

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

1 Legal status and principal activities

Muscat Insurance Company SAOG, formerly known as Muscat National Holding Company SAOG (“the Company”) is registered as a public joint stock company in the Sultanate of Oman. The commercial name of Muscat National Holding Company SAOG was changed to Muscat Insurance Company SAOG on 15 August 2017, registered under the commercial registration number 1452916. The Company was formerly operating as an investment company whereby its license was amended by Capital Market Authority (CMA) to underwrite general insurance and life assurance business from 17 August 2017, vide the CMA’s administration decision E/59/2017 dated 30 August 2017.

The Company has been restructured during the year through merger of its two fully owned subsidiaries in order to comply with provisions of Insurance Companies Law of 1979, as amended, to bring the share capital of the Company to RO 10 million by August 2017. Accordingly, the subsidiaries Muscat Insurance Company SAOC (“MIC”) and Muscat Life Assurance Company SAOC (“MLAC”) have been merged with the Company by transferring their assets and liabilities, as well as the licenses to underwrite portfolio of general and life insurance business.

1.1 Merger of subsidiary companies

1.1.1 Muscat Insurance Company SAOC

MIC was incorporated on 3 December 1998 as a closed joint stock company, under the Commercial Companies Law of 1974, as amended and was engaged in the business of general insurance.

During the current year, a scheme for merger of MIC with the Company (“the Scheme”) was approved by the Board of Directors of MIC and the Company through resolutions dated 7 June 2017 and 21 June 2017 respectively. The Scheme was approved by the shareholders of MIC and the Company in their Extraordinary General Meetings held on 22 June 2017 and 27 July 2017 respectively. The scheme was sanctioned by the Ministry of Commerce and Industry vide its letter MOCI/411/Certificate/2017 dated 10 September 2017.

The Scheme facilitated the merger by:

- (i) Issuance of 24 ordinary shares of the Company against 15 shares previously held in MIC by minority shareholders as consideration shares of the Company for vesting their ownership rights in MIC to the Company from the 5 September 2017 (“Effective Date”).
- (ii) Issuance of 8,319,226 shares of the Company against 5,349,983 shares previously held in MIC (hereinafter referred to as “MNHC Shares”) for vesting their ownership rights in MIC to the Company from the Effective Date. The MNHC Shares were subsequently cancelled in accordance with article 85 of the Commercial Companies Law of 1974, as amended.
- (iii) On Effective Date, all assets and liabilities of MIC, in accordance with the provisions contained in section 13 of the Commercial Companies Law of 1974, as amended, have been transferred to the Company.

1.1.2 Muscat Life Assurance Company SAOC

MLAC was incorporated on 3 December 1998 as a closed joint stock company, under the Commercial Companies Law of 1974, as amended and was engaged in the business of life assurance.

During the current year, a scheme for merger of MLAC with the Company (“the Second Scheme”) was approved by the Board of Directors of MLAC and the Company through resolutions dated 9 July 2017 and 21 June 2017 respectively. The Second Scheme was approved by the shareholders of MLAC and the Company in their Extraordinary General Meetings held on 25 July 2017 and 27 July 2017 respectively. The Second Scheme was sanctioned by the Ministry of Commerce and Industry vide its letter MOCI/411/Certificate/2017 dated 10 September 2017.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)**

1 Legal status and principal activities (continued)

1.1 Merger of subsidiary companies (continued)

1.1.2 Muscat Life Assurance Company (continued)

The Second Scheme facilitated the merger by:

(i) Issuance of 18 ordinary shares of the Company against 12 shares previously held in MLAC by minority shareholders as consideration shares of the Company for vesting their ownership rights in MLAC to the Company from the Effective Date.

(ii) Issuance of 7,139,582 shares of the Company against 5,199,985 shares previously held in MLAC (hereinafter referred to as "MNHC Stocks") for vesting their ownership rights in MLAC to the Company from Effective Date. The MNHC Stocks were subsequently cancelled in accordance with article 85 of the Commercial Companies Law of 1974, as amended.

(iii) On Effective Date, all assets and liabilities of MLAC, in accordance with the provisions contained in section 13 of the Commercial Companies Law of 1974, as amended, have been transferred to the Company.

Pursuant to the requirements of the Royal decree 39/2014, the Scheme and the Second Scheme (hereinafter referred to as the "Merger Schemes") in accordance with the substance of the transaction for merger of MIC and MLAC with the Company, management believes that predecessor (book value) accounting is appropriate to present the merger. Consequently, the merger of MIC and MLAC has been accounted for in these financial statements from 5 September 2017 ("Effective Date") being the date on which the Company has assumed the management control of MIC and MLAC.

Details of net identifiable assets acquired, and liabilities assumed at the date of acquisition are given in note 33.

2 Separate and consolidated financial statements

As stated in note 1.1 above, the merger of MIC and MLAC with the Company has been completed during the current year. Accordingly, the consolidated financial statements are no longer required and have not been prepared.

Investment in subsidiaries was previously accounted for using the equity method of accounting as per the requirements of International Accounting Standard (IAS) 27 - 'Separate Financial Statements'. These investments have been eliminated against the net identifiable assets acquired as part of the merger which is accounted for in accordance with the predecessor accounting method. The relevant accounting policies are mentioned in note 3.

Comparative figures in these financial statements reflect the combined results of all the three entities from 1 January 2016.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

3.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board, interpretations issued by the International Financial Reporting Interpretations Committee and applicable requirements of the Commercial Companies Law of 1974, as amended; and the Insurance Companies Law of 1979, as amended, and comply with the relevant disclosure requirements of the CMA.



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

3 Summary of significant accounting policies (continued)

3.1 Basis of preparation (continued)

These financial statements have been prepared using the historical cost convention except for investments carried at fair value through profit or loss, held for trading investments and available-for-sale investments which are measured at fair value. The preparation of financial statements in conformity with applicable standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these financial statements are disclosed in note 4.

The statement of financial position has been prepared in the order of liquidity.

(a) *Standards and amendments effective for the year ended 31 December 2017 and relevant for the Company's operations:*

For the year ended 31 December 2017, the Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2017.

The adoption of these standards and interpretations has not resulted in changes to the Company's accounting policies and has not affected the amounts reported for the current year.

(b) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company:*

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2018, but the Company has not early adopted them. The Company's assessment of the impact of these new standards and interpretations is set out below:

IFRS 15, 'Revenue from Contracts with Customers', will replace International Accounting Standard 18 'Revenue' (IAS 18) which covers contracts for goods and services and International Accounting Standard 11 'Construction Contracts' which covers construction contracts. This new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach, entities will recognise transitional adjustments in retained earnings on the date of initial application, i.e. without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for performance obligations as they are satisfied. The standard should be applied retrospectively, with certain practical expedients available. The mandatory application date for IFRS 15 is 1 January 2018. The Company has assessed the impact of IFRS 15 and expects that the standard will have no significant effect, when applied, on the financial statements of the Company.

IFRS 16, 'Leases' was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The standard will affect primarily the accounting for the Company's operating leases. However, the Company has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Company's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16. The Company is currently assessing the impact of this standard but it is not practicable to quantify the potential effect at the date of approval of these financial statements. The mandatory application date for IFRS 16 is 1 January 2019.



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

3 Summary of significant accounting policies (continued)

3.1 Basis of preparation (continued)

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company: (continued)

IFRS 17 'Insurance contracts' was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows;
- an explicit risk adjustment; and
- a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

The Company is currently assessing the impact of this standard but it is not practicable to quantify the potential effect at the date of approval of these financial statements. The mandatory application date for IFRS 17 is 1 January 2021.

IFRS 9 'Financial Instruments' published on 24 July 2014; the complete version of IFRS 9 replaces most of the guidance in International Accounting Standard 39 'Financial Instruments: Recognition and Measurement' (IAS 39). IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss an irrevocable option at inception to present changes in fair value in other comprehensive income. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in the Company's own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

The Company plans to defer the application of IFRS 9 until the effective date of the new insurance contracts standard IFRS 17 being on 1 January 2021 by applying the temporary exemption from applying IFRS 9 as introduced by the Amendments to IFRS 4. Refer below for further details.



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

3 Summary of significant accounting policies (continued)

3.1 Basis of preparation (continued)

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company: (continued)

Amendments to IFRS 4, 'Insurance Contracts' regarding the implementation of IFRS 9, 'Financial Instruments'

On 12 September 2016, the IASB published Amendments to IFRS 4, 'Insurance Contracts' regarding the implementation of IFRS 9, 'Financial Instruments'.

These amendments address the concerns that have been expressed about the different effective dates of IFRS 9 (annual periods beginning on or after 1 January 2018) and the new insurance contracts standard, IFRS 17 (annual periods beginning on or after 1 January 2021).

Under the 'overlay approach', an insurer reclassifies from profit or loss to other comprehensive income any changes in the fair value of financial assets held in respect of an activity that is connected with contracts within the scope of IFRS 4, if these changes are recognised in profit or loss under IFRS 9, but not under IAS 39.

Under the 'temporary exemption', entities are allowed to continue to apply IAS 39, 'Financial Instruments: Recognition and Measurement', instead of adopting IFRS 9, 'Financial Instruments', if they meet the following criteria:

1. if the insurer has not previously applied any version of IFRS 9, and
2. whose activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016. The following tests have to be passed:
 - the carrying amount of liabilities arising from contracts within the scope of IFRS 4 is significant compared to the total carrying amount of all its liabilities, and
 - the total carrying amount of an insurer's liabilities connected with insurance is compared to the total carrying amount of all its liabilities:
 - if the percentage is greater than 90%, the insurer's activities are predominantly connected with insurance.
 - if the percentage is less than or equal to 90%, but greater than 80% and the insurer does not engage in a significant activity unconnected with insurance, its activities are predominantly connected with insurance. Otherwise, the activities are not predominantly connected with insurance.
 - if the percentage is less than or equal to 80%, the insurer's activities are not predominantly connected with insurance.

