**Notes (forming part of the consolidated financial statements)**

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting entity**

Muscat National Holding Company SAOG ("the Parent Company") is registered as a public joint stock company in the Sultanate of Oman It has two subsidiary companies as mentioned in note 3.

Muscat National Holding Company SAOG and its subsidiaries ("the Group") operate in the Sultanate of Oman.

**Basis of preparation**

The unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard No.34 'Interim Financial Reporting', applicable requirements of the Commercial Companies Law of 1974, as amended, and comply with the disclosure requirements of the Capital Market Authority.

The financial statements have been presented in Rial Omani, which is the Group's functional currency.

The unaudited condensed interim consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of investments carried at fair value through profit or loss and trading investments.

**Statement of compliance**

These unaudited condensed interim consolidated financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2007.

The accounting policies applied by the Group in these condensed interim consolidated financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended 31 December 2007.

The Company changed its accounting policy for contingency reserve during June 2007 (refer page 13). Prior to June 2007, in accordance with the prevalent law before amendment, the Company's policy was to charge the provision for contingency as an expense in the income statement.

**Basis of consolidation**

The condensed interim consolidated financial statements comprise the results, cash flows and financial position of Muscat National Holding Company SAOG and its subsidiaries.

Subsidiaries are companies, which the Parent Company is able to controls, directly or indirectly.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

All inter-company balances and transactions and unrealized profits arising from intra-Group transactions are eliminated.

**Notes (forming part of the consolidated financial statements)**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Insurance contracts - classification**

The Group's subsidiaries issue contracts that transfer insurance risk. Life insurance contracts issued by the subsidiary do not contain any discretionary participation features which will entitle the contract holder to receive additional benefits or bonuses.

**Insurance contracts**

**(a) General insurance**

The general insurance contracts insure events listed below:

*(i) Motor*

*(ii) Fire, Accident and Property*

*(iii) Marine*

**(b) Recognition and measurement – General insurance**

Premiums are recognized as revenue (earned premiums) proportionally over the period of coverage. A proportion of the net earned premiums (unearned premiums) is provided to cover portions of risks which have not expired at the balance sheet date. The provision is calculated on the 1/24th basis. In addition, provision is made where necessary for any further loss expected to arise on unexpired risks after taking into account future investment income on related insurance funds, to cover anticipated liabilities arising from existing contracts.

An additional provision is created to cover any shortfall for each class of business between the total amount in the unearned premium provision and the amount required by the Insurance Companies Law of Oman calculated at 45% of the net retained premiums for the year for all classes of business.

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 income as incurred.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the balance sheet date, whether reported or not. Provisions for reported claims not paid as at the balance sheet date are 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 balance sheet date. Any difference between the provisions at the balance sheet date and settlements and provisions in the following year is included in the underwriting account for that year.

**Notes (forming part of the consolidated financial statements)**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**(c) Recognition and measurement - Life insurance contracts with fixed and guaranteed terms**

These contracts insure events associated with human life (for example death, or disability).

Premiums are recognized as revenue (earned premiums) proportionally over the period of coverage. Unearned premiums represent the proportion of premiums written relating to periods of insurance subsequent to the balance sheet date. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as the unearned premium liability. Premiums are shown before deduction of commissions paid or payable.

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

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

**(d) Policy acquisition costs**

All commissions and other acquisition costs related to securing new contracts and renewing existing contracts are recognized as expenses when incurred.

**(e) Liability adequacy test**

All outstanding claims including claims incurred but not reported (IBNR) are expected to be settled within twelve months from the balance sheet date. The amount outstanding for each claim is reviewed on a regular basis and at least quarterly and the amount adjusted in the income statement whenever considered necessary.

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

At each balance sheet date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums. Any inadequacy would be immediately charged to the income statement by establishing a premium deficiency provision.

An amount (mathematical reserve) is determined by an independent actuary on an annual basis reflecting the unexpired risk for life business underwritten in case of the life subsidiary. A contingency reserve is also established in accordance with the Insurance Companies Law of Oman by both the insurance subsidiaries (see below).

**Notes (forming part of the consolidated financial statements)**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**(f) Reinsurance contracts held**

Contracts entered into by the subsidiaries with reinsurers under which the subsidiaries are compensated for losses on one or more contracts issued by the subsidiaries and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Insurance contracts entered into by the subsidiaries under which the contract holder is another insurer (inwards reinsurance) are included within insurance contracts.

