103,409)
Reinsurance deferred acquisition costs (movement)	204,656	232,547	437,203	(225,757)	419,939	194,182
Net deferred acquisition cost (e)	214,477	371,517	585,994	142,361	(51,588)	90,773
Interest on premium reserves (net) (f)	-	13,354	13,354	-	45,238	45,238
Net incurred acquisition costs (g) = (d) + (e) + (f)	(1,005,733)	(1,516,579)	(2,522,312)	(818,363)	(861,007)	(1,679,370)
Gross claims paid	(3,870,617)	(3,816,132)	(7,686,749)	(2,542,740)	(4,822,033)	(7,364,773)
Less: Reinsurance claims recovered	2,702,796	1,660,732	4,363,528	1,301,712	2,196,001	3,497,713
Net claims paid (h)	(1,167,821)	(2,155,400)	(3,323,221)	(1,241,028)	(2,626,032)	(3,867,060)
Change in gross outstanding claims	(8,758,057)	(3,854,311)	(12,612,368)	(6,837,240)	(1,660,153)	(8,497,393)
Less: change in reinsurance claims	7,889,091	2,285,081	10,174,172	5,318,023	846,402	6,164,425
Net outstanding claims (i)	(868,966)	(1,569,230)	(2,438,196)	(1,519,217)	(813,751)	(2,332,968)
IBNR movement (j)	(1,232,869)	(356,423)	(1,589,292)	(127,696)	523,521	395,825
Net incurred claims (k) = (h) + (i) + (j)	(3,269,656)	(4,081,053)	(7,350,709)	(2,887,941)	(2,916,262)	(5,804,203)
Total cost of insurance (l) = (g) + (k)	(4,275,389)	(5,597,632)	(9,873,021)	(3,706,304)	(3,777,269)	(7,483,573)
Net underwriting profit (m) = (c) + (l)	1,397,107	558,433	1,955,540	657,169	582,712	1,239,881
Loss Ratio	58%	66%	62%	66%	67%	67%

Assets and liabilities of the Company are commonly used across the primary segments.

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32 Management of insurance and financial risk

The Company's activities expose it to a variety of insurance and financial risks: market risk (price risk, interest rate risk and currency risk), liquidity risk and credit risk. As taking risk is core to the financial business and operational risks are an inevitable consequence of any business, the Company's aim is to achieve an appropriate balance between risk and return while minimising the potential adverse effects on the financial performance.

The Board of Directors define risk limits and sets suitable policies in this regard for management of insurance risk, credit risk, liquidity risk as well as market risk relating to the investment and liability management activities of the Company. Risk Management is carried out by the management in accordance with documented policies approved by the Board of Directors.

(a) Insurance risk

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

Industry experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

The Company manages these risk through its underwriting strategy, adequate retro-insurance arrangements and proactive claims handling. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography. Underwriting limits are in place to enforce appropriate risk selection criteria.

The retro-insurance arrangements include excess, stop-loss and catastrophe coverage. The effect of such retro-insurance arrangements is that the Company has transferred insurance risk for the exposure taken in fire, engineering and accident classes. Further, the Company has also taken excess-of-loss coverage policy to reduce its exposure to high value losses.

Sources of uncertainty in the estimation of future claims payments

Claims on insurance and reinsurance contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long-period of time, and a larger element of the claims provision relates to incurred but not reported claims (IBNR).

Claims development table

The following tables show the estimate of cumulative incurred claims, including both claims notified and IBNR for each successive underwriting year at each statement of financial position date, together with cumulative payments to date.

