
SABB TAKAFUL COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2016
TOGETHER WITH THE INDEPENDENT AUDITORS' REPORT

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS' OF
SABB TAKAFUL COMPANY (A SAUDI JOINT STOCK COMPANY)**

Scope of audit

We have audited the accompanying statement of financial position of SABB Takaful Company ('the Company') as at 31 December 2016 and related statements of income and comprehensive income - takaful operations and shareholders' operations, statements of changes in shareholders' equity and cash flows of takaful and shareholders' operations for the year then ended and the notes 1 to 26 which form part of these financial statements. These financial statements are the responsibility of Company's management and have been prepared by them in accordance with International Financial Reporting Standards, provisions of the Regulations for Companies and the Company's by-laws and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified opinion

In our opinion, the financial statements taken as a whole:

- present fairly, in all material respects, the financial position of the Company as at 31 December 2016 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards; and
- comply with the requirements of the Regulations for Companies and the Company's by-laws in so far as they affect the preparation and presentation of the financial statements.

Emphasis of a matter

We draw attention to the fact that these financial statements are prepared in accordance with International Financial Reporting Standards and not in accordance with the Accounting Standards issued by the Saudi Organisation for Certified Public Accountants.

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Date: 16 March, 2017
Corresponding to: 17 Jumada AlAkhar, 1438H



SABB Takaful Company (A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

| | Notes | 2016 SAR'000 | 2015 SAR'000 |
|---|-------|-----------------|-----------------|
| <u>TAKAFUL OPERATIONS' ASSETS</u> | | | |
| Available-for-sale investments | 5 | 353,740 | 374,739 |
| Contributions receivable, net | 6 | 12,548 | 12,374 |
| Retakaful share of outstanding claims | 12(b) | 56,363 | 37,960 |
| Retakaful share of unearned contributions | 10(b) | 13,976 | 14,177 |
| Deferred policy acquisition costs | | 1,085 | 1,180 |
| Retakaful balances receivable | | 490 | 3,630 |
| Prepayments and other receivables | 7 | 1,580 | 939 |
| Due from shareholders | | 6,020 | - |
| Cash and cash equivalents | 8 | 37,175 | 43,122 |
| TOTAL TAKAFUL OPERATIONS' ASSETS | | 482,977 | 488,121 |
| <u>SHAREHOLDERS' ASSETS</u> | | | |
| Intangible assets | | 1,123 | 1,394 |
| Motor vehicle | | 108 | 48 |
| Held-to-maturity investments | 5 | 188,095 | 187,945 |
| Statutory deposit | 9 | 34,000 | 34,000 |
| Investment return from statutory deposit | | 2,277 | 1,617 |
| Prepayments and other receivables | 7 | 174 | 297 |
| Due from takaful operations | | - | 7,928 |
| Cash and cash equivalents | 8 | 150,815 | 132,958 |
| TOTAL SHAREHOLDERS' ASSETS | | 376,592 | 366,187 |
| TOTAL ASSETS | | 859,569 | 854,308 |

The accompanying notes 1 to 26 form an integral part of these financial statements.

SABB Takaful Company (A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION (CONTINUED)

AT 31 DECEMBER 2016

| | Notes | 2016 SAR'000 | 2015 SAR'000 |
|---|-------------|-----------------|-----------------|
| <u>TAKAFUL OPERATIONS' LIABILITIES</u> | | | |
| Reserve for takaful activities | 5(g), 10(a) | 353,740 | 374,739 |
| Provision for employees' end-of-service benefits | 11 | 7,030 | 6,273 |
| Surplus distribution payable | | 6,144 | 6,018 |
| Gross unearned contributions | 10(b) | 20,574 | 21,441 |
| Unearned commission income | | 2,794 | 2,950 |
| Gross outstanding claims | 12(b) | 72,302 | 47,897 |
| Retakaful balances payable | | 8,015 | 5,858 |
| Payables, accruals and others | 13 | 11,882 | 14,618 |
| Due to shareholders | | - | 7,928 |
| TOTAL TAKAFUL OPERATIONS' LIABILITIES | | 482,481 | 487,722 |
| TAKAFUL OPERATIONS' SURPLUS | | 496 | 399 |
| TOTAL TAKAFUL OPERATIONS' LIABILITIES AND SURPLUS | | 482,977 | 488,121 |
| <u>SHAREHOLDERS' EQUITY AND LIABILITIES</u> | | | |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 14 | 340,000 | 340,000 |
| Legal reserve | 15 | 14,577 | 12,206 |
| Retained earnings | | 6,624 | 2,864 |
| TOTAL SHAREHOLDERS' EQUITY | | 361,201 | 355,070 |
| SHAREHOLDERS' LIABILITIES | | | |
| Investment return from statutory deposit | | 2,277 | 1,617 |
| Payables, accruals and others | 13 | 1,393 | 4,516 |
| Provision for zakat and income tax | 16(c),(d) | 5,701 | 4,984 |
| Due to takaful operations | | 6,020 | - |
| TOTAL SHAREHOLDERS' LIABILITIES | | 15,391 | 11,117 |
| TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES | | 376,592 | 366,187 |
| TOTAL TAKAFUL OPERATIONS' LIABILITIES, SURPLUS, SHAREHOLDERS' EQUITY AND LIABILITIES | | 859,569 | 854,308 |

The accompanying notes 1 to 26 form an integral part of these financial statements.





SABB Takaful Company (A Saudi Joint Stock Company)

STATEMENT OF INCOME - TAKAFUL OPERATIONS

For the year ended 31 December 2016

| | Notes | 2016 SAR'000 | 2015 SAR'000 |
|--|-------|------------------|-----------------|
| Gross contributions written | | | |
| - Family Takaful | | 165,519 | 173,140 |
| - General Takaful | | 28,849 | 29,043 |
| | | <u>194,368</u> | <u>202,183</u> |
| Family Takaful - Planholder charges | | 23,096 | 26,412 |
| | | <u>217,464</u> | <u>228,595</u> |
| Gross contributions written and Planholder charges | | | |
| Retakaful contribution ceded | | (61,250) | (58,958) |
| | | <u>156,214</u> | <u>169,637</u> |
| Net written contribution and Planholder charges | | | |
| Changes in gross unearned contributions | | 867 | (1,131) |
| Changes in retakaful share of unearned contributions | | (201) | 1,329 |
| Changes in reserve for takaful activities | 10(a) | (105) | (41,885) |
| | | <u>156,775</u> | <u>127,950</u> |
| Net contributions earned and Planholder charges | 17 | | |
| Fees and commission income | | 7,385 | 7,192 |
| | | <u>164,160</u> | <u>135,142</u> |
| Underwriting revenue | | | |
| Gross claims paid | | (38,199) | (54,075) |
| Retakaful share of claims paid | | 27,565 | 42,344 |
| | | <u>(10,634)</u> | <u>(11,731)</u> |
| Net claims paid | | | |
| Changes in gross outstanding claims | | (24,405) | 22,289 |
| Changes in retakaful share of outstanding claims | | 18,403 | (16,696) |
| | | <u>(16,636)</u> | <u>(6,138)</u> |
| Net claims incurred | 12(a) | | |
| Surrenders and maturities | 18 | (101,029) | (80,004) |
| | | <u>(117,665)</u> | <u>(86,142)</u> |
| Net claims incurred, surrenders and maturities | | | |
| Policy acquisition costs | | (7,216) | (8,738) |
| | | <u>(124,881)</u> | <u>(94,880)</u> |
| Total claims, surrenders, maturities and policy acquisition costs | | | |
| Underwriting surplus for the year | | 39,279 | 40,262 |
| Investment income | | 1,726 | 1,419 |
| General and administrative expenses | 19 | (36,047) | (37,698) |
| | | <u>4,958</u> | <u>3,983</u> |
| Net surplus for the year from takaful operations | | | |
| Transfer of net surplus for the year to shareholders' operations | | (4,462) | (3,584) |
| | | <u>496</u> | <u>399</u> |
| Net surplus for the year | | | |

The accompanying notes 1 to 26 form an integral part of these financial statements.



SABB Takaful Company (A Saudi Joint Stock Company)

STATEMENT OF COMPREHENSIVE INCOME - TAKAFUL OPERATIONS

For the year ended 31 December 2016

| | Notes | 2016 SAR'000 | 2015 SAR'000 |
|--|-------|-----------------|-----------------|
| Net surplus for the year | | 496 | 399 |
| <i>Other comprehensive income/ (loss)</i> | | | |
| Fair value change in available for sale investments – unrealized | 5(g) | 1,992 | (29,900) |
| Fair value change in reserve for takaful activities – unrealized | 10(a) | (1,992) | 29,900 |
| Total comprehensive income from takaful operations for the year | | 496 | 399 |

The accompanying notes 1 to 26 form an integral part of these financial statements.

SABB Takaful Company (A Saudi Joint Stock Company)

STATEMENT OF COMPREHENSIVE INCOME - SHAREHOLDERS' OPERATIONS

For the year ended 31 December 2016

| | Notes | 2016 SAR'000 | 2015 SAR'000 |
|--|-------|-----------------|-----------------|
| Transfer of net surplus for the year from takaful operations | | 4,462 | 3,584 |
| Income from murabaha deposits | | 4,146 | 941 |
| Income from sukuk | | 5,210 | 4,132 |
| Total income | | 13,818 | 8,657 |
| General and administrative expenses | 19 | (1,963) | (5,017) |
| Net profit for the year | | 11,855 | 3,640 |
| Other comprehensive income | | - | - |
| Total comprehensive income for the year | | 11,855 | 3,640 |
| Basic and diluted earnings per share (SAR) | 20 | 0.35 | 0.11 |

The accompanying notes 1 to 26 form an integral part of these financial statements.

SABB Takaful Company (A Saudi Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2016

| | <i>Share capital</i> | <i>Legal reserve</i> | <i>Retained earnings</i> | <i>Total</i> |
|--|--------------------------|--------------------------|------------------------------|----------------|
| | <u>SAR'000</u> | <u>SAR'000</u> | <u>SAR'000</u> | <u>SAR'000</u> |
| Balance as at 1 January 2016 | 340,000 | 12,206 | 2,864 | 355,070 |
| Total comprehensive income for the year | - | - | 11,855 | 11,855 |
| Provision for zakat and income tax (Note 16) | - | - | (5,724) | (5,724) |
| Transfer to legal reserve (Note 15) | - | 2,371 | (2,371) | - |
| Balance as at 31 December 2016 | <u>340,000</u> | <u>14,577</u> | <u>6,624</u> | <u>361,201</u> |
| Balance as at 1 January 2015 | 340,000 | 11,478 | 4,247 | 355,725 |
| Total comprehensive income for the year | - | - | 3,640 | 3,640 |
| Provision for zakat and income tax (Note 16) | - | - | (4,295) | (4,295) |
| Transfer to legal reserve (Note 15) | - | 728 | (728) | - |
| Balance as at 31 December 2015 | <u>340,000</u> | <u>12,206</u> | <u>2,864</u> | <u>355,070</u> |

The accompanying notes 1 to 26 form an integral part of these financial statements.

