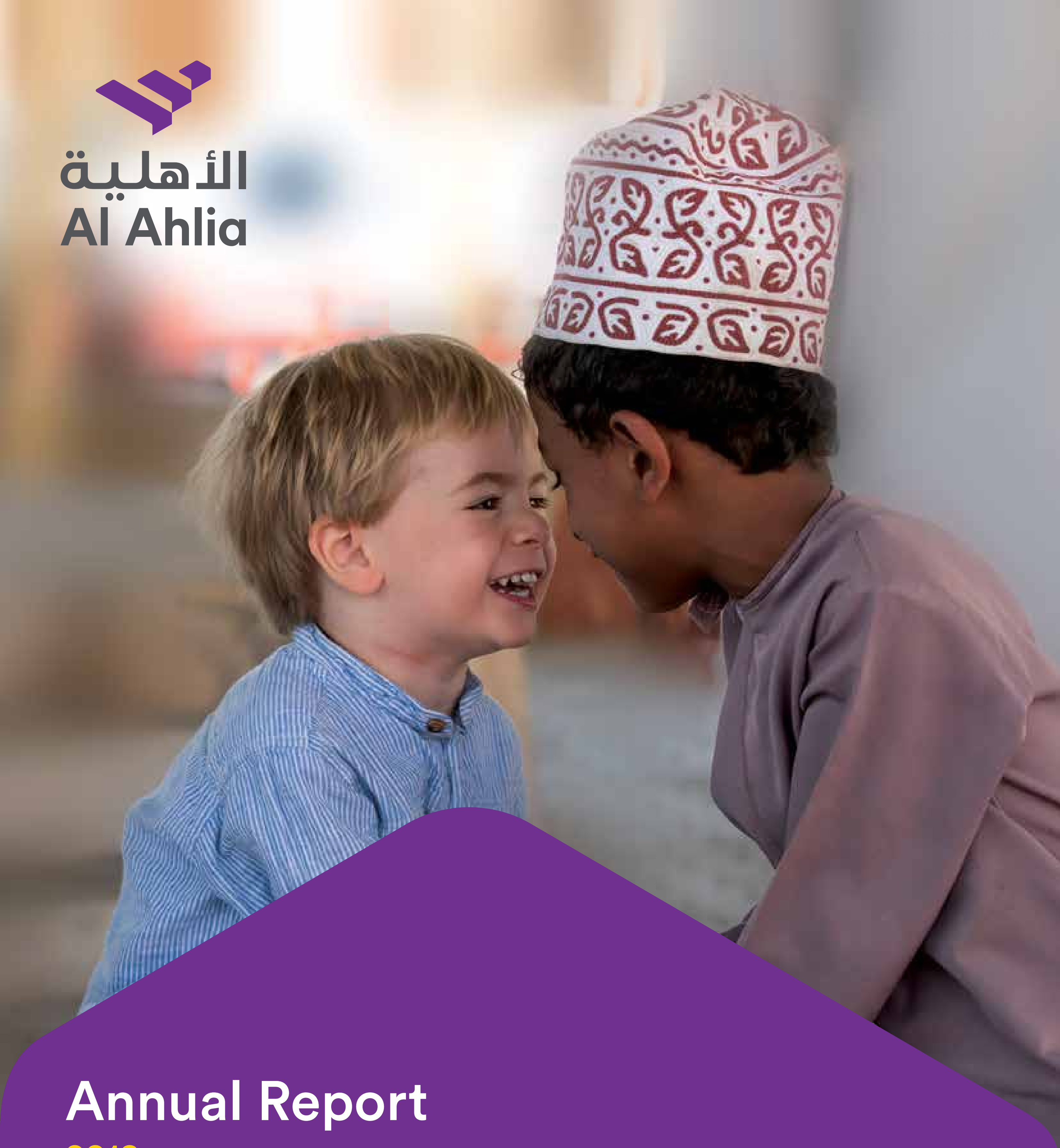


الأهلية
Al Ahlia

# Annual Report
2018

RSA INSURANCE

alahliarsa.com | @alahliarsa

HIS MAJESTY SULTAN QABOOS BIN SAID

# CONTENTS

OMR
**8.94**
Underwriting profit (mn)

OMR
**1.72**
Investment income (mn)

OMR
**3.93**
Profit after tax (mn)

BZS
**0.039**
Earnings per share

## CHAIRMAN'S REPORT 2018

On behalf of the Board of Directors, it is my pleasure to present our Annual Report for the year ending 31st December 2018.

### World Economy

The global economy started 2018 on an upbeat note, buoyed by a pick-up in manufacturing and trade through 2017. However, as industrial production and trade slowed, business confidence fell.

Oil prices experienced some volatility during 2018, reaching as high as US$89 a barrel in September, but then fell back to nearly US$50/b in December. This was due to several factors including market fundamentals (supply and demand) and the geopolitical situation. According to international institutions, oil prices are projected to average between US$60-65/b in 2019.

In January 2019, the International Monetary Fund (IMF) revised down its forecast for the global growth rate from 3.7% to 3.5% amid rising geopolitical and trade tensions and a slowdown in China's economy.

### Gulf Co-operation Council (GCC) Economy

Recent volatility in oil prices underscores the need for Gulf countries to continue reforms to diversify their economies and encourage strong and inclusive growth.

Modest growth continues but the IMF said the outlook for oil-exporting nations was uncertain because they have still not recovered from the oil price shock witnessed five years ago. The organisation called on Arab nations to rein in public debt, which has more than doubled since 2014.

Looking forward, there are several downside risks to the regional economic outlook. Global trade tensions and financial volatility, and geopolitical tensions could dampen demand and trade, affect access to and the cost of financing and weigh down hydrocarbon prices.

### The GCC Insurance Sector

Most markets are generating profits although the operating performance of non-life GCC insurers remains volatile and highly susceptible to government regulations and profitable investment returns.

However, longer-term growth prospects of the industry remain satisfactory. A growing population and improving insurance awareness are driving the gradual growth of GCC insurance markets. (S&P Global Ratings).

Motor and medical lines are key contributors of non-life insurance in the GCC, contributing at least 50% of total non-life premiums, and, according to EY, policy decisions in key emerging markets are expected to emerge as a key growth driver for non-life insurance, such as the promotion of mandatory auto and health insurance.

### Oman's Economy

Oman's economic performance saw an improvement in 2018, underpinned by an easing in oil production cuts introduced by the OPEC-plus agreement and a ramp-up in gas production which translated into stronger public finances and exports. The upturn in oil prices fostered higher spending and also facilitated a narrowing in fiscal and current account deficits.

Oman's nominal gross domestic product (GDP) grew 15.3% in the first nine months of 2018 compared to the corresponding period in 2017, mainly due to a sharp rise in value of the Sultanate's oil and gas output, according to the National Centre for Statistics and Information (NCSI). The NCSI data showed that Oman's non-oil GDP grew 3.4% to OMR 15.3 billion in the first nine months of 2018 compared to OMR 14.8 billion in the same period in 2017.

Real GDP (inflation-adjusted) is expected to grow in 2019, driven by a recovery in the oil price and the economic diversification efforts of the Government. The IMF forecasted a 5% rise (as per its October 2018 update), making Oman the fastest growing economy in the GCC. The World Bank attributed the expected improvement to several factors, notably the recovery of the hydrocarbon sector, and the increasing production of the Khazzan gas field.

However, the Government noted that the oil market remains uncertain with an imbalance between supply and demand, and a continued fluctuation in oil prices. The country's budget deficit is among the largest of all the sovereign debts tracked by Fitch Ratings, which downgraded its debt to junk in December.

The main focus of the general budget for 2019 is on reducing the deficit and debt and rationalising public expenditure. It forecasts a 3% growth in real GDP in 2019, with revenue of OMR 10.1 billion (2018 budget: OMR 9.5 billion) and expenditure of OMR 12.9 billion resulting in a reduced deficit of OMR 2.8 billion (2018 budget deficit: OMR 3.0 billion, 2017 deficit OMR 3.76 billion). The budget assumes an average oil price of US$58 per barrel against the price of approximately US$60 per barrel at the start of 2019.

## The Oman Insurance Sector

Direct Gross Insurance Premiums of OMR 466 million for 2018 rose 2.6 % over 2017, driven by an increase in health insurance and group life insurance (Capital Market Authority - CMA). Health insurance has seen significant gains as foreign insurers expand their presence, while group life insurance is set to receive a further boost as the obligation for private companies to provide health coverage for their employees is enforced. (Oxford Business Group).

As in many countries, compulsory motor insurance has long been the leading branch in the sector. However, new car registrations to November 2018 were 19% lower than the same period in 2017. This was on top of a 45% reduction over the last three years, resulting in an insurance market of older vehicles and lower exposures.

Losses arising from Cyclone Mekunu, which struck the country in May, led to insurance companies receiving claims of over OMR 155 million, according to CMA data. Property insurance claims were reported as the highest, at 570, with a total valuation of OMR 93,687,849. A total of 20 insurance firms received 1,123 claims, as of the end of September. The CMA noted that the cyclone had raised awareness of the importance of insurance coverage. I am proud to report that Al Ahlia demonstrated a commitment and proactivity to its Customers throughout.

In its Financial Stability Report for 2018 the Central Bank of Oman reported that insurance penetration was about 1.6%, which is comparable to that of other GCC states but much lower than the global average of 6.5%.

## Review of the 2018 Financial Performance

Al Ahlia posted a strong financial performance for the year ending 31st December 2018 with a continued focus on profitability, operational efficiency and best-in-class customer service.

The Gross Written Premium stood at OMR 26.03 million with a Net Written Premium of OMR 22.4 million, The Gross Written Premium registered a growth of 2 % compared to the previous financial year. The profit after tax (PAT) rose 6.5% to OMR 3.93 million from OMR 3.69 million. The Company also reduced total operating costs, including expenses, by 2% to OMR 19.5 million. Earnings per share rose from 37 baizas to 39 baizas.

Some of the other key highlights related to the business and financial performance are as follows:

### Proposed Dividend

It is our intention to continue the sustainable and progressive dividend policy we have followed. The Board proposes to pay a dividend of 39% for the year 2018, (subject to approval at the AGM), of which 5% was distributed in November 2018 and it is proposed that the balance of 34% will be paid as a final dividend.

### Underwriting Performance in 2018

The combination of strong local underwriting capability, working within an internationally tested underwriting framework, enables the Company to execute high quality risk selection and pricing decisions. The outcome of that technical expertise is a positive risk/premium retention level, which in turn creates a high level of "In-Country Value" at 85% of the premium retained in Oman and delivering the underwriting profit (after management expenses) for the financial year of 2018 of OMR 8.94 million, compared to 8.76 million in 2017 which is a 2% rise.

### Investment Performance in 2018

The investment climate remained quite subdued. In view of the contraction in the overall economy the liquidity situation in the market was very challenging. Banks have been lending selectively. The overall interest rates have increased in sync with a hardening of global interest rates. The Central Bank of Oman continued the periodic issue of Government of Oman guaranteed bonds throughout the year.

Despite the challenging conditions, our investment income in 2018 rose by 9.9% over 2017, mainly due to the impact of a prudent portfolio allocation and restructuring in the last two years. We continue to adopt an investment policy of High Quality, Low Risk and Low Volatility which has helped in improving investment returns. The majority of the assets in our investment portfolio comprises low risk and liquid investments with a due focus on the asset liability maturity profile.

### Post IPO Stock Performance

Al Ahlia Insurance became the first conventional insurance company to be publicly listed on the Muscat Securities Market as directed by Royal Decree on 17th August, 2017. The Company offered 25 million shares at an offer price of 300 baizas per share. After a successful listing, in which shares were oversubscribed by more than 2.4 times, the share price has never fallen below the initial offer price.

This demonstrates a strong company performance backed by public confidence. Since listing, Al Ahlia has also consistently paid dividends to the shareholders, and, to the present date, has declared the highest dividend amongst the recently listed insurance companies in Oman.

### Distribution and Brand

With our focus on providing a best-in-class experience for our customers, we launched a range of new initiatives, exploiting online opportunities and leveraging the RSA Group's expertise and relationships in developing distribution and creating value.

**These included:**

- A unique claims proposition offering guaranteed repair time to vehicle owners
- Enabling our customers to buy or renew their motor policies via WhatsApp
- A new inclusive customer experience at our branches, including a showcase of our full product range
- Widening our product offering for the emerging SME segment

The initiatives followed on from the launch of our new brand positioning in January 2018 of being "One Step Ahead", a philosophy which aims to empower customers with innovative, relevant insurance solutions and inform our corporate culture.

## Corporate Governance

Al Ahlia fully appreciates and acknowledges the importance of a sound corporate governance structure in the overall context of meeting our obligations to our stakeholders and delivering our corporate objectives.

Accordingly, we have implemented a governance framework that takes into account the principles set out in the CMA's Code and addresses key issues such as the rights, duties and obligations of the various stakeholders, independence, rules and procedures for decision making with regard to company affairs, processes for establishing the Company's strategy, goals and objectives, processes and responsibilities for monitoring and evaluating the Company's performance against its objectives, all within an overall culture of fairness, transparency, accountability and responsibility.

The Company also monitors compliance with the provisions of the Code of Corporate Governance for Insurance Companies.

We are directed and managed by a board comprising of 9 non-executive members of whom 3 are independent. The Board is responsible for organising and directing the affairs of the Company in a manner that is in the best interests of all the shareholders and other key stakeholders. The Board is also responsible for ensuring that the Company meets all legal and regulatory requirements and implements good corporate governance practices in line with the requirements of the CMA in this regard.

## Internal Control

The Company has adequate internal control systems and processes and has appropriate governance systems in all management areas and the ability to continue as a going concern. The Board also understands its responsibility for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards (IFRS) and the relevant requirements of the Commercial Companies Law 1974, as amended by the CMA.

## Corporate Social Responsibility (CSR)

We are committed to being a responsible business. This means running Al Ahlia in a way that our employees can be proud of, ensuring financial strength and transparency for our shareholders, putting our customers first, and delivering long-term value to our environment and society.

Our vision is to be a responsible business working with our customers and stakeholders to help meet society's challenges. The CSR strategy is underpinned by 3 core ambitions:

- **A Safe, Secure World**

We believe we can play a powerful and practical role in helping our customers to avoid risks, using insight, data and our product development expertise to help keep them safer in their homes, on the roads and in their businesses.

- **Thriving Communities**

Our business will not be successful unless the communities we operate in also flourish. We support our employees to contribute to the economic and social development of their local areas by sharing skills, offering time, and fundraising for local causes.

- **Responsible Business**

Being a responsible business means being open and transparent with our customers, employees and suppliers about how we manage our operations and deliver our products. This helps us to build dialogue and trust, and to understand where and how we can improve.

During 2018, the Company made donations totalling OMR 10,000 to a wide spectrum of good causes – special needs, orphans, vulnerable children, road safety, cancer, environment and the elderly – to organisations including Children First Association, Oman Cancer Association, Oman Road Safety Association and Environment Society of Oman.

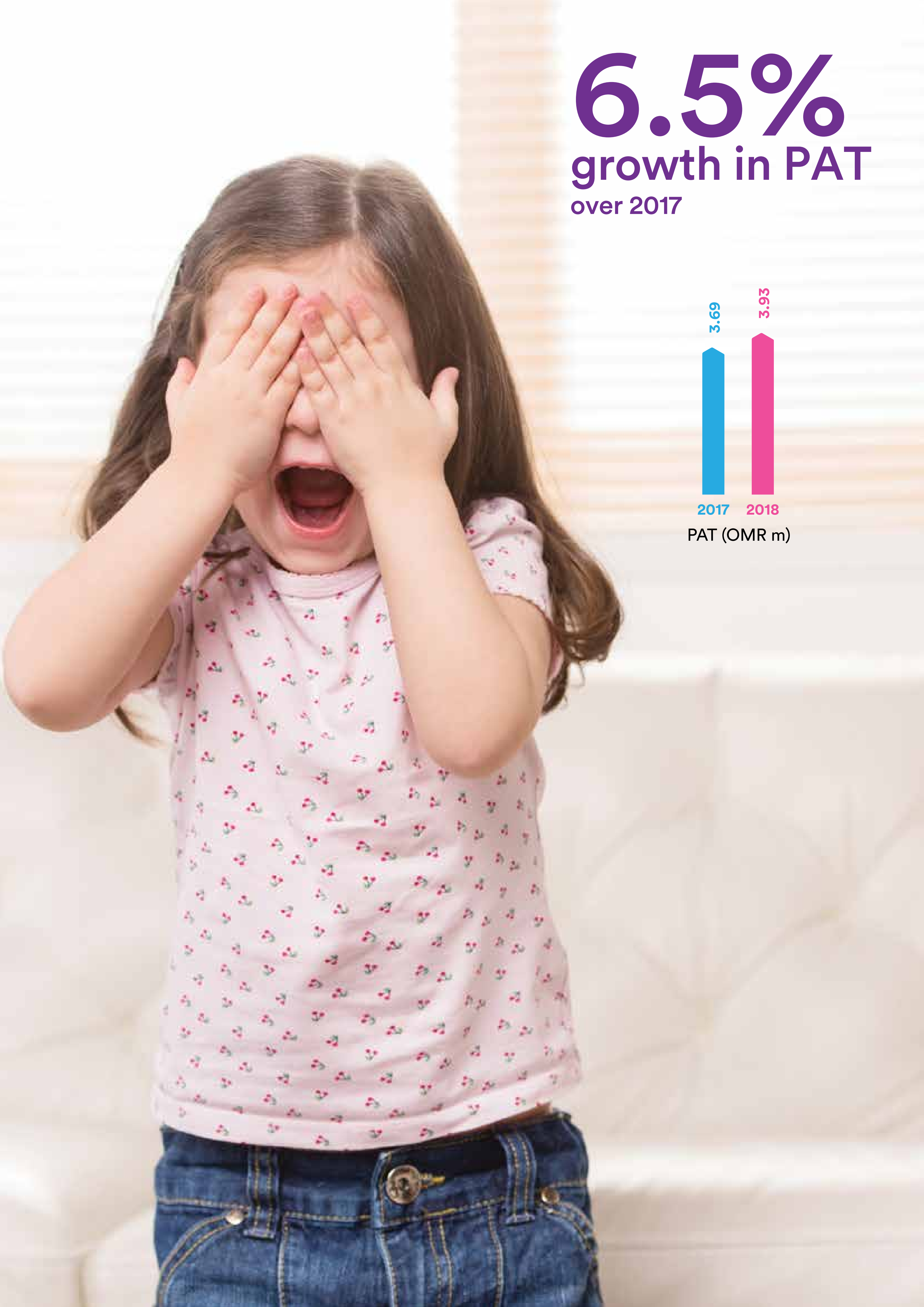
## Acknowledgement

On behalf of the members of the Board of Directors I would like to acknowledge and thank our valued customers and shareholders for their unwavering support. I would also like to express our appreciation to the CMA and other regulatory agencies for their continued guidance and support.