Management of the Company performed an assessment of the amendments and reached a conclusion that its activities are predominantly connected with insurance. Management intends to apply the temporary exemption in its reporting period starting on 1 January 2018.

3.2 Functional currency

(a) Functional and presentation currency

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



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

3 Summary of significant accounting policies (continued)

3.2 Functional currency (continued)

(b) Transactions and balances

Transactions in foreign currencies are translated to the Company's functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting dates are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Foreign currency differences arising on retranslation are recognised in the statement of comprehensive income.

3.3 Insurance contracts

The Company issues contracts that transfer insurance risk. Insurance contracts issued by the Company do not contain any discretionary participation features which will entitle the contract holder to receive additional benefits or bonuses.

(a) Recognition and measurement

Insurance contracts are classified into two main categories, short term and long term insurance contracts.

(i) Short term insurance contracts

Short term insurance contracts are principally divided into motor and non-motor general insurance and short duration life insurance by the Company.

Motor insurance in the Sultanate of Oman is governed by law and it is compulsory for all vehicles to have a minimum third party cover. The Company also issues comprehensive motor policies. Such motor policies issued by the Company cover damages to vehicle due to storm, tempest, flood, fire, theft and personal accident. Specific motor policies are also issued to include coverage outside the Sultanate of Oman.

The non-motor insurance category comprises fire, marine, engineering, workmen compensation and general accident.

Short duration life insurance contracts protect the Company's customers from the consequences of events such as death or disability that would affect the ability of the customer or his / her dependants to maintain their current level of income. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policyholder. There are no maturity or surrender benefits.

(ii) Long term insurance contracts with fixed and guaranteed terms

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

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

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

(b) Policy acquisition costs

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



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

3 Summary of significant accounting policies (continued)

3.4 Revenue recognition

(a) Premiums earned

Gross premium represent the total business written during the year and are recognised as revenue (premium) at the time of entering into the insurance contract. Unearned premiums represent the proportion of premiums written relating to periods of insurance subsequent to the reporting date. Unearned premium reserve (UPR) for general insurance business is calculated at 45% of the net retained premiums for the year for all classes of business as required by the Oman Insurance Company Law of 1979. In addition, the Company also computes using 1/24th method which is a statistically acceptable method for calculation of UPR and shortfall in UPR, if any, is provided for. For life (life and medical) insurance contracts, the Company appoints an independent actuary who determines the workings for life mathematical reserves. In addition, (UPR) for medical insurance business is calculated at 45% of the net retained premiums for the year and shortfall in UPR, if any, is provided for.

(b) Commissions earned and paid

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

(c) Interest income

Interest income is recognised on accrual basis.

(d) Dividend income

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

(e) Rental income

Rental income is recognised on a straight line basis in respect of investment property let out.

(f) Other income

All other incomes are taken to the statement of comprehensive income in the year in which these relate on accrual basis.

3.5 Claims

Claim and loss adjustment expenses are charged to the statement of comprehensive income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the 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 Company. The Company 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 Company and statistical analysis 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.

Provisions for reported claims not paid at the reporting date are made on the basis of individual case estimates. In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported ("IBNR") at the reporting date. Any difference between the provisions at the reporting date and settlements and provisions for the following year is included in the underwriting account for that year.

Salvage and subrogation reimbursements

Some insurance contracts permit the Company to sell a (usually damaged) vehicle or a property acquired in settling a claim (i.e. salvage). The Company may also have the right to pursue third parties for payment of some or all costs (i.e. subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvaged vehicles or property acquired are recognised in other assets when the liability is settled unless disposed-off. The allowance is the amount that can reasonably be recovered from the disposal of the vehicle or property.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.5 Claims (continued)

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can reasonably be recovered from the action against the liable third party.

3.6 Liability adequacy test

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

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

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.

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

3.7 Reinsurance

In order to minimise financial exposure from large claims, the Company enters into agreements with other parties for reinsurance purposes. Premiums ceded and claims reimbursed are presented on a gross basis. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term 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 statement of financial position until the Company pays the claim. 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 recognised as an expense when due, net of commission income which represents income earned from reinsurance companies.

The Company regularly assesses its reinsurance assets for impairment. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the statement of comprehensive income. The Company gathers 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 as used for impairment of other financial assets (refer notes 3.8 and 3.12).



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

3 Summary of significant accounting policies (continued)

3.8 Premium and insurance receivables

Insurance and other receivables are initially recognised at fair value and subsequently are stated at amortised cost using the effective interest rate method less impairment losses, if any. A provision for impairment of premium receivables is established when there is objective evidence that the Company 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 premium and insurance receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the provision is recognised in the statement of comprehensive income within 'general and administration expenses'. When premium and insurance receivable is uncollectable, it is written off against the allowance account for premium and insurance receivables. Subsequent recoveries of amounts previously written off are credited against 'general and administration expenses' in the statement of comprehensive income.

3.9 Financial instruments

(a) Non-derivative financial instruments

Non-derivative financial instruments comprise investments carried at fair value through profit or loss, available-for-sale investments, held for trading investments, investments held to maturity, premium and insurance receivables, other receivables, due to reinsurers, deposits, cash and cash equivalents and other liabilities. Deposits comprise of deposits with maturity between six and thirty six months from the date of placement.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Subsequent to initial recognition, non-derivative financial instruments are measured as follows:

(b) Available-for-sale investments

The Company's investments in certain equity securities are classified as available-for-sale investments. Available-for-sale investments are initially recognised at fair value including transaction costs. Subsequent to initial recognition, these 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.

The fair value of available-for-sale investments is based on their quoted market prices as at the date of the statement of financial position. The fair value of financial instruments that are not traded in an active market (for example, unquoted investments) is determined by using certain valuation techniques.

Dividend income from available-for-sale investments is recognised in the statement of comprehensive income when the Company's right to receive payments is established.

(c) Held-to-maturity investments

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

Held-to-maturity investments are initially recognised 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 accruals basis.

(d) 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 Company manages such investments and makes purchase and sale decisions based on their fair values in accordance with the Company's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognised in the 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.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.9 Financial instruments (continued)

(d) Financial assets at fair value through profit or loss (continued)

Realised gains on sale of investments are determined as the difference between the sale proceeds and the carrying value and are included in the statement of comprehensive income in the period in which they arise.

Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income when the Company's right to receive payments is established.

(e) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and arise during the ordinary course of the business. Loans and receivables are recognised initially at fair value plus transaction costs that are directly attributable to their acquisition. These are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment, if any. The Company's loans and receivables comprise premium and insurance receivables, other receivables, deposits, reinsurance contracts and cash and cash equivalents in the statement of financial position.

(f) Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents consist of cash and bank balances and deposits with an original maturity of three months or less from the date of placement, net of bank overdrafts.

(g) Others

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

3.10 Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3.11 Financial liabilities

Financial liabilities are measured at amortised cost using the effective interest rate method.

3.12 Impairment

(a) 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.

Impairment is determined as follows:

- (i) for assets carried at fair value, impairment is the difference between cost and fair value;
- (ii) 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
- (iii) 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.



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

3 Summary of significant accounting policies (continued)

3.12 Impairment (continued)

(a) Financial assets (continued)

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 equity 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 amortised cost, the reversal is recognised in the statement of comprehensive income.

(b) Non-financial assets

The carrying amounts of the Company's 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. 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.

3.13 Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Company intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.14 Income tax

Income tax on the results for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

3 Summary of significant accounting policies (continued)

3.15 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any identified impairment loss, if any. The cost of property and equipment is their purchase price together with any incidental expenses. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is recognised in statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of the property and equipment. The estimated useful economic lives are as follows:

Buildings (including investment property)	15 years
Computer hardware and software	5 years
Furniture and equipment	6 years
Motor vehicles	5 years

Freehold land is not depreciated as it is deemed to have an indefinite useful life.

Capital work-in-progress is stated at cost. When commissioned, capital work-in-progress is transferred to the appropriate property and equipment category and depreciated in accordance with the Company's policy.

The carrying values of property 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 amounts.

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

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 and equipment are determined by reference to their carrying amounts, are recognised within 'other operating expenses' and are taken into account in determining operating profit.

3.16 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 and accumulated impairment losses, if any at the reporting date. The estimated useful life of investment property is assessed as 15 years. 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.

Capital work-in-progress is stated at cost. When commissioned, capital work-in-progress is transferred to the investment property and depreciated in accordance with the Company's policy.

Freehold land is not depreciated as it is deemed to have an indefinite useful life.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.17 Provisions

Provisions are recognised when the Company has a present (legal or constructive) obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

3.18 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 statement of financial position date in case of general insurance business and 1% of the life assurance premiums for the year in case of life insurance business are transferred to a contingency reserve which is not distributable. The Company may discontinue such annual transfers when the reserve equals the paid up capital of the Company. The contingency reserve in the books of the Company in accordance with the Omani Insurance Law is not distributable without prior approval of the Capital Market Authority.

3.19 Other payable and accruals

Liabilities are recognised initially at fair value and subsequently measured at amortised cost. Liabilities are recognised for amounts to be paid for goods and services received, whether or not billed to the Company.

3.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's statement of financial position only in the year in which the dividends are approved by the Company's shareholders.

3.21 Legal reserve

In accordance with the Commercial Companies Law of Oman 1974, annual appropriations of 10% of the profit for the year are made to the legal reserve until the accumulated balance of the reserve is equal to one third of the value of the Company's paid up share capital.

Reserve is reviewed and transferred on a yearly basis.

3.22 Employees' end of service benefits and leave entitlements

End of service benefits are accrued in accordance with the terms of employment of the Company's employees at the reporting date, having regard to the requirements of the Oman Labour Law 2003 and its amendments. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date. These accruals are included in current liabilities, while that relating to end of service benefits is disclosed as a non-current liability.

In accordance with the provisions of IAS 19, Employee benefits, management carries an exercise to assess the present value of the Company's obligations as of reporting date, using the actuarial techniques, in respect of employees' end of service benefits payable under the Oman aforesaid Labour Law. Under this method, an assessment is made of an employee's expected service life with the Company and the expected basic salary at the date of leaving the service.