SABB Takaful Company (A Saudi Joint Stock Company)
STATEMENT OF CASH FLOWS - TAKAFUL OPERATIONS
For the year ended 31 December 2016

| | Notes | 2016 SAR'000 | 2015 SAR'000 |
|--|-------|-----------------|-----------------|
| OPERATING ACTIVITIES | | | |
| Surplus from takaful operations after shareholders' appropriation | | 496 | 399 |
| Adjustment to reconcile surplus from takaful operations after shareholders' appropriation to net cash (used in)/ from operating activities: | | | |
| Shareholders' appropriation from surplus | | 4,462 | 3,584 |
| Provision/ (reversal) of impairment on contribution receivables | 6(a) | 190 | (677) |
| Provision for employees' end-of-service benefits | 11 | 1,185 | 1,453 |
| Operating surplus after shareholders' appropriations and non-cash items and before changes in operating assets and liabilities | | 6,333 | 4,759 |
| Changes in operating assets and liabilities: | | | |
| Available-for-sale investments, net | | 20,999 | 24,008 |
| Contributions receivables, net | | (364) | 136 |
| Retakaful share of outstanding claims | | (18,403) | 16,696 |
| Retakaful share of unearned contributions | | 201 | (1,329) |
| Deferred policy acquisition costs | | 95 | 231 |
| Retakaful balances receivable | | 3,140 | 1,606 |
| Prepayments and other receivables | | (641) | 6 |
| Reserve for takaful activities | | (20,999) | (14,427) |
| Payment for employees' end-of-service benefits | 11 | (428) | (236) |
| Gross unearned contributions | | (867) | 1,131 |
| Unearned commission income | | (156) | 687 |
| Gross outstanding claims | | 24,405 | (22,289) |
| Retakaful balances payable | | 2,157 | (2,838) |
| Payables, accruals and others | | (2,736) | (12,637) |
| Surplus distribution paid | | (273) | - |
| Due to shareholders (appropriation of surplus) | | (4,462) | (3,584) |
| Net cash from/ (used in) operating activities | | 8,001 | (8,080) |
| FINANCING ACTIVITY | | | |
| Due (from)/ to shareholders, net | | (13,948) | 11,174 |
| (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS | | (5,947) | 3,094 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | | 43,122 | 40,028 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 8 | 37,175 | 43,122 |
| Non-cash supplemental information: | | | |
| Net change in fair value of available-for-sale investments | 5(g) | 1,992 | (29,900) |

The accompanying notes 1 to 26 form an integral part of these financial statements.





SABB Takaful Company (A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS - SHAREHOLDERS' OPERATIONS

For the year ended 31 December 2016

| | Notes | 2016 SAR'000 | 2015 SAR'000 |
|---|-------|-----------------|-----------------|
| OPERATING ACTIVITIES | | | |
| Net profit for the year | | 11,855 | 3,640 |
| Adjustment to reconcile net profit to net cash used in operating activities: | | | |
| Appropriation of surplus from takaful operations | | (4,462) | (3,584) |
| Amortisation | | 559 | 451 |
| Depreciation | | 21 | 17 |
| Income from sukuk | | (5,210) | (4,132) |
| | | 2,763 | (3,608) |
| Changes in operating assets and liabilities: | | | |
| Prepayments and other receivables | | 123 | (136) |
| Payables, accruals and others | | (3,123) | 2,568 |
| Cash used in operating activities | | | |
| Zakat and income tax paid | 16 | (237) | (1,176) |
| Due from takaful operations (appropriation of surplus) | | (5,007) | (5,182) |
| | | 4,462 | 3,584 |
| Net cash used in operating activities | | | |
| | | (782) | (2,774) |
| INVESTING ACTIVITIES | | | |
| Maturity of held-to-maturity investments | | 20,000 | - |
| Purchase of held-to-maturity investments | | (20,000) | - |
| Income received from sukuk | | 5,060 | 4,131 |
| Purchase of intangible assets | | (288) | (651) |
| Purchase of motor vehicle | | (81) | - |
| Net cash from investing activities | | | |
| | | 4,691 | 3,480 |
| FINANCING ACTIVITY | | | |
| Due from/ (to) takaful, net | | 13,948 | (11,174) |
| INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS | | | |
| | | 17,857 | (10,468) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | | | |
| | | 132,958 | 143,426 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | | | |
| | 8 | 150,815 | 132,958 |

The accompanying notes 1 to 26 form an integral part of these financial statements.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

SABB Takaful Company (the "Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 1010234032 dated 20 Jumad Awal 1428H (corresponding to 6 June 2007). The Company is listed on Saudi Stock Exchange 'Tadawul'. The address of the registered office of the Company is P. O. Box 9086, Riyadh 11413, Kingdom of Saudi Arabia.

The purpose of the Company is to transact takaful operations and all related activities. Its principal lines of business include Individual Family (Protection and Savings – Individual), Group Family (Protection and Savings – Group) and General Takaful products. The Company operates only in the Kingdom of Saudi Arabia.

2 BASIS OF PREPARATION

a) Basis of measurement and presentation

The financial statements have been prepared on a historic cost basis except for the measurement at fair value of available-for-sale investments. The Company presents its statement of financial position in order of liquidity.

b) Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs).

As required by the Saudi Arabian Insurance Regulations, the Company maintains separate books of accounts for Takaful Operations and Shareholders' Operations and presents the financial statements accordingly. Assets, liabilities, revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined and approved by the management and the Board of Directors.

c) Functional and presentational currency

The functional and presentational currency of the Company is Saudi Riyals. The financial statements values are presented in Saudi Riyals rounded to the nearest thousand (SAR'000), unless otherwise indicated.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are consistent with those used in the previous year except for the adoption of the following amendments to existing standards mentioned below which have had either insignificant effect or no financial impact on the financial statements of the Company on the current period or prior periods and are expected to have a insignificant effect in future period:

- Amendments to IAS 1 – “Presentation of Financial Statements”, applicable for the annual periods beginning on or after 1 January 2016, clarify, existing IAS 1 requirements in relation to:
 - The materiality requirements in IAS 1;
 - That specific line items in the statement(s) of profit or loss and other comprehensive income (“OCI”) and the statement of financial position may be disaggregated;
 - That entities have flexibility as to the order in which they present the notes to financial statements; and
 - That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

The amendments further clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

- Amendments to IAS 16 – “Property, Plant and Equipment” and IAS 38 – “Intangible Assets”, applicable for the annual periods beginning on or after 1 January 2016, restricts the use of ratio of revenue generated to total revenue expected to be generated to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.
- Annual improvements to IFRS 2012-2014 cycle applicable for annual periods beginning on or after 1 January 2016. A summary of the amendments is as follows:
 - IFRS 5 – “Non-current Assets Held for Sale and Discontinued Operations”, amended to clarify that changing from one disposal method to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.
 - IFRS 7 – “Financial Instruments: Disclosures” has been amended to clarify that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. The nature of the fee and the arrangement should be assessed in order to consider whether the disclosures are required under IFRS 7 and the assessment must be done retrospectively. IFRS 7 has been further amended to clarify that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.
 - IAS 19 – “Employee Benefits” – amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
 - IAS 34 – “Interim Financial Reporting” – amendment clarifies that the required interim disclosures must be either in the interim financial statements or incorporated by cross-referencing to the interim financial report (e.g., in the management commentary or risk report). However, the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The significant accounting policies used in the preparation of these financial statements are as follows:

Investments

The Company's investments are classified as available-for-sale investments and held-to-maturity investments.

The classification depends on the purpose for which the investments were acquired or originated.

Available-for-sale financial assets held to cover unit-linked liabilities

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale under IAS 39. These investments are initially recorded at fair value. After initial measurement available-for-sale investments are measured at fair value. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

Available-for-sale financial assets held to cover unit-linked liabilities represent assets associated with contracts, for which the investment risk lies predominantly with the contract holder. These represent investments in units of mutual funds, which are readily marketable. Fair value gains and losses are reported in statement of comprehensive income – takaful operations as a separate component and included under the reserve for takaful activities.

Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold until maturity. These investments are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial recognition, held-to-maturity investments are measured at amortized cost, using the effective interest method. Gains and losses are recognized in the statement of comprehensive income - shareholders' operations when the investments are derecognized or impaired, as well as through the amortization process.

Derecognition of financial instruments

Derecognition of a financial asset occurs only when the seller has transferred the asset's risks and rewards (either substantially or partially) or control of the contractual rights have been transferred from the seller to the buyer.

Trade date accounting

All regular way purchases and sales of financial assets are recognized/ derecognized on the trade date (i.e. the date that the Company commits to purchase or sell the assets). Regular way purchases or sales are purchases or sales of financial assets that require settlement of assets within the timeframe generally established by regulation or convention in the market place.

Contributions receivable

Takaful receivables are recognized when due and are measured on initial recognition at the fair value of the consideration received or receivable and subsequently measured at amortized cost using the effective interest method, less provision for impairment. The carrying value of takaful receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income - takaful operations. Takaful receivables are derecognized when the derecognition criteria for financial assets have been met.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred policy acquisition costs (DPAC)

Direct costs incurred during the financial period arising from the writing or renewing of takaful contracts are deferred to the extent that these costs are recoverable out of future contributions. All other acquisition costs including share of profit commission payable to plan holder, if any, are recognised as an expense when incurred.

Subsequent to initial recognition, these costs are amortised on a straight-line basis based on the term of expected future contributions. Amortization is recorded in the statement of income - takaful operations.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period and are treated as a change in accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. If the assumptions relating to future profitability of these policies are not realised, the amortization of these costs could be accelerated and this may also require additional impairment write-offs in the statement of income - takaful operations. DPAC is also considered in the liability adequacy test for each reporting period.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and murabaha deposits with an original maturity of three months or less at the date of acquisition.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Amortization is calculated on a straight line basis over the useful life of the assets as follows:

- Software - 5 years

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive income - shareholders' operations.

Gains or losses arising from derecognizing an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of comprehensive income - shareholders' operations when the asset is derecognized.

Motor vehicles

Motor vehicles are initially recorded at cost and are subsequently stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value of vehicles is depreciated on a straight line basis over the estimated useful life of 4 years.

Gains or losses arising from disposal of a motor vehicle are measured as the difference between the net disposal proceeds and the carrying amount of the motor vehicle and are recognized in the statement of comprehensive income - shareholders' operations when the asset is disposed.

The carrying values of motor vehicles are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reserve for takaful activities

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Any contracts not considered to be insurance contracts under IFRS are classified as investment contracts.

This reserve pertains to individual family contracts which insure human life events such as death over a long period of time. Insurance premiums are recognised directly as liabilities. These liabilities are increased/decreased by change in the unit prices as in the case of unit-linked contracts and are decreased by planholder charges and surrenders and maturities. At each reporting date, such reserve is calculated on the basis of an actuarial valuation method by an independent appointed actuary through the use of current unit fund price method.