Our management team and staff continue to be pivotal to our success and I express my utmost gratitude to them for their continued dedication and commitment. I would like to congratulate the team for the recent success in getting Oman Insurer of the year at the annual MENA insurance awards 2019. Above all, we pay tribute to His Majesty, Sultan Qaboos bin Said, for his visionary leadership and wise guidance which have placed Oman firmly on the path to peace, prosperity and sustainable economic and social development.

**Christopher Dooley**

Chairman




# 6.5%

## growth in PAT

over 2017

# Management Discussion & Analysis Report

## Introduction

After our successful IPO in 2017, Al Ahlia Insurance Company (AAIC) SAOG enjoyed a promising first full year on the Muscat Securities Market (MSM). The Company also continued to deliver a strong financial performance, a best-in-class customer experience and pioneering products and services, despite a difficult backdrop of ongoing economic uncertainty, regional political tensions and a highly competitive market.

This was based on:

- Experienced leaders and staff with proven track records
- A robust business model built on operational excellence
- Solid growth plans to counter the current challenging market
- Consistent profitability backed by a strong balance sheet

## Financial Performance

The Gross Written Premium stood at OMR 26.03 million was higher by 2 % compared to previous year. Profit after tax (PAT) rose 6.5% to OMR 3.93 million from OMR 3.69 million. The company successfully reduced total operating costs, including expenses, by 2% to OMR 19.5 million. Earnings per share rose from 37 baizas to 39 baizas.

## Investment Performance

Investment income rose by 9.9% as compared to 2017, primarily due to the impact of prudent portfolio allocation and restructuring in the last two years.

## Statement Of Comprehensive Income

In compliance with the Capital Market Authority (CMA) circular No.E/2/2016 read with Article 280 of the provisions for Disclosure of Issuers of Securities and Insider Trading, the management of Al Ahlia can disclose the audited results for the year ending 31st December 2018, as follows:

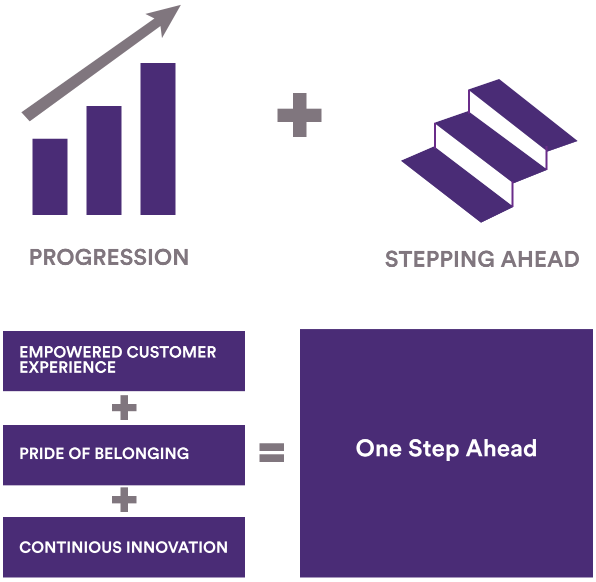
### AUDITED STATEMENT OF COMPREHENSIVE INCOME

| | **2018 (Audited)** | 2017 (Audited) |
|---|---|---|
| | **OMR** | OMR |
| Insurance premium revenue | **25,805,720** | 25,919,076 |
| Insurance premium ceded to reinsurers | **(3,401,936)** | (3,442,962) |
| **Net insurance premium revenue** | **22,403,784** | 22,476,114 |
| Commissions received on ceded reinsurance | **288,115** | 545,453 |
| Claims | **(19,445,296)** | (12,805,679) |
| Reinsurers' share of claims | **7,926,322** | 641,385 |
| Commissions paid | **(2,357,738)** | (2,138,174) |
| Deferred acquisition cost | **125,604** | 49,129 |
| **Net underwriting result** | **8,940,791** | 8,768,228 |
| General and administrative expenses | **(6,036,919)** | (6,121,011) |
| Investment income (net) | **1,728,573** | 1,572,924 |
| Other (expense)/income – net | **(300)** | 22,316 |
| **Profit/ (loss) before taxation** | **4,632,145** | 4,242,457 |
| Income tax | **(700,000)** | (550,000) |
| **Profit and other comprehensive income for the period** | **3,932,145** | 3,692,457 |
| **Basic and diluted earnings per share** | **0.039** | 0.037 |

## A New Brand Identity

As part of the drive to foster better engagement and relationships with stakeholders, Al Ahlia unveiled a new distinct and vibrant brand identity.

The rebranding was the result of months of customer research and feedback, competitive market mapping, and intense discussions with employees and all stakeholders.




The new brand symbolises our philosophy of "One Step Ahead," represented graphically by a new "Steps" logo. This communicates the pioneering role the brand will play in empowering customers to stay "One Step Ahead," take charge of tomorrow and succeed with confidence.

The concept will be an intrinsic part of our organisational initiatives and culture as we move forward and is underpinned by an enhanced approach to customer experience at branches, superior online service platforms and enriched product offerings, collectively raising the bar significantly in Oman's insurance industry.

While the Company's retail products and services will be offered under the Al Ahlia brand, commercial lines remain under the RSA Insurance brand, bringing the 300-year legacy and success of the global RSA Group to the fore.

## New Customer Solutions

As a progressive full-service insurer, Al Ahlia has taken the lead in delivering trustworthy, innovative, convenient and accessible solutions to a discerning and dynamic client base to keep our customers "One Step Ahead." We have introduced breakthrough propositions such as easy online policy purchase and claims registration and a bilingual call centre and website (English and Arabic). We are keen to exploit the potential of digital platforms to enable superior service and empower the customer. We also launched a new proposition on WhatsApp, the most popular social media platform in Oman, for consumers to easily purchase or renew a motoring policy.

## Motoring

At the start of 2018, Al Ahlia announced "Claims Guarantee" - a revolutionary new proposition for motor insurance to address the uncertainty of when a customer can expect their vehicle back from the garage after repairs.

We addressed this issue with a new product which offers a repair-time guarantee and vehicle return in 5 days for minor repairs in select Muscat garages. Additionally, customers are also guaranteed compensation, amounting to OMR 7 per day in cash, for any delay after the 5-day guarantee period.

## SMEs

We have enhanced our online proposition by adding cover for small and medium enterprises (SMEs) on top of motor fleet, contractors' plant and machinery (CPM) and workmen's compensation. These policies require minimal risk information, with 3 levels of cover (Premium, Standard and Basic) and multiple deductible options to tailor cover and terms suited to customer needs.

The SME property proposition has resulted in a steady rise in the quote rate and an increase in its penetration. As part of the launch, we developed a Google Maps capability within our online quotation portal, allowing our customers to specifically pinpoint their exact location to allow us to provide our most competitive terms and ensure maximum responsiveness at the time of a claim.

## New Technology and IT Services

Al Ahlia's information technology roadmap is firmly aligned with our business strategy and we continue to invest in our strategic objectives around customer service, efficiency and ease of doing business.

Further testament to our commitment in harnessing and investing in new technology, is our installation of an Automated Insurance Machine (AIM) in Oman. The machine is an end-to-end system with bilingual "Arabic and English" operating capability and other modern features like touch screen user interface, smart card and passport scanners with secure payment gateways for accepting all major credit and debit cards. These will enhance customer satisfaction levels.

**Other key IT related highlights:**

- An upgrade of our motor system, Kaizen, with the latest technology to provide our network of branches, brokers, agents and key car dealers with an easy-to-use and sophisticated platform to efficiently meet customer requirements.
- Our core business system, Mississippi, is undergoing a major uplift through the adoption of the latest technology on the Oracle platform. The upgraded platform will be delivered by early 2020 with an enhanced functionality and improved customer experience. It will be open and scalable and can easily integrate third party tools and products, making it agile and "One Step Ahead."
- Al Ahlia has also moved towards claims process automation and workflow management by simplifying the end-to-end claims process and digitising paper movement using workflow capabilities. This is likely to enhance our customer experience and improve turnaround time.

Such new offerings reflect the dynamics of a rapidly changing and competitive marketplace and our commitment to keep customer interests at the centre of our business. We are confident that these will translate into further improving our performance to sustain our leadership position and we look forward to offering many more firsts to revolutionise the insurance sector in Oman.

## Crisis Management – Claims

During Cyclone Mekunu in May 2018, we worked proactively to keep our customers informed and to reduce their losses. Our Site Control Management team proactively sent out detailed warning information to all our customers, agents and brokers giving practical and useful details on how our customers could protect themselves from the impending storm.

Al Ahlia also took the unprecedented step to keep a small claims team working throughout the period and sent a communication to all our customers informing them of our availability in case of any claims. We worked hard to increase the reach of this message in the Dhofar region which bore the brunt of the cyclone.

## HR and Manpower

One of the Company's key objectives is to be the "Employer of Choice" among both existing staff and in the wider employment market. The Human Resources team has devised mechanisms to enhance our performance management processes. As part of the commitment to improve the skill set of employees, the learning and development interventions are anchored in the competency framework which provides a focused and inclusive approach to employee development and enhances the Company's competitive advantage.

At the end of the year, our Omanisation percentage stood at 70%, an increase of 3% on 2017.

## Audit and Compliance

The Company has an inhouse Internal Auditor and makes use of the RSA Group's internal audit function to provide internal audit services ensuring appropriate levels of independence. The Internal Auditor reports to the Audit Committee. The audits conducted during 2018 were as follows:

- Direct Sales Management (Branch) Audit
- Anti-Money Laundering and Sanctions Audit
- Policy Gap Analysis Audit
- Investment and Solvency Management Audit
- Actuarial Reserving Governance Audit
- Commercial (Non-Motor) Underwriting Audit
- Anti-Bribery and Corruption Audit.

The results have been considered by our Audit Committee in building an opinion on the effectiveness of the Company's internal control systems.

Based on the above, the committee has satisfied itself with the reviews that have been conducted and has concluded that there were no material control weaknesses which can be considered as significant, which might result in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or conditions.

The Board therefore considers that there is an ongoing process for identifying, evaluating and managing the significant risks faced by AAIC, that it has been in place for 2018 and up to the date of approval of the Annual Report and accounts and that it is regularly reviewed by the Board.

## Awards

A robust business performance, customer-centric brand values, a strong focus on people development and effective corporate governance helped Al Ahlia to win the Oman Insurer of the Year Award at the annual MENA Insurance Awards 2019.

The prestigious accolade recognises and rewards regional insurance industry players who have demonstrated exceptional customer service and innovative product development over the past 12 months. It also acknowledges the companies who set new benchmarks of success with a strong business model and a wide-reaching network.

This was the sixth time we have won the coveted title following previous successes in 2011, 2012, 2014, 2015 and 2018.

The expertise and experience of our staff also helped us to win the AIWA (Alam Al-Iktisaad Wal-A'mal) Award for Best Performing Companies on the MSM (in the mid-cap category) in the first year of our listing.

Awarded by the leading Arabic business magazine, AIWA, this is the 10th edition of the annual survey of best performing listed companies. The evaluation for the mid-cap category award was based on a listed company's market capitalisation at the end of 2017 and considered key financial performance parameters. The evaluation and validation of results were done independently by reputed organisations.



## Future Outlook

Energy price volatility and ongoing trade tensions between China and the US need to be resolved to ensure greater economic stability. Such issues pose challenges to the insurance market at home and abroad. However, the insurance industry in Oman holds much promise with a growing population, low penetration rates, a strong regulatory framework and increasing public awareness.

We will stay the course with a robust business strategy and continuous improvement in operational and financial efficiency and customer relationship management. At the same time, we will successfully leverage digital technology and online platforms to improve customer care and introduce attractive new products, services and solutions to help us to further success.

**Lloyd East**

Chief Executive Officer

# Report on Compliance with the Code of Corporate Governance

EY
Building a better working world

Ernst & Young LLC
P.O. Box 1750, Ruwi 112
5th Floor, Landmark Building
Opposite Al Ameen Mosque
Bowsher, Muscat
Sultanate of Oman

Tel: +968 22 504 559
Fax: +968 22 060 810
muscat@om.ey.com
ey.com/mena
C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

## REPORT OF FACTUAL FINDINGS

## TO THE SHAREHOLDERS OF AL AHLIA INSURANCE COMPANY SAOG

We have performed the procedures agreed with you pursuant to the Capital Market Authority's (CMA) circular no. E/4/2015, dated 22 July 2015, with respect to the Board of Directors' corporate governance report of Al Ahlia Insurance Company SAOG (the "Company") as at and for the year ended 31 December 2018 and its application of the corporate governance practices in accordance with amendments to CMA Code of Corporate Governance issued under circular no. E/10/2016 dated 1 December 2016 (collectively the "Code"). Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the Company's compliance with the Code as issued by the CMA and are summarised as follows:

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

2) We obtained the details regarding areas of non-compliance with the Code identified by the Company's Board of Directors for the year ended 31 December 2018. The Company's Board of Directors has not identified any areas of non-compliance with the Code.

We have no exceptions to report in respect of the procedures performed.

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of Al Ahlia Insurance Company SAOG to be included in its annual report for the year ended 31 December 2018 and does not extend to any financial statements of Al Ahlia Insurance Company SAOG, taken as a whole.

Ernst & Young LLC

Muscat
21 February 2019

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س.ت: ١٢٢٤٠١٣
ص.ب: ١٧٥٠ روي - ١١٢، سلطنة عمان
EY ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

## AL AHLIA INSURANCE COMPANY SAOG
## REPORT ON COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

### 1. Company's Corporate Governance Philosophy.

The Al Ahlia Insurance Co SAOG ("AAIC" or the "Company" or "Al Ahlia") converted its structure from an SAOC to an SAOG Company after successfully completing an IPO of 25% of its shares as required under the royal decree Royal Decree 39/2014 and gaining listing on the Muscat Securities Market ("MSM"). The Company, as a member of the RSA Group, UK, has historically had a strong culture of corporate governance and regulatory compliance and this was reflected in the CMA selecting the Company for Corporate Governance Excellence Award 2013.

Al Ahlia fully appreciates and acknowledges the importance of a sound corporate governance structure in the overall context of the Company meeting its obligations to all its stakeholders and delivering its corporate objectives. Accordingly, it has implemented a governance framework that takes into account the principles set out in the CMA's Code and addresses key issues such as the rights, duties and obligations of the various stakeholders, independence, rules and procedures for decision making with regard to company affairs, processes for establishing the Company's strategy, goals and objectives, processes and responsibilities for monitoring and evaluating the company's performance against its objectives, all within an overall culture of fairness, transparency, accountability and responsibility.

The Company also monitors compliance with the provisions of the Code of Corporate Governance for Insurance Companies.

### 2. The Board

The Company is directed and managed by a board comprising of nine non-executive members of whom three are independent members. This board was elected by an Ordinary General Assembly meeting convened on 17th October 2017, after the conversion to SAOG structure. The board is supported by an Audit Committee and a Nomination, Remuneration & Investment Committee. Both Committees have clearly written terms of references, which have been duly approved by the board and are in accordance with the relevant provisions of the CMA Code. There is a clear understanding of matters reserved for the board and matters that require shareholder approval.

The Board is responsible for organising and directing the affairs of the Company in a manner that is in the best interests of all the shareholders and other key stakeholders. The board is also responsible for ensuring that the Company meets all legal and regulatory requirements and implements good corporate governance practices in line with the requirements of the CMA in this regard. The key duties of the board are as follows:

(a) Identifying a strategic vision of the company based on its mission, purpose and objects, setting viable performance indicators within a reasonable time frame which can be measured objectively and updating them periodically.

(b) Adopting business and financial policies pertinent to the performance of the company's business and reviewing them periodically to ensure their efficiency.

(c) Setting operational plans, reviewing and updating them from time to time.

(d) Adopting internal regulations and bylaws pertinent to the management of the affairs of the company.

(e) Adopting the disclosure policy of the company, and monitoring compliance with its provisions as per regulatory requirements.

