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

**FINANCIAL STATEMENTS  
TOGETHER WITH THE  
INDEPENDENT AUDITORS' REPORT  
FOR THE YEAR ENDED  
31 DECEMBER 2018**

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

***Opinion***

We have audited the financial statements of SABB Takaful Company (the "Company"), which comprise the statement of financial position as at 31 December 2018, the statements of income and comprehensive income, statement of changes in shareholders' 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 2018 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax.

***Basis for Opinion***

We conducted our audit in accordance with International Standards on Auditing as 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, as 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 period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, a description of how our audit addressed the matter provided in that context:



**INDEPENDENT AUDITORS' REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS TO THE SHAREHOLDERS' OF SABB TAKAFUL COMPANY (A SAUDI JOINT STOCK COMPANY)**  
(continued)

Key audit matters	How the matter was addressed in our audit
<p><b><i>Valuation of ultimate claim liabilities arising from insurance contracts</i></b></p> <p>As at 31 December 2018, gross outstanding claims including claims incurred but not reported (IBNR) amounted to Saudi Riyals 71.1 million as reported in Note 11 to the financial statements.</p> <p>The estimation of ultimate insurance contract liabilities involves a significant degree of judgments. The liabilities are based on the best-estimate of ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs.</p> <p>In particular, estimates of IBNR and the use of actuarial and statistical projections involve significant judgments. A range of methods such as Incurred Development Method, Expected Claims Ratio Method and Incurred Bornhuetter-Ferguson Method were used by the actuary to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.</p> <p>We considered this as a key audit matter since use of management assumptions and judgments could result in material over / understatement of the Company's profitability.</p> <p><i>Refer to notes 2 and 25 to the financial statements which explain the valuation methodology used by the Company and critical judgments and estimates.</i></p>	<p>We understood, evaluated and tested key controls over the claim liabilities processes of the Company.</p> <p>We evaluated the competence, capabilities and objectivity of the management's expert by considering their professional qualifications and experience and assessing their relationship with the entity.</p> <p>In obtaining sufficient audit evidence to assess the integrity of data used as inputs into the actuarial valuations, we tested on sample basis, the completeness and accuracy of underlying claims data utilised by the Company's actuary in estimating the IBNR by comparing it to accounting records.</p> <p>In order to challenge management's methodologies and assumptions, we were assisted by our actuary to understand and evaluate the Company's actuarial practices and provisions established. In order to gain comfort over the actuarial report issued by management's expert, our actuary performed the following:</p> <ul style="list-style-type: none"> <li>- Evaluated whether the Company's actuarial methodologies were consistent with generally accepted actuarial practices and with prior years. We sought sufficient justification for any significant differences;</li> <li>- Assessed the reasonableness of key actuarial assumptions including claims ratios and expected frequency and severity of claims.; and</li> <li>- Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivities to the key assumptions performed.</li> <li>- Assessed the adequacy of the Company's disclosures regarding assumptions used and sensitivities as included in the accounting policies and in note 25 to the financial statements.</li> </ul>



**INDEPENDENT AUDITORS' REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS TO THE SHAREHOLDERS' OF SABB TAKAFUL COMPANY (A SAUDI JOINT STOCK COMPANY)**  
(continued)

Key audit matters	How the matter was addressed in our audit
<p><b>Valuation of life insurance contract liabilities (Reserve for takaful activities)</b></p> <p>As at 31 December 2018, the Company had reserve for takaful activities amounting to Saudi Riyals 352 million as reported in Note 9(a) to the financial statements. The reserve for takaful activities represents the unit linked takaful plan reserve.</p> <p>Valuation of reserve for takaful activities involves complex and subjective judgements made by management and actuary about variety of uncertain future outcomes, including the estimation of economic assumptions, such as investment return, discount rates, and operating assumptions, such as expense, mortality and persistency. Changes in these assumptions can result in material impacts to the valuation of these liabilities.</p> <p>We considered this as a key audit matter since the use of management assumptions and judgments could result in material over / understatement of the Company's profitability.</p> <p><i>Refer to notes 2 and 25 to the financial statements which explain the valuation methodology used by the Company and critical judgments and estimates.</i></p>	<p>We understood, evaluated and tested key controls in relation to reserve for takaful activities processes of the Company.</p> <p>We evaluated the competence, capabilities and objectivity of the management's expert by considering their professional qualifications and experience and assessing their relationship with the entity.</p> <p>In obtaining sufficient audit evidence to assess the integrity of data used as inputs into the actuarial valuations, we tested on a sample basis, the completeness and accuracy of underlying data utilised by the Company's actuary in estimating the reserves for takaful activities by comparing it to accounting records.</p> <p>In order to challenge management's methodologies and assumptions, we were assisted by our actuary to understand and evaluate the Company's actuarial practices and the provisions established. In order to gain comfort over the actuarial report issued by management's expert, our actuary performed the following:</p> <ul style="list-style-type: none"> <li>- Evaluated whether the Company's actuarial methodologies were consistent with generally accepted actuarial practices and with prior years. We sought sufficient justification for any significant differences;</li> <li>- Assessed key actuarial assumptions such as investment return, discount rates, and operating assumptions, such as expense, mortality and persistency; and</li> <li>- Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivities to the key assumptions performed.</li> <li>- Assessed the adequacy of the Company's disclosures regarding assumptions used and sensitivities as included in the accounting policies and in note 25 to the financial statements.</li> </ul>



**INDEPENDENT AUDITORS' REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS TO THE SHAREHOLDERS' OF SABE TAKAFUL COMPANY (A SAUDI JOINT STOCK COMPANY)**  
(continued)

***Other Information included in the Company's 2018 Annual Report***

The Board of Directors of the Company (the "Directors") are responsible for the other information. The Other information consists of the information included in the Company's 2018 annual report, other than the 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 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 The Directors and Those Charged with Governance for the Financial Statements***

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with the IFRS as modified by SAMA for the accounting of zakat and tax, the applicable requirements of the Company's Law and the Company's By-laws, and for such internal control as the Directors 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, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

***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 International Standards on Auditing as 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.



**INDEPENDENT AUDITORS' REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS TO THE SHAREHOLDERS' OF SABB 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 International Standards on Auditing as 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 the Directors;
- Conclude on the appropriateness of the Directors' 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; and
- 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 communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



**INDEPENDENT AUDITORS' REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS TO THE SHAREHOLDERS' OF SABB 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 period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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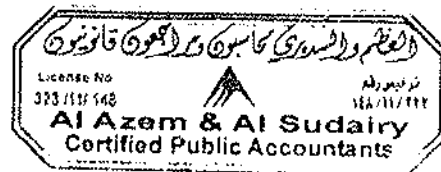
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Date: 19 Rajab 1440H  
Corresponding to: 26 March 2019





**SABB Takaful Company (A Saudi Joint Stock Company)****STATEMENT OF FINANCIAL POSITION****AT 31 DECEMBER 2018**

		<b>31 December 2018 (Audited) SAR'000</b>	<b>31 December 2017 (Audited) SAR'000</b>
	<i>Notes</i>		
<b><u>ASSETS</u></b>			
Cash and cash equivalents	7	244,019	239,099
Contributions and retakaful receivables, net	5	12,650	14,496
Retakaful share of unearned contributions	9(b)	6,969	10,802
Retakaful share of outstanding claims	11(b)	57,730	66,082
Deferred policy acquisition costs	9(c)	1,019	824
Investments			
Available-for-sale financial assets	4(c)	352,115	381,037
Held-to-maturity financial assets	4(b)	120,899	137,864
Prepaid expenses and other assets	6	1,232	1,738
Fixed assets		146	229
Intangible assets		1,859	1,728
Statutory deposit	8	34,000	34,000
Accrued income on statutory deposit		3,509	2,800
<b>TOTAL ASSETS</b>		<b>836,147</b>	<b>890,699</b>



The accompanying notes 1 to 27 form an integral part of these financial statements.

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**STATEMENT OF FINANCIAL POSITION (CONTINUED)**  
**AT 31 DECEMBER 2018**

		<b>31 December 2018 (Audited) SAR'000</b>	<b>31 December 2017 (Audited) SAR'000</b>
	<i>Notes</i>		
<b><u>LIABILITIES</u></b>			
Accrued and other liabilities	12	19,378	18,710
Provision for zakat and income tax	15	6,034	4,452
Retakaful balances payable		5,880	8,574
Unearned contributions	9(b)	9,565	14,389
Unearned retakaful commission	9(c)	2,290	2,555
Gross outstanding claims	11(b)	71,186	83,529
Unexpired risk reserve	9(e)	2,991	5,531
Non-unit reserve	9(d)	5,579	4,311
Provision for employees' end-of-service benefits	10	4,916	7,091
Surplus distribution payable	16	6,593	6,593
Reserve for takaful activities	9(a),4(c)	352,115	381,037
Accrued income on statutory deposit		3,509	2,800
<b>TOTAL LIABILITIES</b>		<b>490,036</b>	<b>539,572</b>
Takaful operations' surplus		-	-
<b>TOTAL LIABILITIES AND TAKAFUL OPERATIONS' SURPLUS</b>		<b>490,036</b>	<b>539,572</b>
<b><u>SHAREHOLDERS' EQUITY</u></b>			
Share capital	13	340,000	340,000
Statutory reserve	14	14,788	14,577
Remeasurements of retirement benefit obligations		(213)	(175)
Accumulated losses		(8,464)	(3,275)
<b>TOTAL EQUITY</b>		<b>346,111</b>	<b>351,127</b>
<b>TOTAL LIABILITIES, TAKAFUL OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY</b>		<b>836,147</b>	<b>890,699</b>

The accompanying notes 1 to 27 form an integral part of these financial statements.

# SABB Takaful Company (A Saudi Joint Stock Company)

## STATEMENT OF INCOME

For the year ended 31 December 2018

	Note	2018 (Audited) SAR'000	2017 (Audited) SAR'000
<b>REVENUES</b>			
Gross contributions written			
- Family Takaful	17	119,544	148,386
- General Takaful	17	20,422	26,698
		<u>139,966</u>	<u>175,084</u>
Retakaful contribution ceded			
- Local retakaful contribution ceded	17	(9,201)	(7,656)
- Foreign retakaful contribution ceded	17	(33,210)	(45,639)
Planholder charges	17	15,003	20,941
		<u>112,558</u>	<u>142,730</u>
Net contributions written			
Changes in unearned contributions	17	4,824	6,185
Changes in retakaful share of unearned contributions	17	(3,833)	(3,174)
		<u>113,549</u>	<u>145,741</u>
Net contributions earned			
Fees and commission income		5,836	5,743
		<u>119,385</u>	<u>151,484</u>
<b>UNDERWRITING COSTS AND EXPENSES</b>			
Gross claims paid	11(a)	(45,338)	(45,517)
Retakaful share of claims paid	11(a)	34,888	33,054
Surrenders and maturities	18	(95,954)	(73,720)
		<u>(106,404)</u>	<u>(86,183)</u>
Net claims and other benefits paid			
Changes in outstanding claims, net		2,933	(1,034)
Changes in IBNR, net		1,058	(474)
		<u>(102,413)</u>	<u>(87,691)</u>
Net claims and other benefits incurred			
Changes in reserve for takaful activities	9(a)	17,983	(23,233)
Changes in non-unit reserve		(1,268)	(4,311)
Changes in unexpired risk reserve		2,541	(5,531)
Policy acquisition costs		(3,552)	(5,638)
		<u>(86,709)</u>	<u>(126,404)</u>
Total underwriting costs and expenses			
Net underwriting income		32,676	25,080
<b>OTHER OPERATING (EXPENSES)/ INCOME</b>			
General and administrative expenses	19	(42,767)	(39,895)
Rebate income		1,598	1,340
Income from deposits		5,312	2,955
Income from sukuk		4,237	5,035
		<u>(31,620)</u>	<u>(30,565)</u>
TOTAL OTHER OPERATING EXPENSES, NET			
Total income/ (loss) for the year		1,056	(5,485)
Total (income)/ loss for the year attributed to the takaful operations		-	-
Total income/ (loss) for the year attributable to the shareholders		1,056	(5,485)
Earnings / (loss) per share (SAR per share)	20	0.03	(0.16)

The accompanying notes 1 to 27 form an integral part of these financial statements.

