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**ALAHLI TAKAFUL COMPANY  
(A SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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**ALAHLI TAKAFUL COMPANY**  
**(A SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS TOGETHER WITH INDEPENDENT AUDITORS' REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**

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<b>INDEX</b>	<b>PAGE</b>
Independent Auditors' Report	2 – 6
Statement of Financial Position	7
Statement of Income	8-9
Statement of Comprehensive Income	10
Statement of Changes in Equity	11-12
Statement of Cash flows	13-14
Notes to the Financial Statements	15-60



Ernst & Young & Co. (Public Accountants)  
13<sup>th</sup> Floor – King's Road Tower  
PO Box 1994  
King Abdulaziz Road (Malek Road)  
Jeddah 21441  
Saudi Arabia  
Registration Number: 45



**BAKER TILLY MKM & CO.**  
CERTIFIED PUBLIC ACCOUNTANTS  
License 323/11/479  
P O Box 100890, Jeddah 21311  
Kingdom of Saudi Arabia

## **Independent Auditors' Report**

**To the Shareholders of AlAhli Takaful Company (A Saudi Joint Stock Company)**

### **Report on the Audit of the Financial Statements**

#### **Opinion**

We have audited the financial statements of AlAhli Takaful Company – a Saudi Joint Stock Company (the “Company”), which comprise the statement of financial position as at 31 December 2019, and the related statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRS”) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by the Saudi organization for Certified Public Accountants (“SOCPA”) (hereinafter referred to as “IFRS as endorsed in KSA”).

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (“ISAs”) that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context:

## Independent Auditors' Report

### To the Shareholders of AlAhli Takaful Company (A Saudi Joint Stock Company) (continued)

#### Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><b>Technical Reserve for Insurance Operations and Incurred But Not Reported (IBNR) reserves (jointly referred as “technical reserves”)</b></p> <p><i>The Company's accounting policy related to technical reserve for insurance operations and IBNR reserves are described in note 3 to the financial statements.</i></p> <p>Technical Reserve for Insurance Operations represents the largest liability for the Company totalling SR 684.5 million as at 31 December 2019 (31 December 2018: SR 654.2 million) and consist of the following:</p> <ul style="list-style-type: none"> <li>○ Technical reserves relating to the Participant Investment Strategies (unit-linked liability)</li> <li>○ Allowance for retained risk</li> </ul> <p>IBNR reserves amounted to SR 5 million as at 31 December 2019 (31 December 2018: SR 7 million).</p> <p>A range of methods is used to determine these technical reserves. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amounts and settlement patterns of claims. The Company also involves an independent actuary to calculate the technical reserves. The Company exercises significant judgments including a number of subjective assumptions when determining both the timing and the amounts of the technical reserves. Changes in the assumptions used to value the reserves can lead to material impact on the valuation of technical reserves.</p> <p>Because of the significance of the judgments involved, assumptions used and the magnitude of the total balance, technical reserves have been considered as a key audit matter.</p>	<p>We have performed test of key controls over the claims administration and the valuation of individual reported claims reserves to confirm the operating effectiveness of those key controls.</p> <p>We also tested the completeness and accuracy of the underlying data used in the actuarial calculations by performing reconciliations on the underlying data to the financial ledger and the actuarial data used by the Company's independent actuary while calculating the technical reserves for insurance operations.</p> <p>In addition, we have involved our actuarial specialist to:</p> <ul style="list-style-type: none"> <li>○ Assess the approach and methodology used by the management in calculating required technical reserve.</li> <li>○ Review key assumptions and judgments used by management in calculating technical reserve.</li> <li>○ Assess the compliance of actuarial report on technical reserves with the professional guidance available.</li> <li>○ Assess consistency in applying the reserving methodology across periods.</li> </ul> <p>We also assessed the adequacy of the financial statements disclosures with respect to technical reserves.</p>

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## **Independent Auditors' Report**

### **To the Shareholders of AlAhli Takaful Company (A Saudi Joint Stock Company) (continued)**

#### **Other Information included in the Company's 2019 Annual Report**

Management is responsible for the other information. Other information comprises the information included in the Company's 2019 annual report but does not include financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs as endorsed in KSA, the applicable requirements of the Companies' Law and the Company's By-laws, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

#### **Auditors' Responsibilities for the Audit of the Financial Statements**

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

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## **Independent Auditors' Report**

### **To the Shareholders of AlAhli Takaful Company (A Saudi Joint Stock Company) (continued)**

#### **Auditors' Responsibilities for the Audit of the Financial Statements (continued)**

As part of an audit in accordance with ISA that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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



## Independent Auditors' Report

To the Shareholders of AlAhli Takaful Company (A Saudi Joint Stock Company) (continued)

### Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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

### Report on other legal and regulatory requirements

Based on the information that has been made available to us while performing our audit procedures, nothing has come to our attention that causes us to believe that the Company is not in compliance with the requirements of the Regulations for Companies, the Cooperative Insurance Companies Control Law and the Company's By-Laws in so far as they affect the preparation and presentation of the financial statements.

**BAKER TILLY MKM & CO.**  
Certified Public Accountants

Ayad Obeyan Alseraihi  
License No. 405



Jeddah, Kingdom of Saudi Arabia  
20 Rajab 1441 H  
15 March 2020

for Ernst & Young & Co.

Ahmed I. Reda  
Certified Public Accountant  
Licence Number 356



# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	2019 SR'000	2018 SR'000
<b>ASSETS</b>			
Cash and cash equivalents	4	19,619	18,871
Contributions and reinsurance receivables, net	5	14,569	74,073
Reinsurance share of unearned contributions	6	2,107	3,187
Reinsurance share of outstanding claims	14	21,088	40,690
Unit-linked investments	7	671,674	647,075
Investments	8	316,528	286,613
Accrued income	23	702	429
Prepayments and other assets	9	6,061	5,493
Furniture, fittings and office equipment	10	2,703	1,712
Intangible assets	11	852	2,347
Statutory deposit	12	16,667	16,667
Accrued income on statutory deposit		1,947	1,464
<b>TOTAL ASSETS</b>		<b>1,074,517</b>	<b>1,098,621</b>
<b>LIABILITIES</b>			
Accrued expenses and other liabilities	16	19,976	35,724
Reinsurance balances payable		22,227	46,389
Unearned contributions	6	3,449	4,974
Technical Reserve for Insurance Operations	13	684,546	654,225
Outstanding claims	14	43,171	66,875
Incurred But Not Reported (IBNR) reserves	14	5,053	7,197
Due to related parties	23	479	2,349
End-of-service indemnities	17	2,460	1,809
Surplus from Insurance Operations		20,184	19,010
Zakat and income tax	18	29,254	23,860
Dividends payable		8	8
Accrued income payable to SAMA		1,947	1,464
<b>TOTAL LIABILITIES</b>		<b>832,754</b>	<b>863,884</b>
<b>EQUITY</b>			
Share capital	19	166,667	166,667
Statutory reserve	20	29,895	28,427
Retained earnings		45,489	39,619
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>242,051</b>	<b>234,713</b>
Remeasurement reserve of defined benefit obligation - related to Insurance operations	17	(288)	24
<b>TOTAL EQUITY</b>		<b>241,763</b>	<b>234,737</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,074,517</b>	<b>1,098,621</b>

Director

Chief Financial Officer

Chief Executive Officer

The accompanying notes 1 to 32 form an integral part of these financial statements.

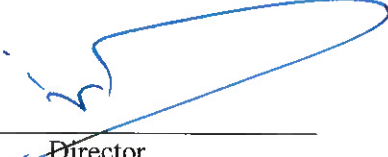


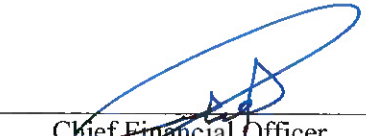
# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## STATEMENT OF INCOME

For the year ended 31 December 2019

	Note	2019 SR'000	2018 SR'000 <i>Restated</i>
<b>REVENUE</b>			
Gross written contributions	6	238,841	338,346
Investible contributions, net	13	(149,627)	(161,430)
Net Insurance contributions		89,214	176,916
Contributions ceded:			
Local		-	-
Foreign	6	(42,183)	(105,611)
Net written contributions		47,031	71,305
Change in net unearned contributions		445	(101)
Net contribution earned		47,476	71,204
Investment fund fee		5,062	5,096
<b>TOTAL REVENUES</b>		52,538	76,300
<b>UNDERWRITING COSTS AND EXPENSES</b>			
Gross claims paid	14	(93,766)	(117,246)
Reinsurance share of claims paid	14	68,798	91,213
Net claims paid	14	(24,968)	(26,033)
Change in outstanding claims, net		4,102	(8,694)
Changes in claim incurred but not reported, net		2,144	(929)
Net claims incurred		(18,722)	(35,656)
Changes in technical reserves, net	13	2,110	3,907
Policy acquisition costs		(2,394)	(2,920)
Other underwriting expenses		(1,194)	(1,693)
<b>TOTAL UNDERWRITING COSTS AND EXPENSES</b>		(20,200)	(36,362)
<b>NET UNDERWRITING INCOME</b>		32,338	39,938
<b>OTHER OPERATING INCOME/(EXPENSES)</b>			
(Additions to)/reversal of doubtful debts allowance	5.1	(196)	770
Provision against outstanding claims receivable from a reinsurer	14	-	(14,885)
General and administration expenses	21	(33,090)	(27,928)
Unrealised gain on FVIS investments		12,715	5,543
Realised gain on FVIS investments		294	435
Other income	22	2,859	7,860
<b>TOTAL OTHER OPERATING EXPENSES</b>		(17,418)	(28,205)
<b>Net income for the year</b>		14,920	11,733
Net income attributed to the insurance operations		(1,174)	(1,312)
<b>Net income for the year attributable to the shareholders, before Zakat and income tax – b/f</b>		13,746	10,421

  
\_\_\_\_\_  
Director

  
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Chief Financial Officer

  
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Chief Executive Officer

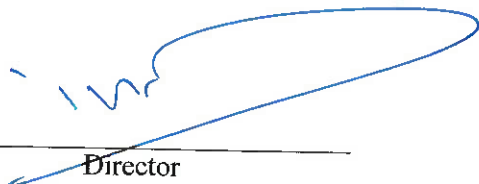
The accompanying notes 1 to 32 form an integral part of these financial statements.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## STATEMENT OF INCOME (continued)

For the year ended 31 December 2019

	Note	2019 SR'000	2018 SR'000 <i>Restated</i>
Net income for the year attributable to the shareholders, before Zakat and income tax – c/f		13,746	10,421
Zakat	18	(6,143)	(5,669)
Income tax (charge)/recovery	18	(265)	706
Net income for the year attributable to the shareholders, after Zakat and income tax		7,338	5,458
Weighted average number of ordinary shares outstanding (in thousands)		16,667	16,667
Basic earnings per share for the year after zakat and tax (SR)		0.44	0.33

  
Director

  
Chief Financial Officer

  
Chief Executive Officer

The accompanying notes 1 to 32 form an integral part of these financial statements.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	2019 SR'000	2018 SR'000 <i>Restated</i>
Net income for the year attributable to the shareholders, after Zakat and income tax		7,338	5,458
Other comprehensive income/(loss)			
<i>Items that will not be reclassified to statement of income in subsequent years</i>			
Actuarial (loss)/gain on defined benefit obligation – related to Insurance operations	17	(312)	24
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>7,026</b>	<b>5,482</b>

  
Director

  
Chief Financial Officer

  
Chief Executive Officer

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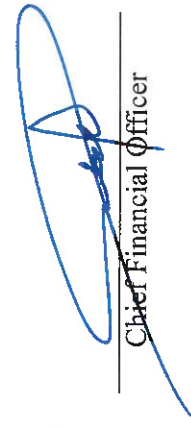
# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

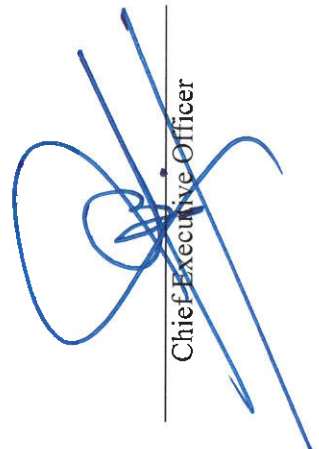
## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	<i>Related to shareholders operations</i>					
	<i>Share capital SR'000</i>	<i>Statutory reserve SR'000</i>	<i>Retained earnings SR'000</i>	<i>Total shareholders' equity SR'000</i>	<i>Remeasurement reserve of defined benefit obligation – related to insurance operations SR'000</i>	<i>Total SR'000</i>
<b>Balance at 1 January 2019</b>	166,667	28,427	39,619	234,713	24	234,737
Net income for the year	-	-	7,338	7,338	-	7,338
Other comprehensive loss	-	-	-	-	(312)	(312)
<b>Total comprehensive income</b>	-	-	7,338	7,338	(312)	7,026
Transfer to statutory reserve	-	1,468	(1,468)	-	-	-
<b>Balance as at 31 December 2019</b>	166,667	29,895	45,489	242,051	(288)	241,763

  
Director

  
Chief Financial Officer

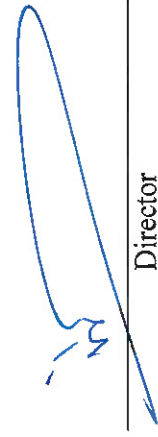
  
Chief Executive Officer

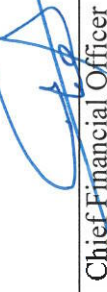
# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2019

