



**Notes** ( forming part of the unaudited condensed interim 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 (“IAS”) 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 unaudited condensed interim consolidated financial statements have been presented in Rial Omani, which is the functional currency of the Group.

The unaudited condensed consolidated statement of financial position have been prepared in the order of liquidity.

The unaudited condensed interim consolidated financial statements have been prepared on a going concern basis and, accordingly, prepared using the historical cost convention. The historical cost convention has been modified to include the measurement of fair value of investments carried at fair value through profit or loss, available for sale investments and held for trading investments.

**Statement of compliance**

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 ‘Interim Financial Reporting’. These financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2010.

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 2010.

**Seasonality of operations**

The nature of the Group’s business is such that each company’s substantial income is in first half of the year.

**Basis of consolidation**

The unaudited condensed interim consolidated financial statements comprise the statements of comprehensive income, financial position, changes in equity and cash flows of Muscat National Holding Company SAOG and its subsidiaries.



**Notes** ( *forming part of the unaudited condensed interim consolidated financial statements* )

**1. Statement of significant accounting policies** ( *continued* )

**Basis of consolidation** ( *continued* )

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

**Insurance contracts - classification**

The Group's subsidiaries issue contracts that transfer significant insurance risk. Life insurance contracts issued by a 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 classes listed below:

- (i) *Motor*
- (ii) *Fire, Accident and Property*
- (iii) *Marine*

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

Premiums are recognised 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 statement of financial position 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.



**Notes** ( *forming part of the unaudited condensed interim consolidated financial statements*)

**1. Statement of significant accounting policies** ( *continued*)

**Insurance contracts** ( *continued*)

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

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 statement of comprehensive income as incurred.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the reporting date, whether reported or not. Provisions for reported claims not paid as at the reporting date are made on the basis of individual case estimates. In addition, a provision based on the Group'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 results for that year.

The subsidiaries do not discount their liability for unpaid claims.

**(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 recognised 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 reporting date. The portion of premium received on in-force contracts that relates to unexpired risks at the reporting 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 statement of comprehensive 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 reporting 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.



**Notes** ( *forming part of the unaudited condensed interim consolidated financial statements*)

**1. Statement of significant accounting policies** ( *continued*)

**Insurance contracts** ( *continued*)

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

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

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

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 subsidiaries.

**(d) Liability adequacy test**

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

**(e) 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 recognised 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 the 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 statement of financial position 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.



**Notes** ( forming part of the unaudited condensed interim consolidated financial statements)

**1. Statement of significant accounting policies** (continued)

**Insurance contracts** (continued)

**(e) Reinsurance contracts held** (continued)

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 recognised 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 recognise that impairment loss in the statement of comprehensive income. The subsidiaries gather 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.

**Financial instruments**

*Non-derivative financial instruments*

Non-derivative financial instruments comprise investments in equity securities, other receivables, due to/from reinsurers, insurance receivables, cash and cash equivalents, bank deposits and other liabilities.

Cash and cash equivalents comprise cash balances and call deposits net of bank overdrafts. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

The bank deposits comprise deposits with maturity between three and twelve months from the date of placement.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through statement of comprehensive income, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

*Available-for-sale financial instruments*

The Group'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 the statement of comprehensive income.



**Notes** ( forming part of the unaudited condensed interim consolidated financial statements)

**1. Statement of significant accounting policies** (continued)

**Financial instruments** (continued)

*Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group 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 amortised cost using the effective yield method less any provision for impairment.

Interest receivable from held-to-maturity investments is accounted for on an accrual basis.

*Financial assets at fair value through profit or loss*

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in statement of comprehensive income when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in the statement of comprehensive income.

*Others*

Other non-derivative financial instruments are measured at amortised cost using the effective interest rate method, less any impairment losses.

**Commission earned and paid**

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

**Dividend income**

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

**Interest income**

Interest income is recognised on an accrual basis using the effective interest rate method.