SABB Takaful Company (A Saudi Joint Stock Company)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 SAR'000	2017 SAR'000
Total income/ (loss) for the year		1,056	(5,485)
Other comprehensive income/ (loss)			
<i>Items that will be reclassified to statement of income in subsequent periods</i>			
- Fair value change in available for sale investments - unrealized	4(c)	4,064	25,005
- Fair value change in reserve for takaful activities - unrealized	9(a)	(4,064)	(25,005)
<i>Items that will not be reclassified to statement of income in subsequent periods</i>			
- Re-measurements of retirement benefit obligations	10	(38)	(175)
Total comprehensive income/ (loss) for the year		<u>1,018</u>	<u>(5,660)</u>

The accompanying notes 1 to 27 form an integral part of these financial statements.

**SABB Takaful Company (A Saudi Joint Stock Company)**

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

For the year ended 31 December 2018

	<i>Share Capital</i>	<i>Statutory Reserve</i>	<i>Remeasurements of retirement benefit obligations</i>	<i>Accumulated Losses</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Balance as at 1 January 2018	340,000	14,577	(175)	(3,275)	351,127
Total comprehensive income for the year	-	-	-	1,056	1,056
Provision for zakat and income tax (Note 15)	-	-	-	(6,034)	(6,034)
Transfer to statutory reserve (Note 14)	-	211	-	(211)	-
Remeasurements of retirement benefit obligations	-	-	(38)	-	(38)
Balance as at 31 December 2018	<u>340,000</u>	<u>14,788</u>	<u>(213)</u>	<u>(8,464)</u>	<u>346,111</u>

	<i>Share Capital</i>	<i>Statutory Reserve</i>	<i>Remeasurements of retirement benefit obligations</i>	<i>Accumulated Losses</i>	<i>Total</i>
	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>	<u>SAR'000</u>
Balance as at 1 January 2017	340,000	14,577	-	6,624	361,201
Total comprehensive income for the year	-	-	-	(5,485)	(5,485)
Provision for zakat and income tax (Note 15)	-	-	-	(4,414)	(4,414)
Remeasurements of retirement benefit obligations	-	-	(175)	-	(175)
Balance as at 31 December 2017	<u>340,000</u>	<u>14,577</u>	<u>(175)</u>	<u>(3,275)</u>	<u>351,127</u>

The accompanying notes 1 to 27 form an integral part of these financial statements.

# SABB Takaful Company (A Saudi Joint Stock Company)

## STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 SAR'000	2017 SAR'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income/ (loss) for the year		1,056	(5,485)
<u>Adjustment for non-cash items:</u>			
Amortisation		610	499
Depreciation		83	80
Income from sukuk		(4,237)	(5,035)
Gain on sale of fixed assets		-	(19)
Provision of impairment on contribution and retakaful receivables	5	504	1,052
Provision for employees' end-of-service benefits	10	1,046	37
		(938)	(8,871)
<u>Changes in operating assets and liabilities:</u>			
Contributions and retakaful receivables, net		1,342	(2,510)
Retakaful share of unearned contributions		3,833	3,174
Retakaful share of outstanding claims		8,352	(9,719)
Deferred policy acquisition costs		(195)	261
Available-for-sale financial assets		28,922	(27,297)
Prepaid expenses and other assets		506	16
Accrued and other liabilities		668	5,435
Retakaful balances payable		(2,694)	559
Unearned contributions		(4,824)	(6,185)
Unearned retakaful commission		(265)	(239)
Gross outstanding claims		(12,343)	11,227
Unexpired risk reserve		(2,540)	5,531
Non-unit reserve		1,268	4,311
Surplus distribution payable		-	(47)
Reserve for takaful activities		(28,922)	27,297
		(7,830)	2,943
Employees' end-of-service benefits paid	10	(3,259)	(151)
Zakat and income tax paid	15(c)	(4,452)	(5,663)
<b>Net cash used in operating activities</b>		<b>(15,541)</b>	<b>(2,871)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Maturity of held-to-maturity financial assets		17,000	50,000
Income received from sukuk		4,202	5,266
Purchase of intangible assets		(741)	(1,104)
Purchase of fixed assets		-	(201)
Proceeds from sale of fixed assets		-	19
<b>Net cash generated from investing activities</b>		<b>20,461</b>	<b>53,980</b>
<b>Net change in cash and cash equivalents</b>		<b>4,920</b>	<b>51,109</b>
<b>Cash and cash equivalents, at the beginning of the year</b>	7	<b>239,099</b>	<b>187,990</b>
<b>Cash and cash equivalents, at the end of the year</b>	7	<b>244,019</b>	<b>239,099</b>
<u>Non-cash supplemental information:</u>			
Net change in fair value of available-for-sale investments	4(c)	4,064	25,005

The accompanying notes 1 to 27 form an integral part of these financial statements.

**1 ORGANIZATION AND PRINCIPAL ACTIVITIES**

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

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

**2 BASIS OF PREPARATION**

**a) Basis of presentation and measurement**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as modified by Saudi Arabian Monetary Authority (SAMA) for the accounting of zakat and income tax, which requires, adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax. As per the SAMA Circular no. 381000074519 dated April 11, 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the zakat and income tax are to be accrued on a quarterly basis through shareholders equity under retained earnings.

The financial statement have been prepared under the going concern basis and the historical cost convention, except for the measurement at fair value of available-for-sale investments and end of service benefits carried at present values using the actuarial valuation and reserves for takaful activities.

The statement of financial position is not presented using a current/non-current classification. However, the following items would generally be classified as non-current such as held-to-maturity investments, fixed assets, intangible assets, statutory deposit and provision for employees' end-of-service benefits. All other financial statement line items would generally be classified as current.

The Company's management has made an assessment of its ability to continue as a going concern and is satisfied that it will be able to continue as a going concern in the foreseeable future. Furthermore, the 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 have been prepared on the going concern basis.

The Company presents its statement of financial position in order of liquidity. As required by the Saudi Arabian Insurance Regulations, the Company maintains separate books of accounts for takaful operations and shareholders' operations and presents the financial statements accordingly (Note 22). Assets, liabilities, revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined and approved by the management and the Board of Directors.

The statement of financial position, statements of income, comprehensive income and cash flows of the takaful operations and shareholders' operations which are presented in Note 24 of the financial statements have been provided as supplementary financial information to comply with the requirements of the guidelines issued by SAMA implementing regulations and is not required under IFRSs. SAMA implementing regulations requires the clear segregation of the assets, liabilities, income and expenses of the insurance operations and the shareholders' operations. Accordingly, the statements of financial position, statements of income, comprehensive income and cash flows prepared for the takaful operations and shareholders' operations as referred to above, reflect only the assets, liabilities, income, expenses and comprehensive gains or losses of the respective operations.

In preparing the Company-level financial statements in compliance with IFRS, the balances and transactions of the insurance operations are amalgamated and combined with those of the shareholders' operations. Inter-operation balances, transactions and unrealised gains or losses, if any, are eliminated in full during amalgamation. The accounting policies adopted for the insurance operations and shareholders' operations are uniform for like transactions and events in similar circumstances.

**2 BASIS OF PREPARATION (CONTINUED)**

**b) Functional and presentational currency**

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

**c) Fiscal year**

The Company follows a fiscal year ending December 31.

**d) Critical accounting judgments, estimates and assumptions**

The preparation of these financial statements requires the use of estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates and judgments are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Following are the accounting judgments and estimates that are critical in preparation of these financial statements:

**- The ultimate liability arising from claims made under general takaful contracts**

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. Estimates are made at the end of the reporting period both for the expected ultimate cost of claim reported and for the expected ultimate costs of claims incurred but not reported ("IBNR"). Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Company. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

The provision for claims incurred but not reported (IBNR) is an estimation of claims which are expected to be reported subsequent to the date of statement of financial position, for which the insured event has occurred prior to the date of statement of financial position. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends. A range of methods is used by the actuaries to determine these provisions.

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

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

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

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

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

**- Impairment of financial assets**

The Company determines that available for sale equity financial assets are impaired when there has been a significant or prolonged decline in the fair value of the financial assets below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.



**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2018

**2 BASIS OF PREPARATION (CONTINUED)**

**d) Critical accounting judgments, estimates and assumptions (continued)**

**- Impairment of receivables**

A provision for impairment of receivables 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, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired.

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

**- Fair value of financial instruments**

Fair values of available-for-sale investments are based on quoted prices for marketable securities or estimated fair values. The fair value of commission-bearing items is estimated based on discounted cash flows using commission for items with similar terms and risk characteristics.

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

**3 SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies applied in preparation of these financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2017 except for the new standards and adoption of the amendments to existing standards mentioned below which have had either insignificant effect or no financial impact on the financial statements of the Company on the current period or prior periods and are expected to have a insignificant effect in future period:

The Company adopted IFRS 15 'Revenue from Contracts with Customers'. IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after January 1, 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRS. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Company has opted for the modified retrospective application permitted by IFRS 15 upon adoption of the new standard. Modified retrospective application requires the recognition of the cumulative impact of adoption of IFRS 15 on all contracts as at January 1, 2018 in equity. IFRS-15 does not have a material impact on the financial statement of the Company.

The Company has chosen not to early adopt the following new standards which have been issued but not yet effective for the Company's accounting year beginning on 1 January 2018 and is currently assessing their impact:

- IFRS 9 - "Financial instruments", In July 2014, the IASB published IFRS 9 Financial Instruments which will replace IAS 39 Financial Instruments: Recognition and Measurement. The standard incorporates new classification and measurements requirements for financial assets, the introduction of an expected credit loss impairment model which will replace the incurred loss model of IAS 39, and new hedge accounting requirements. Under IFRS 9, all financial assets will be measured at either amortised cost or fair value. The basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. The standard retains most of IAS 39's requirements for financial liabilities except

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2018

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

for those designated at fair value through profit or loss whereby that part of the fair value changes attributable to own credit is to be recognised in other comprehensive income instead of the income statement.

In September 2016, the IASB published amendments to IFRS 4 Insurance Contracts that address the accounting consequences of the application of IFRS 9 to insurers prior to the publication of the forthcoming accounting standard for insurance contracts. The amendments introduce two options for insurers: the deferral approach and the overlay approach. The deferral approach provides an entity, if eligible, with a temporary exemption from applying IFRS 9 until the earlier of the effective date of a new insurance contract standard or 2022. The overlay approach allows an entity to remove from profit or loss the effects of some of the accounting mismatches that may occur before the new insurance contracts standard is applied.

During 2018, the Company performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance. The Company intends to apply the temporary exemption from IFRS 9 and, therefore, continue to apply IAS 39 to its financial assets and liabilities in its reporting period starting on 1 January 2018 and through the year ended 31 December 2018.

The Company is eligible and have chosen to apply the temporary exemption under the amendments to IFRS 4. The impact of the adoption of IFRS 9 on the Company's financial information will, to a large extent, have to take into account the interaction with the forthcoming insurance contracts standard. IASB through its amendments to IFRS 4 issued in September 2016 had allowed temporary exemption if a Company meets the following criteria:

- a) the Company has not previously applied any version of IFRS 9; and
- b) its activities are predominantly connected with insurance that is defined as total percentage of carrying amount of insurance liabilities is greater than 90% of its total liabilities.

During 2018, the Company performed a 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 no significant impact on its statement of financial position and equity, except for the 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.

Following is a brief on the new IFRS and amendments to IFRS, effective for annual periods beginning on or after 1 January 2019:

- IFRS 16 - "Leases", applicable for the period beginning on or after 1 January 2019. The new standard eliminates the current dual accounting model for lessees under IAS 17, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 proposes on-balance sheet accounting model. The Company has decided not to early adopt this new standard.
- IFRS 17 - "Insurance Contracts", applicable for the period beginning on or after 1 January 2022, and will supersede IFRS 4 "Insurance Contracts". Earlier adoption permitted if both IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' have also been applied. The Company has decided not to early adopt this new standard.

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

**Revenue recognition**

*Recognition of contribution and commission revenue*

Contributions are recorded in the statement of income based on straight line method over the insurance policy coverage period. Unearned contribution represents the portion of contribution written relating to the unexpired period of coverage at the reporting date. The change in the provision for unearned contribution is taken to the statement of income - takaful operations in order that revenue is recognized over the period of risk.

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

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

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue recognition (continued)**

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

*Investment income*

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

**Claims**

Claims consist of amounts payable to policyholders and third parties and related loss adjustment expenses, net of salvage and other recoveries.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the statement of financial position date together with related claims handling costs, whether reported by the insured or not. Provisions for reported claims not paid as of the statement of financial position date are made on the basis of individual case estimates. In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported including related claims handling costs at the statement of financial position date.

The outstanding claims are shown on a gross basis and the related share of the reinsurers is shown separately. Further, the Company does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the statement of financial position date

**Retakaful**

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

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

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

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

**Deferred policy acquisition costs**

Commissions and other costs directly related to the acquisition and renewal of takaful contracts are deferred and amortized over the terms of the takaful contracts to which they relate, similar to contributions earned. All other indirect acquisition costs are recognized as an expense when incurred. Amortization is recorded in the "Policy acquisition costs" in the statement of income.