	Related to shareholders operations				Remeasurement reserve of defined benefit obligation – related to insurance operations	Total
	Share capital SR '000	Statutory reserve SR '000	Retained earnings SR '000	Total shareholders' equity SR '000	SR '000	SR '000
Balance at 1 January 2018	166,667	26,343	48,082	241,092	-	241,092
Net income for the year – previously reported	-	-	10,421	10,421	-	10,421
Adjustment – change in accounting policy (note 3(b))	-	-	(4,963)	(4,963)	-	(4,963)
Net income for the year - Currently reported	-	-	5,458	5,458	-	5,458
Other comprehensive income	-	-	-	-	24	24
Total comprehensive income	-	-	5,458	5,458	24	5,482
Dividend – net (note 28)	-	-	(11,837)	(11,837)	-	(11,837)
Transfer to statutory reserve	-	2,084	(2,084)	-	-	-
Balance as at 31 December 2018	166,667	28,427	39,619	234,713	24	234,737

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Chief Financial Officer

  
\_\_\_\_\_  
Chief Executive Officer

The accompanying notes 1 to 32 form an integral part of these financial statements.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

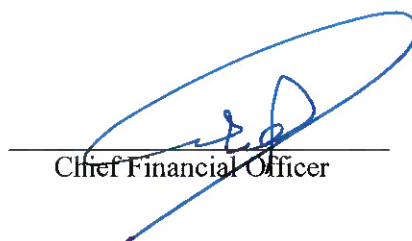
## STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	2019 SR'000	2018 SR'000 Restated
<b>OPERATING ACTIVITIES</b>			
Net income for the year attributable to shareholders before zakat and income tax		13,746	10,421
Adjustments for:			
Net income attributed to the insurance operations		1,174	1,312
Depreciation	10	822	829
Amortization of intangible assets	11	1,827	1,755
End-of-service indemnities	17	645	503
Addition to/(reversal of) doubtful debts allowance	5	196	(770)
Provision against outstanding claims receivable from a reinsurer	14	-	14,885
Unrealised gain on re-measurement of FVIS investments		(12,715)	(5,543)
Income before changes in operating assets and liabilities		5,695	23,392
Changes in operating assets and liabilities:			
Unit-linked investments		(24,599)	47,334
Contributions and reinsurance receivables		59,308	(60,026)
Due from a related party		-	109
Prepayments and other assets		(568)	66
Accrued income		(273)	10
Reinsurance share of unearned contributions		1,080	125
Unearned contributions		(1,525)	(24)
Reinsurance share of outstanding claims		19,602	(34,481)
Technical Reserve for Insurance Operations		30,321	(56,400)
Incurred But Not Reported (IBNR) reserves		(2,144)	929
Outstanding claims		(23,704)	43,175
Reinsurance balances payable		(24,162)	(4,684)
Due to related parties		(1,870)	401
Accrued and other liabilities		(15,748)	8,897
Accrued income on statutory deposit		(483)	(371)
Accrued income payable to SAMA		483	371
Cash from/(used in) operations		21,413	(31,177)
Zakat and income tax paid, net	18	(1,014)	(3,525)
End-of-service indemnities paid	17	(306)	(428)
Net cash generated from/(used in) operating activities		20,093	(35,130)
<b>INVESTING ACTIVITIES</b>			
Purchase of furniture, fittings and office equipment	10	(1,813)	(541)
Additions to intangible assets	11	(332)	(293)
Redemption of FVIS investments	8	-	40,000
Purchase of FVIS investments		(17,200)	-
Net cash (used in)/generated from investing activities		(19,345)	39,166



Director



Chief Financial Officer



Chief Executive Officer

The accompanying notes 1 to 32 form an integral part of these financial statements.

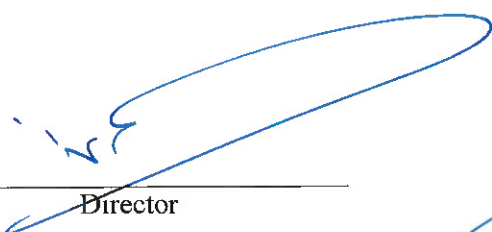


# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2019

	<i>Notes</i>	<b>2019</b> <b>SR'000</b>	<b>2018</b> <b>SR'000</b> <i>Restated</i>
<b>FINANCING ACTIVITY</b>			
Dividend paid, net		-	(11,836)
Net cash used in financing activity		-	(11,836)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>748</b>	<b>(7,800)</b>
Cash and cash equivalents at the beginning of the year		<b>18,871</b>	26,671
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>4</b>	<b>19,619</b>	<b>18,871</b>

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Chief Financial Officer

  
\_\_\_\_\_  
Chief Executive Officer

The accompanying notes 1 to 32 form an integral part of these financial statements.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2019

### 1 ORGANIZATION AND PRINCIPAL ACTIVITIES

AlAhli Takaful Company (the “Company”) is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030171573 dated 21 Rajab 1428H, corresponding to 4 August 2007. The following is the address of the Company’s registered office:

P. O. Box 48510,  
Al Khalidiyah Business Center,  
Prince Sultan Street,  
Jeddah 21582,  
Kingdom of Saudi Arabia.

The objective of the Company is to transact cooperative insurance operations and related activities in the Kingdom of Saudi Arabia. The Company commenced its commercial operations on 4 February 2008. The Company was listed on the Saudi Stock Exchange on 18 August 2007.

### 2 BASIS OF PREPARATION

#### a) *Basis of presentation and measurement*

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) that are endorsed in the Kingdom of Saudi Arabia (KSA), and other standards and pronouncements that are endorsed by Saudi organization for Certified Public Accountants (“SOCPA”) (referred to as “IFRS as endorsed in KSA”).

The Company has updated its accounting policy to account for zakat and income taxes in the statement of income based on the instructions issued by SAMA on 23 July 2019 to insurance companies in the Kingdom of Saudi Arabia. This aligns with the IFRS as endorsed in KSA. Accordingly, the Company changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The financial statements have been prepared under the going concern basis and the historical cost convention, except for the measurement at fair value of investment held as fair value through statement of income (FVIS). The Company’s statement of financial position is not presented using a current/non-current classification. Except for furniture, fittings and office equipment, statutory deposit and related accrued income, end-of-service indemnities, outstanding claims, claims incurred but not reported and technical reserve for insurance operations, all other assets and liabilities are of short-term nature, unless, stated otherwise.

As required by the Saudi Arabian Insurance Regulations “the Implementation Regulations”, the Company maintains separate books of accounts for “Insurance Operations” and “Shareholders’ Operations”. Accordingly, assets, liabilities, revenues and expenses attributable to either operation are recorded in the respective accounts. Note 30 to these annual financial statements provides the statement of financial position, statements of income, comprehensive income and cash flows of the insurance operations and shareholders operations, separately.

The financial statements of the Company as at and for the year ended 31 December 2018, were prepared in compliance with the International Financial Reporting Standards (“IFRS”), as modified by SAMA for the accounting of Zakat and income tax (relating to the application of IAS 12 – “Income Taxes” and IFRIC 21 – “Levies” so far as these relate to Zakat and income tax).

#### b) *Functional and presentation currency*

The financial statements are presented in Saudi Arabian Riyals (SR), which is the functional currency of the Company. All financial information presented in SR has been rounded off to the nearest thousand, unless otherwise indicated.

#### c) *Use of estimates and judgements*

The preparation of the Company’s financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures. Actual results may differ from these estimates. Estimates, assumptions and judgements are reviewed on ongoing basis. Revisions to estimates are recognised prospectively. Information about judgements, assumptions and estimation uncertainties that have most significant effect on amounts recognised in these financial statements are given below.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 2 BASIS OF PREPARATION (continued)

#### c) *Use of estimates and judgements (continued)*

##### *Provision for outstanding claims*

Judgement by management is required in the estimation of amounts due to participants arising from claims made under insurance contracts. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. The Company estimates its claims based on its previous experience of its insurance portfolio. Claims requiring court or arbitration decisions, if any, are estimated individually. Management reviews its provisions for claims incurred, and claims incurred but not reported (IBNR), on a quarterly basis. Any difference between the provisions at the statement of financial position date and settlements and provisions in the following year is included in the statement of income for that year. The provision for outstanding claims, as at 31 December, is also certified by an independent actuary.

##### *Premium deficiency reserve*

Estimation of the premium deficiency reserve is highly sensitive to a number of assumptions as to the future events and conditions. It is based on an expected loss ratio for the unexpired portion of the risk for written policies. To arrive at the estimate of the expected loss ratio, the actuary considers the claims and contribution relationship which are expected to apply in future.

##### *Allowance for doubtful receivables*

A provision for impairment of contributions receivable is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor and default or delinquency in payments are considered indicators that the contributions receivable are impaired.

##### *Going concern*

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

##### *Fair values of financial instruments*

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price. Where the fair value of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values.

##### *Useful lives of furniture, fittings and office equipment*

The Company's management determines the estimated useful lives of its furniture, fittings and office equipment for calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management reviews the residual values and useful lives annually and the future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies, estimates and assumptions used in the preparation of these financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2018, except as explained below:

**a) *New IFRS, International Financial Reporting and Interpretations Committee's interpretations (IFRIC) and amendments thereof, adopted by the Company***

The following new standards, interpretations, amendments and revisions to existing standards, which were issued by the International Accounting Standards Board (IASB) have been effective from 1 January 2019, as applicable:

<u>Standard / Amendments</u>	<u>Description</u>
IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
IAS 28	Long term interests in associates and joint ventures
IAS 19	Plan amendments, curtailments or settlements
IFRS 3,11 and IAS 12, 23	Annual Improvements to IFRS 2015 - 2017 cycle.

The adoption of the relevant new and amended standards and interpretations applicable to the Company did not have any significant impact on these financial statements.

#### **IFRS 16 - Leases**

The Company adopted IFRS16 'Leases' the standard replaces the existing guidance on leases, including IAS 17 'Leases', IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases Incentives" and SIC 27 "Evaluating the Substance of Transaction in the Legal Form of a Leases".

IFRS 16 was issued in January 2016 and is effective for annual periods commencing on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and finance lessees to account for all the leases under a single on-balance sheet model similar to the accounting for finance lease under IAS 17. The standard includes two recognition exemption for lease of low value assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees are required to separately recognise the special commission expense on the lease liability and the depreciation expense on the right-of-use asset.

Presently IFRS 16 has no impact on these financial statements as the Company does not have long term leases.

**b) *Change in accounting for Zakat and income tax***

As mentioned above, the basis of presentation has been changed for the year ended 31 December 2019 because of the issuance of latest instructions from SAMA dated 23 July 2019. Previously, zakat and income tax were recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 23 July 2019, the zakat and income tax shall be recognized in the statement of income. The Company has accounted for this change in the accounting for zakat and income tax retrospectively and the effects of this change is disclosed in note [3(b)] to the financial statements. The change has resulted in reduction of reported income of the Company for the year ended 31 December 2018 by SR 4,963 thousand. The change has had no impact on the statement of changes in equity and statement of cash flows for the year ended 31 December 2018.

#### *Accounting policy – Income tax*

The income tax expense or credit for the year is the tax payable on the current year's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated based on the tax laws enacted or substantively enacted at the end of the reporting year in the countries where the company generates taxable income. Management yearly evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### b) *Change in accounting for Zakat and income tax (continued)*

Adjustments arising from the final income tax assessments are recorded in the year in which such assessments are made. The income tax expense or credit for the year is the tax payable on the current year's taxable income based on the applicable income tax rate adjusted for the changes in deferred tax assets and liabilities attributable to the temporary differences and to the unused tax losses.

#### *IFRIC Interpretation 23 Uncertainty over Income Tax Treatment*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

#### *Deferred income tax*

Deferred income tax is provided using the liability method on temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for the taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities using the tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available, and the credits can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised.

#### *Zakat*

The Company is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Zakat expense is charged to the statement of income. Zakat is not accounted for as income tax and as such no deferred tax is calculated relating to zakat.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### b) *Change in accounting for Zakat and income tax (continued)*

##### *Impact on the statement of income*

The change in the accounting treatment for zakat and income tax (as explained in (note 3(b))) has the following impact on the line items of the statements of income, statement of financial position and changes in shareholders' equity:

As at and for the year ended 31 December 2018:

Account	Financial statement impacted	As previously reported as at and for the year ended 31 December 2018	Effect of Restatement	As restated as at and for the year ended 31 December 2018
Zakat	Statement of income	-	(5,669)	(5,669)
Income tax recovery	Statement of income	-	706	706
Net income for the year attributable to the shareholders	Statement of income	10,421	(4,963)	5,458
Earnings per share for the year (expressed in SR per share)	Statement of income	0.63	(0.30)	0.33
Zakat	Statement of changes in equity	5,669	(5,669)	-
Income tax charge	Statement of changes in equity	664	(664)	-
Prior years income tax recovered from GAZT	Statement of changes in equity	(1,370)	1,370	-
Total comprehensive income for the year	Statement of comprehensive income and statement of changes in equity	10,445	(4,963)	5,482

The financial impact of adoption of accounting policy for deferred tax is not material to the financial statements, accordingly no deferred tax asset/liability is recognised.

#### c) *Standards issued but not yet effective*

The following are the standards issued but not yet effective up to the date of issuance of the Company's financial statements. The Company intends to adopt these standards when they become effective.

<u>Standard/ Interpretation</u>	<u>Description</u>	<u>Effective from periods beginning on or after the following date</u>
IFRS 9	Financial Instruments	See note below
Amendments to IFRS 3	Definition of business	1 January 2020
Amendments to IAS 1 & IAS 8	Definition of material	1 January 2020
IFRS 17	Insurance Contracts	1 January 2022

#### **IFRS 17 – Insurance Contracts**

##### *Overview*

This standard has been published in May, 2017. It establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 – Insurance contracts.



