

**ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)**

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

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS

As at 31 December 2018

INDEX	PAGE
Independent Auditors' Report	1 – 4
Statement of Financial Position	5
Statement of Income	6 – 7
Statement of Comprehensive Income	8
Statement of Changes in Equity	9
Statement of Cash Flows	10
Notes to the Financial Statements	11 – 48



**Al-Bassam & Co.
Allied Accountants**

P.O. Box 15851
Jeddah - 21454
Kingdom of Saudi Arabia



Ernst & Young & Co. (Public Accountants)
13 - Floor - King's Road Tower
PO Box 1994
King Abdulaziz Road (Malek Road)
Jeddah 21441
Saudi Arabia
Registration Number 45

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

Opinion

We have audited the financial statements of Aljazira Takaful Taawuni Company - a Saudi Joint Stock Company (the "Company"), which comprise the statement of financial position as at 31 December 2018, and the related statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") 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 ("ISAs") that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, 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 is provided in that context:



Al-Bassam & Co.
Allied Accountants



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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of reserves</p> <p>The Company's accounting policies related to reserve for insurance activities and outstanding claims (the "reserves") are described in note 3 to the financial statements.</p> <p>These reserves include the following:</p> <ul style="list-style-type: none"> • Unit reserve • Mathematical reserve • Outstanding claims, consisting of: <ul style="list-style-type: none"> ◦ Reported claims ◦ Incurred But Not Reported (IBNR) claims <p>The reserves cumulatively represents the largest liability for the Company totaling to SR 142.9 million as of 31 December 2018.</p> <p>The reserve represents the investment contract liabilities and the amount the Company expects to pay to investment contractholders, and is highly judgmental because it requires a number of assumptions to be made with high estimation uncertainty. Small changes in the assumptions, which includes mortality, lapses etc, used to value the reserves can lead to material impact on the valuation of the reserves.</p> <p>Due to the magnitude of the balances and the estimation uncertainty and subjectivity involved in the assessment of these reserves, we have considered the valuation of these reserves as a key audit matter. The Company also involves an independent actuary to calculate the reserves.</p>	<p>We have performed test of key controls over the review conducted by management on the adequacy of the reserves.</p> <p>We also tested the completeness and accuracy of the underlying data used in the actuarial calculations by performing reconciliations on the underlying data to the financial ledger and the actuarial data used by the Company's independent actuary while calculating the reserves.</p> <p>In addition, we have involved our actuarial specialist to:</p> <ul style="list-style-type: none"> • Assess the approach and the methodology used by management in calculating the reserves. • Review key assumptions and judgments used by management in calculating the reserves. • Assess the compliance of the actuarial report on reserves with the professional guidance available. • Assess consistency in applying the reserving methodology across periods. <p>We also assessed the financial statements disclosures in relation to the reserves.</p>



Al-Bassam & Co.
Allied Accountants



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

Other Information included in the Company's 2018 Annual Report

Management is responsible for the other information. Other information comprises the information included in the Company's 2018 annual report but does not include financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.



Al-Bassam & Co.
Affiliated Accountants



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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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.

for Al-Bassam & Co.
Affiliated Accountants

Ibrahim M. Al-Bassam
Certified Public Accountant
Licence Number 337



for Ernst & Young & Co.
(Certified Public Accountants)

Ahmed K. Reda
Certified Public Accountant
Licence Number 356



10 Rajab 1440H
corresponding to 17 March 2019
Jeddah, Kingdom of Saudi Arabia

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

ASSETS	Notes	2018 SR'000	2017 SR'000
Cash and cash equivalents			
Contributions receivable, net	4	17,062	53,262
Reinsurers' share of unearned contributions	5	1,633	203
Reinsurers' share of outstanding claims	12	9,006	7,261
Reinsurers' share of claims incurred but not reported	13	7,918	10,685
Available-for-sale investments held to cover unit-linked liabilities	13	8,089	4,901
Investments	6	128,230	106,626
Due from a related party	7	395,829	344,286
Prepayments and other receivables	19	7,444	5,432
Fixtures, furniture and equipment		720	754
Statutory deposit	8	260	-
	9	35,000	35,000
TOTAL ASSETS		611,191	568,410
LIABILITIES			
Accrued expenses and other liabilities			
Reinsurance balances payable	15	16,547	15,489
Unearned contributions		16,125	7,965
Outstanding claims	12	22,774	18,342
Claims incurred but not reported	13	10,015	12,901
Unit reserve	13	10,997	8,338
Mathematical reserve	10	130,290	107,177
End-of-service indemnities	11	557	958
Zakat and income tax	16	2,050	1,960
Surplus from Insurance Operations	22	1,039	1,023
		2,827	2,713
TOTAL LIABILITIES		213,221	176,866
EQUITY			
Share capital			
Statutory reserve	17	350,000	350,000
Retained earnings	18	23,253	16,885
		24,635	24,659
TOTAL SHAREHOLDERS' EQUITY		397,888	391,544
Remeasurement reserve of defined benefit obligation - related to Insurance operations		82	-
TOTAL EQUITY		397,970	391,544
TOTAL LIABILITIES AND EQUITY		611,191	568,410

Chairman

Chief Financial Officer

Managing Director

The accompanying notes 1 to 31 form an integral part of the financial statements.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF INCOME

For the year ended 31 December 2018

	Notes	2018 SR'000	2017 SR'000
REVENUES			
Gross written contributions			
Contributions ceded:	12	101,145	85,620
Local			
Foreign	12	(18,625)	(13)
Net written contributions			(17,586)
Change in unearned contributions, net	12	82,520	68,021
		(2,687)	(100)
Net contribution earned			
Other underwriting income	12	79,833	67,921
		4,545	6,180
TOTAL REVENUES		84,378	74,101
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid	13	(11,191)	(13,895)
Reinsurers' share of claims paid	13	9,145	11,436
Net claims paid			
Changes in outstanding claims, net		(2,046)	(2,459)
Changes in claims incurred but not reported, net		119	(1,154)
		529	891
Net claims incurred			
Investible contributions, net		(1,398)	(2,722)
Change in mathematical reserve		(48,513)	(38,531)
Policy acquisition costs	11	401	(87)
Supervision and inspection fees		(1,522)	(1,555)
		(506)	(428)
TOTAL UNDERWRITING COSTS AND EXPENSES		(51,538)	(43,323)
NET UNDERWRITING INCOME - C/F		32,840	30,778

Chairman

Chief Financial Officer


Managing Director

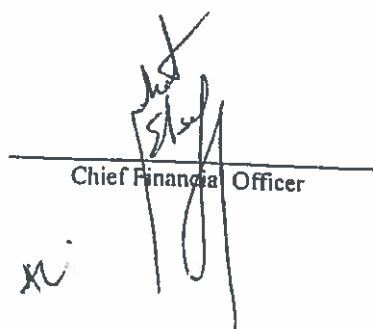
ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF INCOME (continued)

For the year ended 31 December 2018

	Notes	2018 SR'000	2017 SR'000
NET UNDERWRITING INCOME - B/F		32,840	30,778
OTHER OPERATING INCOME/(EXPENSES)			
Allowance for doubtful receivables/written-off	5	(55)	(2)
General and administrative expenses	20	(8,953)	(7,881)
Commission from held-to-maturity investments	7.1	9,795	8,852
Commission income on deposits		673	951
Unrealized gain on FVIS investments	7.2	220	494
Realized gain on FVIS investments		28	-
Dividend income		8	39
Other income	21	111	551
TOTAL OTHER OPERATING INCOME, NET		1,827	3,004
Net income for the year		34,667	33,782
Net income attributed to the insurance operations		(2,827)	(2,713)
Net income for the year attributable to the Shareholders		31,840	31,069
Weighted average number of ordinary shares outstanding (in thousands)		35,000	35,000
Basic earnings per share for the year (SR)	23	0.910	0.889


Chairman


Chief Financial Officer


Managing Director


The accompanying notes 1 to 31 form an integral part of these financial statements


ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF COMPREHENSIVE INCOME

For year ended 31 December 2018

	2018 SR'000	2017 SR'000
NET INCOME FOR THE YEAR ATTRIBUTABLE TO THE SHAREHOLDERS	31,840	31,069
Other comprehensive income		
<i>Items that will not be reclassified to statement of income in subsequent years</i>		
Actuarial gains on defined benefit obligation related to – related to Insurance operations	82	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>31,922</u>	<u>31,069</u>


Chairman


Chief Financial Officer

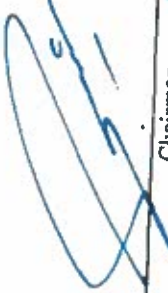

Managing Director

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Related to shareholders				Remuneration reserve of defined benefit obligation - related to insurance operations SR'000	Total equity SR'000
	Share capital SR'000	Statutory reserve SR'000	Retained earnings SR'000	Total shareholders' equity SR'000		
Balance at 1 January 2018	350,000	16,885	24,659	391,544	-	391,544
Net income for the year	-	-	31,840	31,840	-	31,840
Other comprehensive income	-	-	-	-	82	82
Total comprehensive income	-	-	-	-	82	82
Dividend (note 24)	-	-	31,840	31,840	-	31,922
Transfer to Statutory reserve	-	-	(24,500)	(24,500)	-	(24,500)
Zakat for the year (note 22)	-	6,368	(6,368)	-	-	-
Income tax for the year (note 22)	-	-	(854)	(854)	-	(854)
	-	-	(142)	(142)	-	(142)
Balance as at 31 December 2018	350,000	23,253	24,635	397,888	82	397,970


Chairman


Managing Director


Chief Financial Officer

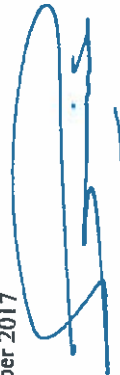
The accompanying notes 1 to 31 form an integral part of these financial statements.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CHANGES IN EQUITY (continued)
For the year ended 31 December 2018