For unit linked policies, liability is equal to the underlying investments. The investment component of these insurance contracts are designated as 'Available for Sale Investments'. The fair value changes of insurance liabilities is taken to the statement of comprehensive income – takaful operations to match the fair value changes in underlying investments in the statement of comprehensive income – takaful operations.

Provision for employees' end-of-service benefits

The Company provides end of service benefits to its employees. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should the employee leave at the statement of financial position date. End-of-service payments are based on employees' final salaries and allowances and their accumulated years of service as defined by the applicable Saudi Arabian labour law. The expense for the period is charged to the statement of income - takaful operations.

Surplus distribution

The Company is required to distribute 10% of the net surplus from takaful operations to policyholders and the remaining 90% to the shareholders of the Company in accordance with the Insurance Law and Implementation Regulations issued by the Saudi Arabian Monetary Authority ("SAMA").

Claims

Claims consist of amounts payable to policyholders and third parties and related loss adjustment expenses, net of salvage and other recoveries and are charged to statement of income - takaful operations in the period in which they are incurred.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the reporting date, whether reported or not. Provisions for reported claims not paid as at the reporting date, are made on the basis of individual case estimates. In addition, a provision, based on the Company's prior experience and other factors, is maintained for the claims incurred but not reported at the reporting date.

The Company does not discount its liabilities for unpaid claims as substantially all claims are expected to be paid within one year of the date of statement of financial position.

Payables and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Liability adequacy test

At each reporting date, a liability adequacy test is performed to ensure the adequacy of the takaful contract liabilities, net of related deferred policy acquisition costs. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to the statement of income - takaful operations initially by writing off related deferred acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests.

Provisions

Provisions are recognized when the Company has an obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Legal reserve

In accordance with the bye-laws, the Company shall allocate 20% of its net income each year to the legal reserve until it has built up a reserve equal to the issued share capital.

Zakat and income taxes

Zakat is computed on the Saudi shareholders' share of zakat base or net adjusted income using the basis defined under the zakat regulations. Income taxes are computed on the foreign shareholders share of net adjusted income for the year.

Zakat and income taxes are not charged to the statement of comprehensive income - shareholders' operations as they are the liabilities of the shareholders and are therefore charged to shareholders' equity.

Impairment and uncollectibility of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset or a group of financial assets (including retakaful receivables) may be impaired. If such evidence exists, an impairment loss is recognized in the statement of income - takaful operations or the statement of comprehensive income - shareholders' operations, except for available-for-sale financial assets held to cover unit linked liabilities where all the risks are borne by the contract holders.

Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the statement of income - takaful operations or the statement of comprehensive income - shareholders' operations;
- For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. Income and expense will not be offset in the statement of income - takaful operations or statement of comprehensive income - shareholders' operations unless required or permitted by an accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Company has access at that date.

Product classification

Takaful contracts are those contracts where the Company (the insurer) has accepted significant takaful risk from another party (the plan/ policy holders) by agreeing to compensate the planholders if a specified uncertain future event (the insured event) adversely affects the planholders.

Once a contract has been classified as a takaful contract, it remains a takaful contract for the remainder of its lifetime, even if the takaful risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

In Individual Family segment, investment contracts are those contracts that transfer financial risks with no significant takaful risk.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Contributions are taken into statement of income - takaful operations over the terms of the policies to which they relate on a pro-rata basis. Unearned contribution represents the portion of contribution written relating to the unexpired period of coverage at the reporting date. The change in the provision for unearned contribution is taken to the statement of income - takaful operations in order that revenue is recognized over the period of risk.

In case of unit-linked policies, planholder charges are recognised in the statement of income – takaful operations in accordance with the terms of the contract with policyholders.

Commissions receivable on retakaful contracts relating to general takaful and individual family segments are deferred and amortised on a straight-line basis over the term of the retakaful contracts.

Reinsurance commissions include profit participation on retakaful contracts relating to group family segment. The Company recognises its share of profits on accrual basis when the amounts can be determined with reasonable accuracy.

Investment income on held-to-maturity investments and murabaha deposits are accounted for on an effective interest basis. Investment income includes rebate pertaining to unit-linked investments, calculated in accordance with the terms of agreement with Fund Manager and is accounted for on accrual basis.

Retakaful

The Company cedes its takaful risk in the normal course of business for all of its segments. Retakaful contracts are contracts entered into by the Company under which the Company is compensated for losses on takaful contracts issued. Re-takaful arrangements do not relieve the Company from its obligations to policyholders.

The benefits to which the Company is entitled under its retakaful contracts held are recognized as retakaful assets. These assets consist of the retakaful share of settlement of claims and other receivables such as profit commissions and the retakaful share of outstanding claims that are dependent on the expected claims and benefits arising under the related retakaful contracts.

Amounts recoverable from or due to retakaful companies are recognized consistently with the amounts associated with the underlying takaful contracts and in accordance with the terms of each retakaful contract.

At each reporting date, the Company assesses whether there is any indication that a retakaful asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of the recoverable amount. Where the carrying amount of a retakaful asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment is recognized in the statement of income - takaful operations.

Surrenders and maturities

Surrenders refer to the partial or full termination of the individual family takaful contract. Surrenders are accounted for on the basis of notifications received and are charged to statement of income - takaful operations in the period in which they are notified. Maturities refers to the amount given to the insured towards the end of the maturity period of the individual family takaful contract.

Surrenders and maturities are calculated based on the terms and conditions of the respective takaful contracts.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the statement of income - takaful operations, except when they relate to items where gains or losses are recognized directly in equity and the gain or loss is recognized net of the exchange component in equity.

As the Company's foreign currency transactions are primarily in US dollars, foreign exchange gains and losses are not significant and have not been disclosed separately.

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.

Segmental reporting

An operating segment is a component of the Company that is engaged 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 segments, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. For management purposes, the Company is organised into business units based on their products and services and has three reportable operating segments as follow:

- (i) Individual Family Takaful products meet individual customer needs such as financial protection for dependents in the event of death or disability of the planholder, children education, saving for retirement and protection for the family and similar products. These products cater to various segments of the Saudi market.
- (ii) Group Family Takaful products provide cover for employees and their families in the event of death or total and permanent disability. Packaged as group takaful solutions, they meet the protection needs of groups of various natures and sizes and are ideal for corporations or institutions.
- (iii) General Takaful products for companies provide companies with cover mainly for property, personal accident and marine cargo for unpredictable events. General Takaful solutions for individuals protect the individuals and their families against unfortunate events with respect to the planholder's home property, incidences during travel and personal accident.

Segment performance is evaluated based on segment profit or loss which, in certain respects, is measured differently from profit or loss in the financial statements. Zakat and income tax are managed for the Company as a whole and are not allocated to individual operating segments.

No inter-segment transactions occurred among the operating segments during the year. If any transaction were to occur, transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expense and results will then include those transfers among operating segments which will then be eliminated at the level of financial statements of the Company.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief executive officer that makes strategic decisions.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Segmental reporting (continued)

Operating segments do not include shareholders' operations of the Company. Investment income earned from murabaha deposits and sukuku is the only revenue generating activity. Certain direct operating expenses and other overhead expenses are allocated to this segment on an appropriate basis. The surplus from the takaful operations is allocated to this segment on an appropriate basis.

For financial reporting purposes, Individual Family Takaful and Group Family Takaful segments are reported together as "Family Takaful".

The Company carries out its activities entirely in the Kingdom of Saudi Arabia, hence reporting is provided by business segments only.

4 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the foreseeable future are discussed as follows.

The ultimate liability arising from claims made under general takaful contracts

There are several sources of uncertainty that need to be considered in estimating the liability that the Company will ultimately pay for such claims. The provision for claims incurred but not reported (IBNR) is an estimation of claims, which are expected to be reported subsequent to the reporting date, for which the insured event has occurred prior to the reporting date. The primary technique adopted by the management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends.

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred and IBNR claims on a quarterly basis.

The ultimate liability arising from claims made under individual and group family takaful contracts

The liability for individual and group family takaful contracts is either based on current assumptions or on assumptions established at inception of the contract, reflecting the best estimate at the time, increased with a margin for risk and adverse deviation.

The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. The Company base mortality and morbidity tables on standard industry and national tables which reflect historical experience, adjusted when appropriate to reflect the Company's unique risk exposure, product characteristics, target markets and own claims severity and frequency experience. For those contracts that insure risk to longevity, prudent allowance is made for expected future mortality improvements, but epidemics, as well as wide ranging changes to life style, could result in significant changes to the expected future mortality exposure. Reserve for takaful activities is calculated on the basis of an actuarial valuation method by an independent appointed actuary through the use of current unit fund price method.

Lapse and surrender rates depend on product features, policy duration and external circumstances, such as sale trends. Credible own experience is used in establishing these assumptions.

Liabilities arising under general, individual and group takaful contracts are independently reviewed and certified by an external actuary.

Impairment losses on receivables

The Company assesses receivables that are individually significant and receivables included in a group of financial assets with similar credit risk characteristics for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. This assessment of impairment requires judgment. In making this judgment, the Company evaluates credit risk characteristics that consider past-due status being indicative of the ability to pay all amounts due as per contractual terms.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

5 INVESTMENTS

- a) Investments comprise available-for-sale and held-to-maturity investments. An analysis of investments is set out below:

| | 31 December 2016 SAR'000 | |
|--|-------------------------------|---------------------|
| | <i>Takaful Operations</i> | <i>Shareholders</i> |
| <i>Available-for-sale investments – Quoted</i> | | |
| Investment in Amanah Mutual Funds | 353,740 | - |
| <i>Held-to-maturity investment – Quoted</i> | | |
| Saudi Electricity Company Sukuk (SEC-III) | - | 25,119 |
| <i>Held-to-maturity investments – Unquoted</i> | | |
| Saudi Hollandi Bank Sukuk (SHB-III) | - | 15,052 |
| Saudi Hollandi Bank Sukuk (SHB-IV) | - | 5,011 |
| General Authority of Civil Aviation Sukuk (GACA - I) | - | 50,602 |
| The National Industrialization Company Sukuk (TASNEE) | - | 50,194 |
| Olayan Real Estate Company Sukuk (ORECO) | - | 10,007 |
| The Power and Water Utility Company for Jubail and Yanbu Sukuk (MARAFIQ) | - | 12,037 |
| Bank Al Bilad Sukuk | - | 20,073 |
| | - | 188,095 |
| Total investments | 353,740 | 188,095 |

| | 31 December 2015 SAR'000 | |
|--|-------------------------------|---------------------|
| | <i>Takaful Operations</i> | <i>Shareholders</i> |
| <i>Available-for-sale investments – Quoted</i> | | |
| Investment in Amanah Mutual Funds [note 5(b)] | 374,739 | - |
| <i>Held-to-maturity investment – Quoted</i> | | |
| Saudi Electricity Company Sukuk (SEC-III) | - | 25,066 |
| <i>Held-to-maturity investments – Unquoted</i> | | |
| Saudi Hollandi Bank Sukuk (SHB-II) | - | 15,032 |
| Saudi Hollandi Bank Sukuk (SHB-I) | - | 5,007 |
| Bank Al Jazira Sukuk | - | 20,133 |
| General Authority of Civil Aviation Sukuk (GACA - I) | - | 50,525 |
| The National Industrialization Company Sukuk (TASNEE - I) | - | 50,113 |
| Olayan Real Estate Company Sukuk (ORECO - I) | - | 10,044 |
| The Power and Water Utility Company for Jubail and Yanbu Sukuk (MARAFIQ) | - | 12,025 |
| | - | 187,945 |
| Total investments | 374,739 | 187,945 |

- b) The analysis of held-to-maturity investments by counter-party is as follows:

| | 2016 SAR'000 | 2015 SAR'000 |
|--|-----------------|-----------------|
| Government and quasi government | 158,015 | 157,768 |
| Banks and other financial institutions | 20,073 | 20,133 |
| Corporate | 10,007 | 10,044 |
| | 188,095 | 187,945 |

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

5 INVESTMENTS (CONTINUED)

c) Available- for-sale investments comprise investments in the following mutual funds:

| Name of the fund | 2016 SAR'000 | 2015 SAR'000 |
|-----------------------------|-----------------|-----------------|
| Multi-Assets Balanced Fund | 198,210 | 208,993 |
| Multi-Assets Defensive Fund | 53,380 | 62,538 |
| Multi-Assets Growth Fund | 76,791 | 75,082 |
| Saudi Riyal Trading Fund | 25,359 | 28,126 |
| | <u>353,740</u> | <u>374,739</u> |

Available-for-sale investments in takaful operations represent investments in units of mutual funds managed by HSBC Saudi Arabia Limited, being a related party of the Company.