**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*c) Standards issued but not yet effective (continued)*

**IFRS 17 – Insurance Contracts (continued)**

*Overview (continued)*

The new standard applies to insurance contracts issued, to all reinsurance contracts and to investment contracts with discretionary participating features, provided the entity also issues insurance contracts. It requires to separate the following components from insurance contracts

- i. embedded derivatives, if they meet certain specified criteria;
- ii. distinct investment components; and
- iii. any promise to transfer distinct goods or non-insurance services.

These components should be accounted for separately in accordance with the related standards (IFRS 9 and IFRS 15).

*Measurement*

In contrast to the requirements in IFRS 4, which permitted insurers to continue to use the accounting policies for measurement purposes that existed prior to January 2015, IFRS 17 provides the following different measurement models:

The General model is based on the following “building blocks”:

- a) the fulfilment cash flows (FCF), which comprise:
  - probability-weighted estimates of future cash flows,
  - an adjustment to reflect the time value of money (i.e. discounting) and the financial risks associated with those future cash flows, and
  - a risk adjustment for non-financial risk
- b) the Contractual Service Margin (CSM) - The CSM represents the unearned profit for a group of insurance contracts and will be recognized as the entity provides services in the future. The CSM cannot be negative at inception; any net negative amount of the fulfilment cash flows at inception will be recorded in profit or loss immediately. At the end of each subsequent reporting period, the carrying amount of a group of insurance contracts is remeasured to be the sum of:
  - the liability for remaining coverage, which comprises the FCF related to future services and the CSM of the group at that date; and
  - the liability for incurred claims, which is measured as the FCF related to past services allocated to the group at that date.

The CSM is adjusted subsequently for changes in cash flows related to future services. Since the CSM cannot be negative, changes in future cash flows that are greater than the remaining CSM are recognized in profit or loss. The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*c) Standards issued but not yet effective (continued)*

***IFRS 17 – Insurance Contracts (continued)***

The Variable Fee Approach (VFA) is a mandatory model for measuring contracts with direct participation features (also referred to as ‘direct participating contracts’). This assessment of whether the contract meets these criteria is made at inception of the contract and not reassessed subsequently. For these contracts, in addition to the adjustment under GMM, the CSM is also adjusted for:

- i. the entity’s share of the changes in the fair value of underlying items ,
- ii. the effect of changes in the time value of money and in financial risks not relating to the underlying items.

In addition, a simplified Premium Allocation Approach (PAA) is permitted for the measurement of the liability for remaining coverage if it provides a measurement that is not materially different from the General Measurement Model for the group of contracts or if the coverage period for each contract in the group is one year or less. With the PAA, the liability for remaining coverage corresponds to premiums received at initial recognition less insurance acquisition cash flows. The General Measurement Model remains applicable for the measurement of the liability for incurred claims. However, the entity is not required to adjust future cash flows for the time value of money and the effect of financial risk if those cash flows are expected to be paid/received in one year or less from the date the claims are incurred.

*Effective date*

The IASB issued an Exposure Draft Amendments to IFRS 17 proposing certain amendments to IFRS 17 during June 2019 and received comments from various stakeholders. The IASB is currently re-deliberating issues raised by stakeholders. For any proposed amendments to IFRS 17, the IASB will follow its normal due process for standard- setting. The effective date of IFRS 17 and the deferral of the IFRS 9 temporary exemption in IFRS 4 is currently 1 January 2021. Under the current exposure draft, it is proposed to amend the IFRS 17 effective date to reporting periods beginning on or after 1 January 2021. This is a deferral of 1 year compared to the previous date of 1 January 2021. Earlier application is permitted if both IFRS 15 – Revenue from Contracts with Customers and IFRS 9 – Financial Instruments have also been applied. The Company intends to apply the Standard on its effective date.

*Transition*

Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach.

*Presentation and Disclosures*

The Company expects that the new standard will result in a change to the accounting policies for insurance contracts and reinsurance, and investment contracts with discretionary participating features, together with amendments to presentation and disclosures.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### c) Standards issued but not yet effective (continued)

#### IFRS 17 – Insurance Contracts (continued)

##### Impact

The Company is currently assessing the impact of the application and implementation of IFRS 17. As of the date of the publication of these financial statements, the financial impact of adopting the standard has yet to be fully assessed by the Company. The Company has undertaken a Gap Analysis and the key gaps and their impact are as follows:

Impact Area	Summary of Impact
Financial Impact	The Company is in the process of performing the Financial Impact Assessment exercise in order to assess the financial impact of implementing IFRS 17. The results have not yet been documented.
Data Impact	<p>The Company believes that as the methodology for measurement of life products has been changed altogether under IFRS 17, there will be moderate to significant impact on the data requirements to implement the applicable measurement models. Additional data elements will be required for the unit-linked products for calculating:</p> <ul style="list-style-type: none"><li>• Contractual Service margins (CSM)</li><li>• Future Cash Flows</li><li>• Onerous contract identification</li><li>• Risk Adjustment</li><li>• Coverage units</li><li>• Level of aggregation</li><li>• Allocation of expenses etc.</li></ul> <p>However, the Company believes that the data impact for group products is not likely to be significant as the product has been assessed to be measured under the Simplified Approach (Premium Allocation Approach-PAA). Which is more or less to the current approach adopted by the Company under IFRS 4.</p>
IT Systems Impact	The Company is in the process of finalizing its assessment of IT system requirements under the assistance of its appointed advisor. The system requirements are being documented for onboarding an IT vendor for providing Actuarial and Financial solutions for managing change required under IFRS 17.
Process Impact	The process impact is under evaluation, significant process changes are anticipated for life product with respect to actuarial valuations, accounting processes, and disclosures.
Impact on RI Arrangements	As per the initial assessment performed of reinsurance agreements held by the Company, only the reinsurance contracts held for the Group Business qualify to be measured at the Simplified Approach (Premium Allocation Approach).
Impact on Policies & Control Frameworks	The Company has hired an external consultant to modify their current policies and manage updates in the internal control framework as per IFRS 17 requirements.

The Company has started its implementation process and has set up a project team, supervised by a steering committee.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*c) Standards issued but not yet effective (continued)*

***IFRS 9 – Financial Instruments***

This standard was published on 24 July 2014 and has replaced IAS 39. The new standard addresses the following items related to financial instruments:

*Classification and measurement*

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost, at fair value through other comprehensive income or at fair value through profit or loss. A financial asset is measured at amortized cost if both:

- i. the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- ii. the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (“SPPI”).

The financial asset is measured at fair value through other comprehensive income, and realized gains or losses are recycled through profit or loss upon sale, if both conditions are met:

- i. the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and for sale; and
- ii. the contractual terms of cash flows are SPPI.

Assets not meeting either of these categories are measured at fair value through profit or loss. Additionally, at initial recognition, an entity can use the option to designate a financial asset at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

For equity instruments that are not held for trading, an entity can also make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of the instruments (including realized gains and losses), dividends being recognized in profit or loss.

Additionally, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

*Impairment*

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the IFRS 9 approach, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition.

*Hedge accounting*

IFRS 9 introduces new requirements for hedge accounting that align hedge accounting more closely with Risk Management. The requirements establish a more principles-based approach to the general hedge accounting model.

The amendments apply to all hedge accounting with the exception of portfolio fair value hedges of interest rate risk (commonly referred to as “fair value macro hedges”). For these, an entity may continue to apply the hedge accounting requirements currently in IAS 39. This exception was granted largely because the IASB is addressing macro hedge accounting as a separate project.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### c) *Standards issued but not yet effective (continued)*

##### **IFRS 9 – Financial Instruments (continued)**

###### *Effective date*

The published effective date of IFRS 9 was 1 January 2018. However, amendments to IFRS 4 – Insurance Contracts: Applying IFRS 9 – Financial Instruments with IFRS 4 – Insurance Contracts, published on 12 September 2016, changes the existing IFRS 4 to allow entities issuing insurance contracts within the scope of IFRS 4 to mitigate certain effects of applying IFRS 9 before the IASB's new insurance contract standard (IFRS 17 – Insurance Contracts) becomes effective. The amendments introduce two alternative options:

1. apply a temporary exemption from implementing IFRS 9 until the earlier of
  - a. the effective date of a new insurance contract standard; or
  - b. annual reporting periods beginning on or after 1 January 2021 (The IASB is proposing to extend the effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4 to 1 January 2022). Additional disclosures related to financial assets are required during the deferral period. This option is only available to entities whose activities are predominately connected with insurance and have not applied IFRS 9 previously; or
2. adopt IFRS 9 but, for designated financial assets, remove from profit or loss the effects of some of the accounting mismatches that may occur before the new insurance contract standard is implemented. During the interim period, additional disclosures are required.

The Company has performed a detailed assessment beginning of 1 January 2017

1. The carrying amount of the Company's liabilities arising from contracts within the scope of IFRS 4 (including deposit components or embedded derivatives unbundled from insurance contracts) were compared to the total carrying amount of all its liabilities; and
2. the total carrying amount of the company's liabilities connected with insurance were compared to the total carrying amount of all its liabilities. Based on these assessments the Company determined that it is eligible for the temporary exemption. Consequently, the Company has decided to defer the implementation of IFRS 9 until the effective date of the new insurance contracts standard. Disclosures related to financial assets required during the deferral period are included in the Company's financial statements.

##### **Impact assessment**

As at 31 December, 2019, the Company has total financial assets and insurance related assets amounting to SR 54 million (2018: 112 million) and SR 23 million (2018: 44 million), respectively. Currently, financial assets held at amortized cost consist of cash and cash equivalents and certain other receivables amounting to SR 54 million (2018: SR 112million). Fair value of unit linked investments held at fair value through statement of income as at 31 December 2019 is SR 672 million (2018: SR 647 million). Other financial assets consist of available for sale investments amounting to SR 317 million (2018: SR 287 million). The Company expect to use the FVOCI classification of these financial assets based on the business model of the Company for debt securities and strategic nature of equity investments. However, the Company is yet to perform a detailed assessment to determine whether the debt securities meet the SPPI test as required by IFRS 9. Investment in funds classified under available for sale investments will be at FVIS under IFRS 9. Credit risk exposure, concentration of credit risk and credit quality of the company's receivables portfolio are mentioned in note 5.

The Company financial assets have low credit risk as at 31 December 2019 and 2018. The above is based on high- level impact assessment of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects some effect of applying the impairment requirements of IFRS 9: However, the impact of the same is not expected to be significant. At present it is not possible to provide reasonable estimate of the effects of application of this new standard as the Company is yet to perform a detailed review.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) *The significant accounting policies used in the preparation of these financial statements are set out below:*

#### ***Cash and cash equivalents***

Cash and cash equivalents comprise cash in hand and balances with banks.

#### ***Contributions receivable***

Contributions receivable are recognised when due and measured on initial recognition at the fair value of the considerations received or receivable. The carrying value of contributions receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Any impairment loss is recorded in the statement of income. Contributions receivables are derecognised when the de recognition criteria for financial assets have been met.

#### ***Financial instruments – recognition and measurement***

Financial assets consist of cash and cash equivalents, contributions receivable, reinsurance receivables, statutory deposit, unit linked investments, FVIS and AFS investments, due from Insurance Operations and other receivables. Financial liabilities consist of outstanding claims, reinsurance balances payable, amounts due to related parties, due to Shareholders' Operations and certain other liabilities.

#### ***Date of recognition***

Regular way sale and purchases of financial instruments are recognised on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. Regular way purchases or sales are purchases or sales of financial instruments that require settlement of the instrument within the time frame generally established by regulation or convention in the market place.

#### ***Recognition and measurement of financial instruments***

Financial instruments are recognized in the Company's financial statements when the Company becomes a party to the contractual provisions of the instrument. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through income statement, any directly attributable incremental costs of acquisition or issue. The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. Subsequent to initial measurement, financial instruments are carried at amortised cost except for unit linked investments, AFS investments and FVIS investments, which are carried at fair value.

#### ***De-recognition***

##### ***Financial assets***

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognised when:

- The rights to receive cash flows from the asset have expired.
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

##### ***Financial liabilities***

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires.



**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****d) *The significant accounting policies used in the preparation of these financial statements are set out below (continued):******Unit-linked investments***

Unit-linked investments held to cover unit-linked liabilities represent assets associated with certain contracts, for which the investment risk lies predominantly with the contract holder. These represent investments in short-term Murabaha funds, which are readily marketable, and are initially recognised at cost and subsequently remeasured at fair value. Unrealised gain on these investments is transferred to investment contract liabilities. The fair value is determined by reference to the net asset value quoted by the Fund Manager. Where partial holdings are sold, the cost of investments is calculated on a weighted average basis.

***Fair Value through Income Statement (FVIS) investments***

The FVIS investments represent investments in a discretionary portfolio by shareholder operations and investment by Insurance Operations in a mutual fund. FVIS Investments are marked-to-market using the fund's net asset value (NAV). The resultant realised and unrealised gains and losses are recognised in the statement of income accordingly. Where partial holdings are sold, the cost of investments is calculated on a weighted average basis.

***Available-for-sale investments***

Investments which are classified as "available-for-sale" are subsequently measured at fair value. Available-for-sale investments are those investments that are not held to maturity nor held for trading. For an available-for-sale investment, any unrealised gain or loss arising from a change in its fair value is recognised directly under shareholders' comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss previously recognised under the statement of comprehensive income is included in the statement of changes in equity for the year. Available-for-sale investments whose fair value cannot be reliably measured are carried at cost less impairment provision.