	Related to shareholders				Remeasurement reserve of defined benefit obligation - related to insurance operations SR '000	Total equity SR '000
	Share capital SR '000	Statutory reserve SR '000	Retained earnings SR '000	Total shareholders' equity SR '000		
Balance at 1 January 2017	350,000	10,671	18,193	378,864	-	378,864
Net income for the year	-	-	-	-	-	-
Other comprehensive income	-	-	31,069	31,069	-	31,069
Total comprehensive income	-	-	-	-	-	-
Dividend (note 24)	-	-	31,069	31,069	-	31,069
Transfer to Statutory reserve	-	-	(17,500)	(17,500)	-	(17,500)
Zakat for the year (note 22)	-	6,214	(6,214)	-	-	-
Income tax for the year (note 22)	-	-	(762)	(762)	-	(762)
	-	-	(127)	(127)	-	(127)
Balance as at 31 December 2017	350,000	16,885	24,659	391,544	-	391,544

Balance as at 31 December 2017



Chairman



Managing Director



Chief Financial Officer

accompanying notes 1 to 31 form an integral part of these financial statements.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

STATEMENT OF CASH FLOW

For year ended 31 December 2018

	Notes	2018 SR'000	2017 SR'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income attributable to the shareholders			
Adjustments for non-cash items:		31,840	31,069
Net income attributed to the insurance operations		2,827	2,713
Reinsurers' share of unearned contributions		(1,745)	(349)
Unearned contributions		4,432	449
Allowance for doubtful receivables/written-off		55	2
Commission from held-to-maturity investments		(9,795)	(8,852)
Unrealised gain on FVIS investments		(220)	(494)
Realised gain on FVIS investments		(28)	-
Depreciation		42	-
End-of-service indemnities		951	620
		<u>28,359</u>	<u>25,158</u>
Changes in operating assets and liabilities:			
Contributions receivable		(1,485)	17
Reinsurers' share of outstanding claims		2,767	(1,664)
Reinsurers' share of claims incurred but not reported		(3,188)	(1,913)
Available-for-sale investments held to cover unit-linked liabilities, net		(21,604)	(36,673)
Due from a related party		(2,012)	(1,767)
Prepayments and other receivables		34	(466)
Accrued expenses and other liabilities		1,058	3,341
Reinsurers' balances payable		8,160	(3,204)
Outstanding claims		(2,886)	2,818
Claims incurred but not reported		2,659	1,022
Unit reserve		23,113	36,895
Mathematical reserve		(401)	87
Cash from operations		<u>34,574</u>	<u>23,651</u>
End-of-service indemnities paid		(779)	(584)
Surplus paid to policyholders		(2,713)	(2,152)
Zakat and income tax paid		(980)	(1,196)
Net cash from operating activities		<u>30,102</u>	<u>19,719</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of held-to-maturity investments		-	(310,000)
Proceeds from maturity of held-to-maturity investments		-	270,000
Proceeds from disposal of FVIS investments		24,500	-
Purchase of FVIS investments	7.2	(66,000)	-
Purchase of fixtures, furniture and equipment	8	(302)	-
Commission from held-to-maturity investments		-	9,166
Net cash used in investing activities		<u>(41,802)</u>	<u>(30,834)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid			
Net cash used in financing activity	23	<u>(24,500)</u>	<u>(17,500)</u>
		<u>(24,500)</u>	<u>(17,500)</u>
Net decrease in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		(36,200)	(28,615)
		53,262	81,877
Cash and cash equivalents at the end of the year	4	<u>17,062</u>	<u>53,262</u>

Chairman

Chief Financial Officer

Managing Director

The accompanying notes 1 to 31 form an integral part of these financial statements.

ALJAZIRA TAKAFUL TAAWUNI COMPANY (A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

1. GENERAL

AlJazira Takaful Taawuni Company (the "Company"), is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia pursuant to the Council of Ministers' resolution No. 137 dated 27 Rabi' Al-Thani 1431H (corresponding to 12 April 2010) and Royal Decree No. M/23 dated 28 Rabi' Al-Thani 1431H corresponding to 13 April 2010. The Company obtained its Commercial Registration 4030251980 on 2 Ramadan 1434H corresponding to 10 July 2013 and Ministry of Commerce and Industry's Resolution dated 24 Sha'baan 1434H corresponding to 3 July 2013. The registered office address of the Company is:

Al Musadia Plaza (3), Al Madinah Road,
P.O. Box 6277, Jeddah 21442,
Kingdom of Saudi Arabia.

The objectives of the Company are to engage in providing insurance products including protection and saving insurance products and related services in accordance with its By-Laws and applicable regulations in the Kingdom of Saudi Arabia. The Company received licence number TMN/34/201312 dated 15 Safar 1435H (corresponding to 18 December 2013) from the Saudi Arabian Monetary Authority (SAMA) to conduct insurance business. The Company is owned 99.45% by Saudi founding shareholders and general public subject to zakat and 0.55% by non-Saudi founding shareholders subject to income tax.

The insurance portfolio and related assets and liabilities will be acquired from a founding shareholder by the Company on completion of valuation and approval by SAMA. Furthermore, in accordance with the Transitional Agreement (the "Agreement") between the Company and Bank Al Jazira ("a founding shareholder"), all the general and administrative costs up to the transfer of the insurance portfolio will be shared by the Company and the founding shareholder in the ratio of 17% and 83%, respectively. Currently, the Company is also using furniture and fixtures of a founding shareholder. Moreover, in accordance with the Agreement, the Company was also receiving a management fee in respect of managing the insurance portfolio of the founding shareholder, at a rate ranging from 10% to 20% of total revenue of the founding shareholder's portfolio ("Portfolio Management fee"). The management fee is not effective for the period subsequent to 1 April 2015 as per the Agreement.

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 statements are prepared under the going concern basis and the historical cost convention, except for the measurement of investments (excluding held-to-maturity) at their fair value. The Company's statement of financial position has presented in order of liquidity. Except for fixtures, furniture and equipment, statutory deposit, end-of-service indemnities, outstanding claims, claims incurred but not reported, unit reserve and mathematical reserve, all other assets and liabilities are of short-term nature, unless, stated otherwise.

As required by the Saudi Arabian Insurance Regulations (the Implementation Regulations), the Company maintains separate books of accounts for "Insurance Operations" and "Shareholders' Operations". Accordingly, assets, liabilities, revenues and expenses clearly attributable to either operation, are recorded in the respective accounts. The Company's financial statements until 31 December 2017, presented separately the statement of financial position, statements of income, comprehensive income and cash flows for the insurance operations and shareholders' operations.

During the current year, under the supervision of SAMA, the insurance companies' management prepared and adopted the illustrative financial statements for the insurance sector in the Kingdom of Saudi Arabia. In preparing the Company level financial statements in compliance with IFRS as modified by SAMA, the balances and transactions of insurance operations are combined with those of shareholders' operations. Inter-operation balances and transactions, if any, are eliminated in full. The accounting policies adopted for the insurance and shareholders' operations are uniform for like transactions and events in similar circumstances.

**ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

2. BASIS OF PREPARATION (continued)

(a) Basis of presentation and amusement (continued)

In preparing these financial statements the comparative amounts were also combined to conform with the current year presentation in line with SAMA requirements and this has no impact on the previously reported net profit and retained earnings. However, note 29 to these financial statements provides the statement of financial position, statements of income, comprehensive income and cash flows of the insurance operations and shareholders operations, separately.

(b) Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals (SR), which is the Company's functional currency. All financial information presented in SR has been rounded to the nearest thousand except where otherwise indicated.

(c) Fiscal year

The Company follows a fiscal year ending 31 December.

(d) Critical judgments, accounting estimates and assumptions

The preparation of the 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:

Provision for outstanding claims

Judgement by management is required in the estimation of amounts due to participants arising from claims made under insurance contracts. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. The Company estimates its claims based on its experience of its insurance portfolio. Claims requiring court or arbitration decisions, if any, are estimated individually.

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.

Management reviews its provisions for claims incurred, and claims incurred but not reported, on a monthly basis. Any difference between the provisions at the statement of financial position date and settlements and provisions in the following year is included in the statement of income for that year. The provision for outstanding claims, as at 31 December, is also verified and certified by an independent actuary.

Allowance for doubtful receivable

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

**ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

2. BASIS OF PREPARATION (continued)

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

Classification of investments

The management designates at the time of acquisition of investment securities whether these should be classified as FVIS or held-to-maturity or available-for-sale securities. In judging whether investment in securities are classified as at fair value or amortised cost, management has considered the detailed criteria for determination of such classification as set out in IFRS.

Fair values of financial instruments

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

Impairment losses on available-for-sale 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 below its cost. This 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. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows.

Going concern

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

(e) Seasonality of operations

There are no seasonal changes that may affect insurance operations of the Company.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are summarised below. These policies have been consistently applied to each of the years presented except for adoption of the amendments to existing standards, IFRS 15 and accounting policy related to employees-end-of-service benefits as discussed below:

a) New IFRS, IFRIC and amendments thereof, adopted by the Company

The Company has adopted the following new standards, amendments and revisions to existing standards, which were issued by the International Accounting Standards Board (IASB):

<u>Standard/ Amendments</u>	<u>Description</u>
IFRS 2	Amendments to IFRS 2 Classification and Measurement of share-based Payment transactions.
IAS 40	Amendments to IAS 40 Transfers of investment property
IFRIC 22	Foreign Currency Transactions and Advance consideration
IFRS 15	Revenue from Contracts with Customers (refer below)
IFRS 1 and IAS 28	Annual Improvements 2016 to IFRS 2014- 2016 cycle.