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

An assessment is performed of the policies at each reporting date or more frequently if circumstances exist which require assessment. If the assumptions relating to future profitability of these policies are not realized, the amortization of these costs could be accelerated and this may also require write-offs in the statement of income. Deferred policy acquisition costs are also considered in the liability adequacy test at each reporting date.

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Liability adequacy test**

At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the insurance contracts liabilities net of related deferred policy acquisition costs. 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 accordingly.

**Receivables**

Contribution receivables are stated at gross written premiums receivable from insurance contracts, less an allowance for any uncollectible amounts. Contributions and retakaful balances receivable are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of receivable is reviewed for impairment at each reporting date and whenever events or circumstances indicate that the carrying amount may not be recoverable, the impairment loss is recorded in the statement of income. Receivable balances are derecognised when the Company no longer controls the contractual rights that comprise the receivable balance, which is normally the case when the receivable balance is sold, or all the cash flows attributable to the balance are passed through to an independent third party. Receivables disclosed in note 5 fall under the scope of IFRS 4 "Insurance contracts".

**Investments**

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

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

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

Available-for-sale financial assets are those non-derivative financial assets that are neither classified as held for trading or held to maturity or loans and receivables, nor are designated at fair value through profit or loss. Such investments are initially recorded at cost, being the fair value of the consideration given including transaction costs directly attributable to the acquisition of the investment and subsequently measured at fair value. Cumulative changes in fair value of such investments are recognized in other comprehensive income in the statement of comprehensive income. Realized gains or losses on sale of these investments are reported in the related statements of income under "Realized gain / (loss) on investments available for sale investments."

Dividend, commission income and foreign currency gain/loss on available-for-sale investments are recognized in the related statements of income or statement of comprehensive income – shareholders' operations, as part of the net investment income / loss.

Any significant or prolonged decline in fair value of available-for-sale investments is adjusted for and reported in the related statement of comprehensive income, as impairment charges.

Fair values of available-for-sale investments are based on quoted prices for marketable securities or estimated fair values.

For unquoted investments if any, fair value is determined by reference to the market value of a similar investment or where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Available-for-sale financial assets held to cover unit-linked liabilities represent assets associated with contracts, for which the investment risk lies predominantly with the contract holder. These represent investments in units of mutual funds, which are readily marketable.

*Held-to-maturity financial assets*

Investments having fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity are classified as held to maturity. Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortised cost, less provision for impairment in value if any. Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective yield basis. Any gain or loss on such investments is recognised in the statement of income when the investment is derecognised or impaired. The fair value of commission-bearing items, if any is estimated based on discounted cash flows using commission for items with similar terms and risk characteristics.

### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Derecognition of financial instruments**

The derecognition of a financial instrument takes place when the Company no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party and the Company has also transferred substantially all risks and rewards of ownership.

#### **Offsetting**

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the statement of income unless required or permitted by any accounting standard or interpretation.

#### **Trade date accounting**

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

#### **Impairment of financial assets**

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include:

- Significant financial difficulty of the issuer or debtor;
- A breach of contract, such as a default or delinquency in payments;
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Company, including:
  - adverse changes in the payment status of issuers or debtors in the Company; or
  - national or local economic conditions at the country of the issuers that correlate with defaults on the assets.

If there is objective evidence that an impairment loss on a financial asset exists, the impairment is determined as follows:

- For assets carried at fair value, impairment is the significant or prolonged decline in the fair value of the financial asset.
- For assets carried at amortized cost, impairment is based on estimated future cash flows that are discounted at the original effective commission rate.
- For available-for-sale financial assets, the Company assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

The determination of what is 'significant' or 'prolonged' requires judgment. A period of 12 months or longer is considered to be prolonged and a decline of 30% from original cost is considered significant as per Company policy. In making this judgment, the Company evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In making an assessment of whether an investment in debt instrument is impaired, the Company considers the factors such as market's assessment of creditworthiness as reflected in the bond yields, rating agencies' assessment of creditworthiness, country's ability to access the capital markets for new debt issuance and probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness. The amount recorded for impairment is the cumulative loss measured as

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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For the year ended 31 December 2018

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of income and statement of comprehensive income.

**Motor vehicles**

Motor vehicles are stated at cost less accumulated depreciation and any impairment losses. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred. The cost less estimated residual value of vehicles is depreciated on a straight line basis over the estimated useful life of 4 years.

The assets' residual values and useful lives are reviewed at each reporting date and adjusted if appropriate. The carrying values of these assets are reviewed for impairment when event or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in "Other operating income, net" in the statement of income.

**Intangible assets**

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

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

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

- Software - 5 years

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

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

**Leases**

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to statement of income with in other operating expenses on a straight-line basis over the period of the lease.

**Impairment of non-financial assets**

Assets that have an indefinite useful life – for example, land – are not subject to depreciation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units).

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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For the year ended 31 December 2018

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Employees' end-of-service benefits**

The Company operates an end of service benefit plan for its employees based on the prevailing Saudi Labor Laws. Accruals are made at the present value of expected future payments in respect of services provided by the employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. The benefit payments obligation is discharged as and when it falls due. Remeasurements (actuarial gains/ losses) as a result of experience adjustments and changes in actuarial assumptions are recognised in statement of comprehensive income.

**Provisions, accrued expenses and other liabilities**

Provisions are recognised when the Company has a present obligation (legal or constructive) arising from past events, and the costs to settle the obligation are both probable and may be measured reliably. Provisions are not recognised for future operating losses. Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

**Dividend distribution**

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

**Zakat and income taxes**

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations. Income taxes are computed on the foreign shareholders share of net adjusted income for the year. Zakat and income tax is accrued on a quarterly basis through shareholders' equity under retained earnings.

**Cash and cash equivalents**

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

**Foreign currencies**

Transactions in foreign currencies are recorded in Saudi Riyals at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated to Saudi Riyals at the rate of exchange prevailing at the statement of financial position date. All differences are taken to the statements of income and comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated.

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

**Operating segments**

A segment is a distinguishable component of the Company that is engaged in providing products or services (a business segment), which is subject to risk and rewards that are different from those of other segments. The operating results of the segment are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. For management purposes, the Company is organised into business units based on their products and services and has three reportable operating segments as follow:

- (i) Individual Family Takaful products meet individual customer needs such as financial protection for dependents in the event of death or disability of the planholder, children education, saving for retirement and protection for the family and similar products. These products cater to various segments of the Saudi market.

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Operating segments (continued)**

- (ii) Group Family Takaful products provide cover for employees and their families in the event of death or total and permanent disability. Packaged as group takaful solutions, they meet the protection needs of groups of various natures and sizes and are ideal for corporations or institutions.
- (iii) General Takaful products for companies provide companies with cover mainly for property, personal accident and marine cargo for unpredictable events. General Takaful solutions for individuals protect the individuals and their families against unfortunate events with respect to the planholder's home property, incidences during travel and personal accident.

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

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

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

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

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

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

**Statutory reserve**

In accordance with the bye-laws, the Company shall allocate 20% of its net income each year to the legal reserve until it has built up a reserve equal to the issued share capital. The reserve is not available for distribution.

**Fair values**

The fair value of financial assets are based on quoted prices for marketable securities or estimated fair values. The fair value of commission-bearing items is estimated based on discounted cash flow using commission for items with similar terms and risk characteristics.

For financial assets where there is no active market, fair value is determined by reference to the market value of a similar financial assets or where the fair values cannot be derived from active market, they are determined using a variety of valuation techniques. The inputs of this models is taken from observable market where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

**Reserve for takaful activities**

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



**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

**Product classification**

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

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

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

**Surrenders and maturities**

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

**Earnings per share**

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

**Cash flow statement**

The Company's main cash flows are from insurance operations which are classified as cash flow from operating activities. Cash flows generated from investing and financing activities are classified accordingly.

**Surplus distribution**

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

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2018

**4 INVESTMENTS**

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

	<i>31 December 2018</i> <i>SAR'000</i>	
	<i>Takaful Operations</i>	<i>Shareholders' Operations</i>
<i>Available-for-sale investments – Quoted</i>		
Investment in Amanah Mutual Funds – 4 (c)	352,115	-
<i>Held-to-maturity investments – Unquoted</i>		
General Authority of Civil Aviation Sukuk (GACA - I)	-	50,580
The National Industrialization Company Sukuk (TASNEE)	-	50,230
Bank AlBilad Sukuk	-	20,089
	-	120,899
<b>Total investments</b>	<b>352,115</b>	<b>120,899</b>

	<i>31 December 2017</i> <i>SAR'000</i>	
	<i>Takaful Operations</i>	<i>Shareholders' Operations</i>
<i>Available-for-sale investments – Quoted</i>		
Investment in Amanah Mutual Funds – 4 (c)	381,037	-
<i>Held-to-maturity investments – Unquoted</i>		
Saudi Hollandi Bank Sukuk (SHB-IV)	-	5,010
General Authority of Civil Aviation Sukuk (GACA - I)	-	50,576
The National Industrialization Company Sukuk (TASNEE)	-	50,177
The Power and Water Utility Company for Jubail and Yanbu Sukuk (MARAFIQ)	-	12,033
Bank AlBilad Sukuk	-	20,068
	-	137,864
<b>Total investments</b>	<b>381,037</b>	<b>137,864</b>

**b) Held-to-maturity financial assets**

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

	<i>2018</i> <i>SAR'000</i>	<i>2017</i> <i>SAR'000</i>
Government and quasi government	50,580	50,576
Banks and other financial institutions	20,089	25,078
Corporate	50,230	62,210
	120,899	137,864

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2018

**4 INVESTMENTS (CONTINUED)**

**b) Held-to-maturity financial assets (continued)**

The analysis of held-to-maturity investments by class of assets is as follows:

	<b>2018</b> <b>SAR'000</b>	<b>2017</b> <b>SAR'000</b>
Fixed-rate securities	50,580	50,576
Floating-rate securities	70,319	87,288
	<u>120,899</u>	<u>137,864</u>

The movements in investments held to maturity are as follows:

	<b>2018</b> <b>SAR'000</b>	<b>2017</b> <b>SAR'000</b>
Balance at the beginning of the year	137,864	188,095
Matured during the year	(16,965)	(50,231)
	<u>120,899</u>	<u>137,864</u>

All the held-to-maturity investments are un-quoted as well as domestic in nature.

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

<b>Maturity profile</b>	<b>Maturity date</b>
- General Authority of Civil Aviation Sukuk (GACA - I)	18 January 2022
- The National Industrialization Company Sukuk (TASNEE)	21 May 2019
- Bank AlBilad Sukuk	30 August 2021

The average commission rate on held-to-maturity investments at 31 December 2018 is 3.30 % per annum (2017: 3.10 % per annum).

The fair value of held-to-maturity investments as at 31 December 2018 is SAR 120.90 million (31 December 2017: SAR 137.86 million).

**c) Available- for-sale financial assets**

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

<b>Name of the fund</b>	<b>2018</b> <b>SAR'000</b>	<b>2017</b> <b>SAR'000</b>
Multi-Assets Balanced Fund	203,578	215,650
Multi-Assets Defensive Fund	47,815	55,947
Multi-Assets Growth Fund	81,820	86,126
Saudi Riyal Trading Fund	18,902	23,314
	<u>352,115</u>	<u>381,037</u>

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

# SABB Takaful Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 4 INVESTMENTS (CONTINUED)

#### c) Available- for-sale financial assets (continued)

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

	2018 <i>SAR'000</i>	2017 <i>SAR'000</i>
Balance as at the beginning of the year	381,037	353,740
Purchased during the year	77,971	96,953
Sold during the year	(110,957)	(94,661)
	<u>348,051</u>	<u>356,032</u>
Net change in fair values of investments	4,064	25,005
Balance as at the end of the year	<u>352,115</u>	<u>381,037</u>

#### d) Credit quality of total investments

	2018 <i>SAR'000</i>	2017 <i>SAR'000</i>
Saudi sovereign debt	50,580	50,576
Investment grade	20,089	25,078
Unrated	402,345	443,247
Total	<u>473,014</u>	<u>518,901</u>

Investments classified under investment grade above comprise of credit exposures equivalent to A to A- ratings under Standard and Poor's and Moody's ratings methodology. The unrated investments comprise of TASNEE Sukuk, and available-for-sale investments in mutual funds.

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

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

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

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

The Company's available-for-sale and held to maturity investments are classified under Level 1 and Level 3 hierarchy respectively.

