
SABB TAKAFUL COMPANY
(A SAUDI JOINT STOCK COMPANY)

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

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

Opinion

We have audited the financial statements of SABB Takaful Company (the "Company"), which comprise the statement of financial position as at 31 December 2019, the statements of income and comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing 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, that are endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

| Key audit matters | How the matter was addressed in our audit |
|---|---|
| <p><i>Valuation of ultimate claim liabilities arising from takaful contracts</i></p> <p>As at 31 December 2019, gross outstanding claims including claims incurred but not reported (IBNR) amounted to Saudi Riyals 62.2 million as reported in Note 12 to the financial statements.</p> <p>The estimation of ultimate takaful contract liabilities involves a significant degree of judgments. The liabilities are based on the best-estimate of ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs.</p> <p>In particular, estimates of IBNR and the use of actuarial and statistical projections involve significant judgments. A range of methods such as Incurred Development Method, Expected Claims Ratio Method and Incurred Bornhuetter-Ferguson Method were used by the actuary to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.</p> <p>We considered this as a key audit matter as the determination of ultimate claim liabilities arising from takaful contracts is subjective and relies on management assumptions and judgements.</p> <p><i>Refer to notes 2 and 26 to the financial statements which explain the valuation methodology used by the Company and critical judgments and estimates.</i></p> | <p>We understood, evaluated and tested key controls over the claim liabilities processes of the Company.</p> <p>We evaluated the competence, capabilities and objectivity of the management's expert by considering their professional qualifications and experience and assessing their relationship with the entity.</p> <p>In obtaining sufficient audit evidence to assess the integrity of data used as inputs into the actuarial valuations, we tested on sample basis, the completeness and accuracy of underlying claims data utilised by the Company's actuary in estimating the IBNR by comparing it to accounting records.</p> <p>In order to challenge management's methodologies and assumptions, we were assisted by our internal actuary to understand and evaluate the Company's actuarial practices and provisions established. In order to gain comfort over the actuarial report issued by management's expert, our actuary performed the following:</p> <ul style="list-style-type: none"> - Evaluated whether the Company's actuarial methodologies were consistent with generally accepted actuarial practices and with prior years. We sought sufficient justification for any significant differences; - Assessed the reasonableness of key actuarial assumptions including claims ratios and expected frequency and severity of claims.; and - Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivities to the key assumptions performed. - Assessed the adequacy of the Company's disclosures regarding assumptions used and sensitivities as included in the accounting policies and in note 26 to the financial statements. |

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

| Key audit matters | How the matter was addressed in our audit |
|--|--|
| <p><i>Valuation of life takaful contract liabilities (Reserve for takaful activities)</i></p> <p>As at 31 December 2019, the Company had reserve for takaful activities amounting to Saudi Riyals 376 million as reported in Note 10(a) to the financial statements. The reserve for takaful activities represents the unit linked takaful plan reserve.</p> <p>Valuation of reserve for takaful activities involves complex and subjective judgements made by management and actuary about variety of uncertain future outcomes, including the estimation of economic assumptions, such as investment return, discount rates, and operating assumptions, such as expense, mortality and persistency. Changes in these assumptions can result in material impacts to the valuation of these liabilities.</p> <p>We considered this as a key audit matter as the determination of reserve for takaful contract liabilities arising from takaful contracts is subjective and relies on management assumptions and judgements.</p> <p><i>Refer to notes 2 and 26 to the financial statements which explain the valuation methodology used by the Company and critical judgments and estimates.</i></p> | <p>We understood, evaluated and tested key controls in relation to reserve for takaful activities processes of the Company.</p> <p>We evaluated the competence, capabilities and objectivity of the management's expert by considering their professional qualifications and experience and assessing their relationship with the entity.</p> <p>In obtaining sufficient audit evidence to assess the integrity of data used as inputs into the actuarial valuations, we tested on a sample basis, the completeness and accuracy of underlying data utilised by the Company's actuary in estimating the reserves for takaful activities by comparing it to accounting records.</p> <p>In order to challenge management's methodologies and assumptions, we were assisted by our internal actuary to understand and evaluate the Company's actuarial practices and the provisions established. In order to gain comfort over the actuarial report issued by management's expert, our actuary performed the following:</p> <ul style="list-style-type: none"> - Evaluated whether the Company's actuarial methodologies were consistent with generally accepted actuarial practices and with prior years. We sought sufficient justification for any significant differences; - Assessed key actuarial assumptions such as investment return, discount rates, and operating assumptions, such as expense, mortality and persistency; and - Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivities to the key assumptions performed. - Assessed the adequacy of the Company's disclosures regarding assumptions used and sensitivities as included in the accounting policies and in note 26 to the financial statements. |



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

Other information included in the Company's 2019 annual report

Management is responsible for the other information. The Other information consists of the information included in the Company's 2019 annual report, other than the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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 the IFRS as endorsed in the Kingdom of Saudi Arabia, the applicable requirements of the Regulations for Companies and the Company's By-laws, and for such internal control as the 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, the 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 the management either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

Auditors' responsibilities for the audit of the financial statements

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



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

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

As part of an audit in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

Auditors' responsibilities for the audit of the financial statements (Continued)

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

Report on other legal and regulatory requirements

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Company is not in compliance, in all material respects, with the applicable requirements of the Regulations for Companies, and the Company's By-laws in so far as they affect the preparation and presentation of the financial statements.

PricewaterhouseCoopers
P. O. Box 8282
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Mufaddal Ali
Certified Public Accountant
Registration No. 447

**AlAzem, AlSudairy,
AlShaikh & Partners**
Certified Public Accountants
P. O. Box 10504
Riyadh 11443
Kingdom of Saudi Arabia



Abdullah M. AlAzem
Certified Public Accountant
Registration No. 335

Date: 28 Rajab 1441H
Corresponding to: 23 March 2020



SABB Takaful Company (A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

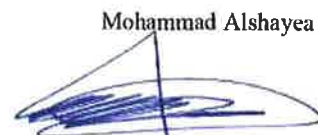
| | | 31 December 2019 (Audited) SAR'000 | 31 December 2018 (Audited) SAR'000 |
|--|--------------|---|---|
| | <i>Notes</i> | | |
| <u>ASSETS</u> | | | |
| Cash and cash equivalents | 7 | 146,986 | 244,019 |
| Short term deposits | 8 | 66,277 | - |
| Contributions and retakaful receivables, net | 5 | 26,406 | 12,650 |
| Retakaful share of unearned contributions | 10(b) | 10,946 | 6,969 |
| Retakaful share of outstanding claims | 12(b) | 47,644 | 57,730 |
| Deferred policy acquisition costs | 10(c) | 1,985 | 1,019 |
| Investments | | | |
| Available-for-sale financial assets | 4(c) &(d) | 383,869 | 352,115 |
| Held-to-maturity financial assets | 4(b) | 146,372 | 120,899 |
| Prepaid expenses and other assets | 6 | 1,062 | 1,232 |
| Fixed assets | | 75 | 146 |
| Intangible assets | | 2,216 | 1,859 |
| Statutory deposit | 9 | 34,000 | 34,000 |
| Accrued income on statutory deposit | | 4,355 | 3,509 |
| TOTAL ASSETS | | 872,193 | 836,147 |

Bakheet AlZahrani

 Chief Financial Officer

Hussam Alkhayal

 Chief Executive Officer

Mohammad Alshayea

 Chairman

The accompanying notes 1 to 28 form an integral part of these financial statements.

SABB Takaful Company (A Saudi Joint Stock Company)
STATEMENT OF FINANCIAL POSITION (CONTINUED)
AT 31 DECEMBER 2019


| | | 31 December 2019 (Audited) SAR'000 | 31 December 2018 (Audited) SAR'000 |
|--|--------------|---|---|
| | <i>Notes</i> | | |
| <u>LIABILITIES</u> | | | |
| Accrued and other liabilities | 13 | 43,282 | 19,378 |
| Provision for zakat and income tax | 16 | 5,778 | 6,034 |
| Retakaful balances payable | | 15,864 | 5,880 |
| Unearned contributions | 10(b) | 15,703 | 9,565 |
| Unearned retakaful commission | 10(c) | 1,910 | 2,290 |
| Gross outstanding claims | 12(b) | 62,290 | 71,186 |
| Unexpired risk reserve | 10(e) | 5,889 | 2,991 |
| Non-unit reserve | 10(d) | 6,470 | 5,579 |
| Provision for employees' end-of-service benefits | 11 | 5,875 | 4,916 |
| Surplus distribution payable | 17 | 6,593 | 6,593 |
| Reserve for takaful activities | 10(a), 4(c) | 376,834 | 352,115 |
| Accrued income on statutory deposit | | 4,355 | 3,509 |
| TOTAL LIABILITIES | | 550,843 | 490,036 |
| Takaful operations' surplus | | - | - |
| TOTAL LIABILITIES AND TAKAFUL OPERATIONS' SURPLUS | | 550,843 | 490,036 |
| <u>SHAREHOLDERS' EQUITY</u> | | | |
| Share capital | 14 | 340,000 | 340,000 |
| Statutory reserve | 15 | 14,788 | 14,788 |
| Accumulated losses | | (33,264) | (8,464) |
| Remeasurements of retirement benefit obligations | 11 | (823) | (213) |
| Fair value reserve on available-for-sale financial assets | 4(d) | 649 | - |
| TOTAL EQUITY | | 321,350 | 346,111 |
| TOTAL LIABILITIES, TAKAFUL OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY | | 872,193 | 836,147 |

Bakheet AlZahrani

 Chief Financial Officer

Hussam Alkhayal

 Chief Executive Officer

Mohammad Alshayea

 Chairman

The accompanying notes 1 to 28 form an integral part of these financial statements.

SABB Takaful Company (A Saudi Joint Stock Company)

STATEMENT OF INCOME

For the year ended 31 December 2019

| | Note | 2019 (Audited) SAR'000 | 2018 (Audited) SAR'000 (restated*) |
|---|------------|------------------------------|---|
| REVENUES | | | |
| Gross contributions written | | | |
| - Family Takaful | 18 | 128,502 | 119,544 |
| - General Takaful | 18 | 26,651 | 20,422 |
| | | <u>155,153</u> | <u>139,966</u> |
| Retakaful contribution ceded | | | |
| - Local retakaful contribution ceded | 18 | (7,999) | (9,201) |
| - Foreign retakaful contribution ceded | 18 | (50,678) | (33,210) |
| Planholder charges | 18 | 16,174 | 15,003 |
| | | <u>112,650</u> | <u>112,558</u> |
| Net contributions written | | | |
| Changes in unearned contributions | 18 | (6,138) | 4,824 |
| Changes in retakaful share of unearned contributions | 18 | 3,977 | (3,833) |
| | | <u>110,489</u> | <u>113,549</u> |
| Net contributions earned | | | |
| Fees and commission income | | 5,088 | 5,836 |
| | | <u>115,577</u> | <u>119,385</u> |
| UNDERWRITING COSTS AND EXPENSES | | | |
| Gross claims paid | 12(a) | (39,239) | (45,338) |
| Retakaful share of claims paid | 12(a) | 31,181 | 34,888 |
| Surrenders and maturities | 19 | (81,688) | (95,954) |
| | | <u>(89,746)</u> | <u>(106,404)</u> |
| Net claims and other benefits paid | | | |
| Changes in outstanding claims, net | | 682 | 2,933 |
| Changes in IBNR, net | | (1,872) | 1,058 |
| | | <u>(90,936)</u> | <u>(102,413)</u> |
| Net claims and other benefits incurred | | | |
| Changes in reserve for takaful activities | 10(a) | 4,610 | 17,983 |
| Changes in non-unit reserve | | (891) | (1,268) |
| Changes in unexpired risk reserve | | (2,898) | 2,541 |
| Policy acquisition costs | | (5,630) | (3,552) |
| | | <u>(95,745)</u> | <u>(86,709)</u> |
| Total underwriting costs and expenses | | | |
| | | <u>19,832</u> | <u>32,676</u> |
| Net underwriting income | | | |
| | | <u>19,832</u> | <u>32,676</u> |
| OTHER OPERATING (EXPENSES)/ INCOME | | | |
| General and administrative expenses | 20 | (50,686) | (42,767) |
| Rebate income | | 1,524 | 1,598 |
| Income from deposits | | 6,440 | 5,312 |
| Income from sukuk | | 3,792 | 4,237 |
| | | <u>(38,930)</u> | <u>(31,620)</u> |
| TOTAL OTHER OPERATING EXPENSES, NET | | | |
| | | <u>(38,930)</u> | <u>(31,620)</u> |
| Net (loss)/ income for the year before attribution and zakat and tax | | (19,098) | 1,056 |
| Net (loss)/ income for the year attributed to the takaful operations | | - | - |
| | | <u>(19,098)</u> | <u>1,056</u> |
| Net (loss)/ income for the year attributable to shareholders before zakat and tax | | | |
| Zakat and tax for the year | 16(f)-3(b) | (5,702) | (6,034) |
| | | <u>(24,800)</u> | <u>(4,978)</u> |
| Net loss attributable to the shareholders after zakat and tax | | | |
| | | <u>(24,800)</u> | <u>(4,978)</u> |
| Loss per share (SAR per share) (Basic) | 16(f) & 21 | (0.73) | (0.15) |

*See note 3(b) and 16(f)

Bakheet AlZahrani
Chief Financial Officer

Hussam Alkharayal
Chief Executive Officer

Mohammad Alshayea
Chairman

The accompanying notes 1 to 28 form an integral part of these financial statements.