The benefits to which the subsidiaries are entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of balances due from reinsurers (classified within Insurance receivables), as well as the reinsurance portion of gross claims outstanding including IBNR and unexpired risk reserve that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. 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 balance sheet until the claim is paid by the subsidiaries. Once the claim is paid the amount due from the reinsurer in connection with the paid claim is transferred to Insurance receivable.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense when due, net of commission income which represents income earned from reinsurance companies.

The subsidiaries assess their reinsurance assets for impairment on a periodic basis. If there is objective evidence that the reinsurance asset is impaired, the subsidiaries reduce the carrying amount of the reinsurance asset to its recoverable amount and recognize that impairment loss in the income statement. The subsidiaries gather the objective evidence that a reinsurance asset is impaired using the same process adopted for insurance and other receivables. The impairment loss is also calculated following the same method used for these financial assets.

**Dividend income**

Dividend income from investments is recognised when the right to receive payment is established.

**Interest income**

Interest income is recognised on the accrual basis.

**Dividend distribution**

Dividend distribution by the Parent Company is recognized as a liability in the Parent Company's financial statements only in the period in which the dividends are approved by the Company's shareholders.

**Income tax**

Income tax on the profit or loss for the period comprises current and deferred tax.

**Cash and cash equivalents**

For the purpose of the cash flow statement, deposits with a maturity of less than three months from the date of placement and all cash and bank balances are considered to be cash equivalents.

**Notes (forming part of the consolidated financial statements)**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Insurance and other receivables**

Insurance and other receivables are stated at their cost less impairment losses. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probabilities that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is recognized in the income statement within general and administration expenses.

**Investments**

The Parent Company and Group classified their investments as financial assets at fair value through income, available for sale and held to maturity. All purchases and sales of investments are recognised or derecognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs.

**Financial assets at fair value through income**

This category has two sub-categories: financial assets held for trading, and those designated at fair value through income at inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial assets and financial liabilities are designated at fair value through income when:

- certain investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through income; and

- Unrealised gains or losses arising from changes in fair value are included in the statement of income in the period in which they arise.

**Available for sale**

The Company's investments in certain equity securities are classified as available for sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

**Held-to-maturity**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intent and ability to hold to maturity.

Held-to-maturity investments are initially recognized at cost and subsequently re-measured at amortized cost using the effective yield method less any provision for impairment.

Interest receivable from held-to-maturity investments is accounted for on the accruals basis.

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment and can be measured reliably. All other expenditure is recognised in the income statement as an expense as incurred.

The cost of the property, plant and equipment is written down to residual value in equal instalments over the estimated useful lives of the assets. The estimated useful lives are:

| | |
|---|---|
| Building (including investment property) | 6.66 years |
| Furniture and equipment | 6 years |
| Motor vehicles | 5 years |
| Computer hardware and software | 5 years |

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

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

Gains and losses on disposals of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining results from operations.

### Investment property

Investment properties are initially recognized and subsequently measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. The fair value, which reflects market conditions at the balance sheet date, is disclosed in the notes to the financial statements.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

### Contingency reserve

In accordance with the Capital Market Authority Decision No.19/2007, issued on 4 June 2007 as authorised by Royal Decree No. 34/2007, 10% of the net outstanding claims at the balance sheet date in case of general insurance business and 1% of the written life assurance premiums for the year in case of life insurance business, transferred to a contingency reserve which is not distributable. The subsidiaries may discontinue such annual transfers when the reserve equals the respective company's paid up capital.

### Notes (forming part of the consolidated financial statements)

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Other liabilities and accruals

Liabilities are recognised for amounts to be paid for goods and services received, whether or not billed to the Group.

### End of service benefits

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

Contributions to a defined contribution retirement plan for Omani employees in accordance with the Omani Social Insurance Scheme, are recognised as an expense in the income statement as incurred.

### Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred.

### Critical accounting estimates, and judgments in applying accounting policies

The Parent Company and Group make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions 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 in the following paragraphs.