**Notes** ( forming part of the unaudited condensed interim consolidated financial statements)

**1. Statement of significant accounting policies** (continued)

**Dividend distribution**

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

**Income tax**

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

**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, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is recognised in the statement of comprehensive income within "General and administrative expenses".

**Property, plant and equipment**

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Costs include expenditures that are directly attributable to the acquisition of the asset. The cost includes any other cost that directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of an item if it is probable that future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the statement of comprehensive income as incurred.



**Notes** ( *forming part of the unaudited condensed interim consolidated financial statements*)

**1. Statement of significant accounting policies** (*continued*)

**Property, plant and equipment** (*continued*)

(iii) Depreciation

Depreciation is recognised in the statement of comprehensive income on a straight-line basis over the estimated useful lives of each item of property, plant and equipment. Land and assets under construction are not depreciated. The estimated useful lives for the current and comparative periods are as follows:

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

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate 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.

The residual values, useful lives and depreciation methods for items of property, plant and equipment are reassessed at each reporting date.

**Investment property**

Investment properties are measured initially 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. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation (see (iii) above) at the reporting date. The fair value, which reflects market conditions at the reporting 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, commencement of an operating lease to another party or ending of construction or development. 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.

**Impairment**

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.



**Notes** ( *forming part of the unaudited condensed interim consolidated financial statements*)

**1. Statement of significant accounting policies** (*continued*)

**Impairment** (*continued*)

(i) Financial assets (*continued*)

Impairment is determined as follows:

- a) for assets carried at fair value, impairment is the difference between cost and fair value;
- b) for assets carried at cost, impairment is the difference between cost 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.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the statement of comprehensive income.

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

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortized cost, the reversal is recognised in the statement of comprehensive income.

(ii) Non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or cash generating unit exceeds its recoverable amount. The recoverable amount is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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



**Notes** ( *forming part of the unaudited condensed interim consolidated financial statements*)

**1. Statement of significant accounting policies** ( *continued*)

**Provisions**

A provision is recognised if, as a result of a past event, there exists a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation

**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 reporting date in case of general insurance business, and 1% of the life assurance premiums in case of life insurance business for the year are 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. The contingency reserves in the books of the Group's subsidiaries in accordance with the Omani Insurance Law are not distributable with out prior approval of the Capital Market Authority.

**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 employees at the reporting 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 reporting 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 statement of comprehensive income as incurred.

**Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until draw-down occurs.



**Notes** ( *forming part of the unaudited condensed interim consolidated financial statements*)

**1. Statement of significant accounting policies** (*continued*)

**Segmental information**

An operating segment is a component of the Group 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 Group's other components. All operating segments' operating results are reviewed regularly by the management to make decisions about resources to be allocated to the segment and assess its performance.

**Foreign currency translation**

**(i) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements of the Group are presented in Rial Omani which is the Group's presentation currency.

**(ii) Transactions and balances**

Transactions in foreign currencies are translated into Rial Omani and recorded at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Rial Omani at the foreign exchange rate ruling at the reporting date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Rial Omani at the foreign exchange rate ruling at the date of the transaction.

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

The 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.

**(i) 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 fire, accidents, 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 statement of comprehensive income 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.



**Notes** ( *forming part of the unaudited condensed interim consolidated financial statements* )

**1. Statement of significant accounting policies** ( *continued* )

**Critical accounting estimates, and judgments in applying accounting policies** ( *continued* )

**(i) The liability arising from claims made under insurance contracts** ( *continued* )

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 statement of comprehensive income being stable.

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. 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.

**(ii) Impairment of available-for-sale investments**

The Group follows the guidance of IAS 39 to determine when an available-for-sale equity investment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

**(iii) Impairment of receivables**

An estimate of the collectible amount of Premium and insurance receivables and Reinsurance contract receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. This assessment of whether these insurance and other receivables are impaired entails the Group evaluating the credit and liquidity position of the policy holders and the insurance companies, historical recovery rates, including detailed investigations carried out during the year and feedback received from the Group's marketing and legal departments. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied on the basis of length of time past due and/or qualitative factors, based on historical recovery rates.