SABB Takaful Company (A Saudi Joint Stock Company)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

| | Notes | 2019 SAR '000 | 2018 SAR '000 (restated) |
|---|-------|------------------|--------------------------------|
| Net loss attributable to the shareholders after zakat and tax | | (24,800) | (4,978) |
| Other comprehensive income/ (loss) | | | |
| <i>Items that will be reclassified to statement of income in subsequent periods</i> | | | |
| - Fair value change in available for sale investments – unrealized | 4(c) | 45,503 | 4,064 |
| - Fair value change in reserve for takaful activities – unrealized | 10(a) | (45,503) | (4,064) |
| - Fair value reserve on available-for-sale financial assets | | 649 | - |
| <i>Items that will not be reclassified to statement of income in subsequent periods</i> | | | |
| - Re-measurements of retirement benefit obligations | 11 | (610) | (38) |
| Total comprehensive loss for the year | | (24,761) | (5,016) |

Bakheet AlZahrani



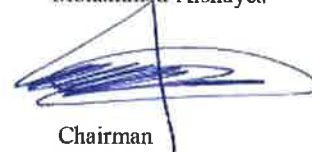
Chief Financial Officer

Hussam Alkhayal



Chief Executive Officer

Mohammad Alshayea



Chairman

The accompanying notes 1 to 28 form an integral part of these financial statements.

SABB Takaful Company (A Saudi Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2019

| | <i>Share Capital</i> SAR'000 | <i>Statutory Reserve</i> SAR'000 | <i>Remeasurements of retirement benefit obligations</i> SAR'000 | <i>Fair value reserve on available-for- sale financial assets</i> SAR'000 | <i>Accumulated losses</i> SAR'000 | <i>Total</i> SAR'000 |
|---|-------------------------------------|---|--|--|--|-------------------------|
| Balance as at 1 January 2019 | 340,000 | 14,788 | (213) | - | (8,464) | 346,111 |
| <i>Total comprehensive income for the year</i> | | | | | | |
| Net loss attributable to the shareholders after zakat and tax | - | - | - | - | (24,800) | (24,800) |
| Remeasurements of retirement benefit obligations | - | - | (610) | - | - | (610) |
| Fair value reserve on available-for-sale financial assets | - | - | - | 649 | - | 649 |
| Total comprehensive income for the year | - | - | (610) | 649 | (24,800) | (24,761) |
| Transfer to statutory reserve (Note 15) | - | - | - | - | - | - |
| Balance as at 31 December 2019 | <u>340,000</u> | <u>14,788</u> | <u>(823)</u> | <u>649</u> | <u>(33,264)</u> | <u>321,350</u> |

| | <i>Share Capital</i> SAR'000 | <i>Statutory Reserve</i> SAR'000 | <i>Remeasurements of retirement benefit obligations</i> SAR'000 | <i>Fair value reserve on available-for- sale financial assets</i> SAR'000 | <i>Accumulated losses</i> SAR'000 | <i>Total</i> SAR'000 |
|--|-------------------------------------|---|--|--|--|-------------------------|
| Balance as at 1 January 2018 | 340,000 | 14,577 | (175) | - | (3,275) | 351,127 |
| <i>Total comprehensive income for the year - restated</i> | | | | | | |
| Net loss attributable to the shareholders after zakat and tax - restated | - | - | - | - | (4,978) | (4,978) |
| Remeasurements of retirement benefit obligations | - | - | (38) | - | - | (38) |
| Fair value reserve on available-for-sale financial assets | - | - | - | - | - | - |
| Total comprehensive loss for the year - restated | - | - | (38) | - | (4,978) | (5,016) |
| Transfer to statutory reserve (Note 15) | - | 211 | - | - | (211) | - |
| Balance as at 31 December 2018 | <u>340,000</u> | <u>14,788</u> | <u>(213)</u> | <u>-</u> | <u>(8,464)</u> | <u>346,111</u> |


Chief Financial Officer


Chief Executive Officer


Chairman

The accompanying notes 1 to 28 form an integral part of these financial statements.

SABB Takaful Company (A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

| | Notes | 2019 SAR'000 | 2018 SAR'000 |
|---|-------|-----------------|-----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net (loss)/ income before attribution and zakat and tax | | (19,098) | 1,056 |
| <u>Adjustment for non-cash items:</u> | | | |
| Amortisation | | 869 | 610 |
| Depreciation | | 71 | 83 |
| Income from sukuk | | (3,826) | (4,237) |
| Amortization of premium on sukuks | | 34 | - |
| (Reversal)/ Provision of impairment on contribution and retakaful receivables | 5 | (2,054) | 504 |
| Provision for employees' end-of-service benefits | 11 | 1,206 | 885 |
| | | (22,798) | (1,099) |
| <u>Changes in operating assets and liabilities:</u> | | | |
| Contributions and retakaful receivables, net | | (11,702) | 1,342 |
| Short term deposits | | (66,277) | - |
| Retakaful share of unearned contributions | | (3,977) | 3,833 |
| Retakaful share of outstanding claims | | 10,086 | 8,352 |
| Deferred policy acquisition costs | | (966) | (195) |
| Available-for-sale financial assets | | (31,105) | 28,922 |
| Prepaid expenses and other assets | | 170 | 506 |
| Accrued and other liabilities | | 23,904 | 668 |
| Retakaful balances payable | | 9,984 | (2,694) |
| Unearned contributions | | 6,138 | (4,824) |
| Unearned retakaful commission | | (380) | (265) |
| Gross outstanding claims | | (8,896) | (12,343) |
| Unexpired risk reserve | | 2,898 | (2,540) |
| Non-unit reserve | | 891 | 1,268 |
| Reserve for takaful activities | | 24,719 | (28,922) |
| | | (67,311) | (7,991) |
| Employees' end-of-service benefits paid, net of transfer in | 11 | (857) | (3,098) |
| Zakat and income tax paid | 16(c) | (5,958) | (4,452) |
| Net cash used in operating activities | | (74,126) | (15,541) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Maturity of held-to-maturity financial assets | | 50,000 | 17,000 |
| Purchase of held-to-maturity financial assets | | (75,209) | - |
| Income received from sukuk | | 3,528 | 4,202 |
| Purchase of intangible assets | | (1,226) | (741) |
| Net cash (used in)/ generated from investing activities | | (22,907) | 20,461 |
| Net change in cash and cash equivalents | | (97,033) | 4,920 |
| Cash and cash equivalents, at the beginning of the year | 7 | 244,019 | 239,099 |
| Cash and cash equivalents, at the end of the year | 7 | 146,986 | 244,019 |
| <u>Non-cash supplemental information:</u> | | | |
| Net change in fair value of available-for-sale investments | 4(c) | 45,503 | 4,064 |
| Net change in fair value of available-for-sale investments in local equity shares | 4(d) | 649 | - |

Bakheet AlZahrani

Chief Financial Officer

Hussam Alkhaya

Chief Executive Officer

Mohammad Alshayea

Chairman

The accompanying notes 1 to 28 form an integral part of these financial statements.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

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

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

2 BASIS OF PREPARATION

a) Basis of presentation and measurement

The financial statements of the Company have been prepared in accordance with 'International Financial Reporting Standards (IFRS)' as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA) and the Regulations for Companies in the Kingdom of Saudi Arabia.

The financial statements of the Company as at and for the period and year ended 31 March 2019 and 31 December 2018, respectively, were prepared in compliance with the International Financial Reporting Standards ("IFRS") respectively, as modified by SAMA for the accounting of zakat and income tax (relating to the application of IAS 12 – "Income Taxes" and IFRIC 21 – "Levies" so far as these relate to zakat and income tax) and the Regulations for Companies in the Kingdom of Saudi Arabia.

On 17 July 2019, SAMA instructed the insurance companies in the Kingdom of Saudi Arabia to account for the zakat and income taxes in the statement of income. This aligns with the IFRS and its interpretations as issued by the International Accounting Standards Board ("IASB") and as endorsed in the Kingdom of Saudi Arabia and with the other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA") (collectively referred to as "IFRS as endorsed in KSA").

Accordingly, beginning period ended June 30, 2019 the Company has changed its accounting treatment for zakat and income tax by retrospectively adjusting the impact in line with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors (as disclosed in note 3(b)) and the effects of this change are disclosed in note 16(f) to the financial statements). The Company has adopted IFRS 16 Leases from 1 January 2019. The change in accounting policies due to this new standard and treatment of Zakat & Tax are disclosed in the 3(b).

These financial statements have been prepared under the going concern basis and the historical cost convention, except for the measurement at fair value of unit-linked available-for-sale investments, end of service benefits and reserves for takaful activities are carried at present values using the actuarial valuation. Equity investments classified as available-for-sale investments are carried at closing market value.

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

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

The Company presents its statement of financial position in order of liquidity. As required by the Saudi Arabian Insurance Regulations, the Company maintains separate books of accounts for takaful operations and shareholders' operations and presents the financial statements accordingly (Note 25). Assets, liabilities, revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined and approved by the management and the Board of Directors.

2 BASIS OF PREPARATION (CONTINUED)

a) Basis of presentation and measurement (continued)

The statement of financial position, statements of income, comprehensive income and cash flows of the takaful operations and shareholders' operations which are presented in Note 25 of the financial statements have been provided as supplementary financial information to comply with the requirements of the guidelines issued by SAMA implementing regulations and is not required under IFRSs. SAMA implementing regulations requires the clear segregation of the assets, liabilities, income and expenses of the insurance operations and the shareholders' operations. Accordingly, the statements of financial position, statements of income, comprehensive income and cash flows prepared for the takaful operations and shareholders' operations as referred to above, reflect only the assets, liabilities, income, expenses and comprehensive gains or losses of the respective operations.

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

b) Functional and presentational currency

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

c) Fiscal year

The Company follows a fiscal year ending December 31.

d) Critical accounting judgments, estimates and assumptions

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

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

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

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

The estimation of the ultimate liability arising from claims made under general takaful 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 the management in estimating the cost of notified and IBNR claims, is that of using the past claims settlement trends to predict future claims settlement trends. A range of methods such as Chain Ladder Method, Bornhuetter-Ferguson Method and Expected Loss Ratio Method are used by the actuaries to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. For further details in relation to sources of uncertainty in estimation of future claim payments please refer note 26(a).

2 BASIS OF PREPARATION (CONTINUED)

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

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

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

The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. The Company base mortality and morbidity tables on standard industry and national tables which reflect historical experience, adjusted when appropriate to reflect the Company's unique risk exposure, product characteristics, target markets and own claims severity and frequency experience. For those contracts that insure risk to longevity, prudent allowance is made for expected future mortality improvements, but epidemics, as well as wide ranging changes to life style, could result in significant changes to the expected future mortality exposure. Reserve for takaful activities is calculated on the basis of an actuarial valuation method by an independent appointed actuary through the use of current unit fund price method. For further details in relation to sources of uncertainty in estimation of future claim payments please refer note 26(a).

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

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

- Impairment of receivables

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in preparation of these financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2018 except for the change in accounting policies as disclosed in 3(b) and the adoption of new standards as mentioned in note 3(a).

a) Adoption of new standards and amendments

Effective from 1 January 2019 the Company has adopted one new accounting standard and the impact of the adoption is explained below:

IFRS 16 Leases

Before January 01, 2019, the Company followed accounting for leases in accordance with IAS 17:

Where Company is the lessee leases that do not transfer to the Company substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Consequently, all of the leases entered into by the Company are all operating leases. Payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

The Company adopted IFRS 16 'Leases', the standard replaces the existing guidance on leases, including IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

IFRS 16 was issued in January 2016 and is effective for annual periods commencing on or after 1 January 2019. IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognized in the Company's Statement of Financial Position, unless the term is 12 months or less or the lease for low value asset. Thus, the classification required under IAS 17 "Leases" into operating or finance leases is eliminated for Lessees. For each lease, the lessee recognizes a liability for the lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which is generally equivalent, at the commencement date, to the present value of the future lease payments plus directly attributable costs and which is amortized over the useful life.

The Company adopted IFRS 16 using the modified retrospective approach. The Company elected to apply the standard to contracts that were previously identified as lease applying IAS 17 and IFRIC 4. The Company therefore did not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. The Company elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. During the year the Company has performed an assessment of IFRS 16 and resolved that impact of difference as compared to leases accounted for applying IAS 17 & IFRIC 4 is not material to the Company's financial statements as a whole and accordingly, no adjustment has been made in these financial statements.

b) Change in accounting for zakat and income tax

As mentioned in note 2(a) above, the basis of preparation has been changed from the period ended 30 June 2019 as a result of the issuance of instructions from SAMA dated 17 July 2019. Previously, zakat and income tax were recognized in the statement of changes in equity as per the SAMA circular no 381000074519 dated 11 April 2017. With the latest instructions issued by SAMA dated 17 July 2019, the zakat and income tax shall be recognized in the statement of income. The Company has accounted for this change in the accounting for zakat and income tax retrospectively (see note 16(f)) and the effects of the above change are disclosed in note 16(f) to the financial statements.

c) Standards issued but not yet effective

The Company has chosen not to early adopt the following new standards which have been issued but not yet effective for the Company's accounting year beginning on 1 January 2019 and is currently assessing their impact:

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Standards issued but not yet effective (continued)

IFRS 17 - "Insurance Contracts"

Overview

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

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

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

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

Measurement

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

The General Measurement Model (GMM) is based on the following "building blocks":

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

The CSM is adjusted subsequently for changes in cash flows related to future services. Since the CSM cannot be negative, changes in future cash flows that are greater than the remaining CSM are recognized in profit or loss.

The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice.

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

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

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

SABB Takaful Company (A Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Standards issued but not yet effective (continued)

Effective date

The IASB issued an Exposure Draft Amendments to IFRS 17 during June 2019 and received comments from various stakeholders. The IASB is currently re-deliberating issues raised by stakeholders. For any proposed amendments to IFRS 17, the IASB will follow its normal due process for standard-setting. The effective date of IFRS 17 and the deferral of the IFRS 9 temporary exemption in IFRS 4, is currently January 1, 2021. Under the current exposure draft, it is proposed to amend the IFRS 17 effective date to reporting periods beginning on or after January 1, 2022. This is a deferral of 1 year compared to the previous date of January 1, 2021. Earlier application is permitted if both IFRS 15 – Revenue from Contracts with Customers and IFRS 9 – Financial Instruments have also been applied. The Company intends to apply the Standard on its effective date.

Transition

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

Presentation and Disclosures

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

Impact

The Company is currently in the process of assessing the impact of the application and implementation of IFRS 17. As at end of 31 December 2019, the financial impact of adopting the standard has yet to be fully assessed by the Company. The Company undertook a gap analysis in 2019 and the key areas of gaps are summarised below, however, these gaps continue to be explored further as part of the IFRS17 implementation project.