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2018

**5 CONTRIBUTIONS AND RETAKAFUL RECEIVABLES, NET**

	<i>2018</i> <i>SAR'000</i>	<i>2017</i> <i>SAR'000</i>
Policyholders	7,992	8,329
Reinsurers	7,220	2,467
Due from a shareholder (The Saudi British Bank)	13	5,771
	<u>15,225</u>	<u>16,567</u>
Provision for impairment	<u>(2,575)</u>	<u>(2,071)</u>
	<u>12,650</u>	<u>14,496</u>

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

	<i>2018</i> <i>SAR'000</i>	<i>2017</i> <i>SAR'000</i>
At the beginning of the year	2,071	1,019
Provision during the year	504	1,052
At the end of the year	<u>2,575</u>	<u>2,071</u>

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

		<b>Past due but not impaired</b>			
	<b>Total</b> <b>SAR'000</b>	<b>Neither past</b> <b>due nor</b> <b>impaired</b> <b>SAR'000</b>	<b>91 to 180 days</b> <b>SAR'000</b>	<b>181 to 365</b> <b>days</b> <b>SAR'000</b>	<b>More than</b> <b>365 days</b> <b>SAR'000</b>
<b>31 December 2018</b>	<b>12,650</b>	<b>10,581</b>	<b>1,388</b>	<b>487</b>	<b>194</b>
31 December 2017	14,496	9,462	2,489	2,445	100

The Company classifies balances as 'past due and impaired' on a case-to-case basis. An impairment adjustment is recorded in the statement of income. It is not the practice of the Company to obtain collateral over receivables. Balances, which are neither past due nor impaired, include a balance due from The Saudi British Bank, a shareholder of the Company amounting to Nil (2017: SAR 4.87 million), which has a sound credit rating issued by external rating agencies. Past due but not impaired balances include SAR 0.01 million (2017: SAR 1.59 million) from The Saudi British Bank. Unimpaired receivable balances are expected, on the basis of past experience, to be fully recoverable.

The Company only enters into takaful and retakaful contracts with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables are monitored on an ongoing basis in order to reduce the Company's exposure to bad debts.

The five largest customers account for 49% (December 31, 2017: 69%) of the premiums receivable as at December 31, 2018.

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2018

**6 PREPAID EXPENSES AND OTHER ASSETS**

	2018 SAR'000		
	<i>Takaful Operations</i>	<i>Shareholders' Operations</i>	<i>Total</i>
Due from a related party	440	-	440
Prepayments and others	403	389	792
	<u>843</u>	<u>389</u>	<u>1,232</u>

	2017 SAR'000		
	<i>Takaful Operations</i>	<i>Shareholders' Operations</i>	<i>Total</i>
Due from a related party	860	-	860
Prepayments and others	603	275	878
	<u>1,463</u>	<u>275</u>	<u>1,738</u>

**7 CASH AND CASH EQUIVALENTS**

	2018 SAR'000		
	<i>Takaful Operations</i>	<i>Shareholders' Operations</i>	<i>Total</i>
Bank balances	19,011	2,858	21,869
Murabaha deposits	30,696	191,454	222,150
	<u>49,707</u>	<u>194,312</u>	<u>244,019</u>

	2017 SAR'000		
	<i>Takaful Operations</i>	<i>Shareholders' Operations</i>	<i>Total</i>
Bank balances	18,706	7,062	25,768
Murabaha deposits	15,040	198,291	213,331
	<u>33,746</u>	<u>205,353</u>	<u>239,099</u>

Bank balances are maintained only with The Saudi British Bank, a shareholder of the Company. Further, no murabaha deposits are held with The Saudi British Bank as at 31 December 2018 and 2017.

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

Murabaha deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company. The average variable commission rate on murabaha deposits at 31 December 2018 is 2.44 % per annum (2017: 1.55 % per annum).

**8 STATUTORY DEPOSIT**

In accordance with Article 58 of the Insurance Implementing Regulations of SAMA, the Company has deposited 10 percent of its share capital, amounting to SAR 34 million (2017: SAR 34 million) in a bank designated by SAMA. The statutory deposit is maintained with The Saudi British Bank and can be withdrawn only with the consent of SAMA.

# SABB Takaful Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 9 MOVEMENT IN RESERVE FOR TAKAFUL ACTIVITIES, NET UNEARNED CONTRIBUTION, DEFERRED POLICY ACQUISITION COST AND UNEARNED RETAKAFUL COMMISSION

#### a) Movement in reserve for takaful activities

	2018 SAR'000	2017 SAR'000
Balance as at the beginning of the year	381,037	353,740
Changes in reserve during the year	(17,983)	23,233
Planholder charges	(15,003)	(20,941)
Net change in fair value of investments	4,064	25,005
Balance as at the end of the year	352,115	381,037

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

#### b) Movement in net unearned contribution

	2018		
	Gross SAR'000	Retakaful share SAR'000	Net SAR'000
Balance as at the beginning of the year	14,389	(10,802)	3,587
Contribution written during the year	61,995	(41,423)	20,572
Contribution earned during the year	(66,819)	45,256	(21,563)
Balance as at the end of the year	9,565	(6,969)	2,596

	2017		
	Gross SAR'000	Retakaful share SAR'000	Net SAR'000
Balance as at the beginning of the year	20,574	(13,976)	6,598
Contribution written during the year	78,131	(52,362)	25,769
Contribution earned during the year	(84,316)	55,536	(28,780)
Balance as at the end of the year	14,389	(10,802)	3,587

#### c) Movement in deferred policy acquisition costs and unearned retakaful commission

	2018		
	Gross SAR'000	Retakaful share SAR'000	Net SAR'000
Balance as at the beginning of the year	824	(2,555)	(1,731)
Incurred during the year	1,019	(2,290)	(1,271)
Amortised during the year	(824)	2,555	1,731
Balance as at the end of the year	1,019	(2,290)	(1,271)

	2017		
	Gross SAR'000	Retakaful share SAR'000	Net SAR'000
Balance as at the beginning of the year	1,085	(2,794)	(1,709)
Incurred during the year	824	(2,555)	(1,731)
Amortised during the year	(1,085)	2,794	1,709
Balance as at the end of the year	824	(2,555)	(1,731)

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2018

**9 MOVEMENT IN RESERVE FOR TAKAFUL ACTIVITIES, NET UNEARNED CONTRIBUTION, DEFERRED POLICY ACQUISITION COST AND UNEARNED RETAKAFUL COMMISSION (CONTINUED)**

**d) Non-unit reserve**

During the year ended 31 December 2018, the Company has recorded a non-unit reserve of SAR 5.6 million (2017: SAR 4.3 million) pertaining to individual family segment. The reserve is calculated based on the present value of future assumed expenses less the present value of future income arising from charges on all individual family policies.

**e) Unexpired risk reserve**

This reserve comprises of an expense overrun reserve of SAR 0.57 million (2017: SAR 2.87 million) and premium deficiency reserve of SAR 2.42 million (2017: SAR 2.66 million) pertaining to group family and general takaful segments respectively.

**10 PROVISION FOR EMPLOYEES' END-OF-SERVICE BENEFITS**

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:

	<i>2018</i> <i>SAR'000</i>	<i>2017</i> <i>SAR'000</i>
Defined benefit obligation at the beginning of the year	7,091	7,030
Current service cost	885	37
Benefits paid	(3,259)	(151)
Transfer in	161	-
Remeasurements of retirement benefit obligations – Unrecognized actuarial loss	38	175
Defined benefit obligation at the closing of the year	<u>4,916</u>	<u>7,091</u>

**10.1 Principal actuarial assumptions**

<u>Actuarial assumptions</u>	<u>Discount Rate</u>
- Discount rate	3%
- Salary growth rate	3%

Assumptions regarding future mortality are set based on actuarial advice in accordance with the statistics and experience in the region.

**10.2 Sensitivity of actuarial assumptions**

	<i>SAR'000</i>		
	<u>Impact on defined benefit obligation</u>		
	<u>Change in assumption</u>	<u>Increase in assumption</u>	<u>Decrease in assumption</u>
Discount rate	1 %	4,430	5,492
Salary growth increase	1 %	5,486	4,426



**SABB Takaful Company (A Saudi Joint Stock Company)**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2018

**11 CLAIMS**

**a) Net claims incurred**

	<i>For the year ended 31 December 2018</i>		
	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>
	<i>Family Takaful</i>	<i>General Takaful</i>	<i>Total</i>
Claims paid	42,021	3,317	45,338
Re-takaful share of claims paid	(32,117)	(2,771)	(34,888)
Net claims paid	9,904	546	10,450
Changes in outstanding claims and IBNR	(20,034)	7,691	(12,343)
Changes in re-takaful share of outstanding claims and IBNR	14,922	(6,570)	8,352
Net claims incurred	4,792	1,667	6,459

	<i>For the year ended 31 December 2017</i>		
	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>
	<i>Family Takaful</i>	<i>General Takaful</i>	<i>Total</i>
Claims paid	40,778	4,739	45,517
Re-takaful share of claims paid	(29,936)	(3,118)	(33,054)
Net claims paid	10,842	1,621	12,463
Changes in outstanding claims and IBNR	12,146	(919)	11,227
Changes in re-takaful share of outstanding claims and IBNR	(9,986)	267	(9,719)
Net claims incurred	13,002	969	13,971

**b) Outstanding claims**

	<i>2018</i>		
	<i>Gross SAR'000</i>	<i>Retakaful share SAR'000</i>	<i>Net SAR'000</i>
Family Takaful outstanding claims			
- Outstanding claim reserves	18,988	(14,033)	4,955
- Incurred but not reported reserve and other reserves	20,337	(15,679)	4,658
General Takaful outstanding claims			
- Outstanding claim reserves	27,302	(25,629)	1,673
- Incurred but not reported reserve and other reserves	4,559	(2,389)	2,170
Total outstanding claims	71,186	(57,730)	13,456

	<i>2017</i>		
	<i>Gross SAR'000</i>	<i>Retakaful share SAR'000</i>	<i>Net SAR'000</i>
Family Takaful outstanding claims			
- Outstanding claim reserves	35,717	(27,027)	8,690
- Incurred but not reported reserve and other reserves	23,642	(17,607)	6,035
General Takaful outstanding claims			
- Outstanding claim reserves	19,392	(18,521)	871
- Incurred but not reported reserve and other reserves	4,778	(2,927)	1,851
Total outstanding claims	83,529	(66,082)	17,447

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2018

**11 CLAIMS (continued)**

**c) Credit quality of retakaful share of outstanding claims**

	2018 SAR'000	2017 SAR'000
Investment grade	<u>57,730</u>	<u>66,082</u>

Investment grade above comprise of credit exposures equivalent to A+ to BBB ratings under Standard & Poor's ratings methodology.