Quoted held-to-maturity investments represent sukuks which are listed on Tadawul.

d) The maturity profile of held-to-maturity investments is as follows:

| <i>Maturity profile</i> | <i>Maturity date</i> |
|--|----------------------|
| - Saudi Electricity Company Sukuk (SEC-III) | 10 May 2017 |
| - Saudi Hollandi Bank Sukuk (SHB-III) | 26 November 2017 |
| - Saudi Hollandi Bank Sukuk (SHB-IV) | 12 December 2018 |
| - General Authority of Civil Aviation Sukuk (GACA - I) | 18 January 2022 |
| - The National Industrialization Company Sukuk (TASNEE) | 21 May 2019 |
| - Olayan Real Estate Company Sukuk (ORECO) | 25 June 2017 |
| - The Power and Water Utility Company for Jubail and Yanbu Sukuk (MARAFIQ) | 27 May 2018 |
| - Bank AlBilad Sukuk | 30 August 2021 |

The average commission rate on held-to-maturity investments at 31 December 2016 is 2.78 % per annum (2015: 2.21 % per annum).

e) The fair value of held-to-maturity investments as at 31 December 2016 is SAR 187.85 million (31 December 2015: SAR 188.28 million).

f) Credit quality of total investments

| | 2016 SAR'000 | 2015 SAR'000 |
|------------------|-----------------|-----------------|
| Investment grade | 418,995 | 439,977 |
| Unrated | 122,840 | 122,707 |
| Total | <u>541,835</u> | <u>562,684</u> |

Investments classified under investment grade above comprise of credit exposures equivalent to A+ to A - ratings under Standard and Poor's and Moody's ratings methodology. The unrated investments comprise of GACA – I, TASNEE – I, ORECO – I and MARAFIQ Sukuks.

g) The movements in the available-for-sale investments held to cover unit-linked liabilities were as follows:

| | 2016 SAR'000 | 2015 SAR'000 |
|--|-----------------|-----------------|
| Balance as at the beginning of the year | 374,739 | 398,747 |
| Purchased during the year | 98,551 | 96,344 |
| Sold during the year | (121,542) | (90,452) |
| | <u>351,748</u> | <u>404,639</u> |
| Net change in fair values of investments | 1,992 | (29,900) |
| Balance as at the end of the year | <u>353,740</u> | <u>374,739</u> |

The Company uses the following hierarchy methods for determining and disclosing the fair value of investments at the reporting period end:

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

5 INVESTMENTS (CONTINUED)

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

The Company's available-for-sale and held to maturity investments are classified under Level 1 and Level 2 hierarchy respectively.

6 CONTRIBUTIONS RECEIVABLE, NET

| | 2016 SAR'000 | 2015 SAR'000 |
|---|-----------------|-----------------|
| Due from policy holders | 7,267 | 6,228 |
| Due from a shareholder (The Saudi British Bank) | 5,617 | 6,292 |
| | 12,884 | 12,520 |
| Provision for impairment | (336) | (146) |
| | 12,548 | 12,374 |

(a) Movement in the provision for impairment is as follows:

| | 2016 SAR'000 | 2015 SAR'000 |
|---------------------------------------|-----------------|-----------------|
| At the beginning of the year | 146 | 823 |
| Provision/ (reversal) during the year | 190 | (677) |
| At the end of the year | 336 | 146 |

(b) As at 31 December, the ageing of net contributions receivable balances is as follows:

| | Total SAR'000 | Neither past due nor impaired SAR'000 | Past due but not impaired | | |
|------------------|------------------|--|---------------------------|-------------------------------|----------------------------------|
| | | | 91 to 180 days SAR'000 | 181 to 365 days SAR'000 | More than 365 days SAR'000 |
| 31 December 2016 | 12,548 | 11,165 | 617 | 745 | 21 |
| 31 December 2015 | 12,374 | 12,125 | 126 | 93 | 30 |

The Company classifies balances as 'past due and impaired' on a case-to-case basis. An impairment adjustment is recorded in the statement of income - takaful operations. It is not the practice of the Company to obtain collateral over receivables. Balances, which are neither past due nor impaired are mainly from The Saudi British Bank, a shareholder of the Company amounting to SAR 5.31 million (2015: SAR 6.29 million), which has a sound credit rating issued by external rating agencies.

7 PREPAYMENTS AND OTHER RECEIVABLES

| | 2016 SAR'000 | |
|--------------------------|-----------------------|--------------|
| | Takaful Operations | Shareholders |
| Due from a related party | 1,150 | - |
| Prepayments and others | 430 | 174 |
| | 1,580 | 174 |

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

7 PREPAYMENTS AND OTHER RECEIVABLES (continued)

| | 2015 SAR'000 | |
|--------------------------|-------------------------------|---------------------|
| | <i>Takaful Operations</i> | <i>Shareholders</i> |
| Due from a related party | 315 | - |
| Prepayments and others | 624 | 297 |
| | <u>939</u> | <u>297</u> |

8 CASH AND CASH EQUIVALENTS

| | 2016 SAR'000 | |
|-------------------|-------------------------------|---------------------|
| | <i>Takaful Operations</i> | <i>Shareholders</i> |
| Bank balances | 17,175 | 3,815 |
| Murabaha deposits | 20,000 | 147,000 |
| | <u>37,175</u> | <u>150,815</u> |

| | 2015 SAR'000 | |
|-------------------|-------------------------------|---------------------|
| | <i>Takaful Operations</i> | <i>Shareholders</i> |
| Bank balances | 18,122 | 2,958 |
| Murabaha deposits | 25,000 | 130,000 |
| | <u>43,122</u> | <u>132,958</u> |

Bank balances are maintained only with The Saudi British Bank, a shareholder of the Company.

Both bank balances and murabaha deposits are placed with counterparties with sound credit ratings under Standard and Poor's and Moody's ratings methodology.

As at 31 December 2016, murabaha deposits amounting to SAR nil (31 December 2015: SAR nil) were maintained with the Saudi British Bank, a shareholder of the Company.

Murabaha deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company. The average variable commission rate on murabaha deposits at 31 December 2016 is 2.92 % per annum (2015: 0.70 % per annum).

9 STATUTORY DEPOSIT

In accordance with Article 58 of the Insurance Implementing Regulations of SAMA, the Company has deposited 10 percent of its share capital, amounting to SR 34 million (2015: SR 34 million) in a bank designated by SAMA. The statutory deposit is maintained with The Saudi British Bank and can be withdrawn only with the consent of SAMA.

10 MOVEMENT IN RESERVE FOR TAKAFUL ACTIVITIES AND NET UNEARNED CONTRIBUTION

a) Movement in reserve for takaful activities

| | 2016 SAR'000 | 2015 SAR'000 |
|---|-----------------|-----------------|
| Balance as at the beginning of the year | 374,739 | 389,166 |
| Changes in reserve during the year | 105 | 41,885 |
| Planholder charges | (23,096) | (26,412) |
| Net change in fair value of investments | 1,992 | (29,900) |
| Balance as at the end of the year | <u>353,740</u> | <u>374,739</u> |

The reserve for takaful activities represents the unit linked takaful plan reserve.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

10 MOVEMENT IN RESERVE FOR TAKAFUL ACTIVITIES AND NET UNEARNED CONTRIBUTION (continued)

b) Movement in net unearned contribution

| | 2016 | | |
|---|----------------------|------------------------|---------------------|
| | <i>Gross</i> | <i>Retakaful</i> | <i>Net</i> |
| | <i>SAR'000</i> | <i>share</i> | <i>SAR'000</i> |
| | | <i>SAR'000</i> | <i>SAR'000</i> |
| Balance as at the beginning of the year | 21,441 | (14,177) | 7,264 |
| Contribution written during the year | 93,234 | (59,918) | 33,316 |
| Contribution earned during the year | (94,101) | 60,119 | (33,982) |
| | <u>20,574</u> | <u>(13,976)</u> | <u>6,598</u> |
| | <u><u>20,574</u></u> | <u><u>(13,976)</u></u> | <u><u>6,598</u></u> |
| | 2015 | | |
| | <i>Gross</i> | <i>Retakaful</i> | <i>Net</i> |
| | <i>SAR'000</i> | <i>share</i> | <i>SAR'000</i> |
| | | <i>SAR'000</i> | <i>SAR'000</i> |
| Balance as at the beginning of the year | 20,310 | (12,848) | 7,462 |
| Contribution written during the year | 89,877 | (57,605) | 32,272 |
| Contribution earned during the year | (88,746) | 56,276 | (32,470) |
| | <u>21,441</u> | <u>(14,177)</u> | <u>7,264</u> |
| | <u><u>21,441</u></u> | <u><u>(14,177)</u></u> | <u><u>7,264</u></u> |

11 PROVISION FOR EMPLOYEES' END-OF-SERVICE BENEFITS

The movement in the provision for end-of-service benefits for the year was as follows:

| | 2016 | 2015 |
|--------------------------|----------------|----------------|
| | <i>SAR'000</i> | <i>SAR'000</i> |
| Opening balance | 6,273 | 5,056 |
| Charge during the year | 1,185 | 1,453 |
| Payments during the year | (428) | (236) |
| Closing balance | <u>7,030</u> | <u>6,273</u> |

