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Independent Auditors' Report to the Shareholders of Muscat National Holding SAOG

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Muscat National Holding Company SAOG ("the Parent Company") and Muscat National Holding Company SAOG and its subsidiaries ("the Group") set out on pages 3 to 49, which comprise the consolidated and separate statements of financial position as at 31 December 2016, the consolidated and separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Parent Company and the Group as at 31 December 2016, and their consolidated and separate financial performance and their consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent, of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated and separate financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key Audit Matters

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

Valuation of outstanding claims reserve ("OCR") including Incurred But Not Reported ("IBNR") (RO 12,008,063)

Refer to note 3.2 (b), 3.2 (c), 3.2 (e), 4(i), (6) and 23 to the separate and consolidated financial statements on pages 12, 13, 19, 21 and 34.

Risk

For insurance contracts, estimates have to be made both for the outstanding claims reserve ('OCR') and for the claims incurred but not yet reported at the reporting date ('IBNR'). Management assisted by an independent actuary carried out a detailed assessment to determine the trends in the frequency and severity of claims to estimate insurance liabilities.

Small changes in the assumptions used to value the liabilities, particularly those relating to the amount and timing of future claims, can lead to material impacts on the valuation of insurance liabilities. The key assumptions that drive the reserving calculations include loss ratios, estimates of the frequency and severity of claims.

The valuation of insurance liabilities depends on accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating insurance liabilities, or for forming judgements over key assumptions, is not complete and accurate then material impacts on the valuation of insurance liabilities may arise.

Our response

We understood, assessed and tested the design and operational effectiveness of key controls over the process applied by Management in establishing insurance contract liabilities, including controls over the completeness and accuracy of data sent to actuary to project the claims liabilities.

Supported by our actuarial specialists, we:

- obtained an understanding of the methodology and key assumptions applied by Management;
- challenged the methodology and key assumptions against our knowledge of the sector and the Group's own claims experience;

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- performed independent actuarial projections on the gross insurance contract liabilities;
- reconciled the claims data supporting the actuarial projections to source systems and, on a sample basis, verified the accurate recording of data against the underlying policy and claims documentation; and
- tested on a sample basis that the reinsurance recoveries were recorded in line with the underlying reinsurance contracts.
- assessed the adequacy of the Company's related disclosures.

Premium and insurance receivables (RO 2,217,435)

Refer to note 3.11, 15 and 32.2 A to the separate and consolidated financial statements on pages 17, 26, 27 and 42.

Risk

The Company has significant premium and insurance receivables against written premium policies. For companies under financial stress due to slow down in business, there is a risk over the recoverability of these balances.

Our response

Our audit procedures included testing the Company's controls over premium and insurance receivables collection processes; testing the receipt of cash after the year end; and testing the adequacy of the Company's provisions against premium and insurance receivables by assessing the management's assumptions, taking account of externally available data on trade credit exposures and our own knowledge of recent bad debt experience. We also considered the adequacy of the Company's disclosures about the degree of estimation involved in arriving at the provision.

Other Information

Management is responsible for the other information. The other information comprises the Chairman's report, Management Discussion and Analysis Report and Report on Code of Corporate Governance, which we obtained prior to the date of this auditors' report.

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

In connection with our audit of the consolidated and separate 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 consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, 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.

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Responsibilities of Management and Those Charged with Governance for the Consolidated and Separate Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with IFRS and their preparation in compliance with the relevant disclosure requirements of the Capital Market Authority and the applicable provisions of the Commercial Companies Law of 1974, as amended, and for such internal control as management determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, management is responsible for assessing the Group'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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 consolidated and separate financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated and separate 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 Group's internal control.

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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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 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 consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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.

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Report on Other Legal and Regulatory Requirements

We report that the separate and consolidated financial statements of the Parent Company and the Group as at and for the year ended 31 December 2016, in all material respects, comply with the:

- relevant disclosure requirements of the Capital Market Authority; and
- applicable provisions of the Commercial Companies Law of 1974, as amended.

27 February 2017

Paul Callaghan

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