### The liability arising from claims made under insurance contracts

The purpose of insurance contracts entered into by the subsidiaries is to pay claims arising out of fortuitous events i.e. events that are unexpected such as illness or death. The general insurance subsidiary has a concentration in Motor policies issued and claims under such policies may include amounts for third party bodily injury. The Group believes that the liability arising out of such third party bodily injury claims as handed down by the various courts in Oman, does not reflect a consistent approach in legal verdicts. Nevertheless, even though these awards are relatively small, the subsidiary monitors the development of such compensation claims carefully year on year and makes adequate provision for these insurance liabilities. This has resulted in the income statement being stable. The life subsidiary has a concentration in policies under the Group Credit Life scheme issued. Estimates are made as to the expected number of deaths for each of the years in which the subsidiary is exposed to risk.

The subsidiary's actuary bases these estimates on standard industry and national mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the subsidiary's own experience. The estimated number of deaths determines the value of the benefit payments. The main source of uncertainty is that epidemics such as AIDS, SARS and wide-ranging lifestyle changes such as eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age Groups in which the subsidiary has significant exposure to mortality risk. However continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the subsidiary is exposed to longevity risk. This has resulted in the income statement being stable.

### Notes (forming part of the consolidated financial statements)

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the balance sheet 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. Adequacy of outstanding claims liability is also independently reviewed by an Actuary in case of the life subsidiary and any shortfall identified is recorded in the underwriting account.

## Fair value estimation

The fair values of held to maturity investments approximate to their carrying values. The fair values of quoted investments are based on market bid prices at the balance sheet date. The fair value of unquoted equity investments is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows. The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate to their fair values.

**Notes (forming part of the consolidated financial statements)**

## 2. Net underwriting results

This is analysed as follows:

| | **9 months ended 30 Sept 2008 RO'000** | 9 months ended 30 Sept 2007 RO'000 |
|---|---|---|
| **Revenue** | | |
| Gross written premiums arising from insurance contracts issued | **9,498** | 8,491 |
| Movement in unearned premiums | **(721)** | (744) |
| **Insurance premium revenue** | **8,777** | 7,747 |
| Premiums (net of commission) ceded to reinsurers on insurance contracts issued | **(5,744)** | (5,885) |
| Movement in unearned premiums | **392** | 771 |
| **Insurance premium ceded to reinsurers** | **(5,352)** | (5,114) |
| Gross insurance claims and loss adjustment expenses | **(6,561)** | (10,279) |
| Insurance claims and loss adjustment expenses recovered from reinsurers | **6,194** | 9,878 |
| **Net claims incurred** | **(367)** | (401) |
| **Expenses for the acquisition of insurance contracts** | **(1,453)** | (1,022) |
| **Underwriting results** | **1,605** | 1,210 |

**Notes (forming part of the consolidated financial statements)**

## 3. Investment in subsidiaries

The consolidated financial statements include the financial statements of the Parent Company and its subsidiaries:

| | **Proportion held 30 Sept 2008** | Proportion held 30 Sept 2007 | Authorized share capital RO | Paid up share capital **30 Sept 2008 RO** | Paid up share capital 30 Sept 2007 RO | **Cost RO** |
|---|---|---|---|---|---|---|
| Muscat Insurance Company SAOC | **99.99%** | 99.99% | **5,000,000** | **3,598,230** | 3,400,971 | **2,000,000** |
| Muscat Life Assurance Company SAOC | **99.99%** | 99.99% | **5,000,000** | **3,502,787** | 3,400,761 | **2,000,000** |

**Muscat Insurance Company SAOC**

Muscat Insurance Company SAOC is a closely held joint stock company incorporated in the Sultanate of Oman and is engaged in the business of general insurance.

**Muscat Life Assurance Company SAOC**

Muscat Life Assurance Company SAOC is a closely held joint stock company incorporated in the Sultanate of Oman and is engaged in the business of life assurance. A significant portion of the underwriting of the life insurance business is with a related party.

**Notes (forming part of the consolidated financial statements)**

## 4. Investments

### 4.a. Investment income / (loss)

This is analysed as follows:

| | **9 months ended 30 Sept 2008 RO'000** | 9 months ended 30 Sept 2007 RO'000 |
|---|---|---|
| Net unrealised income on investments at fair value through profit or loss | **63** | 297 |
| Unrealised (loss) / gain on held for trading investments | **(240)** | 36 |
| Interest income on Government Development Bonds | **4** | 15 |
| Interest income on bank deposits | **126** | 137 |
| Dividend income | **405** | 366 |
| Realised gain on disposal of investment securities | **3** | 2 |
| Rental income on investment property | **55** | 43 |
| | **416** | 896 |

***Realised***

Realised investment income represents dividends, gains and losses on disposal of investments and other realised investment related gains and losses.