***Impairment of financial assets***

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, any impairment loss is recognised in the statement of income. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of income or the statement of changes in equity.
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
- (c) For assets carried at amortized cost, impairment is the difference between the carrying amount and the present value of future cash flows discounted at the original effective commission rate.

***Fair values***

The fair value of financial assets that are actively traded in organised financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the financial reporting date. If quoted market prices are not available, reference is made to broker or dealer price quotations.

For financial assets where there is not an active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same and/or discounted cash flow analysis. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for similar assets.

***Prepayments***

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to statement income as they are consumed or expire with the passage of time.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) *The significant accounting policies used in the preparation of these financial statements are set out below (continued):*

#### ***Furniture, fittings and office equipment***

Furniture, fittings and office equipment is measured at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight line basis over the estimated useful lives of the assets. Work in progress is not depreciated and is carried at cost. The estimated useful lives of the assets for calculation of depreciation are as follows:

	<u>Years</u>
• Furniture and fittings	5 to 10
• Computer and office equipment	4

Residual values, useful lives and the method of the depreciation are reviewed and adjusted if appropriate at each financial year end. Impairment reviews take place when events or changes in circumstances indicate that the carrying value may not be recoverable. The depreciation charge for the year is recognised in the statement of income. Similarly, impairment losses, if any, are recognised in the statement of income.

Expenditure for repairs and maintenance is charged to the statement of income. Improvements are capitalised only when it's probable that future economic benefits associated with the expenditure will flow to the Company.

#### ***Intangible assets***

Intangible assets, including software's that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortization is recognized in statement of income on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives of computer software is 4 years.

#### ***Impairment of non-financial assets***

The Company assesses at each reporting date whether there is any indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Company bases its impairment calculations on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of income and statement of changes in equity in expense categories consistent with the function of the impaired asset.

For assets, an assessment is made at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*d) The significant accounting policies used in the preparation of these financial statements are set out below (continued):*

***Impairment of non-financial assets (continued)***

Such reversal is recognised in the statement of income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

***Accruals and other liabilities***

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

***Provisions***

Provisions are recognised 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 embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

***Foreign currencies***

The accounting records of the Company are maintained in Saudi Arabian Riyals. Transactions in foreign currencies are recorded at the exchange rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the statement of income. As the Company's foreign currency transactions are primarily in US dollars, to which the Saudi Arabian Riyal is pegged, foreign exchange gains and losses are not significant and have not been disclosed separately.

***Product classification***

The Company issues life insurance contracts which are linked to investment contracts. Where contracts contain both an investment component and an insurance component and the cash flows from the two components are distinct, the underlying amounts are unbundled. Contributions relating to the insurance component are accounted for through the statement of income and the remaining element is accounted through the Insurance Operations' statement of financial position.

***Insurance contracts***

Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by assessing whether an insured event could cause the Company to pay significant additional benefits. The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of term of the policies, even if the insurance risk reduced significantly during this period.

Contributions, in respect of insurance contracts, are recognized as revenue over the contribution paying period of the related policies.

***Investment contracts***

Any contracts with customers not considered insurance contracts under International Financial Reporting Standards are classified as investment contracts. Amounts collected under investment contracts are accounted for through the statement of income, and the investible portion of the contributions collected is shown as a deduction from the gross contributions for the year from Insurance Operations and transferred to investment contract liabilities (unit-linked contracts).

***Technical reserve for Insurance Operations***

The provision for investment contract liabilities is calculated on the basis of an actuarial valuation method through the use of current unit fund prices.

The actuarial valuation includes a provision for participation which is the amount the Company expects to pay investment contract holders.

The Technical reserve is determined by an actuarial valuation of future policy claims. Actuarial assumptions include a margin for adverse deviation and generally take account of the type of policy, year of issue and policy duration. Mortality and withdrawal rate assumptions are based on experience.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*d) The significant accounting policies used in the preparation of these financial statements are set out below (continued):*

#### **Reinsurance**

The Company has modified quota-share reinsurance arrangements with independent reinsurance companies. The Company only deals with reinsurers approved by the management, which are rated at least BBB or above by international rating agencies.

A liability or asset is recorded in the Insurance Operations' statement of financial position representing contributions due to or payments due from the Reinsurer. Amounts receivable from the Reinsurer are estimated in a manner consistent with the claim liability associated with the insured parties. Receivable arising from reinsurance contracts are reviewed for impairment as part of the impairment review of receivables.

#### **Liability adequacy test**

At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the insurance contracts liabilities. In performing these tests, management uses current best estimates of future contractual cash flows and claims handling and administration expenses. Any deficiency in the carrying amounts is immediately charged to the statement of income by establishing a provision for losses arising from liability adequacy tests (the un-expired risk provision).

Where the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

#### **Claims**

Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, are charged to the statement of income as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Company and those not reported at the statement of financial position date.

The Company generally estimates its claims based on actuarial inputs. This includes a provision based on management's judgement and the cost of settling claims incurred but not reported at the statement of financial position date. The ultimate liability may be in excess of, or less than, the amount provided.

The Company does not discount its liability for unpaid claims.

#### **Acquisition fees**

Acquisition fees are paid to the distributing shareholder and are charged to expense as and when they are due, as per the terms of the contract.

#### **Entrance and administration fees**

Entrance and administration fees payable to the technical and distributing shareholders, by the Company, which are costs directly incurred in securing contributions on insurance certificates, are recognised as incurred and charged to expense as and when they are due, as per the terms of the contract.

#### **Commissions**

Commissions are paid to AlAhli Insurance Marketing Services Company Limited, sales staff, call centre staff, and are charged to expense as and when they are due.

#### **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 realize the assets and settle the liabilities simultaneously. Income and expenses are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

- d) *The significant accounting policies used in the preparation of these financial statements are set out below (continued):*

***Segment reporting***

A segment is a distinguishable component of the Company's portfolio that is engaged in providing products or services (a business segment), which is subject to risks and rewards that are different from those of other segments and whose operating results are reviewed regularly by the chief operating decision maker to allocate resources to each segment and assess their performance.

***Leases***

The determination of whether an arrangement is, or contains, a lease is decided at the inception date. An arrangement is, or contains, a lease if it grants the right to control a particular asset or assets for a period of time in exchange for compensation.

Company as a lessee

***A- Right-of-use assets***

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The recognised right-of-use assets are depreciated on a straight-line basis over its estimated useful life.

***B- Lease liabilities***

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

***C- Short-term leases and leases of low-value assets***

Short-term leases are leases with a lease term of 12 months or less. Low value assets are items that do not meet the Company's capitalisation threshold and are considered to be insignificant for the statement of financial position for the Company as a whole. Payments for short-term leases and leases of low value assets are recognised on a straight-line basis in the statement of profit or loss.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 4 CASH AND CASH EQUIVALENTS

	<i>Insurance operations SR'000</i>	<i>Shareholders' operations SR'000</i>	<i>Total SR'000</i>
<b>2019</b>			
Cash in hand	<b>16</b>	-	<b>16</b>
Cash at bank (see note 4.1)	<b>19,590</b>	<b>13</b>	<b>19,603</b>
<b>Total</b>	<b>19,606</b>	<b>13</b>	<b>19,619</b>
<b>2018</b>			
Cash in hand	12	-	12
Cash at bank (see note 4.1)	16,442	2,417	18,859
<b>Total</b>	<b>16,454</b>	<b>2,417</b>	<b>18,871</b>

4.1 Cash at bank is held in bank accounts maintained with a shareholder (National Commercial Bank).

### 5 CONTRIBUTIONS AND REINSURANCE RECEIVABLES, NET

	<i>2019 SR'000</i>	<i>2018 SR'000</i>
Policyholders - net	<b>3,995</b>	5,489
Related parties - net (see note 23)	<b>8,562</b>	66,932
Receivable from reinsurers – net	<b>2,012</b>	1,652
	<b>14,569</b>	74,073



## At 31 December 2019

5.1 The movement in allowance for doubtful receivables during the year is as follows:

The age analysis of contributions and reinsurance receivables is as follows:

## 6 UNEARNED CONTRIBUTIONS

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32

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 7 UNIT-LINKED INVESTMENTS

#### *Insurance Operations*

Unit-linked investments comprise units of fund of funds, denominated in United States Dollars, which are managed by a subsidiary of the Company's major shareholder and are based in the Kingdom of Saudi Arabia.

	<i>2019</i> <i>SR'000</i>	<i>2018</i> <i>SR'000</i>
<i>Investments held to cover unit-linked liabilities:</i>		
AlAhli Multi-Asset Conservative Fund	<b>352,737</b>	356,326
AlAhli Multi-Asset Moderate Fund	<b>178,642</b>	165,177
AlAhli Multi-Asset Growth Fund	<b>140,295</b>	125,572
	<b>671,674</b>	647,075

The movement in unit-linked investments during the year is as follows:

	<i>2019</i> <i>SR'000</i>	<i>2018</i> <i>SR'000</i>
Balance at the beginning of the year	<b>647,075</b>	694,409
Redemption during the year, net	<b>(59,000)</b>	(43,000)
Unrealised gains/(loss) during the year (note 13b)	<b>83,599</b>	(4,334)
<b>Balance at the end of the year</b>	<b>671,674</b>	647,075

### 8 INVESTMENTS

	<i>2019</i>			<i>2018</i>		
	<i>Insurance operations</i> <i>SR'000</i> (note 8.1)	<i>Shareholders' operations</i> <i>SR'000</i> (note 8.2)	<i>Total</i> <i>SR'000</i>	<i>Insurance operations</i> <i>SR'000</i> (note 8.1)	<i>Shareholders' operations</i> <i>SR'000</i> (note 8.2)	<i>Total</i> <i>SR'000</i>
FVIS investments	<b>71,050</b>	<b>245,478</b>	<b>316,528</b>	47,805	238,808	286,613

#### *8.1 Insurance Operations – FVIS Investments*

Investments of Insurance Operations represent investments in AlAhli Diversified Saudi Riyal Trade Fund (a quoted income fund), managed by a subsidiary of the Company's major shareholder and is based in the Kingdom of Saudi Arabia. This investment is designated as a FVIS investment upon initial recognition because it is managed on a fair value basis and its performance is actively monitored.

	<i>2019</i> <i>SR'000</i>	<i>2018</i> <i>SR'000</i>
AlAhli Diversified Saudi Riyal Trade Fund	<b>71,050</b>	47,805

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 8 INVESTMENTS (continued)

#### 8.1 Insurance Operations – FVIS Investments (continued)

The movement in the FVIS investments during the year ended 31 December 2019 and 31 December 2018 is as follows:

	2019 SR'000	2018 SR'000
Balance at the beginning of the year	47,805	76,942
Purchases	15,000	-
Redemption	-	(40,000)
Transferred from FVIS Shareholders' Operations	6,889	9,667
Unrealised gains	1,356	1,196
Balance at the end of the year	71,050	47,805

#### 8.2 Shareholders' Operations – FVIS Investments

	2019 SR'000	2018 SR'000
AlAhli Takaful Discretionary Portfolio (note a)	230,820	219,877
Investment in a real estate fund	7,025	6,832
AlAhli Diversified Saudi Riyal Trade Fund	7,633	12,099
	245,478	238,808

AlAhli Takaful discretionary portfolio is managed by a subsidiary of the Company's major shareholder. The discretionary portfolio is invested in securities issued by financial institutions, government entities, and mutual funds which are denominated in Saudi Arabian Riyals and US Dollars.

	2019 SR'000	2018 SR'000
Balance at the beginning of the year	238,808	244,128
Purchases	2,200	-
Transferred to FVIS Insurance Operations	(6,889)	(9,667)
Unrealised gains	11,359	4,347
Balance at the end of the year	245,478	238,808

a) AlAhli Takaful Discretionary Portfolio consists of:

	2019 SR'000	2018 SR'000
Mutual funds	57,400	56,010
Murabaha deposits	84,816	55,519
Equity investments	5,630	7,340
Investment in sukuk	82,974	101,008
	230,820	219,877

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 9 PREPAYMENTS AND OTHER ASSETS

	2019			2018		
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
Prepaid rent	56	-	56	65	-	65
Advances to suppliers	620	324	944	480	317	797
Receivable from employees	795	-	795	365	-	365
Deposits against bank guarantee	-	3,997	3,997	-	3,997	3,997
Recoverable from GAZT	-	269	269	-	269	269
	<b>1,471</b>	<b>4,590</b>	<b>6,061</b>	<b>910</b>	<b>4,583</b>	<b>5,493</b>

### 10 FURNITURE, FITTINGS AND OFFICE EQUIPMENT

	<i>Furniture and fittings</i>	<i>Computer and office equipment</i>	<i>Work in Progress</i>	<i>Total 2019</i>	<i>Total 2018</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
<b>Cost:</b>					
At the beginning of the year	2,101	7,923	-	10,024	9,483
Additions	534	669	610	1,813	541
<b>As at 31 December</b>	<b>2,635</b>	<b>8,592</b>	<b>610</b>	<b>11,837</b>	<b>10,024</b>
<b>Accumulated depreciation:</b>					
At the beginning of the year	1,614	6,698	-	8,312	7,483
Charge for the year	75	747	-	822	829
<b>As at 31 December</b>	<b>1,689</b>	<b>7,445</b>	<b>-</b>	<b>9,134</b>	<b>8,312</b>
<b>Net book value</b>					
<b>As at 31 December 2019</b>	<b>946</b>	<b>1,147</b>	<b>610</b>	<b>2,703</b>	
As at 31 December 2018	487	1,225	-		1,712

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 11 INTANGIBLE ASSET

	<i>2019</i> <i>SR'000</i>	<i>2018</i> <i>SR'000</i>
<b>Cost:</b>		
At the beginning of the year	<b>9,282</b>	8,989
Additions	<b>332</b>	293
<b>As at 31 December</b>	<b>9,614</b>	9,282
<b>Accumulated amortization:</b>		
At the beginning of the year	<b>6,935</b>	5,180
Charge for the year	<b>1,827</b>	1,755
<b>As at 31 December</b>	<b>8,762</b>	6,935
<b>Net book value:</b>		
<b>As at 31 December</b>	<b>852</b>	2,347

Intangible asset comprises of computer software.