**Notes** (*forming part of the unaudited condensed interim consolidated financial statements*)

**1. Statement of significant accounting policies** (*continued*)

**Earnings per share**

The Group presents basic 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 Group by the weighted average number of ordinary shares outstanding during the period.

**Determination of fair values**

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

**(i) Financial Instruments**

For investments traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the reporting date, adjusted for transaction costs necessary to realise the asset.

The fair value of investments that are not traded in an active market are determined using estimated discounted cash flows or other valuation techniques.

The carrying amount of other financial assets and liabilities with a maturity of less than one year is approximate to their fair values.



Notes ( forming part of the unaudited condensed interim consolidated financial statements)

## 2. Underwriting results

This is analysed as follows:

	<b>3 months ended 30 Sept 2011 RO</b>	3 months ended 30 Sept 2010 RO	<b>9 months ended 30 Sept 2011 RO</b>	9 months ended 30 Sept 2010 RO
<b>Revenue</b>				
Gross written premiums arising from insurance contracts issued	<b>2,469,476</b>	1,832,935	<b>11,946,120</b>	10,856,752
Movement in unearned premiums	<b>(87,164)</b>	393,098	<b>(717,012)</b>	(853,217)
<b>Insurance premium revenue (a)</b>	<b>2,382,312</b>	2,226,033	<b>11,229,108</b>	10,003,535
Premiums (net of commission) ceded to reinsurers on insurance contracts issued	<b>(1,228,253)</b>	(925,464)	<b>(7,872,338)</b>	(7,506,705)
Movement in unearned premiums	<b>49,587</b>	(355,390)	<b>441,377</b>	724,955
<b>Insurance premium ceded to reinsurers (b)</b>	<b>(1,178,666)</b>	(1,280,854)	<b>(7,430,961)</b>	(6,781,750)
Gross insurance claims and loss adjustment expenses	<b>(856,521)</b>	(494,618)	<b>(2,236,725)</b>	(2,956,227)
Insurance claims and loss adjustment expenses recovered from reinsurers	<b>644,736</b>	315,696	<b>1,602,708</b>	2,350,860
<b>Net claims incurred (c)</b>	<b>(211,785)</b>	(178,922)	<b>(634,017)</b>	(605,367)
<b>Expenses for the acquisition of insurance contracts (d)</b>	<b>(489,178)</b>	(335,255)	<b>(1,375,118)</b>	(1,073,220)
<b>Underwriting results (a+b+c+d)</b>	<b>502,683</b>	431,002	<b>1,789,012</b>	1,543,198



**Notes** ( forming part of the unaudited condensed interim consolidated financial statements)

### 3 Investment in subsidiaries

The unaudited condensed interim consolidated financial statements include the financial position, financial performance and cashflows of the parent company and its subsidiaries:

	<b>Proportion held 30 Sept 2011</b>	Proportion held 30 Sept 2010	<b>Authorized Share capital RO</b>	<b>Paid up share capital</b>		<b>Cost</b>
				<b>30 Sept 2011 RO</b>	30 Sept 2010 RO	RO
Muscat Insurance Company SAOC	<b>99.99%</b>	99.99%	<b>5,000,000</b>	3,598,218	3,598,218	2,000,000
Muscat Life Assurance Company SAOC	<b>99.99%</b>	99.99%	<b>5,000,000</b>	3,502,775	3,502,775	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 unaudited condensed interim consolidated financial statements)

#### 4. Investments

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

This is analysed as follows:

	<b>3 months ended 30 Sept 2011 RO</b>	3 months ended 30 Sept 2010 RO	<b>9 months ended 30 Sept 2011 RO</b>	9 months ended 30 Sept 2010 RO
Net unrealised (loss)/gain on investments at fair value through profit or loss	<b>(5,601)</b>	(167,942)	<b>62,003</b>	(600,777)
Unrealised (loss)/gain on held for trading investments	<b>(161,876)</b>	156,359	<b>(94,584)</b>	106,805
Interest income on bonds net of amortisation charge	<b>83,677</b>	83,556	<b>250,815</b>	255,939
Interest income on bank deposits	<b>15,091</b>	14,185	<b>42,191</b>	39,980
Dividend income	<b>5,307</b>	3,900	<b>335,567</b>	455,074
Realised gain/(loss) on disposal of investment securities	-	22	<b>(2,848)</b>	(4,531)
Rental income on investment property	<b>17,640</b>	18,826	<b>55,271</b>	56,571
Brokerage Cost	<b>(14)</b>	-	<b>(14)</b>	
Sitting fees	<b>500</b>	1,000	<b>2,500</b>	3,300
	<b><u>(45,276)</u></b>	<u>109,906</u>	<b><u>650,901</u></b>	<u>312,361</u>

#### **Realised**

Realised investment income represents dividends and gains and losses on disposal of investments.

#### **Unrealised**

Movements in the carrying values of investments classified as fair value through profit or loss and held for trading are taken to unrealised investment income.

#### **Interest**

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



Notes ( forming part of the unaudited condensed interim consolidated financial statements)

#### 4. Investments (continued)

##### 4.b. Investments

Investments include all long term and short term investments of the Group, excluding only those investments in subsidiaries listed in note 3.

Investments are analysed as follows:

##### (i) Quoted in the Muscat Securities Market (MSM)

	Fair value 30 Sept 2011 RO	Fair value 30 Sept 2010 RO	Book value 30 Sept 2011 RO	Book Value 30 Sept 2010 RO	Fair value 31 Dec 2010 RO	Cost 30 Sept 2011 RO
Banking	5,321,818	4,993,887	5,321,818	4,993,887	5,305,562	2,995,238
Services	228,888	244,327	228,888	244,327	238,032	109,896
Industry	113,244	168,060	113,244	168,060	161,255	67,105
Oil and energy	106,748	76,160	106,748	76,160	85,059	58,416
Consumer goods	159,874	74,691	159,874	74,691	75,279	48,442
Agriculture/food	36,250	36,250	36,250	36,250	36,250	62,500
	<u>5,966,822</u>	<u>5,593,375</u>	<u>5,966,822</u>	<u>5,593,375</u>	<u>5,901,437</u>	<u>3,341,597</u>

##### (ii) Unquoted (fair value through profit or loss)

Services	<u>827,925</u>	<u>816,425</u>	<u>827,925</u>	<u>816,425</u>	<u>827,925</u>	<u>341,437</u>
	<u>827,925</u>	<u>816,425</u>	<u>827,925</u>	<u>816,425</u>	<u>827,925</u>	<u>341,437</u>
Total investments (fair value through profit or loss)	<u>6,794,747</u>	<u>6,409,800</u>	<u>6,794,747</u>	<u>6,409,800</u>	<u>6,729,362</u>	<u>3,683,034</u>

##### (iii) Investments available-for-sale

Services	<u>253,572</u>	<u>189,286</u>	<u>253,572</u>	<u>189,286</u>	<u>203,572</u>	<u>221,429</u>
	<u>253,572</u>	<u>189,286</u>	<u>253,572</u>	<u>189,286</u>	<u>203,572</u>	<u>221,429</u>



Notes ( forming part of the unaudited condensed interim consolidated financial statements)

#### 4. Investments (continued)

##### 4. c. Investments (continued)

###### (iv) Quoted marketable securities - foreign by sector (held for trading)

	Fair value 30 Sept 2011 RO	Fair value 30 Sept 2010 RO	Book value 30 Sept 2011 RO	Book Value 30 Sept 2010 RO	Fair value 31 Dec 2010 RO	Cost 30 Sept 2011 RO
Technology/ Media/Telecom Industry	168,190 72,094	184,778 75,821	168,190 72,094	184,778 75,821	195,523 95,397	500,570 101,794
Healthcare/Pharmaceuticals	177,160	167,449	177,160	167,449	184,872	87,097
Oil/Energy	201,560	223,358	201,560	223,358	235,643	82,339
Services	20,814	32,788	20,814	32,788	36,514	70,745
Agriculture/Food	35,556	43,192	35,556	43,192	40,016	16,721
	<u>675,374</u>	<u>727,386</u>	<u>675,374</u>	<u>727,386</u>	<u>787,965</u>	<u>859,266</u>