Impact Area

Summary of Impact

Financial Impact

The extent of differences in the profit emergence pattern and overall financial results of the Company is dependent on a number of factors such as:

- The current accounting policy allows for the netting off of loss-making contracts against profitable. The separation of onerous and non-onerous contracts, and subsequently the different accounting treatment of the loss component vs CSM may result in significant differences in SABB's profit emergence compared to current profile.
- The choice of transition approach will result in differences in the future profit streams.

Data Impact

Data storage capabilities will need to be developed or significantly enhanced to host capabilities for storing input data from source systems and a dedicated results storage capability.

In addition, the standard requires that retrospective application is applied unless this is impracticable. The data required for transition (historical data) to perform full or modified retrospective calculations has been determined to mostly be available. However, the process to determining these historical balances is expected to be challenging especially due to the manual nature of historical models and the data maintenance processes which have mostly been Excel driven.

IT Systems

The calculation routines and data storage capabilities required under IFRS17 (for the general model and variable fee approach in particular) are significantly more complex than current reporting regimes. The existing models are unlikely to be sufficient in the long-term to meet the demands of IFRS17 and may not meet governance requirements which will be important given the granularity of information required. A CSM engine as well as new models will be required.

Process Impact

New processes that support IFRS17 reporting will be required. These will cover such areas as grouping decisions, initial calculation, subsequent measurement, unlocking of the Contractual Service Margin (CSM), as well as risk adjustment calculations.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Standards issued but not yet effective (continued)

| | |
|---|--|
| Impact on Retakaful Arrangements | Likely minimal impact on Reinsurance arrangements. However, the Company is in the process of understanding the implications of having multi-year contract boundaries on reinsurance business and short boundaries on the underlying direct contract from a modelling and accounting processes point of view. |
| Impact on Policies & Control Frameworks | <p>The IFRS17 implementation effort will partially be determined by a number of key decision / policies which will determine the extent of the build that will be required. These will several aspects such as:</p> <ul style="list-style-type: none"> ▪ Choice of discounting e.g. the applicability of a yield curve or single rate. ▪ Level of aggregation for definition of groups of contracts and cohorts ▪ Risk adjustment calculation and allocation to groups of contracts |

IFRS 9 - "Financial instruments"

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

a) Classification and measurement:

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

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

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

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

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

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

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

b) Impairment:

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

c) Hedge accounting:

IFRS 9 introduces new requirements for hedge accounting that align hedge accounting more closely with Risk Management. The requirements establish a more principles-based approach to the general hedge accounting model. The amendments apply to all hedge accounting with the exception of portfolio fair value hedges of interest rate risk (commonly referred to as "fair value macro hedges"). For these, an entity may continue to apply the hedge accounting requirements currently in IAS 39. This exception was granted largely because the IASB is addressing macro hedge accounting as a separate project.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Standards issued but not yet effective (continued)

Effective date

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

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

The Company has performed a detailed assessment beginning Jan 01, 2017: (1) The carrying amount of the Company's liabilities arising from contracts within the scope of IFRS 4 (including deposit components or embedded derivatives unbundled from insurance contracts) were compared to the total carrying amount of all its liabilities; and (2) the total carrying amount of the company's liabilities connected with insurance were compared to the total carrying amount of all its liabilities. Based on these assessments the Company determined that it is eligible for the temporary exemption. Consequently, the Company has decided to defer the implementation of IFRS 9 until the effective date of the new insurance contracts standard. Disclosures related to financial assets required during the deferral period are included in the Company's financial statements.

Impact assessment

As at December 31, 2019, the Company has total financial assets and insurance related assets amounting to SR 808.27 million and SR 60.58 million, respectively. Currently, financial assets held at amortized cost consist of held-to-maturity financial assets, short term deposits, cash and cash equivalents, statutory deposit and certain other receivables amounting to SR 424.40 million (2018:SR 415.08 million). Fair value of unit linked investments held at fair value through other comprehensive income (FVOCI) as at December 31, 2019 is SR 383.87 million (2018: SR 352.12 million). For equity investments, the Company expects to use the 'FVOCI' classification based on the business models and strategic nature of such investments. Further, the Company expects to use the 'Amortised cost' classification for its investments in debt instruments based on the nature and the related business models of the Company. Investment in unit-linked investments currently classified as available for sale category under IAS 39 will be at FVTPL under IFRS 9. However, the Company is yet to perform a detailed assessment to determine whether the debt securities meet the SPPI test as required by IFRS 9. Credit risk exposure, concentration of credit risk and credit quality of these financial assets are mentioned under risk management policies in note 26. The Company's financial assets have low credit risk as at December 31, 2019 and 2018.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Revenue recognition

Recognition of contribution and commission revenue

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

In case of unit-linked policies, planholder charges include fees for policy administration, investment management, surrenders or other contract services. The fees may be for fixed amounts or vary with the amounts being managed, and will generally be charged as an adjustment to the policyholder's investment balance. The planholder charges are recognised in the same period in which the fees are charged to the policyholder in the statement of income.

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

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

Investment income

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

Retakaful

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables

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

Investments

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

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

Available-for-sale financial assets

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

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

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

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

Available-for-sale financial assets held to cover unit-linked liabilities represent assets associated with contracts, for which the investment risk lies predominantly with the contract holder. These represent investments in units of mutual funds, which are readily marketable. The fair value changes of insurance liabilities is taken to the other comprehensive income to match the fair value changes in underlying investments in the other comprehensive income.

Held-to-maturity financial assets

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

Derecognition of financial instruments

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Offsetting

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

Trade date accounting

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

Impairment of financial assets

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

Evidence of impairment may include:

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

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

- For equities and funds carried as AFS, impairment is the significant or prolong decline in the fair value of the financial asset.
- For debt securities carried at amortized cost, impairment is based on estimated future cash flows that are discounted at the original effective commission rate.

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

In making an assessment of whether an investment in debt instrument is impaired, the Company considers the factors such as market's assessment of creditworthiness as reflected in the bond yields, rating agencies' assessment of creditworthiness, country's ability to access the capital markets for new debt issuance and probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness. The amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the revised carrying value determined using estimated future cash flows discounted using original IRR, less any impairment loss on that investment previously recognised in the statement of income and statement of comprehensive income.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed assets - Motor vehicles

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

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

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

Earnings per share

The Company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

Cash flow statement

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

Surplus distribution

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

Intangible assets

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

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

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

- Software - 5 years

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

Policy before 1 January 2019

Leases that do not transfer to the Company substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Consequently, all of the leases entered into by the Company are all operating leases. Payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

Policy after 1 January 2019

Right of Use Asset / Lease Liabilities

On initial recognition, at inception of the contract, the Company shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is identified if most of the benefits are flowing to the Company and the Company can direct the usage of such assets.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Right of Use Assets

Company applies cost model, and measure right of use (RoU) asset at cost;

- less any accumulated depreciation and any accumulated impairment losses; and
- adjusted for any re-measurement of the lease liability for lease modifications

Generally, RoU asset would be equal to the lease liability. However, if there are additional costs such as Site preparation, non-refundable deposits, application money, other expenses related to transaction etc. need to be added to the RoU asset value.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment

Lease Liability

On initial recognition, the lease liability is the present value of all remaining payments to the lessor, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

After the commencement date, Company measures the lease liability by:

- Increasing the carrying amount to reflect interest on the lease liability.
- Reducing the carrying amount to reflect the lease payments made and;

Re-measuring the carrying amount to reflect any re-assessment or lease modification. The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Impairment of non-financial assets

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

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

Employees' end-of-service benefits

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

Provisions, accrued expenses and other liabilities

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

Dividend distribution

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

Zakat and income tax

The Company is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations. Income taxes are computed on the foreign shareholders share of net adjusted income for the year. Zakat and income tax is accrued on a quarterly basis through statement of income. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined.

Deferred income tax

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred income tax (continued)

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and murabaha deposits with an original maturity of three months or less at the date of acquisition. Murabaha deposits represent deposits with local banks that has original maturity of less than three months at the date of acquisition. These are carried at amortised cost and the respective returns are accounted for using an effective profit rate basis.

Short term deposits

Short term deposits represent deposits with local banks that has original maturity of more than three months at the date of acquisition. The carrying value of short term deposits reasonably approximate the fair value at the statement of financial position date.

Foreign currencies

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

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

Operating segments

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating segments (continued)

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

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

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

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

Statutory reserve

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

Surrenders and maturities

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

Fair values

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

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

Product classification

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

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

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

Liability adequacy test

At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the takaful contracts liabilities net of related deferred policy acquisition costs. In performing these tests management uses current best estimates of future contractual cash flows and claims handling and administration expenses. Any deficiency in the carrying amounts is immediately charged to the statement of income by establishing a provision for losses arising from liability adequacy tests accordingly.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred policy acquisition costs

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

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

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

Claims

Claims consist of amounts payable to policyholders and third parties and related loss adjustment expenses, net of salvage and other recoveries. Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the statement of financial position date together with related claims handling costs, whether reported by the insured or not. Provisions for reported claims not paid as of the statement of financial position date are made on the basis of individual case estimates. In addition for group family products and general takaful products, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported including related claims handling costs at the statement of financial position date.

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

Reserve for takaful activities

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

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

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

Unexpired risk reserve

At each statement of financial position date, unexpired risk reserve is calculated and accounted for when the unearned contribution on all takaful contracts is not sufficient (based on the actual experience) to meet the expected cost of future claims.

Non-unit reserve

The non-unit reserve is calculated based on the present value of future assumed expenses and claims less the present value of future expected income arising from charges on all individual family takaful policies. The present value is calculated using prudent assumptions (margins added on the best estimates).

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

4 INVESTMENTS

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

| 31 December 2019 SAR'000 | | | |
|--|-------------------------------|-------------------------------------|-----------------------|
| | <i>Takaful Operations</i> | <i>Shareholders' Operations</i> | <i>Total</i> |
| <i>Available-for-sale investments – Quoted</i> | | | |
| Investment in Amanah Mutual Funds – note 4(c) | 376,834 | - | 376,834 |
| Investment in local equity shares – note 4(d) | - | 7,035 | 7,035 |
| | <u>376,834</u> | <u>7,035</u> | <u>383,869</u> |
| <i>Held-to-maturity investments – Unquoted – note 4(b)</i> | | | |
| General Authority of Civil Aviation Sukuk (GACA – I) | - | 50,580 | 50,580 |
| Bank AlBilad Sukuk | - | 20,080 | 20,080 |
| Ministry of Finance Sukuk (MOF-I) | - | 10,168 | 10,168 |
| Ministry of Finance Sukuk (MOF-II) | - | 10,485 | 10,485 |
| Ministry of Finance Sukuk (MOF-III) | - | 20,084 | 20,084 |
| Ministry of Finance Sukuk (MOF-IV) | - | 25,131 | 25,131 |
| Ministry of Finance Sukuk (MOF-V) | 4,922 | - | 4,922 |
| Ministry of Finance Sukuk (MOF-VI) | 4,922 | - | 4,922 |
| | <u>9,844</u> | <u>136,528</u> | <u>146,372</u> |
| Total investments | <u>386,678</u> | <u>143,563</u> | <u>530,241</u> |

| 31 December 2018 SAR'000 | | | |
|--|-------------------------------|-------------------------------------|-----------------------|
| | <i>Takaful Operations</i> | <i>Shareholders' Operations</i> | <i>Total</i> |
| <i>Available-for-sale investments – Quoted – note 4(c)</i> | | | |
| Investment in Amanah Mutual Funds | 352,115 | - | 352,115 |
| <i>Held-to-maturity investments – Unquoted – note 4(b)</i> | | | |
| General Authority of Civil Aviation Sukuk (GACA – I) | - | 50,580 | 50,580 |
| The National Industrialization Company Sukuk (TASNEE) | - | 50,230 | 50,230 |
| Bank AlBilad Sukuk | - | 20,089 | 20,089 |
| | <u>-</u> | <u>120,899</u> | <u>120,899</u> |
| Total investments | <u>352,115</u> | <u>120,899</u> | <u>473,014</u> |

b) Held-to-maturity financial assets

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

| | 2019 SAR'000 | 2018 SAR'000 |
|--|-----------------|-----------------|
| Government and quasi government | 126,292 | 50,580 |
| Banks and other financial institutions | 20,080 | 20,089 |
| Corporate | - | 50,230 |
| | <u>146,372</u> | <u>120,899</u> |

SABB Takaful Company (A Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2019

4 INVESTMENTS (CONTINUED)

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

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

| | 2019 SAR'000 | 2018 SAR'000 |
|--------------------------|-------------------------------|-------------------------------|
| Fixed-rate securities | 126,292 | 50,580 |
| Floating-rate securities | 20,080 | 70,319 |
| | 146,372 | 120,899 |

The movements in investments held to maturity are as follows:

| | 2019 SAR'000 | | 2018 SAR'000 | |
|---|-----------------------|-----------------------------|-----------------------|-----------------------------|
| | Takaful Operations | Shareholders' Operations | Takaful Operations | Shareholders' Operations |
| Balance as at the beginning of the year | - | 120,899 | - | 137,864 |
| Purchased during the year | 9,868 | 65,000 | - | - |
| Matured during the year | - | (50,000) | - | (17,000) |
| Unamortized premium/ (discount) | (28) | 335 | - | - |
| Accrued income on sukuk | 4 | 294 | - | 35 |
| | <u>9,844</u> | <u>136,528</u> | <u>-</u> | <u>120,899</u> |

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

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

| Maturity profile | Maturity date |
|--|----------------------|
| - General Authority of Civil Aviation Sukuk (GACA - I) | 18 January 2022 |
| - Bank AlBilad Sukuk | 30 August 2021 |
| - Ministry of Finance Sukuk (MOF-I) | 23 January 2024 |
| - Ministry of Finance Sukuk (MOF-II) | 23 January 2029 |
| - Ministry of Finance Sukuk (MOF-III) | 23 March 2025 |
| - Ministry of Finance Sukuk (MOF-IV) | 23 March 2030 |
| - Ministry of Finance Sukuk (MOF-V) | 23 March 2025 |
| - Ministry of Finance Sukuk (MOF-VI) | 23 March 2025 |

The average commission rate on held-to-maturity investments at 31 December 2019 is 2.86 % per annum (2018: 3.30 % per annum).