(f) Identifying necessary competences and authority required for the executive management and ratifying the delegation and implementation of delegated authority to the management.

(g) Monitoring the work of the management to ensure that business is properly managed according to the company's objective and ensuring compliance with the laws and regulations.

(h) Reviewing related parties' transactions.

(i) Forming specialized committees, appointing their members, and determining their duties, rights and obligations.

(j) Ensuring the efficacy of systems and polices of the company in ensuring successful operation of the company, its development and attaining its goals and objectives.

(k) Appointing the following key executive officers: chief executive officer, head of internal audit unit or compliance officer (if any) as well as determining their rights and responsibilities.

(l) Evaluating, at least annually, the performance of specialized committees emanating from the board and key executive officers.

(m) Approving quarterly and annual financial statements.

(n) Reviewing and approving the Company's organisation structure

(o) Reviewing, through internal and external audit reviews, the effectiveness of the Company's Internal Controls.

(p) Recommending any changes to the AAIC's capital structure (subject to regulatory requirements) for further approval by the regulators and the Shareholders.

Some of the above matters have been delegated to the board committees, whilst recognizing that the ultimate responsibility rests with the board.

The division of responsibilities between the Chairman and the Chief Executive Officer (CEO) are clearly understood. The Chairman is not involved in the day-to-day management of the Company or its business, whereas the CEO has direct responsibility for the management of the Company.

The Chairman's main responsibilities are to run the board effectively, ensuring that meetings are held at appropriate regularity and frequency with clearly set agenda and all members are provided with appropriate information in advance of the meeting to facilitate their informed participation. He is also responsible for ensuring that there is appropriate delegation of authority from the board to executive management led by the CEO. At meetings the Chairman also ensures that enough time is allowed for discussion of complex issues and that directors (particularly independent non-executive directors) have sufficient time and information to consider critical issues and obtain answers to any questions or concerns they may have.

The CEO is responsible to the board for the executive management of the Company and for liaising with the Chairman and keeping him and the Board informed on all material matters.

The Company has implemented a Delegated Authority Framework which sets out the way executive authority is delegated across the Company. The Executive License which sets out the delegated authority of the Managing Director is approved by the Board. Individual executive licenses issued to each of his direct reports set out their specific limits of authority in terms of entering into financial, underwriting and other business commitments. Each direct report is responsible for ensuring a similar process of delegation is in place within his area of responsibility.

The board, at all meetings, receives updates from the Committees covering the matters within the remit of the respective Committees and provides guidance and direction to the Committees, where required.

### 2.1 Directors

The tenure of the board shall not exceed three years, after which the board is subject to re-election. The current term of the board commenced on 17th October 2017, on which date an Ordinary General Assembly was held to elect a new board.

Membership of board and committees after and before the above general assembly election are as follows:

Current membership after the election at the General Assembly on 17th October 2017 is as follows.

| Name of the director | Position | Remarks | Board | Audit Committee | Nomination, Remuneration & Investment Committe |
|---|---|---|---|---|---|
| PCS O' Flynn | Independent Non-Executive | Chairman of Audit Committee | Y | Y | NA |
| Parameshwaran Iyer | Independent Non-Executive | | Y | Y | Y |
| Yoasuf Al Balushi | Independent Non-Executive | | Y | Y | NA |
| Shahid Rasool | Non-Executive | | Y | Y | Y |
| Khalid Al Khalili | Non-Executive | | Y | NA | Y |
| Matthew Hotson | Non-Executive | Chairman of N.R.I. Committee | Y | Y | Y |
| Christopher Dooley | Non-Executive | Chairman | Y | NA | NA |
| Laurence Loughnane | Non-Executive | | Y | NA | Y |
| Jonathan Cope | Non-Executive | Deputy Chairman | Y | NA | Y |

The profiles of the board members and executive management is provided as annexure to this report.

## 2.2 Attendance at General Assembly & Board Meeting

### Board Meetings

Attendance at board meetings held during the year 2018 are as follows:

| Name of the director | PCS O' Flynn | Shahid Rasool | Christopher Dooley | Laurence Loughane | Jonathan Cope | Khalid Al Khalili | Matthew Hotson | Parameshwaran Iyer | Yoasuf Al Balushi |
|---|---|---|---|---|---|---|---|---|---|
| 15-Feb-18 | Y | Y | Y | Y | P | Y | Y | Y | Y |
| 16-Apr-18 | Y(VC) | P | Y | Y | P | Y | P | N | Y |
| 07-Jun-18 | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| 24-Jul-18 | Y(VC) | Y | Y | P | P | P | N | Y | Y |
| 27-Sep-18 | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| 23-Oct-18 | Y(VC) | P | Y(VC) | Y(VC) | P | Y | P | Y | Y(VC) |
| 17-Dec-18 | Y | P | Y | Y | Y | Y | Y | Y | Y |

(P) Represented through proxy (Y) Attended in Person or by Electronic Means (N) Did not attend and was not represented. N/A was either not yet appointed or had resigned

### The company held the following General Assembly Meetings

| Name of the director | PCS O' Flynn | Shahid Rasool | Christopher Dooley | Laurence Loughane | Jonathan Cope | Khalid Al Khalili | Matthew Hotson | Parameshwaran Iyer | Yoasuf Al Balushi |
|---|---|---|---|---|---|---|---|---|---|
| 22-Mar-18 Annual General Meeting | N | Y | Y | N | N | Y | N | N | Y |
| 08-Nov-18 Extraordinary General Meeting | N | Y | Y | N | N | Y | Y | N | Y |
| 08-Nov-18 Ordinary General Meeting | N | Y | Y | N | N | Y | Y | N | Y |

### 2.3 Directors holding Additional Directorship in Oman

| Name of the director | Name of Company in which position is held | Capacity | Positions Held |
|---|---|---|---|
| PCS O' Flynn | Nil | NA | NA |
| Parameswaran Iyer | Nil | NA | NA |
| Yoasuf Al Balushi | Nil | NA | NA |
| Shahid Rasool | Nil | NA | NA |
| Khalid Al Khalili | Bank Nizwa | Self | Board member and member of Executive Committee |
| | OmInvest | Self | Deputy Chairman and member of Executive Committee |
| Matthew Hotson | Nil | NA | NA |
| Christopher Dooley | Nil | NA | NA |
| Laurence Loughnane | Nil | NA | NA |
| Jonathan Cope | Nil | NA | NA |

No Director is a member of the board of more than four public joint stock companies whose principal place of business is in the Sultanate of Oman, or is the chairman of more than two such companies.

None of the directors is a member of the board of directors of a joint stock company which has similar objectives to the company and whose principal place of business is the Sultanate of Oman.

## 3. Board Committees

The board has constituted the following Committees to support the board in the discharge of its duties.

a) The Audit Committee

b) The Nomination, Remuneration and Investment Committee. ("NRI Committee")

The objectives, membership, details of meetings held, and attendance therein are provided below.

Each of the Committees have clearly documented terms of references duly approved by the board.

### 3.1 Audit Committee

The Audit Committee oversees the application of financial reporting and internal control principles within the Company. The Committee will be responsible, amongst other things, for reviewing risk management functions and assessing the Company's processes relating to its risk and internal control systems. Furthermore, the Committee will monitor the integrity of the Company's financial statements and the effectiveness of the external audit process and internal audit functions and ensure maintaining an appropriate relationship with the Company's auditors.

The Committee shall comprise of five board members. The current composition of the committee is as follows:

| Name | Designation | Role in Committee |
|---|---|---|
| PCS O' Flynn | Independent Director | Chairman |
| Yoasuf Al Balushi | Independent Director | Deputy Chairman |
| Parameswaran Iyer | Independent Director | Member |
| Matthew Hotson | Non-Executive Director | Member |
| Shahid Rasool | Non- Executive Director | Member |

Attendances at the Audit Committee meetings are as follows:

| Name of the member | 15/02/18 | 07/06/18 | 27/09/18 | 17/12/18 |
|---|---|---|---|---|
| PCS O' Flynn | Y | Y | Y | Y |
| Yoasuf Al Balushi | Y | Y | Y | Y |
| Parameswar Iyer | Y | Y | Y | Y |
| Matthew Hotson | Y | Y | Y | Y |
| Shahid Rasool | Y | Y | Y | N |

(P) Represented through proxy (Y) Attended in Person or by Electronic Means (N) Did not attend and was not represented. N/A was either not yet appointed or had resigned

### 3.2 Nomination, Remuneration & Investment Committee

The Nomination, Remuneration & Investment Committee shall

- ensure transparency in the procedures for the selection and appointment of members of the board and assist the shareholders at General Assembly Meetings in nomination and election of directors who are proficient and most suitable for the Company; and
- attract, motivate and retain qualified and experienced individuals on the board and in the executive management of the Company to achieve its strategic and operational objectives.
- Oversee the management of the investment portfolio of the Company in line with the applicable laws of the Sultanate of Oman and the board approved strategy.

**The Committee shall comprise of six board members. The current composition of the committee is as follows:**

| Name | Designation | Role in Committee |
|---|---|---|
| Matthew Hotson | Non- Executive Director | Chairman |
| Laurence Loughnane | Non- Executive Director | Deputy Chairman |
| Jonathan Cope | Non- Executive Director | Member |
| Parameshwaran Iyer | Independent Director | Member |
| Khalid Al Khalili | Non- Executive Director | Member |
| Shahid Rasool | Non- Executive Director | Member |

Attendances at the Nomination, Remuneration and Investment Committee meetings are as follows:

| Name of the member | 15/02/18 | 07/06/18 | 27/09/18 | 17/12/18 |
|---|---|---|---|---|
| Matthew Hotson | Y | Y | Y | Y |
| Jonathan Cope | P | Y | Y | Y |
| Parameshwaran Iyer | Y | Y | Y | Y |
| Khalid Al Khalili | Y | Y | Y | Y |
| Shahid Rasool | Y | Y | Y | P |
| Laurence Loughnane | Y | Y | Y | Y |

(P) Represented through proxy (Y) Attended in Person or by Electronic Means (N) Did not attend and was not represented. N/A was either not yet appointed or had resigned

## 4. Process of Nomination of Directors

The board of directors is elected by the shareholders of the Company at an Annual/Ordinary General Meeting. The term of the board is for three years. The Nomination, Remuneration & Investment Committee is responsible for assisting the general assembly meeting in the nomination of proficient directors and the election of the most fit for purpose.

If during the term of the board any position becomes vacant due to resignation or any other reason, the Nomination, Remuneration and Investment Committee identifies a suitable candidate to fulfil such vacancy and recommends his (or her) appointment to the board on the temporary basis. The board after considering such recommendation approves the appointment to fulfill the vacancy on a temporary basis subject to ratification at the next general assembly meeting following such temporary appointment.

Independent Non-executive directors are aware that they must report any change in their circumstances or those of the members of their families that might lead to the board reconsidering whether they are independent. Directors are also aware that they have to make the board aware of any conflict of interest they might have in respect of any item of business and abstain themselves from consideration of any such matter.

## 5. Appraisal of the Performance of the Board of Directors

As per Clause no 2(o) of the fourth principle of Corporate Governance codes the Chairperson must arrange for Appraisal of the performance of the Board impartially and independently by a third party appointed by the annual general meeting in accordance with a benchmark and standards set by the Board or general meeting. Consequently, the Shareholders have appointed M/S Crowe & Horwath for carrying out this activity.

Board evaluation exercise was conducted by M/S Crowe & Horwath in January 2019 by administering a questionnaire. The questionnaire had quantitative as well as qualitative questions. It was followed by interviews with Chairman and Vice Chairman. The team also had a few discussions / clarifications with Non-Executive as well as Independent Directors. Moreover, the evaluation team spoke to the CEO and the Board Secretary. The feedback on the Board questionnaire was analyzed by the evaluation team. Observations were based on information and views provided by the Board members through the questionnaire and those interviewed. The team made few recommendations based on the requirements of Oman Corporate Governance code and best practices globally. The conclusions were submitted by the evaluation team to the Chairman of the Board.

The evaluation criteria for the full Board included its role / participation in strategy formulation, succession planning, review of board composition, business oversight, governance process.

The Board is effective in discharging its responsibility and the Board processes are followed comprehensively. The Board functioned in a smooth and constructive manner with free and open discussions amongst Board members.

## 6. Remuneration

### 6.1 Board Remuneration

Prior to the conversion of the structure of the Company to SAOG, board members were paid sitting fees of RO 400 per meeting for attending board meetings and RO 150 per Meeting for attending meetings of board Committees. There was no annual remuneration paid to the board members.

Following the conversion of the structure to SAOG, the board members at the meeting held on 19th September 2017 considered and approved a board remuneration framework under which, board members would be paid the following

a) A Fixed remuneration of Ro 10,000 per annum (subject to approval of shareholders at the AGM)

b) Sitting fees of RO 400 per meeting for attendance at board meetings

c) Sitting fees of RO 150 per meeting for attendance at board Committee Meetings.

d) Compensation of any travel, accommodation and out of pocket expenses incurred for attending the board and board committee meetings.

### 6.2 Remuneration paid to Top executives

The key principles that underpin the Company's remuneration policy and processes are:

Total remuneration is set at a level which enables the recruitment, retention and motivation of high-quality executive talent,

- There is a strong and visible link between remuneration and performance,
- Executive remuneration and shareholder interests are strongly aligned,
- Incentive arrangements are structured so that only exceptional performance attracts the highest level of reward,
- A balance of short and long-term performance measures are used, incorporating measures of financial performance, delivery of shareholder value and a robust assessment of personal contribution,
- Remuneration policy and practice is transparent.

The Company's top executives received a total amount of RO 532,946/- (2017- RO 477,379/-).

The bonuses are linked to Company performance as well as individual performance which are evaluated during the first quarter of the succeeding year. Each employee of the Company holds an employment contract prepared in accordance with the Omani Labour Law and regulations issued by Ministry of Manpower.

## 7. Confirmation of Compliance

Company's Approach towards Compliance with the requirements of the Code of Corporate Governance for Publicly Listed Companies ("The Code")

Al Ahlia insurance has completed its Initial Public Offering ("IPO") in 17th August of 2017. Being a result of Joint Venture, the company had already a strong governance in place and the IPO gave an opportunity to strengthen the structure further. The review that has been undertaken during the legal due diligence and the prospectus has permitted to address the additional requirements applicable to SAOG Companies.

The company has designed its internal control system including governance and processes focused on achieving the main pillars of the Code as set in its principle one as follows:

**Transparency:** The Board of Directors has been structured to empower its members to exercise their duties in terms of information disclosure to all company's shareholders and the investors by setting up dedicated processes for disclosure internally and externally. The company has also implemented appropriate processes to ensure that transparency is maintained in all communications with the regulators.

**Accountability:** The Board of Directors of the company is comprised of experienced and qualified members who understand their responsibilities towards safeguarding the interests of the company's shareholders and are well positioned to discharge their responsibilities. A process is being put in place to enable the Board to conduct periodic self-assessments to assess its performance as well as the performance of the board committees. This will be carried out in 2018.

**Fairness:** The Company as a member of the RSA Group, UK, has adopted the RSA Group's guide to business conduct and implemented the necessary policies, procedures and process to ensure fairness in its dealings with all of its stakeholders. The Board of Directors is comprised of an adequate number of independent members to ensure protection of the interests of all share-holders regardless of their level of ownership.

**Responsibility:** The Board of Directors discharges its duties with honesty and integrity and authenticity towards the company which reflects on the company's external environment. This is guaranteed by the composition of the Board which comprises independent members.

The company is, also, continuously reviewing its arrangements to promote these values and comply with all the regulatory requirements applying to its business.

No fines or strictures have been imposed on the Company by the MSM, CMA or any other regulatory authority during the year.

## 8. Communication with Shareholders

The Company uses the General Assembly Meetings and the disclosures on the MSM website as the primary means of communication to the Shareholders. The Annual Report and the financial statements are made available to shareholders ahead of the AGM. The Quarterly Interim Financial Statements are also made available to the shareholders.

During the year, the Company has made appropriate disclosures as required from time to time on the MSM website including the posting of quarterly and annual financial performance and financial statements.

## 9. Market Price Data

The company has got listed at the Muscat Security Market on 17th August 2017.The movement of the share price of the company during the year 2018 and its performance compared to the MSM index movement is as follows:

| | AAIC›s Market Price (RO) | | MSM 30 Index | |
|---|---|---|---|---|
| Month – 2018 | High | Low | High | Low |
| January | 0.340 | 0.320 | 5,027.30 | 4,999.25 |
| February | 0.360 | 0.348 | 5,007.45 | 4,994.11 |
| March | 0.370 | 0.340 | 4,809.81 | 4,773.15 |
| April | 0.360 | 0.352 | 4,751.23 | 4,728.83 |
| May | 0.366 | 0.360 | 4,608.16 | 4,573.07 |
| June | 0.366 | 0.366 | 4,578.48 | 4,564.70 |
| July | 0.366 | 0.366 | 4337.76 | 4320.63 |
| August | 0.366 | 0.364 | 4447.32 | 4406.97 |
| September | 0.362 | 0.360 | 4547.88 | 4524.02 |
| October | 0.360 | 0.350 | 4424.44 | 4420.67 |
| November | 0.358 | 0.354 | 4415.21 | 4398.56 |
| December | 0.354 | 0.354 | 4345.70 | 4324.44 |

**Distribution of Shareholding**

The statement below details the distribution of company's shares as at 31st December 2018.