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Notes to the financial statements for the year ended 31 December 2020
(Expressed in Omani Rial)

32 Management of Insurance and financial risk (continued)

(a) Insurance Risk (continued)

Gross	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Underwriting year	-	997,597	991,241	2,650,792	1,357,241	1,542,935	1,191,676	968,790	2,119,344	3,491,940	9,287,553	6,768,649	
One year later	379,865	4,832,662	3,802,818	5,273,240	2,799,868	2,563,745	4,003,017	5,565,467	5,964,466	9,089,093	20,016,407		
Two years later	901,117	6,318,611	5,398,873	7,710,919	3,471,392	3,057,699	4,341,724	8,748,573	8,312,079	11,113,715			
Three years later	992,955	6,889,267	6,456,307	6,688,474	3,009,363	3,061,651	4,747,923	9,131,676	8,681,886				
Four years later	1,070,281	6,912,976	6,610,766	7,276,021	3,150,437	3,120,270	4,863,556	8,720,838					
Five years later	1,150,075	6,573,655	6,038,340	6,993,037	3,200,669	3,122,599	5,441,597						
Six years later	1,149,185	6,530,949	5,858,439	6,789,996	3,170,736	3,181,511							
Seven years later	1,153,059	6,683,454	6,140,600	6,860,947	3,058,686								
Eight years later	1,131,002	6,571,997	5,916,468	7,406,979									
Nine years later	1,125,097	5,076,258	5,837,261										
Ten years later	1,119,179	4,889,696											
Eleven years later	1,132,315												
Current estimate of cumulative claims	1,132,315	4,889,696	5,837,261	7,406,979	3,058,686	3,181,511	5,441,597	8,720,838	8,681,886	11,113,715	20,016,407	6,768,649	86,249,540
Cumulative payments to date IBNR	(1,063,868)	(4,793,471)	(5,598,678)	(6,392,537)	(2,880,389)	(2,834,911)	(4,352,889)	(6,506,185)	(6,158,458)	(5,139,901)	(4,529,368)	28,427	(50,222,228)
Total gross outstanding claims liabilities as per underwriting year	68,447	96,225	238,583	1,014,442	178,297	346,600	1,088,730	2,247,820	2,716,234	7,240,353	17,425,120	11,818,901	44,479,752
Net	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Underwriting year	-	468,994	565,133	1,207,180	761,454	788,473	822,441	717,075	784,647	552,901	2,755,223	1,145,442	
At 31 December 2019	238,122	2,271,951	2,168,090	2,401,452	1,570,812	1,372,544	2,102,172	3,272,266	4,332,159	3,136,028	5,945,560		
Two years later	564,873	2,970,532	3,078,044	3,511,580	1,873,428	1,644,743	2,474,330	5,117,559	5,543,801	4,960,436			
Three years later	622,442	3,238,811	3,680,916	3,352,162	1,806,324	1,727,970	2,949,855	5,524,760	5,810,973				
Four years later	670,914	3,249,957	3,664,034	3,532,958	1,783,441	1,878,580	2,688,426	5,342,911					
Five years later	720,934	3,106,520	3,768,400	3,593,515	1,761,875	1,765,144	2,898,161						
Six years later	715,164	3,122,428	3,593,057	3,474,729	1,862,425	1,806,571							
Seven years later	810,627	3,171,682	3,811,190	3,542,541	1,532,780								
Eight years later	793,662	2,770,025	3,677,350	3,739,310									
Nine years later	1,149,124	3,007,201	3,565,726										
Ten years later	777,014	2,887,677											
Eleven years later													
Current estimate of cumulative claims	777,014	2,887,677	3,565,726	3,739,310	1,532,780	1,806,571	2,898,161	5,342,911	5,810,973	4,960,436	5,945,560	1,145,442	40,412,561
Cumulative payments to date IBNR	(747,817)	(2,843,537)	(3,510,038)	(3,223,964)	(1,668,168)	(1,622,548)	(2,361,233)	(4,216,708)	(4,521,993)	(3,010,233)	(1,837,173)	49,478	(29,513,934)
Total net outstanding claims liabilities as per underwriting year	29,197	44,140	55,688	515,346	(135,388)	184,023	536,950	1,154,769	1,398,658	2,400,011	5,235,700	4,667,931	16,087,025

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Notes to the financial statements for the year ended 31 December 2020

(Expressed in Omani Rial)

32 Management of insurance and financial risk (continued)

(b) Financial risk

The Company is exposed to a range of financial risks through its financial assets. The most important components of this financial risk are interest rate risk, foreign currency risk, credit risk and liquidity risk.