###### (v) Investments held to maturity

Bank Muscat bonds	4,325,970	4,325,970	3,958,570	3,964,186	4,325,970	3,958,570
Govt. Development bonds	653,563	653,563	637,200	637,200	653,563	637,200
	<u>4,979,533</u>	<u>4,979,533</u>	<u>4,595,770</u>	<u>4,601,386</u>	<u>4,979,533</u>	<u>4,595,770</u>

###### (vi) Other investments

Investment property (book value)	502,813	514,063	502,813	514,063	511,250	560,000
Bank deposits (book value)	5,853,200	5,343,234	5,853,200	5,343,234	5,592,413	
Accrued interest (note No. 6) (book value)	147,849	146,701	147,849	146,701	76,328	
<b>Total investments</b>	<u>19,207,088</u>	<u>18,310,003</u>	<u>18,823,325</u>	<u>17,931,856</u>	<u>18,880,423</u>	



**Notes** ( forming part of the unaudited condensed interim consolidated financial statements)

**4. Investments (continued)**

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

As at 30 Sept 2011, bank deposits have maturity period of twelve months from the date of placement.

**5. Premium and insurance receivable**

	<b>30 Sept 2011 RO</b>	30 Sept 2010 RO	31 Dec 2010 RO
Premium receivable	<b>415,759</b>	393,828	320,329
Premium receivable from related parties	<b>876,606</b>	372,620	340,722
Reinsurance balances receivable	<b>54,609</b>	66,201	131,733
Less: provision for doubtful debts (see note 9)	<b>(53,648)</b>	(65,431)	(53,648)
	<b>1,293,326</b>	767,218	739,136

**6. Other receivables and prepayments**

	<b>30 Sept 2011 RO</b>	30 Sept 2010 RO	31 Dec 2010 RO
Other receivables and prepayments	<b>113,276</b>	111,728	84,870
Accrued interest	<b>147,849</b>	146,701	76,328
	<b>261,125</b>	258,429	161,198



Notes ( forming part of the unaudited condensed interim consolidated financial statements)

## 7. Property, plant and equipment

	Land RO	Building RO	Furniture and equipment RO	Motor vehicles RO	Computer hardware & software RO	Total RO
<b>Cost</b>						
1 January 2011	1,345,072	200,000	249,952	130,848	167,716	2,093,588
Additions	-	-	7,643	16,000	7,299	30,942
Deletions	-	-	(2,783)	(4,400)	(5,990)	(13,173)
30 Sept 2011	<u>1,345,072</u>	<u>200,000</u>	<u>254,812</u>	<u>142,448</u>	<u>169,025</u>	<u>2,111,357</u>
<b>Depreciation</b>						
1 January 2011	-	130,000	164,638	84,213	142,043	520,894
Charge for the period	-	22,500	17,668	17,035	7,406	64,609
Deletions	-	-	(1,519)	(4,400)	(5,764)	(11,683)
30 Sept 2011	<u>-</u>	<u>152,500</u>	<u>180,787</u>	<u>96,848</u>	<u>143,685</u>	<u>573,820</u>
<b>Net carrying value</b>						
30 Sept 2011	<u>1,345,072</u>	<u>47,500</u>	<u>74,025</u>	<u>45,600</u>	<u>25,340</u>	<u>1,537,537</u>
31 December 2010	<u>1,345,072</u>	<u>70,000</u>	<u>85,314</u>	<u>46,635</u>	<u>25,673</u>	<u>1,572,694</u>
30 Sept 2010	<u>1,345,072</u>	<u>77,500</u>	<u>87,532</u>	<u>52,441</u>	<u>25,587</u>	<u>1,588,132</u>

