

## Shareholders' Circular

This Circular is developed by Wala Insurance Company (hereinafter is referred to as "Wala Insurance Company" or "Merging Company") to its shareholders on increasing the capital of Wala Insurance Company in order to merge SABB Takaful into Wala Insurance Company and transferring all assets and liabilities of SABB Takaful Company to Wala Insurance Company through a securities exchange offer ("Merger Transaction").

Wala Cooperative Insurance Co. (hereinafter is referred to as "Wala Insurance Company" or "Merging Company") has entered into a merger agreement with SABB Takaful Company (hereinafter is referred to as "SABB Takaful" or "Merged Company") on 23/07/1443H (Corresponding to 24/02/2022G) (hereinafter is referred to as "Merger Agreement") to merge SABB Takaful into Wala Insurance Company by offering securities exchange without paying cash. The Merger Transaction is affected by increasing the capital of Wala Insurance Company through issuing new ordinary shares (hereinafter is referred to as "New Shares" or "Consideration Shares") in favor of SABB Takaful shareholders in accordance with this Circular (hereinafter is referred to as the "Circular" or "Shareholders' Circular"), for merging SABB Takaful in Wala Insurance Company (hereinafter is referred to as "Merger Transaction").

To increase the capital and close the Merger Transaction, the Extraordinary General Assembly of Wala Insurance Company shall approve the Merger Transaction. The Extraordinary General Assembly of SABB Takaful shareholders shall also obtain the approval for the Merger Transaction during the Extraordinary General Assembly meeting that will be held for the purpose of the Merger Transaction. Noting that the Merger Transaction shall be subjected to the specified conditions in the Merger Agreement and shall be summarized in Section No. (6) of this Circular. Wala Insurance Company announced on 26/07/1443H (corresponding to 27/02/2022G) that the company had signed a binding Merger Agreement with SABB Takaful and its firm intention to submit a securities exchange offer to transfer the assets and liabilities of SABB Takaful to Wala Insurance Company.

In the event that the Extraordinary General Assembly of both companies approved the Merger Transaction, Wala Insurance Company shall issue (20,418,619) new fully paid ordinary shares representing (31.59%) of Wala Insurance Company's current capital (hereinafter is referred to as "New Shares" or "Consideration Shares") in favor of SABB Takaful shareholders for merging SABB Takaful into Wala Insurance Company with a nominal value of 10 Saudi Riyals per share for SABB Takaful shareholders by issuing (0.6005476176470590) shares in Wala Insurance Company for each owned share in SABB Takaful (hereinafter is referred to as "exchange ratio"). This will require an increase in Wala Insurance Company capital from (SAR 646,397,060) to (SAR 850,583,250) and an increase in the shares number from (64,639,706) ordinary shares to (85,058,325) ordinary shares. The owned percentage of SABB Takaful shareholders shall be 24.01% of Wala Insurance Company capital after the capital increase. All the issued shares of Wala Insurance Company has only one class and no shareholder benefits from any preferential voting rights. The Consideration Shares shall be issued from the same class of the issued shares in Wala Insurance Company. The total nominal value of the consideration shares is (SAR 204,186,190). The total market value of the consideration shares based on the exchange ratio and the closing price of Wala Insurance Company's share of (SAR 17.90) as on 22/07/1443H (corresponding to 23/02/2022G) (which is the last trading day prior to the Merger Agreement), is (SAR 365,493,280). The total market value of the consideration shares based on the exchange ratio and the closing price of Wala Insurance Company's share of (SAR 15.72) as on 16/01/1444H (corresponding to 14/08/2022G) (which is the nearest trading day before publishing the circular), is (SAR 320,980,691). The total value of issuing new shares (as will be shown in the financial statements of Wala Insurance Company) will be determined based on the closing price of Wala Insurance Company shares on the last trading day prior to the completion date of the Merger Transaction. The SABB Takaful shareholders will not receive any cash consideration because of the Merger Transaction.

The Merger Transaction does not involve a Related Party transaction. All assets and liabilities of SABB Takaful will be transferred to Wala Insurance Company in consideration for Wala Insurance Company issuing new shares to SABB Takaful shareholders. After Effectiveness of the Merger Transaction Decision, SABB Takaful Shareholders will receive (0.6005476176470590) shares in Wala Insurance Company for each owned share in SABB Takaful. Upon completion, new shares will be issued to SABB Takaful shareholders in Wala Insurance Company. All assets and liabilities of SABB Takaful will be transferred to Wala Insurance Company, which will continue to exist. As for SABB Takaful, its shares will be canceled and expired after the end of the creditors' objection period or the settlement of all creditors' objections to the Merger Transaction (whichever comes later) in accordance with the provisions of Article No. (193) of Companies Law and after completing the cancellation procedures of the commercial register with the Ministry of Commerce. For further information on the Merger Transaction stages, see Section ("Important Dates and Milestones of Merger Transaction").