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

**ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) New IFRS, IFRIC and amendments thereof, adopted by the Company (continued)

IFRS 15 – Revenue from Contracts with Customers

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 the IFRS. IFRS 15 does not apply to “revenue from insurance contracts”. However, entities will need to apply IFRS 15 to non-insurance contracts (or components of insurance contracts).

The Company’s management has assessed and concluded that there is no material impact on the amounts reported at transition to IFRS 15 on 1 January 2018.

Employees-end-of-service benefits

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. Re-measurements (actuarial gains/ losses) as a result of experience adjustments and changes in actuarial assumptions are recognized in statement of comprehensive income.

The impact of the above accounting policy on the previous years was not significant to the financial statements.

b) Standards issued but not yet effective

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

IFRS 9 - Financial Instruments (including amendments to IFRS 4, Insurance Contracts)

In July 2014, the IASB published IFRS 9 Financial Instruments which replaced IAS 39 Financial Instruments: Recognition and Measurement. The standard incorporates new classification and measurement requirements for financial assets, introduces an expected credit loss (ECL) impairment model which replaces 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 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 statement of income.
- IFRS 9 requires entities to record an allowance for ECLs for all loans and other debt financial assets not held at fair value through statement of income as well as finance lease receivables, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. Under IFRS 9, credit losses are recognised earlier than under IAS 39.
- The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle based approach.

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 1 January 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.

**ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Standards issued but not yet effective (continued)

Under the temporary exemption as introduced by amendments to IFRS 4, the reporting entities whose activities predominantly relate to "insurance" can defer the implementation of IFRS 9. The Company is eligible to and has applied the deferral approach.

The impact of the adoption of IFRS 9 on the Company's financial statements will, to a large extent, have to take into account the interaction with the forthcoming insurance contracts standard. As such, it is not possible to fully assess the effect of the adoption of IFRS 9.

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 expects a material impact on measurement and disclosure of insurance and reinsurance that will affect both the income statement and the statement of financial position. The Company has decided not to early adopt this new standard, and the Company is currently in the phase of assessing the impact of the above standards.

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

Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances and Murabaha deposits that have original maturity period not exceeding three months.

Contributions receivable

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

Reserve for insurance activities

The provision for investment contract liabilities is calculated on the basis of an actuarial valuation method by independent appointed actuary through the use of the current unit fund price.

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

Prepayments

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

Available-for-sale investments held to cover unit-linked liabilities

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale. These investments are initially recorded at fair value. After initial measurement available-for-sale investments are measured at fair value.

Financial assets held to cover unit-linked liabilities represent assets associated with certain contracts, for which the investment risk lies predominantly with the contract holder. These represent investments in units of mutual funds, which are readily marketable. Fair value gains and losses are reported as a separate component and included under the reserve for insurance activities.

**ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Held-to-maturity investments

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. 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.

Fair Value through Income Statement (FVIS) Investments

Investments are classified as Fair Value through Statement of Income (FVIS), if the fair value of the investment can be reliably measured and the classification as FVIS is as per the documented strategy of the Company. Investment classified as FVIS are initially recognised at cost, being the fair value of the consideration given. Subsequently, such investments are re-measured at fair value, with all changes in fair value being recorded in the statement of shareholders' operations.

Fair values of investments are based on quoted prices for the marketable securities.

Fixtures, furniture and equipment

Fixtures, furniture and equipment are initially recorded in the statement of financial position at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight line basis over the estimated useful lives of the assets. The estimated useful lives of the assets for the calculation of depreciation are as follows:

	Years
Furniture, fixtures	10
Computer equipment	4

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

Expenditure for repairs and maintenance is charged to the statement of income. Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company. Gain / loss on sale of fixtures, furniture and equipment are included in statement of income.

Accruals and other liabilities

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

Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Reinsurance balances payable

Reinsurance balances payable comprise of the amounts payable to various reinsurance companies in respect of reinsurance share of contribution net of reinsurance share of paid claims.

Contributions deposit

Contributions deposit is taken from potential policy holders in respect of initial contribution. On completion of mandatory documentation and medical examination of potential policy holder, this deposit transfers to gross written contribution.

Zakat and income tax

Zakat and income tax are provided for in accordance with the Saudi Arabian fiscal regulations. Zakat and income tax which are liabilities of the shareholders, are accrued and debited to the retained earning under statement of changes in Equity. Accordingly, amounts reimbursable by the shareholders of such Zakat and income tax are credited to retained earnings.

As all Zakat and income tax charges will be recovered from the shareholders, no adjustments are made in the financial statements to account for the effects of deferred income taxes. The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

**ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

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

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.

Impairment of non-financial assets

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

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

Impairment losses of continuing operations are recognised in the statement of shareholders' operations or insurance operations and accumulated surplus as appropriate, in expense categories consistent with the function of the impaired asset.

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

Fair values

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

For financial assets where there is not an active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same and/or discounted cash flow analysis. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for similar assets. The principal or the most advantageous market must be accessible to by the Company. Fair value hierarchy levels are defined in note 26.

**ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – recognition and measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets consist of cash and cash equivalents, contribution receivables, statutory deposit, available-for-sale investments held to cover unit-linked liabilities, held-to-maturity investments, FVIS investments, due from insurance operations and other receivables. Financial liabilities consist of outstanding claims, reinsurance balances payable, due to shareholders' operations and certain other liabilities.

Date of recognition

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

Recognition and measurement of financial instruments

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

Financial instruments – De-recognition

Financial assets

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

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

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the statement of Shareholders' Operations and statement of Insurance Operations and accumulated surplus unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of Insurance Operations and accumulated surplus on a straight-line basis over the lease term.

**ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

3 SUMMARY OF 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. 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 insurance operations and accumulated surplus by establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

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

Revenue recognition

Contributions are taken into statement of Insurance Operations and accumulated surplus over the terms of the policies to which they relate on a pro-rata basis. Unearned contributions represent the portion of contributions written relating to the unexpired period of coverage at the reporting date. The change in the provision for unearned contributions is taken to the statement of Insurance Operations and accumulated surplus in order that revenue is recognised over the period of risk.

Rebates pertaining to unit-linked investments are calculated in accordance with the terms of agreement with the Fund Manager and are accounted for on an accrual basis.

Portfolio management fee is calculated in accordance with the terms of agreement with the founding shareholder and is accounted for on an accrual basis.

Subsidy from Human Resources Development Fund and profit commission from reinsurance contracts are recognized as income on receipt basis.

Contributions ceded

Contributions ceded are recognized as an expense when payable.

Reinsurance

The Company cedes its insurance risk in the normal course of business for all of its segments. Reinsurance contracts are contracts entered into by the Company under which the Company is compensated for losses on insurance contracts issued. The Company only deals with reinsurers approved by the management, which are rated at least BBB or above by international rating agencies. Reinsurance arrangements do not relieve the Company from its obligations to policyholders. The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets.

These assets consist of the reinsurance share of settlement of claims and other receivables such as profit commissions and the reinsurance share of outstanding claims that are dependent on the expected claims and benefits arising under the related reinsurance contracts. Reinsurance liabilities represent balances due to reinsurance companies.

Amounts recoverable from or due to reinsurance companies are recognised consistently with the amounts associated with the underlying Insurance contracts and in accordance with the terms of each reinsurance contract.

Claims

Claims, comprising amounts payable to contractholders and third parties and related loss adjustment expenses, are charged to the Statement of Insurance Operations and accumulated surplus as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Company and those not reported at the statement of financial position date.

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

The Company does not discount its liability for unpaid claims.

Acquisition fees

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

**ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Surrenders and maturities

Surrenders refer to the partial or full termination of the individual insurance contract. Surrenders are accounted for on the basis of notifications received and are charged to statement of Insurance Operations and accumulated surplus in the year in which they are notified. Maturities refer to the amount given to the insured towards the end of the maturity period of the individual insurance contract.

Surrenders and maturities are calculated based on the terms and conditions of the respective individual insurance contract.

Product classification

The Company issues life insurance contracts which are linked to investment contracts. Where a contract contains both an investment component and an insurance component and the cash flows from the two components are distinct, the underlying amounts are unbundled. Any contributions relating to the insurance component are accounted for through the statement of Insurance Operations and accumulated surplus and the remaining element is accounted through the insurance operations' statement of financial position.

Insurance contracts

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

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

Amounts collected under the contracts are accounted for through the statement of Insurance Operations and accumulated surplus, and the investible portion of the contribution collected is shown as a deduction from the gross contributions from insurance operations, and transferred to unit linked liabilities.

Contribution in respect of insurance contracts, are recognised as revenue over the contribution paying period of the related policy.

Investment contracts

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

Foreign currencies

The accounting records of the Company are maintained in Saudi Arabian Riyals. Transactions in foreign currencies are recorded in Saudi Arabian Riyals at the approximate rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the Statement of financial position date.

Segment reporting

A segment is a distinguishable component of the Company portfolio 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.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

4. CASH AND CASH EQUIVALENTS

	<i>Insurance operations SR'000</i>	<i>Shareholders' operations SR'000</i>	<i>Total SR'000</i>
2018			
Cash at bank	13,208	3,854	17,062
Total	13,208	3,854	17,062
	<i>Insurance operations SR'000</i>	<i>Shareholders' operations SR'000</i>	<i>Total SR'000</i>
2017			
Cash at bank	6,814	4,648	11,462
Murabaha deposits	40,000	1,800	41,800
Total	46,814	6,448	53,262

Cash at bank and Murabaha deposits, except for an amount SR 0.5 million (31 December 2017: SR 0.5 million) are held with a founding shareholder.