**12 ACCRUED AND OTHER LIABILITIES**

	2018 SAR'000		
	<i>Takaful Operations</i>	<i>Shareholders</i>	<i>Total</i>
Accounts payable and accruals	16,051	1,414	17,465
Due to related parties	1,700	-	1,700
Payable to agents	213	-	213
	<u>17,964</u>	<u>1,414</u>	<u>19,378</u>
	2017 SAR'000		
	<i>Takaful Operations</i>	<i>Shareholders</i>	<i>Total</i>
Accounts payable and accruals	15,649	1,493	17,142
Due to related parties	1,401	-	1,401
Payable to agents	167	-	167
	<u>17,217</u>	<u>1,493</u>	<u>18,710</u>

**13 SHARE CAPITAL**

The authorized, issued and fully paid up share capital of the Company consists of 34 million ordinary shares of SAR 10 each. On 23 November 2017, HSBC Asia Holdings B.V and related group entities sold their shareholding of 32.5% in SABB Takaful Company to The Saudi British Bank. Consequently, SABB Takaful Company has become a subsidiary of The Saudi British Bank. The shareholding structure of the Company as at 31 December 2018 and 31 December 2017 is as follows:

**As at 31 December 2018**

Shareholders	Shareholding	SAR'000
The Saudi British Bank	65.00%	221,000
Other	35.00%	119,000
	<u>100.00%</u>	<u>340,000</u>

**As at 31 December 2017**

Shareholders	Shareholding	SAR'000
The Saudi British Bank	65.00%	221,000
Other	35.00%	119,000
	<u>100.00%</u>	<u>340,000</u>

**14 STATUTORY RESERVE**

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

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2018

**15 PROVISION FOR ZAKAT AND INCOME TAX**

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

	<i>2018</i> <i>SAR'000</i>	<i>2017</i> <i>SAR'000</i>
Provision for zakat	6,017	4,445
Provision for tax	17	(31)
	<u>6,034</u>	<u>4,414</u>

**b) Zakat charge for the year**

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

	<i>2018</i> <i>SAR'000</i>	<i>2017</i> <i>SAR'000</i>
Equity	351,302	361,201
Opening allowances and other adjustments	9,162	8,049
Book value of long term assets	(35,681)	(37,560)
	<u>324,783</u>	<u>331,690</u>
 Saudi shareholders' share @ 74% (2017: 54.5%)	 240,339	 180,771
 Saudi shareholders' share of adjusted profit/(loss) for the year	 341	 (2,691)
 Saudi shareholders' share of the zakat base	 <u>240,680</u>	 <u>178,080</u>
 Zakat charge for the year @ 2.5%	 <u>6,017</u>	 <u>4,452</u>

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

**c) Movements in zakat provision**

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

	<i>2018</i> <i>SAR'000</i>	<i>2017</i> <i>SAR'000</i>
At the beginning of the year	4,452	4,634
Charge during the year	6,017	4,452
Prior year adjustment	-	(7)
Payments during the year	(4,452)	(4,627)
At the end of the year	<u>6,017</u>	<u>4,452</u>

**d) Income tax charge for the year**

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

	<i>2018</i> <i>SAR'000</i>	<i>2017</i> <i>SAR'000</i>
At the beginning of the year	-	1,067
Charge during the year	17	-
Prior year adjustment	-	(31)
Payments during the year	-	(1036)
At the end of the year	<u>17</u>	<u>-</u>

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2018

**15 PROVISION FOR ZAKAT AND INCOME TAX (CONTINUED)**

**e) Status of assessments**

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

On 27 November 2018, GAZT has issued the final tax/zakat assessments for the years ended 31 December 2011 to 2014. In connection with the above assessments of GAZT for the year 2011 to 2014, the Company requested GAZT to provide the details of the tax/zakat assessments in order to provide the Company's point of view on GAZT's action. Accordingly, the GAZT provided the details of tax/zakat and withholding tax assessments for the years ended 31 December 2011 to 2014 including the tax/zakat assessment for the year 2015 and withholding tax assessment for the years 2011 to 2015. During the quarter ended 31 December 2018, the Company had filed an appeal against the above mentioned assessments. The management believes that the Company is in a strong position in the appeal filed as mainly it relates to matters already decided in Company's favour in earlier appeals relating to previous assessments (2007-2010).

**16 SURPLUS DISTRIBUTION PAYABLE**

	<i>2018</i> <i>SAR'000</i>	<i>2017</i> <i>SAR'000</i>
Opening surplus distribution payable as at January 1	6,593	6,144
Total income attributed to the insurance operations during the year	-	496
Surplus paid to policy holders	-	(47)
Closing surplus distribution payable as at December 31	<u>6,593</u>	<u>6,593</u>

**17 NET CONTRIBUTION EARNED AND PLANHOLDER CHARGES**

	<i>For the year ended 31 December 2018</i>		
	<i>Family</i> <i>Takaful</i> <i>SAR'000</i>	<i>General</i> <i>Takaful</i> <i>SAR'000</i>	<i>Total</i> <i>SAR'000</i>
Gross written contribution	119,544	20,422	139,966
Planholder charges	15,003	-	15,003
Re-takaful contribution ceded	(26,228)	(16,183)	(42,411)
Changes in gross unearned contributions	185	4,639	4,824
Changes in retakaful share of unearned contributions	(101)	(3,732)	(3,833)
Net contribution earned and planholder charges	<u>108,403</u>	<u>5,146</u>	<u>113,549</u>

	<i>For the year ended 31 December 2017</i>		
	<i>Family</i> <i>Takaful</i> <i>SAR'000</i>	<i>General</i> <i>Takaful</i> <i>SAR'000</i>	<i>Total</i> <i>SAR'000</i>
Gross written contribution	148,386	26,698	175,084
Planholder charges	20,941	-	20,941
Re-takaful contribution ceded	(31,437)	(21,858)	(53,295)
Changes in gross unearned contributions	5,216	969	6,185
Changes in retakaful share of unearned contributions	(2,388)	(786)	(3,174)
Net contribution earned and planholder charges	<u>140,718</u>	<u>5,023</u>	<u>145,741</u>

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2018

**18 SURRENDERS AND MATURITIES**

	<b>SAR'000</b>	
	<b>2018</b>	<b>2017</b>
Surrenders	60,207	51,897
Maturities	35,747	21,823
	<u>95,954</u>	<u>73,720</u>

**19 GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>2018</b>		
	<b>SAR'000</b>		
	<b>Takaful Operations</b>	<b>Shareholders' Operations</b>	<b>Total</b>
Employee costs	26,499	-	26,499
IT maintenance costs	2,864	610	3,474
Legal and professional charges	5,172	-	5,172
Rent expenses	512	-	512
Travel expenses	173	-	173
Directors' fees and other expenses	-	1,149	1,149
Other	4,609	1,179	5,788
	<u>39,829</u>	<u>2,938</u>	<u>42,767</u>

	<b>2017</b>		
	<b>SAR'000</b>		
	<b>Takaful Operations</b>	<b>Shareholders' Operations</b>	<b>Total</b>
Employee costs	24,277	-	24,277
IT maintenance costs	3,823	-	3,823
Legal and professional charges	3,086	501	3,587
Rent expenses	570	-	570
Travel expenses	70	-	70
Directors' fees and other expenses	-	918	918
Other	5,191	1,459	6,650
	<u>37,017</u>	<u>2,878</u>	<u>39,895</u>

**20 BASIC AND DILUTED EARNINGS/ (LOSS) PER SHARE**

	<b>2018</b>	<b>2017</b>
The basic and diluted earnings/ (loss) per share are calculated as follows:		
Net profit/ (loss) for the year (SAR'000)	<u>1,056</u>	<u>(5,485)</u>
Weighted average number of ordinary shares (Number in thousands)	<u>34,000</u>	<u>34,000</u>
Earnings/ (loss) per share (SAR)	<u>0.03</u>	<u>(0.16)</u>

# SABB Takaful Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 21 FAIR VALUE OF FINANCIAL INSTRUMENTS

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 fair value measurement is based on the presumption that the transaction takes place either:

- in the accessible principal market for the asset or liability, or
- in the absence of a principal market, in the most advantages accessible market for the asset or liability

The management assessed that cash and short-term deposits, receivables from related parties, loans to related parties, trade and other payables, bank overdrafts, variable rate loans and other financial liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

#### Determination of fair value and fair value hierarchy

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 or identical instrument that an entity can access at the measurement date;

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.

#### a) Carrying amounts and fair value

The following table shows the carrying amount and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation to fair value.

31 December 2018

SAR'000	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
- Available for sale financial assets	352,115	352,115	-	-	352,115
Financial assets not measured at fair value					
- Held-to-maturity financial assets	120,899	-	-	120,899	120,899
- Cash and cash equivalents	244,019	-	-	244,019	244,019
	364,918	-	-	364,918	364,918
Financial liabilities measured at fair value					
through statement of income					
- Reserve for takaful activities	-	352,115	-	-	352,115
	-	352,115	-	-	352,115

31 December 2017

SAR'000	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
- Available for sale financial assets	381,037	381,037	-	-	381,037
Financial assets not measured at fair value					
- Held-to-maturity financial assets	137,864	-	-	137,864	137,864
- Cash and cash equivalents	239,099	-	-	239,099	239,099
	376,963	-	-	376,963	376,963
Financial liabilities measured at fair value					
through statement of income					
- Reserve for takaful activities	-	381,037	-	-	381,037
	-	381,037	-	-	381,037

# SABB Takaful Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 22 SEGMENTAL INFORMATION

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

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

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

	<i>Shareholders' Operations SAR'000</i>	<i>Individual Family (Protection &amp; Savings) SAR'000</i>	<i>Group Family (Protection &amp; Savings) SAR'000</i>	<i>General Takaful SAR'000</i>	<i>Total SAR'000</i>
<b>For the year ended 31 December 2018</b>					
Gross contributions written	-	77,971	41,573	20,422	139,966
Net contributions written	-	91,986	16,333	4,239	112,558
Net contributions earned	-	91,986	16,417	5,146	113,549
Fees and commission income	-	78	266	5,492	5,836
Total revenue	-	92,064	16,683	10,638	119,385
Net claims and other benefits incurred	-	(95,901)	(4,845)	(1,667)	(102,413)
Changes in reserve for takaful activities	-	17,983	-	-	17,983
Changes in non-unit reserve	-	(1,268)	-	-	(1,268)
Changes in unexpired risk reserve	-	-	2,302	239	2,541
Policy acquisition costs	-	(935)	(469)	(2,148)	(3,552)
Net underwriting income for the year	-	11,943	13,671	7,062	32,676
General and administrative expenses	(2,938)	(14,689)	(12,578)	(12,562)	(42,767)
Rebate income	-	1,598	-	-	1,598
Income from deposits	4,601	286	220	205	5,312
Income from sukuk	4,237	-	-	-	4,237
Total income /(loss) for the year	5,900	(862)	1,313	(5,295)	1,056
Purchase of intangibles	741	-	-	-	741
Amortisation	610	-	-	-	610
Depreciation	83	-	-	-	83

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

22 SEGMENTAL INFORMATION (CONTINUED)

	Shareholders' Operations SAR'000	Individual Family (Protection & Savings) SAR'000	Group Family (Protection & Savings) SAR'000	General Takaful SAR'000	Total SAR'000
For the year ended 31 December 2017					
Gross contributions written	-	96,953	51,433	26,698	175,084
Net contributions written	-	116,961	20,929	4,840	142,730
Net contributions earned	-	116,961	23,757	5,023	145,741
Fees and commission income	-	426	184	5,133	5,743
Total revenue	-	117,387	23,941	10,156	151,484
Net claims and other benefits incurred	-	(75,688)	(11,034)	(969)	(87,691)
Changes in reserve for takaful activities	-	(23,233)	-	-	(23,233)
Changes in non-unit reserve	-	(4,311)	-	-	(4,311)
Changes in unexpired risk reserve	-	-	(2,868)	(2,663)	(5,531)
Policy acquisition costs	-	(2,214)	(1,134)	(2,290)	(5,638)
Net underwriting income for the year	-	11,941	8,905	4,234	25,080
General and administrative expenses	(2,878)	(13,702)	(12,135)	(11,180)	(39,895)
Rebate income	-	1,340	-	-	1,340
Income from deposits	2,717	184	54	-	2,955
Income from sukuk	5,035	-	-	-	5,035
Total income /(loss) for the year	4,874	(237)	(3,176)	(6,946)	(5,485)
Purchase of intangibles	1,104	-	-	-	1,104
Purchase of motor vehicle	201	-	-	-	201
Proceeds from sale of motor vehicle	19	-	-	-	19
Amortisation	499	-	-	-	499
Depreciation	80	-	-	-	80
31 December 2018					
Intangible assets	1,859	-	-	-	1,859
Fixed assets	146	-	-	-	146
<b>Assets</b>					
Cash and cash equivalents	194,312	22,402	14,314	12,991	244,019
Contributions and retakaful receivables, net	-	-	8,990	3,660	12,650
Retakaful share of unearned contributions	-	-	485	6,484	6,969
Retakaful share of outstanding claims	-	226	29,486	28,018	57,730
Deferred policy acquisition costs	-	-	47	972	1,019
Available-for-sale financial assets	-	352,115	-	-	352,115
Held-to-maturity financial assets	120,899	-	-	-	120,899
Statutory deposit	34,000	-	-	-	34,000
Unallocated assets	-	-	-	-	6,746
Total assets					836,147
<b>Liabilities</b>					
Retakaful balances payable	-	471	(408)	5,817	5,880
Unearned contributions	-	-	1,431	8,134	9,565
Unearned retakaful commission	-	-	-	2,290	2,290
Gross outstanding claims	-	1,285	38,040	31,861	71,186
Unexpired risk reserve	-	-	566	2,425	2,991
Non-unit reserve	-	5,579	-	-	5,579
Provision for employees' end-of-service benefits	-	1,642	1,437	1,837	4,916
Reserve for takaful activities	-	352,115	-	-	352,115
Unallocated liabilities	-	-	-	-	35,514
Total liabilities					490,036