Contributions to Omani Government Social Security Scheme under Royal Decree No. 72/91 for Omani employees in accordance with the Omani Social Insurance Law 1991 are recognised as an expense in the statement of comprehensive income as incurred.

3.23 Operating segment

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the Chief Executive Officer (CEO) to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

3 Summary of significant accounting policies (continued)

3.24 Earnings per share

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

3.25 Directors' remuneration

The Directors' remuneration is governed as set out by the Commercial Companies Law and the rules prescribed by the Capital Market Authority.

The Annual General Meeting shall approve the remuneration and the sitting fees for the Board of Directors provided that such fees shall not exceed 5% of the annual net profit after deduction of the legal reserve and the optional reserve and the distribution of dividends to the shareholders. Such fees shall not exceed RO 200,000 in one year. The sitting fees for each Director shall not exceed RO 10,000 in one year.

3.26 Business combination under common control

The Company accounts for business combinations under common control using the widely known method of predecessor accounting. The principles of predecessor accounting are:

- Assets and liabilities of the acquired entity are stated at predecessor carrying values. Fair value measurement is not required.
- No new goodwill arises in predecessor accounting.
- Any difference between the consideration given and the aggregate book value of the assets and liabilities of the acquired entity at the date of the transaction is included in equity in retained earnings or in a separate reserve.

Retrospective presentation method

The acquired entity's results and statement of financial position are incorporated as if both entities (acquirer and acquiree) had always been combined, or using the results from the date when either entity joined the group, where such a date is later.

Predecessor carrying values are the carrying values related to the acquired entity. They are generally the carrying amounts of assets and liabilities of the acquired entity from the consolidated financial statements of the highest entity that has common control for which consolidated financial statements are prepared.

3.27 Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Fair values have been determined for measurement and / or disclosure purposes based on 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:

Financial instruments

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

The fair value of investments that are not traded in an active market is determined by 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 considered to be approximate to their fair values.



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

4 Critical accounting estimates and judgements

The preparation of these financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and the resultant provisions and change in fair value for the year.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised and in any future period affected. Such estimates are necessarily based on assumptions about several factors involving varying, and possibly significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

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

The Company 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 Company 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 flow.

(b) *Outstanding claims including IBNR*

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the statement of financial position date and for the expected ultimate cost of claims incurred but not yet reported ("IBNR") at the statement of financial position date. The management uses the initial value of the claim provided by the surveyor for the expected ultimate cost of claims reported at the financial position date. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. General insurance claims provisions are not discounted for the time value of money.

(c) *Impairment of receivables*

An estimate of the collectible amount of premium and insurance receivables and reinsurance contract receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. 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.

(d) *Fair valuation of unquoted investments*

The fair value of investments that are not traded in an active market is determined using valuation techniques. The Company uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

(e) *Mathematical reserve*

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Company. Estimates are made as to the expected number of deaths for each of the years in which the Company is exposed to risk. The Company bases these estimates on standard industry and national mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Company's own experience. For contracts that insure the risk of longevity, appropriate but not excessively prudent allowance is made for expected mortality improvements. The estimated number of deaths determine the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics such as AIDS, SARS and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the Company 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 Company is exposed to longevity risk.



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

5 Underwriting results

	2017 RO	2016 RO
Gross written premiums arising from insurance contracts issued	18,706,093	14,891,723
Movement in unearned premium reserve	(1,080,395)	493,326
Insurance premium revenue earned	17,625,698	15,385,049
Premium ceded to reinsurers on insurance contracts issued	(12,268,819)	(9,216,097)
Movement in unearned premium reserve	790,959	(738,801)
Insurance premium ceded to reinsurers	(11,477,860)	(9,954,898)
Net premium revenue earned	6,147,838	5,430,151
Gross claims settled	(8,512,781)	(7,523,839)
Reinsurance share of gross claims settled	4,484,242	4,066,989
Net claims settled	(4,028,539)	(3,456,850)
Movement in net outstanding claims	(536,720)	(648,026)
Net claims incurred	(4,565,259)	(4,104,876)
Commission income	1,719,551	1,117,306
Commission (expense) / reversal	(78,219)	318,636
Net commission income	1,641,332	1,435,942
Other underwriting income	166,220	106,409
Underwriting results	3,390,131	2,867,626

Analysis of net underwriting results

The general insurance and life assurance net written premium and underwriting results before reinsurance recoveries are analysed as follows:

	Net written premium		Underwriting results before reinsurance recoveries	
	2017 RO	2016 RO	2017 RO	2016 RO
Motor	5,490,887	4,389,916	(1,865,895)	(1,122,304)
Group life, Group credit and health	826,490	1,139,485	(323,734)	(355,124)
Household and others	95,582	115,642	(308,072)	146,610
Marine	18,198	22,261	54,623	117,684
Fire	6,117	8,322	178,513	(12,721)
	6,437,274	5,675,626	(2,264,565)	(1,225,855)

The net claims ratio for general insurance business is as follows:

	2017 %	2016 %
Motor	74	72
Fire	1	197
Marine	56	44
Engineering, accident and others	40	30
Overall loss ratio for general insurance business	73	72

The net claims ratio for life assurance business is as follows:

	2017 %	2016 %
Group life	36	38
Medical	96	99
Overall loss ratio for life insurance business	81	87



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

6 Insurance claims and loss adjustment expenses

	2017		
	Gross RO	Reinsurers' share RO	Net RO
Claims outstanding (note 24)	10,887,063	(9,327,244)	1,559,819
IBNR (note 24)	1,121,000	(610,275)	510,725
Total at the beginning of the year	12,008,063	(9,937,519)	2,070,544
Insurance claims paid during the year	(8,512,781)	4,484,242	(4,028,539)
Increase in liabilities arising from current and prior period claims	10,053,735	(5,488,476)	4,565,259
Total at the end of the year	13,549,017	(10,941,753)	2,607,264
Claims outstanding (note 24)	12,161,017	(10,211,478)	1,949,539
IBNR (note 24)	1,388,000	(730,275)	657,725
Total at the end of the year	13,549,017	(10,941,753)	2,607,264

	2016		
	Gross RO	Share RO	Net RO
Claims outstanding	10,995,244	(9,938,451)	1,056,793
IBNR	771,000	(405,275)	365,725
Total at the beginning of the year	11,766,244	(10,343,726)	1,422,518
Insurance claims paid during the year	(7,523,839)	4,066,989	(3,456,850)
Increase in liabilities arising from current and prior period claims	7,765,658	(3,660,782)	4,104,876
Total at the end of the year	12,008,063	(9,937,519)	2,070,544
Claims outstanding (note 24)	10,887,063	(9,327,244)	1,559,819
IBNR (note 24)	1,121,000	(610,275)	510,725
Total at the end of the year	12,008,063	(9,937,519)	2,070,544

Substantially all the claims are expected to be paid within twelve months of the reporting date. The amounts due from reinsurers are contractually due within three months from the date of submission of accounts to the reinsurer.

The Company estimate their insurance liabilities and reinsurance assets principally based on previous experience. Estimates relating to life business claims are reviewed by an independent actuary. Claims requiring court or arbitration decisions are estimated individually.

Provisions for unearned premium reserve and unexpired insurance risks:

	2017		
	Gross RO	Reinsurers' share RO	Net RO
Unearned premium reserves	6,679,055	(4,427,636)	2,251,419
Mathematical reserves	3,323,968	(1,818,062)	1,505,906
Total at the beginning of the year (note 24)	10,003,023	(6,245,698)	3,757,325
Gross written premiums during the year	18,706,093	(12,268,819)	6,437,274
Net (release) / increase during the year	(17,625,698)	11,477,860	(6,147,838)
Total at the end of the year (note 24)	11,083,418	(7,036,657)	4,046,761
Unearned premium reserves	8,465,344	(5,672,633)	2,792,711
Mathematical reserves	2,618,074	(1,364,024)	1,254,050
Total at the end of the year (note 24)	11,083,418	(7,036,657)	4,046,761



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

6 Insurance claims and loss adjustment expenses (continued)

	2016		
	Gross RO	Reinsurers' Share RO	Net RO
Unearned premium reserves	6,120,791	(4,275,995)	1,844,796
Mathematical reserves	4,375,558	(2,708,504)	1,667,054
Total at the beginning of the year	10,496,349	(6,984,499)	3,511,850
Gross written premiums during the year	14,891,723	(9,216,097)	5,675,626
Net (release) / increase during the year	(15,385,049)	9,954,898	(5,430,151)
Total at the end of the year (note 24)	10,003,023	(6,245,698)	3,757,325
Unearned premium reserves	6,679,055	(4,427,636)	2,251,419
Mathematical reserves	3,323,968	(1,818,062)	1,505,906
Total at the end of the year (note 24)	10,003,023	(6,245,698)	3,757,325

7 Investment income – net

	2017 RO	2016 RO
Interest income on deposits	596,234	310,838
Dividend income	205,308	183,712
Realised gain on disposal of held for trading investments – net	150,336	-
Interest income on bonds	147,219	182,322
Amortisation of bonds	(19,376)	(43,668)
Rental income	94,524	120,248
Other investment income	10,024	17,847
Unrealised (loss) / gain on investments carried at fair value through profit or loss [note 14(b)]	(14,509)	483,035
Impairment loss on available-for-sale investments [note 16(a)]	(86,970)	-
Interest income on Bank Muscat SAOG subordinated bonds - net	-	109,446
Unrealised loss on held for trading investments - net	-	(98,674)
Net realised gain on disposal of investments carried at fair value through profit or loss [note 14(b)]	-	7,667
	1,082,790	1,272,773