12 CLAIMS

a) Net claims incurred

| | For the year ended 31 December 2016 | | |
|--|-------------------------------------|----------------|----------------|
| | <i>SAR'000</i> | <i>SAR'000</i> | <i>SAR'000</i> |
| | <i>Family</i> | <i>General</i> | <i>Total</i> |
| | <i>Takaful</i> | <i>Takaful</i> | |
| Claims paid | 36,660 | 1,539 | 38,199 |
| Re-takaful share of claims paid | (26,559) | (1,006) | (27,565) |
| Net claims paid | <u>10,101</u> | <u>533</u> | <u>10,634</u> |
| Changes in outstanding claims, IBNR and other reserves | 21,355 | 3,050 | 24,405 |
| Changes in re-takaful share of outstanding claims, IBNR and other reserves | (15,996) | (2,407) | (18,403) |
| Net claims incurred | <u>15,460</u> | <u>1,176</u> | <u>16,636</u> |

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

12 CLAIMS (CONTINUED)

a) Net claims incurred (continued)

| | <i>For the year ended 31 December 2015</i> | | |
|--|---|--|--------------------------------|
| | <i>SAR'000</i> <i>Family</i> <i>Takaful</i> | <i>SAR'000</i> <i>General</i> <i>Takaful</i> | <i>SAR'000</i> <i>Total</i> |
| Claims paid | 41,476 | 12,599 | 54,075 |
| Re-takaful share of claims paid | (30,733) | (11,611) | (42,344) |
| Net claims paid | 10,743 | 988 | 11,731 |
| Changes in outstanding claims, IBNR and other reserves | 4,845 | (27,134) | (22,289) |
| Changes in re-takaful share of outstanding claims, IBNR and other reserves | (3,935) | 20,631 | 16,696 |
| Net claims incurred | 11,653 | (5,515) | 6,138 |

b) Outstanding claims

| | <i>2016</i> | | |
|--|--------------------------------|--|------------------------------|
| | <i>Gross</i> <i>SAR'000</i> | <i>Retakaful</i> <i>share</i> <i>SAR'000</i> | <i>Net</i> <i>SAR'000</i> |
| Family Takaful outstanding claims | | | |
| - Outstanding claim reserves | 25,527 | (18,560) | 6,967 |
| - Incurred but not reported reserve and other reserves | 21,687 | (16,089) | 5,598 |
| General Takaful outstanding claims | | | |
| - Outstanding claim reserves | 20,320 | (18,760) | 1,560 |
| - Incurred but not reported reserve and other reserves | 4,768 | (2,954) | 1,814 |
| Total outstanding claims | 72,302 | (56,363) | 15,939 |

| | <i>2015</i> | | |
|--|--------------------------------|--|------------------------------|
| | <i>Gross</i> <i>SAR'000</i> | <i>Retakaful</i> <i>share</i> <i>SAR'000</i> | <i>Net</i> <i>SAR'000</i> |
| Family Takaful outstanding claims | | | |
| - Outstanding claim reserves | 8,503 | (5,846) | 2,657 |
| - Incurred but not reported reserve and other reserves | 17,356 | (12,805) | 4,551 |
| General Takaful outstanding claims | | | |
| - Outstanding claim reserves | 17,216 | (16,249) | 967 |
| - Incurred but not reported reserve and other reserves | 4,822 | (3,060) | 1,762 |
| Total outstanding claims | 47,897 | (37,960) | 9,937 |

c) Credit quality of retakaful share of outstanding claims

| | <i>2016</i> <i>SAR'000</i> | <i>2015</i> <i>SAR'000</i> |
|------------------|-------------------------------|-------------------------------|
| Investment grade | 56,363 | 37,960 |

Investment grade above comprise of credit exposures equivalent to Aaa to Baa3 ratings under Moody's ratings methodology.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

13 PAYABLES, ACCRUALS AND OTHERS

| | <i>Note</i> | 2016 | |
|-------------------------------|-------------|---------------------------|---------------------|
| | | SAR'000 | |
| | | Takaful Operations | Shareholders |
| Accounts payable and accruals | | 10,307 | 1,393 |
| Due to related parties | 22(b) | 928 | - |
| Payable to agents | | 647 | - |
| | | 11,882 | 1,393 |
| | | | |
| | <i>Note</i> | 2015 | |
| | | SAR'000 | |
| | | Takaful Operations | Shareholders |
| Accounts payable and accruals | | 11,147 | 4,516 |
| Due to related parties | 22(b) | 2,992 | - |
| Payable to agents | | 479 | - |
| | | 14,618 | 4,516 |

14 SHARE CAPITAL

The authorized, issued and fully paid up share capital of the Company consists of 34 million ordinary shares of SAR 10 each. Shareholding structure of the Company as at 31 December 2016 and 2015 is as follows:

| Shareholders | Shareholding | SAR'000 |
|------------------------|---------------------|----------------|
| The Saudi British Bank | 32.50% | 110,500 |
| HSBC Asia Holdings B.V | 31.00% | 105,400 |
| Others | 36.50% | 124,100 |
| | 100.00% | 340,000 |

15 LEGAL RESERVE

In accordance with the Company's Articles of Association and in compliance with Article 70 (2g) of the Insurance Implementing Regulations of SAMA, the Company allocates 20% of its net income each year to the legal reserve until it has built up a reserve equal to the share capital. The legal reserve is not available for distribution to shareholders until liquidation of the Company.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

16 PROVISION FOR ZAKAT AND INCOME TAX

a) Zakat and income tax - net charge for the year

| | 2016 SAR'000 | 2015 SAR'000 |
|---------------------|-----------------|-----------------|
| Provision for zakat | 4,638 | 3,793 |
| Provision for tax | 1,086 | 502 |
| | <u>5,724</u> | <u>4,295</u> |

b) Zakat charge for the year

The provision for zakat charge relating to Saudi shareholders is based on the following:

| | 2016 SAR'000 | 2015 SAR'000 |
|---|-----------------|-----------------|
| Equity | 355,070 | 355,725 |
| Opening allowances and other adjustments | 6,637 | 5,606 |
| Book value of long term assets | (37,233) | (37,613) |
| | <u>324,474</u> | <u>323,718</u> |
| Adjusted profit for the year | 15,636 | 6,993 |
| Zakat base | <u>340,110</u> | <u>330,711</u> |
| Saudi Shareholders' share of zakat base @ 54.5% | <u>185,360</u> | <u>180,237</u> |
| Zakat charge for the year @ 2.5% | <u>4,634</u> | <u>4,506</u> |

The differences between the financial and zakatable results are mainly due to provisions, which are not allowed in the calculation of adjusted profit.

c) Movements in zakat provision

The movement in the zakat provision for the year was as follows:

| | 2016 SAR'000 | 2015 SAR'000 |
|------------------------------|-----------------|-----------------|
| At the beginning of the year | 4,506 | 4,519 |
| Charge during the year | 4,634 | 4,506 |
| Prior year adjustment | 4 | (713) |
| Payments during the year | (4,510) | (3,806) |
| At the end of the year | <u>4,634</u> | <u>4,506</u> |

d) Income tax charge for the year

Income tax charge for the current year is calculated at 20% of the adjusted taxable income on the portion of equity owned by the foreign shareholders. The movement in the tax provision for the year was as follows:

| | 2016 SAR'000 | 2015 SAR'000 |
|------------------------------|-----------------|-----------------|
| At the beginning of the year | 478 | 1,352 |
| Charge during the year | 1,067 | 502 |
| Prior year adjustment | 19 | - |
| Payments during the year | (497) | (1,376) |
| At the end of the year | <u>1,067</u> | <u>478</u> |

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

16 PROVISION FOR ZAKAT AND INCOME TAX (CONTINUED)

e) Status of assessments

During the quarter ended 31 March 2015, the General Authority of Zakat & Tax (GAZT) issued the final tax certificates for the years from 2008 to 2010. However, the GAZT had filed an appeal in the Higher Appellate Forum against the ruling of Preliminary Zakat and Tax Appeal Committee which was in Company's favour. The appeal was regarding the matter of deducting the statutory deposits from zakat base for the years (2008-2010). During the quarter ended 31 March 2016, the said appeal was decided in Company's favour. Further, during the quarter ended 31 December 2016, the GAZT has also started its review for the years from 2011 to 2015.

17 NET CONTRIBUTION EARNED AND PLANHOLDER CHARGES

| | <i>For the year ended 31 December 2016</i> | | |
|--|--|--|--------------------------|
| | <i>Family Takaful SAR'000</i> | <i>General Takaful SAR'000</i> | <i>Total SAR'000</i> |
| Gross written contribution | 165,519 | 28,849 | 194,368 |
| Planholder charges | 23,096 | - | 23,096 |
| Re-takaful contribution ceded | (38,017) | (23,233) | (61,250) |
| Changes in gross unearned contributions | (284) | 1,151 | 867 |
| Changes in retakaful share of unearned contributions | 628 | (829) | (201) |
| Changes in reserve for takaful activities | (105) | - | (105) |
| Net contribution earned and planholder charges | <u>150,837</u> | <u>5,938</u> | <u>156,775</u> |

| | <i>For the year ended 31 December 2015</i> | | |
|--|--|--|--------------------------|
| | <i>Family Takaful SAR'000</i> | <i>General Takaful SAR'000</i> | <i>Total SAR'000</i> |
| Gross written contribution | 173,140 | 29,043 | 202,183 |
| Planholder charges | 26,412 | - | 26,412 |
| Re-takaful contribution ceded | (35,475) | (23,483) | (58,958) |
| Changes in gross unearned contributions | (1,176) | 45 | (1,131) |
| Changes in retakaful share of unearned contributions | 420 | 909 | 1,329 |
| Changes in reserve for takaful activities | (41,885) | - | (41,885) |
| Net contribution earned and planholder charges | <u>121,436</u> | <u>6,514</u> | <u>127,950</u> |

18 SURRENDERS AND MATURITIES

| | <i>SAR'000</i> | |
|------------|----------------|---------------|
| | <i>2016</i> | <i>2015</i> |
| Surrenders | 70,802 | 52,453 |
| Maturities | 30,227 | 27,551 |
| | <u>101,029</u> | <u>80,004</u> |

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

19 GENERAL AND ADMINISTRATIVE EXPENSES

| | 2016 SAR'000 | |
|------------------------------------|---------------------------|---------------------|
| | <i>Takaful Operations</i> | <i>Shareholders</i> |
| Employee costs | 25,199 | - |
| IT maintenance costs | 4,429 | - |
| Legal and professional charges | 2,312 | - |
| Rent expenses | 570 | - |
| Travel expenses | 510 | - |
| Directors' fees and other expenses | - | 766 |
| Other | 3,027 | 1,197 |
| | <u>36,047</u> | <u>1,963</u> |
| | 2015 SAR'000 | |
| | <i>Takaful Operations</i> | <i>Shareholders</i> |
| Employee costs | 26,201 | - |
| IT maintenance costs | 3,615 | - |
| Legal and professional charges | 1,552 | - |
| Rent expenses | 445 | - |
| Travel expenses | 837 | - |
| Directors' fees and other expenses | - | 182 |
| Other | 5,048 | 4,835 |
| | <u>37,698</u> | <u>5,017</u> |

20 BASIC AND DILUTED EARNINGS PER SHARE

The basic and diluted earnings per share are calculated as follows:

| | 2016 | 2015 |
|---|---------------|---------------|
| Net profit for the year (SAR'000) | <u>11,855</u> | <u>3,640</u> |
| Weighted average number of ordinary shares (Number in thousands) | <u>34,000</u> | <u>34,000</u> |
| Earnings per share (SAR) | <u>0.35</u> | <u>0.11</u> |

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

21 SEGMENTAL INFORMATION

Consistent with the Company's internal reporting process, business segments have been approved by management in respect of the Company's activities. The Company's gross written contribution, net written contribution and planholder charges, net contributions earned and planholder charges, fees and commission income, net claims incurred, surrenders and maturities, policy acquisition costs and other related costs, underwriting surplus, investment income, general and administrative expenses, net surplus/ (deficit), surplus from takaful operations, net profit, purchase of intangible assets and motor vehicle, amortisation, depreciation, intangible assets, available for sale investments, contribution receivables - net, retakaful share of outstanding claims and unearned contributions, deferred policy acquisition costs, total assets, reserve for takaful activities, gross unearned contributions and commission income, gross outstanding claims and total liabilities, by business segment, are stated below.