(i) Price risk

The Company is exposed to price risk because of investments held by the Company which are classified as fair value through other comprehensive income. All investment securities present a risk of loss of capital. The Company controls this risk through a careful selection of securities and other financial instruments within specified limits. The maximum risk resulting from financial instruments is determined by the carrying amount of the financial instruments. The Company's overall market positions are monitored on a daily basis and are reviewed periodically by the management and Board of Directors. Impact of 5% increase/decrease of the Market Index on the Company's investments at fair value through other comprehensive income and through profit or loss for the year would be RO 912,440 (2019 - RO 663,619). The analysis is based on the assumption that the market index had increased/decreased by 5% with all other variables held constant and all the Company's instruments would have moved according to the historical correlation with the index.

(ii) Interest rate risk

The Company's interest rate risk arises from investment in term deposits. The long-term bank deposits are with a maturity period of one to two years and the pricing is renegotiated at the end of each term. These deposits are independent of the changes in the applicable interest rates.

As part of Company's liquidity management policies, management also place cash in short-term deposits and call accounts. These placements are with a maturity period of less than a year. The interest on these placements is set at the beginning of the term. Accordingly, these placements expose the Company to cash flow interest rate risk. The Company carries out periodic analysis and monitors the market interest rates fluctuations taking into consideration the Company's needs. If the interest rates on short-term bank deposits would have changed, with all other variable held constant, by 50 basis points for the year, interest income would have been lower/higher by RO 89,766 (2019 - RO 89,776).

(iii) Foreign exchange risk

Foreign exchange risk is the risk that any foreign currency positions taken by the Company may be adversely affected due to volatility in exchange rates. The Company's exposure to foreign exchange risk arises from recognised assets and liabilities. The table below summarises the Company's exposure to foreign currency exchange rate risk at the statement of financial position date by categorising monetary assets and liabilities by major currencies.

Currency risk	31 December 2020				
	Omani Rial	US Dollar	Egyptian Pound	Others	Total
Assets					
Bank balances	11,953,268	2,637,833	-	1,486,943	16,078,044
Bank deposits	6,000,000	-	-	-	6,000,000
Investments in fair value through other comprehensive income	2,650,457	14,541,755	-	185,591	17,377,803
Investments in fair value through profit or loss	-	871,000	-	-	871,000
Insurance and other receivables	1,370,522	1,716,238	414,629	3,383,442	6,884,831
Accrued Income	977,517	5,304,062	127,766	3,980,757	10,390,102
Reinsurer's share of technical reserves	7,510,105	15,415,244	139,795	5,327,583	28,392,727
Total assets	30,461,869	40,486,132	682,190	14,364,316	85,994,507

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Notes to the financial statements for the year ended 31 December 2020

(Expressed in Omani Rial)

32 Management of insurance and financial risk (continued)

(b) Financial risk (continued)

(iii) Foreign exchange risk (continued)

Liabilities	31 December 2020				Total
	Omani Rial	US Dollar	Egyptian Pound	Others	
Technical provisions					
-Outstanding claims reserves	2,200,273	29,575,984	541,959	12,161,536	44,479,752
Reinsurance premium and other payables excluding reinsurance accrued premium	4,481,790	1,220,510	4,453	2,167,634	7,874,387
Reinsurance premium accrued	4,442,167	-	-	-	4,442,167
Total liabilities	11,124,230	30,796,494	546,412	14,329,170	56,796,306
Net assets/(liabilities)	19,337,639	9,689,638	135,778	35,146	29,198,201

The Company manages the risk through regular monitoring of the currency markets and maintaining appropriate mix of net assets denominated in foreign currencies to minimise the foreign exchange risk exposure. The Company is not exposed to foreign exchange risk from net assets denominated in US Dollar or in currencies linked to the US Dollar as the rate of exchange between the Omani Rial and the US Dollar has not changed since January 1986. The Company is exposed to foreign exchange risk for net assets denominated in other foreign currencies. If the currency rates on such other foreign currencies would have changed, with all other variables held constant, by 50 basis points, foreign exchange exposure would have been lower/higher by RO 146,136 (2019 - RO 156,584).