### 12 STATUTORY DEPOSIT

As required by Saudi Arabian Insurance Laws and Regulations, the Company deposited 10% of its paid up capital, amounting to SR 16.67 million in a bank designated by the SAMA. The Company cannot withdraw this deposit without SAMA's approval. This deposit is held with a founding shareholder.

### 13 TECHNICAL RESERVES FOR INSURANCE OPERATIONS

- a) A technical reserve for Insurance Operations is created, as per the report received from the Actuary, as detailed below:

	<i>2019</i> <i>SR'000</i>	<i>2018</i> <i>SR'000</i>
Technical reserve relating to the Participant Investment Strategies (unit-linked liability)	<b>683,274</b>	650,843
Allowance for the retained risk	<b>1,272</b>	3,382
	<b>684,546</b>	654,225

- b) Movement in technical reserve for insurance operations is as follows:

	<i>2019</i> <i>SR'000</i>	<i>2018</i> <i>SR'000</i>
Balance as at the beginning of the year	<b>654,225</b>	710,625
Change in allowance for the retained risk	<b>(2,110)</b>	(3,907)
Unrealised gain/(loss) on unit-linked investments (note 7)	<b>83,599</b>	(4,334)
Investible contributions	<b>149,627</b>	161,430
Surrenders and maturities	<b>(200,795)</b>	(209,589)
<b>Balance as at the end of the year</b>	<b>684,546</b>	654,225

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 14 OUTSTANDING CLAIMS INCLUDING IBNR

	2019			2018		
	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>
	<i>SR'000</i>	<i>share</i>	<i>SR'000</i>	<i>SR'000</i>	<i>share</i>	<i>SR'000</i>
		<i>SR'000</i>	<i>SR'000</i>		<i>SR'000</i>	<i>SR'000</i>
At 1 January						
Reported claims	<b>66,875</b>	<b>(40,690)</b>	<b>26,185</b>	23,700	(21,094)	2,606
IBNR	<b>7,197</b>	-	<b>7,197</b>	6,268	-	6,268
	<b>74,072</b>	<b>(40,690)</b>	<b>33,382</b>	29,968	(21,094)	8,874
Incurred during the year	<b>67,918</b>	<b>(49,196)</b>	<b>18,722</b>	161,350	(125,694)	35,656
(Paid)/recovered during the year	<b>(93,766)</b>	<b>68,798</b>	<b>(24,968)</b>	(117,246)	91,213	(26,033)
Adjustment: Provision against outstanding claims receivable from a reinsurer (note 'a')	-	-	-	-	14,885	14,885
At 31 December	<b>48,224</b>	<b>(21,088)</b>	<b>27,136</b>	74,072	(40,690)	33,382
Reported claims	<b>43,171</b>	<b>(21,088)</b>	<b>22,083</b>	66,875	(55,575)	11,300
IBNR	<b>5,053</b>	-	<b>5,053</b>	7,197	-	7,197
Adjustment: Provision against outstanding claims receivable from a reinsurer (note 'a')	-	-	-	-	14,885	14,885
At 31 December	<b>48,224</b>	<b>(21,088)</b>	<b>27,136</b>	74,072	(40,690)	33,382

a) Provision for losses related to the provisional notice of cancellation for reinsurance agreement by the reinsurer.

### 15 CLAIMS DEVELOPMENT TABLE

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 result 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 claim is less mature and there is much greater uncertainty attached to the ultimate cost of claims.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 15 CLAIMS DEVELOPMENT TABLE (continued)

Claims triangulation analysis by accident year spanning a number of financial years is as follows:

Gross Accident year	2015	2016	2017	2018	2019	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
At end of accident year	112,547	61,860	89,559	112,987	<b>44,032</b>	
One year later	175,669	90,849	111,139	145,835	-	
Two years later	180,319	90,998	115,831	-	-	
Three years later	182,642	91,302	-	-	-	
Four years later	185,457	-	-	-	-	
Current estimate of cumulative claims incurred	185,457	91,302	115,831	145,835	<b>44,032</b>	<b>582,457</b>
Cumulative payments to date	(179,657)	(90,583)	(110,583)	(127,765)	<b>(30,698)</b>	<b>(539,286)</b>
Total reported claims	<u>5,800</u>	<u>719</u>	<u>5,248</u>	<u>18,070</u>	<u><b>13,334</b></u>	<u><b>43,171</b></u>
IBNR						<u><b>5,053</b></u>
Total outstanding claims (note 14)						<u><u><b>48,224</b></u></u>
Net Accident year	2015	2016	2017	2018	2019	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
At end of accident year	17,326	9,774	8,606	24,804	<b>9,088</b>	
One year later	25,915	14,246	10,811	39,591	-	
Two years later	26,702	14,280	14,667	-	-	
Three years later	26,931	14,310	-	-	-	
Four years later	27,165	-	-	-	-	
Current estimate of cumulative claims incurred	27,165	14,310	14,667	39,591	<b>9,088</b>	<b>104,821</b>
Cumulative payments to date	(26,529)	(14,201)	(10,614)	(25,163)	<b>(6,231)</b>	<b>(82,738)</b>
Total reported claims	<u>636</u>	<u>109</u>	<u>4,053</u>	<u>14,428</u>	<u><b>2,857</b></u>	<u><b>22,083</b></u>
IBNR						<u><b>5,053</b></u>
Total outstanding claims (note 14)						<u><u><b>27,136</b></u></u>

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 16 ACCRUED EXPENSES AND OTHER LIABILITIES

	2019			2018		
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
Accrued expenses and other payable (*)	3,573	2,860	6,433	12,966	3,894	16,860
Underwriting expenses	8,088	-	8,088	13,080	-	13,080
Policies surrendered	1,272	-	1,272	2,315	-	2,315
Advance contribution	4,183	-	4,183	3,469	-	3,469
Total	17,116	2,860	19,976	31,830	3,894	35,724

(\*) Accrued expenses and other liabilities for shareholders' operations include remuneration and other expenses payable to the Board and other committee members which amounted to SR 1,140 thousand (2018: SR 3,143 thousand) (note 23).

### 17 END OF SERVICE INDEMNITIES

Accruals are made in accordance with the actuarial valuation under the projected unit credit method while the benefit payments obligation is discharged as and when it falls due.

#### 17.1 The amounts recognized in the statement of financial position and movement in the obligation during the year based on its present value are as follows:

	2019 SR'000	2018 SR'000
Present value of defined benefit obligation	2,460	1,809

#### 17.2 Movement of defined benefit obligation

	2019 SR'000	2019 SR'000
Opening balance	1,809	1,758
Charge to statement of income	645	503
Charge to statement of other comprehensive income	312	(24)
Benefits paid during the year	(306)	(428)
Closing balance	2,460	1,809

#### 17.3 Reconciliation of present value of defined benefit obligation

	2019 SR'000	2018 SR'000
Balance at beginning of the year	1,809	1,758
Current service costs	573	433
Financial costs	72	70
Actuarial loss from experience adjustments	312	(24)
Benefits paid during the year	(306)	(428)
	2,460	1,809

#### 17.4 Principal actuarial assumptions

The following range of significant actuarial assumptions was used by the Company for the valuation of defined benefit obligation liability:

	2019	2018
Valuation discount rate	3.45%	4.00%
Expected rate of increase in salary level across different age bands	5.00%	5.00%



# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 17 END OF SERVICE INDEMNITIES (continued)

The impact of changes in sensitivities on present value of defined benefit obligation is as follows:

	<b>2019</b>	<b>2018</b>
	<b>SR'000</b>	<b>SR'000</b>
Valuation discount rate		
- Increase by 1%	<b>210</b>	153
- Decrease by 1%	<b>246</b>	180
Expected rate of increase in salary level across different age bands		
- Increase by 1%	<b>227</b>	176
- Decrease by 1%	<b>199</b>	154
Employee turnover		
- Increase by 10%	<b>65</b>	20
- Decrease by 10%	<b>72</b>	22

The average duration of the defined benefit plan obligation at the end of the reporting period is 13.10 years.

Expected cash flows over the next years valued on undiscounted basis are as following:

	<b>2019</b>	<b>2018</b>
	<b>SR'000</b>	<b>SR'000</b>
1 year	<b>177</b>	166
2 to 5 years	<b>365</b>	448
6 to 10 years	<b>1,099</b>	769
More than 10 years	<b>2,988</b>	1,362

### 18 ZAKAT AND INCOME TAX

The Zakat and income tax payable by the Company has been calculated based on the best estimates of the management.

The movement in Zakat and income tax payable for the year ended 31 December 2019 and 31 December 2018 is as follows:

	<b>Zakat</b>	<b>Tax</b>	<b>2019</b>	<b>2018</b>
	<b>2019</b>	<b>2019</b>	<b>SR'000</b>	<b>SR'000</b>
	<b>SR'000</b>	<b>SR'000</b>		<b>Restated</b>
Balance at the beginning of the year	<b>23,585</b>	<b>275</b>	<b>23,860</b>	22,422
Charge for the year	<b>6,143</b>	<b>265</b>	<b>6,408</b>	4,963
Zakat and income tax paid	<b>(526)</b>	<b>(488)</b>	<b>(1,014)</b>	(3,525)
Balance at the end of the year	<b>29,202</b>	<b>52</b>	<b>29,254</b>	23,860

#### Status of assessments

Zakat and income tax returns have been submitted to the General Authority of Zakat and Tax (GAZT) for the period ended 31 December 2007 and for the years ended 31 December 2008 through 2017.

The GAZT raised an assessment for the period ended 31 December 2007 and for the years ended 31 December 2008 and 2009 demanding additional Zakat and withholding tax liability of SR 3,997 thousand. The Company filed an appeal against additional Zakat liability of SR 3,921 thousand and paid additional withholding tax of SR 76 thousand and a delay penalty of SR 26 thousand under protest. The Preliminary Appeal Committee [PAC] issued their decision upholding GAZT's treatment. The Company has filed an appeal against the PAC decision with the Higher Appeal Committee [HAC] and submitted a bank guarantee for the amount under dispute. The HAC rendered its decision in favour of the Company on certain items. The Company has filed an appeal against the HAC decision with the Board of Grievances [BOG]. The BOG has issued their decision by accepting some items in the favour of the Company. Based on the decision GAZT has issued revised assessment for the said years, which shown additional Zakat liability of SR 3,278 thousand. The Company has provided in previous years sufficient provision against the liabilities occurred from this assessment.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 18 ZAKAT AND INCOME TAX (continued)

#### Status of assessments (continued)

The GAZT has issued assessments for the years 2010 through 2012, demanding additional Zakat liability of SR 3,680 thousand and withholding tax liability of SR 1,189 thousand. The Company filed an appeal with GAZT against these assessments and the management is confident of a favourable outcome. However, the Company settled zakat for years 2010 to 2012 of SR 3,052 thousand while objecting on certain items. The GAZT has issued only revised assessments for the years 2010 through 2012 which claiming additional Zakat liability of SR 400 thousand. The Company's objection for Zakat and tax was transferred to the related Committee to assign a hearing session for discussion. With respect to WHT, the Dispute Resolution committee accepted the Company's WHT approach. Accordingly, the Company reached to final settlement of SR 700 thousand, which has been settled by the Company. Moreover, the same committee accepted the deduction of the statutory deposit and consequently no Zakat liability is due on the Company and its Zakat and tax status for the years 2010 to 2012 are considered finalized.

The GAZT has issued initial assessments for the years 2013 through 2014, demanding additional Zakat liability of SR 2,585 thousand and SR 2,622 thousand, respectively. The Company filed an appeal with GAZT against these assessments and the management is confident of a favourable outcome. In line of the Dispute Resolution committee treatment of WHT for the years 2010 to 2012, the GAZT agreed to apply the new WHT approach for the years 2013 through 2017. The Company settled SR 10.8 million for the years 2013 through 2017 and finalized its WHT status for the said years.

The GAZT has not yet raised any assessment for 2015, 2016 and 2017.

The GAZT raised an assessment for the year ended 31 December 2018 demanding additional Zakat liability of SR 5,543 thousand. For which the company has settled the amount of SR 5,098 subsequent to the year end.