# SABB Takaful Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 22 SEGMENTAL INFORMATION (CONTINUED)

	Shareholders' Operations SAR'000	Individual Family (Protection & Savings) SAR'000	Group Family (Protection & Savings) SAR'000	General Takaful SAR'000	Total SAR'000
31 December 2017 (Audited)					
Intangible assets	1,728	-	-	-	1,728
Fixed assets	229	-	-	-	229
<b>Assets</b>					
Cash and cash equivalents	205,353	18,844	12,876	2,026	239,099
Contributions and retakaful receivables, net	-	-	2,210	12,286	14,496
Retakaful share of unearned contributions	-	-	587	10,215	10,802
Retakaful share of outstanding claims	-	438	44,196	21,448	66,082
Deferred policy acquisition costs	-	-	61	763	824
Available-for-sale financial assets	-	381,037	-	-	381,037
Held-to-maturity financial assets	137,864	-	-	-	137,864
Statutory deposit	34,000	-	-	-	34,000
Unallocated assets	-	-	-	-	6,495
<b>Total assets</b>					<b>890,699</b>
<b>Liabilities</b>					
Retakaful balances payable	-	356	212	8,006	8,574
Gross unearned contributions	-	-	1,617	12,772	14,389
Unearned commission income	-	-	-	2,555	2,555
Gross outstanding claims	-	2,082	57,278	24,169	83,529
Unexpired risk reserve	-	-	2,868	2,663	5,531
Non-unit reserve	-	4,311	-	-	4,311
Provision for employees' end-of-service benefits	-	2,207	2,088	2,796	7,091
Reserve for takaful activities	-	381,037	-	-	381,037
Unallocated liabilities	-	-	-	-	32,555
<b>Total liabilities</b>					<b>539,572</b>

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

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2018

**23 RELATED PARTY TRANSACTIONS AND BALANCES**

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

**a) Transactions with related parties**

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

	2018 SAR'000	2017 SAR'000
<b>The Saudi British Bank</b> (a shareholder of the Company)		
Contributions	39,254	47,531
Claims paid	31,964	27,532
Other expenses		
- IT maintenance cost and related expenses	2,695	3,664
- Overheads	-	189
Investment income on murabaha deposits	896	167
<b>Other entities controlled, jointly controlled or significantly influenced by related parties</b>		
Policy acquisition costs paid	3,581	3,746
 <i>HSBC Saudi Arabia Limited – IBSA</i>		
Contributions	149	820
Rebate on unit-linked investments	1,598	1,340

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

**b) Balances with related parties**

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

	Nature	Notes	2018 Amounts in '000	2017
<b>HSBC Saudi Arabia Limited</b>				
Available-for-sale financial assets *	Asset	4(c)	352,115	381,037
Rebate on unit-linked financial assets	Asset	6	440	860
Contribution receivable – gross	Asset	5	-	695
 <b>The Saudi British Bank</b>				
Contribution receivable – gross	Asset	5	13	5,771
Bank balances	Asset	7	21,869	25,768
Statutory deposit	Asset	8	34,000	34,000
Gross outstanding claims	Liability	11(b)	26,560	37,688
Other expenses under service level agreement	Liability	12	776	358
Profit commission payable	Liability	12	-	176
 <b>SABB Insurance Agency Limited</b>				
Commission payable	Liability	12	924	867

\* policyholders' asset under management

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

**23 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)****c) Compensation of key management personnel**

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

	2018 SAR'000		2017 SAR'000	
	<i>Takaful Operations</i>	<i>Shareholders' Operations</i>	<i>Takaful Operations</i>	<i>Shareholders' Operations</i>
Salaries and other benefits (including end-of-service benefits)	3,917	-	4,171	-
Directors' fees and other expenses	<u>-</u>	<u>926</u>	<u>-</u>	<u>797</u>
Number of key management personnel	<u>5</u>	<u>8</u>	<u>5</u>	<u>10</u>

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

Available-for-sale financial assets pertaining to unit-linked policies as at 31 December 2018 amounting to SAR 352.12 million (2017: SAR 381.04 million) comprise investments in units of mutual funds managed by HSBC Saudi Arabia Limited, being a related party of the Company.

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2018

**24 SUPPLEMENTARY INFORMATION**

**Financial position**

SAR '000

	2018			2017		
	Takaful Operations	Shareholders' Operations	Total	Takaful Operations	Shareholders' Operations	Total
<b>ASSETS</b>						
Cash and cash equivalents	49,707	194,312	244,019	33,746	205,353	239,099
Contributions and retakaful receivables, net	12,650	-	12,650	14,496	-	14,496
Retakaful share of unearned contributions	6,969	-	6,969	10,802	-	10,802
Retakaful share of outstanding claims	57,730	-	57,730	66,082	-	66,082
Deferred policy acquisition costs	1,019	-	1,019	824	-	824
Due from/ (to) shareholders/ takaful operations	(2,167)	2,167	-	22,202	(22,202)	-
Available-for-sale financial assets	352,115	-	352,115	381,037	-	381,037
Held-to-maturity financial assets	-	120,899	120,899	-	137,864	137,864
Prepaid expenses and other assets	843	389	1,232	1,463	275	1,738
Fixed assets	-	146	146	-	229	229
Intangible assets	-	1,859	1,859	-	1,728	1,728
Statutory deposit	-	34,000	34,000	-	34,000	34,000
Accrued income on statutory deposit	-	3,509	3,509	-	2,800	2,800
<b>TOTAL ASSETS</b>	<b>478,866</b>	<b>357,281</b>	<b>836,147</b>	<b>530,652</b>	<b>360,047</b>	<b>890,699</b>
<b>LIABILITIES</b>						
Accrued and other liabilities	17,964	1,414	19,378	17,217	1,493	18,710
Provision for zakat and income tax	-	6,034	6,034	-	4,452	4,452
Retakaful balances payable	5,880	-	5,880	8,574	-	8,574
Unearned contributions	9,565	-	9,565	14,389	-	14,389
Unearned retakaful commission	2,290	-	2,290	2,555	-	2,555
Gross outstanding claims	71,186	-	71,186	83,529	-	83,529
Unexpired risk reserve	2,991	-	2,991	5,531	-	5,531
Non-unit reserve	5,579	-	5,579	4,311	-	4,311
Provision for employees' end-of-service benefits	4,916	-	4,916	7,091	-	7,091
Surplus distribution payable	6,593	-	6,593	6,593	-	6,593
Reserve for takaful activities	352,115	-	352,115	381,037	-	381,037
Accrued income on statutory deposit	-	3,509	3,509	-	2,800	2,800
<b>TOTAL LIABILITIES</b>	<b>479,079</b>	<b>10,957</b>	<b>490,036</b>	<b>530,827</b>	<b>8,745</b>	<b>539,572</b>
Takaful operations' surplus	-	-	-	-	-	-
<b>TOTAL LIABILITIES AND TAKAFUL OPERATIONS' SURPLUS</b>	<b>479,079</b>	<b>10,957</b>	<b>490,036</b>	<b>530,827</b>	<b>8,745</b>	<b>539,572</b>
<b>SHAREHOLDERS' EQUITY</b>						
Share capital	-	340,000	340,000	-	340,000	340,000
Legal reserve	-	14,788	14,788	-	14,577	14,577
Remeasurements of retirement benefit obligations	(213)	-	(213)	(175)	-	(175)
Accumulated losses	-	(8,464)	(8,464)	-	(3,275)	(3,275)
	<b>(213)</b>	<b>346,324</b>	<b>346,111</b>	<b>(175)</b>	<b>351,302</b>	<b>351,127</b>
<b>TOTAL LIABILITIES, TAKAFUL OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY</b>	<b>478,866</b>	<b>357,281</b>	<b>836,147</b>	<b>530,652</b>	<b>360,047</b>	<b>890,699</b>

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2018

**24. SUPPLEMENTARY INFORMATION (continued)**

**Statement of income**

	SAR '000					
	2018			2017		
	Takaful Operations	Shareholders' Operations	Total	Takaful Operations	Shareholders' Operations	Total
<b><u>REVENUES</u></b>						
Gross contributions written						
- Family Takaful	119,544	-	119,544	148,386	-	148,386
- General Takaful	20,422	-	20,422	26,698	-	26,698
Gross contributions written	139,966	-	139,966	175,084	-	175,084
Retakaful contribution ceded						
- Local retakaful contribution ceded	(9,201)	-	(9,201)	(7,656)	-	(7,656)
- Foreign retakaful contribution ceded	(33,210)	-	(33,210)	(45,639)	-	(45,639)
Planholder charges	15,003	-	15,003	20,941	-	20,941
Net contributions written	112,558	-	112,558	142,730	-	142,730
Changes in gross unearned contributions	4,824	-	4,824	6,185	-	6,185
Changes in retakaful share of unearned contributions	(3,833)	-	(3,833)	(3,174)	-	(3,174)
Net contributions earned	113,549	-	113,549	145,741	-	145,741
Fees and commission income	5,836	-	5,836	5,743	-	5,743
Total revenue	119,385	-	119,385	151,484	-	151,484
<b><u>UNDERWRITING COSTS AND EXPENSES</u></b>						
Gross claims paid	(45,338)	-	(45,338)	(45,517)	-	(45,517)
Retakaful share of claims paid	34,888	-	34,888	33,054	-	33,054
Surrenders and maturities	(95,954)	-	(95,954)	(73,720)	-	(73,720)
Net claims and other benefits paid	(106,404)	-	(106,404)	(86,183)	-	(86,183)
Changes in outstanding claims, net	2,933	-	2,933	(1,034)	-	(1,034)
Changes in IBNR, net	1,058	-	1,058	(474)	-	(474)
Net claims and other benefits incurred	(102,413)	-	(102,413)	(87,691)	-	(87,691)
Changes in reserve for takaful activities	17,983	-	17,983	(23,233)	-	(23,233)
Changes in non-unit reserve	(1,268)	-	(1,268)	(4,311)	-	(4,311)
Changes in unexpired risk reserve	2,541	-	2,541	(5,531)	-	(5,531)
Policy acquisition costs	(3,552)	-	(3,552)	(5,638)	-	(5,638)
Total underwriting costs and expenses	(86,709)	-	(86,709)	(126,404)	-	(126,404)
Net underwriting income	32,676	-	32,676	25,080	-	25,080
<b><u>OTHER OPERATING (EXPENSES)/ INCOME</u></b>						
General and administrative expenses	(39,829)	(2,938)	(42,767)	(37,017)	(2,878)	(39,895)
Rebate income	1,598	-	1,598	1,340	-	1,340
Income from deposits	711	4,601	5,312	238	2,717	2,955
Income from sukuk	-	4,237	4,237	-	5,035	5,035
TOTAL OTHER OPERATING EXPENSES, NET	(37,520)	5,900	(31,620)	(35,439)	4,874	(30,565)
Total income/ (loss) for the year	(4,844)	5,900	1,056	(10,359)	4,874	(5,485)
Shareholders' absorption of deficit/ (surplus transferred to shareholders) from takaful operations	4,844	(4,844)	-	10,359	(10,359)	-
Net result after shareholders' absorption of deficit/ transfer of surplus to shareholders	-	1,056	1,056	-	(5,485)	(5,485)

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2018

**24. SUPPLEMENTARY INFORMATION (continued)**

**Statement of comprehensive income**

	SAR '000					
	2018			2017		
	Takaful Operations	Shareholders' Operations	Total	Takaful Operations	Shareholders' Operations	Total
Net result after shareholders' absorption of deficit/ transfer of surplus to shareholders	-	1,056	1,056	-	(5,485)	(5,485)
Other comprehensive income						
<i>Items that will be reclassified to statement of income in subsequent periods</i>						
- Fair value change in available for sale investments -- unrealized	4,064	-	4,064	25,005	-	25,005
- Fair value change in reserve for takaful activities -- unrealized	(4,064)	-	(4,064)	(25,005)	-	(25,005)
<i>Items that will not be reclassified to statement of income in subsequent periods</i>						
- Remeasurements of retirement benefit obligations	(38)	-	(38)	(175)	-	(175)
<b>Total comprehensive income/ (loss) for the year</b>	<b>(38)</b>	<b>1,056</b>	<b>1,018</b>	<b>(175)</b>	<b>(5,485)</b>	<b>(5,660)</b>