5. CONTRIBUTIONS RECEIVABLE, NET

	<i>2018 SR'000</i>	<i>2017 SR'000</i>
Gross contributions receivable	1,688	203
Allowance for doubtful receivables	(55)	-
Contributions receivable, net	1,633	203

During the year, a provision of SR 55 thousand (2017: SR nil) was created in respect of gross contribution receivable. The age analysis of contributions receivable, net arising from insurance contracts is as follows:

	2018					
	<i>Past due but not impaired</i>	<i>Past due and impaired</i>				<i>Total</i>
	<i>Neither past due nor impaired</i>	<i>From one to three months</i>	<i>Above three and up to six months</i>	<i>Above six and up to twelve months</i>	<i>Above twelve months</i>	
	SR'000					
2018	1,340	1	277	14	1	1,633
2017	78	124	1	-	-	203

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

6. AVAILABLE-FOR-SALE INVESTMENTS HELD TO COVER UNIT-LINKED LIABILITIES

	<i>Initial cost value SR'000</i>	<i>Change in fair value SR'000</i>	<i>2018 SR'000</i>
AlJazira Saudi Riyal Murabaha Fund	652	13	665
AlJazira Diversified Aggressive Fund	104,659	(5,794)	98,865
AlJazira Diversified Balanced Fund	25,850	(786)	25,064
AlJazira Diversified Conservative Fund	3,639	(3)	3,636
	<u>134,800</u>	<u>(6,570)</u>	<u>128,230</u>

	<i>Initial cost value SR'000</i>	<i>Change in fair value SR'000</i>	<i>2017 SR'000</i>
AlJazira Saudi Riyal Murabaha Fund	525	10	535
AlJazira Diversified Aggressive Fund	74,346	10,414	84,760
AlJazira Diversified Balanced Fund	17,347	1,378	18,725
AlJazira Diversified Conservative Fund	2,512	94	2,606
	<u>94,730</u>	<u>11,896</u>	<u>106,626</u>

Investment of Insurance operations comprises of units of mutual funds dominated in Saudi Riyal managed by a founding shareholder.

7. INVESTMENTS

	<i>2018</i>			<i>2017</i>		
	<i>Insurance operations SR'000</i>	<i>Shareholders' operations SR'000</i>	<i>Total SR'000</i>	<i>Insurance operations SR'000</i>	<i>Shareholders' operations SR'000</i>	<i>Total SR'000</i>
Held to maturity investments (7.1)	15,458	306,923	322,381	15,001	297,585	312,586
FVIS investments (7.2)	43,072	30,376	73,448	-	31,700	31,700
Total	<u>58,530</u>	<u>337,299</u>	<u>395,829</u>	<u>15,001</u>	<u>329,285</u>	<u>344,286</u>

7.1 Held-to-maturity investments

Held-to-maturity investments represents murabaha deposit with a maturity of three years made with a founding shareholder. The average commission rate on these investments at 31 December 2018 is 3% to 3.2% per annum (31 December 2017: 2.85% to 3.2% per annum). The Insurance operations investment will mature in 2021 and the Shareholders' operation investments will mature in 2020 and 2021.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

7. INVESTMENTS (continued)

7.1 Held-to-maturity investments (continued)

The movement in the held to maturity investments during year ended 31 December is as follows:

	<i>Insurance operations SAR'000</i>	<i>Shareholders' operations SAR'000</i>	<i>Total SAR'000</i>
2018			
Balance at the beginning of the year	15,001	297,585	312,586
Placements	-	-	-
Maturity	-	-	-
Commission from held-to-maturity investments	457	9,338	9,795
Balance at the end of the year	15,458	306,923	322,381
	<i>Insurance operations SAR'000</i>	<i>Shareholders' operations SAR'000</i>	<i>Total SAR'000</i>
2017			
Balance at the beginning of the year	-	272,900	272,900
Placements	15,000	295,000	310,000
Maturity	-	(279,166)	(279,166)
Commission from held-to-maturity investments	1	8,851	8,852
Balance at the end of the year	15,001	297,585	312,586

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

7. INVESTMENTS (continued)

7.2 FVIS investments

The fair value through income statement ("FVIS") investments represent investment in the 'Al Jazira Capital' managed by a founding shareholder, amounting to SR 73,073 thousand (31 December 2017: SR 31,145 thousand), and investment in shares of companies listed on Tadawul, amounting to SR 375 thousand (31 December 2017: SR 555 thousand).

Movement in FVIS investments year ended 31 December 2018 is as follows:

2018	Insurance operations SAR'000	Shareholders' operations SAR'000	Total SAR'000
Balance at beginning of the year	-	31,700	31,700
Disposals during the year	-	(24,472)	(24,472)
Purchases	43,000	23,000	66,000
Changes in fair value	72	148	220
Balance at the end of the year	43,072	30,376	73,448

2017	Insurance operations SAR'000	Shareholders' operations SAR'000	Total SAR'000
Balance at beginning of the year	-	31,206	31,206
Disposals during the year	-	-	-
Purchases	-	-	-
Changes in fair value	-	494	494
Balance at the end of the year	-	31,700	31,700

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

8. FIXTURES, FURNITURE AND EQUIPMENT

	<i>Computer equipment SR'000</i>	<i>Furniture and Fixture SR'000</i>	<i>Total 2018 SR'000</i>	<i>Total 2017 SR'000</i>
Cost:				
At the beginning of the year	-	-	-	-
Additions	141	161	302	-
As at 31 December	141	161	302	-
Accumulated depreciation:				
At the beginning of the year	-	-	-	-
Charge for the year	30	12	42	-
As at 31 December	30	12	42	-
Net book value				
As at 31 December 2018	111	149	260	-
As at 31 December 2017	-	-	-	-

9. STATUTORY DEPOSIT

As required by the Implementation Regulations, the Company deposited 10% of its paid up capital, amounting to SR 35 million in a bank designated by the SAMA. The Company cannot withdraw this deposit without SAMA's approval. This deposit is held with a founding shareholder.

10. UNIT RESERVE

	<i>2018 SR'000</i>	<i>2017 SR'000</i>
Balance at beginning of the year	107,177	70,282
Investible contributions	48,513	38,531
Surrenders	(18,830)	(13,532)
Change in fair value of available-for-sale investments (note 6)	(6,570)	11,896
Balance at the end of the year	130,290	107,177

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

11. MATHEMATICAL RESERVE

Mathematical reserve is created, as per the report received from the Independent Actuary, as detailed below:

	2018 SR'000	2017 SR'000
Balance at beginning of the year	958	871
Change in mathematical reserve, net	(401)	87
Balance at the end of the year	<u>557</u>	<u>958</u>

12. MOVEMENT IN UNEARNED CONTRIBUTION

	2018			2017		
	<u>Gross</u> SR'000	<u>Reinsurers' share</u> SR'000	<u>Net</u> SR'000	<u>Gross</u> SR'000	<u>Reinsurers' share</u> SR'000	<u>Net</u> SR'000
Balance at beginning of the year	18,342	(7,261)	11,081	17,893	(6,912)	10,981
Contributions written/(ceded) during the year	101,145	(18,625)	82,520	85,620	(17,599)	68,021
	<u>119,487</u>	<u>(25,886)</u>	<u>93,601</u>	<u>103,513</u>	<u>(24,511)</u>	<u>79,002</u>
Investible contributions and contributions earned during the year	(96,713)	16,880	(79,833)	(85,171)	17,250	(67,921)
Balance at the end of the year	<u>22,774</u>	<u>(9,006)</u>	<u>13,768</u>	<u>18,342</u>	<u>(7,261)</u>	<u>11,081</u>

13. OUTSTANDING CLAIMS INCLUDING IBNR

	2018			2017		
	<u>Gross</u> SR'000	<u>Reinsurers' share</u> SR'000	<u>Net</u> SR'000	<u>Gross</u> SR'000	<u>Reinsurers' share</u> SR'000	<u>Net</u> SR'000
At 1 January						
Reported claims	12,901	(10,685)	2,216	10,083	(9,021)	1,062
IBNR	8,338	(4,901)	3,437	7,316	(2,988)	4,328
	<u>21,239</u>	<u>(15,586)</u>	<u>5,653</u>	<u>17,399</u>	<u>(12,009)</u>	<u>5,390</u>
Incurred during the year	10,964	(9,566)	1,398	17,735	(15,013)	2,722
(Paid)/recovered during the year	(11,191)	9,145	(2,046)	(13,895)	11,436	(2,459)
At 31 December	<u>21,012</u>	<u>(16,007)</u>	<u>5,005</u>	<u>21,239</u>	<u>(15,586)</u>	<u>5,653</u>
At 31 December						
Reported claims	10,015	(7,918)	2,097	12,901	(10,685)	2,216
IBNR	10,997	(8,089)	2,908	8,338	(4,901)	3,437
	<u>21,012</u>	<u>(16,007)</u>	<u>5,005</u>	<u>21,239</u>	<u>(15,586)</u>	<u>5,653</u>

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

14. CLAIMS DEVELOPMENT TABLE

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

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

<u>Gross</u> Accident year	2014	2015	2016	2017	2018	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
At end of accident year	716	4,232	4,271	4,161	6,341	
One year later	3,736	8,817	13,245	14,553	-	
Two years later	4,195	9,529	15,928	-	-	
Three years later	4,195	10,840	-	-	-	
Four years later	4,690	-	-	-	-	
Current estimate of cumulative claims incurred	4,690	10,840	15,928	14,553	6,341	52,352
Cumulative payments to date	(4,402)	(9,970)	(14,042)	(10,269)	(3,654)	(42,337)
Total reported claims	288	870	1,886	4,284	2,687	10,015
IBNR						10,997
Total outstanding claims (note 13)						21,012
<u>Net</u> Accident year	2014	2015	2016	2017	2018	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
At end of accident year	120	748	1,028	1,187	1,130	
One year later	480	1,435	1,983	3,191	-	
Two years later	570	1,637	2,632	-	-	
Three years later	570	1,877	-	-	-	
Four years later	690	-	-	-	-	
Current estimate of cumulative claims incurred	690	1,877	2,632	3,191	1,130	9,520
Cumulative payments to date	(630)	(1,727)	(2,208)	(2,210)	(648)	(7,423)
Total reported claims	60	150	424	981	482	2,097
IBNR						2,908
Total outstanding claims (note 13)						5,005