### 19 SHARE CAPITAL

The authorized, issued and paid up share capital of the Company is SR 166.7 million consisting of 16.67 million shares (2018: 16.67 million) of SR 10 each and subscribed by the following:

	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>% holding</b>		<b>SR'000</b>	<b>SR'000</b>
Founding Shareholders	<b>39.54</b>	46.22	<b>65,900</b>	77,022
General public	<b>60.46</b>	53.78	<b>100,767</b>	89,645
	<b>100</b>	100	<b>166,667</b>	166,667

### 20 STATUTORY RESERVE

As required by Saudi Arabian Insurance Laws and Regulations, 20% of the net shareholders' income shall be set aside as a statutory reserve until this reserve amounts to 100% of paid capital.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 21 GENERAL AND ADMINISTRATIVE EXPENSES

	2019			2018		
	Insurance operations SR'000	Shareholders' operations SR'000	Total SR'000	Insurance operations SR'000	Shareholders' operations SR'000	Total SR'000
Staff costs	15,853	-	15,853	12,005	-	12,005
Repair and maintenance	502	-	502	463	-	463
Utilities, postage and telecommunications	251	-	251	221	-	221
Rent	931	-	931	714	-	714
Legal and professional fees	20	4,455	4,475	210	2,455	2,665
Information Technology expenses	2,959	-	2,959	4,472	-	4,472
Depreciation (note 10)	822	-	822	829	-	829
Amortization (note 11)	1,827	-	1,827	1,755	-	1,755
Other expenses	1,704	502	2,206	1,407	594	2,001
Regulatory fee	-	426	426	-	326	326
Board and committees remuneration (note 23)	-	2,184	2,184	-	1,917	1,917
Board and committees attendance fees (note 23)	-	515	515	-	560	560
Board and committees' expenses (note 23)	-	139	139	-	-	-
<b>Total</b>	<b>24,869</b>	<b>8,221</b>	<b>33,090</b>	<b>22,076</b>	<b>5,852</b>	<b>27,928</b>

- a) Board and committees remuneration is paid in accordance with by-laws of the Company.  
b) Board and committees attendance fee represents allowances for attending board meetings and committee meetings.  
c) Board and committees expenses include fee for accommodation, travel and other related expenses.

### 22 OTHER INCOME

	2019 SR'000	2018 SR'000
Surplus from reinsurance	1,448	2,039
Provisions no longer required	1,411	5,821
	<b>2,859</b>	<b>7,860</b>

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 23 TRANSACTIONS WITH RELATED PARTIES

Related parties represent major shareholders, directors and key management personnel of the Company and entities controlled, jointly controlled or significantly influenced by such parties. All transactions with such related parties are conducted on normal terms and conditions, which are approved by management.

Following are the details of related party transactions during the years ended 31 December 2019 and 2018:

Name	Relationship	Nature of transactions	Amount of transactions	
			2019 SR'000	2018 SR'000
National Commercial Bank	Shareholder	Gross Group Insurance contributions	53,255	137,150
		Gross claims paid	87,582	106,137
AlAhli Insurance Marketing Services Company Limited	Subsidiary of a shareholder	Agency commission and others	-	432
FWU	Shareholder	Administration fee	1,586	1,888
NCB Capital	Subsidiary of a shareholder	Investment fund fee	5,062	5,096
Key management personnel		Short-term benefits	3,746	3,662
		End of service benefits	253	145

#### a. Receivable from/(payable) to related parties

	2019 SR'000	2018 SR'000
Receivable from National Commercial Bank - a shareholder, net (note 5)	8,562	66,932
Accrued investment fund fee receivable from subsidiary of a shareholder	702	429
Payable to FWU – a shareholder	(121)	(143)
Payable to AlAhli Insurance Marketing Services Company Limited - subsidiary of a shareholder	(358)	(2,206)
	(479)	(2,349)
Outstanding claims payable to National Commercial Bank - a shareholder – gross	(37,975)	(60,891)

#### b. Board of directors' remuneration and related expenses

Following are the details of Board of Directors' and members of other committees' remuneration and related expenses during the years ended 31 December 2019 and 31 December 2018:

	Amount of transactions	
	2019 SR'000	2018 SR'000
Board and other committees' remuneration (note 21)	2,184	1,917
Board and other committees' attendance fees (note 21)	515	560
Board accommodation and travel (note 21)	139	-

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 23 TRANSACTIONS WITH RELATED PARTIES (continued)

#### b. Board of directors' remuneration and related expenses (continued)

In addition to the disclosures set out in notes 4, 5, 7, 8 and 12 relating to related parties, amount due from and due to related parties as shown in the Statement of Financial Position, further payable to related parties are as following:

	<b>2019</b> <b>SR'000</b>	<b>2018</b> <b>SR'000</b>
Remuneration and other expenses payable to Board and other committees (note 16)	<b>(1,140)</b>	<b>(3,143)</b>

### 24 OPERATING SEGMENT INFORMATION

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 who makes strategic decisions. For management purposes, the activities of Insurance Operations, which are all in the Kingdom of Saudi Arabia, are reported under two business units, as detailed below:

- Insurance – individual segment offers life insurance products on an individual basis including unit linked investment oriented products.
- Insurance – group life segment offers life protection programmes to the members of organizations on a group basis and credit's protection benefits in respect of personal loan given by financing organisation. This segment also include protection benefits in respect of various credit facilities other than personal loans extended by the financing organisations to its customers.

The unallocated assets and liabilities are not reported to the chief operating decision maker under related segments and are monitored on a centralised basis.

Shareholders' operations are separated from operating segments and disclosed for presentation purposes only in a separate column.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 24 OPERATING SEGMENT INFORMATION (continued)

	<i>As at 31 December 2019</i>				
	<i>Insurance - individual SR'000</i>	<i>Insurance - group SR'000</i>	<i>Total - Insurance operations SR'000</i>	<i>Shareholders' operations SR'000</i>	<i>Total SR'000</i>
<b>ASSETS</b>					
Cash and cash equivalents	17,086	2,520	19,606	13	19,619
Contributions and reinsurance receivables – net	-	14,569	14,569	-	14,569
Reinsurance share of unearned contributions	-	2,107	2,107	-	2,107
Reinsurance share of outstanding claims	1,370	19,718	21,088	-	21,088
Unit-linked investments	671,674	-	671,674	-	671,674
Investments	36,258	34,792	71,050	245,478	316,528
Accrued income	702	-	702	-	702
	<u>727,090</u>	<u>73,706</u>	<u>800,796</u>	<u>245,491</u>	<u>1,046,287</u>
<b>Unallocated amounts:</b>					
- Prepayments and other assets			1,471	4,590	6,061
- Furniture, fittings and office equipment			2,703	-	2,703
- Intangible assets			852	-	852
- Statutory deposit			-	16,667	16,667
- Accrued income on statutory deposit			-	1,947	1,947
<b>TOTAL ASSETS</b>			<u>805,822</u>	<u>268,695</u>	<u>1,074,517</u>
<b>LIABILITIES</b>					
Accrued and other liabilities	5,940	7,382	13,322	2,860	16,182
Reinsurance balances payable	5,043	17,184	22,227	-	22,227
Unearned contributions	-	3,449	3,449	-	3,449
Technical Reserve for Insurance Operations	684,251	295	684,546	-	684,546
Outstanding claims	2,105	41,066	43,171	-	43,171
Incurred But Not Reported (IBNR) reserves	725	4,328	5,053	-	5,053
Due to related parties	479	-	479	-	479
	<u>698,543</u>	<u>73,704</u>	<u>772,247</u>	<u>2,860</u>	<u>775,107</u>
<b>Unallocated amounts:</b>					
- Accrued and other liabilities			3,794	-	3,794
- End-of-service indemnities			2,460	-	2,460
- Surplus from Insurance Operations			20,184	-	20,184
- Zakat and income tax			-	29,254	29,254
- Dividends payable			-	8	8
- Accrued income payable to SAMA			-	1,947	1,947
<b>TOTAL LIABILITIES</b>			<u>798,685</u>	<u>34,069</u>	<u>832,754</u>
<b>EQUITY</b>					
Share capital			-	166,667	166,667
Statutory reserves			-	29,895	29,895
Retained earnings			-	45,489	45,489
Remeasurement reserve of defined benefit obligation			(288)	-	(288)
<b>TOTAL EQUITY</b>			<u>(288)</u>	<u>242,051</u>	<u>241,763</u>
<b>TOTAL LIABILITIES AND EQUITY</b>			<u>798,397</u>	<u>276,120</u>	<u>1,074,517</u>

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 24 OPERATING SEGMENT INFORMATION (continued)

	As at 31 December 2018				
	Insurance – individual SR'000	Insurance- group SR'000	Total - Insurance operations SR'000	Shareholders' operations SR'000	Total SR'000
<b>ASSETS</b>					
Cash and cash equivalents	15,862	592	16,454	2,417	18,871
Contributions and reinsurance receivables, net	-	74,073	74,073	-	74,073
Reinsurance share of unearned contributions	-	3,187	3,187	-	3,187
Reinsurance share of outstanding claims	2,219	38,471	40,690	-	40,690
Unit-linked investments	647,075	-	647,075	-	647,075
Investments	18,955	28,850	47,805	238,808	286,613
Accrued income	429	-	429	-	429
	684,540	145,173	829,713	241,225	1,070,938
<b>Unallocated amounts:</b>					
- Prepayments and other assets			910	4,583	5,493
- Furniture, fittings and office equipment			1,712	-	1,712
- Intangible assets			2,347	-	2,347
- Statutory deposit			-	16,667	16,667
- Accrued income on statutory deposit			-	1,464	1,464
<b>TOTAL ASSETS</b>			834,682	263,939	1,098,621
<b>LIABILITIES</b>					
Accrued and other liabilities	6,268	21,720	27,988	-	27,988
Reinsurance balances payable	3,980	42,409	46,389	-	46,389
Unearned contributions	-	4,974	4,974	-	4,974
Technical Reserve for Insurance Operations	652,384	1,841	654,225	-	654,225
Outstanding claims	2,906	63,969	66,875	-	66,875
Incurred But Not Reported (IBNR) reserves	779	6,418	7,197	-	7,197
Due to related parties	2,349	-	2,349	-	2,349
	668,666	141,331	809,997	-	809,997
<b>Unallocated amounts:</b>					
- Accrued and other liabilities			3,842	3,894	7,736
- End-of-service indemnities			1,809	-	1,809
- Surplus from Insurance Operations			19,010	-	19,010
- Zakat and income tax			-	23,860	23,860
- Dividends payable			-	8	8
- Accrued income payable to SAMA			-	1,464	1,464
<b>TOTAL LIABILITIES</b>			834,658	29,226	863,884
<b>EQUITY</b>					
Share capital			-	166,667	166,667
Statutory reserves			-	28,427	28,427
Retained earnings			-	39,619	39,619
Remeasurement reserve of defined benefit obligation			24	-	24
<b>TOTAL EQUITY</b>			24	234,713	234,737
<b>TOTAL LIABILITIES AND EQUITY</b>			834,682	263,939	1,098,621

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 24 OPERATING SEGMENT INFORMATION (continued)

	2019		
	<i>Insurance - individual SR'000</i>	<i>Insurance- group SR'000</i>	<i>Total SR'000</i>
<b>REVENUE</b>			
Gross contributions written			
- Individual	177,231	-	177,231
- Micro enterprises	-	21	21
- Small enterprises	-	166	166
- Medium enterprises	-	3,331	3,331
- Large enterprises	-	58,092	58,092
<b>Total gross contribution written</b>	<b>177,231</b>	<b>61,610</b>	<b>238,841</b>
Investible contributions, net	(149,627)	-	(149,627)
Net insurance contributions	27,604	61,610	89,214
Reinsurance contributions ceded:			
- Local	-	-	-
- Foreign	(4,707)	(37,476)	(42,183)
Net contributions written	22,897	24,134	47,031
Change in unearned contributions	-	445	445
Net contributions earned	22,897	24,579	47,476
Investment fund fee	5,062	-	5,062
<b>TOTAL REVENUES</b>	<b>27,959</b>	<b>24,579</b>	<b>52,538</b>
<b>UNDERWRITING COSTS AND EXPENSES</b>			
Gross claims paid	(1,328)	(92,438)	(93,766)
Reinsurer's share of claims paid	704	68,094	68,798
Net claims paid	(624)	(24,344)	(24,968)
Changes in outstanding claims, net	(48)	4,150	4,102
Changes in claims incurred but not reported, net	54	2,090	2,144
Net claims and other benefits incurred	(618)	(18,104)	(18,722)
Changes in technical reserves, net	564	1,546	2,110
Policy acquisition costs	(1,943)	(451)	(2,394)
Other underwriting expenses	(886)	(308)	(1,194)
<b>TOTAL UNDERWRITING COSTS AND EXPENSES</b>	<b>(2,883)</b>	<b>(17,317)</b>	<b>(20,200)</b>
<b>NET UNDERWRITING INCOME</b>	<b>25,076</b>	<b>7,262</b>	<b>32,338</b>
<b>OTHER OPERATING INCOME/(EXPENSES)</b>			
Allocated amount:			
- Other income	2,859	-	2,859
- Additions of doubtful debts allowance	-	(196)	(196)
Unallocated amounts:			
- General and administration expenses			(33,090)
- Unrealised gain on FVIS investments			12,715
- Realised gain on FVIS investments			294
<b>TOTAL OTHER OPERATING EXPENSES</b>			<b>(17,418)</b>
<b>Net income for the year</b>			<b>14,920</b>
Net income attributed to the insurance operations			(1,174)
<b>Net income for the year attributable to the shareholders</b>			<b>13,746</b>



# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 24 OPERATING SEGMENT INFORMATION (continued)

	2018		
	<i>Insurance - individual SR'000</i>	<i>Insurance- group SR'000</i>	<i>Total SR'000</i>
<b>REVENUE</b>			
Gross contributions written			
- Individual	191,919	-	191,919
- Micro enterprises	-	-	-
- Small enterprises	-	71	71
- Medium enterprises	-	5,134	5,134
- Large enterprises	-	141,222	141,222
<b>Total gross contribution written</b>	191,919	146,427	338,346
Investible contributions, net	(161,430)	-	(161,430)
Net insurance contributions	30,489	146,427	176,916
Reinsurance contributions ceded:			
- Local	-	-	-
- Foreign	(2,304)	(103,307)	(105,611)
Net contributions written	28,185	43,120	71,305
Change in unearned contributions	-	(101)	(101)
Net contributions earned	28,185	43,019	71,204
Investment fund fee	5,096	-	5,096
<b>TOTAL REVENUES</b>	33,281	43,019	76,300
<b>UNDERWRITING COSTS AND EXPENSES</b>			
Gross claims paid	(372)	(116,874)	(117,246)
Reinsurer's share of claims paid	258	90,955	91,213
Net claims paid	(114)	(25,919)	(26,033)
Changes in outstanding claims, net	(393)	(8,301)	(8,694)
Changes in claims incurred but not reported, net	(514)	(415)	(929)
Net claims incurred	(1,021)	(34,635)	(35,656)
Changes in technical reserves, net	1,370	2,537	3,907
Policy acquisition costs	(2,563)	(357)	(2,920)
Other underwriting expenses	(961)	(732)	(1,693)
<b>TOTAL UNDERWRITING COSTS AND EXPENSES</b>	(3,175)	(33,187)	(36,362)
<b>NET UNDERWRITING INCOME</b>	30,106	9,832	39,938
<b>OTHER OPERATING (EXPENSES)/ INCOME</b>			
- Provision against outstanding claims receivable from a reinsurer	-	(14,885)	(14,885)
- Other income	7,860	-	7,860
- Reversal to doubtful debts allowance	-	770	770
Unallocated amounts:			
- General and administration expenses			(27,928)
- Unrealised gain on FVIS investments			5,543
- Realised gain on FVIS investments			435
<b>TOTAL OTHER OPERATING EXPENSES</b>			(28,205)
<b>Net income for the year</b>			11,733
Net income attributed to the insurance operations			(1,312)
<b>Net income for the year attributable to the shareholders</b>			10,421

## 25 FAIR VALUES OF FINANCIAL INSTRUMENTS

- a) 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.