***Unrealised***

Movements in the carrying values of investmens classified as at the fair value through profit or loss including held to maturity are taken to unrealised investment income.

***Interest***

Interest receivable from term deposits and bonds is included in investment income.

**Notes (forming part of the consolidated financial statements)**

**4. Investments** *(continued)*

**4.b. Investments**

Investments include all long term and short term investments of the Parent Company, excluding only those associates and subsidiaries listed in note 3.
Investments are analysed as follows:

*( i ) Quoted marketable securities –MSM (Fair value through profit & loss)*

| | **Market value 30 Sept 2008 RO'000** | Market value 30 Sept 2007 RO'000 | **Book value 30 Sept 2008 RO'000** | Book Value 30 Sept 2007 RO'000 | Market value 31 Dec 2007 RO'000 | **Cost 30 Sept 2008 RO'000** |
|---|---|---|---|---|---|---|
| Banking | **6,951** | 5,624 | **6951** | 5,624 | 7,033 | **2,995** |
| Services | **171** | 88 | **171** | 88 | 132 | **101** |
| Industry | **111** | 88 | **111** | 88 | 94 | **66** |
| Oil and Energy | **104** | 49 | **104** | 49 | 63 | **58** |
| Agriculture/food | **39** | 32 | **39** | 32 | 36 | **63** |
| Consumer goods | **92** | 57 | **92** | 57 | 57 | **48** |
| Sub-total | **7,468** | 5,938 | **7,468** | 5,938 | 7,415 | **3,331** |
| *( ii ) Unquoted (fair value through profit & loss)* | | | | | | |
| Services | **941** | 725 | **941** | 725 | 931 | **340** |
| Sub-total | **941** | 725 | **941** | 725 | 931 | **340** |
| Total investments (fair value through profit & loss) | **8,409** | 6,663 | **8,409** | 6,663 | 8,346 | **3,671** |
| *( iii )Investment avilable for sale* | | | | | | |
| Services | **121** | 71 | **121** | 71 | **71** | **121** |
| Sub-total | **121** | 71 | **121** | 71 | **71** | **121** |

**Capital Commitment :**

The subsidary life company has commited to contribute 1% of the authorised share capital of RO 30 million of the proposed Omani Reinsurance Company SAOC as an investment. As of 30 Sept 2008, The subsidary life company contributed RO 50,000 towards 1% of the paid up capital for Omani Reinsurance Company SAOC (R.O. 5 million).

**Notes (forming part of the consolidated financial statements)**

4.c. **Investments** *(continued)*

*( iv ) Quoted marketable securities - Foreign by Sector ( held for trading)*

| | **Market value 30 Sept 2008 RO'000** | Market value 30 Sept 2007 RO'000 | **Book value 30 Sept 2008 RO'000** | Book Value 30 Sept 2007 RO'000 | Market value 31 Dec 2007 RO'000 | **Cost 30 Sept 2008 RO'000** |
|---|---|---|---|---|---|---|
| Services | **28** | 71 | **28** | 71 | 55 | **80** |
| Technology/ Media/Telecom | **161** | 247 | **161** | 247 | 233 | **498** |
| Industry | **88** | 156 | **88** | 156 | 140 | **176** |
| Oil/Energy | **150** | 204 | **150** | 204 | 218 | **71** |
| Healthcare/Pharmaceuticals | **151** | 201 | **151** | 201 | 193 | **148** |
| Agriculture/Food | **24** | 35 | **24** | 35 | 32 | **17** |
| | **602** | 914 | **602** | 914 | 871 | **990** |
| *( v ) Investment held to maturity* | | | | | | |
| Government Development Bonds | **637** | 501 | **637** | 501 | - | **637** |
| *(vi)Other investments* | | | | | | |
| Investment property (book value) | **537** | 548 | | | 545 | **560** |
| Bank term deposits (book value) | **7,852** | 4,708 | | | 5,662 | |
| Accrued interest (note no.6) (book value) | **25** | 40 | | | 30 | |
| | **7,877** | 4,748 | | | 5,692 | |
| **Total investments** | **18,183** | 13,445 | | | 15,525 | |

In accordance with the Oman Insurance Companies Law of 1979 (the legislation), as amended, the Group has pledged certain investments under lien to the Capital Market Authority amounting to RO 3,167,017 (2007 – RO 2,883,867). Under the terms of the legislation, the Group may utilise these assets only with the prior approval of the Capital Market Authority.