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

15. ACCRUED EXPENSES AND OTHER LIABILITIES

	2018			2017		
	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>	<i>Insurance operations</i>	<i>Shareholders' operations</i>	<i>Total</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
Accrued expenses	9,869	2,734	12,603	9,887	2,662	12,549
Advance contribution	631	-	631	421	-	421
Contribution deposit	2,068	-	2,068	765	-	765
Other liabilities	1,190	55	1,245	1,716	38	1,754
Total	13,758	2,789	16,547	12,789	2,700	15,489

16. END-OF-SERVICE INDEMNITIES

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

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

	2018
	SR'000
Present value of defined benefit obligation	2,050

16.2 Movement of defined benefit obligation

	2018
	SR'000
Opening balance	1,960
Charge to statement of income	951
Charge to statement of other comprehensive income	(82)
Benefits paid during the year	(779)
Closing balance	2,050

16.3 Reconciliation of present value of defined benefit obligation

	2018
	SR'000
Balance at beginning of the year	1,960
Current service costs	873
Financial costs	78
Actuarial loss from experience adjustments	(82)
Benefits paid during the year	(779)
	2,050

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

16 END-OF-SERVICE INDEMNITIES (continued)

16.4 Principal actuarial assumptions

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

	<i>2018</i>
Valuation discount rate	3.80 %
Expected rate of increase in salary level across different age bands	4.00 %

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

	<i>2018</i>
Valuation discount rate	SR'000
- Increase by 1%	231
- Decrease by 1%	188
Expected rate of increase in salary level across different age bands	
- Increase by 1%	215
- Decrease by 1%	188

	<i>2018</i>
Projected future benefit payment (6 years)	SR'000

2019	114
2020	154
2021	170
2022	188
2023	208
2024	272

The average duration of the defined benefit plan obligation at the end of the reporting period is 1.9 years.

17. SHARE CAPITAL

The authorized, issued and paid up share capital of the Company is SR 350 million consisting of 35 million shares (2017: 35 million) of SR 10 each and subscribed by the following:

	<u>% holding</u>		<i>2018</i>	<i>2017</i>
	<i>2018</i>	<i>2017</i>	<i>SR'000</i>	<i>SR'000</i>
Founding Shareholders	70	70	245,000	245,000
General public	30	30	105,000	105,000
	100	100	350,000	350,000

18. STATUTORY RESERVE

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

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

19. TRANSACTIONS WITH RELATED PARTIES

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

- a) In addition to the disclosures set out in notes 1, 4, 6, 7 and 20 following are the details of major related party transactions during the year ended:

<u>Related party</u>	<u>Nature of transaction</u>	<u>Amount of transaction</u>	
		<u>2018</u>	<u>2017</u>
		<u>SR'000</u>	<u>SR'000</u>
<i>Bank Al Jazira</i>	Commission earned from held-to-maturity investment	9,795	8,852
	Commission income on deposits	673	951
	Gross written contribution	41,453	37,828
	Claims paid	10,486	12,977
	Surplus distributed	1,450	1,524
<i>Founding shareholders</i>	Dividends paid	17,150	12,250
	Board of directors remuneration and fee	1,280	1,295
<i>AlJazira Capital</i>	Profit earned on mutual funds	429	590
<i>Aman</i>	Commission paid	130	-
<i>Board of directors & committee members</i>	Gross written contribution	55	56
<i>Key management personnel</i>	Short-term employee benefits	997	1,070
	Gross contribution written	34	21

- b) Amount due from a related party represents receivable from Bank Al Jazira (founding shareholder) (see note 1).
c) Contributions receivable shown in statement of financial position includes SR 1.126 million (31 December 2017: SR nil) from Bank Al Jazira (founding shareholder).

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

20. GENERAL AND ADMINISTRATIVE EXPENSES, NET

	2018			2017		
	<i>Insurance operations SR'000</i>	<i>Shareholders' operations SR'000</i>	<i>Total SR'000</i>	<i>Insurance operations SR'000</i>	<i>Shareholders' operations SR'000</i>	<i>Total SR'000</i>
Staff costs	26,910	-	26,910	21,197	-	21,197
Advertising and marketing	227	-	227	370	-	370
Repair and maintenance	312	-	312	868	-	868
Rent for use of furniture and fixtures	701	-	701	808	-	808
Utilities, postage and telecommunications	1,317	-	1,317	1,478	-	1,478
Rent	779	-	779	754	-	754
Legal and professional fees	1,481	-	1,481	1,504	-	1,504
Travelling, hotel and conveyance	920	-	920	457	-	457
Computer expenses	638	-	638	1,689	-	1,689
Stationery	31	-	31	59	-	59
Depreciation	42	-	42	-	-	-
Board remuneration	-	900	900	-	900	900
Board attendance fees	-	380	380	-	395	395
Committees' expenses	-	863	863	-	764	764
Legal and professional fees	-	1,319	1,319	-	1,286	1,286
Other expenses	328	439	767	182	274	456
	33,686	3,901	37,587	29,366	3,619	32,985
Allocated to a founding shareholder (note 1)	(27,926)	(708)	(28,634)	(24,374)	(730)	(25,104)
Total	5,760	3,193	8,953	4,992	2,889	7,881

a) Board remuneration is paid in accordance with by-laws of the Company.

b) Board attendance fee represents allowances for attending board meetings and committee meetings.

c) Committee expenses include fees of non-board members for attending the committee meetings and other related expenses.

21. OTHER INCOME

	2018 SR'000	2017 SR'000
Subsidy from Human Resources Development Fund	79	500
Rebate income	32	51
	111	551

**ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

22. ZAKAT AND INCOME TAX

The Zakat and income tax payable by the Company has been calculated in accordance with Zakat and tax regulations in the Kingdom of Saudi Arabia.

(a) Zakat

The Zakat provision for the year, attributable to the Saudi shareholders, is based on the following:

	2018 SR'000	2017 SR'000
Equity	391,544	378,864
Dividend paid	(24,500)	(17,500)
Provisions and other adjustments	1,960	1,924
Book value of long-term assets	(372,299)	(364,285)
	<u>(3,295)</u>	<u>(997)</u>
Zakatable profit for the year	<u>34,844</u>	<u>31,096</u>
Zakat base	<u>34,844</u>	<u>31,096</u>
Attributable to Saudi shareholders	<u>34,147</u>	<u>30,472</u>

The differences between the financial and the "Zakatable" results are mainly due to certain adjustments in accordance with the relevant fiscal regulations.

The movement in the Zakat payable during the year ended 31 December is as follows:

	2018 SR'000	2017 SR'000
Balance at the beginning of the year	895	1,217
Zakat for the year	854	762
Zakat paid during the year	(842)	(1,084)
Balance at the end of the year	<u>907</u>	<u>895</u>

(b) Income tax

Income tax has been provided based on the adjusted income attributable to the non-Saudi shareholders.

The movement in income tax payable during the year ended 31 December is as follows:

	2018 SR'000	2017 SR'000
Balance at the beginning of the year	128	113
Income tax for the year	142	127
Income tax paid during the year	(138)	(112)
Balance at the end of the year	<u>132</u>	<u>128</u>

**ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

22. ZAKAT AND INCOME TAX (continued)

(d) Status of assessments

The Company has submitted its Zakat and income tax returns for the year ended 31 December 2014 and for the years ended 31 December 2015 to 2017 with General Authority of Zakat and Tax ("GAZT") and obtained restricted certificates. GAZT has not yet raised their assessments.

23. EARNINGS PER SHARE

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

24. DIVIDEND

On 25 Rajab 1439H (corresponding to 11 April 2018), the Company's Board of Directors proposed to pay a dividend of SR 0.7 per share totaling SR 24.5 million to its shareholders (31 December 2017: SR 0.5 per share totaling SR 17.5 million). This dividend proposal was approved by the shareholders in the Ordinary General Assembly Meeting held on 5 Ramadan 1439H (corresponding to 20 May 2018). Accordingly, the dividend payment was made on 23 Ramadan 1439H (corresponding to 7 June 2018).

25. CONTINGENT LIABILITIES AND COMMITMENTS

As at the statement of financial position date, the Company had no contingent liabilities and commitments (2017: nil).

26. FAIR VALUES OF FINANCIAL INSTRUMENTS

- a) Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company's financial assets consist of cash at banks and murabaha deposit, contribution receivables, available-for-sale investments held to cover unit-linked liabilities, FVIS investments, other receivables and its financial liabilities consist of other liabilities, reinsurance balances payable and outstanding claims. The fair values of financial instruments are not materially different from their carrying values. As at 30 September 2018, apart from the investments which are carried at fair value (notes 6 and 7), there were no other financial instruments held by the Company that were measured at fair value.

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

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

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

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

As at 31 December 2018 and 31 December 2017, all financial instruments which are fair valued are Level 1 instruments (2017: Level 1). There are no transfers between Level 1, Level 2 and Level 3 during the year.

**ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

27. OPERATING SEGMENTS

Operating segments are reported in 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 Managing Director that makes strategic decisions. For management purposes, the activities of Insurance Operations, which are all in the Kingdom of Saudi Arabia, are reported under three business units, as detailed below:

Insurance – individual segment offers life insurance products on an individual basis including unit-linked investment oriented products.

Insurance – group life has segment offers life protection programmes to the members of organizations on a group basis, and credit protection benefits in respect of personal loan given by financing organization. This segment also includes protection benefits in respect of various credit facilities other than personal loans extended by the financing organizations to its customers.