8 General and administration expenses

	2017 RO	2016 RO
Employees' costs (refer 8.1 below)	2,061,413	1,796,414
Office expenses	191,238	171,189
Depreciation (notes 20 and 21)	153,482	160,919
Office rent	134,259	131,369
Printing and stationary	38,853	30,708
Communication and traveling expenses	82,816	91,691
Provision for impairment of premium and insurance receivables [note 15(e)]	1,774	-
	2,663,835	2,382,290

8.1 Employees' costs

	2017 RO	2016 RO
Staff salaries and allowances	1,926,534	1,656,905
Social security costs	104,221	88,633
End of service benefits [note 22(a)]	30,658	50,876
	2,061,413	1,796,414



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

9 Other operating expenses

	2017 RO	2016 RO
Professional fees	101,745	113,099
Advertising and recruitment expenses	71,856	32,488
Muscat securities market and annual general meeting expenses	39,065	29,205
Directors' sitting fees [note 29(a)]	36,300	26,300
Directors' remuneration [note 29(a)]	15,188	23,852
Corporate social responsibility expenses	5,000	-
Investment expenses	-	4,281
Profit on sale of property and equipment	(3,069)	(13,765)
	<u>266,085</u>	<u>215,460</u>

10 Taxation

(a) Recognised in the statement of comprehensive income

	2017 RO	2016 RO
Current tax		
Current year	215,065	168,312
Prior year	35,661	7,120
	<u>250,726</u>	<u>175,432</u>
Deferred tax		
Current year	59,801	(5,549)
Prior year	(335,938)	-
	<u>(276,137)</u>	<u>(5,549)</u>
	<u>(25,411)</u>	<u>169,883</u>

During the year end there was an amendment in the Income Tax Law of Oman, which has revised the applicable tax rate from 12% to 15% for financial years beginning on or after 1 January 2017. The Company is subject to income tax at the rate of 15% (2016 - 12% in excess of RO 30,000) of taxable profits. Reconciliation of tax is as under:

	2017 RO	2016 RO
Profit before taxation	1,483,019	1,509,046
Income tax as per rates mentioned above	222,453	181,087
Non-deductible expenses	15,650	10
Tax exempt revenue	(29,398)	(8,348)
Effect of tax exemption (RO 30,000 each for MLAC and MIC)	-	(7,200)
Tax paid on foreign cash dividend	1,966	4,178
Prior year charge - current tax	35,661	-
Prior year charge - deferred tax	(335,938)	-
Deferred tax impact of assets acquired at fair value	66,710	-
Deferred tax impact of change in tax rate	(2,515)	-
Others	-	157
	<u>(25,411)</u>	<u>169,883</u>

(b) Deferred tax asset

Deferred taxes is calculated on all temporary differences under the liability method using a principal tax rate of 15% (2016 - 12%). The deferred tax asset in the statement of financial position and the deferred tax credit in the statement of comprehensive income are attributable to the following items:

	1 January 2017 RO	Credited to the statement of comprehensive income RO	31 December 2017 RO
Deferred tax (liability) / asset			
Accelerated tax depreciation	(1,140)	272,355	271,215
Provision for impairment of premium and insurance receivables	10,480	3,782	14,262
Net deferred tax asset	<u>9,340</u>	<u>276,137</u>	<u>285,477</u>



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

10 Taxation (continued)

(b) Deferred tax asset (continued)

	1 January 2016 RO	Credited to the statement of comprehensive income RO	31 December 2016 RO
Deferred tax (liability) / asset			
Accelerated tax depreciation	(6,689)	5,549	(1,140)
Provision for impairment of premium and insurance receivables	10,480	-	10,480
Net deferred tax asset	<u>3,791</u>	<u>5,549</u>	<u>9,340</u>

(c) Movement in current tax liability is as under:

	2017 RO	2016 RO
At 1 January		
Charge for the year [note 10(a)]	172,960	155,102
Paid during the year	(209,081)	(157,574)
At 31 December	<u>214,605</u>	<u>172,960</u>

(d) The Company's income tax assessments have been finalised up to 2015 by the Secretariat General for Taxation at the Ministry of Finance. The Company has filed an objection in the assessments for 2011 to 2015 for which an outcome is yet to be finalised. The Company has made provisions to incorporate the additional tax implications arising from the assessments for 2011 to 2015. The management is of the opinion that additional taxes, if any, relating to open tax assessments would not be significant to the Company's financial position as at 31 December 2017.

MIC SAOC

Assessments from tax year 2003 to 2011 have been finalised by the Secretariat General for Taxation at Ministry of Finance; however, MIC SAOC has filed an objection to a computation error in the assessments for 2003 to 2011. MIC SAOC has made proper adjustments in the provisions to incorporate the additional tax implications arising from the assessments for 2003 to 2011. MIC SAOC's income tax assessments for the years 2012 to 2016 have not been finalised by the Secretariat General for Taxation at Ministry of Finance. The management believes that additional tax if any, that may become payable on finalisation of the assessments in respect of these open years would not be material to the MIC SAOC's financial position as at 31 December 2017.

MLAC SAOC

Assessments from tax year 2003 to 2011 have been finalised by the Secretariat General for Taxation at Ministry of Finance; however, the MLAC SAOC has filed an objection to a computation error in the assessments for 2003 to 2011. The MLAC SAOC has made proper adjustments in the provisions to incorporate the additional tax implications arising from the assessments for 2003 to 2011. The MLAC SAOC's income tax assessments for the years 2012 to 2016 have not been finalised by the Secretariat General for Taxation at Ministry of Finance. The management believes that additional tax if any, that may become payable on finalisation of the assessments in respect of these open years would not be material to the MLAC SAOC's financial position as at 31 December 2017.

11 Earnings per share and net assets per share

Basic earnings per share is calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year. The weighted average numbers of shares are restated for the prior period to give effect of bonus shares issued during the current period. Net assets per share is calculated by dividing the net assets at the year-end by the number of shares at the reporting date.

	2017	2016
Number of shares outstanding (restated)	<u>10,000,042</u>	<u>10,000,000</u>
Weighted average number of shares outstanding during the year (restated)	<u>10,000,014</u>	<u>10,000,000</u>



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

11 Earnings per share and net assets per share (continued)

	2017 RO	2016 RO
Profit for the year	1,508,430	1,339,163
Net assets at year end	17,191,488	16,189,855
Earnings per share - Basic and diluted (restated)	0.151	0.134
Net asset per share (restated)	1.719	1.619

For calculating diluted earnings per share, the weighted average number of shares outstanding is adjusted to assume conversion of all diluted potential ordinary shares. As there are no diluted potential shares, the diluted earnings per share is similar to the basic earnings per share.

12 Cash and cash equivalents

	2017 RO	2016 RO
Balances with bank (refer 'a' below)	2,719,263	3,484,146
Cash in hand	4,271	68,711
	2,723,534	3,552,857

(a) Included in the Company's bank balances are call deposits of RO 2,466,392 (2016 - RO 3,482,276) with commercial banks in Oman. These are denominated in Rial Omani, short term in nature and carry effective interest rates from 0.25% to 1.25% (2016 - 0.25% to 1.25%).

13 Deposits

	2017 RO	2016 RO
Deposits with banks	9,500,000	9,050,000
Deposits with other financial institutions	7,000,000	2,150,000
	16,500,000	11,200,000

(a) As at 31 December 2017, deposits with banks and other financial institutions have maturity period of six months to thirty-six months (2016 - six months to thirty-six months) from the date of placement.

(b) The deposits held with commercial banks in Oman carry effective annual interest rates from 3.50% to 4.75% (2016 - 1.75% to 4.75%) and with other financial institutions carry effective annual interest rates from 3.20% to 4.70% (2016 - 3.60% to 4.70%).

(c) As at 31 December 2017, transfer of deposits in local currency amounting to RO 6,055,000 (2016 - RO 4,555,000) is restricted (refer note 19).

14 Investments carried at fair value through profit or loss

	Fair value		Cost	
	2017 RO	2016 RO	2017 RO	2016 RO
Local - Quoted				
Banking / finance	2,899,360	2,767,106	3,431,650	3,431,682
Services	701,250	653,237	679,837	679,924
Industrial	189,857	213,403	101,577	106,743
Oil and energy	137,528	298,908	95,975	95,975
Consumer goods	307,561	323,445	48,381	48,442
Mutual fund	23,147	20,299	25,000	25,000
	4,258,703	4,276,398	4,382,420	4,387,766
Local - Unquoted				
Services	21,107	21,108	9,269	9,269
Industrial	2,850	-	5,120	-
Agriculture / food	43,750	43,750	62,500	62,500
	67,707	64,858	76,889	71,769
Total investments	4,326,410	4,341,256	4,459,309	4,459,535



MUSCAT INSURANCE COMPANY SAOG (FORMERLY MUSCAT NATIONAL HOLDING COMPANY SAOG) 31

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)**

14 Investments carried at fair value through profit or loss (continued)

(a) Quoted investments are listed on Muscat Securities Market. Details of the Company's investments for which the Company's holding exceeds 10% of the market value of its equity investment portfolio are:

	% of overall Portfolio	Number of securities	Market value RO	Cost RO
31 December 2017				
HSBC Bank Oman SAOG	55.11	20,663,885	2,644,977	3,155,988
31 December 2016				
HSBC Bank Oman SAOG	43.64	20,663,885	2,479,666	3,155,988

(b) Movement of investments carried at fair value through profit or loss is given below:

	2017 RO	2016 RO
At 1 January		
Purchases	4,341,256	3,651,100
Net realised gain on disposal of investments carried at fair value through profit or loss (note 7)	-	219,569
Proceeds from disposal of investments carried at fair value through profit or loss	-	7,667
Net change in fair value (note 7)	(337)	(20,115)
	(14,509)	483,035
At 31 December	4,326,410	4,341,256

(c) As at 31 December 2017, transfer of investments carried at fair value through profit or loss amounting to RO 463,203 (2016 - RO 434,253) is restricted (refer note 19).

(d) Currently the percentage of HSBC Bank Oman SOAG investment in relation to overall investments of the Company is 9.30% which exceeds the limit prescribed by Regulations for Investing Assets for Insurance Companies issued by the CMA. As per the Regulation, investments in shares of any one company should not exceed 5% of the total investments of the insurer. The Company has applied for exemptions from the CMA in respect of this investment.