**Distribution of shareholding as on 31/12/2018**

| Category | Distribution of shares | | Number of shares | Number of shareholders | Percentage of shares (%) |
|---|---|---|---|---|---|
| | | | | Minimum | Maximum |
| 1 | 1 | 1000 | 32,182 | 43 | 0.03% |
| 2 | 1001 | 5000 | 274,237 | 92 | 0.27% |
| 3 | 5001 | 10000 | 321,844 | 36 | 0.32% |
| 4 | 10001 | 20000 | 272,512 | 16 | 0.27% |
| 5 | 20001 | 50000 | 845,519 | 25 | 0.85% |
| 6 | 50,001 | 100000 | 1,076,672 | 13 | 1.08% |
| 7 | 100001 | 200000 | 955,017 | 7 | 0.96% |
| 8 | 200001 | 500000 | 3,279,416 | 9 | 3.28% |
| 9 | 500001 | 1000000 | 4,026,155 | 6 | 4.03% |
| 10 | 1000001 | 2000000 | 4,676,783 | 3 | 4.68% |
| 11 | 2000001 | 5000000 | 2,309,227 | 1 | 2.31% |
| 12 | 5000001 | 10000000 and above | 81,930,436 | 3 | 81.93% |
| | **Total** | | **100,000,000.00** | **254** | **100%** |

## 10. Other Matters

### 10.1 Directors' responsibilities with respect to financial statements

The directors are required to ensure that adequate accounting records are maintained so as to disclose at any time, and with reasonable accuracy, the financial position of the Company. The Directors are also responsible for taking reasonable steps to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors must present financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing such financial statements, they are required to: Select suitable accounting policies and apply them on a consistent basis using reasonable and prudent judgment, State whether applicable accounting standards have been followed and explain any material departures, Use the going concern basis unless it is inappropriate to do so.

The directors have satisfied themselves that the Company has adequate resources to continue in operation for the foreseeable future having considered the uncertainties and contingencies disclosed in the financial statements and have therefore prepared the financial statements on a going concern basis.

### 10.2 Internal controls

The board of directors have formed an Audit Committee to support the board in the discharge of its responsibilities in respect of supervising the Company's financial reporting processes, evaluating the adequacy and effectiveness of the Company's audit arrangements and overseeing the Company's risk management activities in ensuring that the risk appetite is appropriate and that key risks are identified and managed.

The Audit Committee has reviewed the Company›s overall system of governance as well as the scope and quality of management's ongoing monitoring of risks and the work of its internal and external audit and compliance functions to provide assurance on the Company›s ability to meet its strategic objectives.

The internal and external auditors have also conducted a number of reviews during 2018 and the results have been considered by the Audit Committee in building an opinion on the effectiveness of the internal control systems of the company.

Based on the above, the Audit Committee has satisfied itself with the reviews that have been conducted and has concluded that there were no material control weaknesses which can be considered as significant which might result in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or conditions.

During the period from 01-01-2018 to 31-12-2018 the Audit Committee held four meetings. During these meetings the Committees amongst other activities:

- reviewed the internal and external audit arrangements and ensured their independence.
- reviewed and approved the internal audit plans as well as the adequacy of internal audit resources to execute the plans
- assessed the effectiveness of the internal audit function and reviewed the findings reported within the audit reports and the management actions to address them
- ensured that the external auditors had access to all information and explanations required by them for carrying out their audit and expressing their audit opinion
- reviewed and approved the financial statements and made recommendations to the board for their approval
- reviewed and approved the risk appetite as well as the risk profile of the Company
- evaluated the activities of the risk and compliance department in developing and implementing mitigating actions and managing the risks identified.
- assessed the arrangements in place to achieve compliance with applicable regulation

The board therefore considers that there is an ongoing process for identifying, evaluating and managing the significant risks faced by AAIC, that it has been in place for 2018 and up to the date of approval of the Annual Report & Accounts and that it is regularly reviewed by the board.

### 10.3 Risk management

The board has overall responsibility for the Company's systems of risk management. The Company has adopted the RSA Group's Risk Management framework. The Risk Management Framework provides the mechanism through which risk management and control is embedded throughout the Company. This is being achieved through the 'three lines of defence' governance model which includes Management as the first line, Risk Management function as the 2nd line and Independent Assurance by Internal Audit as the 3rd line.

The Company has also adopted as a part of its overall policy framework the RSA Group's risk policy statements which set out the minimum standards to be maintained by the Company's operations to manage their risks in a way that is consistent with the risk appetite. The implementation process involved clear ownership for each policy and a formal process of seeking approvals for any variation of or dispensation from a requirement. All breaches that are identified are monitored and escalated to the appropriate level, including to the Audit Committee and the board. These policies, where relevant, are supported by procedures incorporating best practice in key business areas.

Within AAIC the risk elements are viewed under the following headings:

- Insurance (underwriting and claims) risk,
- Reinsurance risk,
- Operational risk,
- Credit, market and liquidity risk,
- Regulatory risk,
- Legal Risk

### 10.4 Internal audit

The Company has appointed an Internal Auditor and also makes use of the RSA Group's internal audit function (GIA) to provide internal audit services ensuring appropriate levels of independence. The Internal Auditor reports to the Audit Committee, which monitors the activities and effectiveness of Internal Audit. The audits conducted during 2018 were as follows:

- Direct Sales Management (Branch) Audit
- AML and Sanctions Audit
- Policy Gap Analysis Audit
- Investment and Solvency Management Audit
- Actuarial Reserving Governance Audit
- Commercial (Non-Motor) Underwriting Audit
- Anti-Bribery and Corruption Audit

### 10.5 Related Party Transactions

The company adopts the highest degree of transparency and clarity for related party transactions. All such transactions are subject to review of the audit committee and approval of the board of directors and where required, by shareholders in General Meeting.

The details of such transactions, where required, will be sent to every share holder along with the notice to the general meeting covering the related party transactions details. These transactions will also be disclosed in detail in the company's annual report.

The details of related party transactions for the year 2018 are included within the notes of financial statements. All these transactions have been concluded in accordance with the governing regulations applicable at the time when they were entered and disclosed in the financial statements in accordance with applicable international financial accounting standards. All the transactions are at 'arms-length' and do not involve any preferential terms.

### 10.6 External auditors

The Audit Committee has the authority to meet with internal and external auditors without management present. Each year, the Committee considers the performance of the external auditors, the regulatory requirements about auditor rotation, the Company's business and the market environment and invites proposals from a shortlisted panel of auditors. Based on an assessment of the responses the Committee makes its recommendations to the board regarding appointment of auditors. The board after due consideration of the same presents it to the Shareholders at the General Assembly for approval.

The shareholders of the Company appointed EY as the Company's auditors for the year 2018.

EY is a global leader in assurance, tax, transaction and advisory services. EY is committed to doing its part in building a better working world. The insights and quality services which EY delivers help build trust and confidence in the capital markets and in economies the world over.

The MENA practice of EY has been operating in the region since 1923 and employs over 7,000 professionals. EY has been operating in Oman since 1974 and is a leading professional services firm in the country. EY MENA forms part of EY's EMEIA practice, with over 4,600 partners and approximately 106,775 professionals. Globally, EY operates in more than 150 countries and employs 261,559 professionals in 700 offices. Please visit ey.com for more information about EY.

The board based on the recommendation of the Audit & Risk Committee shall consider the appointment of external auditors for 2018and make recommendations to the Shareholders for consideration at the Annual General Assembly Meeting.

During the year, RO 40,130 was charged by external auditors against the services rendered by them to the Company (RO 28,000 for audit and RO 12,130 for tax services)

## 11. Corporate social responsibility

We are committed to responsible business. This means running Al Ahlia in a way that our employees can be proud of, ensuring financial strength and transparency for our shareholders, putting our customers first, and delivering long-term value to our environment and society.

Our vision is to be a responsible business working with its customers and stakeholders to help meet society's challenges.

Our CSR strategy is underpinned by three core ambitions.

**01- Safe, Secure World**

We believe we can play a powerful and practical role in helping our customers to avoid risks, using insight, data and our product development expertise to help keep them safer in their homes, on the roads and in their businesses.

**02- Thriving Communities**

Our business will not be successful unless the communities we operate in also flourish and thrive. We're supporting our employees to contribute to the economic and social development of their local areas, by sharing skills, offering time, and fundraising for local causes.

**03 - Responsible Business**

Being a Responsible Business means being open and transparent with our customers, employees and suppliers about how we manage our operations and deliver our products. This helps us to build dialogue and trust, and to understand where and how we can improve.

The company made some humble contributions during the year to cover a wide spectrum of causes – special needs, orphans, vulnerable children, road safety, cancer, environment and the elderly.

| Name of the institution | Contributions made in OMR |
|---|---:|
| Oman Autism Association | 1,450 |
| Orphans Care Inside Oman | 1,450 |
| Oman Road Safety Association | 1,450 |
| Children First Association | 1,450 |
| Oman Cancer Association | 1,450 |
| Environment Society Oman | 1,450 |
| Oman Down Syndrome Association | 1,000 |
| Dar Al Atta | 400 |
| **Total** | **10,000** |

Looking forward to 2019 we are committed to working with local communities and charities to increase awareness and provide support to the neediest in our society.

**Chairman,**

Audit & Risk Committee:

# Annexures

# ANNEXURES

## 1. Profiles of Board members

### Christopher Dooley – Chairman

Christopher Dooley is a Chartered Insurer with a BA (Hons) qualification and a Diploma in Direct Marketing, with over 30 years of experience in General Insurance in the UK and overseas in Asia and in the Middle East. He is currently the Managing Director of Royal & Sun Alliance Insurance (Middle East) BSC (c) Bahrain and is also a member of the board of Al Alamiya for Cooperative Insurance Company, KSA. Most recent experience includes - Director, Customers & People-Singapore (RSA), CEO - Hong Kong (RSA) and Director/CEO Thailand - Insurance Australia Group

### Jonathan Cope – Deputy Chairman

Jonathan Cope holds a Master's degree (MA) from Edinburgh University and post-graduate qualifications in Law (PGD, LPC) from BPP Law School in London. He is a UK-qualified lawyer and also a qualified Company Secretary with the Institute of Chartered Secretaries and Administrators (ICSA) and has over thirteen years of experience in various capacities with law firms in the UK. Having joined the RSA Group, UK in 2013 he is now Head of Legal, UK & International, RSA Group.

### Patrick O' Flynn – Independent Director

Patrick O' Flynn has had a long and distinguished career in general insurance spanning over 40 years. Having served in several leadership positions across developed as well as emerging markets such as UK, Western Europe, Latin America, Middle East, Africa and Asia within the RSA Group he is now retired and currently holds positions as Independent Non-Executive Director on the boards of different entities of the Now Health International Group. During his career he has held several board memberships of entities in the geographies that he has worked in including the Middle East.

### Yoasuf Al Balushi – Independent Director

Yoasuf Al Balushi holds a Bachelor's Degree in Marketing from Ajman University UAE. He has undertaken extensive training on strategic planning in financial management, statistical analysis of financial markets etc. He has an overall experience of 11 years in the field of investment and marketing. His present responsibility includes examining and assessing economic and market trends, earning prospects, financial statements and various other indicators and factors to determine suitable investment strategies.

### Parameswaran Iyer – Independent Director

Parameswaran Chandrasekhar Iyer is M. Com and Associate Member of Institute of Chartered Accountants of India, Associate Member of Institute of Company Secretaries of India, Fellow Member of Financial Services Institute of Australasia and ASA Member of Certified Public Accountants of Australia. He has a vast experience of more than 35 years in the domain of finance, corporate planning, business strategy and new business initiatives. He is presently working as Group General Manager with Jawad Sultan Group LLC.

**Shahid Rasool – Non-Executive Director**

Shahid is the Chief Investment Officer at OMINVEST and joined the firm in 2014. Over the last 20 years, Shahid has held leadership responsibilities at prominent Investment Banks and Investment Firms in the Middle East. Before joining OMINVEST, Shahid was Head of Public Securities at Q Invest (Qatar›s largest investment bank) and managed the bank's proprietary capital and client portfolios focusing on MENA and Global Equities. Earlier, he was Head of Investments Group at First Gulf Bank (FGB) in Abu Dhabi, where he led a large team and managed multi-asset investment portfolios covering MENA and Global markets. Shahid is a Chartered Financial Analyst (CFA Charter Holder) and received his MBA from The University of Chicago, Booth School of Business, Illinois, USA

**Khalid Bin Abdullah Al Khalili – Non-Executive Director**

Khalid Al Khalili has an engineering degree with more than 20 years of experience in the domain of project management.  He has been responsible for the development of several real estate projects in various sectors viz Government, Tourism, Health, commercial and residential with a net total value exceeding $ 500 m. He is presently working as Chairman of Alflag group of companies. He also holds the Directorship of the following public joint stock companies

- **Deputy Chairman & Executive Committee – OmInvest**
- **Board Member and Executive Committee – Bank Nizwa SAOG**

**Matthew Hotson - Non-Executive Director**

Matthew Hotson is a member of the Board since November 2017 and is also chair of the Nomination, Remuneration and Investment committee and a member of the Audit committee. He holds master's degrees from Cambridge University, UK (MA) and the Open University UK (MSc) and had been in senior management positions with leading insurance Companies in the UK for over two decades. He is currently the CFO, UK and International at RSA Group, UK.   He is currently a board director of Al Alamiya For Cooperative Insurance Company, KSA and Royal & Sun Alliance Insurance (ME) BSC © Bahrain, and has previously held board positions at RSA Canada and Legal & General Insurance Ltd.

**Laurence Loughnane - Non-Executive Director**

Laurence Loughnane has over three decades of experience in the technical domain of insurance business having held variety of leadership roles in underwriting, pricing, portfolio management and claims in many international markets. He is currently the Regional Chief Underwriting Officer for RSA Insurance (Middle East) BSC (c).

**M.P. Venkatesh - Board Secretary**

Prasanna Venkatesh Muthukrishnan is a Chartered Accountant with over 25 years of senior management experience in general insurance in the Middle East region in the areas of Finance, Secretarial, Corporate Governance, Information Technology and Operations. Having joined the RSA Group in 1988 he has held a variety of positions within the Asia and Middle East Regions of the group including roles as Regional Chief Financial Officer for Middle East, Regional Chief Information Officer for Asia and Middle East Region. Besides being the Board Secretary for Al Ahlia, he also performs a similar role for the Company's parent Royal & Sun Alliance Insurance (Middle East) BSC (c) Bahrain and its other subsidiary Al Alamiya For Cooperative Insurance Company, KSA.

## 2. Profiles of Executive Management

**Lloyd East – Chief Executive Officer**

Lloyd has joined Al Ahlia Insurance Company in 2011. He holds BA (Hons) Business Studies degree from Sheffield City Polytechnic. Lloyd has a vast experience in Insurance Industry. He is also presently the Deputy Chairman of Oman Insurance Association.

**Praveen Kumar – Chief Financial Officer**

Praveen has joined RSA Group in 2007. He holds a Bachelor of Science Degree (Mathematics), from University of Madras. He is a Chartered Accountant from Institute of Chartered Accountants of India and is also CIMA, CPA, and Post Graduate Diploma in Risk Management from Institute of Risk Management UK. Praveen has vast experience in Financial Services Industry.

**Kevin Moss – Technical Director**

Kevin has joined Al Ahlia Oman in 2011 as Technical Director. Kevin is an Associate of the Chartered Insurance Institute(U.K.). He is also a Senior Associate of Australian and New Zealand Institute of Insurance and Finance. Kevin is also member of Technical Committee of Oman Insurance Association. He has a vast experience in the domain of underwriting in the Middle East Region and London Market. His previous experience has been with RSA Middle East, Kuwait Qatar Insurance Company, Norwich Union Insurance (Gulf), National Company for Co-operative Insurance Jeddah to name a few.

**Richard Byford – Claims Director**

Richard Byford joined Al Ahlia in 2015. He is a Chartered Associate of the Chartered Insurance Institute, UK. He has a certificate in Business Management (credit) from Lancaster University, UK. Richard had an earlier stint with RSA as Head of Claims for AME (Asia and Middle East) as well as Head of Risk Management Solutions for AME. He has a vast experience in the domain of underwriting, risk management and claims management in Europe, UK & Middle East.

**Utpal Kapadia – IT Director**

Utpal Kapadia has joined Al Ahlia in 2006. He holds a Master Degree in Computer Management from University of Pune, India. He has over 24 years of IT experience of which 21 years in the Non-Banking Financial sector. His has an extensive experience in the management, strategy and execution of IT business systems, infrastructure and information security. He has worked as Deputy GM in GRUH Finance Ltd., a HDFC Group Co. and was responsible for design and implementation of key business modules of housing finance, fixed deposit and financial accounting on a Pan India basis. Utpal has a significant experience in maintaining and monitoring wide area networking.

**Miron Shahabuddin Kibria – Head of Risk and Compliance**

Miron Kibria joined Al Ahlia in August 2018. He has been with the RSA Group for over 12 years working in various senior roles across the UK, Group and the Middle East. He holds a BA (Hons) degree in Accounting in Finance from Liverpool John Moores University in the UK and is an associate of the Chartered Institute of Management Accountants (CIMA). He has extensive experience in general insurance and risk management frameworks.

**Andy Williamson – Director Commercial**

Andy Williamson has joined Al Ahlia in 2017. He holds a BA (Honours) Degree in Business Studies from University of Hull, UK. He has extensive expertise in general insurance working for RSA Group, AIG Europe Ltd., Axa Insurance Plc, and Zurich Insurance Plc. His core expertise lies in Leadership and people management, distribution, broker relationship management and sales, strategy formulation and implementation with a very strong financial acumen, P&L, and portfolio management.