The Company's financial assets consist of cash and cash equivalents, unit-linked investments, FVIS investments, available-for-sale investments, contributions and reinsurance receivables, amount due from a related party, other receivables and due from Insurance Operations, and its financial liabilities consist of outstanding claims, reinsurance balances payable, amount due to related parties, due to Shareholder Operations and other payables. The fair values of financial instruments are not materially different from their carrying values. As at 31 December 2019, apart from the investments which are carried at fair value (note 7 and 8), there were no other financial instruments held by the Company that were measured at fair value.

- b) The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the same instrument (i.e. without modification or repackaging);

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

As at 31 December 2019 and 31 December 2018, all financial instruments which are fair valued are Level 1 instruments except for investment in real estate fund and AlAhli Takaful discretionary portfolio which were Level 2 investments. The Company determines Level 2 fair values for these investments based on the net assets value of the respective funds as at the end of the reporting period. There are no transfers between Level 1, Level 2 and Level 3 during the year (2018: same).

- c) Refer to note 7 for the fair value measurement of unit-linked investments and note 8 for details of the fair value measurements of FVIS investments.

## 26 RISK MANAGEMENT

Risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company's policy is to monitor business risks through a strategic planning process.

### *Risk management structure*

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

#### *Board of Directors*

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

#### *Senior management*

Senior management is responsible for the day to day operations towards achieving the strategic goals within the Company's Board authorised risk appetite parameters.

#### *Audit Committee*

The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and risk management, the audit there-of and the soundness of the internal controls of the Company.

#### *Internal audit*

All key operational, financial and risk management processes are audited by Internal Audit. Internal Audit examines the adequacy of the relevant policies and procedures, the Company's compliance with internal policies and regulatory guidelines. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.

**26 RISK MANAGEMENT (continued)**

The risks faced by the Company and the way these risks are mitigated by management are summarised below.

**i) Insurance risk**

Insurance risk is the risk that actual claims payable to policyholders exceed the carrying amount of reserve for insurance activities. This is influenced by the frequency and amounts of claims paid and subsequent development of long term claims. Therefore, the objective of the Insurance Operations is to ensure that sufficient reserves are available to cover these liabilities. The Insurance Operations manages this risk by ensuring that adequate reinsurance cover is taken to restrict the maximum loss payable for any individual claim.

*Concentration of insurance risk*

The Company's insurance risk exposure relating to contract holders is concentrated in the Kingdom of Saudi Arabia.

*Key assumptions*

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

*Frequency and amount of claims*

For individual life business, 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 understanding carried out, including declaration of good health, medical questionnaire, reports from specialist/ 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 life and group credit protection, 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, e.g. employees in the same workplace. The Company has a clearly defined underwriting strategy. There are various levels of understanding carried out, including declaration of good health, medical questionnaire, reports from specialist/ 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 life business and group credit protection portfolios are protected through an efficient reinsurance arrangement. This protects the Company from adverse mortality/morbidity experience.

*Sensitivity of claims*

Insurance claim liabilities are sensitive to the various assumptions mentioned above. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process. A hypothetical 5% change in the net claims ratio, with other variables held constant, would impact income for the year by approximately SR 2,374 thousand (2018: SR 3,560 thousand) in aggregate.

**ii) Reinsurance risk**

In common with other insurance companies, in order to minimise financial exposure arising from an increase in the number of claims paid, the Insurance Operations, in the normal course of business, enters into contracts with other parties for reinsurance purposes. Reinsurance ceded contracts do not relieve the Company from its obligations to policy holders and as a result the Company remains liable for the portion of outstanding claims reinsured.

To minimise its exposure to significant losses from reinsurance managers' insolvencies, the Insurance Operations evaluates the financial condition of its reinsurance managers. The Insurance Operations has a quota-share reinsurance arrangement with reinsurance companies based in Germany, the United States of America, Lebanon, Bahrain and Saudi Arabia having credit ratings of "AA-" or above. These reinsurance arrangements covers individual and group contracts issued by the Insurance Operations in the Kingdom of Saudi Arabia.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 26 RISK MANAGEMENT (continued)

#### ii) Reinsurance risk (continued)

The exception to this rule is in respect of local companies which do not carry any such credit rating. This, however, is limited to those companies registered and approved by the Local Insurance Regulators. Furthermore, the financial strength and managerial and technical expertise as well as historical performance, wherever applicable, are reviewed by the Company and matched against a list of requirements pre-set by the Company's management before approving them for exchange of reinsurance business.

Under the arrangements, the Insurance Operations retains 50% (2018: 50%) of the insurance cover in case of individual life insurance business (up to a maximum of SR 93,750 (2018: SR 93,750) per life) and up to 20% (Upto SR 300 thousand as maximum) of the insurance cover is retained in respect of Group care and Group credit protection business. Any surplus made in the Reinsurance Fund on the Insurance risk (mortality risk) is paid into AlAhli Takaful Fund by the Reinsurers to be distributed amongst the policyholders.

#### iii) Regulatory framework risk

The operations of the Company are subject to regulatory requirements in the Kingdom of Saudi Arabia. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as they arise. The Company complied with the relevant regulations.

#### iv) Capital management (solvency) risk

Objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximise 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 new shares.

As per guidelines laid out by SAMA in Article 67 of the Implementing Insurance Regulations, the Company is required to maintain a solvency margin equivalent to an aggregate of the minimum Capital requirement, 0.3% and 0.1% of capital at risk for individual life and group life policies respectively after certain deductions and subject to a cap of 50% of total Capital at risk. The Company complied with the relevant regulations.

#### v) Financial risk

The Company's principal financial instruments are cash and cash equivalents, unit-linked investments, FVIS investments, available-for-sale investments, contribution and reinsurance receivables, gross outstanding claims, reinsurance share of outstanding claims, accrued income, other receivables, due from Insurance Operations, reinsurance balances payable/receivable, due to/from related parties, due to Shareholders' Operations and other payables. The Company does not enter into derivative transactions.

The main risks arising from the financial instruments of the Company are market price risk, foreign currency risk, commission rate risk, credit risk and liquidity risk. The management reviews and agrees policies for managing each of these risks and they are summarised below:

##### ***Market price risk***

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

The Company is exposed to market risk with respect to their investments. The underlying investments of mutual funds and discretionary portfolios are in equities, Sukuks and Murabaha purchased in the local and international markets and the unit price of these investments is dependent on the movements in the market prices of underlying investments. The fund manager limits market risk by monitoring the developments in the relevant markets for these instruments.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 26 RISK MANAGEMENT (continued)

#### v) Financial risk (continued)

##### **Market price risk (continued)**

A 5% increase/decrease in the value of FVIS investments of the Company, with all other variables held constant, would increase/decrease the statement of income by SR 15,826 thousand (2018: SR 14,331 thousand).

##### **Foreign currency risk**

Foreign 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 losses due to exchange rate fluctuations as the Company primarily deals in Saudi Riyals and in US Dollars. The Saudi Riyal is pegged to the US Dollar so balances in US Dollar do not carry any significant foreign currency risk.

##### **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. As the Company does not have any commission bearing assets or liabilities, the Company is not exposed to commission rate risk.

##### **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. The Company manages credit risk by setting credit limits and monitoring outstanding receivables.

The Company issues unit linked policies. In unit linked business, the plan holder 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 credit risk on the unit linked investments. The table below shows the maximum exposure to credit risk for the components of the statement of financial position:

	2019 SR'000	2018 SR'000
Cash at bank	19,603	18,859
Reinsurance share of outstanding claims	21,088	40,690
Contributions and reinsurance receivables	14,825	74,133
Receivables from employees	795	365
Accrued income	702	429
Other receivables	5,944	5,461
	<u>62,957</u>	<u>139,937</u>

##### **Concentration of credit risk**

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of the counterparties whose aggregate credit exposure is significant in relation to the Company's total exposure.

Currently credit risk of bank balance, contributions receivable concentrated in a major shareholder of a Company (National Commercial Bank) and its subsidiary.

##### **Credit quality**

Bank balances and contribution receivable are with major shareholder of the Company (National Commercial Bank) with an A+ credit rating assigned by an international credit rating agency. Unit-linked and FVIS investments are not rated.

**26 RISK MANAGEMENT (continued)**

v) **Financial risk (continued)**

***Liquidity risk***

Liquidity risk is the risk the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. All assets of the Company are current, except for furniture, fittings and office equipment, intangible assets and statutory deposit, which are non-current in nature.

The Company's financial liabilities consist of outstanding claims, reinsurance balances payable, amount due to related parties and other payables. All financial liabilities are non-interest bearing and are expected to be settled within 12 months from the date of statement of financial position.

**27. EARNINGS PER SHARE**

The basic earnings per share have been calculated by dividing the net income for the year after zakat and income tax attributable to the shareholders by the weighted average number of ordinary shares issued and outstanding at the year end. Diluted earnings per share is not applicable to the Company.

**28. DIVIDEND**

On 24 Rajab 1439H (corresponding to 10 April 2018), the Company's Board of Directors (BoD) proposed to pay a dividend, for the year ended 31 December 2017, of SR 75 per share totalling SR 12.5 million to its shareholders (31 December 2017: SR 8.33 million). This dividend proposal was approved by the shareholders in the Ordinary General Assembly Meeting held on 07 Sha'ban 1439H (corresponding to 23 April 2018). Accordingly, the dividend payment was made on 21 Shab'an 1439H (corresponding to 7 May 2018). The BoD approved previously to pay dividend to non-Saudi shareholders after deducting income tax amounting to SR 1,091 thousand. Payment of SR 428 thousand for previously recovered amount to a non-Saudi shareholder exempted from tax was also adjusted.

**29. CONTINGENT LIABILITIES AND COMMITMENTS**

As at the statement of financial position date, the Company had no contingent liabilities and commitments (2018: nil).