15 Premium and insurance receivables

	2017 RO	2016 RO
Premium receivable	1,727,628	1,555,860
Reinsurance balances receivable	360,649	334,701
Premiums receivable from related parties [note 29 (c)]	409,419	420,177
	2,497,696	2,310,738
Less: provision for impairment of premium and insurance receivables	(95,077)	(93,303)
	2,402,619	2,217,435

(a) Ageing of the Company's gross receivables at the reporting date was as below:

	2017 RO	2016 RO
Not past due	1,458,237	1,252,508
Past due but not impaired:		
121 – 180 days	395,579	255,347
181 – 365 days	313,293	570,860
Above 365 days	235,510	138,720
Past due and impaired:		
Above 365 days	95,077	93,303
	2,497,696	2,310,738



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

15 Premium and insurance receivables (continued)

(b) The normal credit period allowed to insurance receivables and reinsurance companies is 120 days, after which amounts are considered past due. As at 31 December 2017, receivables of RO 1,458,237 (2016 - RO 1,252,508) were fully performing.

(c) As at 31 December 2017, insurance receivables and due from reinsurance companies of RO 944,382 (2016 - RO 964,927) were past due but not impaired. These relate to number of customers and reinsurers for whom there is no history of default. Most of the credit customers have been dealing with the Company for over 6 years and losses have occurred infrequently.

(d) At 31 December 2017, premium and insurance receivables of RO 95,077 (2016 - RO 93,303) were impaired and fully provided.

(e) Movement in the provision for impairment of premium and insurance receivables during the year is as follows:

	2017 RO	2016 RO
At 1 January	93,303	93,303
Provision during the year (note 8)	1,774	-
At 31 December	95,077	93,303

16 Available-for-sale investments

	Fair value		Cost	
	2017 RO	2016 RO	2017 RO	2016 RO
Unquoted Services	473,374	567,141	402,805	402,805

(a) Movement of available-for-sale investment is given below:

	2017 RO	2016 RO
At 1 January	567,141	547,998
Change in fair value of available-for-sale investments	(6,797)	19,143
Impairment loss during the year (note 7)	(86,970)	-
At 31 December	473,374	567,141

17 Other receivables and prepayments

	2017 RO	2016 RO
Advance for building project	747,526	-
Accrued interest	401,923	256,905
Other receivables	210,159	246,596
Prepayments	128,793	99,183
	1,488,401	602,684

18 Investments held to maturity

	2017 RO	2016 RO
Government Development Bonds	2,043,639	4,063,015

(a) The Government Development Bonds (40th Issue) carry an interest rate of 5.50% (2016 - 5.50%) per annum and are due to mature in 2022.

(b) Fair value of held to maturity investments as of 31 December 2017 was RO 2.276 million (2016 - RO 4.349 million).

(c) As at 31 December 2017, transfer of investments held to maturity amounting to RO 2,043,639 (2016 - RO 3,540,329) is restricted (refer note 19).



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

19 Restrictions on transfer of assets

In accordance with the law governing the operation of insurance companies within the Sultanate of Oman, the Company has identified to the Capital Market Authority certain specific bank deposits, investments carried at fair value through profit or loss and investments held to maturity included in the statement of financial position at their carrying amount of RO 8,561,842 (2016 - RO 8,529,782). Under the terms of the legislation, the Company can transfer these assets only with the prior approval of the Capital Market Authority.

20 Investment property

	Freehold land RO	Building RO	Capital work in progress RO	Total RO
Cost				
At 1 January 2017	992,250	630,000	-	1,622,250
Additions	-	-	270,100	270,100
Transfer from property and equipment (note 21)	1,017,229	-	-	1,017,229
Transfer to property and equipment (note 21)	(283,500)	(180,000)	-	(463,500)
At 31 December 2017	1,725,979	450,000	270,100	2,446,079
Accumulated depreciation				
At 1 January 2017	-	48,674	-	48,674
Charge for the year	-	30,000	-	30,000
Transfer to property and equipment (note 21)	-	(14,109)	-	(14,109)
At 31 December 2017	-	64,565	-	64,565
Net book value				
At 31 December 2017	1,725,979	385,435	270,100	2,381,514

The investment property comprises of lands and building held by the Company pertaining to:

(a) Freehold land and building in Al Khuwair which is 50% occupied by the Company and 50% is used for rental purposes. The fair value as at 31 December 2017 of RO 1.85 million based upon an independent external valuation carried at 4 September 2017 [note 21(a)].

(b) Freehold land in Al Khuwair for which construction has been started during the year. The building is being constructed with the intention to lease / sale and partially to be utilised by the Company for own use. The fair value as at 31 December 2017 of RO 3.50 million based upon an independent external valuation carried at 31 December 2017 [note 21(b)].

	Freehold land RO	Buildings RO	Total RO
Cost			
At 1 January 2016	1,070,286	676,000	1,746,286
Transfer to property and equipment (note 21)	(78,036)	(46,000)	(124,036)
At 31 December 2016	992,250	630,000	1,622,250
Accumulated depreciation			
At 1 January 2016	-	52,559	52,559
Charge for the year	-	42,115	42,115
Transfer to property and equipment (note 21)	-	(46,000)	(46,000)
At 31 December 2016	-	48,674	48,674
Net book value			
At 31 December 2016	992,250	581,326	1,573,576



MUSCAT INSURANCE COMPANY SAOG (FORMERLY MUSCAT NATIONAL HOLDING COMPANY SAOG)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)**

21	Property and equipment	Freehold land RO	Building RO	Furniture and equipment RO	Computer hardware and software RO	Motor vehicles RO	Capital work in progress RO	Total RO
	Cost							
	At 1 January 2017	1,878,434	472,325	285,159	318,414	131,029	-	3,085,361
	Additions	-	-	20,960	18,052	(25,525)	115,757	154,769
	Disposals	-	-	-	-	-	-	(25,525)
	Transfer from investment property (refer note 20 and note 'a' below)	283,500	180,000	-	-	-	-	463,500
	Transfer to investment property (refer note 20 and note 'b' below)	(1,017,229)	-	-	-	-	-	(1,017,229)
	Write-offs	-	(202,325)	-	-	-	-	(202,325)
	At 31 December 2017	1,144,705	450,000	306,119	336,466	105,504	115,757	2,458,551
	Accumulated depreciation							
	At 1 January 2017	-	222,782	121,418	212,948	86,811	-	643,959
	Charge for the year	-	29,999	47,225	30,833	15,425	-	123,482
	Disposal	-	-	-	-	(21,201)	-	(21,201)
	Transfer from investment property (refer note 20 and note 'a' below)	-	14,109	-	-	-	-	14,109
	Write-offs	-	(202,325)	-	-	-	-	(202,325)
	At 31 December 2017	-	64,565	168,643	243,781	81,035	-	558,024
	Net book value							
	At 31 December 2017	1,144,705	385,435	137,476	92,685	24,469	115,757	1,900,527

(a) This represents freehold land and building in Al Khuwair held by the Company. During the year, the Company occupied a portion of freehold land and building which was previously held with the intention to rent out. Accordingly, an amount equivalent to the percentage change in use, previously classified as investment property, has been transferred to property and equipment [note 20(a)].

(b) This represents another freehold land held by the Company in Al Khuwair was demolished during 2016. The new building construction has commenced during the year. The new building is being constructed with the intention to lease / sale and partially to be utilised by the Company for own use. Accordingly, an amount equivalent to the percentage of use, has been classified as property and equipment and the remaining amount has been classified and transferred to investment property [note 20(b)].



MUSCAT INSURANCE COMPANY SAOG (FORMERLY MUSCAT NATIONAL HOLDING COMPANY SAOG)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)**

21 Property and equipment (continued)

	Freehold land RO	Buildings RO	Furniture and equipment RO	Computer hardware and software RO	Motor vehicles RO	Total RO
Cost						
At 1 January 2016	1,800,398	426,325	390,000	228,794	201,824	3,047,341
Additions	-	-	105,462	89,620	-	195,082
Transfer from investment property (note 20)	78,036	46,000	-	-	-	124,036
Disposals	-	-	(210,303)	-	(70,795)	(281,098)
At 31 December 2016	1,878,434	472,325	285,159	318,414	131,029	3,085,361
Accumulated depreciation						
At 1 January 2016	-	157,394	278,934	187,142	125,793	749,263
Charge for the year	-	19,388	45,822	25,806	27,788	118,804
Transfer from investment property (note 20)	-	46,000	-	-	-	46,000
Disposals	-	-	(203,338)	-	(66,770)	(270,108)
At 31 December 2016	-	222,782	121,418	212,948	86,811	643,959
Net book value						
At 31 December 2016	1,878,434	249,543	163,741	105,466	44,218	2,441,402



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

22 Other payable and accruals

	2017 RO	2016 RO
Accruals	3,285,151	2,841,520
Other creditors	1,398,769	1,610,258
End of service benefits (refer note 'a' below)	210,234	180,235
Amount due to related parties [note 29(c)]	94,924	85,546
Advance rent received	3,427	3,427
	<u>4,992,505</u>	<u>4,720,986</u>

(a) Movements in the liability for employees' end of service benefits recognised in the statement of financial position are as follows:

	2017 RO	2016 RO
At 1 January	180,235	140,865
Charge during the year (note 8.1)	30,658	50,876
Employees' end of service benefit paid	(659)	(11,506)
At 31 December	<u>210,234</u>	<u>180,235</u>

23 Reinsurance payable

	2017 RO	2016 RO
Premium and loss reserve retained from treaty reinsurers	4,985,980	3,880,117
Premium (net of commission and claims) due to reinsurers	486,892	550,390
	<u>5,472,872</u>	<u>4,430,507</u>