**Addal Sarwar – Director Retail**

Addal Sarwar has joined Al Ahlia in 2016. He holds a BSC Management Sciences degree with specialisation in operational maths and statistical analysis from Leicester De Montfort University, UK. Prior to joining Al Ahlia, Addal has worked as Direct Marketing Head at AIG Middle East and North Africa. He has also experience as Value Optimisation Analyst at Barclays Bank.

**Fathiya Hajri – Sr. Manager HR Operations**

Fathiya has joined Al Ahlia in 1998. He holds a BSC degree in Business Administration and Human Resources. She has an extensive experience of more than 20 years in the domain of HR operations.

**Gautham Subramanian – Actuary**

Gautham Subramanian has joined RSA in 2016. He is an Associate of the Society of Actuaries with specialization in nonlife reserving covering Motor, Marine, Property, Engineering. He has expertise in FCR and Retail Lines Pricing and has a prior experience of working as Consulting Actuary in the Middle East Region. He has also been a visiting faculty at Institute of Management Studies and was a Research Assistant at Indian Institute of Technology.

**Kapil Garg – Senior Internal Auditor**

Kapil Garg joined Al Ahlia in June 2017, as Senior Auditor in Internal Audit Department. He holds a Master of Commerce Degree and is a Chartered Accountant from The Institute of Chartered Accountant of India. Before joining Al Ahlia, Kapil Garg was working with Future Generali India Insurance Company Ltd. as Senior Manager – Internal Audit.

# Financial Statements for the year 31 December 2018

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Ernst & Young LLC
P.O. Box 1750, Ruwi 112
5th Floor, Landmark Building
Opposite Al Ameen Mosque
Bowsher, Muscat
Sultanate of Oman

Tel: +968 22 504 559
Fax: +968 22 060 810
muscat@om.ey.com
ey.com/mena
C.R. No. 1224013
PR No. HMH/15/2015; HMA/9/2015

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AL AHLIA INSURANCE COMPANY SAOG

### Report on the audit of the financial statements

*Opinion*

We have audited the financial statements of Al Ahlia Insurance Company SAOG (the "Company") which comprise the statement of financial position as at 31 December 2018, and the related statement of profit or loss and other comprehensive income, statement of changes in equity and 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 2018 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 we 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.

*Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
AL AHLIA INSURANCE COMPANY SAOG (CONTINUED)

Report on the audit of the financial statements (continued)

*Key audit matters (continued)*

1. Valuation of insurance contract liabilities

| *Key audit matters* | *How our audit addressed the key audit matters* |
|---|---|
| The estimation of insurance contract liabilities involves a significant degree of judgement. The liabilities are based on a best-estimate of the ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling cost. A range of methods may be used to determine these liabilities. Underlying these methods are a number of assumptions relating to the expected settlement amount and settlement patterns of claims.<br><br>The basis of the Company's estimation of insurance contract liabilities is presented in the accounting policies section at note 3.12 to the financial statements. Also, attention is drawn to the critical accounting estimates and judgements, disclosures of outstanding claims and the insurance risk management set out in notes 4.3 (a), 20 and 29 to the financial statements respectively. | We assessed management's calculation of insurance liabilities by performing the following procedures:<br><br>• We evaluated and tested key controls around the claims handling and reserve setting processes of the Company. We examined evidence of the operation of controls over the valuation of individual claims reserves, such as large loss review controls and internal peer reviews (whereby reviewers examine documentation supporting claims reserves and consider if the amount recorded in the financial statements is valued appropriately).<br><br>• We checked a sample of claims reserves, through comparing the estimated amount of the reserve to appropriate documentation, such as reports from loss adjusters and where relevant, the inspection of the Company's correspondence with lawyers for claims under investigation.<br><br>• We reviewed management's reconciliation of the underlying Company data recorded in the insurance policy administration systems with the data used in the actuarial reserving calculations.<br><br>• We matched the insurance contract liabilities as recommended by the Company's actuary to the liabilities in the financial statements.<br><br>• We assessed the experience and competency of the Company's actuary to perform the year end valuation.<br><br>• We involved our actuarial specialist team members, to apply appropriate industry knowledge and experience and we compared the methodology, models and assumptions used against recognised and acceptable actuarial practices. |

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
AL AHLIA INSURANCE COMPANY SAOG (CONTINUED)

Report on the audit of the financial statements (continued)

*Key audit matters (continued)*

2. Revenue recognition

| *Key audit matters* | *How our audit addressed the key audit matters* |
|---|---|
| Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period, and recognised on the date on which the policy commences. At the end of each period, a proportion of net retained premiums is provided for to cover portions of risk which have not expired at the reporting date. The reserves are required to be calculated based on higher of 1/365 method or the amount required by the Insurance Law of Sultanate of Oman calculated at 45% of the net retained premiums for the year for all classes of business.<br><br>We determined this to be a key audit matter because it involves complex computations, which is generally performed by the system and due to the materiality of the amounts involved.<br><br>The accounting policy and disclosures on revenue are set out in notes 3.19, 19 and 28 to the financial statements, respectively. | We performed the following audit procedures:<br><br>• We assessed whether the Company's revenue recognition policies complied with IFRS and Insurance Law of Sultanate of Oman and tested the implementation of those policies. Specifically, we considered whether the premiums on insurance policies are accounted for on the date of inception of policies, with the exception of premium income on marine cargo policies which is accounted for on the expected date of voyage, by testing a sample of revenue items to insurance contracts, with a specific focus on transactions which occurred near the reporting date.<br><br>• We evaluated the relevant IT systems and tested the operating effectiveness of the internal controls over the recording of revenue in the correct period.<br><br>• We compared the unearned premiums reserve account balance as reported in the financial statements to the reserve balance computed by the Company's actuary.<br><br>• We recalculated the unearned premium reserve based on the remaining period of insurance contracts existing as of the reporting date.<br><br>• We also tested a sample of journal entries posted to revenue accounts to identify any unusual or irregular items. |

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AL AHLIA INSURANCE COMPANY SAOG (CONTINUED)

Report on the audit of the financial statements (continued)

*Key audit matters (continued)*

3. Goodwill impairment testing

| *Key audit matters* | *How our audit addressed the key audit matters* |
|---|---|
| The impairment testing of goodwill performed by the management is significant to our audit because assessment of the recoverable amount of cash generating unit (CGU) under the value-in-use basis is complex and requires considerable judgment on the part of management. As disclosed in note 4.3 (f) to the financial statements, management's impairment assessment process is highly judgmental and is carried out using various variables and assumptions, including estimated future cashflows, terminal growth rate and discount rates, which are affected by expected future market or economic conditions. Given the high level of management judgment in their impairment assessment, we considered this area to be a key audit matter.<br><br>The accounting policy and the disclosures relating to goodwill impairment testing are set out in note 3.4 and note 12 to the financial statements respectively. | We obtained management's goodwill impairment model and performed the procedures as set out below:<br><br>• We examined the Company's forecast cash flows which underpin management's impairment review. We tested the basis of preparing those forecasts taking into account the accuracy of previous forecasts and the historic evidence supporting underlying assumptions.<br><br>• We assessed future cash flow assumptions through comparison of current performance, seeking corroborative evidence and enquiry with management in respect of key growth and trading assumptions.<br><br>• The reasonableness of other key assumptions such as the discount rate and long term growth rate were tested with appropriate input from our internal specialists and applying an independent assessment on general market indicators to conclude on the appropriateness of these assumptions.<br><br>• We tested the mathematical accuracy of management's model and carried out audit procedures on management's sensitivity calculations.<br><br>• We tested management's assessment on whether any reasonably possible change in these key assumptions would result in an impairment of goodwill and therefore require disclosure under IAS 36 Impairment of Assets. |

*Other information included in the Company's 2018 Annual Report*

Those charged with governance and management are responsible for the other information. Other information consists of the information included in the Company's 2018 Annual Report other than the financial statements and our auditor's report thereon. We obtained the following information prior to the date of our auditor's report, and we expect to obtain the published 2018 Annual Report after the date of our auditor's report:

- Chairman's report
- Corporate governance report
- Management discussion and analysis

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
AL AHLIA INSURANCE COMPANY SAOG (CONTINUED)

Report on the audit of the financial statements (continued)

*Key audit matters (continued)*

*Other information included in the Company's 2018 Annual Report (continued)*
Our opinion on the financial statements does not cover the other information and we do not and will 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 on the other information obtained prior to the date of the auditor's report, 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 regard.

*Responsibilities of management and those charged with governance for the financial statements*
Those charged with governance are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the relevant requirements of the Commercial Companies Law of 1974, as amended, and the Capital Market Authority ("the CMA") of the Sultanate of Oman, and for such internal control as those charged with governance 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, those charged with governance are 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 those charged with governance either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

*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.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
AL AHLIA INSURANCE COMPANY SAOG (CONTINUED)

**Report on the audit of the financial statements (continued)**

***Auditor's responsibilities for the audit of the financial statements (continued)***

- 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 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 those charged with governance'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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on other legal and regulatory requirements**

In our opinion, the financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended, and CMA of the Sultanate of Oman.

Ernst & Young LLC

إرنست ويونغ ش م م
س.ت: ١٢٢٤٠١٣
ص.ب: ١٧٥٠ روي – ١١٢، سلطنة عمان
ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

Philip Stanton
Muscat
21 February 2019

## STATEMENT OF FINANCIAL POSITION
At 31 December 2018

| | Notes | 2018 RO | 2017 RO |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 5 | **2,460,164** | 2,250,799 |
| Bank deposits | 6 | **39,657,876** | 40,266,910 |
| Premiums and insurance balances receivable | 7 | **7,786,216** | 6,679,942 |
| Reinsurers' share of outstanding claims | 20 | **8,454,865** | 1,872,278 |
| Reinsurers' share of unearned premium reserve | 17 | **628,666** | 1,155,551 |
| Other receivables and prepayments | 8 | **4,477,012** | 4,940,687 |
| Investments at fair value through profit or loss | 9 | **39,440** | 34,447 |
| Available-for-sale investments | 9 | **71,429** | 71,429 |
| Held-to-maturity investments | 9 | **2,408,812** | 2,059,273 |
| Property and equipment | 11 | **756,970** | 403,643 |
| Deferred tax asset | 23 | **100,591** | 97,537 |
| Goodwill | 12 | **15,448,529** | 15,448,529 |
| **Total assets** | | **82,290,570** | 75,281,025 |
| | | | |
| **Equity and liabilities** | | | |
| **Capital and reserves** | | | |
| Share capital | 13.a | **10,000,000** | 10,000,000 |
| Special reserve | 13.b | **-** | 11,784,883 |
| Legal reserve | 14 | **3,909,423** | 3,909,423 |
| Contingency reserve | 15 | **10,000,000** | 10,000,000 |
| Revaluation reserve | 16 | **115,316** | 116,034 |
| Retained earnings | | **15,260,856** | 2,744,130 |
| **Total equity** | | **39,285,595** | 38,554,470 |
| | | | |
| **Liabilities** | | | |
| Liabilities arising from insurance contracts | | | |
| Gross unearned premium reserve | 17 | **11,713,587** | 11,489,071 |
| Gross outstanding claims | 20 | **22,857,378** | 16,964,083 |
| | | **34,570,965** | 28,453,154 |
| Reinsurance balances payable | | **986,997** | 1,946,726 |
| Other liabilities and accruals | 18 | **5,173,510** | 4,169,221 |
| Income tax payable | 23 | **2,273,503** | 2,157,454 |
| **Total liabilities** | | **43,004,975** | 36,726,555 |
| **Total equity and liabilities** | | **82,290,570** | 75,281,025 |
| **Net assets per share** | 26 | **0.393** | 0.390 |

These financial statements were approved and authorised for issue by the Board of Directors on 19 February 2019 and were signed on their behalf by:

Sd/- ____________________ Chairman

Sd/- ____________________ Director

The attached notes 1 to 33 form part of these financial statements.

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2018

| | Notes | 2018 RO | 2017 RO |
|---|---|---|---|
| Insurance premium revenue | 19 | **25,803,903** | 25,919,076 |
| Insurance premium ceded to reinsurers | 19 | **(3,401,139)** | (3,442,962) |
| Net insurance premium revenue | 19 | **22,402,764** | 22,476,114 |
| Commissions received on ceded reinsurance | | **288,115** | 545,453 |
| Claims | 20 | **(19,445,296)** | (12,805,679) |
| Reinsurers' share of claims | 20 | **7,926,332** | 641,385 |
| Deferred acquisition cost | 8 | **125,604** | 49,129 |
| Commissions paid | | **(2,357,738)** | (2,138,174) |
| Net underwriting result | | **8,939,781** | 8,768,228 |
| General and administrative expenses | 22 | **(6,036,929)** | (6,121,011) |
| Investment income (net) | 21 | **1,728,573** | 1,572,924 |
| Other income – net | | **(300)** | 22,316 |
| Profit before taxation | | **4,631,125** | 4,242,457 |
| Income tax | 23 | **(700,000)** | (550,000 |
| **Profit and other comprehensive income for the year** | | **3,931,125** | 3,692,457 |
| **Basic and diluted earnings per share** | 27 | **0.039** | 0.037 |

The attached notes 1 to 33 form part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

| | Share capital RO | Special reserve RO | Legal reserve RO | Contingency reserve RO | Revaluation reserve RO | Retained earnings RO | Total RO |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2017 | 10,000,000 | 11,784,883 | 3,909,423 | 9,528,286 | 116,752 | 622,669 | 35,962,013 |
| Dividend paid | - | - | - | - | - | (1,100,000) | (1,100,000) |
| Release of revaluation reserve | - | - | - | - | (718) | 718 | - |
| Transfer to contingency reserve | - | - | - | 471,714 | - | (471,714) | - |
| Profit for the year | - | - | - | - | - | 3,692,457 | 3,692,457 |
| **Balance at 31 December 2017** | **10,000,000** | **11,784,883** | **3,909,423** | **10,000,000** | **116,034** | **2,744,130** | **38,554,470** |
| **Balance at 1 January 2018** | **10,000,000** | **11,784,883** | **3,909,423** | **10,000,000** | **116,034** | **2,744,130** | **38,554,470** |
| **Dividend paid** | **-** | **-** | **-** | **-** | **-** | **(3,200,000)** | **(3,200,000)** |
| **Release of revaluation reserve** | | | | | **(718)** | **718** | **-** |
| **Transfer from special reserve (note 13.b)** | **-** | **(11,784,883)** | **-** | **-** | **-** | **11,784,883** | **-** |
| **Profit for the year (note 32)** | **-** | **-** | **-** | **-** | **-** | **3,931,125** | **3,931,125** |
| **Balance at 31 December 2018** | **10,000,000** | **-** | **3,909,423** | **10,000,000** | **115,316** | **15,260,856** | **39,285,595** |

The attached notes 1 to 33 form part of these financial statements.

## STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

| | Notes | 2018 RO | 2017 RO |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before taxation | | **4,631,125** | 4,242,457 |
| Adjustments for: | | | |
| Investment income (net) | 21 | **(1,728,573)** | (1,572,924) |
| Movement in unearned premium reserve | | **751,401** | (17,218) |
| Deferred acquisition cost | 8 | **(125,604)** | (49,129) |
| Allowance for impaired debts | 7 | **140,000** | 80,000 |
| Depreciation on property and equipment | 11 | **149,346** | 130,182 |
| Provision for end of service benefits | 18 | **87,619** | 84,795 |
| Gain on sale of property and equipment | | **-** | (21,595) |
| | | **3,905,314** | 2,876,568 |
| **Cash flows before changes in operating assets and liabilities:** | | | |
| Premiums and insurance balances receivable | | **(1,246,274)** | 353,522 |
| Reinsurers' share of outstanding claims | | **(6,582,587)** | 37,946 |
| Other receivables and prepayments | | **(211,017)** | (23,217) |
| Gross outstanding claims | | **5,893,295** | 366,652 |
| Reinsurance balances payable | | **(959,729)** | (672,651) |
| Other liabilities and accruals | | **928,358** | (250,215) |
| **Cash generated from operations** | | **1,727,360** | 2,688,605 |
| Income tax paid | | **(587,006)** | (137,849) |
| End of service benefits paid | 18 | **(11,688)** | (97,928) |
| Net cash from operating activities | | **1,128,666** | 2,452,828 |
| **Investing activities** | | | |
| Purchase of property and equipment | 11 | **(502,673)** | (132,338) |
| Proceeds from disposal of property and equipment | | - | 21,595 |
| Redemption of bank deposits (net) | | **609,034** | 1,036,284 |
| Purchase of investments | | **(354,532)** | (1,971,854) |
| Interest received | | **2,528,870** | 663,099 |
| **Net cash from / (used) in investing activities** | | **2,280,699** | (383,214) |
| **Financing activity** | | | |
| **Dividend paid** | 32 | **(3,200,000)** | (1,100,000) |
| **Net cash used in financing activity** | | **(3,200,000)** | (1,100,000) |
| Net change in cash and cash equivalents | | **209,365** | 969,614 |
| Cash and cash equivalents at the beginning of the year | | **2,250,799** | 1,281,185 |
| **Cash and cash equivalents at the end of the year** | 5 | **2,460,164** | 2,250,799 |

The attached notes 1 to 33 form part of these financial statements.