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2018

**24. SUPPLEMENTARY INFORMATION (continued)**

**Statement of cash flows**

			SR '000		
CASHFLOWS FROM OPERATING ACTIVITIES			2018		
			Takaful Operations	Shareholders' Operations	Total
Net income / (loss) for the year			-	1,056	1,056
Adjustment for non-cash items:					
Amortisation			-	610	610
Depreciation			-	83	83
Income from sukuk			-	(4,237)	(4,237)
Gain on sale of fixed assets			-	-	-
Shareholders' appropriation from deficit/ surplus			(4,844)	4,844	-
Provision of impairment on contribution and retakaful receivables			504	-	504
Provision for employees' end-of-service benefits			1,046	-	1,046
			(3,294)	2,356	(938)
Changes in operating assets and liabilities:					
Contributions and retakaful receivable, net			1,342	-	1,342
Retakaful share of unearned contributions			3,833	-	3,833
Retakaful share of outstanding claims			8,352	-	8,352
Deferred policy acquisition costs			(195)	-	(195)
Available-for-sale financial assets			28,922	-	28,922
Prepaid expenses and other assets			620	(114)	506
Accrued and other liabilities			747	(79)	668
Retakaful balances payable			(2,694)	-	(2,694)
Gross unearned contributions			(4,824)	-	(4,824)
Unearned retakaful commission			(265)	-	(265)
Gross outstanding claims			(12,343)	-	(12,343)
Unexpired risk reserve			(2,540)	-	(2,540)
Non-unit reserve			1,268	-	1,268
Reserve for takaful activities			(28,922)	-	(28,922)
Surplus paid			-	-	-
			(9,993)	2,163	(7,830)
Employees' end-of-service benefits paid			(3,259)	-	(3,259)
Zakat and tax paid			-	(4,452)	(4,452)
Net cash (used in)/ generated from operating activities			(13,252)	(2,289)	(15,541)
CASHFLOWS FROM INVESTING ACTIVITIES					
Maturity of held-to-maturity financial assets			-	17,000	17,000
Income received from sukuk			-	4,202	4,202
Purchase of intangible assets			-	(741)	(741)
Purchase of fixed assets			-	-	-
Proceeds from sale of fixed assets			-	-	-
Net cash generated from investing activities			-	20,461	20,461
CASHFLOWS FROM FINANCING ACTIVITIES					
Due from/ (to) shareholders' / takaful operations, net			29,213	(29,213)	-
Net change in cash and cash equivalents			15,961	(11,041)	4,920
Cash and cash equivalents, beginning of the year			33,746	205,353	239,099
Cash and cash equivalents, end of the year			49,707	194,312	244,019
Non-cash supplemental information:					
Net change in fair value of available for sale investments			4,064	-	4,064

**25 RISK MANAGEMENT**

**Risk governance**

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

A cohesive organizational structure is established within the Company in order to identify, assess, monitor and control risks. SABB Takaful Company adopts the 'Three Lines of Defence' framework as part of the Risk Governance Framework. Ownership of risk management responsibilities are entrusted across the first line of defence (Function owners), whilst monitoring responsibilities are entrusted with the Second Line (Risk Management Function). Third Line of Defence (Internal Audit) is entrusted with independent oversight responsibilities.

**Board of Directors**

- Review and approve the overall Enterprise Risk Management (ERM) Framework.
- Review and approve the Risk strategy and ensure its alignment to the overall business strategy.
- Review and approve the overall risk appetite statement and risk tolerance.
- Provide key inputs to the senior management in terms of strategic initiatives SABB Takaful will undertake in order to stream line the risk management capabilities subsequently.
- Review and approve the annual risk management plan

**Board Risk Committee**

- Reviews the overall ERM Framework proposed by Risk Management function/Risk Manager and endorses the Framework to the Board of Directors for final approval.
- Reviews the Risk Strategy and Risk Appetite proposed by Risk Management function/Chief Risk Officer and endorses it to the Board of Directors for final approval.
- Reviews the risk reports prepared by the Risk Management function/ Chief Risk Officer and determines an appropriate response to identified risks in line with the risk appetite including proposing suitable risk management strategies such as transferring risk (for example use of re-insurance), reducing risk (for example improving internal controls) or introducing strategic risk initiatives.
- Reviews the risk management system capabilities of SABB Takaful and propose action-plan if required.
- Reviews the key Risk Policy and Procedures prepared by the Risk Management function/ Chief Risk Officer and endorses it to the Board of Directors for final approval.
- Reviews the annual Risk Management plan of SABB Takaful as prepared by the Risk Management function/ Chief Risk Officer and endorse it to the Board of Directors for final approval.
- To discuss and agree risk matters related to day-to-day management of the business. For avoidance of any doubts, any decision related to the policy matters, are within the authority of the Board of Directors.



**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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For the year ended 31 December 2018

**25 RISK MANAGEMENT (CONTINUED)**

**Risk governance (continued)**

**Chief Risk Officer (CRO)**

- Develops a Risk Management Framework, Risk Management Policy which clearly outlines all the different types of risk categories relevant to SABB Takaful and its approach to manage these risks. The roles and responsibilities across SABB Takaful with regard to managing the risks has also been defined.
- Facilitates development of risk register outlining all the different risks faced by SABB Takaful across various lines of businesses and functions by interacting with the respective Department Heads.
- Continuously monitors the risk profile of SABB Takaful ensuring material risks and key controls are monitored and overall risk appetite is adhered to.
- Based on results of the risk assessments, key risks were identified for SABB Takaful and submitted to the Board Risk Committee for their review and endorsement.
- Monitors action plan as developed by business for mitigating various risks.
- Develop tracking mechanism to ensure the mitigating actions are remediated within agreed timelines.
- Develops a reporting and monitoring framework that helps management identify, assess, report and manage risks across the business ensuring compliance with the Policy and Risk Appetite Framework defined.

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

**a) Takaful risk**

The principal risk the Company faces under takaful contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The Company enters into retakaful contracts as part of its risks mitigation programme. Retakaful contribution ceded is placed on both a proportional and non-proportional basis. The majority of proportional retakaful is quota-share reinsurance which is taken out to reduce the overall exposure of the Company to certain classes of business. Non-proportional reinsurance is primarily excess-of-loss reinsurance designed to mitigate the Company's net exposure to catastrophe losses. Retention limits for the excess-of-loss reinsurance vary by product line and territory.

Amounts recoverable from retakaful contracts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the retakaful contracts. Although the Company has retakaful arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to retakaful contributions ceded, to the extent that any reinsurer is unable to meet its obligations assumed under such retakaful arrangements. The Company's placement of retakaful contributions is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single retakaful contract.

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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For the year ended 31 December 2018

**25 RISK MANAGEMENT (CONTINUED)**

**a) Takaful risk (continued)**

**Family takaful**

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

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

The individual family and group takaful portfolios are protected through an efficient re-takaful arrangement which protects the Company from adverse mortality/morbidity experience.

**General takaful**

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

*Property all risk, fire, personal accident products*

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

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Company has retakaful cover for such damage to limit losses for any individual claim.

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

*Marine cargo product*

For marine takaful the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of cargo, vessels and shipping routes covered. The Company has retakaful cover to limit losses for any individual claim.

**Frequency and severity of claims**

The frequency and severity of claims can be affected by several factors like natural disasters, flood, environmental and economical, atmospheric disturbances, concentration of risks, civil riots etc. The Company manages these risk through the measures described above. The company has limited its risk by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g., hurricanes, earthquakes and flood damage). The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Company's risk appetite as decided by management. The overall aim is currently to restrict the impact of a single catastrophic event to, in case of GT: SAR 136 million & in case of FT: SAR 1 million, which together approximate 40 % of shareholders' equity (SAR 346 million). The Board may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2018

**25 RISK MANAGEMENT (CONTINUED)**

**a) Takaful risk (continued)**

**Concentration of takaful risk**

The Company monitors concentration of takaful risks primarily by class of business. For fire and property risk a particular building and neighboring buildings, which could be affected by a single claim incident, are considered as a single location. Similarly, for marine risk, multiple risks covered in a single vessel voyage are considered as a single risk while assessing concentration of risk. The Company evaluates the concentration of exposures to individual and cumulative insurance risks and establishes its reinsurance policy to reduce such exposures to levels acceptable to the Company. As at 31 December 2018 and 2017, the Company does not have any significant concentration of takaful risk. The table below sets out the concentration of the outstanding claims and unearned premiums by business segments at the reporting date:

<i>2018 (Amounts in SAR '000)</i>	<i><u>Outstanding claim reserves - Gross</u></i>	<i><u>Outstanding claim Reserves - Net</u></i>	<i><u>Gross unearned contributions</u></i>	<i><u>Net unearned contributions</u></i>
Individual Family	1,285	1,059	-	-
Group Family	38,040	8,554	1,431	946
General Takaful	31,861	3,843	8,134	1,650
	<u>71,186</u>	<u>13,456</u>	<u>9,565</u>	<u>2,596</u>

<i>2017 (Amounts in SAR '000)</i>	<i><u>Outstanding claim reserves - Gross</u></i>	<i><u>Outstanding claim Reserves - Net</u></i>	<i><u>Gross unearned contributions</u></i>	<i><u>Net unearned contributions</u></i>
Individual Family	2,081	1,643	-	-
Group Family	57,278	13,082	1,616	1,030
General Takaful	24,170	2,722	12,773	2,557
	<u>83,529</u>	<u>17,447</u>	<u>14,389</u>	<u>3,587</u>

**Sources of uncertainty in estimation of future claim payments**

The key source of estimation uncertainty at the statement of financial position date relates to valuation of outstanding claims, whether reported or not, and includes expected claims settlement costs. The principal assumption underlying the liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one-off occurrence; changes in market factors such as public attitude to claiming; economic conditions; as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. Considerable judgment by management is required in the estimation of amounts due to policyholders arising from claims made under takaful contracts. Such estimates are necessarily based on assumptions about several factors involving varying and possibly significant degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. Qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example one-off occurrence, changes in market factors such as public attitude to claiming and economic conditions. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

**Process used to decide on assumptions**

The process used to determine the assumptions for calculating the outstanding claim reserve is intended to result in neutral reasonable estimates of the most likely or expected outcome. The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case by case basis with due regard to claim circumstances, information available from surveyors and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information is available.

**25 RISK MANAGEMENT (CONTINUED)****a) Takaful risk (continued)****Process used to decide on assumptions (continued)**

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, in which case information about the claim event is available. The estimation process takes into account the past claims reporting pattern and details of reinsurance programs.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods.

The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

The contribution liabilities have been determined such that the total contribution liability provisions (unearned contribution reserve and contribution deficiency reserve in result of liability adequacy test) would be sufficient to service the future expected claims and expenses likely to occur on the unexpired policies as at the statement of financial position date. The expected future liability is determined using estimates and assumptions based on the experience during the expired period of the contracts and expectations of future events that are believed to be reasonable.

**Sensitivity of claims**

The Company believes that the claim liabilities under insurance contracts outstanding at the year-end are adequate. However, these amounts are not certain and actual payments may differ from the claims liabilities provided in the financial statements. The insurance claim liabilities are sensitive to the various assumptions. It has not been possible to quantify the sensitivity of specific variable such as legislative changes or uncertainty in the estimation process.

A hypothetical change in the claim ratio, net of reinsurance, would impact net underwriting result as follows:

	<u>2018</u>	<u>2017</u>
<u>Impact of change in net claim ratio by +/- 10%</u>	<u>Amount in SAR '000</u>	
Accident and Liability	42	10
Marine	280	141
Property	20	46
Group	1,149	1,093

**25 RISK MANAGEMENT (CONTINUED)****a) Takaful risk (continued)****Claims development**

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

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

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

**Claims development table****Claims development table gross of reinsurance:**

Amounts in SAR '000

Accident year	<u>2013 &amp; earlier</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>
Estimate of ultimate claim loss							
- At end of accident year	193,706	45,350	51,118	63,245	63,579	54,787	54,787
- One year later	177,519	44,884	47,611	57,030	48,474	-	48,474
- Two years later	171,977	44,471	45,029	54,691	-	-	54,691
- Three years later	175,313	44,471	44,204	-	-	-	44,204
- Four years later	155,452	44,470	-	-	-	-	44,470
- Five years later	154,767	-	-	-	-	-	154,767
Current estimate of cumulative claims	154,767	44,470	44,204	54,691	48,474	54,787	401,392
Cumulative payments to date	143,568	43,440	43,512	51,067	46,243	27,272	355,102
Outstanding claim reserves	11,198	1,030	692	3,624	2,230	27,516	46,290
Add: Incurred but not reported (IBNR) and other reserves							24,896
Liability recognized in the statement of financial position							71,186
Accident year	<u>2012 &amp; earlier</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Estimate of ultimate claim loss							
- At end of accident year	159,352	34,354	45,350	51,118	63,245	63,577	63,577
- One year later	139,109	38,410	44,884	47,611	57,030	-	57,030
- Two years later	135,179	36,798	44,471	45,029	-	-	45,029
- Three years later	138,810	36,503	44,471	-	-	-	44,471
- Four years later	118,949	36,503	-	-	-	-	36,503
- Five years later	118,264	-	-	-	-	-	118,264
Current estimate of cumulative claims	118,264	36,503	44,471	45,029	57,030	63,577	364,873
Cumulative payments to date	118,264	25,304	43,441	43,189	45,651	33,915	309,764
Outstanding claim reserves	-	11,198	1,030	1,840	11,379	29,662	55,109
Add: Incurred but not reported (IBNR) and other reserves							28,420
Liability recognized in the statement of financial position							83,529