24 Insurance and reinsurance contracts

	2017 RO	2016 RO
Gross		
- Outstanding claims reported (note 6)	12,161,017	10,887,063
- Claims incurred but not reported (IBNR) (note 6)	1,388,000	1,121,000
- Unearned premium reserve (UPR) (note 6)	11,083,418	10,003,023
Total gross insurance liabilities	<u>24,632,435</u>	<u>22,011,086</u>
Reinsurance		
- Outstanding claims reported (note 6)	10,211,478	9,327,244
- Claims incurred but not reported (IBNR) (note 6)	730,275	610,275
- Unearned premium reserve (UPR) (note 6)	7,036,657	6,245,698
Total reinsurers' share in insurance liabilities	<u>17,978,410</u>	<u>16,183,217</u>
Net		
- Outstanding claims reported (note 6)	1,949,539	1,559,819
- Claims incurred but not reported (IBNR) (note 6)	657,725	510,725
- Unearned premium reserve (UPR) (note 6)	4,046,761	3,757,325
Total insurance liabilities - net	<u>6,654,025</u>	<u>5,827,869</u>



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

25 Share capital

(a) Share capital

	Number of shares	
	2017	2016
Authorised – ordinary shares of RO 1 each	30,000,000	5,000,000
Issued and fully paid – ordinary shares of RO 1 each	10,000,042	5,000,000

Details of shareholders who hold 10% or more of the Company's shares are as follows:

	Number of shares	
	2017 RO	2016 RO
Dr. Omar Abdul Muniem Al Zawawi	3,035,800	1,517,900
Suleiman Al Houqani	-	767,722
Al Awal National ("First National")	-	549,494

(b) Proposed cash and stock dividend

The Board of Directors have proposed a cash dividend of RO 0.05 per share (2016 - RO 0.100 per share) amounting to RO 500,002 (2016 - RO 500,000) for the year ended 31 December 2017, which is subject to the approval of the shareholders at the forthcoming Annual General Meeting.

The Board of Directors have proposed a stock dividend of 5% (2016 - 100%) equivalent to 500,002 shares of RO 1 each (2016 - 5,000,000 shares of RO 1 each) for the year ended 31 December 2017, which is subject to the approval of the shareholders at the forthcoming Annual General Meeting.

(c) Movements in the number of shares issued and fully paid – ordinary shares of RO 1 each:

	Number of shares	
	2017	2016
At 1 January	5,000,000	5,000,000
Bonus shares	5,000,000	-
Shares issued to subsidiary companies (note 1 and 33)	15,458,850	-
Shares cancellation (note 1 and 33)	(15,458,808)	-
At 31 December	10,000,042	5,000,000

26 Legal reserve and capital reserve

(a) Legal reserve

As required by the Commercial Companies Law of the Sultanate of Oman, 10% of the profit for the year of the individual companies is required to be transferred to legal reserve until the reserve is equal to one third of the paid up share capital of the Company. This reserve is not available for distribution. The movement in this reserve in the current year represents reversal of excess reserve based on the issued share capital of the Company.

(b) Capital reserve

The Capital reserve represents the excess over nominal value paid by the initial subscribers towards public issue expenses incurred by the Company.

27 Contingency reserve

	2017 RO	2016 RO
At 1 January	1,476,172	1,303,536
Transfer during the year	235,716	172,636
At 31 December	1,711,888	1,476,172



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

27 Contingency reserve (continued)

In accordance with Article 10(bis) (2) (c) and 10(bis) (3) (b) of Regulations for Implementing Insurance Companies Law (Ministerial Order 5/80), as amended, 10% of the net outstanding claims in case of the general insurance business and 1% of the life assurance premium for the year for life insurance business at the reporting date is transferred from retained earnings to a contingency reserve. The Company may discontinue this transfer when the reserve equals to the issued share capital. No dividend shall be declared in any period until the deficit in the reserve is covered from the retained profits. The reserves shall not be used except by prior approval of the Capital Market Authority (CMA).

28 Contingencies and commitments

Following are the key contingencies and commitments for the Company outstanding as at 31 December 2017.

Contingent liability

The Company has guarantees issued by a commercial bank in favour of the Omani Unified Bureau for Orange Card SAOC and certain other corporates on behalf of the Company for RO 62,881 (2016 - RO 74,938) for tender purpose from which it is anticipated that no material liabilities will arise.

Purchase commitment

The Company has entered into an agreement with a vendor for up-gradation of its existing IT systems and maintenance services with a contracted value of RO 145,525. Payments amounting to RO 39,116 have been made against the same.

Capital commitment

The Company has entered into an agreement with a contractor for construction of building with a contracted value of RO 7,775,000. Payments amounting to RO 1,133,383 have been made against the same.

29 Related parties

Related parties represent associated companies, major shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Board.

The Company enters into transactions in the normal course of business with shareholders, directors, key management personnel and entities in which certain shareholders and directors have the ability to control or exercise significant influence in financial and operating decisions. These transactions are entered on arm's length basis.

(a) Transactions with related parties

Transactions with related parties or holders of 10% or more of the Company's shares or their family members, included in the statement of comprehensive income are as follows:

	2017 RO	2016 RO
Premiums written from related parties	2,635,652	2,693,341
Claims paid to related parties	649,824	568,485
Purchases of goods and services from related parties	23,099	16,768
Purchase of property and equipment from related parties	2,854	1,580
Investment income from related parties:		
Interest income	65,892	22,934
Dividend income	8,708	6,077
	74,600	29,011
Other underwriting income from related parties	48,048	36,295
Directors' remuneration (note 9)	15,188	23,852
Directors' sitting fees (note 9)	36,300	26,300



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

29 Related parties (continued)

(b) Compensation of the key management personnel

The key management personnel compensation for the period comprises:

	2017 RO	2016 RO
Short term employment benefits	299,706	256,095
End of service benefits	18,026	27,283
	<u>317,732</u>	<u>283,378</u>

(c) Year end balances due from / to related parties:

	2017 RO	2016 RO
Premium receivables from related parties (note 15)	409,419	420,177
Payable to other related parties (note 22)	<u>94,924</u>	<u>85,546</u>

Outstanding balances at year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables. For the year ended 31 December 2017, the Company has not established any provision for doubtful debts relating to amounts owed by related parties as the payment history has been good. This assessment is undertaken each financial period through examining the financial position of the related party and the market in which the related party operates. Amount due to, and from, related parties are interest free and payable on demand.

(d) Balances with related parties included in statement of financial position are as follows:

	2017 RO	2016 RO
Investments carried at fair value through profit or loss	388,104	176,402
Deposits	<u>2,250,000</u>	<u>1,250,000</u>

30 Segment information

Business segments – primary reporting segment

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

Operating segments

The Company has the following operating segments:

(a) General insurance

General business includes insurance of motor; fire, marine, engineering, workmen compensation and general accident.

(b) Life insurance

Life insurance business relates to the insurance of the life and medical of an individual or group and the credit life policies.



MUSCAT INSURANCE COMPANY SAOG (FORMERLY MUSCAT NATIONAL HOLDING COMPANY SAOG) 40

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)**

30 Segment information (continued)

	General insurance RO	Life insurance RO	Total RO
Gross written premiums	17,367,940	1,338,153	18,706,093
Gross written premiums arising from insurance contracts issued	17,367,940	1,338,153	18,706,093
Movement in unearned premium reserve	(1,786,289)	705,894	(1,080,395)
Insurance premium revenue earned	15,581,651	2,044,047	17,625,698
Premium ceded to reinsurers on insurance contracts issued	(11,757,155)	(511,664)	(12,268,819)
Movement in unearned premium reserve	1,244,997	(454,038)	790,959
Insurance premium ceded to reinsurers	(10,512,158)	(965,702)	(11,477,860)
Net premium revenue earned	5,069,493	1,078,345	6,147,838
Gross claims settled	(6,893,843)	(1,618,938)	(8,512,781)
Reinsurance share of gross claims settled	3,823,430	660,812	4,484,242
Net claims settled	(3,070,413)	(958,126)	(4,028,539)
Movement in net outstanding claims	(619,609)	82,889	(536,720)
Net claims incurred	(3,690,022)	(875,237)	(4,565,259)
Commission income	1,672,416	47,135	1,719,551
Commission expense	(93,880)	15,661	(78,219)
Net commission income	1,578,536	62,796	1,641,332
Other underwriting income	166,220	-	166,220
Underwriting results	3,124,227	265,904	3,390,131
Investment income – net	875,379	207,411	1,082,790
	3,999,606	473,315	4,472,921
General and administration expenses	(2,459,799)	(204,036)	(2,663,835)
Other operating expenses	(259,153)	(6,932)	(266,085)
	(2,718,952)	(210,968)	(2,929,920)
Operating profit	1,280,654	262,347	1,543,001
Finance costs	(59,982)	-	(59,982)
Profit before taxation	1,220,672	262,347	1,483,019
Taxation	95,330	(69,919)	25,411
Profit for the year	1,316,002	192,428	1,508,430
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss</i>			
Net changes in fair value of available-for-sale investments	(6,797)	-	(6,797)
Total comprehensive income for the year	1,309,205	192,428	1,501,633
Segment assets	44,721,843	7,782,062	52,503,905
Segment liabilities	30,822,813	4,489,604	35,312,417