## 1. General

Al Ahlia Insurance Company SAOG (formerly Al Ahlia Insurance Company SAOC) (the “Company”) is an Omani joint stock company registered and incorporated in the Sultanate of Oman. The Company operates in Oman and writes short term insurance contracts covering general risks. The address of its registered office is PO Box 1463, Postal Code 112 Muscat, Sultanate of Oman.

The Company is a Subsidiary of Royal & Sun Alliance Insurance (Middle East) BSc ( c ), whose registered address is Flat No - 81, Building No - 198, Road No - 2803, Block No – 428, P O Box 11871, Manama, Kingdom of Bahrain. The ultimate parent company is RSA PLC registered in UK.

In accordance with the Royal Decree 39/2014 dated 17 August 2014 (the “RD”), all insurance companies registered under Commercial Companies Law should be a Public Joint Stock Company with a minimum paid up capital of RO 10 million within 3 years from the date of the RD. In order to comply with the RD, on 5 June 2017 the shareholders of the Company approved the transformation of the Company from a closed joint stock company (SAOC) to a General Omani Joint Stock Company (SAOG). It was further resolved that the transformation would be part of the process of selling a portion of the shares held by the existing shareholders to the public through an Initial Public Offering “IPO” in the Muscat Securities Market (the “MSM”). Accordingly, the Company’s completed the IPO process and the Company’s shares were listed for trading on the MSM from 17 August 2017 onwards.

The Company commenced its commercial operations on 1 July 2004 by acquiring the general insurance businesses of the Muscat branch of Royal & Sun Alliance Insurance Plc (Middle East) EC and W J Towell & Co. LLC, both related parties. On 30 April 2010, the Company acquired 99.99% of the issued and fully paid share capital of formerly Al Ahlia Insurance Company SAOC. With effect from 17 January 2011, the formerly Al Ahlia Insurance Company SAOC has been merged in to the Company.

## 2. New standards, interpretations and amendments adopted by the Company

### 2.1 The following amendments to IFRS apply for the first time in 2018 and have been adopted by the Company

For the year ended 31 December 2018, the Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2018.

- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations
- Amendments to IAS 40 Transfers of Investment Property
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters

These do not have a material impact on the financial statements of the Company.

The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

## 2. New standards, interpretations and amendments adopted by the Company (continued)

### 2.2 Standards issued but not yet effective

The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) which may impact the financial statements of the Company but are not yet mandatory for the year ended 31 December 2018:

- IFRS 16 Leases
- IFRS 17 Insurance Contracts
- Amendments to IFRS 9: Prepayments features with negative compensation
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28: Long-term interests in associates and joint ventures
- Annual Improvements 2015-2017 Cycle (issued in December 2017)

o IFRS 3 Business Combinations

o IFRS 11 Joint Arrangements

o IAS 23 Borrowing Costs

o IAS 12 Income Taxes

Other IASB Standards and Interpretations that have been issued but are not yet mandatory, and have not been early adopted by the Company, are not expected to have a material impact on the Company's financial statements.

#### 2.2.1 IFRS 17 - Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts. As the standard has been recently issued, the Company will assess its implication in due course. IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2022, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

The Company started a project to implement IFRS 17 and 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.

#### 2.2.2 IFRS 9 Financial Instruments

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The Company meets the eligibility criteria for the temporary exemption from IFRS 9 and intends to defer the application of IFRS 9 until the effective date of the new insurance contracts standard (IFRS 17) of annual reporting periods beginning on or after 1 January 2022, applying the temporary exemption from applying IFRS 9 as introduced by the amendment, Amendments to IFRS 4 applying 'IFRS 9 - Financial Instruments' with 'IFRS 4 – Insurance Contracts'.

The Company has not previously adopted IFRS 9, therefore, the Company has applied the temporary exemption from IFRS 9 and continues to apply IAS 39 to its financial assets and liabilities in its reporting period starting on 1 January 2018. During 2017, the Company had performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance.

## 2. New standards, interpretations and amendments adopted by the Company (continued)

### 2.2 Standards issued but not yet effective (continued)

#### 2.2.3 IFRS 15 – Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard supersedes all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Company has applied IFRS 15 using the modified retrospective application. Given insurance contracts are scoped out of IFRS 15, the main impact of the new standard is on the accounting for income from administrative and investment management services and accordingly, there is no significant impact from the application of IFRS 15.

#### 2.2.4 IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

**Transition to IFRS 16**

The Company plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Company plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

## 2. New standards, interpretations and amendments adopted by the Company (continued)

### 2.2 Standards issued but not yet effective (continued)

#### 2.2.4 IFRS 16 Leases (continued)

**Transition to IFRS 16 (continued)**

The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The Company has assessed the estimated impact that initial application of IFRS 16 will have on its financial statements, as described below.

This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2019 when the Company adopts IFRS 16.

**Lease in which the Company is a lessee**

The Company will recognise new assets and liabilities for its operating leases of offices, vehicles and printers (see note 33). The nature of expenses related to those leases will now change because the Company will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

In addition, the Company will no longer recognise provisions for operating leases that it assesses to be onerous. Instead, the Company will include the payments due under the lease in its lease liability.

Based on the information currently available, the Company estimates that it will recognise right of use assets approximately amounting to RO 1.1 million and lease liabilities approximately amounting to RO 1.1 million as at 1 January 2019. The Company plans to follow the modified retrospective transition method for initial application of IFRS 16 and will recognise the right-of-use assets based at the present value of the remaining lease rentals from 1 January 2019.

**The Company does not have any finance leases in its books as of 31 December 2018.**

**Lease in which the Company is a lessor**

The Company will reassess the classification of sub-leases in which the Company is a lessor. Based on the information currently available, the Company expects no significant impact in which Company is a lessor. The Company does not have any sub – leases in its books as of 31 December 2018.

## 3. Summary of significant accounting policies

### 3.1 Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards, applicable requirements of the Commercial Companies Law of 1974, as amended, Insurance Companies Law of 1979, as amended and relevant requirements of the Capital Market Authority of the Sultanate of Oman.

## 3. Summary of significant accounting policies (continued)

### 3.2 Basis of preparation

These financial statements are presented in Rial Omani (RO) since that is the currency in which the majority of the transactions are denominated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

The financial statements have been prepared on the historical cost basis except for financial instruments at fair value through profit and loss and revaluation of land and building.

The accounting policies have been consistently applied in dealing with items that are considered material in relation to the Company's financial statements for all the years presented.

### 3.3 Business combination

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

### 3.4 Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of identifiable net assets of insurance business acquired as of the date of acquisition. The cost of acquisition is the amount of cash paid and the fair value of other purchase consideration. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Also refer note 4.3 (f).

### 3.5 Intangible assets

The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for intangible assets are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expenses on intangible assets are recognised in profit or loss.

## 3. Summary of significant accounting policies (continued)

### 3.6 Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances and time deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that have an original maturity of more than three months from the date of acquisition are excluded from cash and cash equivalents.

### 3.7 Premiums and insurance balances receivable

Premiums and insurance balances receivable are measured at amortised cost and carried at estimated realisable value. An estimate is made for impaired debts based on a review of all outstanding amounts at the year end. Bad debts are written off during the year in which they are identified.

### 3.8 Investment securities

The Company classifies its investments upon initial recognition into the following categories:

- Investments at fair value through profit or loss
- Held-to-maturity investments
- Available-for-sale investments

#### Investments at fair value through profit or loss (FVTPL)

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument forms part of a contract containing one or more embedded derivatives and IAS 39 Financial Instruments : Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.
- A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition.

#### Held-to-maturity investments

Held-to-maturity investments are those which carry fixed or determinable payments and have fixed maturities and which the Company has the intention and ability to hold to maturity. These assets are initially measured at fair value plus any directly attributable transaction costs. After initial measurement, held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'investment income' in the statement of profit or loss.

#### Available-for-sale (AFS) investments

AFS investments are those which are neither classified as held for trading nor designated at fair value through profit or loss. Quotes shares held by the Company that are traded in an active market are stated at fair value at the end of each reporting period.

## 3 Summary of significant accounting policies (continued)

### 3.8 Investment securities (continued)

**Available-for-sale (AFS) investments (continued)**

Fair value is determined in the manner described in note 31. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in the statement of profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in the statement of other comprehensive income and accumulated under the 'investments revaluation reserve'. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to the statement of profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Trade and settlement date accounting

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset.

### 3.9 Derecognition of financial instruments

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

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

### 3.10 Property and equipment

Property and equipment other than land and building, are stated at cost less accumulated depreciation and any impairment in carrying value. Land and building are initially recorded at cost and subsequently measured at fair value.

When an asset is fair value, any increase in the carrying amount arising on revaluation is credited directly to other comprehensive income under the revaluation reserve, except to the extent that a revaluation increase merely restores the carrying value of an asset to its original cost, in which case the increase is credited to profit or loss to the extent of decrease previously expensed. A decrease resulting from a revaluation is initially charged directly against any related revaluation surplus held in respect of that same asset, the remaining portion being charged as an expense. On disposal, the related revaluation surplus is credited to the retained earnings.

## 3. Summary of significant accounting policies (continued)

### 3.10 Property and equipment (continued)

Depreciation is provided on a straight-line basis on all premises and equipment, other than freehold land which is determined to have an indefinite life. The rates of depreciation are based upon the following estimated useful lives of the assets as follows:

| | |
|---|---|
| Building | over 40 years |
| Motor vehicles | over 3 years |
| Furniture and equipment | over 3-4 years |

The carrying values of premises and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

For revalued assets, any surplus arising on revaluation is recognised in other comprehensive income except that the surplus reverses a previous revaluation deficit on the same asset recognised in profit or loss, in which case the credit to that extent is recognised in profit or loss. Any deficit on revaluation is recognised in profit or loss except to the extent that it reverses a previous revaluation surplus on the same asset, in which case debit to that extent is recognised in other comprehensive income. Incremental depreciation on revaluation surplus is transferred to retained earnings on annual basis.

### 3.11 Impairment and uncollectibility

#### Financial assets

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

a) For assets carried at fair value, impairment is the difference between cost and fair value; less any impairment loss previously recognised in the profit or loss;
b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
c) For assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective interest rate.

#### Non-financial assets

At each reporting date, the Company assesses if there is any indication of impairment of non-financial assets other than goodwill. If an indication exists, the Company estimates the recoverable amount of the asset and recognizes an impairment loss in the profit or loss. The Company also assesses if there is any indication that an impairment loss recognised in prior years no longer exists or has reduced. The resultant impairment loss or reversals are recognised immediately in the profit or loss. Any impairment loss recognised for goodwill is not reversed in a subsequent period.

### 3.12 Claims

Claims consist of amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, and are charged to profit or loss as incurred.

## 3. Summary of significant accounting policies (continued)

### 3.12 Claims (continued)

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the reporting date, whether reported or not. Provision for reported claims not paid as at the reporting date is made on the basis of individual case estimates. In addition, a provision based on the Company's prior experience is maintained for the cost of settling claims incurred but not reported at the reporting date.

Any difference between the provisions at the reporting date and settlements and provisions in the following year is included in the underwriting account for that year.

### 3.13 Liability adequacy test

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

The Company does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the reporting date.

### 3.14 Reinsurance

In order to minimise financial exposure from large claims the Company enters into agreements with other parties for reinsurance purposes. Premiums ceded and claims reimbursed are presented on a gross basis.

Amounts due to reinsurers are estimated in a manner consistent with the related reinsured policies and in accordance with the reinsurance contract.

Claims receivable from reinsurers are estimated in a manner consistent with the claim liability and in accordance with the reinsurance contract. These are shown as assets in the statement of financial position until the claim is paid by the Company. Once the claim is paid the amount due from the reinsurer in connection with the paid claim is transferred to "Premiums and insurance balances receivable". Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Where the carrying amount of a reinsurance asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

### 3.15 End of service benefits

The Company provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees› salary and length of service, subject to the completion of a minimum service period.

With respect to its national employees, the Company makes contributions to the Omani Public Authority for Social Insurance under Royal Decree No. 72/91 for Omani employees calculated as a percentage of the employees› salaries. The Company›s obligations are limited to these contributions, which are expensed when due.

### 3.16 Other liabilities

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

## 3. Summary of significant accounting policies (continued)

### 3.17 Provisions

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

### 3.18 Fair values

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

### 3.19 Premiums earned

Net premiums, after deducting policy acquisition costs, are recognised as revenue. Premiums are taken into income over the term of the policies. Unearned premiums represent the portion of premiums written relating to the unexpired period of coverage.  The change in the provision for unearned premiums is taken to the profit or loss in order that revenue is recognised over the period of risk.

Unearned premium are those premiums written in a year that relate to period of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent period is deffered as a provision for unearned premium. An additional provision is created to cover shortfall, if any, for each class of business between the total amount in the unearned premium reserve and the amount required by the Oman Insurance Companies Law of 1979 calculated at 45% of the net retained premiums for the year for all classes of business in the general insurance business.

Acquisition costs comprise the direct and indirect costs of obtaining and processing new insurance business. Deferred acquisition costs are calculated as a percentage of unearned premium reserve, includes an element of commission and is recognised as a portion of premium earned.

### 3.20 Commissions earned and paid

Commissions earned and paid are recognised at the time policies are written.

### 3.21 Interest revenue

Interest revenue is recognised as the interest accrues using the effective interest method, under which the rate used exactly discounts the estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

### 3.22 Dividend income

Dividends on investments are recognised in profit or loss when the Company's right to receive the dividends is established.

### 3.23 Income tax

Taxation is provided for in accordance with Omani tax regulations.

Deferred income tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted or substantively enacted by the end of the reporting period.

## 3. Summary of significant accounting policies (continued)

### 3.23 Income tax ( Continued)

Deferred income tax assets are recognised for all deductible temporary differences and carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

### 3.24 Foreign currency transactions

Transactions in foreign currencies are recorded at the rate ruling on the date of the transaction. Monetary assets and liabilities at the reporting date denominated in foreign currencies are translated at the rate of exchange ruling at that date. All exchange differences arising are taken to the profit or loss.

### 3.25 Operating segment

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance.

### 3.26 Earnings per share

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

### 3.27 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

### 3.28 Dividend on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are approved.

Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date.

### 3.29 Directors' remuneration

The board of directors' remuneration is accrued within the limits specified by the Capital Market Authority and the requirements of the Commercial Companies Law of the Sultanate of Oman.

## 4. Critical accounting judgment and key sources of estimation uncertainty

In the process of applying the Company's accounting policies, which are described in Note 3, management has made judgements that have the most significant effect on the amounts recognised in the financial statements and applied certain assumptions, and other key sources of estimation uncertainty at the reporting date as discussed below:

### 4.1 Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on recent market transactions on an arm's length basis, fair value of another instrument that is substantially the same, expected cash flows discounted at current rates for similar instruments or other valuation models.

### 4.2 Impairment of available-for-sale investments

The Company determines whether available-for-sale investments are impaired when there has been a significant or prolonged decline in their fair value below cost. This determination of what is significant or prolonged requires judgement. In making this judgement and to record whether impairment occurred, the Company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology and operational and financial cash flows.

### 4.3 Key sources of estimation uncertainty

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

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Insurance claims

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 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 required are made to the provision. Adequacy of the claims estimates on an overall basis is also assessed by an independent actuary and adjustments if required are recorded in the underwriting account. General insurance claims provisions are not discounted for the time value of money.

Such estimates are necessarily based on assumptions about several factors involving varying, and possibly significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

The Company is exposed to disputes with, and possibility of defaults by, its reinsurers. The Company monitors on a quarterly basis the evolution of disputes with and the strength of its reinsurers.

(b) Liability adequacy test

At each reporting date, the Company assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is recognised in profit or loss and an unexpired risk provision created. The Company does not discount its liability for unpaid claims as substantially all claims are expected to be paid within 12 months of the reporting date.

## 4. Critical accounting judgment and key sources of estimation uncertainty (Continues)

### 4.3 Key sources of estimation uncertainty (Continued)

(c) Useful lives of premises and equipment

Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

(d) Allowance for impaired debts

Allowance for impaired debts is based on management's best estimates of recoverability of the amounts due and the number of days for which such debts are due.

(e) Impairment of intangible asset

Determining whether intangible asset is impaired requires an estimation of the value in use of the cash-generating units to which it relates to. The value in use calculation requires the Company to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

(f) Impairment of goodwill

The Company determines whether goodwill is impaired on at least an annual basis. The recoverable amount of an asset or CGU (Cash generating unit) is the greater of its value in use and its fair value less cost to sell. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(g) 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 existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense 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 tax authority.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

## 5. Cash and cash equivalents

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

| | 2018 | 2017 |
|---|---|---|
| | RO | RO |
| **Cash and bank** | **2,460,164** | **2,250,799** |

Bank balances amounting to RO 41,627 (2017 – RO 37,822), RO 1,212 (2017 - RO 73) and RO 1,159 (2017 - RO 15,385 ) are denominated in UAE Dirham's, Pound Sterling and US Dollars respectively.

## 6. Bank deposits

| | 2018 | 2017 |
|---|---|---|
| | RO | RO |
| **Bank deposits with a maturity of greater than three months froms the value date of deposit** | **39,657,876** | **40,266,910** |

The deposits are held with commercial banks in Oman and carry annual interest rates ranging from 2% to 5% (2017- 1.75% to 5%).

At the reporting date, the Company does not hold any bank deposits denominated in foreign currency nil (2017 – nil).

Bank deposits include balances with related party amounting to RO 8,156,843 (2017 - RO 6,756,843) (note 24).