Segment assets do not include retakaful balances receivable, prepayments and other receivables, due from shareholders and cash and cash equivalents. Accordingly they are included in unallocated assets.

Segment liabilities do not include provision for employees' end-of-service benefits, surplus distribution payable, retakaful balances payable, payables, accruals and others and due to shareholders. Accordingly they are included in unallocated liabilities.

| | <i>Shareholders' Fund</i> <i>SAR'000</i> | <i>Individual Family (Protection & Savings)</i> <i>SAR'000</i> | <i>Group Family (Protection & Savings)</i> <i>SAR'000</i> | <i>General Takaful</i> <i>SAR'000</i> | <i>Total</i> <i>SAR'000</i> |
|---|---|---|--|--|--------------------------------|
| For the year ended 31 December 2016 | | | | | |
| Gross written contribution | - | 101,134 | 64,385 | 28,849 | 194,368 |
| Net written contribution and Planholder charges | - | 122,898 | 27,700 | 5,616 | 156,214 |
| Net contributions earned and Planholder charges | - | 122,793 | 28,044 | 5,938 | 156,775 |
| Fees and commission income | - | 440 | 785 | 6,160 | 7,385 |
| Net claims incurred | - | (207) | (15,253) | (1,176) | (16,636) |
| Surrenders and maturities | - | (101,029) | - | - | (101,029) |
| Policy acquisition costs | - | (2,909) | (1,654) | (2,653) | (7,216) |
| Underwriting surplus for the year | - | 19,088 | 11,922 | 8,269 | 39,279 |
| Investment income | 9,356 | 1,641 | 85 | - | 11,082 |
| General and administrative expenses | (1,963) | (12,599) | (11,649) | (11,799) | (38,010) |
| Net surplus/ (deficit) for the year | 7,393 | 8,130 | 358 | (3,530) | 12,351 |
| Surplus from takaful operations after shareholders' appropriation | | | | | (496) |
| Net profit for the year | | | | | 11,855 |
| Purchase of intangibles | 288 | - | - | - | 288 |
| Purchase of motor vehicle | 81 | - | - | - | 81 |
| Amortisation | 559 | - | - | - | 559 |
| Depreciation | 21 | - | - | - | 21 |

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

21 SEGMENTAL INFORMATION (CONTINUED)

| | Shareholders' Fund | Individual Family (Protection & Savings) | Group Family (Protection & Savings) | General Takaful | Total |
|---|--------------------|--|-------------------------------------|-----------------|----------------|
| | SAR '000 | SAR '000 | SAR '000 | SAR '000 | SAR '000 |
| For the year ended 31 December 2015 | | | | | |
| Gross written contribution | - | 112,306 | 60,834 | 29,043 | 202,183 |
| Net written contribution and Planholder charges | - | 137,365 | 26,712 | 5,560 | 169,637 |
| Net contributions earned and Planholder charges | - | 95,480 | 25,956 | 6,514 | 127,950 |
| Fees and commission income | - | 224 | 1,576 | 5,392 | 7,192 |
| Net claims incurred | - | (700) | (10,953) | 5,515 | (6,138) |
| Surrenders and maturities | - | (80,004) | - | - | (80,004) |
| Policy acquisition costs | - | (3,482) | (2,949) | (2,307) | (8,738) |
| Underwriting surplus for the year | - | 11,518 | 13,630 | 15,114 | 40,262 |
| Investment income | 5,073 | 1,384 | 22 | 13 | 6,492 |
| General and administrative expenses | (5,017) | (13,222) | (11,091) | (13,385) | (42,715) |
| Net surplus/(deficit) for the year | 56 | (320) | 2,561 | 1,742 | 4,039 |
| Surplus from takaful operations after shareholders' appropriation | | | | | (399) |
| Net profit for the year | | | | | 3,640 |
| Purchase of intangible assets | 651 | - | - | - | 651 |
| Amortisation | 451 | - | - | - | 451 |
| Depreciation | 17 | - | - | - | 17 |
| 31 December 2016 | | | | | |
| Intangible assets | 1,123 | - | - | - | 1,123 |
| Motor vehicle | 108 | - | - | - | 108 |
| Takaful operations' assets | | | | | |
| Available-for-sale investments | - | 353,740 | - | - | 353,740 |
| Contribution receivables, net | - | - | 4,650 | 7,898 | 12,548 |
| Retakaful share of outstanding claims | - | 453 | 34,195 | 21,715 | 56,363 |
| Retakaful share of unearned contributions | - | - | 2,974 | 11,002 | 13,976 |
| Deferred policy acquisition costs | - | - | 336 | 749 | 1,085 |
| Unallocated assets | - | - | - | - | 45,265 |
| Total takaful operations' assets | | | | | 482,977 |
| Total shareholders' assets | 376,592 | - | - | - | 376,592 |
| Total assets | | | | | 859,569 |
| Takaful operations' liabilities | | | | | |
| Reserve for takaful activities | - | 353,740 | - | - | 353,740 |
| Gross unearned contributions | - | - | 6,833 | 13,741 | 20,574 |
| Unearned commission income | - | - | - | 2,794 | 2,794 |
| Gross outstanding claims | - | 1,503 | 45,711 | 25,088 | 72,302 |
| Unallocated liabilities | - | - | - | - | 33,071 |
| Total takaful operations' liabilities | | | | | 482,481 |
| Total shareholders' liabilities | 15,391 | - | - | - | 15,391 |
| Total liabilities | | | | | 497,872 |

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

21 SEGMENTAL INFORMATION (CONTINUED)

| | <i>Shareholders' Fund SAR'000</i> | <i>Individual Family (Protection & Savings) SAR'000</i> | <i>Group Family (Protection & Savings) SAR'000</i> | <i>General Takaful SAR'000</i> | <i>Total SAR'000</i> |
|---|---------------------------------------|---|--|------------------------------------|--------------------------|
| 31 December 2015 | | | | | |
| Intangible assets | 1,394 | - | - | - | 1,394 |
| Motor vehicle | 48 | - | - | - | 48 |
| Takaful operations' assets | | | | | |
| Available-for-sale investments | - | 374,739 | - | - | 374,739 |
| Contribution receivables, net | - | - | 3,927 | 8,447 | 12,374 |
| Retakaful share of outstanding claims | - | 349 | 18,303 | 19,308 | 37,960 |
| Retakaful share of unearned contributions | - | - | 2,346 | 11,831 | 14,177 |
| Deferred policy acquisition costs | - | - | 388 | 792 | 1,180 |
| Unallocated assets | - | - | - | - | 47,691 |
| Total takaful operations' assets | | | | | 488,121 |
| Total shareholders' assets | 366,187 | - | - | - | 366,187 |
| Total assets | | | | | 854,308 |
| Takaful operations' liabilities | | | | | |
| Reserve for takaful activities | - | 374,739 | - | - | 374,739 |
| Gross unearned contributions | - | - | 6,549 | 14,892 | 21,441 |
| Unearned commission income | - | - | - | 2,950 | 2,950 |
| Gross outstanding claims | - | 1,604 | 24,255 | 22,038 | 47,897 |
| Unallocated liabilities | - | - | - | - | 40,695 |
| Total takaful operations' liabilities | | | | | 487,722 |
| Total shareholders' liabilities | 11,117 | - | - | - | 11,117 |
| Total liabilities | | | | | 498,839 |

All of the Company's operating assets and principal activities are located in the Kingdom of Saudi Arabia.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

22 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Company, and companies of which they are principal owners and any other entities controlled, jointly controlled or significantly influenced by them. Pricing policies and terms of these transactions are approved by the Company's management and Board of Directors.

a) Transactions with related parties

Details of significant transactions carried out during the year with related parties are as follows:

| | 2016 SAR'000 | 2015 SAR'000 |
|---|-----------------|-----------------|
| The Saudi British Bank (a shareholder of the Company) | | |
| Contributions | 53,183 | 51,545 |
| Claims paid | 28,337 | 30,741 |
| Other expenses | | |
| - IT maintenance cost and related expenses | 4,172 | 5,309 |
| - Overheads | 89 | 197 |
| Investment income on murabaha deposits | 731 | 167 |
| Other entities controlled, jointly controlled or significantly influenced by related parties | | |
| Policy acquisition costs paid | 5,471 | 6,927 |
| <i>HSBC Saudi Arabia Limited – IBSA</i> | | |
| Contributions | 905 | 879 |
| Claims paid | - | 500 |
| Rebate on unit-linked investments | 1,163 | 1,286 |

'Other expenses' include costs for various services under a management agreement between The Saudi British Bank (SABB) and the Company. As per the agreement, SABB provides operational services to the Company including use of fixed assets and IT infrastructure at a consideration mutually agreed between the parties.

b) Balances with related parties

Details of the receivables from and payables to related parties at the reporting date are as follows:

| | Nature | Notes | 2016 Amounts in '000 | 2015 |
|--|-----------|--------|-------------------------|---------|
| HSBC Saudi Arabia Limited | | | | |
| Available-for-sale investments | Asset | 5 (a) | 353,740 | 374,739 |
| Rebate on unit-linked investments | Asset | 7 | 1,150 | 315 |
| The Saudi British Bank | | | | |
| Contribution receivable – gross | Asset | 6 | 5,617 | 6,292 |
| Bank balances | Asset | 8 | 20,990 | 21,080 |
| Statutory deposit | Asset | 9 | 34,000 | 34,000 |
| Gross outstanding claims | Liability | 12 (b) | 29,468 | 21,952 |
| Other expenses under service level agreement | Liability | 13 | 320 | 588 |
| Profit commission payable | Liability | 13 | 259 | 1,859 |
| SABB Insurance Agency Limited | | | | |
| Commission payable | Liability | 13 | 349 | 545 |

Outstanding balances at the reporting date are unsecured and commission free. Settlement will take place in cash. No major provision for impairment was made at the reporting date. This assessment is undertaken at the reporting date through examining the financial position of the related parties, the market in which the related parties operate and other factors.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

22 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

c) *Compensation of key management personnel*

Key management personnel of the Company include all directors, executive and non-executive, and senior management. The summary of compensation of key management personnel for the year is as follows:

| | 2016 SAR'000 | | 2015 SAR'000 | |
|------------------------------------|-------------------------------|---------------------|-------------------------------|---------------------|
| | <i>Takaful Operations</i> | <i>Shareholders</i> | <i>Takaful Operations</i> | <i>Shareholders</i> |
| Salaries and other benefits | 3,858 | - | 3,763 | - |
| End-of-service benefits | 178 | - | 165 | - |
| Directors' fees and other expenses | - | 685 | - | 182 |

d) *Available-for-sale investments pertaining to unit-linked policies*

Available-for-sale investments pertaining to unit-linked policies as at 31 December 2016 amounting to SAR 353.74 million (2015: SAR 374.74 million) comprise investments in units of mutual funds managed by HSBC Saudi Arabia Limited, being a related party of the Company.