Property, plant and equipment are presented in the statement of financial position as follows:

	Land RO	Building RO	Furniture and equipment RO	Motor vehicles RO	Computer hardware & software RO	Total RO
Investment property (note 8)	485,000	17,813	-	-	-	502,813
Property, plant and equipment	<u>860,072</u>	<u>29,687</u>	<u>74,025</u>	<u>45,600</u>	<u>25,340</u>	<u>1,034,724</u>
<b>30 Sep 2011</b>	<u>1,345,072</u>	<u>47,500</u>	<u>74,025</u>	<u>45,600</u>	<u>25,340</u>	<u>1,537,537</u>



Notes (forming part of the unaudited condensed interim consolidated financial statements)

## 8. Investment property

	<b>30 Sept 2011 RO</b>	30 Sept 2010 RO	31 Dec 2010 RO
At the beginning of the period (at cost)	<b>560,000</b>	560,000	560,000
Less: depreciation	<b>(57,187)</b>	(45,937)	(48,750)
At the end of the period	<b><u>502,813</u></b>	<u>514,063</u>	<u>511,250</u>

The investment property is stated at cost less accumulated depreciation.

The Group has estimated the fair value of the land and building at 30 September 2011 as being approximately RO 4,775,000, as compared to the original cost of RO 1,545,072, based upon an independent external market valuation as at 31 December 2008. The share of the investment property in the fair value is RO 1,726,000. 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:

	<b>Premium &amp; insurance receivables 30 Sept 2011 RO</b>	Premium & insurance receivables 30 Sept 2010 RO	Premium & insurance receivables 31 Dec 2010 RO
At the beginning of the period	<b>53,648</b>	65,431	65,431
Movement for the period	<b>-</b>	-	(11,783)
At the end of the period	<b><u>53,648</u></b>	<u>65,431</u>	<u>53,648</u>



Notes ( forming part of the unaudited condensed interim consolidated financial statements)

#### 10. Insurance liabilities and reinsurance assets

	<b>30 Sept 2011 RO</b>	30 Sept 2010 RO	31 Dec 2010 RO
<b>Gross</b>			
- Outstanding claims reported and loss adjustment expenses	<b>4,806,442</b>	4,811,864	4,843,383
- Claims incurred but not reported (IBNR) *	<b>240,000</b>	240,000	240,000
- Unearned premium reserve ** (UPR)	<b>10,894,865</b>	10,233,933	10,177,852
<b>Total insurance liabilities – Gross</b>	<b>15,941,307</b>	15,285,797	15,261,235
<b>Recoverable from reinsurers</b>			
- Outstanding claims reported and loss adjustment expenses	<b>4,327,039</b>	4,328,742	4,380,415
- Claims incurred but not reported (IBNR)	<b>171,325</b>	171,325	171,325
- Unearned premium reserve (UPR)	<b>8,487,363</b>	8,117,039	8,045,985
<b>Total reinsurers' share of insurance liabilities</b>	<b>12,985,727</b>	12,617,106	12,597,725
<b>Net</b>			
- Outstanding claims reported and loss adjustment expenses	<b>479,403</b>	483,122	462,968
- Claims incurred but not reported (IBNR)	<b>68,675</b>	68,675	68,675
- Unearned premium reserve (UPR)	<b>2,407,502</b>	2,116,894	2,131,867
<b>Total insurance liabilities – net</b>	<b>2,955,580</b>	2,668,691	2,663,510

\* 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 unaudited condensed interim consolidated financial statements)

#### 11. Contingency reserve

	<b>30 Sept 2011 RO</b>	30 Sept 2010 RO	31 Dec 2010 RO
Balance at the beginning of the period	<b>829,150</b>	751,845	751,845
Transfer during the period	<b>70,395</b>	61,976	77,305
<b>Balance at the end of the period</b>	<b>899,545</b>	813,821	829,150