## 7. Premiums and insurance balances receivable

| | 2018 | 2017 |
|---|---|---|
| | **RO** | RO |
| Customers | **2,279,900** | 2,435,700 |
| Agents and brokers | **5,719,816** | 4,821,632 |
| Reinsurance balances receivable | **646,461** | 142,631 |
| | **8,646,237** | 7,399,963 |
| Less: allowance for impaired debts | **(860,021)** | (720,021) |
| | **7,786,216** | 6,679,942 |

Customers and reinsurance balance receivable include balances from the related parties amounting to RO 443,962 (2017 - RO 35,296) (note 24).

**Movements in allowance for impaired debts were as follows:**

| | 2018 | 2017 |
|---|---|---|
| | **RO** | RO |
| At 1 January | **720,021** | 640,021 |
| Charge during the year | **140,000** | 80,000 |
| At 31 December | **860,021** | 720,021 |

## 8. Other receivables and prepayments

| | 2018 | 2017 |
|---|---|---|
| | **RO** | RO |
| Accrued interest | **2,548,613** | 3,348,909 |
| Receivable from related parties (note 24) | **122,358** | 744 |
| Prepaid expenses | **141,505** | 183,836 |
| Deferred acquisition costs | **1,210,891** | 1,085,287 |
| Sundry receivables | **453,645** | 321,911 |
| | **4,477,012** | 4,940,687 |

Deferred acquisition costs pertain to deferrable direct and indirect costs incurred in renewing and acquiring new insurance contracts during the financial period.

**Movements in deferred acquisition cost were as follows:**

| | 2018 | 2017 |
|---|---|---|
| | RO | RO |
| At 1 January | 1,085,287 | 1,036,158 |
| Net movement during the year | 125,604 | 49,129 |
| At 31 December | 1,210,891 | 1,085,287 |

## 9. Investment securities

| | 2018 | 2017 |
|---|---|---|
| | RO | RO |
| Investments at fair value through profit or loss (i) | 39,440 | 34,447 |
| Available-for-sale investments (ii) | 71,429 | 71,429 |
| Held to maturity investments (iii) | 2,408,812 | 2,059,273 |
| | 2,519,681 | 2,165,149 |

### (i) Investments at fair value through profit or loss

| | | 2018 | 2017 | |
|---|---|---|---|---|
| | Fair value | Cost | Fair value | Cost |
| | RO | RO | RO | RO |
| **Quoted - banking** | 39,440 | 35,864 | 34,447 | 35,864 |

### (ii) Available-for-sale investments

| | | 2018 | | 2017 |
|---|---|---|---|---|
| | Fair value | Cost | Fair value | Cost |
| | RO | RO | RO | RO |
| **Unquoted – services** | 71,429 | 71,429 | 71,429 | 71,429 |

## 9. Investment securities (continued)

### (iii) Held-to-maturity investments

| | Effective interest rate % | 2018 RO | 2017 RO |
|---|---|---|---|
| Government Development Bonds – Issue 50 | **5.21** | **87,795** | 87,607 |
| Government Development Bonds – Issue 52 | **5.12** | **540,730** | 540,137 |
| Government Development Bonds – Issue 53 | **5.17** | **1,430,287** | 1,431,529 |
| Government Development Bonds – Issue 59 | **5.00** | **350,000** | - |
| **Held-to-maturity investments** | | **2,408,812** | **2,059,273** |

## 10. Restriction on transfer of assets

In accordance with the law governing the operation of insurance companies within the Sultanate of Oman, the Company has identified to the Capital Market Authority certain specific bank deposits and investments included in the statement of financial position at a total value of RO 35,862,876 (2017: RO 35,566,910). Under the terms of the legislation, the Company can transfer these assets only with the prior approval of the Capital Market Authority.

The Company has provided a bank guarantee to the Capital Market Authority of RO 150,000 (2017: RO 150,000) to comply with the requirements of Article 51 of the Insurance Companies Law of the Sultanate of Oman (note 25).

## 11. Property and equipment

| | Land and building | Motor vehicles | Furniture and equipment | Capital work in progress | Total |
|---|---|---|---|---|---|
| | RO | RO | RO | RO | RO |
| Cost / valuation | | | | | |
| At 1 January 2017 | 198,713 | 127,258 | 1,927,884 | - | 2,253,855 |
| Additions | - | - | 132,338 | - | 132,338 |
| Disposal | - | (62,977) | - | - | (62,977) |
| At 1 January 2018 | **198,713** | **64,281** | **2,060,222** | **-** | **2,323,216** |
| Additions | **-** | **-** | **182,066** | **320,607** | **502,673** |
| Disposal | **-** | **-** | **-** | **-** | **-** |
| **At 31 December 2018** | **198,713** | **64,281** | **2,242,288** | **320,607** | **2,825,889** |
| Depreciation | | | | | |
| At 1 January 2017 | **4,958** | **127,258** | **1,720,152** | **-** | **1,852,368** |
| Charge for the year | **718** | **-** | **129,464** | **-** | **130,182** |
| Disposal | **-** | **(62,977)** | **-** | **-** | **(62,977)** |
| At 1 January 2018 | **5,676** | **64,281** | **1,849,616** | **-** | **1,919,573** |
| Charge for the year | **718** | **-** | **148,628** | **-** | **149,346** |
| **At 31 December 2018** | **6,394** | **64,281** | **1,998,244** | **-** | **2,068,919** |
| Carrying value | | | | | |
| **At 31 December 2018** | **192,319** | **-** | **244,044** | **320,607** | **756,970** |
| At 31 December 2017 | 193,037 | - | 210,606 | - | 403,643 |

On 31 December 2018, in accordance with the Company's policy, land and buildings were re-valued at their open market value for existing use by a professional valuer. On revaluation, any accumulated depreciation is eliminated against the gross carrying amount and the net amount restated to the revalued amount of the asset. If land and building had been carried at cost less depreciation, the carrying amount would have been RO 59,416 (2017: RO 60,134).

## 12. Goodwill

### Goodwill arising on acquisition

Goodwill represents amount arising on acquisition of formerly Al Ahlia Insurance Company SAOC on 30 April, 2010. With effect from 17 January, 2011 the formerly Al Ahlia Insurance Company SAOC has been merged into the Company.

| | RO |
|---|---|
| Consideration transferred | **20,614,225** |
| Less: fair value of identifiable net assets acquired | **(5,165,696)** |
| **Goodwill** | **15,448,529** |

### Impairment testing

At the end of the reporting period, the Company assessed the recoverable amount of goodwill, using key assumptions including 4% (2017- 5%) terminal growth rate, cost of capital of 8.9% (2017- 8.82%) and determined that goodwill was not impaired. The impairment test, amongst others, is significantly dependent on the cost of capital and achievement of projected results.

Had the discount rate increased up to 14% and terminal growth rate been reduced to 2 %, all other assumptions remaining unchanged, an impairment provision would have been required.

## 13. Share capital and special reserve

13.a Share capital

| | **2018** | 2017 |
|---|---|---|
| | **RO** | RO |
| **Authorised – ordinary shares of 100 baizas each (2017 – 100 baizas each)** | **10,000,000** | 10,000,000 |
| **Issued and paid up – ordinary shares of 100 baizas each (2017 - 100 baizas each)** | **10,000,000** | 10,000,000 |

### Shareholders

The following shareholders of the Company own 10% or more of the Company's share capital:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **No of shares** | **%** | No of shares | % |
| Royal & Sun Alliance Insurance | | | | |
| (Middle East) BSc (c) | **52,500,000** | **52.50%** | 52,500,000 | 52.50% |
| OMINVEST | **24,299,993** | **24.30%** | 24,299,993 | 24.30% |
| | **76,799,993** | **76.80%** | 76,799,993 | 76.80% |

### 13.b Special reserve

In 2013, a capital restructure program was executed where in the share capital was reduced from RO 22.569 million to RO 10 million by way of RO 1.569 million payback to the shareholders at RO 2 per share and creation of special reserve of RO 11.784 million.

On 8 November 2018, an extraordinary meeting of the shareholders of Company was held and the shareholders of the Company passed a resolution to transfer the balance of RO 11.784 million from special reserve to retained earnings of the Company. Accordingly, the closing balance of special reserve as of 31 December 2018 is nil (2017: RO 11.784 million).

## 14. Legal reserve

As required by the Commercial Companies Law of Oman, 10% of the profit for the year is required to be transferred to legal reserve until such time as the reserve equals one third of the Company's paid up capital. The reserve is not available for distribution. At 31 December 2018, the legal reserve has reached one third of the issued capital accordingly no transfer made in the current year (2017: nil).

## 15. Contingency reserve

In accordance with Article 10 (bis) (2) (c) and 10 (bis) (3) (b) of Regulations for Implementing Insurance Companies Law (Ministerial Order 5/80), as amended:

- 10% of the net outstanding claims in case of the general insurance business at the reporting date is transferred from retained earnings to contingency reserve, and;
- 1% of the life assurance premiums in case of the life assurance business is transferred from retained earnings to contingency reserve.

At 31 December 2018, the Company's statutory reserve is equal to the statutory limit of RO 10 million and accordingly, no transfer has been made in the current year to the contingency reserve (2017: RO 0.47 million).

## 16. Revaluation reserve

This represents the reserve as a result of revaluation of land and building (note 11).

## 17. Unearned premium reserve

| | 2018<br>RO | 2017<br>RO |
|---|---|---|
| **Unearned premiums:** | | |
| Gross | **11,713,587** | 11,489,071 |
| Reinsurers' share | **(628,666)** | (1,155,551) |
| | **11,084,921** | 10,333,520 |
| Movement during the year : | | |
| At 1 January | **10,333,520** | 10,350,738 |
| Movement in statement of profit or loss | **751,401** | (17,218) |
| At 31 December | **11,084,921** | 10,333,520 |

## 18. Other liabilities and accruals

| | 2018 RO | 2017 RO |
|---|---|---|
| Due to related parties (note 24) | **310,804** | 422,264 |
| Other payables | **3,126,143** | 1,786,470 |
| Accrued expenses | **960,879** | 1,158,473 |
| Provision for end of service benefits | **467,404** | 391,473 |
| Accounts payable | **308,280** | 410,541 |
| | **5,173,510** | 4,169,221 |

Movements in the related liability for end of service benefits recognised in the statement of financial position are as follows:

| | 2018 RO | 2017 RO |
|---|---|---|
| At 1 January | **391,473** | 404,606 |
| Accrued during the year | **87,619** | 84,795 |
| Paid during the year | **(11,688)** | (97,928) |
| At 31 December | **467,404** | 391,473 |

## 19. Net insurance premium revenue

| | 2018 RO | 2017 RO |
|---|---|---|
| Gross written premiums | **26,030,193** | 25,531,270 |
| Movement in unearned premiums | **(226,290)** | 387,806 |
| Insurance premium revenue | **25,803,903** | 25,919,076 |
| Reinsurance premiums ceded | **(2,876,028)** | (3,072,374) |
| Movement in unearned premiums | **(525,111)** | (370,588) |
| Insurance premium ceded to reinsurers | **(3,401,139)** | (3,442,962) |
| Net insurance premium revenue | **22,402,764** | 22,476,114 |

## 20. Claims

| | | 2018 | |
|---|---|---|---|
| | Gross | Reinsurers' share | Net |
| | RO | RO | RO |
| At 1 January | | | |
| Outstanding claims | **10,864,170** | **(1,532,602)** | **9,331,568** |
| IBNR | **6,099,913** | **(339,676)** | **5,760,237** |
| | **16,964,083** | **(1,872,278)** | **15,091,805** |
| Add: claims provided during the year | **19,445,296** | **(7,926,332)** | 11,518,964 |
| | **36,409,379** | **(9,798,610)** | **26,610,769** |
| Less : insurance claims paid during the year | **(13,552,001)** | **1,343,745** | (12,208,256) |
| At 31 December | **22,857,378** | **(8,454,865)** | 14,402,513 |
| | | | |
| Analysis of outstanding clams at 31 December | | | |
| Outstanding claims | **16,242,054** | **(8,259,710)** | **7,982,344** |
| IBNR | **6,615,324** | **(195,145)** | 6,420,179 |
| | **22,857,378** | **(8,454,855)** | 14,402,523 |

| | | 2017 | |
|---|---|---|---|
| | Gross | Reinsurers' share | Net |
| | RO | RO | RO |
| At 1 January | | | |
| Outstanding claims | 12,171,602 | (1,910,224) | 10,261,378 |
| IBNR | 4,425,829 | - | 4,425,829 |
| | 16,597,431 | (1,910,224) | 14,687,207 |
| Add: claims provided during the year | 12,805,679 | (641,385) | 12,164,294 |
| | 29,403,110 | (2,551,609) | 26,851,501 |
| Less : insurance claims paid during the year | (12,439,027) | 679,331 | (11,759,696) |
| At 31 December | 16,964,083 | (1,872,278) | 15,091,805 |
| | | | |
| Analysis of outstanding clams at 31 December | | | |
| Outstanding claims | 10,864,170 | (1,532,602) | 9,331,568 |
| IBNR | 6,099,913 | (339,676) | 5,760,237 |
| | 16,964,083 | (1,872,278) | 15,091,805 |

Claims include claims related to related parties amounting to RO nil (2017 – RO 614,971).

Majority of the claims are expected to be paid within twelve months of the reporting date. The amounts due from reinsurers are contractually due within a maximum period of three months from the date of payment of the claims. Outstanding claims payable to related parties are disclosed in note 24.

## 21. Investment income (net)

| | 2018 | 2017 |
|---|---|---|
| | RO | RO |
| Interest income | **1,720,562** | 1,573,136 |
| Net income on investments | **3,918** | (1,416) |
| Dividend income | **4,093** | 1,204 |
| | **1,728,573** | 1,572,924 |

## 22. General and administrative expenses

| | 2018 | 2017 |
|---|---|---|
| | RO | RO |
| Staff costs | **3,362,038** | 3,569,647 |
| Depreciation (note 11) | **149,346** | 130,182 |
| Central support expense | **288,146** | 407,000 |
| Rent | **337,810** | 325,668 |
| Telephone | **102,464** | 104,917 |
| IT expenses | **590,458** | 597,493 |
| Travel expenses | **54,624** | 56,135 |
| Other expenses | **1,152,043** | 929,969 |
| | **6,036,929** | 6,121,011 |

## 23. Income tax

| | 2018 | 2017 |
|---|---|---|
| | RO | RO |
| Statement of comprehensive income: | | |
| Current tax | **743,083** | 686,655 |
| Prior year tax | **(40,029)** | (108,777) |
| Deferred tax | **(3,054)** | (27,878) |
| | **700,000** | 550,000 |
| Current liability: | | |
| Current year | **743,083** | 686,655 |
| Prior years | **1,530,420** | 1,470,799 |
| | **2,273,503** | 2,157,454 |
| Deferred tax asset | | |
| At 1 January | **97,537** | 69,659 |
| Movement for the year | **3,054** | 27,878 |
| At 31 December | **100,591** | 97,537 |

## 23. Income tax (continued)

The deferred tax asset comprises the following types of temporary differences:

| | 2018 | 2017 |
|---|---|---|
| | RO | RO |
| Taxable timing difference on premises and equipment qualifying for accelerated tax relief | **34,780** | 36,226 |
| Deductible timing difference on provisions | **65,811** | 61,311 |
| At 31 December | **100,591** | 97,537 |

The tax rate applicable to the Company is 15% (2017 - 15%). For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be 16.04% (2017 – 16.11%).

Set out below is reconciliation of income tax calculated on accounting profits with income tax expense for the year:

| | 2018 | 2017 |
|---|---|---|
| | RO | RO |
| Profit before income tax | **4,631,125** | 4,242,457 |
| Less: statutory deduction | **-** | - |
| Tax calculated at the statutory income tax rate of 15% | **694,669** | 636,369 |
| Tax effect of: | | |
| Income / gains not taxable | **(1,294)** | (3,420) |
| Prior year's tax | **(40,029)** | (108,777) |
| Deferred tax | **(3,054)** | (27,878) |
| Expenses not deductible in taxable profit | **49,710** | 53,706 |
| Income tax expense | **700,000** | 550,000 |

### Status of tax assessment

Assessments of the Company upto tax year 2012 are complete. Tax assessments of the former Al Ahlia Insurance Company SAOC prior to its merger with the Company are complete upto tax year 2010.

The company filed for an appeal against the objection decision for tax year 2010. Decision is yet to be issued by the Income Tax Committee. An objection against the assessment for tax year 2012 has been submitted to HE the Secretary General for Taxation on 31 January 2019.

## 24. Related party transactions

Related parties comprise the shareholders, directors, key management personnel and business entities in which they have the ability to control or exercise significant influence in financial and operating decisions.
The Company maintains significant balances with these related parties which arise in the normal course of business from commercial transactions and are at mutually agreed terms and conditions.