Bank deposits have the maturity ranging from three months to one year from the date of placement.

Subsequent to 30 September 2008, there has been significant volatility in the market values of the quoted investments held by the Group. Consequently, the values disclosed at the financial reporting date may not be representative of values at subsequent dates. Based on market values as at 25 October 2008, the aggregate net negative movements in such values since the balance sheet date are in the amounts of approximately RO 1,563,000 .

**Notes (forming part of the consolidated financial statements)**

## 5. Premium and insurance balances receivable

| | **30 Sept 2008 RO'000** | 30 Sept 2007 RO'000 | 31 Dec 2007 RO'000 |
|---|---|---|---|
| Premiums receivable | **351** | 361 | 297 |
| Premiums receivable from related parties | **1,732** | 1,404 | 590 |
| Reinsurance balances receivable | **107** | 2,046 | 845 |
| Less: provision for doubtful debts | **(77)** | (77) | (77) |
| | **2,113** | 3,734 | 1,655 |

## 6. Other receivables and prepayments

| | **30 Sept 2008 RO'000** | 30 Sept 2007 RO'000 | 31 Dec 2007 RO'000 |
|---|---|---|---|
| Other receivable and prepayments | **91** | 62 | 62 |
| Accrued interest | **25** | 40 | 30 |
| | **116** | 102 | 92 |

**Notes (forming part of the consolidated financial statements)**

7. **Property, plant and equipment**

| | Furniture and equipment RO'000 | Motor vehicles RO'000 | Computer hardware & software RO'000 | Land RO'000 | Building RO'000 | Total RO'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| 1 January 2008 | 158 | 111 | 132 | 1,345 | 200 | 1,946 |
| Additions | 36 | 33 | 18 | - | - | 87 |
| Disposals | (1) | (11) | - | - | - | (12) |
| 30 Sept 2008 | 193 | 133 | 150 | 1,345 | 200 | 2,021 |
| **Depreciation** | | | | | | |
| 1 January 2008 | 109 | 50 | 112 | - | 40 | 311 |
| Charge for the period | 13 | 16 | 5 | - | 22 | 56 |
| Disposals | - | (11) | - | - | - | (11) |
| 30 Sept 2008 | 122 | 55 | 117 | - | 62 | 356 |
| **Net carrying value** | | | | | | |
| **30 Sept 2008** | **71** | **78** | **33** | **1,345** | **138** | **1,665** |
| 30 Sept 2007 | 49 | 47 | 21 | 1,345 | 168 | 1,630 |
| 31 December 2007 | 49 | 61 | 19 | 1,345 | 160 | 1,634 |

Property, plant and equipment are presented in the balance sheet as follows: -

| | Furniture and equipment RO'000 | Motor vehicles RO'000 | Computer hardware and software RO'000 | Land RO'000 | Building RO'000 | 30 Sept 2008 Total RO'000 |
|---|---|---|---|---|---|---|
| Investment property (note 8) | - | - | - | 485 | 52 | 537 |
| Property, plant and equipment | 71 | 78 | 33 | 860 | 86 | 1,128 |
| **30 Sept 2008** | **71** | **78** | **33** | **1,345** | **138** | **1,665** |

**Notes (forming part of the consolidated financial statements)**

## 8. Investment property

| | **30 Sept 2008 RO'000** | 30 Sept 2007 RO'000 | 31 Dec 2007 RO'000 |
|---|---|---|---|
| **Cost :** | | | |
| At the beginning of the year | **560** | 128 | 560 |
| Transfer from self-occupied property | **-** | 432 | - |
| Less: depreciation | **(23)** | (12) | (15) |
| At the end of the period | **537** | 548 | 545 |

The investment property is stated at cost less accumulated depreciation.Transfer from self-occupied property is on account of change in intended use of vacant land.