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

30 Segment information (continued)

	General insurance RO	Life insurance RO	Total RO
Gross written premiums	13,589,718	1,302,005	14,891,723
Gross written premiums arising from insurance contracts issued	13,589,718	1,302,005	14,891,723
Movement in unearned premium reserve	(558,264)	1,051,590	493,326
Insurance premium revenue earned	13,031,454	2,353,595	15,385,049
Premium ceded to reinsurers on insurance contracts issued	(9,069,445)	(146,652)	(9,216,097)
Movement in unearned premium reserve	151,640	(890,441)	(738,801)
Insurance premium ceded to reinsurers	(8,917,805)	(1,037,093)	(9,954,898)
Net premium revenue earned	4,113,649	1,316,502	5,430,151
Gross claims settled	(5,895,010)	(1,628,829)	(7,523,839)
Reinsurance share of gross claims settled	3,414,911	652,078	4,066,989
Net claims settled	(2,480,099)	(976,751)	(3,456,850)
Movement in net outstanding claims	(477,418)	(170,608)	(648,026)
Net claims incurred	(2,957,517)	(1,147,359)	(4,104,876)
Commission income	1,380,369	(263,063)	1,117,306
Commission (expense) / reversal	(86,720)	405,356	318,636
Net commission income	1,293,649	142,293	1,435,942
Other underwriting income	106,409	-	106,409
Underwriting results	2,556,190	311,436	2,867,626
Investment income – net	817,825	454,948	1,272,773
	3,374,015	766,384	4,140,399
General and administration expenses	(2,105,827)	(276,463)	(2,382,290)
Other operating expenses	(169,839)	(45,621)	(215,460)
	(2,275,666)	(322,084)	(2,597,750)
Operating profit	1,098,349	444,300	1,542,649
Finance costs	(33,603)	-	(33,603)
Profit before taxation	1,064,746	444,300	1,509,046
Taxation	(138,595)	(31,288)	(169,883)
Profit for the year	926,151	413,012	1,339,163
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss</i>			
Net changes in fair value of available-for-sale investments	19,143	-	19,143
Total comprehensive income for the year	945,294	413,012	1,358,306
Segment assets	41,443,760	6,081,634	47,525,394
Segment liabilities	25,812,099	5,523,440	31,335,539

Geographical segments – secondary reporting segment

The Company has one geographical segment as all their operations are carried inside the Sultanate of Oman.



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

31 Risk management

31.1 Governance framework

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

The Company has an executive committee with clear terms of reference from the Board of Directors. This is in addition to a clear organisational structure with documented delegated authorities and responsibilities from the Board of Directors to the executive committee and senior managers.

31.2 Insurance risk

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments may exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random, and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

The Company's objectives in managing risks are to take a conservative approach to underwriting, which means review of all aspects about a risk prior to acceptance; retaining experienced and knowledgeable underwriters; and having underwriting authorities in place which are checked by internal audits. The Company ensures that risks are mitigated with first class reinsurance security, pre-underwriting surveys and claims history reviews. 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 note 4.

The Company only accepts insurance risk within the Sultanate of Oman. The Company's net account in terms of aggregate risk retention is well protected with substantial event limits plus catastrophe excess of loss reinsurance per class of business written.

Frequency and amounts of claims

The frequency and amounts of claims can be affected by several factors.

General insurance

Motor

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. The level of court awards for deaths and to injured parties and the replacement costs of motor vehicles are the key factors that influence the level of claims.

Property

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

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

Marine

For marine insurance the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes. The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered.



**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)**

31 Risk management (continued)

31.2 Insurance risk (continued)

Life insurance

The Company underwrites mainly under the group credit life, group life and group medical risks. Claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

Group credit life

Group credit assurance policy is designed to fulfil the borrower's loan obligation in the event that the borrower dies or becomes disabled.

Group life and group medical

These contracts are underwritten by reference to the sum assured of the individuals belonging to an affinity group insured.

31.3 Reinsurance risk

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

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

Reinsurance ceded contracts do not relieve the Company from its obligations to policyholders and as a result the Company remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements. The concentration of credit risk exposure in this connection is:

- The five largest reinsurers account for 85% of the credit exposure at 31 December 2017 in case of the general insurance business (2016 - 82%).
- The life insurance business is exposed to material concentration of reinsurance risk in respect of the Group Credit Life scheme. The credit risk in this connection is that one reinsurer accounts for 79% of the credit exposure at 31 December 2017 (2016 - 77%).

31.4 Regulatory framework

The operations of the Company are subject to local regulatory requirements within the jurisdictions where it operates. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions e.g. capital adequacy to minimise the risk of default and insolvency on the part of the insurance companies and to enable them to meet unforeseen liabilities as these arise.

The Company has a surplus over the required solvency margin as per the Insurance Company Law:

- in case of the general insurance, a surplus of RO 8,047,485 at 31 December 2017 (2016 - RO 3,816,515).
- in case of life insurance, a surplus of RO 2,352,500 at 31 December 2017 (2016 - RO 4,920,544).



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

31 Risk management (continued)

31.5 Financial risk management

The Company's principal financial instruments are receivables arising from insurance and reinsurance contracts, listed investments and cash and cash equivalents. The Company does not enter into derivative transactions. The main risks arising from the Company's financial instruments are:

- (a) Credit risk
- (b) Liquidity risk.
- (c) Market risk
 - Currency risk
 - Interest rate risk
 - Pricing risk

The Company review and agree policies for managing each of these risks and they are summarised below.

(a) Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The carrying amount of the financial assets, other than those relating to reinsurance contracts, represents the maximum credit exposure. The Company monitors receivables on a regular basis and ensures bank balances and deposits are placed with reputable financial institutions.

Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

The maximum exposure to credit risk at the reporting date was:

	2017 RO	2016 RO
Cash equivalents	2,719,263	3,484,146
Premium and insurance receivable	2,402,619	2,217,435
Investments held to maturity	2,043,639	4,063,015
Other receivables (excluding prepayments)	1,359,608	503,501
Reinsurance contracts	17,978,410	16,183,217
Deposits	16,500,000	11,200,000
	<u>43,003,539</u>	<u>37,651,314</u>

The table below presents an analysis of balances with banks as at 31 December 2017:

	2017 RO	2016 RO
P-2	120,056	3,482,198
P-3	2,598,322	-
Not rated	885	1,948
	<u>2,719,263</u>	<u>3,484,146</u>

The following table shows the placements of deposits held with counterparties at the reporting date:

	2017 RO	2016 RO
Ba1	-	2,000,000
Baa2	-	5,500,000
Baa3	8,500,000	-
Not rated	8,000,000	3,700,000
	<u>16,500,000</u>	<u>11,200,000</u>



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

31 Risk management (continued)

31.5 Financial risk management (continued)

(a) Credit risk (continued)

The following table shows the rating of Government Development Bonds at the reporting date:

	2017 RO	2016 RO
Baa1	-	4,063,015
Baa2	2,043,639	-
	<u>2,043,639</u>	<u>4,063,015</u>

Ageing of the insurance receivables at the reporting date and movement of the provision for impairment of premium and insurance receivables during the year is disclosed in note 15 to the financial statements.

Premium and insurance receivable

Premium and insurance receivable comprise a number of customers within Oman and local and foreign reinsurers. The Company monitors these receivables on a regular basis. Most of the credit customers have been dealing with the Company for over 5 years and losses have occurred infrequently. The Company establishes an allowance for impairment that represents its estimate of likely losses in respect of these receivable accounts. With respect to reinsurers, as per Company policy of managing insurance risks, such contracts are placed only with internationally reputed well rated reinsurers.

The other classes within receivables do not contain impaired assets. The Company does not hold any collateral as security.

Other receivable and prepayments

These are advance payments to parties for services to be availed over the short term and, accordingly, management does not consider there to be significant credit risk associated with them.

The maximum credit exposure to credit risk for premium and insurance receivables (including reinsurance receivable) at the reporting date by geographic region was as below:

	2017 RO	2016 RO
Oman	2,063,351	1,836,850
Europe	281,479	221,264
Middle East	46,907	150,946
America and Canada	10,636	8,129
Rest of Asia	246	246
	<u>2,402,619</u>	<u>2,217,435</u>

The maximum credit exposure to credit risk at the reporting date by type was as follows:

	2017 RO	2016 RO
Individuals and corporate clients	2,041,970	1,882,734
Reinsurers	360,649	334,701
	<u>2,402,619</u>	<u>2,217,435</u>

(b) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored regularly and management ensures that sufficient funds are available to meet any commitments as they arise.



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

31 Risk management (continued)

31.5 Financial risk management (continued)

(b) Liquidity risk (continued)

At reporting date, the maturity profile of financial liabilities is as follows:

	Carrying amount RO	6 months or less RO	6 to 12 months RO	No fixed maturity RO
2017				
Other payable and accruals (excluding end of service benefits and advance rent received)	4,778,844	4,560,362	218,483	-
Premium and loss reserve retained from treaty reinsurers	4,985,980	3,556,480	1,449,157	-
Premium (net of commission and claims) due to reinsurers	486,892	392,016	94,876	-
Insurance contracts	24,632,435	-	-	24,632,435
	<u>34,884,151</u>	<u>8,508,858</u>	<u>1,762,516</u>	<u>24,632,435</u>
	Carrying amount RO	6 months or less RO	6 to 12 months RO	No fixed maturity RO
2016				
Other payable and accruals (excluding end of service benefits and advance rent received)	4,537,324	3,996,753	540,571	-
Premium and loss reserve retained from treaty reinsurers	3,880,117	1,288,720	2,614,071	-
Premium (net of commission and claims) due to reinsurers	550,390	401,064	149,326	-
Insurance contracts	22,011,086	-	-	22,011,086
	<u>30,978,917</u>	<u>5,686,537</u>	<u>3,303,968</u>	<u>22,011,086</u>

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the income or the value of holdings of financial instruments. These changes could be factors specific to the individual security, or its issuer, or factors affecting all securities in the market. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

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

(i) Currency Risk

Currency Risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Significantly all of the foreign currency transactions of the Company are either in US Dollars or in currencies linked to US Dollars. The rate of exchange between the US Dollar and the Omani Rial has remained unchanged since 1986. Management, therefore, does not consider any significant risk arises from transactions in foreign currencies.



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

31 Risk management (continued)

31.5 Financial risk management (continued)

Exposure to foreign currency risk was as follows based on notional amounts:

(c) Market risk (continued)

(i) Currency Risk (continued)

	Amounts shown in RO			
	2017		2016	
	USD	Other currencies	USD	Other currencies
Held for trading investments	-	-	119,456	654,015
Cash and cash equivalents	562	-	65,531	-
	562	-	184,987	654,015

Sensitivity analysis

The rate of exchange between the US Dollar and the RO has remained unchanged since 1986. Management, therefore, does not consider any significant risk arise from transactions in US Dollar.