The fair value of held-to-maturity investments as at 31 December 2019 is SAR 146.89 million (31 December 2018: SAR 120.90 million).

c) Available- for-sale financial assets - Investment in Amanah Mutual Funds

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

| Name of the fund | 2019 SAR'000 | 2018 SAR'000 |
|-----------------------------|-------------------------------|-------------------------------|
| Multi-Assets Balanced Fund | 223,023 | 203,578 |
| Multi-Assets Defensive Fund | 44,096 | 47,815 |
| Multi-Assets Growth Fund | 93,171 | 81,820 |
| Saudi Riyal Trading Fund | 16,544 | 18,902 |
| | 376,834 | 352,115 |

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

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

4 INVESTMENTS (CONTINUED)

c) Available- for-sale financial assets - Investment in Amanah Mutual Funds (continued)

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

| | 2019 SAR'000 | 2018 SAR'000 |
|--|-----------------|-----------------|
| Balance as at the beginning of the year | 352,115 | 381,037 |
| Purchased during the year | 77,080 | 77,971 |
| Sold during the year | (97,864) | (110,957) |
| | <u>331,331</u> | <u>348,051</u> |
| Net change in fair values of investments | 45,503 | 4,064 |
| Balance as at the end of the year | <u>376,834</u> | <u>352,115</u> |

d) Available- for-sale financial assets - Investment in local equity shares

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

| | 2019 SAR'000 | 2018 SAR'000 |
|--|-----------------|-----------------|
| Balance as at the beginning of the year | - | - |
| Purchased during the year | 6,386 | - |
| Sold during the year | - | - |
| | <u>6,386</u> | <u>-</u> |
| Net change in fair values of investments | 649 | - |
| Balance as at the end of the year | <u>7,035</u> | <u>-</u> |

e) Credit quality of total investments

| | 2019 SAR'000 | 2018 SAR'000 |
|----------------------|-----------------|-----------------|
| Saudi sovereign debt | 133,327 | 50,580 |
| Investment grade | 20,080 | 20,089 |
| Unrated | 376,834 | 402,345 |
| | <u>530,241</u> | <u>473,014</u> |
| Total | <u>530,241</u> | <u>473,014</u> |

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

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

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

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

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

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

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

5 CONTRIBUTIONS AND RETAKAFUL RECEIVABLES, NET

| | 2019 SAR'000 | 2018 SAR'000 |
|---|-----------------|-----------------|
| Policyholders | 1,823 | 7,992 |
| Retakaful companies | 3,304 | 7,220 |
| Due from The Saudi British Bank – parent of the Company | 21,800 | 13 |
| | 26,927 | 15,225 |
| Provision for impairment | (521) | (2,575) |
| | 26,406 | 12,650 |

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

| | 2019 SAR'000 | 2018 SAR'000 |
|---------------------------------------|-----------------|-----------------|
| At the beginning of the year | 2,575 | 2,071 |
| (Released)/ Provision during the year | (2,054) | 504 |
| At the end of the year | 521 | 2,575 |

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

| | Total SAR'000 | Neither past due nor impaired SAR'000 | Past due but not impaired | | |
|------------------|------------------|--|---------------------------|-------------------------------|----------------------------------|
| | | | 91 to 180 days SAR'000 | 181 to 365 days SAR'000 | More than 365 days SAR'000 |
| 31 December 2019 | 26,406 | 25,674 | 264 | 417 | 51 |
| 31 December 2018 | 12,650 | 10,581 | 1,388 | 487 | 194 |

The Company classifies balances as 'past due and impaired' on a case-to-case basis. An impairment adjustment is recorded in the statement of income. It is not the practice of the Company to obtain collateral over receivables. Balances, which are neither past due nor impaired, include a balance due from The Saudi British Bank, a parent of the Company amounting to 21.20 million (2018: SAR Nil), classified as investment grade rating under Standard and Poor's rating methodology. Past due but not impaired balances include SAR 0.6 million (2018: SAR 0.01 million) from The Saudi British Bank. Unimpaired receivable balances are expected, on the basis of past experience, to be fully recoverable.

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

The five largest customers account for 96% (31 December 2018: 49%) of the premiums receivable as at 31 December 2019. For more details, please refer note 24(b).

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

6 PREPAID EXPENSES AND OTHER ASSETS

| | 2019 SAR'000 | | |
|--------------------------|-------------------------------|-------------------------------------|--------------|
| | <i>Takaful Operations</i> | <i>Shareholders' Operations</i> | <i>Total</i> |
| Due from a related party | 220 | - | 220 |
| Prepayments and others | 549 | 293 | 842 |
| | <u>769</u> | <u>293</u> | <u>1,062</u> |
| | 2018 SAR'000 | | |
| | <i>Takaful Operations</i> | <i>Shareholders' Operations</i> | <i>Total</i> |
| Due from a related party | 440 | - | 440 |
| Prepayments and others | 403 | 389 | 792 |
| | <u>843</u> | <u>389</u> | <u>1,232</u> |

7 CASH AND CASH EQUIVALENTS

| | 2019 SAR'000 | | |
|-------------------|-------------------------------|-------------------------------------|----------------|
| | <i>Takaful Operations</i> | <i>Shareholders' Operations</i> | <i>Total</i> |
| Bank balances | 15,663 | 1,852 | 17,515 |
| Murabaha deposits | 25,072 | 104,399 | 129,471 |
| | <u>40,735</u> | <u>106,251</u> | <u>146,986</u> |
| | 2018 SAR'000 | | |
| | <i>Takaful Operations</i> | <i>Shareholders' Operations</i> | <i>Total</i> |
| Bank balances | 19,011 | 2,858 | 21,869 |
| Murabaha deposits | 30,696 | 191,454 | 222,150 |
| | <u>49,707</u> | <u>194,312</u> | <u>244,019</u> |

Bank balances are maintained only with The Saudi British Bank, a parent of the Company. Further, no murabaha deposits are held with The Saudi British Bank as at 31 December 2019 and 2018.

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

Murabaha deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company. The average variable commission rate on murabaha deposits at 31 December 2019 is 3.64 % per annum (2018: 2.44 % per annum).

8 SHORT TERM DEPOSITS

Short term deposits represent murabaha deposits with local banks that has original maturity of more than three months at the date of acquisition. These short term deposits are placed with counterparties with sound credit ratings under Standard and Poor's and Moody's ratings methodology. The average variable commission rate on these murabaha deposits at 31 December 2019 is 2.4 % per annum. There was no such short term deposits as at 31 December 2018.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

9 STATUTORY DEPOSIT

In accordance with Article 58 of the Insurance Implementing Regulations of SAMA, the Company has deposited 10 percent of its share capital, amounting to SAR 34 million (2018: SAR 34 million) in a bank designated by SAMA at commission rate of 1.72 % per annum (2018: 2.29 % per annum). The statutory deposit is maintained with The Saudi British Bank and can be withdrawn only with the consent of SAMA.

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

a) Movement in reserve for takaful activities

| | 2019 SAR'000 | 2018 SAR'000 |
|---|-----------------|-----------------|
| Balance as at the beginning of the year | 352,115 | 381,037 |
| Changes in reserve during the year | (4,610) | (17,983) |
| Planholder charges | (16,174) | (15,003) |
| Net change in fair value of investments | 45,503 | 4,064 |
| Balance as at the end of the year | 376,834 | 352,115 |

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

b) Movement in net unearned contribution

| | 2019 | | |
|---|------------------|----------------------------|----------------|
| | Gross SAR'000 | Retakaful share SAR'000 | Net SAR'000 |
| Balance as at the beginning of the year | 9,565 | (6,969) | 2,596 |
| Contribution written during the year | 78,073 | (57,722) | 20,351 |
| Contribution earned during the year | (71,935) | 53,745 | (18,190) |
| Balance as at the end of the year | 15,703 | (10,946) | 4,757 |

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

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

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

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

| | 2019 | |
|---|--|--|
| | <i>Deferred policy acquisition costs SAR'000</i> | <i>Unearned retakaful commission SAR'000</i> |
| Balance as at the beginning of the year | 1,019 | (2,290) |
| Incurred during the year | 1,985 | (1,910) |
| Amortised during the year | (1,019) | 2,290 |
| Balance as at the end of the year | 1,985 | (1,910) |

| | 2018 | |
|---|--|--|
| | <i>Deferred policy acquisition costs SAR'000</i> | <i>Unearned retakaful commission SAR'000</i> |
| Balance as at the beginning of the year | 824 | (2,555) |
| Incurred during the year | 1,019 | (2,290) |
| Amortised during the year | (824) | 2,555 |
| Balance as at the end of the year | 1,019 | (2,290) |

d) Non-unit reserve

During the year ended 31 December 2019, the Company has recorded a non-unit reserve of SAR 6.5 million (2018: SAR 5.6 million) pertaining to individual family segment. The reserve is calculated based on the present value of future assumed expenses less the present value of future income arising from charges on all individual family policies.

e) Unexpired risk reserve

This reserve comprises of premium deficiency reserve of SAR 2.05 million (2018: SAR 0.57 million) and SAR 3.84 million (2018: SAR 2.42 million) pertaining to group family and general takaful segments respectively.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

11 PROVISION FOR EMPLOYEES' END-OF-SERVICE BENEFITS

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

| | 2019 SAR'000 | 2018 SAR'000 |
|---|-----------------|-----------------|
| Present value of defined benefit obligation | 5,875 | 4,916 |
| Fair value of plan assets | - | - |
| Defined benefit obligation at the closing of the year | 5,875 | 4,916 |

11.2 Movement of defined benefit obligation

| | 2019 SAR'000 | 2018 SAR'000 |
|---|-----------------|-----------------|
| Defined benefit obligation at the beginning of the year | 4,916 | 7,091 |
| Charge to statement of income | 1,206 | 885 |
| Charge to statement of comprehensive income | 610 | 38 |
| Transfer in | 423 | 161 |
| Payment of benefits during the year | (1,280) | (3,259) |
| Defined benefit obligation at the closing of the year | 5,875 | 4,916 |

11.3 Reconciliation of present value of defined benefit obligation

| | 2019 SAR'000 | 2018 SAR'000 |
|---|-----------------|-----------------|
| Defined benefit obligation at the beginning of the year | 4,916 | 7,091 |
| Current service cost | 1,206 | 885 |
| Benefits paid | (1,280) | (3,259) |
| Transfer in | 423 | 161 |
| Actuarial loss from experience adjustments | 610 | 38 |
| Defined benefit obligation at the closing of the year | 5,875 | 4,916 |

11.4 Principal actuarial assumptions

| Actuarial assumptions | 2019 | 2018 |
|-----------------------|------|------|
| - Discount rate | 2.7% | 3% |
| - Salary growth rate | 2.7% | 3% |

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

11.5 Sensitivity of actuarial assumptions

| | SAR'000 | | |
|------------------------|--------------------------------------|------------------------|------------------------|
| | Impact on defined benefit obligation | | |
| | Change in assumption | Increase in assumption | Decrease in assumption |
| Discount rate | 1 % | 5,321 | 6,530 |
| Salary growth increase | 1 % | 6,524 | 5,316 |

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

12 CLAIMS

a) Net claims incurred

| <i>For the year ended 31 December 2019</i> | | | |
|--|----------------|----------------|----------------|
| | <i>SAR'000</i> | <i>SAR'000</i> | <i>SAR'000</i> |
| | <i>Family</i> | <i>General</i> | |
| | <i>Takaful</i> | <i>Takaful</i> | <i>Total</i> |
| Claims paid | 26,366 | 12,873 | 39,239 |
| Re-takaful share of claims paid | (19,831) | (11,350) | (31,181) |
| Net claims paid | 6,535 | 1,523 | 8,058 |
| Changes in outstanding claims and IBNR | 167 | (9,063) | (8,896) |
| Changes in re-takaful share of outstanding claims and IBNR | 1349 | 8,737 | 10,086 |
| Net claims incurred | 8,051 | 1,197 | 9,248 |

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

b) Outstanding claims

| <i>2019</i> | | | |
|--|----------------|------------------|----------------|
| | <i>Gross</i> | <i>Retakaful</i> | <i>Net</i> |
| | <i>SAR'000</i> | <i>share</i> | <i>SAR'000</i> |
| | | <i>SAR'000</i> | <i>SAR'000</i> |
| Family Takaful outstanding claims | | | |
| - Outstanding claim reserves | 17,725 | (12,877) | 4,848 |
| - Incurred but not reported reserve and other reserves | 21,767 | (15,486) | 6,281 |
| General Takaful outstanding claims | | | |
| - Outstanding claim reserves | 16,669 | (15,571) | 1,098 |
| - Incurred but not reported reserve and other reserves | 6,129 | (3,710) | 2,419 |
| Total outstanding claims | 62,290 | (47,644) | 14,646 |
| <i>2018</i> | | | |
| | <i>Gross</i> | <i>Retakaful</i> | <i>Net</i> |
| | <i>SAR'000</i> | <i>share</i> | <i>SAR'000</i> |
| | | <i>SAR'000</i> | <i>SAR'000</i> |
| Family Takaful outstanding claims | | | |
| - Outstanding claim reserves | 18,988 | (14,033) | 4,955 |
| - Incurred but not reported reserve and other reserves | 20,337 | (15,679) | 4,658 |
| General Takaful outstanding claims | | | |
| - Outstanding claim reserves | 27,302 | (25,629) | 1,673 |
| - Incurred but not reported reserve and other reserves | 4,559 | (2,389) | 2,170 |
| Total outstanding claims | 71,186 | (57,730) | 13,456 |

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

12 CLAIMS (continued)

c) Credit quality of retakaful share of outstanding claims

| | 2019 SAR'000 | 2018 SAR'000 |
|------------------|-----------------|-----------------|
| Investment grade | 47,644 | 57,730 |