23 RISK MANAGEMENT

Risk governance

The Company's risk governance is manifested in a set of established policies, procedures and controls which uses the existing organizational structure to meet strategic targets. The Company's philosophy revolves on willing and knowledgeable risk acceptance commensurate with the risk appetite and a strategic plan approved by the Board of Directors. The Company is exposed to takaful, retakaful, commission rate, market and asset liability management, credit, liquidity, currency and operational risks.

Risk management structure

A cohesive organizational structure is established within the Company in order to identify, assess, monitor and control risks.

Board of Directors

The apex of risk governance is the centralized oversight of the Board of Directors providing direction and the necessary approvals of strategies and policies in order to achieve defined corporate goals.

Senior management

Senior management is responsible for the day-to-day operations towards achieving the strategic goals within the Company's pre-defined risk appetite.

The risks faced by the Company and the way these risks are mitigated by management are summarized as follows:

a) **Takaful risk**

Takaful risk is the risk that actual claims payable to contract holders in respect of takaful events exceed expectations. This could occur because the frequency or amounts of claims are more than expected. Takaful risk is monitored regularly by the Company to make sure that levels are within the projected frequency bands.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio, as well as unexpected outcomes. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines as well as the use of retakaful arrangements.

Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to reinsurance ceded, to the extent that the reinsurer is unable to meet its obligations assumed under such retakaful arrangements.

In line with the objective to provide first-class security to clients and continued profitability to shareholders, the Company adopts a conservative philosophy on underwriting of risks and in arranging its re-takaful programs.

The risks arising from takaful contracts are mainly concentrated in the Kingdom of Saudi Arabia.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

23 RISK MANAGEMENT (CONTINUED)

a) Takaful risk (continued)

Family takaful

For individual family takaful, the main risk is the mortality and morbidity (permanent or temporary disability) of the insured. This is managed through an effective and clearly defined underwriting strategy. There are various levels of underwriting carried out, including declaration of good health, medical questionnaire, reports from specialists/consultants and comprehensive medical tests. The Company also assesses financial, lifestyle and occupational information to ascertain the degree of risk carried by the insured and to determine whether or not it could be classified as a standard life.

For group takaful, the main risks are mortality and morbidity (permanent or temporary disability) of the insured. The mortality risk is compounded due to the concentration of lives, for e.g. employees in the same workplace. The Company has a clearly defined underwriting strategy. There are various levels of underwriting carried out, including declaration of good health, medical questionnaire, reports from specialists/consultants and comprehensive medical tests. The Company also looks at the nature of activity carried out by the group, group size, mix of lives by geographical regions, cultural background and manual/non-manual worker split.

The individual family and group takaful portfolios are protected through an efficient re-takaful arrangement in accordance with Hongkong and Shanghai Banking Corporation (HSBC) group standards. This protects the Company from adverse mortality/morbidity experience.

General takaful

The Company issues short term general takaful policies and they are expected to produce only short tail claims, therefore it is unlikely to have significant reserve movements. This helps to mitigate general takaful risk. Major products include:

Property all risk, fire, personal accident products

For property takaful contracts, the main risks are fire and business interruption. The Company has only underwritten policies for properties containing fire detection equipments and other safety measures.

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. The Company has retakaful cover for such damage to limit losses for any individual claim.

For personal accident takaful contracts, the main risks are personal accidents that could happen to the takaful product holders. The Company has retakaful cover under excess of loss treaty for such damage to limit losses for any individual claim.

Marine cargo product

For marine takaful 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 cargo, vessels and shipping routes covered. The Company has retakaful cover to limit losses for any individual claim.

Frequency and severity of claims

The frequency and severity of claims can be affected by several factors like natural disasters, flood, environmental and economical, atmospheric disturbances, concentration of risks, civil riots, etc. The Company manages these risk through conservative underwriting strategies and effective use of retakaful arrangements.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

23 RISK MANAGEMENT (CONTINUED)

a) Takaful risk (continued)

Concentration of takaful risk

The Company monitors concentration of takaful risks primarily by class of business. For fire and property risk a particular building and neighboring buildings, which could be affected by a single claim incident, are considered as a single location. Similarly, for marine risk, multiple risks covered in a single vessel voyage are considered as a single risk while assessing concentration of risk. The Company evaluates the concentration of exposures to individual and cumulative insurance risks and establishes its reinsurance policy to reduce such exposures to levels acceptable to the Company. As at 31 December 2016 and 2015, the Company does not have any significant concentration of takaful risk. The table below sets out the concentration of the outstanding claims and unearned premiums by business segments at the reporting date:

| <i>2016(Amounts in SAR '000)</i> | <i><u>Outstanding claim reserves - Gross</u></i> | <i><u>Outstanding claim Reserves - Net</u></i> | <i><u>Gross unearned contributions</u></i> | <i><u>Net unearned contributions</u></i> |
|----------------------------------|--|--|--|--|
| Individual Family | 1,503 | 1,050 | - | - |
| Group Family | 45,711 | 11,515 | 6,833 | 3,859 |
| General Takaful | 25,088 | 3,374 | 13,741 | 2,739 |
| | <u>72,302</u> | <u>15,939</u> | <u>20,574</u> | <u>6,598</u> |

| <i>2015 (Amounts in SAR '000)</i> | <i><u>Outstanding claim reserves - Gross</u></i> | <i><u>Outstanding claim Reserves - Net</u></i> | <i><u>Gross unearned contributions</u></i> | <i><u>Net unearned contributions</u></i> |
|-----------------------------------|--|--|--|--|
| Individual Family | 1,604 | 1,255 | - | - |
| Group Family | 24,255 | 5,952 | 6,549 | 4,203 |
| General Takaful | 22,038 | 2,730 | 14,892 | 3,061 |
| | <u>47,897</u> | <u>9,937</u> | <u>21,441</u> | <u>7,264</u> |

Sources of uncertainty in estimation of future claim payments

The key source of estimation uncertainty at the reporting date relates to valuation of outstanding claims, whether reported or not, and includes expected claims settlement costs. Considerable judgment by management is required in the estimation of amounts due to policyholders arising from claims made under takaful contracts.

Such estimates are necessarily based on assumptions about several factors involving varying and possibly significant degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. Qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example one off occurrence, changes in market factors such as public attitude to claims and economic conditions. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not reported (IBNR) at the reporting date.

Sensitivity of claims

The takaful claim liabilities are sensitive to the various assumptions mentioned in note 4. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process. Sensitivity analysis is determined separately for each business segment, keeping other factors constant, as follows:

Impact of +/- 10% change in net claims incurred on net income

| | <i><u>2016</u></i> | <i><u>2015</u></i> |
|-------------------|----------------------------------|--------------------|
| | <i><u>Amount in SAR '000</u></i> | |
| Individual Family | 21 | 70 |
| Group Family | 1,525 | 1,095 |
| General Takaful | 118 | 552 |

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

23 RISK MANAGEMENT (CONTINUED)

a) Takaful risk (continued)

Claims development

The following reflects the cumulative incurred claims for each successive accident year at each financial position date, together with the cumulative payments to date.

The development of takaful liabilities provides a measure of the Company's ability to estimate the ultimate value of the claims.

The Company aims to maintain adequate reserves in respect of its takaful business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences will be eliminated which results in the release of reserves from earlier accident years. In order to maintain adequate reserves, the Company will transfer much of this release to the current accident year reserves when the development of claims is less mature and there is much greater uncertainty attached to the ultimate cost of claims.

Claims development table

Amounts in SAR '000

| | <u>2011</u> <u>&</u> <u>earlier</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>Total</u> |
|---|---|-------------|-------------|-------------|-------------|-------------|--------------|
| Accident year | | | | | | | |
| Estimate of ultimate claim loss | | | | | | | |
| - At end of accident year | 128,901 | 30,433 | 34,616 | 45,350 | 51,165 | 63,246 | 63,246 |
| - One year later | 114,148 | 25,059 | 38,857 | 44,867 | 47,658 | - | 47,658 |
| - Two years later | 117,636 | 23,867 | 37,030 | 44,454 | - | - | 44,454 |
| - Three years later | 108,552 | 23,822 | 36,734 | - | - | - | 36,734 |
| - Four years later | 94,872 | 23,822 | - | - | - | - | 23,822 |
| - Five years later | 94,179 | - | - | - | - | - | 94,179 |
| Current estimate of cumulative claims | 94,179 | 23,822 | 36,734 | 44,454 | 47,658 | 63,246 | 310,093 |
| Cumulative payments to date | 94,179 | 23,822 | 25,536 | 43,424 | 42,808 | 34,477 | 264,246 |
| Outstanding claim reserves | - | - | 11,198 | 1,030 | 4,850 | 28,769 | 45,847 |
| Add: Incurred but not reported (IBNR) and other reserves | | | | | | | 26,455 |
| Liability recognized in the statement of financial position | | | | | | | 72,302 |
| | <u>2010</u> <u>&</u> <u>earlier</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>Total</u> |
| Accident year | | | | | | | |
| Estimate of ultimate claim loss | | | | | | | |
| - At end of accident year | 217,508 | 49,887 | 30,433 | 34,616 | 45,350 | 51,163 | 51,163 |
| - One year later | 61,980 | 46,783 | 25,059 | 38,857 | 44,867 | - | 44,867 |
| - Two years later | 61,202 | 46,507 | 23,867 | 37,030 | - | - | 37,030 |
| - Three years later | 61,214 | 46,572 | 23,822 | - | - | - | 23,822 |
| - Four years later | 61,214 | 33,670 | - | - | - | - | 33,670 |
| - Five years later | 61,214 | - | - | - | - | - | 61,214 |
| Current estimate of cumulative claims | 61,214 | 33,670 | 23,822 | 37,030 | 44,867 | 51,163 | 251,766 |
| Cumulative payments to date | 60,764 | 33,670 | 23,822 | 25,536 | 43,411 | 38,844 | 226,047 |
| Outstanding claim reserves | 450 | - | - | 11,494 | 1,456 | 12,319 | 25,719 |
| Add: Incurred but not reported (IBNR) and other reserves | | | | | | | 22,178 |
| Liability recognized in the statement of financial position | | | | | | | 47,897 |

23 RISK MANAGEMENT (CONTINUED)

b) Retakaful risk

In order to minimize its financial exposure to potential losses arising from large claims the Company enters into agreements with other parties for retakaful purposes. Such retakaful arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the retakaful is effected under treaty, facultative and excess-of-loss retakaful contracts.