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

#### 12. Other liabilities and accruals

	<b>30 Sept 2011 RO</b>	30 Sept 2010 RO	31 Dec 2010 RO
Other insurance creditors	<b>529,401</b>	490,414	445,174
Accruals	<b>904,872</b>	749,770	790,580
Due to related parties	<b>106,004</b>	84,747	216,754
End of service benefits	<b>176,428</b>	151,873	158,490
	<b>1,716,705</b>	1,476,804	1,610,998

#### 13. Cash Dividend

The Annual General Meeting of Share holders held on 30 March 2011 approved a cash dividend at the rate of RO 0.050 (2010: RO 0.100) per share amounting to RO 250,000 (2010: RO 500,000) for the year ended 31 December 2010.

#### 14. Bank borrowing

	<b>30 Sept 2011 RO</b>	30 Sept 2010 RO	31 Dec 2010 RO
Long term loan	<b>433,947</b>	433,947	433,947
Bank overdrafts – investment operations	<b>210,325</b>	982,476	1,082,468
	<b>644,272</b>	1,416,423	1,516,415



**Notes** ( forming part of the unaudited condensed interim 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:

	<b>9 months ended 30 Sept 2011</b>	9 months ended 30 Sept 2010	12 months ended 31 Dec 2010
	<b>RO</b>	RO	RO
Insurance premiums (net of commission)	<b>4,632,342</b>	3,787,661	4,435,256
Insurance claims	<b>172,137</b>	181,977	231,318
Dividend income	<b>289,552</b>	423,576	423,576
Interest income	<b>40,589</b>	36,580	50,425
Rental income	<b>51,201</b>	51,201	68,268
Interest expense	<b>(27,685)</b>	(41,542)	(60,320)
Expenses	<b>61,396</b>	64,639	92,127
Capital expenditure	<b>2,730</b>	3,264	4,775
Compensation of key management personnel	<b>245,540</b>	268,573	336,551



**Notes** ( forming part of the unaudited condensed interim consolidated financial statements)

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

**Amounts due to or receivable from related parties**

Amounts due to or receivable 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:

	<b>30 Sept 2011 RO</b>	30 Sept 2010 RO	31 Dec 2010 RO
Insurance debtors	<b>876,606</b>	372,620	340,722
Investments	<b>6,119,260</b>	5,791,507	6,103,535
Bank deposits	<b>5,703,200</b>	5,193,234	5,442,413
Bank and cash	<b>1,222,527</b>	854,289	1,161,157
Insurance and other creditors	<b>106,004</b>	84,747	216,754
Bank borrowings	<b><u>644,272</u></b>	<u>1,416,423</u>	<u>1,516,415</u>

Note : There are no provisions as at 30 Sept 2011 (30 Sept 2010 : Nil) or write offs during the nine months then ended, in respect of the above balances.



**Notes** ( forming part of the unaudited condensed interim consolidated financial statements)

### 16. Details of significant investments

Details of all the investments in which the Group's holding represents 10% or more of the issuer's share capital as of 30 Sept 2011 are as follows:

	<b>Holding %</b>	<b>Number of securities</b>	<b>Fair value RO</b>	<b>Book value RO</b>	<b>Cost RO</b>
<i>Unquoted securities</i>					
Al Khuwair Development Services Co (LLC)	12.4	155,000	759,500	759,500	300,792
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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 2011 are as follows:

	<b>% of investment portfolio</b>	<b>Number of securities</b>	<b>Fair value RO</b>	<b>Book value RO</b>	<b>Cost RO</b>
<i>MSM Quoted securities</i>					
Oman International Bank SAOG	27.71	20,408,777	5,321,626	5,321,626	2,995,021
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>



Notes (forming part of the unaudited condensed interim 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:

	<b>30 Sept 2011 RO</b>	30 Sept 2010 RO	31 Dec 2010 RO
Dr. Omar Zawawi	<b>1,398,400</b>	1,398,400	1,398,400
Sulaiman Ahmed Said Al Houqani	<b>748,230</b>	748,230	748,230
Dhofar Insurance Co. SAOG	<b>505,598</b>	505,598	505,598
	<b><u>2,652,228</u></b>	<u>2,652,228</u>	<u>2,652,228</u>