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

13 ACCRUED AND OTHER LIABILITIES

| | 2019 SAR'000 | | |
|-------------------------------|-------------------------------|---------------------|---------------|
| | <i>Takaful Operations</i> | <i>Shareholders</i> | <i>Total</i> |
| Accounts payable and accruals | 34,383 | 2,647 | 37,030 |
| Due to related parties | 3,244 | - | 3,244 |
| Payable to agents | 3,008 | - | 3,008 |
| | <u>40,635</u> | <u>2,647</u> | <u>43,282</u> |
| | 2018 SAR'000 | | |
| | <i>Takaful Operations</i> | <i>Shareholders</i> | <i>Total</i> |
| Accounts payable and accruals | 16,051 | 1,414 | 17,465 |
| Due to related parties | 1,700 | - | 1,700 |
| Payable to agents | 213 | - | 213 |
| | <u>17,964</u> | <u>1,414</u> | <u>19,378</u> |

14 SHARE CAPITAL

The authorized, issued and fully paid up share capital of the Company consists of 34 million ordinary shares of SAR 10 each. The shareholding structure of the Company as at 31 December 2019 and 31 December 2018 is as follows:

| As at 31 December 2019 | | |
|------------------------|----------------|----------------|
| Shareholders | Shareholding | SAR'000 |
| The Saudi British Bank | 65.00% | 221,000 |
| Other | 35.00% | 119,000 |
| | <u>100.00%</u> | <u>340,000</u> |
| As at 31 December 2018 | | |
| Shareholders | Shareholding | SAR'000 |
| The Saudi British Bank | 65.00% | 221,000 |
| Other | 35.00% | 119,000 |
| | <u>100.00%</u> | <u>340,000</u> |

15 STATUTORY RESERVE

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

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

16 PROVISION FOR ZAKAT AND INCOME TAX

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

| | 2019 SAR'000 | 2018 SAR'000 |
|---------------------|-----------------|-----------------|
| Provision for zakat | 5,719 | 6,017 |
| Provision for tax | (17) | 17 |
| | <u>5,702</u> | <u>6,034</u> |

b) Zakat charge for the year

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

| | 2019 SAR'000 | 2018 SAR'000 |
|--|-----------------|-----------------|
| Equity | 354,788 | 351,302 |
| Opening allowances and other adjustments | 12,370 | 9,162 |
| Book value of long term assets | (37,576) | (35,681) |
| | <u>329,582</u> | <u>324,783</u> |
| Saudi shareholders' share @ 74% | 243,891 | 240,339 |
| Saudi shareholders' share of adjusted profit/(loss) for the year | (12,771) | 341 |
| Saudi shareholders' share of the zakat base | 231,120 | 240,680 |
| Zakat charge for the year @ 2.5% | 5,778 | 6,017 |

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

c) Movements in zakat provision

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

| | 2019 SAR'000 | 2018 SAR'000 |
|------------------------------|-----------------|-----------------|
| At the beginning of the year | 6,017 | 4,452 |
| Charge during the year | 5,778 | 6,017 |
| Prior year adjustment | (59) | - |
| Payments during the year | (5,958) | (4,452) |
| At the end of the year | <u>5,778</u> | <u>6,017</u> |

d) Income tax charge for the year

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

| | 2019 SAR'000 | 2018 SAR'000 |
|------------------------------|-----------------|-----------------|
| At the beginning of the year | 17 | - |
| Charge during the year | (17) | 17 |
| Prior year adjustment | - | - |
| Payments during the year | - | - |
| At the end of the year | <u>-</u> | <u>17</u> |

SABB Takaful Company (A Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2019

16 PROVISION FOR ZAKAT AND INCOME TAX (CONTINUED)

e) Status of assessments

During the quarter ended 31 March 2015, the General Authority of Zakat & Tax (GAZT) issued the final tax certificates for the years from 2008 to 2010. During the year ended 31 December 2016, the GAZT also started its review for the years from 2011 to 2015.

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

During the year ended 31 December 2019, GAZT has issued the tax/zakat assessments for the year ended 31 December 2018. In connection with the above assessment of GAZT for the year 2018, the Company requested GAZT to provide the details of the tax/zakat assessments in order to provide the Company's point of view on GAZT's action. Accordingly, the GAZT provided the details of tax/zakat and withholding tax assessments for the year ended 31 December 2018. Company is in the process of filing an appeal against the said assessment. The management believes that the Company is in a strong position in the matters raised in the said assessment for the year 2018. Subsequent to year ended 31 December 2019, GAZT has requested the information relating to the tax years 2015 to 2017. Company is in the process of providing the requested information.

f) Change in accounting treatment in relation to zakat and income tax

The change in the accounting treatment for zakat and income tax (as explained in note 2 and 3(b)) has the following impact on the line items of the statements of income, comprehensive income and changes in shareholders' equity. There is no impact on the statement of financial position as at 31 December 2018 and statement of cash flows for the year then ended.

As at and for the year ended 31 December 2018 – SAR in '000

| Financial statement impacted | Account | As previously stated for year ended 31 December 2018 | Effect of restatement relating to zakat | As restated for year ended 31 December 2018 |
|---|---|--|---|---|
| Statement of income | Zakat and tax charge for the year | - | (6,034) | (6,034) |
| Statement of income | Basic and diluted loss per share | 0.03 | (0.18) | (0.15) |
| Statement of income | Net loss attributable to the shareholders after zakat and tax | 1,056 | (6,034) | (4,978) |
| Statement of change in shareholders' equity | Total comprehensive income after zakat and tax | 1,018 | (6,034) | (5,016) |
| Statement of change in shareholders' equity | Zakat and tax charge for the year | (6,034) | 6,034 | - |

17 SURPLUS DISTRIBUTION PAYABLE

| | 2019 SAR'000 | 2018 SAR'000 |
|---|-----------------|-----------------|
| Opening surplus distribution payable as at January 1 | 6,593 | 6,593 |
| Total income attributed to the insurance operations during the year | - | - |
| Surplus paid to policy holders | - | - |
| Closing surplus distribution payable as at December 31 | 6,593 | 6,593 |

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

18 NET CONTRIBUTION EARNED AND PLANHOLDER CHARGES

| <i>For the year ended 31 December 2019</i> | | | |
|--|---------------------------------------|--|--------------------------|
| | <i>Family Takaful SAR'000</i> | <i>General Takaful SAR'000</i> | <i>Total SAR'000</i> |
| Gross written contribution | 128,502 | 26,651 | 155,153 |
| Planholder charges | 16,174 | - | 16,174 |
| Re-takaful contribution ceded | (35,439) | (23,238) | (58,677) |
| Changes in gross unearned contributions | (6,718) | 580 | (6,138) |
| Changes in retakaful share of unearned contributions | 4,841 | (864) | 3,977 |
| Net contribution earned and planholder charges | <u>107,360</u> | <u>3,129</u> | <u>110,489</u> |

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

19 SURRENDERS AND MATURITIES

| | <i>SAR'000</i> | |
|------------|----------------|---------------|
| | <i>2019</i> | <i>2018</i> |
| Surrenders | 49,070 | 60,207 |
| Maturities | 32,618 | 35,747 |
| | <u>81,688</u> | <u>95,954</u> |

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

20 GENERAL AND ADMINISTRATIVE EXPENSES

| | 2019 | | |
|------------------------------------|---------------------------|---------------------------------|---------------|
| | SAR'000 | | |
| | Takaful Operations | Shareholders' Operations | Total |
| Employee costs | 29,679 | - | 29,679 |
| IT maintenance costs | 4,009 | 869 | 4,878 |
| Legal and professional charges | 7,543 | - | 7,543 |
| Rent expenses | 611 | - | 611 |
| Travel expenses | 414 | - | 414 |
| Directors' fees and other expenses | - | 1,634 | 1,634 |
| Other | 4,033 | 1,894 | 5,927 |
| | 46,289 | 4,397 | 50,686 |

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

21 BASIC LOSS PER SHARE

Loss per share amounts are calculated by dividing the net loss for the year attributable to ordinary shareholders after zakat and tax of the Company by the weighted average number of ordinary shares outstanding at the reporting date as follows:

| | 2019 | 2018 |
|--|-----------------|----------------|
| Net loss for the year attributable to the shareholders after zakat and tax (SAR'000) | (24,800) | (4,978) |
| Weighted average number of ordinary shares (Number in thousands) | 34,000 | 34,000 |
| Loss per share (SAR) | (0.73) | (0.15) |

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

22 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction takes place either:

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

The fair values of financial instruments which are not measured at fair value in these financial statements are not significantly different from the carrying values included in the financial statements. Cash and cash equivalents, short term deposits and statutory deposit are assumed to have fair values that reasonably approximate their corresponding carrying values due to the short-term nature. Held to maturity investments carried at amortised cost and classified as level 3 include unlisted sukuk. The fair value has been measured by the management using broker quotes.

Determination of fair value and fair value hierarchy

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

Level 1: quoted prices in active markets for the same or identical instrument that an entity can access at the measurement date;

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

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

a) Carrying amounts and fair value

The following table shows the carrying amount and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value.

31 December 2019

| SAR'000 | Carrying value | Fair value | | | Total |
|---|----------------|------------|---------|---------|---------|
| | | Level 1 | Level 2 | Level 3 | |
| Financial assets measured at fair value | | | | | |
| - Available for sale financial assets | 383,869 | 383,869 | - | - | 383,869 |
| Financial assets not measured at fair value | | | | | |
| - Held-to-maturity financial assets | 146,372 | - | - | 146,895 | 146,895 |
| - Short term deposits | 66,277 | - | - | 66,277 | 66,277 |
| - Statutory deposit | 34,000 | - | - | 34,000 | 34,000 |
| - Cash and cash equivalents | 146,986 | - | - | 146,986 | 146,986 |
| | 393,635 | - | - | 394,158 | 394,158 |
| Financial liabilities measured at fair value thorough statement of income | | | | | |
| - Reserve for takaful activities | - | - | 376,834 | - | 376,834 |
| | - | - | 376,834 | - | 376,834 |

31 December 2018

| SAR'000 | Carrying value | Fair value | | | Total |
|---|----------------|------------|---------|---------|---------|
| | | Level 1 | Level 2 | Level 3 | |
| Financial assets measured at fair value | | | | | |
| - Available for sale financial assets | 352,115 | 352,115 | - | - | 352,115 |
| Financial assets not measured at fair value | | | | | |
| - Held-to-maturity financial assets | 120,899 | - | - | 120,899 | 120,899 |
| - Statutory deposit | 34,000 | - | - | 34,000 | 34,000 |
| - Cash and cash equivalents | 244,019 | - | - | 244,019 | 244,019 |
| | 398,918 | - | - | 398,918 | 398,918 |
| Financial liabilities measured at fair value thorough statement of income | | | | | |
| - Reserve for takaful activities | - | - | 352,115 | - | 352,115 |
| | - | - | 352,115 | - | 352,115 |

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

23 SEGMENTAL INFORMATION

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

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

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

| | <i>Shareholders' Operations SAR'000</i> | <i>Individual Family (Protection & Savings) SAR'000</i> | <i>Group Family (Protection & Savings) SAR'000</i> | <i>General Takaful SAR'000</i> | <i>Total SAR'000</i> |
|---|---|---|--|--|--------------------------|
| For the year ended 31 December 2019 | | | | | |
| Gross contributions written | - | 77,080 | 51,422 | 26,651 | 155,153 |
| Net contributions written | - | 92,299 | 16,938 | 3,413 | 112,650 |
| Net contributions earned | - | 92,299 | 15,061 | 3,129 | 110,489 |
| Fees and commission income | - | 639 | - | 4,449 | 5,088 |
| Total revenue | - | 92,938 | 15,061 | 7,578 | 115,577 |
| Net claims and other benefits incurred | - | (83,385) | (6,354) | (1,197) | (90,936) |
| Changes in reserve for takaful activities | - | 4,610 | - | - | 4,610 |
| Changes in non-unit reserve | - | (891) | - | - | (891) |
| Changes in unexpired risk reserve | - | - | (1,481) | (1,417) | (2,898) |
| Policy acquisition costs | - | (1,569) | (2,007) | (2,054) | (5,630) |
| Net underwriting income for the year | - | 11,703 | 5,219 | 2,910 | 19,832 |
| General and administrative expenses | (4,397) | (17,681) | (15,749) | (12,859) | (50,686) |
| Rebate income | - | 1,524 | - | - | 1,524 |
| Income from deposits | 5,546 | 349 | 279 | 266 | 6,440 |
| Income from sukuk | 3,788 | 2 | 2 | - | 3,792 |
| Total income/(loss) for the year before zakat and tax | 4,937 | (4,103) | (10,249) | (9,683) | (19,098) |
| Zakat and tax for the year | (5,702) | - | - | - | (5,702) |
| Total income/ (loss) for the period after zakat and tax | (765) | (4,103) | (10,249) | (9,683) | (24,800) |
| Purchase of intangibles | 1,226 | - | - | - | 1,226 |
| Amortisation | 869 | - | - | - | 869 |
| Depreciation | 71 | - | - | - | 71 |