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2018

**25 RISK MANAGEMENT (CONTINUED)**

**a) Takaful risk (continued)**

**Claims development table (continued)**

**Claims development table net of reinsurance:**

Amounts in SAR '000

Accident year	<u>2013 &amp; earlier</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>
Estimate of ultimate claim loss							
- At end of accident year	54,570	13,197	13,279	16,596	15,462	11,493	11,493
- One year later	46,277	12,941	12,537	15,463	12,192	-	12,192
- Two years later	44,838	12,776	11,701	14,995	-	-	14,995
- Three years later	44,975	12,776	11,476	-	-	-	11,476
- Four years later	44,852	12,775	-	-	-	-	12,775
- Five years later	44,771	-	-	-	-	-	44,771
Current estimate of cumulative claims	44,771	12,775	11,476	14,995	12,192	11,493	107,702
Cumulative payments to date	44,771	12,775	11,301	14,196	11,579	6,453	101,074
Outstanding claim reserves	-	-	175	800	613	5,040	6,628
Add: Incurred but not reported (IBNR) and other reserves							6,828
Liability recognized in the statement of financial position							13,456
Accident year	<u>2012 &amp; earlier</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Estimate of ultimate claim loss							
- At end of accident year	44,095	10,475	13,197	13,279	16,596	15,459	15,459
- One year later	37,605	8,672	12,941	12,537	15,463	-	15,463
- Two years later	36,547	8,291	12,776	11,701	-	-	11,701
- Three years later	36,742	8,232	12,776	-	-	-	12,776
- Four years later	36,620	8,231	-	-	-	-	8,231
- Five years later	36,539	-	-	-	-	-	36,539
Current estimate of cumulative claims	36,539	8,231	12,776	11,701	15,463	15,459	100,169
Cumulative payments to date	36,539	8,231	12,776	11,196	12,803	9,063	90,607
Outstanding claim reserves	-	-	-	505	2,660	6,396	9,561
Add: Incurred but not reported (IBNR) and other reserves							7,886
Liability recognized in the statement of financial position							17,447

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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For the year ended 31 December 2018

**25 RISK MANAGEMENT (CONTINUED)**

**b) Retakaful risk**

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

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

Further, to minimize its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers. The Company considers retakaful risk to be minimal as it deals with reinsurers with sound credit ratings.

Retakaful contracts do not relieve the Company from its obligations to policyholders and as a result the Company remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the retakaful contracts.

**c) Market risk and asset liability management**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (commission rate risk) and market prices (other price risk).

- The Company's market risk policy sets out the assessment and determination of what constitutes market risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- Guidelines are set for asset allocation and portfolio limit structure, to ensure that assets back specific policyholders' liabilities and that assets are held to deliver income and gains for policyholders which are in line with their expectations.
- The Company stipulates diversification benchmarks by type of instrument and geographical area, as the Company is exposed to guaranteed bonuses, cash and annuity options when interest rates fall.
- There is strict control over hedging activities (e.g., equity derivatives are only permitted to be held to facilitate portfolio management or to reduce investment risk).

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

# SABB Takaful Company (A Saudi Joint Stock Company)

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

### 25 RISK MANAGEMENT (CONTINUED)

#### c) Market risk and asset liability management (continued)

The Board of Directors of the Company ensure that the overall market risk exposure is maintained at prudent levels and is consistent with the available capital. While the Board gives a strategic direction and goals, risk management function related to market risk is mainly the responsibility of Investment Committee team. The team prepares forecasts showing the effects of various possible changes in market conditions related to risk exposures. This risk is being mitigated through the proper selection of securities. Company maintains diversified portfolio and performs regular monitoring of developments in related markets. In addition, the key factors that affect sukuk market movements are monitored, including analysis of the operational and financial performance of investees.

Market risk comprises of three types of risk: currency risk, commission rate risk and other price risk.

#### **Currency Risk**

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

The Company's transactions are principally in Saudi Arabian Riyals and US Dollar. Management monitors the fluctuations in currency exchange rates and acts accordingly and believes that the foreign currency risk is not significant.

*Sensitivity analysis - Currency risk:*

	2018	2017
	SAR'000	
<b>Impact on carrying amount by +/- 10% in exchange rates</b>		
<u>Re-insurance balances receivables</u>		
US Dollars	636	195

#### **Commission Rate Risk**

The Company invests in securities and has deposits that are subject to commission rate risk. Commission rate risk to the Company is the risk of changes in commission rates reducing the overall return on its fixed commission rate bearing securities. The Commission rate risk is limited by monitoring changes in commission rates and by investing in floating rate instruments. The Company has no significant concentration of commission rate risk.

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

The sensitivity of the income is the effect of the assumed changes in the commission rates, with all other variable held constant, on the Company's profit for one year, based on the floating rate financial assets held at 31 December 2018. A hypothetical 30 basis points change in the weighted average commission rate of the floating rate financial assets balances at 31 December 2018 would impact commission income by approximately SAR 877 thousand (2017: SAR 902 thousand) annually in aggregate.

Commission bearing investments of the Company comprise of murabaha deposits and sukuks. Murabaha deposits are short term in nature which will be matured within a year and the maturity profile of sukuks is disclosed in note 4.

The commission and non-commission bearing investments of the Company and their maturities as at December 31, 2018 and 2017 are as follows:

Amount in SAR '000	Less than 1 year	More than 1 year	Non-commission bearing	Total
<b>Insurance Operations</b>				
2018	30,696	-	-	30,696
2017	15,040	-	-	15,040
<b>Shareholders' Operations</b>				
2018	241,684	70,669	-	312,353
2017	215,334	120,821	-	336,155



**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2018

**25 RISK MANAGEMENT (CONTINUED)**

**c) Market risk and asset liability management (continued)**

***Other Price Risk***

Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from commission rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company's investments amounting to SAR 695 million (2017: SAR 732 million) are susceptible to market price risk arising from uncertainty about the future value of invested securities. The Company limits this nature of market risk by diversifying its invested portfolio and by actively monitoring the developments in markets.

The impact of hypothetical change of +/- 10% increase in the market prices of investments on Company's profit would be as follows:

	<i>Fair value change SAR'000</i>	<i>Effect on Company's profit SAR'000</i>
<i>December 31, 2018</i>	<i>+/- 69,516</i>	<i>+/- 2,065</i>
<i>December 31, 2017</i>	<i>+/- 73,223</i>	<i>+/- 2,175</i>

The sensitivity analysis presented is based upon the portfolio position as at 31 December 2018 and 2017. Accordingly, the sensitivity analysis prepared is not necessarily indicative of the effect on the Company's assets of future movements in the value of investments held by the Company.

**d) Credit risk**

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

**25 RISK MANAGEMENT (CONTINUED)**

**d) Credit risk (continued)**

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

	<b>2018</b> <b>SAR'000</b>	
	<b>Takaful Operations</b>	<b>Shareholders</b>
Contributions and retakaful receivable, net	12,650	-
Retakaful share of outstanding claims	57,730	-
Cash and cash equivalents	49,707	194,312
Held-to-maturity financial assets	-	120,899
Statutory deposit	-	34,000
Other receivables	440	-
	<b>120,527</b>	<b>349,211</b>

	<b>2017</b> <b>SAR'000</b>	
	<b>Takaful Operations</b>	<b>Shareholders</b>
Contributions and retakaful receivable, net	14,496	-
Retakaful share of outstanding claims	66,082	-
Cash and cash equivalents	33,746	205,353
Held-to-maturity financial assets	-	137,864
Statutory deposit	-	34,000
Other receivables	860	-
	<b>115,184</b>	<b>377,217</b>

**Concentration of credit risk**

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. All the Company's underwriting activities are carried out in Saudi Arabia. The Company's portfolio of financial instruments is broadly diversified and transactions are entered into with diverse credit-worthy counterparties thereby mitigating any significant concentrations of credit risk.

Amount in '000	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<i>Investment grade</i>		<i>Non-investment grade</i>		<i>Unrated</i>	
Investments:						
Available-for-sale financial assets	-	-	-	-	352,115	381,037
Held-to-maturity financial assets	20,089	25,078	-	-	100,810	112,786
Contributions and retakaful receivable, net	6,359	1,950	-	-	6,291	12,546
	<b>26,448</b>	<b>27,028</b>	<b>-</b>	<b>-</b>	<b>459,216</b>	<b>506,369</b>

**25 RISK MANAGEMENT (CONTINUED)****e) Liquidity risk**

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

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

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

*Maturity Profiles*

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

----- 2018 -----						
	<i>Takaful Operations</i>			<i>Shareholders</i>		
	Up to one year SAR'000	More than one year SAR'000	Total SAR'000	Up to one year SAR'000	More than one year SAR'000	Total SAR'000
<b>ASSETS</b>						
Available-for-sale financial assets	352,115	-	352,115	-	-	-
Held-to-maturity financial assets	-	-	-	50,230	70,669	120,899
Contributions and retakaful receivable, net	12,650	-	12,650	-	-	-
Retakaful share of outstanding claims	57,730	-	57,730	-	-	-
Cash and cash equivalents	49,707	-	49,707	194,312	-	194,312
	<u>472,202</u>	<u>-</u>	<u>472,202</u>	<u>244,542</u>	<u>70,669</u>	<u>315,211</u>
<b>LIABILITIES</b>						
Reserve for takaful activities	352,115	-	352,115	-	-	-
Gross outstanding claims	71,186	-	71,186	-	-	-
Retakaful balances payable	5,880	-	5,880	-	-	-
Accrued and other liabilities	17,964	-	17,964	1,414	-	1,414
	<u>447,145</u>	<u>-</u>	<u>447,145</u>	<u>1,414</u>	<u>-</u>	<u>1,414</u>

**25 RISK MANAGEMENT (CONTINUED)****c) Liquidity risk (continued)**

	2017					
	Takaful Operations			Shareholders		
	Up to one year SAR'000	More than one year SAR'000	Total SAR'000	Up to one year SAR'000	More than one year SAR'000	Total SAR'000
<b>ASSETS</b>						
Available-for-sale financial assets	381,037	-	381,037	-	-	-
Held-to-maturity financial assets	-	-	-	17,043	120,821	137,864
Contributions and retakaful receivable, net	14,496	-	14,496	-	-	-
Retakaful share of outstanding claims	66,082	-	66,082	-	-	-
Cash and cash equivalents	33,746	-	33,746	205,353	-	205,353
	<u>495,361</u>	<u>-</u>	<u>495,361</u>	<u>222,396</u>	<u>120,821</u>	<u>343,217</u>
<b>LIABILITIES</b>						
Reserve for takaful activities	381,037	-	381,037	-	-	-
Gross outstanding claims	83,529	-	83,529	-	-	-
Retakaful balances payable	8,574	-	8,574	-	-	-
Accrued and other liabilities	17,217	-	17,217	1,493	-	1,493
	<u>490,357</u>	<u>-</u>	<u>490,357</u>	<u>1,493</u>	<u>-</u>	<u>1,493</u>

**f) Operational risk**

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

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

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

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

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

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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For the year ended 31 December 2018

**25 RISK MANAGEMENT (CONTINUED)**

**g) Capital management**

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

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

The Company manages its capital to ensure that it is able to continue as going concern and comply with the regulators' capital requirements of the markets in which the Company operates while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Company consists of equity attributable to equity holders comprising paid share capital, reserves and accumulated losses.

As per guidelines laid out by SAMA in Article 66 of the Implementing Insurance Regulations detailing the solvency margin required to be maintained, the Company shall maintain solvency margin equivalent to the highest of the following three methods as per SAMA Implementing Regulations:

- Minimum Capital Requirement of SAR 100 million
- Premium Solvency Margin
- Claims Solvency Margin

The Company is in compliance with all externally imposed capital requirements with sound solvency margin. The capital structure of the Company as at December 31, 2018 consists of paid-up share capital of SAR 340 million, statutory reserves of SAR 14.8 million and accumulated losses of SAR 8.5 million (December 31, 2017: paid-up share capital of SAR 340 million, statutory reserves of SAR 14.6 million and accumulated losses of SAR 3.3 million in the statement of financial position).

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

**26 RECLASSIFICATION OF COMPARATIVE FIGURES**

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

**27 APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements have been approved by the Board of Directors on 30 Jummada II 1440H, corresponding to 7 March 2019.