The current fair value of the land and building, including the investment property, has been determined based on valuations performed by Al-Habib & Co LLC as at 30 Sept 2008, as being in the amount of RO 5,275,000 compared to the original cost of RO 1,545,072. Al-Habib & Co LLC has been dealing in real estate since 1978. The share of the investment property in the increased fair value is RO 1,906,000 . The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation.

## 9. Provisions

Changes to the level of provisions during the period can be analysed as follows:

| | **Advances & receivables RO'000** | **Total RO'000** |
|---|---|---|
| At 1 January 2008 | **77** | **77** |
| At 30 Sept 2008 | **77** | **77** |

**Notes (forming part of the consolidated financial statements)**

## 10. Insurance liabilities and reinsurance assets

| | **30 Sept 2008 RO'000** | 30 Sept 2007 RO'000 | 31 Dec 2007 RO'000 |
|---|---|---|---|
| **Gross** | | | |
| - Outstanding claims reported and loss adjustment expenses | **12,203** | 8,562 | 8,073 |
| - Claims incurred but not reported (IBNR) * | **240** | 240 | 240 |
| - Unearned Premium Reserve (UPR)** | **7,704** | 6,745 | 6,984 |
| **Total insurance liabilities – Gross** | **20,147** | 15,547 | 15,297 |
| **Recoverable from reinsurers** | | | |
| - Outstanding claims reported and loss adjustment expenses | **11,785** | 8,191 | 7,646 |
| - Claims incurred but not reported (IBNR) | **171** | 171 | 171 |
| - Unearned Premium Reserve (UPR) | **6,119** | 5,537 | 5,727 |
| **Total reinsurers' share of insurance liabilities** | **18,075** | 13,899 | 13,544 |
| **Net** | | | |
| - Outstanding claims reported and loss adjustment expenses | **418** | 371 | 427 |
| - Claims incurred but not reported (IBNR) | **69** | 69 | 69 |
| - Unearned Premium Reserve (UPR) | **1,585** | 1,208 | 1,257 |
| **Total insurance liabilities – net** | **2,072** | 1,648 | 1,753 |

* *IBNR represents provisions for losses incurred but not yet reported.*

** *Unearned premium reserve represents the element of premium income, relating to periods of cover after the period end.*

**Notes (forming part of the consolidated financial statements)**

**11. Contingency reserve**

| | **30 Sept 2008 RO'000** | 30 Sept 2007 RO'000 | 31 Dec 2007 RO'000 |
|---|---|---|---|
| Balance at the beginning of the year | **571** | 492 | 492 |
| Transfer during the period | **70** | 56 | 79 |
| **Balance at the end of the period** | **641** | 548 | 571 |

Contingency reserve is not distributable without prior approval from the Capital Market Authority.

**12. Other liabilities and accruals**

| | **30 Sept 2008 RO'000** | 30 Sept 2007 RO'000 | 31 Dec 2007 RO'000 |
|---|---|---|---|
| Other insurance creditors | **298** | 1,323 | 344 |
| Accruals | **556** | 509 | 497 |
| Due to related parties | **69** | 846 | 401 |
| End of service benefits | **105** | 113 | 101 |
| | **1,028** | 2,791 | 1,343 |

**13. Dividend payable**

The Annual General Meeting of Share holders held on 31 March 2008 approved a cash dividend at the rate of RO 0.150 per share amounting to RO 750,000 which was proposed by the Board of Directors as at 31 December 2007.

**14. Bank borrowings**

Bank borrowings are as follows:

| | **30 Sept 2008 RO'000** | 30 Sept 2007 RO'000 | 31 Dec 2007 RO'000 |
|---|---|---|---|
| Bank overdrafts – Investment operations | **902** | 969 | 969 |
| | **902** | 969 | 969 |

**Notes (forming part of the consolidated financial statements)**

**15. Related parties and Holders of 10% or more of the Parent Company's shares**

Holders of 10% or more of the Parent Company's shares may include companies, individuals or family members. Families are included if the shares of the family members total 10% or more of the Parent Company's shares. Family members of an individual are those that may be expected to influence, or be influenced by, that person in their dealings with the Parent Company.