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

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

27. OPERATING SEGMENTS (continued)

	2018	
	Individual	Group
	SR'000	SR'000
ASSETS		Total
		SR'000
Contributions receivable, net	-	1,633
Reinsurers' share of unearned contributions	-	9,006
Reinsurers' share of outstanding claims	42	7,876
Reinsurers' share of claims incurred but not reported	-	8,089
Available-for-sale investments held to cover unit link liabilities	128,230	-
	128,272	26,604
Unallocated assets:		
Cash and cash equivalents		17,062
Investments		395,829
Due from a related party		7,444
Prepayments and other receivables		720
Fixtures, furniture and equipment		260
Statutory deposit		35,000
TOTAL ASSETS		611,191
LIABILITIES		
Reinsurers' balances payable	449	15,676
Unearned contributions	-	22,774
Outstanding claims	141	9,874
Claims incurred but not reported	-	10,997
Unit reserve	130,290	-
Mathematical reserve	557	-
	131,437	59,321
Unallocated liabilities and surplus:		
Accrued expenses and other liabilities		16,547
End-of-service indemnities		2,050
Zakat and income tax		1,039
Surplus from Insurance Operations		2,827
TOTAL LIABILITIES		213,221
EQUITY		
Share capital		350,000
Statutory reserve		23,253
Retained earnings		24,635
TOTAL SHAREHOLDERS' EQUITY		397,888
Remeasurement reserve of defined benefit obligation - related to insurance operations		82
TOTAL EQUITY		397,970
TOTAL LIABILITIES AND EQUITY		611,191

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

27. OPERATING SEGMENTS (continued)

	2017		
	<i>Individual</i>	<i>Group</i>	<i>Total</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
ASSETS			
Contributions receivable, net	-	203	203
Reinsurers' share of unearned contributions	-	7,261	7,261
Reinsurers' share of outstanding claims	-	10,685	10,685
Reinsurers' share of claims incurred but not reported	-	4,901	4,901
Available-for-sale investments held to cover unit link liabilities	106,626	-	106,626
	<u>106,626</u>	<u>23,050</u>	<u>129,676</u>
Unallocated assets:			
Cash and cash equivalents			53,262
Investments			344,286
Due from a related party			5,432
Prepayments and other receivables			754
Statutory deposit			35,000
TOTAL ASSETS			<u><u>568,410</u></u>
LIABILITIES			
Reinsurers' balances payable	185	7,780	7,965
Unearned contributions	-	18,342	18,342
Outstanding claims	-	12,901	12,901
Claims incurred but not reported	-	8,338	8,338
Unit reserve	107,177	-	107,177
Mathematical reserve	958	-	958
	<u>108,320</u>	<u>47,361</u>	<u>155,681</u>
Unallocated liabilities and surplus:			
Accrued expenses and other liabilities			15,489
End-of-service indemnities			1,960
Zakat and income tax			1,023
Surplus from Insurance Operations			2,713
TOTAL LIABILITIES			<u><u>176,866</u></u>
EQUITY			
Share capital			350,000
Statutory reserve			16,885
Retained earnings			24,659
TOTAL SHAREHOLDERS' EQUITY			<u>391,544</u>
Remeasurement reserve of defined benefit obligation - related to insurance operations			-
TOTAL EQUITY			<u><u>391,544</u></u>
TOTAL LIABILITIES AND EQUITY			<u><u>568,410</u></u>

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

27. OPERATING SEGMENTS (continued)

Year ended 31 December 2018	Individual SR'000	Group SR'000	Total SR'000
REVENUES			
Gross written contributions:			
Individual	58,126	-	58,126
Small & Medium enterprises	-	766	766
Corporate	-	42,253	42,253
	<u>58,126</u>	<u>43,019</u>	<u>101,145</u>
Contributions ceded:			
Local	-	-	-
Foreign	(804)	(17,821)	(18,625)
Net written contributions	<u>57,322</u>	<u>25,198</u>	<u>82,520</u>
Change in unearned contributions, net	-	(2,687)	(2,687)
Net contribution earned	<u>57,322</u>	<u>22,511</u>	<u>79,833</u>
Other underwriting income	4,545	-	4,545
TOTAL REVENUES	<u>61,867</u>	<u>22,511</u>	<u>84,378</u>
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid	(250)	(10,941)	(11,191)
Reinsurance share of claims paid	150	8,995	9,145
Net claims paid	<u>(100)</u>	<u>(1,946)</u>	<u>(2,046)</u>
Changes in outstanding claims, net	(99)	218	119
Changes in IBNR, net	-	529	529
Net claims incurred	<u>(199)</u>	<u>(1,199)</u>	<u>(1,398)</u>
Investible contributions, net	(48,513)	-	(48,513)
Change in mathematical reserve	401	-	401
Policy acquisition costs	(1,387)	(135)	(1,522)
Supervision and inspection fees	(291)	(215)	(506)
TOTAL UNDERWRITING COSTS AND EXPENSES	<u>(49,989)</u>	<u>(1,549)</u>	<u>(51,538)</u>
NET UNDERWRITING INCOME	<u>11,878</u>	<u>20,962</u>	<u>32,840</u>
OTHER OPERATING (EXPENSES)/ INCOME			
Allowance for doubtful receivables/written-off			(55)
General and administrative expenses			(8,953)
Commission from held-to-maturity Investments			9,795
Commission income on deposits			673
Unrealized gain on FVIS investments			220
Realized gain on FVIS investments			28
Dividend income			8
Other income			111
TOTAL OTHER OPERATING INCOME, NET			<u>1,827</u>
Net income for the year			<u>34,667</u>
Net income attributed to the insurance operations			(2,827)
Net income for the year attributable to the shareholders			<u><u>31,840</u></u>

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

27. OPERATING SEGMENTS (continued)

Year ended 31 December 2017	Individual SR'000	Group SR'000	Total SR'000
REVENUES			
Gross written contributions:			
Individual	46,307	-	46,307
Small & Medium Enterprises	-	550	550
Corporate	-	38,763	38,763
	<u>46,307</u>	<u>39,313</u>	<u>85,620</u>
Contributions ceded:			
Local	-	(13)	(13)
Foreign	(698)	(16,888)	(17,586)
	<u>45,609</u>	<u>22,412</u>	<u>68,021</u>
Net written contributions	45,609	22,412	68,021
Change in unearned contributions, net	-	(100)	(100)
	<u>45,609</u>	<u>22,312</u>	<u>67,921</u>
Net contribution earned	45,609	22,312	67,921
Other underwriting income	1,188	4,992	6,180
	<u>46,797</u>	<u>27,304</u>	<u>74,101</u>
TOTAL REVENUES	<u>46,797</u>	<u>27,304</u>	<u>74,101</u>
UNDERWRITING COSTS AND EXPENSES			
Gross claims paid	(98)	(13,797)	(13,895)
Reinsurance share of claims paid	29	11,407	11,436
	<u>(69)</u>	<u>(2,390)</u>	<u>(2,459)</u>
Net claims paid	(69)	(2,390)	(2,459)
Changes in outstanding claims, net	-	(1,154)	(1,154)
Changes in IBNR, net	-	891	891
	<u>(69)</u>	<u>(2,653)</u>	<u>(2,722)</u>
Net claims incurred	(69)	(2,653)	(2,722)
Investible contributions, net	(38,531)	-	(38,531)
Change in mathematical reserve	(87)	-	(87)
Policy acquisition costs	(1,555)	-	(1,555)
Supervision and inspection fees	(231)	(197)	(428)
	<u>(40,473)</u>	<u>(2,850)</u>	<u>(43,323)</u>
TOTAL UNDERWRITING COSTS AND EXPENSES	<u>(40,473)</u>	<u>(2,850)</u>	<u>(43,323)</u>
NET UNDERWRITING INCOME	<u>6,324</u>	<u>24,454</u>	<u>30,778</u>
OTHER OPERATING (EXPENSES)/ INCOME			
Allowance for doubtful receivables/written-off			(2)
General and administrative expenses			(7,881)
Commission from held-to-maturity Investments			8,852
Commission income on deposits			951
Unrealized gain on FVIS investments			494
Realized gain on FVIS investments			-
Dividend income			39
Other income			551
			<u>3,004</u>
TOTAL OTHER OPERATING INCOME, NET			<u>3,004</u>
Net income for the year			<u>33,782</u>
Net income attributed to the insurance operations			<u>(2,713)</u>
Net income for the year attributable to the shareholders			<u><u>31,069</u></u>

**ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

28. RISK MANAGEMENT

Risk is inherent in the Company's activities but is managed through a process of on-going identifications, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company's policy is to monitor business risk through strategic planning process. The strategy considers the impact of market conditions and available expertise on inherent risks to which the Company is exposed.

Risk management structure

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

Board of Directors

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

Senior management

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

Audit Committee

The Audit Committee is elected by the General Assembly. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and risk management, the audit thereof and the soundness of the internal controls of the Company.

Risk Committee

The Risk Committee is elected by the Board of Directors. The Risk Committee is responsible for the Company's risk management strategy to ensure that the Company's exposure to risks is minimal.

Internal Audit

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

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

Operational / Process risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Company manages operational risk through appropriate controls, risk mitigation measures, instituting segregation of duties and internal checks and balances.

Insurance risk

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

Concentration of insurance risk

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

Key assumptions

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

Frequency and amount of claims

For individual life business, the main risk is the mortality and morbidity (permanent or temporary disability) of the insured. This is managed through an effective and clearly defined underwriting strategy. There are various levels of understanding carried out, including declaration of good health, medical questionnaire, reports from specialist/ consultants and comprehensive medical tests.

**ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

28. RISK MANAGEMENT (continue)

Insurance risk (continue)

Frequency and amount of claims (continue)

The Company also assesses financial, lifestyle and occupational information to ascertain the degree of risk carried by the insured and to determine whether or not it could be classified as a standard life.

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

The individual life business and group credit protection portfolios are protected through an efficient reinsurance arrangement. This protects the Company from adverse mortality/morbidity experience.

Sensitivity of claims

Insurance claim liabilities are sensitive to the various assumptions mentioned above. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process. A hypothetical 5% change in the net claims ratio, with other variable held constant, would impact income for the year by approximately SR 1,586 thousand (2017: SR 1,465 thousand) in aggregate.

Independent actuarial review of claims and claims reserve.

In further mitigation of the insurance risk, the Company utilizes an independent actuary who performs periodical reviews of the Companies' claims modeling and claims projections as well as verifying that the annual closing claims are adequate.

Reinsurance risk

In common with other insurance companies, in order to minimise the financial exposure arising from large claims, the Company in normal course of business, enters into reinsurance arrangements with the reinsurers. Such reinsurance arrangements provide for greater diversification of business, allow the management to control exposure potential losses arising from large risk, and provide additional capacity for growth. All of the reinsurance is affected under treaty, Quota share and Surplus reinsurance contracts.

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.

Reinsurers are selected using the following parameters and guidelines set by the Company's Board of Directors and Reinsurance Committee. The criteria may be summarized as follows:

- Minimum acceptable credit rating by recognized rating agencies (e.g. S&P) that is not lower than BBB or equivalent.
- Reputation of particular reinsurance companies.
- Existing or past business relationship with the reinsurer
- Shariah compliant

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

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

**ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

28. RISK MANAGEMENT (continue)

Regulatory framework risk

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

Capital management (solvency) risk

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

The Company is required to maintain solvency margin in accordance with the calculation described under Article 67 of the Implementing Insurance Regulations. The Company complied with the relevant regulations.

Financial risk

The Company's principal financial instruments are cash and cash equivalents, available-for-sale investments held to cover unit-linked liabilities, contribution receivable, reinsurance share of outstanding claims, other receivables, investments held-to-maturity, FVIS investments, due from insurance operations, reinsurance balances payable, accrued expenses and other liabilities, due to Shareholders' operations and other payables. The Company does not enter into derivative transactions.

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

Foreign currency risk

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

Management believes that there is minimal risk of losses due to exchange rate fluctuations as the Insurance Operations and Shareholders' Operations primarily deal in Saudi Riyals and in US Dollar. Saudi Riyal which is pegged to the US Dollar.

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 is exposed to commission rate risk on its murabaha deposits.

The sensitivity of the income is the effect of assumed changes in commission rates, with all other variables held constant, on the Company's profit for one year, based on the floating rate financial assets held at 31 December 2018. A hypothetical 50 basis points change in the weighted average commission rates of the floating rate financial assets balances at 31 December 2018 would impact commission income on murabaha deposits by approximately SR 1,550 thousand (31 December 2017: SR 1,709 thousand) over the remaining period of maturity.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

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

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 reinsurance insolvencies, the Company evaluates the financial condition of its reinsurance counterparties. Accordingly, as a pre-requisite, the parties with whom reinsurance is affected are required to have a minimum acceptable security rating level affirming their financial strength.
- Contributions receivable are only receivable from corporate customers. The Company seeks to limit the credit risk by setting credit limits and monitoring outstanding receivables. In respect of contribution receivable one of the policy holders account for 67% of the balance as at 31 December 2018 (2017: 59%).

The Company's investments comprise of murabaha securities and mutual funds. The Company limits its credit risk on investments by setting out a minimum acceptable security rating level affirming their financial strength.

**ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

28. RISK MANAGEMENT (continue)

Credit risk (continued)

The table below shows the maximum exposure to credit risk for the components of the financial position:

	2018 SR'000	2017 SR'000
Cash and cash equivalents	17,062	53,262
Held-to-maturity investments	322,381	312,586
Contributions receivable	1,633	203
Reinsurance share of outstanding claims excluding IBNR	7,918	10,685
Due from a related party	7,444	5,432
Other receivables	639	680
Statutory deposit	35,000	35,000
	392,077	417,848

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity requirements are monitored on a timely basis and management ensures that sufficient funds are available to meet any commitments as they arise.

All assets of Insurance Operations and Shareholders' Operations are current, except for statutory deposit and fixtures, furniture and equipment which is non-current in nature.

The insurance operations' current financial liabilities consist of outstanding claims, reinsurance balances payable, accrued expenses and other liabilities and the shareholders' financial liabilities consist of accrued expenses and other liabilities. All these financial liabilities are expected to be settled within 12 months from the date of statement of financial position.

Market price risk

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

The Insurance Operations and Shareholders' Operations are exposed to market risk with respect to their investments in units of open-ended mutual funds. The underlying investments of the mutual funds are in equities, Sukuks and Murabaha purchased in the local and international markets and unit price of the fund is dependent on the movements in the market prices of these instruments. The fund manager limits market risk by monitoring the developments in the relevant markets for these instruments.

A 5% change in the net asset value of the funds, with all other variables held constant, would impact the net assets by SR 10,065 thousand (2017: SR 6,888 thousand).

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

29. SUPPLEMENTRY INFORMATION

a) STATEMENT OF FINANCIAL POSITION

	<i>Insurance operations SR'000</i>	<i>Shareholders' operations SR'000</i>	<i>2018 SR'000</i>	<i>Insurance operations SR'000</i>	<i>Shareholders' operations SR'000</i>	<i>2017 SR'000</i>
ASSETS						
Cash and cash equivalents	13,208	3,854	17,062	46,814	6,448	53,262
Contributions receivable, net	1,633	-	1,633	203	-	203
Reinsurers' share of unearned contributions	9,006	-	9,006	7,261	-	7,261
Reinsurers' share of outstanding claims	7,918	-	7,918	10,685	-	10,685
Reinsurers' share of claims incurred but not reported	8,089	-	8,089	4,901	-	4,901
Available-for-sale investments held to cover unit-linked liabilities	128,230	-	128,230	106,626	-	106,626
Investments	58,530	337,299	395,829	15,001	329,285	344,286
Due from a related party	7,444	-	7,444	5,432	-	5,432
Prepayments and other receivables	679	41	720	708	46	754
Fixtures, furniture and equipment	260	-	260	-	-	-
Due from Insurance Operations	-	25,522	25,522	-	24,488	24,488
Statutory deposit	-	35,000	35,000	-	35,000	35,000
	<u>234,997</u>	<u>401,716</u>	<u>636,713</u>	<u>197,631</u>	<u>395,267</u>	<u>592,898</u>
Less: Inter-operations eliminations	-	(25,522)	(25,522)	-	(24,488)	(24,488)
TOTAL ASSETS	<u>234,997</u>	<u>376,194</u>	<u>611,191</u>	<u>197,631</u>	<u>370,779</u>	<u>568,410</u>
LIABILITIES						
Accrued expenses and other liabilities	13,758	2,789	16,547	12,789	2,700	15,489
Reinsurers' balances payable	16,125	-	16,125	7,965	-	7,965
Unearned contributions	22,774	-	22,774	18,342	-	18,342
Outstanding claims	10,015	-	10,015	12,901	-	12,901
Claims incurred but not reported	10,997	-	10,997	8,338	-	8,338
Unit reserve	130,290	-	130,290	107,177	-	107,177
Mathematical reserve	557	-	557	958	-	958
End-of-service indemnities	2,050	-	2,050	1,960	-	1,960
Zakat and income tax	-	1,039	1,039	-	1,023	1,023
Due to Shareholders' Operations	25,522	-	25,522	24,488	-	24,488
Surplus from Insurance Operations	2,827	-	2,827	2,713	-	2,713
	<u>234,915</u>	<u>3,828</u>	<u>238,743</u>	<u>197,631</u>	<u>3,723</u>	<u>201,354</u>
Less: Inter-operations eliminations	(25,522)	-	(25,522)	(24,488)	-	(24,488)
TOTAL LIABILITIES	<u>209,393</u>	<u>3,828</u>	<u>213,221</u>	<u>173,143</u>	<u>3,723</u>	<u>176,866</u>
EQUITY						
Share capital	-	350,000	350,000	-	350,000	350,000
Statutory reserve	-	23,253	23,253	-	16,885	16,885
Retained earnings	-	24,635	24,635	-	24,659	24,659
Remeasurement reserve of defined benefit obligation – related to insurance operations	82	-	82	-	-	-
TOTAL EQUITY	<u>82</u>	<u>397,888</u>	<u>397,970</u>	<u>-</u>	<u>391,544</u>	<u>391,544</u>
TOTAL LIABILITIES AND EQUITY	<u>209,475</u>	<u>401,716</u>	<u>611,191</u>	<u>173,143</u>	<u>395,267</u>	<u>568,410</u>