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

23 SEGMENTAL INFORMATION (CONTINUED)

| | Shareholders' Operations SAR'000 | Individual Family (Protection & Savings) SAR'000 | Group Family (Protection & Savings) SAR'000 | General Takaful SAR'000 | Total SAR'000 |
|--|--|--|--|----------------------------|------------------|
| For the year ended 31 December 2018 (restated) | | | | | |
| Gross contributions written | - | 77,971 | 41,573 | 20,422 | 139,966 |
| Net contributions written | - | 91,986 | 16,333 | 4,239 | 112,558 |
| Net contributions earned | - | 91,986 | 16,417 | 5,146 | 113,549 |
| Fees and commission income | - | 78 | 266 | 5,492 | 5,836 |
| Total revenue | - | 92,064 | 16,683 | 10,638 | 119,385 |
| Net claims and other benefits incurred | - | (95,901) | (4,845) | (1,667) | (102,413) |
| Changes in reserve for takaful activities | - | 17,983 | - | - | 17,983 |
| Changes in non-unit reserve | - | (1,268) | - | - | (1,268) |
| Changes in unexpired risk reserve | - | - | 2,302 | 239 | 2,541 |
| Policy acquisition costs | - | (935) | (469) | (2,148) | (3,552) |
| Net underwriting income for the year | - | 11,943 | 13,671 | 7,062 | 32,676 |
| General and administrative expenses | (2,938) | (14,689) | (12,578) | (12,562) | (42,767) |
| Rebate income | - | 1,598 | - | - | 1,598 |
| Income from deposits | 4,601 | 286 | 220 | 205 | 5,312 |
| Income from sukuk | 4,237 | - | - | - | 4,237 |
| Total income /(loss) for the year before zakat and tax | 5,900 | (862) | 1,313 | (5,295) | 1,056 |
| Zakat and tax for the year | (6,034) | - | - | - | (6,034) |
| Total income/ (loss) for the year after zakat and tax | (134) | (862) | 1,313 | (5,295) | (4,978) |
| Purchase of intangibles | 741 | - | - | - | 741 |
| Amortisation | 610 | - | - | - | 610 |
| Depreciation | 83 | - | - | - | 83 |
| 31 December 2019 | | | | | |
| Intangible assets | 2,216 | - | - | - | 2,216 |
| Fixed assets | 75 | - | - | - | 75 |
| Assets | | | | | |
| Cash and cash equivalents | 106,251 | 14,966 | 11,218 | 14,551 | 146,986 |
| Short term deposits | 66,277 | - | - | - | 66,277 |
| Contributions and retakaful receivables, net | - | - | 23,020 | 3,386 | 26,406 |
| Retakaful share of unearned contributions | - | - | 5,326 | 5,620 | 10,946 |
| Retakaful share of outstanding claims | - | 743 | 27,620 | 19,281 | 47,644 |
| Deferred policy acquisition costs | - | - | 1,214 | 771 | 1,985 |
| Available-for-sale financial assets | 7,035 | 376,834 | - | - | 383,869 |
| Held-to-maturity financial assets | 136,528 | 4,922 | 4,922 | - | 146,372 |
| Statutory deposit | 34,000 | - | - | - | 34,000 |
| Unallocated assets | - | - | - | - | 7,708 |
| Total assets | | | | | 872,193 |
| Liabilities | | | | | |
| Retakaful balances payable | - | 80 | 11,971 | 3,813 | 15,864 |
| Unearned contributions | - | - | 8,149 | 7,554 | 15,703 |
| Unearned retakaful commission | - | - | - | 1,910 | 1,910 |
| Gross outstanding claims | - | 2,595 | 36,897 | 22,798 | 62,290 |
| Unexpired risk reserve | - | - | 2,047 | 3,842 | 5,889 |
| Non-unit reserve | - | 6,470 | - | - | 6,470 |
| Provision for employees' end-of-service benefits | - | 1,996 | 1,728 | 2,151 | 5,875 |
| Reserve for takaful activities | - | 376,834 | - | - | 376,834 |
| Unallocated liabilities | - | - | - | - | 60,008 |
| Total liabilities | | | | | 550,843 |

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

23 SEGMENTAL INFORMATION (CONTINUED)

| | Shareholders' Operations SAR '000 | Individual Family (Protection & Savings) SAR '000 | Group Family (Protection & Savings) SAR '000 | General Takaful SAR '000 | Total SAR '000 |
|--|--------------------------------------|---|--|-----------------------------|-------------------|
| 31 December 2018 | | | | | |
| Intangible assets | 1,859 | - | - | - | 1,859 |
| Fixed assets | 146 | - | - | - | 146 |
| Assets | | | | | |
| Cash and cash equivalents | 194,312 | 22,402 | 14,314 | 12,991 | 244,019 |
| Contributions and retakaful receivables, net | - | - | 8,990 | 3,660 | 12,650 |
| Retakaful share of unearned contributions | - | - | 485 | 6,484 | 6,969 |
| Retakaful share of outstanding claims | - | 226 | 29,486 | 28,018 | 57,730 |
| Deferred policy acquisition costs | - | - | 47 | 972 | 1,019 |
| Available-for-sale financial assets | - | 352,115 | - | - | 352,115 |
| Held-to-maturity financial assets | 120,899 | - | - | - | 120,899 |
| Statutory deposit | 34,000 | - | - | - | 34,000 |
| Unallocated assets | - | - | - | - | 6,746 |
| Total assets | | | | | 836,147 |
| Liabilities | | | | | |
| Retakaful balances payable | - | 471 | (408) | 5,817 | 5,880 |
| Unearned contributions | - | - | 1,431 | 8,134 | 9,565 |
| Unearned retakaful commission | - | - | - | 2,290 | 2,290 |
| Gross outstanding claims | - | 1,285 | 38,040 | 31,861 | 71,186 |
| Unexpired risk reserve | - | - | 566 | 2,425 | 2,991 |
| Non-unit reserve | - | 5,579 | - | - | 5,579 |
| Provision for employees' end-of-service benefits | - | 1,642 | 1,437 | 1,837 | 4,916 |
| Reserve for takaful activities | - | 352,115 | - | - | 352,115 |
| Unallocated liabilities | - | - | - | - | 35,514 |
| Total liabilities | | | | | 490,036 |

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

For the year ended 31 December 2019

| | Protection & Savings SAR '000 | Property & Casualty SAR '000 | *Motor SAR '000 | Total SAR '000 |
|-----------------------------------|----------------------------------|---------------------------------|--------------------|-------------------|
| Gross written contribution | | | | |
| Individual | 77,080 | 288 | - | 77,368 |
| Micro enterprises | - | 8 | - | 8 |
| Small enterprises | 29 | 2,010 | - | 2,039 |
| Medium enterprises | 328 | 2,518 | - | 2,846 |
| Large enterprises | 51,065 | 21,827 | - | 72,892 |
| | 128,502 | 26,651 | - | 155,153 |

*As of date, the Company does not underwrite Motor product.

For the year ended 31 December 2018

| | Protection & Savings SAR '000 | Property & Casualty SAR '000 | *Motor SAR '000 | Total SAR '000 |
|-----------------------------------|----------------------------------|---------------------------------|--------------------|-------------------|
| Gross written contribution | | | | |
| Individual | 77,971 | 323 | - | 78,294 |
| Micro enterprises | - | 29 | - | 29 |
| Small enterprises | 42 | 1,705 | - | 1,747 |
| Medium enterprises | 213 | 2,822 | - | 3,035 |
| Large enterprises | 41,318 | 15,543 | - | 56,861 |
| | 119,544 | 20,422 | - | 139,966 |

*As of date, the Company does not underwrite Motor product.

SABB Takaful Company (A Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2019

24 RELATED PARTY TRANSACTIONS AND BALANCES

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

a) Transactions with related parties

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

| | 2019 SAR'000 | 2018 SAR'000 |
|---|-------------------------------|-------------------------------|
| The Saudi British Bank <i>(a shareholder of the Company)</i> | | |
| Contributions | 55,855 | 39,254 |
| Claims paid | 23,942 | 31,964 |
| Other expenses | | |
| - IT maintenance cost and related expenses | 2,997 | 2,695 |
| Investment income on murabaha deposits | 709 | 32 |
| Other entities controlled, jointly controlled or significantly influenced by related parties | | |
| Policy acquisition costs paid | 3,798 | 3,581 |
| <i>HSBC Saudi Arabia Limited – IBSA</i> | | |
| Contributions | 1,141 | 149 |
| Rebate on unit-linked investments | 1,524 | 1,598 |

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

b) Balances with related parties

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

| | Nature | Notes | 2019 Amounts in '000 | 2018 |
|--|---------------|--------------|--------------------------------|-------------|
| HSBC Saudi Arabia Limited | | | | |
| Available-for-sale financial assets * | Asset | 4(c) | 376,834 | 352,115 |
| Rebate on unit-linked financial assets | Asset | 6 | 220 | 440 |
| The Saudi British Bank | | | | |
| Contribution receivable – gross | Asset | 5 | 21,800 | 13 |
| Bank balances | Asset | 7 | 17,515 | 21,869 |
| Statutory deposit | Asset | 9 | 34,000 | 34,000 |
| Gross outstanding claims | Liability | 12(b) | 27,134 | 26,560 |
| Other expenses under service level agreement | Liability | 13 | 2,114 | 776 |
| Profit commission payable | Liability | 13 | 176 | 176 |
| SABB Insurance Agency Limited | | | | |
| Commission payable | Liability | 13 | 954 | 924 |

* policyholders' asset under management

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

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

24 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

c) Compensation of key management personnel

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

| | 2019 SAR'000 | | 2018 SAR'000 | |
|---|-------------------------------|-------------------------------------|-------------------------------|-------------------------------------|
| | <i>Takaful Operations</i> | <i>Shareholders' Operations</i> | <i>Takaful Operations</i> | <i>Shareholders' Operations</i> |
| Salaries and other benefits (including end-of-service benefits) | 5,278 | - | 3,917 | - |
| Directors' fees and other committees | - | 948 | - | 926 |
| Number of key management personnel | 5 | 7 | 5 | 8 |

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

Available-for-sale financial assets pertaining to unit-linked policies as at 31 December 2019 amounting to SAR 376.83 million (2018: SAR 352.12 million) comprise investments in units of mutual funds managed by HSBC Saudi Arabia Limited, being a related party of the Company.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

25 SUPPLEMENTARY INFORMATION

Financial position

| | SAR '000 | | | | | |
|--|--------------------|--------------------------|----------------|--------------------|--------------------------|----------------|
| | 2019 | | | 2018 | | |
| | Takaful Operations | Shareholders' Operations | Total | Takaful Operations | Shareholders' Operations | Total |
| ASSETS | | | | | | |
| Cash and cash equivalents | 40,735 | 106,251 | 146,986 | 49,707 | 194,312 | 244,019 |
| Short term deposits | - | 66,277 | 66,277 | - | - | - |
| Contributions and retakaful receivables, net | 26,406 | - | 26,406 | 12,650 | - | 12,650 |
| Retakaful share of unearned contributions | 10,946 | - | 10,946 | 6,969 | - | 6,969 |
| Retakaful share of outstanding claims | 47,644 | - | 47,644 | 57,730 | - | 57,730 |
| Deferred policy acquisition costs | 1,985 | - | 1,985 | 1,019 | - | 1,019 |
| Due from/ (to) shareholders'/ takaful operations | 22,077 | (22,077) | - | (2,167) | 2,167 | - |
| Available-for-sale financial assets | 376,834 | 7,035 | 383,869 | 352,115 | - | 352,115 |
| Held-to-maturity financial assets | 9,844 | 136,528 | 146,372 | - | 120,899 | 120,899 |
| Prepaid expenses and other assets | 769 | 293 | 1,062 | 843 | 389 | 1,232 |
| Fixed assets | - | 75 | 75 | - | 146 | 146 |
| Intangible assets | - | 2,216 | 2,216 | - | 1,859 | 1,859 |
| Statutory deposit | - | 34,000 | 34,000 | - | 34,000 | 34,000 |
| Accrued income on statutory deposit | - | 4,355 | 4,355 | - | 3,509 | 3,509 |
| TOTAL ASSETS | 537,240 | 334,953 | 872,193 | 478,866 | 357,281 | 836,147 |
| LIABILITIES | | | | | | |
| Accrued and other liabilities | 40,635 | 2,647 | 43,282 | 17,964 | 1,414 | 19,378 |
| Provision for zakat and income tax | - | 5,778 | 5,778 | - | 6,034 | 6,034 |
| Retakaful balances payable | 15,864 | - | 15,864 | 5,880 | - | 5,880 |
| Unearned contributions | 15,703 | - | 15,703 | 9,565 | - | 9,565 |
| Unearned retakaful commission | 1,910 | - | 1,910 | 2,290 | - | 2,290 |
| Gross outstanding claims | 62,290 | - | 62,290 | 71,186 | - | 71,186 |
| Unexpired risk reserve | 5,889 | - | 5,889 | 2,991 | - | 2,991 |
| Non-unit reserve | 6,470 | - | 6,470 | 5,579 | - | 5,579 |
| Provision for employees' end-of-service benefits | 5,875 | - | 5,875 | 4,916 | - | 4,916 |
| Surplus distribution payable | 6,593 | - | 6,593 | 6,593 | - | 6,593 |
| Reserve for takaful activities | 376,834 | - | 376,834 | 352,115 | - | 352,115 |
| Accrued income on statutory deposit | - | 4,355 | 4,355 | - | 3,509 | 3,509 |
| TOTAL LIABILITIES | 538,063 | 12,780 | 550,843 | 479,079 | 10,957 | 490,036 |
| Takaful operations' surplus | - | - | - | - | - | - |
| TOTAL LIABILITIES AND TAKAFUL OPERATIONS' SURPLUS | 538,063 | 12,780 | 550,843 | 479,079 | 10,957 | 490,036 |
| SHAREHOLDERS' EQUITY | | | | | | |
| Share capital | - | 340,000 | 340,000 | - | 340,000 | 340,000 |
| Statutory reserve | - | 14,788 | 14,788 | - | 14,788 | 14,788 |
| Remeasurements of retirement benefit obligations | (823) | - | (823) | (213) | - | (213) |
| Fair value reserve on available-for-sale financial assets | - | 649 | 649 | - | - | - |
| Accumulated losses | - | (33,264) | (33,264) | - | (8,464) | (8,464) |
| | (823) | 322,173 | 321,350 | (213) | 346,324 | 346,111 |
| TOTAL LIABILITIES, TAKAFUL OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY | 537,240 | 334,953 | 872,193 | 478,866 | 357,281 | 836,147 |

