

*Independent auditor's report to the shareholders of Muscat Insurance Company SAOG
(formerly Muscat National Holding Company SAOG)*

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Muscat Insurance Company SAOG (the "Company") as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Company's financial statements comprise:

- the statement of comprehensive income for the year ended 31 December 2017;
- the statement of financial position as at 31 December 2017;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview

Key Audit Matters

- Valuation of outstanding claims ("OC") including Claims Incurred But Not Reported ("IBNR")
- Merger of subsidiaries and its accounting implications

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

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Our audit approach (continued)

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of outstanding claims (“OC”) including claims Incurred But Not Reported (“IBNR”)</p> <p>We focused on this area because the valuation of OC including claims IBNR are significant in magnitude and requires use of judgements and estimates. OC including claims IBNR are estimates for settlement of claims in future which are impacted by a number of factors which includes the trends in severity of historical claims, frequency of historical claims, and changes in government regulations. In particular, the claims arising from death or disability covered under motor insurance contracts involve complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can materially impact the valuation of these liabilities.</p> <p>We also focused on this area because Company has a significant balance of OC including claims IBNR amounting to RO 13,549,017 including reinsurance share of RO 10,941,753 as at 31 December 2017.</p> <p>Please refer notes 3.5, 6 and 24 of the financial statements for the accounting policy, disclosures of the related judgements and estimates and other details relating to OC including claims IBNR.</p>	<p>In relation to the matters set out opposite, our audit response included the following:</p> <ul style="list-style-type: none"> • We assessed and tested the operating effectiveness of selected key controls relating to the claims handling and reserving process, including controls over completeness and accuracy of the claims estimates recorded. • Substantive tests were performed on the amounts recorded for a sample of claims notified, focusing on those with most significant impact on the financial statements, to assess whether claims are appropriately estimated and recorded. • We evaluated the competence, objectivity and independence of the independent actuary appointed by the management to review the adequacy of OC including claims IBNR. • Tested the completeness and accuracy of the underlying insurance data provided by the management to the Company’s actuary. • PwC’s internal actuarial specialist was involved to independently test management actuary’s assumptions and estimates of the IBNR reserves, and evaluate the reasonableness of the methodology and assumptions used by comparing them with recognised actuarial practices and by applying their industry knowledge and experience. • We assessed the adequacy of the Company’s related disclosures by reference to relevant accounting standards.

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Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Merger of subsidiaries and its accounting implications</p> <p>During the year, the Company merged with its two wholly owned subsidiary companies i.e. the Muscat Insurance Company SAOC ("MIC SAOC") and Muscat Life Assurance Company SAOC ("MLAC SAOC") to comply with the provisions of Royal Decree 39/14 issued on 12 August 2014 (amendments to Oman's Insurance Companies Law of 1979) i.e. to increase the share capital to RO 10 million and to be registered as a Public Joint Stock Company by August 2017.</p> <p>The merger of subsidiaries was significant to our audit due to the complexity of the transaction and in particular determining the correct accounting treatment of the transaction.</p> <p>Such merger transactions are classified as Business Combination Under Common Control ("BCUCC") and are out of scope of International Financial Reporting Standard 3 "Business Combination" ("IFRS 3") and accordingly judgement is involved in the accounting, presentation and disclosure of such transactions.</p> <p>The Company has accounted for the merger transaction using the predecessor accounting method, according to which the assets and liabilities of MIC SAOC and MLAC SAOC have been transferred to the Company at their respective book values on the date of merger.</p> <p>The Company's disclosure of the transaction and the predecessor accounting applied to the acquisition of MIC SAOC and MLAC SAOC is set out in note 1.1, 3.26, 33 and 34 to the financial statements of the Company.</p>	<p>In relation to the matters set out opposite, our audit response included the following:</p> <ul style="list-style-type: none"> • Inspected the minutes of the Board of directors and extra ordinary general meeting for the approval of the merger transaction and inspected the merger approval given by the Capital Market Authority ("the CMA") of the Sultanate of Oman; • Read the sale and purchase agreement to understand the key terms and conditions, and confirmed our understanding of the transaction with the management; • Checked the predecessor accounting performed by management that included identification of assets and liabilities in accordance the terms of the sale and purchase agreement; • Checked the book values of the MIC SAOC and MLAC SAOC at the date of agreement and subsequently at the date of acquisition including adjustments for the merger at the date of acquisition as determined by the management; • Assessed the impact of merger adjustment on issuance of shares and the non-controlling interest shares acquired due to the transaction and the resultant increase in the share capital of the Company; and • Assessed the adequacy of disclosures made in the financial statements of the Company.

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Other information

The directors are responsible for the other information. The other information, which we obtained prior to the date of our auditor's report comprises of the Board of Directors' report, the Corporate Governance Report and Management's Discussion and Analysis, but does not include the financial statements and our auditor's report thereon. The complete annual report which is not yet received is expected to be made available to us after that date.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the complete annual report, which is not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the relevant requirements of the Capital Market Authority ("the CMA") of the Sultanate of Oman, the Commercial Companies Law of 1974, as amended and the Insurance Companies Law of 1979, as amended, and for such internal control as director's determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

Further, we report that the financial statements have been prepared and comply, in all material respects, with the relevant requirements of the CMA of the Sultanate of Oman and the Commercial Companies Law of 1974, as amended.

Other matter - prior period financial statements audited by predecessor auditor

The financial statements of Company for the period ended 31 December 2016 were audited by another firm of auditors, whose report dated 27 February 2017 expressed an unmodified opinion on those financial statements.

Kashif Kalam
21 February 2018
Muscat, Sultanate of Oman