In line with the objective to provide first-class security to clients and continued profitability to shareholders, the Company adopts a conservative philosophy on underwriting of risks and in arranging its reinsurance programs.

Further, to minimize 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. The Company considers retakaful risk to be minimal as it deals with reinsurers with sound credit ratings.

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.

c) Commission rate risk

Commission rate risk arises from the possibility that changes in commission rates will affect future profitability or the fair values of financial instruments. The Company has no significant concentration of commission rate risk.

The sensitivity of the income is the effect of the assumed changes in the commission rates, with all other variable held constant, on the Company's profit for one year, based on the floating rate financial assets held at 31 December 2016. A hypothetical 30 basis points change in the weighted average commission rate of the floating rate financial assets balances at 31 December 2016 would impact commission income by approximately SAR 913 thousand (2015: SAR 877 thousand) annually in aggregate.

Commission bearing investments of the Company comprise of murabaha deposits and sukuks. Murabaha deposits are short term in nature which will be matured within a year and the maturity profile of sukuks is disclosed in note 5.

d) Market risk and asset liability management

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused either by factors specific to the individual security, the issuer of the security, or factors affecting all securities in the market.

The Company is exposed to market risk with respect to its available-for-sale and held-to-maturity investments. These investments are sensitive to the various factors that affect market movements. As part of Company's investment strategy and to reduce market risk, the Company maintains diversified portfolio and performs regular monitoring of developments in related markets.

In addition, the key factors that affect market movements are monitored, including analysis of the operational and financial performance of investees.

The Company issues unit-linked investment policies. In the unit linked business, the planholder bears the investment risk on the assets held in the unit-linked funds as the policy benefits are directly linked to the value of the assets in the fund. Therefore, the Company has no material risk on unit-linked financial assets.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

23 RISK MANAGEMENT (CONTINUED)

e) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. For all classes of financial instruments held by the Company, the maximum credit risk exposure to the Company is the carrying value as disclosed in the statement of financial position.

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- To minimize its exposure to significant losses from retakaful insolvencies, the Company evaluates the financial condition of its retakaful counterparties. Accordingly, as a pre-requisite, the parties with whom retakaful is affected are required to have a minimum acceptable security rating level affirming their financial strength.
- The Company only enters into takaful and retakaful contracts with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from takaful and retakaful contracts are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit the credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- Considering the nature of held-to-maturity investments, there is a minimal credit risk. Cash and cash equivalents are maintained with local banks approved by management. Accordingly, as a pre-requisite, the banks with whom cash and cash equivalents are maintained are required to have a minimum acceptable security rating level affirming their financial strength.

The table below shows the maximum exposure to credit risk for the relevant components of the statement of financial position.

| | 2016 SAR'000 | |
|---------------------------------------|-------------------------------|---------------------|
| | <i>Takaful Operations</i> | <i>Shareholders</i> |
| Contributions receivable, net | 12,548 | - |
| Retakaful share of outstanding claims | 56,363 | - |
| Retakaful balances receivable | 490 | - |
| Cash and cash equivalents | 37,175 | 150,815 |
| Held-to-maturity investments | - | 188,095 |
| Statutory deposit | - | 34,000 |
| Other receivables | 1,150 | - |
| | <u>107,726</u> | <u>372,910</u> |

| | 2015 SAR'000 | |
|---------------------------------------|-------------------------------|---------------------|
| | <i>Takaful Operations</i> | <i>Shareholders</i> |
| Contributions receivable, net | 12,374 | - |
| Retakaful share of outstanding claims | 37,960 | - |
| Retakaful balances receivable | 3,630 | - |
| Cash and cash equivalents | 43,122 | 132,958 |
| Held-to-maturity investments | - | 187,945 |
| Statutory deposit | - | 34,000 |
| Other receivables | 315 | - |
| | <u>97,401</u> | <u>354,903</u> |

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

23 RISK MANAGEMENT (CONTINUED)

f) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial instruments. In respect of catastrophic events, there is also a liquidity risk associated with the timing difference between gross cash outflows and expected retakaful recoveries.

The following policies and procedures are in place to mitigate the Company's exposure to liquidity risk:

- A Company liquidity risk policy setting out the assessment and determination of what constitutes liquidity risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Risk Committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Set guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet takaful obligations.
- Setting up contingency funding plans which specify minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.
- The Company's catastrophic excess-of-loss retakaful contracts contain clauses permitting the immediate draw down of funds to meet claim payments should claim events exceed a certain size.

Maturity Profiles

The table below summarizes the maturity profile of the assets and liabilities (for managing liquidity risk) of the Company based on remaining expected contractual obligations. For takaful contract liabilities and retakaful assets, maturity profiles are determined based on the estimated timing of net cash outflows from the recognized takaful liabilities. Unit linked liabilities are repayable or transferable on demand and are included in the up to one year column. Repayments that are subject to notice are treated as if notice were to be given immediately.

| | 2016 | | | | | |
|---------------------------------------|------------------------------|----------------------------------|------------------|------------------------------|----------------------------------|------------------|
| | Takaful Operations | | | Shareholders | | |
| | Up to one year SAR'000 | More than one year SAR'000 | Total SAR'000 | Up to one year SAR'000 | More than one year SAR'000 | Total SAR'000 |
| ASSETS | | | | | | |
| Available-for-sale investments | 353,740 | - | 353,740 | - | - | - |
| Held-to-maturity investments | - | - | - | 50,178 | 137,917 | 188,095 |
| Contributions receivable, net | 12,548 | - | 12,548 | - | - | - |
| Retakaful share of outstanding claims | 56,363 | - | 56,363 | - | - | - |
| Retakaful balances receivable | 490 | - | 490 | - | - | - |
| Cash and cash equivalents | 37,175 | - | 37,175 | 150,815 | - | 150,815 |
| | <u>460,316</u> | <u>-</u> | <u>460,316</u> | <u>200,993</u> | <u>137,917</u> | <u>338,910</u> |
| LIABILITIES | | | | | | |
| Reserve for takaful activities | 353,740 | - | 353,740 | - | - | - |
| Gross outstanding claims | 72,302 | - | 72,302 | - | - | - |
| Retakaful balances payable | 8,015 | - | 8,015 | - | - | - |
| Payables, accruals and others | 11,882 | - | 11,882 | 1,393 | - | 1,393 |
| | <u>445,939</u> | <u>-</u> | <u>445,939</u> | <u>1,393</u> | <u>-</u> | <u>1,393</u> |

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

23 RISK MANAGEMENT (CONTINUED)

f) Liquidity risk (continued)

| | 2015 | | | | | |
|---------------------------------------|------------------------------|----------------------------------|------------------|------------------------------|----------------------------------|------------------|
| | Takaful Operations | | | Shareholders | | |
| | Up to one year SAR'000 | More than one year SAR'000 | Total SAR'000 | Up to one year SAR'000 | More than one year SAR'000 | Total SAR'000 |
| ASSETS | | | | | | |
| Available-for-sale investments | 374,739 | - | 374,739 | - | - | - |
| Held-to-maturity investments | - | - | - | - | 187,945 | 187,945 |
| Contributions receivable, net | 12,374 | - | 12,374 | - | - | - |
| Retakaful share of outstanding claims | 37,960 | - | 37,960 | - | - | - |
| Retakaful balances receivable | 3,630 | - | 3,630 | - | - | - |
| Cash and cash equivalents | 43,122 | - | 43,122 | 132,958 | - | 132,958 |
| | <u>471,825</u> | <u>-</u> | <u>471,825</u> | <u>132,958</u> | <u>187,945</u> | <u>320,903</u> |
| LIABILITIES | | | | | | |
| Reserve for takaful activities | 374,739 | - | 374,739 | - | - | - |
| Gross outstanding claims | 47,897 | - | 47,897 | - | - | - |
| Retakaful balances payable | 5,858 | - | 5,858 | - | - | - |
| Payables, accruals and others | 14,618 | - | 14,618 | 4,516 | - | 4,516 |
| | <u>443,112</u> | <u>-</u> | <u>443,112</u> | <u>4,516</u> | <u>-</u> | <u>4,516</u> |

g) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Management believes that there is minimal risk of significant losses due to exchange rate fluctuation as there are no foreign currency assets and liabilities at the reporting date.

h) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Company's operations either internally within the Company or externally at the Company's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of investment management behaviour. Operational risks arise from all of the Company's activities.

The Company's objective is to manage operational risk so as to balance limiting of financial losses and damage to its reputation with achieving its investment objective of generating returns for investors.

23 RISK MANAGEMENT (CONTINUED)

h) Operational risk (continued)

The primary responsibility for the development and implementation of controls over operational risk rests with the Board of Directors. This responsibility encompasses the controls in the following areas:

- requirements for appropriate segregation of duties between various functions, roles and responsibilities;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified; and
- ethical and business standards.

Senior management ensures that the Company's staff has adequate training and experience and fosters effective communication related to operational risk management.

i) Capital management

Objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximize shareholders' value.

The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in market conditions and risk characteristics of the Company's activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue shares.

In the opinion of the Board of Directors, the Company has fully complied with the externally imposed capital requirements during the reported financial year.

j) Fair values of financial instruments

The fair value of investments in mutual funds is based on quoted market price. The fair value of held to maturity investments classified under level 2 of fair value hierarchy is based on discounted cash flows. The fair value of contributions receivable, retakaful share of outstanding claims, retakaful balances receivable, gross outstanding claims, retakaful balances payable and other financial instruments, are not significantly different from the carrying values included in the financial statements.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

24 PROSPECTIVE CHANGES IN THE INTERNATIONAL FINANCIAL REPORTING FRAMEWORK

The Company has chosen not to early adopt the amendments and revisions to the International Financial Reporting Standards (IFRSs) which have been published and are mandatory for compliance by the Company for the accounting years beginning on or after January 1, 2017. The Company is currently assessing their impact. Following is a brief on the new IFRSs and amendments to IFRSs effective for annual periods beginning on or after January 1, 2017.

| <u>Standard, amendment or interpretation</u> | <u>Summary of requirements</u> | <u>Effective for annual periods beginning on or after</u> |
|--|--|---|
| IFRS 9 | Financial instruments | 1 January 2018 |
| IFRS 15 | Revenue from contracts with customers | 1 January 2017 |
| Amendments to IAS 7 | Disclosure Initiative | 1 January 2017 |
| Amendments to IAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses | 1 January 2017 |

25 RECLASSIFICATION OF COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform with the presentation in the current year. These changes were made for better presentation of balances and transactions in the financial statements of the Company.

26 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 29 Jumadi Al-Awwal 1438H, corresponding to 26 February 2017.