## 24. Related party transactions (continued)

Balances with related parties included in the statement of financial position are as follows:

**31 December 2018**

| | Deposits and other receivables RO | Premiums and insurance receivable RO | Re-insurance balances payable RO | Outstanding claims payable RO | Other payables RO |
|---|---|---|---|---|---|
| Major shareholders | **8,156,483** | **-** | **-** | **-** | **310,804** |
| Other related parties | **122,358** | **443,962** | **24,379** | **-** | **-** |
| | **8,278,841** | **443,962** | **24,379** | **-** | **310,804** |

**31 December 2017**

| | Deposits and other receivables RO | Premiums and insurance receivable RO | Re-insurance balances payable RO | Outstanding claims payable RO | Other payables RO |
|---|---|---|---|---|---|
| Major shareholders | 6,756,843 | - | - | - | 422,264 |
| Other related parties | 744 | 35,296 | 756,334 | 614,971 | - |
| | 6,757,587 | 35,296 | 756,334 | 614,971 | 422,264 |

Transactions with related parties included in the statement of comprehensive income are as follows:

**31 December 2018**

| | Premiums written RO | Commission paid RO | Gross incurred claims RO | Technical service fees RO | Deposits placed |
|---|---|---|---|---|---|
| Major shareholders | **-** | **-** | **-** | **288,146** | **2,000,000** |
| Other related parties | **-** | **-** | **-** | **-** | **-** |
| | **-** | **-** | **-** | **288,146** | **2,000,000** |

**31 December 2017**

| | | | | | |
|---|---|---|---|---|---|
| Major shareholders | - | - | - | 407,000 | 600,000 |
| Other related parties | 931,743 | 83,782 | 902,676 | - | - |
| | 931,743 | 83,782 | 902,676 | 407,000 | 600,000 |

**Compensation of key management personnel**

The remuneration of key management during the year was as follows:

| | **2018** RO | 2017 RO |
|---|---|---|
| Short-term benefits | **512,504** | 461,507 |
| Employees' end of service benefits | **20,443** | 15,872 |
| | **532,947** | 477,379 |

## 25. Contingent liabilities

**Contingencies**

The Company's bankers have provided financial guarantees to third parties on behalf of the Company amounting to RO 135,152 (2017 - RO 60,500).

The Company has provided a bank guarantee to the Capital Market Authority of RO 150,000 (2017 - RO 150,000) to comply with the requirements of Article 51 of the Insurance Companies Law of the Sultanate of Oman (Note 10).

**Legal claims**

The Company, in the normal course of business is subject to litigations and law suits. The Company, based on an independent legal advice, does not believe that the outcome of these court cases will have a material impact on the Company's income or financial condition.

## 26. Net assets per share

| | **2018**<br>**RO** | 2017<br>RO |
|---|---|---|
| Net assets (RO) | **39,285,595** | 38,554,470 |
| Number of shares at the reporting date | **100,000,000** | 100,000,000 |
| Net assets per share (RO) | **0.393** | 0.390 |

Net assets per share are calculated by dividing the shareholders' equity at the reporting date by the number of shares outstanding.

## 27. Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

| | **2018**<br>**RO** | 2017<br>RO |
|---|---|---|
| **Profit for the year** | **3,931,125** | 3,692,457 |
| **Weighted average number of shares** | **100,000,000** | 100,000,000 |
| **Earnings per share** | **0.039** | 0.037 |

No figure for diluted earnings per share has been presented as the Company has not issued any instruments which would have an impact on earnings per share when exercised.

## 28. Segmental information

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

(i) Motor
(ii) Non – motor

Information regarding the results of each reportable segment is included below. Performance is measured based on segment net insurance income, as included in the internal management reports that are reviewed by the CEO. Inter-segment pricing is determined on an arm's length basis.

| | Motor | | Non - motor | | Total | |
|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | **RO** | RO | **RO** | RO | **RO** | RO |
| Net premium earned | **20,202,364** | 20,111,039 | **2,200,400** | 2,365,075 | **22,402,764** | 22,476,114 |
| Underwriting results | **8,081,894** | 6,941,034 | **857,887** | 1,827,194 | **8,939,781** | 8,768,228 |
| Expenses | | | | | **(6,036,929)** | (6,121,011) |
| Investment income (net) | | | | | 1,728,573 | 1.572,924 |
| Other income - net | | | | | **(300)** | 22,316 |
| Profit before tax | | | | | 4,631,125 | 4,242,457 |
| Taxation | | | | | **700,000** | (550,000) |
| Profit for the year | | | | | **3,931,125** | 3,692,457 |
| Segment assets | **1,161,171** | 1,030,168 | **9,133,241** | 3,082,948 | **10,294,412** | 4,113,116 |
| Unallocated assets | | | | | **71,993,104** | 71,167,909 |
| Total assets | | | | | **82,287,516** | 75,281,025 |
| Segment liabilities | **24,752,356** | 23,373,171 | **10,923,219** | 5,776,228 | **35,675,575** | 29,149,399 |
| Unallocated liabilities | | | | | **7,326,346** | 7,577,156 |
| Total liabilities | | | | | **43,001,921** | 36,726,555 |

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

## 29. Risk management

### Governance framework

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

### Reinsurance risk

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

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

Reinsurance ceded contracts do not relieve the Company from its obligations to policyholders and as a result the Company remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements. The Company's maximum theoretical credit risk exposure at the reporting date in this connection is RO 8,454,865 (2017 - RO 1,872,278).

### Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest risk.

The Company's bank deposits carry fixed rate of interest and therefore, are not exposed to interest rate risk.

### Insurance risk

Insurance risk is the risk that actual claims payable to contract holders in respect of insured events exceed the carrying amount of insurance liabilities. This could occur because the frequency or amounts of claims are more than expected.

### Frequency and amounts of claims

The frequency and amounts of claims can be affected by several factors. The Company underwrites mainly motor, fire and accident and marine risks. These are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

### Fire-property

For property insurance contracts the main risks are fire and business interruption.

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims.

## 29. Risk management (continued)

**Motor**

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. In recent years the Company has only underwritten comprehensive polices for drivers over 21 years of age. Substantially all of the motor contracts relate to private individuals.

The level of court awards for deaths and to injured parties and the replacement costs of motor vehicles are the key factors that influence the level of claims.

**Marine**

For marine insurance the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered.

The insurance risk arising from insurance contracts is not concentrated in any of the countries in which the Company operates.

**Medical**

Medical insurance is sold as a group policy primarily to employers to cover the risk of employees' medical expenses in house or outpatient as per the terms of their respective agreements.

**Group life**

For group life, the insurance risks are group protection primarily sold to the employers covering the lives of the employees.

**Key assumptions**

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

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

**Claims development**

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

**Insurance risk (continued)**

**Claims development (continued)**

Net incurred claims

31 December 2018

| Accident year | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Total |
|---|---|---|---|---|---|---|---|---|
| | RO | RO | RO | RO | RO | RO | RO | RO |
| | One year later | 9,729,941 | 10,831,027 | 8,997,593 | 9,592,661 | 9,760,101 | 9,063,077 | 7,726,147 |
| Two years later | 7,468,564 | 7,610,189 | 7,634,330 | 8,428,209 | 8,261,326 | 7,493,007 | - | |
| Three years later | 8,575,100 | 7,935,646 | 7,218,870 | 8,027,131 | 7,111,145 | - | - | |
| Four years later | 8,618,145 | 8,045,086 | 6,887,655 | 7,845,937 | - | - | - | |
| Five years later | 8,483,522 | 7,740,662 | 6,241,082 | - | - | - | - | |
| Six years later | 8,494,679 | 7,910,017 | - | - | - | - | - | |
| Seven years later | 8,749,361 | - | - | - | - | - | - | |
| Estimate of incurred claims | 8,749,361 | 7,910,017 | 6,241,082 | 7,845,937 | 7,111,145 | 7,493,007 | 7,726,147 | 53,076,696 |
| Cumulative payments to date | (8,520,443) | (7,694,589) | (6,014,619) | (6,960,998) | (5,580,984) | (3,856,214) | - | (38,627,847) |
| Liability recognised | 228,918 | 215,428 | 226,463 | 884,939 | 1,530,161 | 3,636,793 | 7,726,147 | 14,448,849 |
| Liability in respect of prior years | | | | | | | | (46,336) |
| Liability recognised in the statement of financial position (net outstanding claims and IBNR) (note 20) | | | | | | | | 14,402,513 |

## 29. Risk management (continued)

Insurance risk (continued)

Claims development (continued)

Net incurred claims

31 December 2017

| Accident year | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Total |
|---|---|---|---|---|---|---|---|---|
| | RO | RO | RO | RO | RO | RO | RO | RO |
| One year later | 6,730,554 | 9,729,941 | 10,831,027 | 8,997,593 | 9,592,661 | 9,760,101 | 9,063,077 | |
| Two years later | 6,825,274 | 7,468,564 | 7,610,189 | 7,634,330 | 8,428,209 | 8,261,327 | - | |
| Three years later | 7,261,797 | 8,575,100 | 7,935,646 | 7,218,870 | 8,027,131 | - | - | |
| Four years later | 7,705,864 | 8,618,145 | 8,045,086 | 6,887,656 | - | - | - | |
| Five years later | 7,583,937 | 8,483,522 | 7,740,662 | - | - | - | - | |
| Six years later | 7,550,566 | 8,494,679 | - | - | - | - | - | |
| Seven years later | 7,487,059 | - | - | - | - | - | - | |
| Estimate of incurred claims | 7,487,059 | 8,494,679 | 7,740,662 | 6,887,656 | 8,027,131 | 8,261,327 | 9,063,077 | 55,961,591 |
| Cumulative payments to date | (7,481,415) | (8,419,388) | (7,660,067) | (5,949,607) | (6,737,139) | (4,579,995) | - | (40,827,611) |
| Liability recognised | 5,644 | 75,291 | 80,595 | 938,049 | 1,289,992 | 3,681,332 | 9,063,077 | 15,133,980 |
| Liability in respect of prior years | | | | | | | | (42,175) |
| Liability recognised in the statement of financial position (net outstanding claims and IBNR) (note 20) | | | | | | | | 15,091,805 |

## 29. Risk management (continued)

### Currency risk

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

Considering the fact that the Omani Rial is effectively pegged to US Dollar, the Company is not exposed to any material currency risk.

### Equity and bond price risk

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

100 % (2017: 100%) of the Company›s investments at the reporting date are within the Sultanate of Oman.

A 10% increase/decrease in the fair value of quoted investments at fair value through profit or loss will result in an increase/decrease in profits of RO 3,944 (2017: RO 1,082)

### Credit risk

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

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- The Company only enters into insurance and reinsurance contracts with recognised, credit worthy third parties.

- The Company seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables. Premium and insurance balances receivable comprise a large number of customers mainly within Sultanate of Oman.

- The Company's bank balances and bank deposits are maintained with a range of international and local banks in accordance with limits, based on their credit standing, set by the board of directors.

Credit risk is limited to the carrying values of financial assets in the statement of financial position.

## 29. Risk management (continued)

**Credit risk (continued)**

The following tables explain the credit position of the Company.

**31 December 2018**

| | Neither past due nor impaired RO | Past due but not impaired RO | Impaired RO | Total RO |
|---|---|---|---|---|
| Premium and insurance balance receivable | **4,150,597** | **3,636,195** | **859,445** | **8,646,237** |
| Reinsurers' share of outstanding claims | **8,454,865** | **-** | **-** | **8,454,865** |
| Investments in local bonds | **2,408,812** | **-** | **-** | **2,408,812** |
| Bank balances | **2,455,279** | **-** | **-** | **2,455,279** |
| Bank deposits | **39,657,876** | **-** | **-** | **39,657,876** |
| Other receivables | **3,124,616** | **-** | **-** | **3,124,626** |
| Total | **60,252,045** | **3,636,195** | **859,445** | **64,747,695** |

31 December 2017

| | Neither past due nor impaired RO | Past due but not impaired RO | Impaired RO | Total RO |
|---|---|---|---|---|
| Premium and insurance balance receivable | 3,515,806 | 3,164,136 | 720,021 | 7,399,963 |
| Reinsurers' share of outstanding claims | 1,872,278 | - | - | 1,872,278 |
| Investments in local bonds | 2,070,089 | - | - | 2,070,089 |
| Bank balances | 2,245,954 | - | - | 2,245,954 |
| Bank deposits | 40,266,910 | - | - | 40,266,910 |
| Other receivables | 3,671,564 | - | - | 3,671,564 |
| Total | 53,642,401 | 3,164,136 | 720,021 | 57,526,758 |

The Company has made full provision towards its impaired receivable balances.

## 29. Risk management (continued)

### Credit risk (continued)

The following table provides an age analysis of receivables arising from insurance and reinsurance contracts past due but not impaired

| | Past due but not impaired | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Less than 3 months RO** | **3 to 6 months RO** | **6 to 9 months RO** | **9 to 12 months RO** | **> 12 months RO** | **Total RO** | **Past due and impaired RO** |
| **2018** | **2,339,105** | **450,878** | **581,019** | **265,193** | **-** | **3,636,195** | **859,445** |
| 2017 | 2,343,543 | 408,467 | 349,960 | 62,060 | 107 | 3,164,137 | 720,021 |

### Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial liabilities when they fall due. Liquidity requirements are monitored on monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. The majority of time deposits held by the Company at the reporting dates had original maturity periods not exceeding twelve months. The table below summaries the maturity of assets and liabilities of the Company based on remaining undiscounted contractual obligations. As the Company does not have any interest bearing liabilities, the totals in the table match the statement of financial position.

## 29. Risk management (continued)

### Liquidity risk (continued)

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Less than one year RO** | **More than one year RO** | **Total RO** | **Less than one year RO** | **More than one year RO** | **Total RO** |
| ASSETS | | | | | | |
| Bank deposits* | **10,694,815** | **28,963,061** | **39,657,876** | 10,182,134 | 30,084,776 | 40,266,910 |
| Premiums and insurance balances receivable | **7,786,216** | **-** | **7,786,216** | 6,679,942 | - | 6,679,942 |
| Reinsurers' share of outstanding claims | 8,454,865 | **-** | **8,454,865** | 1,872,278 | - | 1,872,278 |
| Investments at fair value through profit or loss | **39,440** | **-** | **39,440** | 34,447 | - | 34,447 |
| Available-for-sale investments | **71,429** | **-** | **71,429** | 71,429 | - | 71,429 |
| Held-to-maturity investments | **2,408,812** | **-** | **2,059,273** | 2,059,273 | - | 2,059,273 |
| Other receivables | **4,477,012** | **-** | **4,477,012** | 4,940,687 | - | 4,940,687 |
| Cash and cash equivalents | **2,460,164** | **-** | **2,460,164** | 2,250,799 | - | 2,250,799 |
| **TOTAL ASSETS** | **36,392,753** | **28,963,061** | **65,355,814** | 28,090,989 | 30,084,776 | 58,175,765 |
| | | | | | | |
| LIABILITIES | | | | | | |
| Liabilities arising from insurance contracts | | | | | | |
| Gross outstanding claims | **22,857,378** | **-** | **22,857,378** | 16,964,083 | - | 16,964,083 |
| Reinsurance balances payable | **986,997** | **-** | **986,997** | 1,946,726 | - | 1,946,726 |
| Other liabilities and accruals | **5,173,510** | **-** | **5,173,510** | 4,169,221 | - | 4,169,221 |
| **TOTAL LIABILITIES** | **29,017,885** | **-** | **29,017,885** | 23,080,030 | - | 23,080,030 |

* Bank deposits have been classified based on maturity date but can be liquidated within 3 days subject to necessary approvals.

## 30. Capital management

### Capital management framework

### Regulatory framework

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

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

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

## 31. Fair values of financial instruments

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.

Management believes that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

**Fair value measurements recognised in the statement of financial position**
The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

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

Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

### 31. Fair values of financial instruments (continued)

| | Level 1 | Total |
|---|---|---|
| 2018 | RO | RO |
| **Financial assets at FVTPL Quoted local** | **39,440** | **39,440** |
| | | |
| 2017 | | |
| Financial assets at FVTPL Quoted local | 10,816 | 10,816 |

The Company has investments amounting to RO 2.41 million as at reporting date (31 December 2017: RO 2.06 million) which are classified as 'held to maturity' investments and carried at the amortised cost (note 8(iii)). The carrying value of the held-to-maturity investments is equal to the fair value.

Available for sale investments amounting to RO 0.1 million at reporting date (31 December 2017: RO 0.1 million) represents the Company's investment in Orange Card Company SAOC, which is recorded at cost. The shares of Orange Card Company SAOC are not traded and management considers the carrying value of the investment to approximate its fair value (note 8(ii)).

In accordance with the Company's policy, the land and buildings was re-valued at their open market value on 31 December 2018 for existing use by a professional valuer who is an industry specialist in valuing these types of properties. The fair market value as at 31 December 2018 amounted to RO 225,000 and the land and building is valued using a level 3 approach.

There were no transfers between level 1, 2 and 3 during the period.

### 32. Dividend

Interim dividend in respect of six months period ended 30 June 2018 of 5% of the share capital i.e., 5 baizas per share amounting to RO 500,000 (2017 - 5 baizas per share amounting to RO 500,000 ), was paid during the year.

For the year 2018 the Board of Directors have proposed a cash dividend of 34 % of the share capital i.e. 34 baizas per share amounting to RO3,400,000 (2017 - cash dividend of 27% of the share capital i.e., 27 baizas per share amounting to RO 2,700,000). The proposed dividend is subject to formal approval of the shareholders at the Annual General Meeting.

### 33. Leases

The Company's minimum future lease payments under non – cancellable operating lease in each of the following periods are as follows:

| | 2018 | 2017 |
|---|---|---|
| | RO | RO |
| Less than one year | 313,390 | 305,883 |
| Between one and five years | 25,441 | 9,733 |
| Between five and ten years | - | - |
| | 338,831 | 315,616 |

**Al Ahlia Insurance Co. SAOG**
PO Box 1463, PC 112, Ruwi, Sultanate of Oman
T +968 24766800 e-mail: aaic@om.rsagroup.com