### 18. Segment reporting

The Group is organised into three major operating segments as defined by IFRS 8: General Insurance, Life Insurance and General Investment. The revenue and results for the Group's reportable segments for the period ended 30 September 2011 were as follows:

	<b>General Insurance RO</b>	<b>Life Insurance RO</b>	<b>General Investment RO</b>	<b>Total RO</b>
Gross premiums written	<b>7,712,183</b>	<b>4,233,937</b>	-	<b>11,946,120</b>
Segment results	<b>319,066</b>	<b>833,748</b>	<b>(63,267)</b>	<b>1,089,547</b>

Total assets for each segment which have changed significantly are as follows:

	<b>General Insurance RO</b>	<b>Life Insurance RO</b>	<b>General Investment RO</b>
30 Sept 2011	<b>16,066,925</b>	<b>13,687,082</b>	<b>5,735,223</b>
31 December 2010	15,671,457	12,825,242	5,816,276
Change	395,468	861,840	(81,053)



**Notes** ( forming part of the unaudited condensed interim consolidated financial statements)

## 19 Comparative figures

The corresponding figures, presented in these unaudited condensed interim consolidated financial statements for comparative purposes, as at and for the nine months ended 30 September 2010 have been restated in order to conform with the presentation for the current period.

## 20 Financial instruments

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The condensed interim consolidated financial statements do not include all financial risk management information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2010. There have been no changes in the risk management procedures since year end or in any risk management policies.

### Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

	<b>30 Sept 2011 RO</b>	30 Sept 2010 RO	31 Dec 2010 RO
Financial assets at fair value through profit or loss			
- Level 1	<b>6,642,196</b>	6,320,761	6,689,402
- Level 3	<b>827,925</b>	827,925	827,925
Available for sale – Level 3	<b>253,572</b>	189,286	203,572



Notes (forming part of the unaudited condensed interim consolidated financial statements)

## 21 Cash generated from operations

The reconciliation of the profit before taxation with cash generated from operations is shown below:

	<b>30 Sept 2011 RO</b>	30 Sept 2010 RO
<b>Operating activities</b>		
Profit before taxation	<b>1,230,968</b>	739,283
<b>Adjustments for:</b>		
Depreciation	<b>64,609</b>	61,118
Net unrealised loss on investments in trading securities	<b>32,581</b>	493,972
Realised loss on disposal of investment securities	<b>2,848</b>	4,531
Amortisation of issue expenses on Bank Muscat Bonds	<b>4,212</b>	4,331
(Profit)/Loss on disposal of property, plant and equipment	<b>(2,767)</b>	(757)
Accrual for employees' end of service benefits	<b>31,019</b>	24,273
Interest income	<b>(297,218)</b>	(300,250)
Sitting fees	<b>(2,500)</b>	(3,300)
Dividend income	<b>(335,567)</b>	(455,074)
Investment transaction cost	<b>14</b>	-
Interest expense	<b>38,974</b>	52,661
Rental income	<b>(55,271)</b>	(56,571)
	<hr/>	<hr/>
<b>Profit before changes in operating assets and liabilities</b>	<b>711,902</b>	564,217
Premiums and insurance balances receivable	<b>(554,190)</b>	61,492
Reinsurers' share of outstanding claims	<b>53,376</b>	107,180
Gross outstanding claims	<b>(36,941)</b>	(41,281)
Reinsurers' share of unearned premium reserve	<b>(441,378)</b>	(724,954)
Movement in gross unearned premium reserve	<b>717,013</b>	853,216
Other receivables and prepayments	<b>(99,927)</b>	(150,138)
Due to reinsurers	<b>429,903</b>	(138,188)
Other liabilities and accruals	<b>87,769</b>	137,122
	<hr/>	<hr/>
<b>Cash generated from operations</b>	<b>867,527</b>	668,666
	<hr/> <hr/>	<hr/> <hr/>