SABB Takaful Company (A Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2019

25. SUPPLEMENTARY INFORMATION (continued)

Statement of income

| | SAR '000 | | | | | |
|--|--------------------|--------------------------|----------|--------------------|--------------------------|-----------|
| | 2019 | | | 2018 (restated) | | |
| | Takaful Operations | Shareholders' Operations | Total | Takaful Operations | Shareholders' Operations | Total |
| REVENUES | | | | | | |
| Gross contributions written | | | | | | |
| - Family Takaful | 128,502 | - | 128,502 | 119,544 | - | 119,544 |
| - General Takaful | 26,651 | - | 26,651 | 20,422 | - | 20,422 |
| Gross contributions written | 155,153 | - | 155,153 | 139,966 | - | 139,966 |
| Retakaful contribution ceded | | | | | | |
| - Local retakaful contribution ceded | (7,999) | - | (7,999) | (9,201) | - | (9,201) |
| - Foreign retakaful contribution ceded | (50,678) | - | (50,678) | (33,210) | - | (33,210) |
| Planholder charges | 16,174 | - | 16,174 | 15,003 | - | 15,003 |
| Net contributions written | 112,650 | - | 112,650 | 112,558 | - | 112,558 |
| Changes in gross unearned contributions | (6,138) | - | (6,138) | 4,824 | - | 4,824 |
| Changes in retakaful share of unearned contributions | 3,977 | - | 3,977 | (3,833) | - | (3,833) |
| Net contributions earned | 110,489 | - | 110,489 | 113,549 | - | 113,549 |
| Fees and commission income | 5,088 | - | 5,088 | 5,836 | - | 5,836 |
| Total revenue | 115,577 | - | 115,577 | 119,385 | - | 119,385 |
| UNDERWRITING COSTS AND EXPENSES | | | | | | |
| Gross claims paid | (39,239) | - | (39,239) | (45,338) | - | (45,338) |
| Retakaful share of claims paid | 31,181 | - | 31,181 | 34,888 | - | 34,888 |
| Surrenders and maturities | (81,688) | - | (81,688) | (95,954) | - | (95,954) |
| Net claims and other benefits paid | (89,746) | - | (89,746) | (106,404) | - | (106,404) |
| Changes in outstanding claims, net | 682 | - | 682 | 2,933 | - | 2,933 |
| Changes in IBNR, net | (1,872) | - | (1,872) | 1,058 | - | 1,058 |
| Net claims and other benefits incurred | (90,936) | - | (90,936) | (102,413) | - | (102,413) |
| Changes in reserve for takaful activities | 4,610 | - | 4,610 | 17,983 | - | 17,983 |
| Changes in non-unit reserve | (891) | - | (891) | (1,268) | - | (1,268) |
| Changes in unexpired risk reserve | (2,898) | - | (2,898) | 2,541 | - | 2,541 |
| Policy acquisition costs | (5,630) | - | (5,630) | (3,552) | - | (3,552) |
| Total underwriting costs and expenses | (95,745) | - | (95,745) | (86,709) | - | (86,709) |
| Net underwriting income | 19,832 | - | 19,832 | 32,676 | - | 32,676 |
| OTHER OPERATING (EXPENSES)/ INCOME | | | | | | |
| General and administrative expenses | (46,289) | (4,397) | (50,686) | (39,829) | (2,938) | (42,767) |
| Rebate income | 1,524 | - | 1,524 | 1,598 | - | 1,598 |
| Income from deposits | 894 | 5,546 | 6,440 | 711 | 4,601 | 5,312 |
| Income from sukuk | 4 | 3,788 | 3,792 | - | 4,237 | 4,237 |
| TOTAL OTHER OPERATING EXPENSES, NET | (43,867) | 4,937 | (38,930) | (37,520) | 5,900 | (31,620) |
| Net loss for the period before attribution and zakat and tax | (24,035) | 4,937 | (19,098) | (4,844) | 5,900 | 1,056 |
| Shareholders' absorption of deficit/ (surplus transferred to shareholders) from takaful operations | 24,035 | (24,035) | - | 4,844 | (4,844) | - |
| Net loss attributable to the shareholders before zakat and tax | - | (19,098) | (19,098) | - | 1,056 | 1,056 |
| Zakat and tax for the period | - | (5,702) | (5,702) | - | (6,034) | (6,034) |
| Net loss attributable to the shareholders before zakat and tax | - | (24,800) | (24,800) | - | (4,978) | (4,978) |

SABB Takaful Company (A Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2019

25. SUPPLEMENTARY INFORMATION (continued)

Statement of comprehensive income

| | SAR '000 | | | | | |
|---|-----------------------|-----------------------------|-----------------|-----------------------|-----------------------------|----------------|
| | 2019 | | | 2018 (restated) | | |
| | Takaful Operations | Shareholders' Operations | Total | Takaful Operations | Shareholders' Operations | Total |
| Net loss attributable to the shareholders after zakat and tax | - | (24,800) | (24,800) | - | (4,978) | (4,978) |
| Other comprehensive income | | | | | | |
| <i>Items that will be reclassified to statement of income in subsequent periods</i> | | | | | | |
| - Fair value change in available for sale investments – unrealized | 45,503 | - | 45,503 | 4,064 | - | 4,064 |
| - Fair value change in reserve for takaful activities – unrealized | (45,503) | - | (45,503) | (4,064) | - | (4,064) |
| - Fair value reserve on available-for-sale financial assets | 649 | - | 649 | - | - | - |
| <i>Items that will not be reclassified to statement of income in subsequent periods</i> | | | | | | |
| - Remeasurements of retirement benefit obligations | (610) | - | (610) | (38) | - | (38) |
| Total comprehensive income/ (loss) for the year | 39 | (24,800) | (24,761) | (38) | (4,978) | (5,016) |

SABB Takaful Company (A Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2019

25. SUPPLEMENTARY INFORMATION (continued)

Statement of cash flows

| | | | SR '000 | | |
|---|--|--|--------------------|--------------------------|----------|
| | | | 2019 | | |
| | | | Takaful Operations | Shareholders' Operations | Total |
| | | | 2018 | | |
| | | | Takaful Operations | Shareholders' Operations | Total |
| CASHFLOWS FROM OPERATING ACTIVITIES | | | | | |
| Net loss for the period before attribution and zakat and tax | | | - | (19,098) | (19,098) |
| Adjustment for non-cash items: | | | | | |
| Amortisation | | | - | 869 | 869 |
| Depreciation | | | - | 71 | 71 |
| Income from sukuk | | | (4) | (3,822) | (3,826) |
| Amortization of premium on sukuks | | | - | 34 | 34 |
| Shareholders' appropriation from deficit/ surplus | | | (24,035) | 24,035 | - |
| Provision of impairment on contribution and retakaful receivables | | | (2,054) | - | (2,054) |
| Provision for employees' end-of-service benefits | | | 1,206 | - | 1,206 |
| | | | (24,887) | 2,089 | (22,798) |
| Changes in operating assets and liabilities: | | | | | |
| Contributions and retakaful receivable, net | | | (11,702) | - | (11,702) |
| Murabaha deposits | | | - | (66,277) | (66,277) |
| Retakaful share of unearned contributions | | | (3,977) | - | (3,977) |
| Retakaful share of outstanding claims | | | 10,086 | - | 10,086 |
| Deferred policy acquisition costs | | | (966) | - | (966) |
| Available-for-sale financial assets | | | (24,719) | (6,386) | (31,105) |
| Prepaid expenses and other assets | | | 74 | 96 | 170 |
| Accrued and other liabilities | | | 22,670 | 1,234 | 23,904 |
| Retakaful balances payable | | | 9,984 | - | 9,984 |
| Gross unearned contributions | | | 6,138 | - | 6,138 |
| Unearned retakaful commission | | | (380) | - | (380) |
| Gross outstanding claims | | | (8,896) | - | (8,896) |
| Unexpired risk reserve | | | 2,898 | - | 2,898 |
| Non-unit reserve | | | 891 | - | 891 |
| Reserve for takaful activities | | | 24,719 | - | 24,719 |
| | | | 1,933 | (69,244) | (67,311) |
| Employees' end-of-service benefits paid, net of transfer in | | | (857) | - | (857) |
| Zakat and tax paid | | | - | (5,958) | (5,958) |
| Net cash (used in)/ generated from operating activities | | | 1,076 | (75,202) | (74,126) |
| CASHFLOWS FROM INVESTING ACTIVITIES | | | | | |
| Maturity of held-to-maturity financial assets | | | - | 50,000 | 50,000 |
| Purchase of held-to-maturity financial assets | | | (9,840) | (65,369) | (75,209) |
| Income received from sukuk | | | - | 3,528 | 3,528 |
| Purchase of intangible assets | | | - | (1,226) | (1,226) |
| Purchase of fixed assets | | | - | - | - |
| Proceeds from sale of fixed assets | | | - | - | - |
| Net cash generated from investing activities | | | (9,840) | (13,067) | (22,907) |
| CASHFLOWS FROM FINANCING ACTIVITIES | | | | | |
| Due from/ (to) shareholders'/ takaful operations, net | | | (208) | 208 | - |
| Net change in cash and cash equivalents | | | (8,972) | (88,061) | (97,033) |
| Cash and cash equivalents, beginning of the year | | | 49,707 | 194,312 | 244,019 |
| Cash and cash equivalents, end of the year | | | 40,735 | 106,251 | 146,986 |
| Non-cash supplemental information: | | | | | |
| Net change in fair value of available for sale investments | | | 45,503 | - | 45,503 |
| Net change in fair value of available-for-sale investments in local equity shares | | | - | 649 | 649 |

26 RISK MANAGEMENT

Risk governance

The Company's risk governance is manifested in a set of established policies, procedures and controls which uses the existing organizational structure to meet strategic targets. The Company's philosophy revolves on willing and knowledgeable risk acceptance commensurate with the risk appetite and a strategic plan approved by the Board of Directors. The Company is exposed to various risks such as reinsurance, commission rate, market and asset liability management, credit, liquidity and operational risks in its various forms including and not limited to compliance risk.

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

Board of Directors

The Board of directors are ultimately responsible for the overall Enterprise Risk Management framework (ERM). The Board reviews and approves the risk management framework annually. The Board also sets the risk appetite and risk tolerance and also approves the overall risk strategy and vision.

Board Risk Committee

The Board risk committee is designated committee by the Board of directors for reviewing the overall ERM framework and endorsing the framework for Board of directors' approval. The Board risk committee is assigned to oversee and advise the Board on all high-level risk related matters and to provide strategic direction for Risk function including setting the risk vision, deciding priorities and overseeing the execution of major transformational risk initiatives. The committee reviews the risk reports prepared by the Risk Management function/ Chief Risk Officer and determines an appropriate response to identify the risks in line with the risk appetite including proposing suitable risk management strategies such as transferring risk (for example use of re-insurance), reducing risk (for example improving internal controls) or introducing strategic risk initiatives.

Risk Management Committee

This is a senior management committee designated by the Board of directors to review risk management matters including reviewing risk appetite, emerging risk and risk policy. The committee is chaired by the Chief Risk Officer. This committee reports to the Board risk committee and is the main committee for escalating and reviewing all significant risk management issues.

26 RISK MANAGEMENT (CONTINUED)

Risk governance (continued)

Chief Risk Officer (CRO)

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

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

a) Insurance risk

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

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

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

Family takaful

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

26 RISK MANAGEMENT (CONTINUED)

a) Insurance risk (continued)

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

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

Further, the Company carries out at least annually stress testing exercise to estimate the likely impact to the company financial position under various scenarios covering underwriting, operational and counterparty risks.

General Takaful

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

Property all risk, fire, business interruption and personal accident products

For property insurance contracts, the main risks are fire and business interruption. The Company has only underwritten these policies as per the norms of the reinsurance treaty terms and our underwriting manuals.

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Company has reinsurance cover for such damage to limit losses for any individual claim. The maximum net retention by the company in respect of a claim is limited to SAR 1m as per the reinsurance arrangements in place.

For personal accident insurance contracts, the main risks are death and disability to insured persons due to accidental means. The Company has reinsurance for such claims to limit losses for any individual claim.

Marine cargo product

For marine insurance the main risks are loss or damage to the consignment of cargo and accidents resulting in the total or partial loss of cargoes.

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

Frequency and severity of claims

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

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

26 RISK MANAGEMENT (CONTINUED)

a) Insurance risk (continued)

Concentration of insurance risk

The Company monitors concentration of insurance risks primarily by class of business. For fire and property risk a particular building and neighboring buildings, which could be affected by a single claim incident, are considered as a single location. Similarly, for marine risk, multiple risks covered in a single vessel voyage are considered as a single risk while assessing concentration of risk. The Company evaluates the concentration of exposures to individual and cumulative insurance risks and establishes its reinsurance policy to reduce such exposures to levels acceptable to the Company. As at 31 December 2019 and 2018, the Company does not have any significant concentration of insurance risk. The table below sets out the concentration of the outstanding claims and unearned premiums by business segments at the reporting date:

| <i>2019 (Amounts in SAR '000)</i> | <u>Outstanding claim reserves - Gross</u> | <u>Outstanding claim Reserves - Net</u> | <u>Gross unearned contributions</u> | <u>Net unearned contributions</u> |
|-----------------------------------|---|---|---|---|
| Individual Family | 2,595 | 1,852 | - | - |
| Group Family | 36,897 | 9,277 | 8,149 | 2,823 |
| General Takaful | 22,798 | 3,517 | 7,554 | 1,934 |
| | 62,290 | 14,646 | 15,703 | 4,757 |

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

Sources of uncertainty in estimation of future claim payments

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

Process used to decide on assumptions

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

SABB Takaful Company (A Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2019

26 RISK MANAGEMENT (CONTINUED)

a) Insurance risk (continued)

Process used to decide on assumptions (continued)

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

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

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

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

Sensitivity of claims

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

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

| | <u>2019</u> | <u>2018</u> |
|---|---------------------------|-------------|
| <u>Impact of change in net claim ratio by +/- 10%</u> | <u>Amount in SAR '000</u> | |
| Accident and Liability | 48 | 42 |
| Marine | 41 | 280 |
| Property | 95 | 20 |
| Group | 1,008 | 1,149 |

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

26 RISK MANAGEMENT (CONTINUED)

a) Insurance risk (continued)