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 30 SUPPLEMENTARY INFORMATION

#### a) STATEMENT OF FINANCIAL POSITION

	<i>Insurance operations SR'000</i>	<i>Shareholders' operations SR'000</i>	<i>31 December 2019 SR'000</i>	<i>Insurance operations SR'000</i>	<i>Shareholders' operations SR'000</i>	<i>31 December 2018 SR'000</i>
<b>ASSETS</b>						
Cash and cash equivalents	<b>19,606</b>	<b>13</b>	<b>19,619</b>	16,454	2,417	18,871
Contributions and reinsurance receivables, net	<b>14,569</b>	-	<b>14,569</b>	74,073	-	74,073
Reinsurance share of unearned contributions	<b>2,107</b>	-	<b>2,107</b>	3,187	-	3,187
Reinsurance share of outstanding claims	<b>21,088</b>	-	<b>21,088</b>	40,690	-	40,690
Unit-linked investments	<b>671,674</b>	-	<b>671,674</b>	647,075	-	647,075
Investments	<b>71,050</b>	<b>245,478</b>	<b>316,528</b>	47,805	238,808	286,613
Due from Insurance Operations	-	<b>7,425</b>	<b>7,425</b>	-	-	-
Accrued income	<b>702</b>	-	<b>702</b>	429	-	429
Prepayments and other assets	<b>1,471</b>	<b>4,590</b>	<b>6,061</b>	910	4,583	5,493
Furniture, fittings and office equipment	<b>2,703</b>	-	<b>2,703</b>	1,712	-	1,712
Intangible assets	<b>852</b>	-	<b>852</b>	2,347	-	2,347
Statutory deposit	-	<b>16,667</b>	<b>16,667</b>	-	16,667	16,667
Accrued income on statutory deposit	-	<b>1,947</b>	<b>1,947</b>	-	1,464	1,464
	<b>805,822</b>	<b>276,120</b>	<b>1,081,942</b>	834,682	263,939	1,098,621
Less: Inter-operations eliminations	-	<b>(7,425)</b>	<b>(7,425)</b>	-	-	-
<b>TOTAL ASSETS</b>	<b>805,822</b>	<b>268,695</b>	<b>1,074,517</b>	834,682	263,939	1,098,621

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 30 SUPPLEMENTARY INFORMATION (continued)

#### a) STATEMENT OF FINANCIAL POSITION (continued)

	<i>Insurance operations SR'000</i>	<i>Shareholders' operations SR'000</i>	<i>31 December 2019 SR'000</i>	<i>Insurance operations SR'000</i>	<i>Shareholders' operations SR'000</i>	<i>31 December 2018 SR'000</i>
<b>LIABILITIES</b>						
Accrued and other liabilities	17,116	2,860	19,976	31,830	3,894	35,724
Reinsurance balances payable	22,227	-	22,227	46,389	-	46,389
Unearned contributions	3,449	-	3,449	4,974	-	4,974
Technical Reserve for Insurance Operations	684,546	-	684,546	654,225	-	654,225
Outstanding claims Incurred But Not Reported (IBNR) reserves	43,171	-	43,171	66,875	-	66,875
Due to related parties	5,053	-	5,053	7,197	-	7,197
Due to Shareholders' Operations	479	-	479	2,349	-	2,349
End-of-service indemnities	7,425	-	7,425	-	-	-
Surplus from Insurance Operations	2,460	-	2,460	1,809	-	1,809
Zakat and income tax	20,184	-	20,184	19,010	-	19,010
Dividends payable	-	29,254	29,254	-	23,860	23,860
Accrued income payable to SAMA	-	8	8	-	8	8
	-	1,947	1,947	-	1,464	1,464
	<b>806,110</b>	<b>34,069</b>	<b>840,179</b>	<b>834,658</b>	<b>29,226</b>	<b>863,884</b>
Less: Inter-operations eliminations	(7,425)	-	(7,425)	-	-	-
<b>TOTAL LIABILITIES</b>	<b>798,685</b>	<b>34,069</b>	<b>832,754</b>	<b>834,658</b>	<b>29,226</b>	<b>863,884</b>
<b>EQUITY</b>						
Share capital	-	166,667	166,667	-	166,667	166,667
Statutory reserve	-	29,895	29,895	-	28,427	28,427
Retained earnings	-	45,489	45,489	-	39,619	39,619
Remeasurement reserve of defined benefit obligation	(288)	-	(288)	24	-	24
<b>TOTAL EQUITY</b>	<b>(288)</b>	<b>242,051</b>	<b>241,763</b>	<b>24</b>	<b>234,713</b>	<b>234,737</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>798,397</b>	<b>276,120</b>	<b>1,074,517</b>	<b>834,682</b>	<b>263,939</b>	<b>1,098,621</b>



# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 30 SUPPLEMENTARY INFORMATION (continued)

#### b) STATEMENT OF INCOME

	<i>Year ended 31 December</i>					
	<i>Insurance operations SR'000</i>	<i>Shareholders' operations SR'000</i>	<i>2019 SR'000</i>	<i>Insurance operations SR'000 Restated</i>	<i>Shareholders' operations SR'000 Restated</i>	<i>2018 SR'000 Restated</i>
<b>REVENUES</b>						
Gross contributions written	<b>238,841</b>	-	<b>238,841</b>	338,346	-	338,346
Investible contributions, net	<b>(149,627)</b>	-	<b>(149,627)</b>	(161,430)	-	(161,430)
Net insurance contributions	<b>89,214</b>	-	<b>89,214</b>	176,916	-	176,916
Reinsurance contributions ceded:						
Local	-	-	-	-	-	-
Foreign	<b>(42,183)</b>	-	<b>(42,183)</b>	(105,611)	-	(105,611)
<b>Net contributions written</b>	<b>47,031</b>	-	<b>47,031</b>	71,305	-	71,305
Change in unearned contributions - net	<b>445</b>	-	<b>445</b>	(101)	-	(101)
<b>Net contributions earned</b>	<b>47,476</b>	-	<b>47,476</b>	71,204	-	71,204
Investment fund fee	<b>5,062</b>	-	<b>5,062</b>	5,096	-	5,096
<b>TOTAL REVENUES</b>	<b>52,538</b>	-	<b>52,538</b>	76,300	-	76,300
<b>UNDERWRITING COSTS AND EXPENSES</b>						
Gross claims paid	<b>(93,766)</b>	-	<b>(93,766)</b>	(117,246)	-	(117,246)
Reinsurers' share of claims paid	<b>68,798</b>	-	<b>68,798</b>	91,213	-	91,213
<b>Net claims and other benefits paid</b>	<b>(24,968)</b>	-	<b>(24,968)</b>	(26,033)	-	(26,033)
Changes in outstanding claims – net	<b>4,102</b>	-	<b>4,102</b>	(8,694)	-	(8,694)
Changes in claims incurred but not reported, net	<b>2,144</b>	-	<b>2,144</b>	(929)	-	(929)
<b>Net claims and other benefits incurred</b>	<b>(18,722)</b>	-	<b>(18,722)</b>	(35,656)	-	(35,656)
Changes in technical reserves, net	<b>2,110</b>	-	<b>2,110</b>	3,907	-	3,907
Policy acquisition costs	<b>(2,394)</b>	-	<b>(2,394)</b>	(2,920)	-	(2,920)
Other underwriting expenses	<b>(1,194)</b>	-	<b>(1,194)</b>	(1,693)	-	(1,693)
<b>TOTAL UNDERWRITING COSTS AND EXPENSES</b>	<b>(20,200)</b>	-	<b>(20,200)</b>	(36,362)	-	(36,362)
<b>NET UNDERWRITING INCOME</b>	<b>32,338</b>	-	<b>32,338</b>	39,938	-	39,938

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 30 SUPPLEMENTARY INFORMATION (continued)

#### b) STATEMENT OF INCOME (continued)

	<i>Year ended 31 December</i>					
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>2019</i>	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>2018</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
	<i>Restated</i>	<i>Restated</i>		<i>Restated</i>	<i>Restated</i>	<i>Restated</i>
<b>OTHER OPERATING (EXPENSES)/ INCOME</b>						
(Addition to) / reversal of doubtful debts allowance	(196)	-	(196)	770	-	770
Provision against outstanding claims receivable from a reinsurer	-	-	-	(14,885)	-	(14,885)
General and administration expenses	(24,869)	(8,221)	(33,090)	(22,076)	(5,852)	(27,928)
Unrealised gain on FVIS investment	1,356	11,359	12,715	1,196	4,347	5,543
Realised gain on FVIS investments	249	45	294	317	118	435
Realised gain on available-for-sale investments, net	-	-	-	-	-	-
Other income	2,859	-	2,859	7,860	-	7,860
<b>TOTAL OTHER OPERATING (EXPENSES)/ INCOME</b>	<b>(20,601)</b>	<b>3,183</b>	<b>(17,418)</b>	<b>(26,818)</b>	<b>(1,387)</b>	<b>(28,205)</b>
<b>NET SURPLUS/(DEFICIT) FROM OPERATIONS</b>	<b>11,737</b>	<b>3,183</b>	<b>14,920</b>	<b>13,120</b>	<b>(1,387)</b>	<b>11,733</b>
Surplus transferred to Shareholders	(10,563)	10,563	-	(11,808)	11,808	-
<b>NET INCOME FOR THE YEAR BEFORE ZAKAT AND TAX</b>	<b>1,174</b>	<b>13,746</b>	<b>14,920</b>	<b>1,312</b>	<b>10,421</b>	<b>11,733</b>
Zakat	-	(6,143)	(6,143)	-	(5,669)	(5,669)
Income tax (charge)/recovery	-	(265)	(265)	-	706	706
<b>NET INCOME FOR THE YEAR AFTER ZAKAT AND TAX</b>	<b>1,174</b>	<b>7,338</b>	<b>8,512</b>	<b>1,312</b>	<b>5,458</b>	<b>6,770</b>
Weighted averages number of ordinary shares outstanding (in thousands)	-	16,667	-	-	16,667	-
Basic earnings per share for the year (SR) after zakat and tax	-	0.44	-	-	0.33	-

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 30 SUPPLEMENTARY INFORMATION (continued)

#### c) STATEMENT OF COMPREHENSIVE INCOME

	<i>Year ended 31 December</i>					
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>2019</i>	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>2018</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
	<i>Restated</i>	<i>Restated</i>		<i>Restated</i>	<i>Restated</i>	<i>Restated</i>
NET INCOME FOR THE YEAR	1,174	7,338	8,512	1,312	5,458	6,770
<b>Other comprehensive income:</b>						
<i>Items that will not be reclassified to statement of income in subsequent years</i>						
Actuarial (losses)/gains on defined benefit obligation	(312)	-	(312)	24	-	24
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>862</b>	<b>7,338</b>	<b>8,200</b>	<b>1,336</b>	<b>5,458</b>	<b>6,794</b>
<b>Reconciliation:</b>						
Less: Net income attributable to insurance operations			(1,174)			(1,312)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>			<b>7,026</b>			<b>5,482</b>

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 30 SUPPLEMENTARY INFORMATION (continued)

#### d) STATEMENT OF CASH FLOWS

	<i>Year ended 31 December</i>					
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>2019</i>	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>2018</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
	<i>Restated</i>	<i>Restated</i>		<i>Restated</i>	<i>Restated</i>	<i>Restated</i>
<b>OPERATING ACTIVITIES</b>						
Income for the year	-	13,746	13,746	-	10,421	10,421
Adjustments for the year:						
Net income attributed to the insurance operations	1,174	-	1,174	1,312	-	1,312
Depreciation	822	-	822	829	-	829
Amortization of intangible assets	1,827	-	1,827	1,755	-	1,755
End-of-service indemnities	645	-	645	503	-	503
(Addition to)/reversal of doubtful debts allowance	196	-	196	(770)	-	(770)
Provision against outstanding claims receivable from a reinsurer	-	-	-	14,885	-	14,885
Unrealised gain on re-measurement of FVIS investments	(1,356)	(11,359)	(12,715)	(1,196)	(4,347)	(5,543)
Income before changes in operating assets and liabilities	3,308	2,387	5,695	17,318	6,074	23,392
Changes in operating assets and liabilities:						
Unit-linked investments	(24,599)	-	(24,599)	47,334	-	47,334
Contributions and reinsurance receivables - net	59,308	-	59,308	(60,026)	-	(60,026)
Due from a related party	-	-	-	-	109	109
Prepayments and other assets	(561)	(7)	(568)	499	(433)	66
Accrued income	(273)	-	(273)	10	-	10
Reinsurance share of unearned contributions	1,080	-	1,080	125	-	125
Unearned contributions	(1,525)	-	(1,525)	(24)	-	(24)
Reinsurance share of outstanding claims	19,602	-	19,602	(34,481)	-	(34,481)
Technical Reserve for Insurance Operations	30,321	-	30,321	(56,400)	-	(56,400)
Incurred But Not Reported (IBNR) reserves	(2,144)	-	(2,144)	929	-	929
Outstanding claims	(23,704)	-	(23,704)	43,175	-	43,175
Reinsurance balances payable	(24,162)	-	(24,162)	(4,684)	-	(4,684)
Due to Shareholders' Operations	536	-	536	(12,645)	-	(12,645)
Due from Insurance Operations	-	(536)	(536)	-	12,645	12,645
Due to related parties	(1,870)	-	(1,870)	401	-	401
Accruals and other liabilities	(14,714)	(1,034)	(15,748)	9,871	(974)	8,897
Accrued income on statutory deposit	-	(483)	(483)	-	(371)	(371)
Accrued income payable to SAMA deposit	-	483	483	-	371	371
Cash generated from/(used in) operations	20,603	810	21,413	(48,598)	17,421	(31,177)
Zakat and income tax paid, net	-	(1,014)	(1,014)	-	(3,525)	(3,525)
End-of-service indemnities paid	(306)	-	(306)	(428)	-	(428)
Net cash generated from/(used in) operations	20,297	(204)	20,093	(49,026)	13,896	(35,130)

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2019

### 30 SUPPLEMENTARY INFORMATION (continued)

#### d) STATEMENT OF CASH FLOWS (continued)

	<i>Year ended 31 December</i>					
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>2019</i>	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>2018</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
				<i>Restated</i>	<i>Restated</i>	<i>Restated</i>
<b>INVESTING ACTIVITIES</b>						
Purchase of furniture, fittings and office equipment	(1,813)	-	(1,813)	(541)	-	(541)
Additions to intangible assets	(332)	-	(332)	(293)	-	(293)
Redemption of FVIS investments	-	-	-	40,000	-	40,000
Purchase of FVIS investments	(15,000)	(2,200)	(17,200)	-	-	-
Net cash (used in)/generated from investing activities	(17,145)	(2,200)	(19,345)	39,166	-	39,166
<b>FINANCING ACTIVITY</b>						
Dividend paid, net	-	-	-	-	(11,836)	(11,836)
Net cash used in financing activity	-	-	-	-	(11,836)	(11,836)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>3,152</b>	<b>(2,404)</b>	<b>748</b>	<b>(9,860)</b>	<b>2,060</b>	<b>(7,800)</b>
Cash and cash equivalents at the beginning of the year	16,454	2,417	18,871	26,314	357	26,671
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>19,606</b>	<b>13</b>	<b>19,619</b>	<b>16,454</b>	<b>2,417</b>	<b>18,871</b>

### 31 COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified and regrouped to conform to the in the current year presentation.

### 32. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements have been approved by the Board of Directors on 3 March 2020, corresponding to 8 Rajab 1441H.