The nature of the significant transactions involving related parties or holders of 10% or more of the Parent Company's shares, or their family members, and the amounts involved during the period, were as follows:

| | **9 months ended 30 Sept 2008** | 9 months ended 30 Sept 2007 | 12 months ended 31 Dec 2007 |
|---|---|---|---|
| | **RO'000** | RO'000 | RO'000 |
| Insurance premiums (net of commission) | **4,712** | 3,652 | 4,162 |
| Insurance claims | **157** | 115 | 138 |
| Dividend income | **368** | 336 | 336 |
| Interest income | **122** | 132 | 183 |
| Rental income | **50** | 42 | 58 |
| Interest expense | **20** | 32 | 42 |
| Expenses | **53** | 46 | 67 |
| Capital expenditure | **5** | - | 19 |
| Compensation of key management personnel | **303** | 242 | 316 |

**Notes (forming part of the consolidated financial statements)**

**15. Related parties and holders of 10% of the Parent Company's shares** *(continued)*

**Loans, advances, receivables, provisions and write-offs**

Loans, advances and receivables due from related parties or holders of 10% or more of the Parent Company's shares, or their family members, less all provisions and write-offs which have been made on these balances at any time, can be further analysed as follows:

| | **30 Sept 2008 RO'000** | 30 Sept 2007 RO'000 | 31 Dec 2007 RO'000 |
|---|---|---|---|
| Insurance debtors | **1,732** | 1,404 | 590 |
| Investments | **7,877** | 6,341 | 7,955 |
| Bank deposits | **7,702** | 4,558 | 5,512 |
| Bank and cash | **930** | 612 | 715 |
| Insurance creditors | **35** | 826 | 358 |
| Other creditors | **34** | 20 | 43 |
| Bank borrowings | **902** | 969 | 969 |

Note : There are no provisions as at 30 Sept 2008 or write offs during the nine months then ended, in respect of the above balances.

**Notes (forming part of the consolidated financial statements)**

**16. Details of significant investments**

Details of all the Parent Company's investments, including associates and subsidiaries, for which, the Parent Company's holding represents 10% or more of the issuer's share capital as of 30 Sept 2008 are as follows:

| | Holding % | Number of securities | Market value RO'000 | Book value RO'000 | Cost RO'000 |
|---|---|---|---|---|---|
| *Unquoted securities* | | | | | |
| Al Khuwair Development Co (LLC) | **12.4** | **155,000** | **883** | **883** | **309** |

Details of the Group's investments in which its holding exceeds 10% of the market value of the reporting company's investment portfolio, as at 30 Sept 2008 are as follows:

| | % of investment portfolio | Number of securities | Market value RO'000 | Book value RO'000 | Cost RO'000 |
|---|---|---|---|---|---|
| *MSM Quoted securities* | | | | | |
| Oman International Bank SAOG | 38.23 | **1,925,347** | **6,951** | **6,951** | **2,995** |
| *Foreign Listed securities* | *None* | | | | |
| *MSM Unquoted securities* | *None* | | | | |
| *Foreign Unlisted securities* | *None* | | | | |
| Total as at 30 Sept 2008 | | | **6,951** | **6,951** | **2,995** |

**Notes (forming part of the consolidated financial statements)**

**17. Shareholders**

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

| | **30 Sept 2008 RO'000** | 30 Sept 2007 RO'000 | 31 Dec 2007 RO'000 |
|---|---|---|---|
| Dr Omar Zawawi | **1,398** | 1,398 | 1,398 |
| Dhofar Insurance Co. SAOG | **506** | 506 | 506 |
| Fincorp Investment LLC | **-** | 500 | - |
| Suleiman A.S. Al Hokany | **745** | - | - |
| | **2,649** | 2,404 | 1,904 |

**18. Segment Reporting**

Reporting of Segment Revenue, and Segment Result is required for all business and geographical segments, where the segment is responsible for more than 10% of the Group's revenue or profit, and where the segment is subject to risks or returns that are different from those of other segments; or where the segment is defined as a reportable segment by International Accounting Standard 14. The revenue and results for the Group's reportable segments for the period ended 30 Sept 2008 were as follows:

| | **General insurance RO'000** | **Life insurance RO'000** | **General investment RO'000** | **Total RO'000** |
|---|---|---|---|---|
| Gross premiums written | **5,165** | **4,333** | **-** | **9,498** |
| Segment results | **262** | **711** | **(148)** | **825** |