



KPMG
4th Floor, HSBC Bank Building
MBD
P.O. Box 641
P.C. 112
Sultanate of Oman
Tel +968 24749600
Fax +968 24700839

1 (a)

Independent auditors' report to the Shareholders of National Finance Company SAOG

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of National Finance Company SAOG (the Company) set out on pages 2 to 38, which comprise the statement of financial position as at 31 December 2018, the 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 financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its 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 Financial Statements section of our report. We are independent of the Company in accordance with the 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 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.



1 (b)

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.

Credit risk and impairment of lease receivables

For a better understanding of the accounting policies and amounts please refer to note 2.1 on pages 8 and 9 and note 2.4 on pages 13 to 14 and note 3.1 on page 18 to 25 the financial statements.

IFRS 9 "Financial Instruments" (IFRS 9) was adopted by the Company on 1 January 2018 and has resulted in:

- change in accounting for impairment from an incurred loss model to an expected credit loss model ("ECL") which involves complex estimates and judgements;
- use of statistical models and methodologies for determination of expected credit losses;
- significant change in processes, data and controls that have not been subject to testing previously; and
- complex disclosure requirements regarding impact of initial application of IFRS 9 and explanation of key judgements and material inputs used in determination of expected credit losses.

Given the inherently judgemental nature of computation of ECL for loans and advances, this is considered a key audit matter.

Our response

Our audit procedures in this area included, among others:

- We have evaluated the competence, capabilities and objectivity of the management's expert, obtained an understanding of the work of the expert, and evaluated the appropriateness of the expert's work as audit evidence for the relevant assertions;
- Tested controls over the accuracy of key inputs and appropriateness of the key assumptions and judgment's used in the model;
- Tested controls over significant increase in credit risk (SICR) criteria involved testing controls relating to authorisation of the criteria and the application of the criteria in the models;

**Key Audit Matters (continued)****Credit risk and impairment of lease receivables (continued)**

- We involved our specialists to review the reasonableness and appropriateness of the methodology and assumptions used in various components of ECL modelling. This typically included challenging key assumptions/judgments relating to significant increase in credit risk, definition of default, probability of default, recovery rates, use of macro-economic variables and probability weighted outcomes. Our specialists also re-performed key elements of the Company's model calculations and evaluated the model performance results for accuracy.
- Re-performed key aspects of the Company's SICR determinations and selected samples of financial instruments to determine whether a SICR was appropriately identified;
- Assessed the adequacy of the Company's disclosure in relation to transition impact arising from first time application of IFRS 9 and use of significant estimates and judgement by reference to the requirements of the relevant accounting standards.

Business combination

For a better understanding of the accounting policies and amounts please refer to note 1.2 on pages 6 and 7 to the financial statements.

The Company acquired 100% shares in Oman Orix Leasing Company SAOG for a consideration of RO 48.8 million. This transaction has been accounted for in accordance with IFRS 3 *Business Combinations* which requires it to be accounted for using the acquisition method.

Purchase Price Allocation ("PPA"), required to be carried out as part of business combination accounting, is complex and inherently judgmental. In particular, due the specialized nature of most intangible assets, measuring the fair value using the market approach may not always be possible. Hence, a number of management assumptions were made using the appropriate methodology, assumptions and valuation techniques. Due to the uncertainty in determining the fair value of assets acquired and liabilities assumed, data used in order to calculate PPA and all the related disclosures, this is considered as a key audit matter.



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Key Audit Matters (continued)

Business combination (continued)

Our response

Our audit procedures in this area included, among others:

- We evaluated the competence, capabilities and objectivity of the management's expert, obtained an understanding of the work of the expert, and evaluated the appropriateness of the expert's work as audit evidence for the relevant assertions;
- We involved our valuation specialists in the audit of the PPA. We challenged the appropriateness of the methodology, assumptions and valuation techniques used to value assets and liabilities;
- We evaluated timing and appropriateness of the accounting treatment and the consideration of the acquisition based on the contractual agreement;
- We reviewed the adequacy of the related disclosures included in the financial statements.

Impairment of goodwill

For a better understanding of the accounting policies and amounts please refer to note 1.2 on pages 6 and 7 to the financial statements.

Management performed impairment assessments of the goodwill which arose from the acquisition of Oman Orix Leasing Company SAOG at the reporting date.

The annual impairment testing of goodwill is considered to be a key audit matter due to the complexity of the accounting requirements and the significant judgement required in determining the assumptions to be used to estimate the recoverable amount. The preparation of discounted cash flow forecasts for the purpose of assessing potential impairment of goodwill involves estimating future cash flows, growth rates and discount rates which can be inherently uncertain.

Our response

Our audit procedures in this area included, among others:

- We have evaluated the assumptions adopted in the preparation of the cash flow forecasts for the purpose of the impairment assessments of goodwill, including projected future growth rates for income and expenses, with reference to our understanding of the business, historical trends and available industry information and available market data;

**Key Audit Matters (continued)****Impairment of goodwill (continued)**

- We assessed the impact of changes in the key assumptions, including projected profitability and the discount rates, adopted in the discounted cash flow forecasts on the conclusions reached in the impairment assessments and assessing whether there were any indicators of management bias in the selection of these assumptions; and
- We evaluated the adequacy of the financial statement disclosures, including disclosures of key assumptions, judgements and sensitivities.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditors' report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information 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, 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.

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

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 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 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 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 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 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 auditors' 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 auditors' 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.



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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 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.

Report on other Legal and Regulatory Requirements

We report that the financial statements of the Company as at and for the year then ended 31 December 2018, in all material respects, comply with the:

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

12 March 2019

Kenneth Macfarlane