During the current year, if Rial Omani were to have strengthened or weakened by 10% against currencies other than US Dollar with all other variables held constant, pre-tax profits for the year of the Company would have remained the same (2016 - pre-tax profits for the year of the Company would have been higher / lower by RO 65,402).

(ii) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market rates.

The Company invests in securities and has deposits that are subject to interest rate risk. Interest rate risk to the Company is the risk of changes in market profit rates reducing the overall return on its interest bearing securities. The Company limits interest rate risk by monitoring changes in interest rates.

Had there been an increase / decrease in the interest rate by 0.5% the profit before tax would have changed by +/- RO 3,717 (2016 – RO 3,013).

(iii) Pricing risk

The Company is exposed to market risk with respect to investments. The Company limits exposure to market risk by continuous monitoring of the market and actively monitoring the key factors that affect stock market movements.

100% (2016 - 86.39%) of the Company's equity investments at the reporting date are within the Sultanate of Oman.

A 10% change in fair value of the Company's investments carried at fair value through profit or loss would have impact on profit / (loss) of approximately RO 432,641 (2016 - RO 434,126).

A 10% change in fair value of the Company's available for sale investments would have impact on profit / (loss) of approximately RO 47,337 (2016 - RO 56,714).



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

31 Risk management (continued)

31.6 Fair value hierarchy

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

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - 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 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

	2017 RO	2016 RO
Level 1		
Fair value through profit or loss	4,146,179	4,320,148
Held for trading	-	773,471
	4,146,179	5,093,619
Level 2		
Fair value through profit or loss	180,231	21,108
Level 3		
Available-for-sale investment	473,374	567,141

There were no transfers between level 1, level 2 and level 3 of the fair value hierarchy of the investment securities. Available-for-sale investments have been correctly disclosed under level 3.

Level 3 investments are investments in shares of an unquoted company. The management values the two investment using net asset value of the investee based on the investee's draft financial statements. Management considers that the carrying value of the two investment approximate to its fair value as significant portfolio of the underlying assets and liabilities of the two investee companies are either fair valued or are in cash and cash equivalents where fair value approximate the carrying value. Therefore, unadjusted net assets value is representative of fair value of the investments. The management values one investment using discounted cash flows. The valuation model considers the present value of expected cash flows, discounted using a risk adjusted discount rate. The cash flows are determined by considering the possible scenarios of forecast revenue and Earnings Before Interest Tax Depreciation and Amortisation ('EBITDA').

31.7 Operational Risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss.

The Company cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks.

The Company has detailed systems and procedures manuals with effective segregation of duties, access controls, authorisation and reconciliation procedures, staff training and assessment processes etc. with a compliance and internal audit framework. Business risks such as changes in environment, technology and the industry are monitored through the Company's strategic planning and budgeting process.

31.8 Capital management

The Company manages its capital so as to maintain both adequate working capital as well as meet regulatory solvency margin requirements as prescribed by the CMA and the capital requirements of the CMA for insurers and the Commercial Companies Law of 1974, as amended.



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

31 Risk management (continued)

31.8 Capital management (continued)

The Company has an internal risk management framework for identifying risks to which each of its business units and the Company as a whole are exposed, quantifying their impact on economic capital. The internal framework estimates indicate how much capital is needed to mitigate the risk of insolvency to a selected remote level of risk applied to a number of tests (both financial and non-financial) on the capital position of the business.

The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. The Company fully complied with the externally imposed capital requirements during the reported financial periods and no changes were made to its capital base, objectives, policies and processes from the previous period other than as discussed above in note 1.

32 Financial assets by category

The accounting policies for financial assets have been applied to the line items below:

	Loans and receivables RO	Held-to- maturity RO	Financial assets at fair value through profit or loss RO	Available- for-sale financial assets RO	Total RO
31 December 2017					
Cash and cash equivalents	2,723,534	-	-	-	2,723,534
Investments carried at fair value through profit or loss	-	-	4,326,410	-	4,326,410
Premium and insurance receivables	2,402,619	-	-	-	2,402,619
Available-for-sale investments	-	-	-	473,374	473,374
Other receivables and prepayments	1,488,401	-	-	-	1,488,401
Reinsurers' contracts	17,978,410	-	-	-	17,978,410
Deposits	16,500,000	-	-	-	16,500,000
Investments held to maturity	-	2,043,639	-	-	2,043,639
	41,092,964	2,043,639	4,326,410	473,374	47,936,387

	Loans and receivables RO	Held for trading RO	Held-to- maturity RO	Financial assets at fair value through profit or loss RO	Available -for-sale financial assets RO	Total RO
31 December 2016						
Cash and cash equivalents	3,552,857	-	-	-	-	3,552,857
Investments carried at fair value through profit or loss	-	-	-	4,341,256	-	4,341,256
Premium and insurance receivables	2,217,435	-	-	-	-	2,217,435
Available-for-sale investments	-	-	-	-	567,141	567,141
Held for trading investments	-	773,471	-	-	-	773,471
Other receivables and prepayments	602,684	-	-	-	-	602,684
Reinsurers' contracts	16,183,217	-	-	-	-	16,183,217
Deposits	11,200,000	-	-	-	-	11,200,000
Investments held to maturity	-	-	4,063,015	-	-	4,063,015
	33,756,193	773,471	4,063,015	4,341,256	567,141	43,501,076



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

33 Merger of subsidiaries

On 5 September 2017, the Company assumed management control of MIC and MLAC pursuant to the approval from authorities for the merger. Subsequent to the merger the Company complied with the provisions of amendments to Insurance Companies Law of 1979, as amended, to increase the share capital to RO 10 million by August 2017.

As explained in note 1.1, MIC and MLAC have been merged into the Company and their assets and liabilities have been transferred to the Company. The merger of MIC and MLAC has been accounted for as a business combination under business combinations under common control using the predecessor accounting method (note 3.26).

An explanation of accounting treatment for non-controlling interest in MIC and MLAC acquired as part of merger has been disclosed in note 34.

33.1 Consideration transferred

	Number of shares	RO
Shares issued to shareholders of MIC	8,319,250	8,319,250
Shares issued to shareholders of MLAC	7,139,600	7,139,600
	<u>15,458,850</u>	<u>15,458,850</u>

33.2 Acquisition related costs

The Company incurred acquisition related costs of RO 38,041 (2016 - RO 17,075) on legal fees. These costs have been included in administrative expenses.

33.3 Identifiable net assets acquired and liabilities assumed

In predecessor accounting method, carrying values of acquired net assets of MIC and MLAC were assumed at the date of merger. The related recognised amounts of net assets as at 4 September 2017 are as follows:

	MIC RO	MLAC RO	Total RO
Cash and cash equivalents	2,702,558	186,632	2,889,190
Deposits	7,275,000	4,725,000	12,000,000
Investment carried at fair value through profit or loss	990,385	403,966	1,394,351
Premium and insurance receivable	1,926,813	725,867	2,652,680
Available-for-sale investments	267,141	217,849	484,990
Other receivables and prepayments	3,771,633	2,215,439	5,987,072
Reinsurance contracts	15,901,854	2,713,385	18,615,239
Investments held to maturity	3,023,325	1,023,578	4,046,903
Investment property	1,545,614	-	1,545,614
Property and equipment	921,944	8,906	930,850
Total assets	<u>38,326,267</u>	<u>12,220,622</u>	<u>50,546,889</u>
Other payable and accruals	(3,611,054)	(658,090)	(4,269,144)
Due to reinsurers	(5,240,023)	(35,978)	(5,276,001)
Insurance contracts	(20,932,833)	(4,550,754)	(25,483,587)
Provision for taxation	(178,145)	(43,144)	(221,289)
Total liabilities	<u>(29,962,055)</u>	<u>(5,287,966)</u>	<u>(35,250,021)</u>
Net assets	<u>8,364,212</u>	<u>6,932,656</u>	<u>15,296,868</u>



NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

33 Merger of subsidiaries (continued)

33.4 Merger adjustment

Pursuant to the predecessor accounting approach adopted for merger, the merger reserve has been recognised as follows:

	RO
Shares issued to the shareholders of MIC and MALC	15,458,850
Residual identifiable net assets at the date of acquisition	<u>(15,296,868)</u>
	<u>161,982</u>
Residual identifiable net assets at the date of acquisition	<u>15,296,868</u>
Company share (99.999%)	<u>15,296,715</u>
	RO
Consideration transferred to the Company	15,458,808
Less: Book value of total identifiable net assets acquired (Company share)	<u>(15,296,715)</u>
Merger adjustment	<u>162,093</u>

34 Acquisition of Non - Controlling Interest (NCI)

NCI acquired as part of the scheme are measured at fair value at the date of merger. The difference between the fair value of consideration and carrying amount of NCI at the date of merger has been adjusted in retained earnings as the management believes that the acquisition of NCI pursuant to merger was part of merger transaction.

34.1 The following table summarises information related to NCI merged:

	%
NCI percentage	<u>0.001</u>
	RO
Assets	506
Liabilities	<u>(353)</u>
Net assets	<u>153</u>

34.2 NCI share in residual net assets at the date of merger is as follows:

	RO
Residual identifiable net assets at the date of acquisition	<u>15,296,868</u>
NCI Share (0.001%)	<u>153</u>

34.3 NCI merged is measured as follows at the date of merger:

	RO
NCI share of residual identifiable net assets	153
Fair value of consideration transferred	<u>(42)</u>
	<u>111</u>



**MUSCAT INSURANCE COMPANY SAOG (FORMERLY MUSCAT NATIONAL
HOLDING COMPANY SAOG) 52**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)**

35 Corresponding figures

Certain corresponding figures for 2016 have been reclassified in order to conform to the presentation adopted in the current period. Such reclassifications have not resulted in change in prior period reported profit or equity.

Independent auditor's report – pages 1 – 5.