(iv) Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from bank balances, deposits with banks as well as credit exposures to insurance companies, including outstanding amounts from related parties.

Bad debt risks in reinsurance are of relevance to the Company because the business that is accepted is not always fully retained, but instead portions are retroceded, as necessary. The retrocession partners are therefore carefully selected in light of credit considerations.

The Company attempts to control credit risk with regards to insurance receivables by monitoring credit exposures, limiting transactions with specific counter parties and assessing continually the creditworthiness of counter parties.

There is no concentration of credit risk with respect to insurance receivables, as the Company has a large number of internationally dispersed debtors.

The Company limits its credit risk with regards to long and short-term bank deposits by dealing with reputable banks of satisfactory rating. Set out below is the Company's maximum exposure to credit risk:

	2020	2019
Bank deposits	6,000,000	7,878,268
Insurance and other receivables-net (excluding prepayments)	6,787,083	5,256,442
Accrued income	10,390,102	8,660,833
Reinsurers' share of insurance funds (excluding unearned premium)	28,392,727	18,774,545
Bank balances and deposits	16,078,044	12,435,654
	67,647,956	53,005,742

An analysis of insurance and other receivables is set out in note 12.

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Notes to the financial statements for the year ended 31 December 2020

(Expressed in Omani Rial)

32 Management of insurance and financial risk (continued)

(b) Financial risk (continued)

(v) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations when they fall due as a result of cash requirements from contractual commitments. Such outflows would deplete available cash resources for operational, trading and investments activities. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfill contractual commitments. The risk that the Company will be unable to do so is inherent in all reinsurance operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

The Company's liquidity management process, as carried out within the Company including day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met, maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flows and monitoring the liquidity ratios of the statement of financial position against internal and regulatory requirements.

The table below analysis the Company's financial liabilities into relevant maturity grouping based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	1 to 3 months	3 to 6 months	6 months and above	Undetermined period	Total
31 December 2020					
Reinsurance and other payables	2,079,049	4,599,912	5,637,593	-	12,316,554
Claims outstanding	-	-	36,027,312	8,452,440	44,479,752
	<u>2,079,049</u>	<u>4,599,912</u>	<u>41,664,905</u>	<u>8,452,440</u>	<u>56,796,306</u>
31 December 2019					
Reinsurance and other payables	1,598,960	3,643,231	5,171,396	-	10,413,587
Claims outstanding	-	-	23,414,944	7,419,138	30,834,082
	<u>1,598,960</u>	<u>3,643,231</u>	<u>28,586,340</u>	<u>7,419,138</u>	<u>41,247,669</u>

(c) Capital risk management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Capital requirements are prescribed by the CMA.

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

(d) Fair value estimation

For financial instruments that are measured in the statement of financial position at fair value, the Company is required to disclose the fair value measurement by level of the following fair value hierarchy:

- Level 1 – Quoted (unadjusted) market prices in active markets.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The Company holds investments at fair value through other comprehensive income of RO 17,377,803 (2019 - RO 13,272,373) which are categorised as level 1 and investments at fair value through profit or loss of RO 871,000 (2019: RO Nil) which are categorised as level 2. The Company's investment property is valued by applying level 3 technique. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

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33 Comparative figures

Certain comparative figures of the previous year have been either regrouped or reclassified, wherever necessary, in order to conform with the presentation adopted in the current year's financial statements. Such regrouping or reclassification did not affect previously reported net profit or shareholders' equity.

34 Subsequent events

There were no other events subsequent to 31 December 2020 and occurring before the date of the report that are expected to have a significant impact on these financial statements.