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

29. SUPPLEMENTRY INFORMATION (continued)

b) STATEMENT OF INCOME

	<i>Insurance operations SR'000</i>	<i>Shareholders' operations SR'000</i>	<i>2018 SR'000</i>	<i>Insurance operations SR'000</i>	<i>Shareholders' operations SR'000</i>	<i>2017 SR'000</i>
REVENUES						
Gross written contributions:						
Individual	58,126	-	58,126	46,307	-	46,307
Small & Medium Enterprises	766	-	766	550	-	550
Corporate	42,253	-	42,253	38,763	-	38,763
	<u>101,145</u>	<u>-</u>	<u>101,145</u>	<u>85,620</u>	<u>-</u>	<u>85,620</u>
Contributions ceded:						
Local	-	-	-	(13)	-	(13)
Foreign	(18,625)	-	(18,625)	(17,586)	-	(17,586)
Net written contributions	<u>82,520</u>	<u>-</u>	<u>82,520</u>	<u>68,021</u>	<u>-</u>	<u>68,021</u>
Change in unearned contributions, net	(2,687)	-	(2,687)	(100)	-	(100)
Net contribution earned	<u>79,833</u>	<u>-</u>	<u>79,833</u>	<u>67,921</u>	<u>-</u>	<u>67,921</u>
Other underwriting income	4,545	-	4,545	6,180	-	6,180
TOTAL REVENUES	<u>84,378</u>	<u>-</u>	<u>84,378</u>	<u>74,101</u>	<u>-</u>	<u>74,101</u>
UNDERWRITING COSTS AND EXPENSES						
Gross claims paid	(11,191)	-	(11,191)	(13,895)	-	(13,895)
Reinsurance share of claims paid	9,145	-	9,145	11,436	-	11,436
Net claims paid	<u>(2,046)</u>	<u>-</u>	<u>(2,046)</u>	<u>(2,459)</u>	<u>-</u>	<u>(2,459)</u>
Changes in outstanding claims, net	119	-	119	(1,154)	-	(1,154)
Changes in IBNR, net	529	-	529	891	-	891
Net claims incurred	<u>(1,398)</u>	<u>-</u>	<u>(1,398)</u>	<u>(2,722)</u>	<u>-</u>	<u>(2,722)</u>
Investible contributions, net	(48,513)	-	(48,513)	(38,531)	-	(38,531)
Change in mathematical reserve	401	-	401	(87)	-	(87)
Policy acquisition costs	(1,522)	-	(1,522)	(1,555)	-	(1,555)
Supervision and inspection fees	(506)	-	(506)	(428)	-	(428)
TOTAL UNDERWRITING COSTS AND EXPENSES	<u>(51,538)</u>	<u>-</u>	<u>(51,538)</u>	<u>(43,323)</u>	<u>-</u>	<u>(43,323)</u>
NET UNDERWRITING INCOME	<u>32,840</u>	<u>-</u>	<u>32,840</u>	<u>30,778</u>	<u>-</u>	<u>30,778</u>
OTHER OPERATING (EXPENSES)/ INCOME						
Allowance for doubtful receivables/written-off	(55)	-	(55)	(2)	-	(2)
General and administrative expenses	(5,760)	(3,193)	(8,953)	(4,992)	(2,889)	(7,881)
Commission from held-to-maturity investments	456	9,339	9,795	1	8,851	8,852
Commission income on deposits	637	36	673	841	110	951
Unrealised gain/(loss) on FVIS investments	72	148	220	-	494	494
Realized gain on FVIS investments	-	28	28	-	-	-
Dividend income	-	8	8	-	39	39
Other income	79	32	111	500	51	551
TOTAL OTHER OPERATING (EXPENSES)/INCOME	<u>(4,571)</u>	<u>6,398</u>	<u>1,827</u>	<u>(3,652)</u>	<u>6,656</u>	<u>3,004</u>

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

29. SUPPLEMENTRY INFORMATION (continued)

b) STATEMENT OF INCOME (continued)

	<i>Insurance operations SR'000</i>	<i>Shareholders' operations SR'000</i>	<i>2018 SR'000</i>	<i>Insurance operations SR'000</i>	<i>Shareholders' operations SR'000</i>	<i>2017 SR'000</i>
NET SURPLUS FROM OPERATIONS	28,269	6,398	34,667	27,126	6,656	33,782
Surplus transferred to Shareholders	(25,442)	25,442	-	(24,413)	24,413	-
NET INCOME FOR THE YEAR	2,827	31,840	34,667	2,713	31,069	33,782
Weighted average number of ordinary shares outstanding (in thousands)	-	35,000	-	-	35,000	-
Basic earnings per share for the year (SR)	-	0.910	-	-	0.889	-

c) STATEMENT OF COMPREHENSIVE INCOME

	<i>Insurance operations SR'000</i>	<i>Shareholders' operations SR'000</i>	<i>2018 SR'000</i>	<i>Insurance operations SR'000</i>	<i>Shareholders' operations SR'000</i>	<i>2017 SR'000</i>
NET INCOME FOR THE YEAR	2,827	31,840	34,667	2,713	31,069	33,782
Remeasurement reserve of defined benefit obligation	82	-	82	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	2,909	31,840	34,749	2,713	31,069	33,782

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

29. SUPPLEMENTRY INFORMATION (continued)

d) STATEMENT OF CASH FLOWS

	<i>Insurance operations SR'000</i>	<i>Shareholders' operations SR'000</i>	<i>2018 SR'000</i>	<i>Insurance operations SR'000</i>	<i>Shareholders' operations SR'000</i>	<i>2017 SR'000</i>
OPERATING ACTIVITIES						
Net income for the year	2,827	31,840	34,667	2,713	31,069	33,782
Adjustments for non-cash items:						
Reinsurers' share of unearned contributions	(1,745)	-	(1,745)	(349)	-	(349)
Unearned contributions	4,432	-	4,432	449	-	449
Allowance for doubtful receivables/written-off	55	-	55	2	-	2
Commission from held-to-maturity investments	(457)	(9,338)	(9,795)	(1)	(8,851)	(8,852)
Unrealised gain on FVIS investments	(72)	(148)	(220)	-	(494)	(494)
Realised gain on FVIS investments	-	(28)	(28)	-	-	-
Depreciation	42	-	42	-	-	-
End-of-service indemnities	951	-	951	620	-	620
	<u>6,033</u>	<u>22,326</u>	<u>28,359</u>	<u>3,434</u>	<u>21,724</u>	<u>25,158</u>
Changes in operating assets and liabilities:						
Contributions receivable, net	(1,485)	-	(1,485)	17	-	17
Reinsurers' share of outstanding claims	2,767	-	2,767	(1,664)	-	(1,664)
Reinsurers' share of claims incurred but not reported	(3,188)	-	(3,188)	(1,913)	-	(1,913)
Available-for-sale investments held to cover unit-linked liabilities, net	(21,604)	-	(21,604)	(36,673)	-	(36,673)
Due from a related party	(2,012)	-	(2,012)	(1,767)	-	(1,767)
Prepayments and other receivables	29	5	34	(420)	(46)	(466)
Accrued expenses and other liabilities	969	89	1,058	2,271	1,070	3,341
Reinsurers' balances payable	8,160	-	8,160	(3,204)	-	(3,204)
Outstanding claims	(2,886)	-	(2,886)	2,818	-	2,818
Claims incurred but not reported	2,659	-	2,659	1,022	-	1,022
Unit reserve	23,113	-	23,113	36,895	-	36,895
Mathematical reserve	(401)	-	(401)	87	-	87
Due to Shareholders' Operations	1,034	-	1,034	4,663	-	4,663
Due from Insurance Operations	-	(1,034)	(1,034)	-	(4,663)	(4,663)
Cash from operations	13,188	21,386	34,574	5,566	18,085	23,651
End-of-service indemnities paid	(779)	-	(779)	(584)	-	(584)
Distribution of surplus to policyholders	(2,713)	-	(2,713)	(2,152)	-	(2,152)
Zakat and income tax paid	-	(980)	(980)	-	(1,196)	(1,196)
Net cash from operating activities	<u>9,696</u>	<u>20,406</u>	<u>30,102</u>	<u>2,830</u>	<u>16,889</u>	<u>19,719</u>
INVESTING ACTIVITIES						
Purchase of held-to-maturity investments	-	-	-	(15,000)	(295,000)	(310,000)
Proceeds from disposal of held-to-maturity investment	-	-	-	-	270,000	270,000
Proceeds from disposal of FVIS investment	-	24,500	24,500	-	-	-
Purchase of FVIS investment	(43,000)	(23,000)	(66,000)	-	-	-
Purchase of fixtures, furniture and equipment	(302)	-	(302)	-	-	-
Commission from held-to-maturity investments	-	-	-	-	9,166	9,166
Net cash (used in)/from investing activities	<u>(43,302)</u>	<u>1,500</u>	<u>(41,802)</u>	<u>(15,000)</u>	<u>(15,834)</u>	<u>(30,834)</u>
FINANCING ACTIVITY						
Dividend paid	-	(24,500)	(24,500)	-	(17,500)	(17,500)
Net cash used in financing activity	<u>-</u>	<u>(24,500)</u>	<u>(24,500)</u>	<u>-</u>	<u>(17,500)</u>	<u>(17,500)</u>
Net decrease in cash and cash equivalents	<u>(33,606)</u>	<u>(2,594)</u>	<u>(36,200)</u>	<u>(12,170)</u>	<u>(16,445)</u>	<u>(28,615)</u>
Cash and cash equivalents at the beginning of the year	46,814	6,448	53,262	58,984	22,893	81,877
Cash and cash equivalents at the end of the year	<u>13,208</u>	<u>3,854</u>	<u>17,062</u>	<u>46,814</u>	<u>6,448</u>	<u>53,262</u>

**ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 December 2018

30 AMALGAMATION OF SHAREHOLDERS AND INSURANCE OPERATIONS

Certain of the comparative figures have been reclassified and regrouped to conform to the in the current year presentation. These changes as summarised below, were mainly to conform with the SAMA requirements:

- As discussed in note 2 to these financial statements, previously statement of financial position, statement of income and statement cash flows were presented separately for insurance operations and shareholders operations which are combined together to present one Company level statement of financial position, statement of income and statement of cash flows.
- The amounts "due to/from" shareholders and insurance operations which previously reported separately in the respective statement of financial position, are now eliminated. (refer note 19(a)).
- Share of insurance operations surplus split in the ratio of 90/10 between shareholders and insurance operations and presented separately is now presented as an expense in interim statement of income (refer note 19(b)).

31. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements have been approved by the Board of Directors on 10 Rajab 1440H, corresponding to 17 March 2019.