Claims development

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

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

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

Claims development table

Claims development table gross of reinsurance:

| 2019 | Amounts in SAR '000 | | | | | | |
|---|---------------------------|-------------|-------------|-------------|-------------|-------------|--------------|
| Accident year | <u>2014 & earlier</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>Total</u> |
| Estimate of ultimate claim loss | | | | | | | |
| - At end of accident year | 239,056 | 51,118 | 63,245 | 63,579 | 54,787 | 37,117 | 37,117 |
| - One year later | 222,403 | 47,611 | 57,030 | 48,474 | 46,758 | - | 46,758 |
| - Two years later | 216,448 | 45,029 | 54,691 | 48,779 | - | - | 48,779 |
| - Three years later | 219,783 | 44,204 | 52,403 | - | - | - | 52,403 |
| - Four years later | 199,922 | 43,687 | - | - | - | - | 43,687 |
| - Five years later | 199,993 | - | - | - | - | - | 199,993 |
| Current estimate of cumulative claims | 199,993 | 43,687 | 52,403 | 48,779 | 46,758 | 37,117 | 428,737 |
| Cumulative payments to date | 187,767 | 43,593 | 51,226 | 46,908 | 41,579 | 23,270 | 394,343 |
| Outstanding claim reserves | 12,226 | 94 | 1,177 | 1,871 | 5,179 | 13,847 | 34,394 |
| Add: Incurred but not reported (IBNR) and other reserves | 86 | 46 | 162 | 579 | 2,663 | 24,360 | 27,896 |
| Liability recognized in the statement of financial position | 12,312 | 140 | 1,339 | 2,450 | 7,842 | 38,207 | 62,290 |
| 2018 | Amounts in SAR '000 | | | | | | |
| Accident year | <u>2013 & earlier</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>Total</u> |
| Estimate of ultimate claim loss | | | | | | | |
| - At end of accident year | 193,706 | 45,350 | 51,118 | 63,245 | 63,579 | 54,787 | 54,787 |
| - One year later | 177,519 | 44,884 | 47,611 | 57,030 | 48,474 | - | 48,474 |
| - Two years later | 171,977 | 44,471 | 45,029 | 54,691 | - | - | 54,691 |
| - Three years later | 175,313 | 44,471 | 44,204 | - | - | - | 44,204 |
| - Four years later | 155,452 | 44,470 | - | - | - | - | 44,470 |
| - Five years later | 154,766 | - | - | - | - | - | 154,766 |
| Current estimate of cumulative claims | 154,766 | 44,470 | 44,204 | 54,691 | 48,474 | 54,787 | 401,392 |
| Cumulative payments to date | 143,568 | 43,440 | 43,512 | 51,067 | 46,243 | 27,272 | 355,102 |
| Outstanding claim reserves | 11,198 | 1,030 | 692 | 3,624 | 2,231 | 27,515 | 46,290 |
| Add: Incurred but not reported (IBNR) and other reserves | 24 | 60 | 111 | 1,136 | 2,669 | 20,896 | 24,896 |
| Liability recognized in the statement of financial position | 11,222 | 1,090 | 803 | 4,760 | 4,900 | 48,411 | 71,186 |

SABB Takaful Company (A Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2019

26 RISK MANAGEMENT (CONTINUED)

a) Insurance risk (continued)

Claims development table (continued)

Claims development table net of reinsurance:

| 2019 | <u>Amounts in SAR '000</u> | | | | | | |
|---|--------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|---------------------|
| | <u>2014 & earlier</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>Total</u> |
| Accident year | | | | | | | |
| Estimate of ultimate claim loss | | | | | | | |
| - At end of accident year | 67,767 | 13,279 | 16,596 | 15,462 | 11,493 | 9,608 | 9,608 |
| - One year later | 59,218 | 12,537 | 15,463 | 12,192 | 9,593 | - | 9,593 |
| - Two years later | 57,614 | 11,701 | 14,995 | 12,251 | - | - | 12,251 |
| - Three years later | 57,750 | 11,476 | 14,627 | - | - | - | 14,627 |
| - Four years later | 57,627 | 11,373 | - | - | - | - | 11,373 |
| - Five years later | 57,630 | - | - | - | - | - | 57,630 |
| Current estimate of cumulative claims | 57,630 | 11,373 | 14,627 | 12,251 | 9,593 | 9,608 | 115,082 |
| Cumulative payments to date | 57,630 | 11,316 | 14,262 | 11,723 | 8,118 | 6,087 | 109,136 |
| Outstanding claim reserves | - | 57 | 365 | 528 | 1,475 | 3,521 | 5,946 |
| Add: Incurred but not reported (IBNR) and other reserves | 48 | 13 | 40 | 160 | 991 | 7,448 | 8,700 |
| Liability recognized in the statement of financial position | 48 | 70 | 405 | 688 | 2,466 | 10,969 | 14,646 |

| 2018 | <u>Amounts in SAR '000</u> | | | | | | |
|---|--------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|---------------------|
| | <u>2013 & earlier</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>Total</u> |
| Accident year | | | | | | | |
| Estimate of ultimate claim loss | | | | | | | |
| - At end of accident year | 54,570 | 13,197 | 13,279 | 16,596 | 15,462 | 11,493 | 11,493 |
| - One year later | 46,277 | 12,941 | 12,537 | 15,463 | 12,192 | - | 12,192 |
| - Two years later | 44,838 | 12,776 | 11,701 | 14,995 | - | - | 14,995 |
| - Three years later | 44,975 | 12,776 | 11,476 | - | - | - | 11,476 |
| - Four years later | 44,852 | 12,775 | - | - | - | - | 12,775 |
| - Five years later | 44,771 | - | - | - | - | - | 44,771 |
| Current estimate of cumulative claims | 44,771 | 12,775 | 11,476 | 14,995 | 12,192 | 11,493 | 107,702 |
| Cumulative payments to date | 44,771 | 12,775 | 11,301 | 14,196 | 11,579 | 6,453 | 101,074 |
| Outstanding claim reserves | - | - | 175 | 800 | 613 | 5,040 | 6,628 |
| Add: Incurred but not reported (IBNR) and other reserves | 20 | 28 | 28 | 360 | 723 | 5,669 | 6,828 |
| Liability recognized in the statement of financial position | 20 | 28 | 203 | 1,160 | 1,336 | 10,709 | 13,456 |

26 RISK MANAGEMENT (CONTINUED)

b) Reinsurance risk

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

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

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

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

c) Market risk and asset liability management

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

- The Company's market risk policy sets out the assessment and determination of what constitutes market risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- Guidelines are set for asset allocation and portfolio limit structure, to ensure that assets back specific policyholders' liabilities and that assets are held to deliver income and gains for policyholders which are in line with their expectations.

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

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

26 RISK MANAGEMENT (CONTINUED)

c) Market risk and asset liability management (continued)

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

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

Currency Risk

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

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

Sensitivity analysis - Currency risk:

| | 2019 | 2018 |
|---|---------|------|
| | SAR'000 | |
| Impact on carrying amount by +/- 10% in exchange rates | | |
| <u>Retakaful balances receivables</u> | | |
| US Dollars | 314 | 636 |

Commission Rate Risk

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

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

The sensitivity of the income is the effect of the assumed changes in the commission rates, with all other variable held constant, on the Company's profit for one year, based on the floating rate financial assets held at 31 December 2019. A hypothetical 30 basis points change in the weighted average commission rate of the floating rate financial assets balances at 31 December 2019 would impact commission income by approximately SAR 449 thousand (2018: SAR 877 thousand) annually in aggregate.

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

The commission and non-commission bearing investments of the Company and their maturities as at December 31, 2019 and 2018 are as follows:

| Amount in SAR '000 | Less than 1 year | More than 1 year | Non-commission bearing | Total |
|---------------------------------|------------------|------------------|------------------------|---------|
| Insurance Operations | | | | |
| 2019 | 25,072 | 9,844 | - | 34,916 |
| 2018 | 30,696 | - | - | 30,696 |
| Shareholders' Operations | | | | |
| 2019 | 170,676 | 136,528 | - | 307,204 |
| 2018 | 241,684 | 70,669 | - | 312,353 |

SABB Takaful Company (A Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2019

26 RISK MANAGEMENT (CONTINUED)

c) Market risk and asset liability management (continued)

Other Price Risk

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

The Company's investments amounting to SAR 660 million (2018: SAR 695 million) are susceptible to market price risk arising from uncertainty about the future value of invested securities. The Company limits this nature of market risk by diversifying its invested portfolio and by actively monitoring the developments in markets.

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

| | <i>Fair value change SAR'000</i> | <i>Effect on Company's profit SAR'000</i> |
|--------------------------|--------------------------------------|---|
| <i>December 31, 2019</i> | <i>+/- 65,971</i> | <i>+/- 1,959</i> |
| <i>December 31, 2018</i> | <i>+/- 69,516</i> | <i>+/- 2,065</i> |

The sensitivity analysis presented is based upon the portfolio position as at 31 December 2019 and 2018. Accordingly, the sensitivity analysis prepared is not necessarily indicative of the effect on the Company's assets of future movements in the value of investments held by the Company.

d) Credit risk

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

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

- To minimize its exposure to significant losses from 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.
- The Company monitors the receivables from insurance and reinsurance contracts on an ongoing basis in order to reduce the Company's exposure to bad debts.
- The Company seeks to limit the credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- Considering the nature of held-to-maturity investments, there is a minimal credit risk. Cash and cash equivalents are maintained with local banks approved by management. Accordingly, as a pre-requisite, the banks with whom cash and cash equivalents are maintained are required to have a minimum acceptable security rating level affirming their financial strength.

SABB Takaful Company (A Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2019

26 RISK MANAGEMENT (CONTINUED)

d) Credit risk (continued)

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

| | 2019 SAR'000 | |
|---|-------------------------------|---------------------|
| | Takaful Operations | Shareholders |
| Contributions and retakaful receivable, net | 26,406 | - |
| Retakaful share of outstanding claims | 47,644 | - |
| Cash and cash equivalents | 40,735 | 106,251 |
| Short term deposits | - | 66,277 |
| Available-for-sale financial assets | 376,834 | 7,035 |
| Held-to-maturity financial assets | 9,843 | 136,529 |
| Statutory deposit | - | 34,000 |
| Other receivables | 220 | - |
| | 501,682 | 350,092 |

| | 2018 SAR'000 | |
|---|-------------------------------|---------------------|
| | Takaful Operations | Shareholders |
| Contributions and retakaful receivable, net | 12,650 | - |
| Retakaful share of outstanding claims | 57,730 | - |
| Cash and cash equivalents | 49,707 | 194,312 |
| Available-for-sale financial assets | 352,115 | - |
| Held-to-maturity financial assets | - | 120,899 |
| Statutory deposit | - | 34,000 |
| Other receivables | 440 | - |
| | 472,642 | 349,211 |

Concentration of credit risk

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

| Amount in '000 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
|---|-------------------------|----------------|-----------------------------|-------------|----------------|----------------|
| | <i>Investment grade</i> | | <i>Non-investment grade</i> | | <i>Unrated</i> | |
| Available-for-sale financial assets | 7,035 | - | - | - | 376,834 | 352,115 |
| Held-to-maturity financial assets | 146,372 | 120,899 | - | - | - | - |
| Contributions and retakaful receivable, net | 3,135 | 6,359 | - | - | 23,271 | 6,291 |
| Cash and cash equivalents | 146,986 | 244,109 | - | - | - | - |
| Retakaful share of outstanding claims | - | - | - | - | 47,644 | 57,730 |
| Statutory deposit | 34,000 | 34,000 | - | - | - | - |
| Other receivables | - | - | - | - | 220 | 440 |
| Short term deposits | 66,277 | - | - | - | - | - |
| | 403,805 | 405,367 | - | - | 447,969 | 416,576 |

SABB Takaful Company (A Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2019

26 RISK MANAGEMENT (CONTINUED)

e) Liquidity risk

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

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

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

Maturity Profiles

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

| | 2019 | | | | | |
|---|------------------------------|----------------------------------|------------------|------------------------------|----------------------------------|------------------|
| | Takaful Operations | | | Shareholders | | |
| | Up to one year SAR'000 | More than one year SAR'000 | Total SAR'000 | Up to one year SAR'000 | More than one year SAR'000 | Total SAR'000 |
| ASSETS | | | | | | |
| Available-for-sale financial assets | 376,834 | - | 376,834 | 7,035 | - | 7,035 |
| Held-to-maturity financial assets | - | 9,843 | 9,843 | - | 136,529 | 136,529 |
| Contributions and retakaful receivable, net | 26,406 | - | 26,406 | - | - | - |
| Retakaful share of outstanding claims | 47,644 | - | 47,644 | - | - | - |
| Cash and cash equivalents | 40,735 | - | 40,735 | 106,251 | - | 106,251 |
| Short term deposits | - | - | - | 66,277 | - | 66,277 |
| | <u>491,619</u> | <u>9,843</u> | <u>501,462</u> | <u>179,563</u> | <u>136,529</u> | <u>316,092</u> |
| LIABILITIES | | | | | | |
| Reserve for takaful activities | 376,834 | - | 376,834 | - | - | - |
| Gross outstanding claims | 62,290 | - | 62,290 | - | - | - |
| Retakaful balances payable | 15,864 | - | 15,864 | - | - | - |
| Accrued and other liabilities | 40,634 | - | 40,634 | 2,648 | - | 2,648 |
| | <u>495,622</u> | <u>-</u> | <u>495,622</u> | <u>2,648</u> | <u>-</u> | <u>2,648</u> |

SABB Takaful Company (A Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2019

26 RISK MANAGEMENT (CONTINUED)

e) Liquidity risk (continued)

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

f) Operational risk

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

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

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

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

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

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2019

26 RISK MANAGEMENT (CONTINUED)

g) Capital management

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

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

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

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

The Company is in compliance with all externally imposed capital requirements with sound solvency margin. The capital structure of the Company as at 31 December 2019 consists of paid-up share capital of SAR 340 million, statutory reserves of SAR 14.8 million and accumulated losses of SAR 33.26 million (December 31, 2018: paid-up share capital of SAR 340 million, statutory reserves of SAR 14.8 million and accumulated losses of SAR 8.5 million in the statement of financial position).

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

27 SUBSEQUENT EVENTS

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread across mainland China and beyond, causing disruptions to businesses, economic activity and increase in insurance claims mainly relating to the medical line of business in those jurisdictions. The Company considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Company. The impact of this outbreak on the reserving of IBNR will be considered into the Company's estimates of future ultimate claim liability in 2020.

28 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 22 Rajab 1441H, corresponding to 17 March 2020.