Wala Insurance Company was established as a Saudi Public Joint Stock Company by Council of Ministers Resolution No. (233), dated on 16/09/1427H (corresponding to 09/10/2006G) and Royal Decree No. (M/60), dated on 18/09/1427H (corresponding to 11/10/2006G). The Company has Commercial Register No. (2051034982) issued in Al-Khobar City on 19/06/1428H (corresponding to 04/07/2007G) and holds a Service Investment License from the Ministry of Investment No. (12031026553), dated on 26/01/1426H (corresponding to 07/03/2005G). Its shares were listed on 03/07/1428H (corresponding to 17/07/2007G). Its Headquarter is in Adel Khoshoggi Building, Custodian of the Two Holy Mosques Street, P.O. Box 31616 Khobar 31952 Kingdom of Saudi Arabia. The Company's Current Capital is (SAR 646,397,060) six hundred and forty-six million, three hundred and ninety-seven thousand and sixty Saudi Riyals divided into (64,639,706) sixty-four million, six hundred and thirty-nine thousand, seven hundred and six shares with a nominal value of (SAR 10) ten Saudi Riyals per share (hereinafter is referred to each as "Current Share" and to all of them as "Current Shares"). All these shares are fully paid and are listed in the Saudi Stock Exchange Company (hereinafter is referred to as "Saudi Stock Exchange" or "Saudi Stock Exchange"). The shareholders number in Wala Insurance Company on 06/11/1443H (corresponding to 05/06/2022G) reached (37,130) shareholders. The Substantial Shareholders of Wala Insurance Company are represented by American Life Insurance Company, which directly owns (3,551,911) shares of Wala Insurance Company, representing (5.49%) of Wala Insurance Company's capital before increasing the capital (and does not own any indirect ownership ratio in Wala Insurance Company). American Life Insurance Company's direct ownership ratio will decrease from (5.49%) to (4.18%) in Wala Insurance Company's capital after increasing the capital. Therefore, American Life Insurance Company will not become a substantial shareholder in Wala Insurance Company after increasing the capital of Wala Insurance Company. Its ownership ratio will be within the public ownership. In addition to the Arab National Bank, it directly owns (3,545,146) shares of Wala Insurance Company, representing (5.48%) of Wala Insurance Company's capital before increasing the capital (and does not own any indirect ownership ratio in Wala Insurance Company). ANB's direct ownership ratio will decrease from (5.48%) to (4.17%) in Wala Insurance Company's capital after increasing the capital. Therefore, ANB will not become a substantial shareholder in Wala Insurance Company after increasing the capital of Wala Insurance Company. Its ownership ratio will be within the public ownership. The direct ownership ratio of the Board of Directors Members and Senior Executives of Wala Insurance Company is (4.69%) of Wala Insurance Company's capital before increasing the capital. The direct ownership ratio of the Board of Directors Members and Senior Executives of Wala Insurance Company will decrease from (4.69%) to (3.56%) in Wala Insurance Company's capital after increasing the capital. The direct ownership ratio of Wala Insurance Company's non-public shareholders (not including Substantial Shareholders, Board of Directors Members and Senior Executives) is 1.32% of Wala Insurance Company's capital before increasing the capital. The direct ownership ratio of Wala Insurance Company's non-public shareholders (not including Substantial Shareholders, Board of Directors Members and Senior Executives) will decrease from (1.23%) to (0.93%) in Wala Insurance Company's capital after increasing the capital. The Public Ownership Ratio of Wala Insurance Company is (83.11%) of Wala Insurance Company's capital before increasing the capital. The Public Ownership Ratio will decrease from (83.11%) to (79.90%) in the Wala Insurance Company's capital after increasing the capital.

SABB Takaful was established as a Saudi Public Joint Stock Company under Royal Decree No. (M/60) dated on 18/09/1427H (corresponding to 11/10/2006G) and Ministerial Resolution No. (108), dated on 27/04/1428H (corresponding to 15/05/2007G). The Company was established in Riyadh City under Commercial Register No. (1010234032) issued in Riyadh City on 20/05/1428H (corresponding to 06/06/2007G) and Insurance Business License from the Saudi Central

Bank No. (V.M.N/5/20079), dated on 29/08/1428H (corresponding to 11/09/2007G). Its shares were listed on 01/06/1428H (corresponding to 16/06/2007G). Its Headquarter is in Riyadh City. The Company's Current Capital is (SAR 340,000,000) divided into (34,000,000) shares with a nominal value of (SAR 10) Ten Saudi Riyals per share. All these shares are fully paid and are listed in the Saudi Stock Exchange Company (Saudi Stock Exchange). The Substantial Shareholders in SABB Takaful is represented by the Saudi British Bank (SABB), which directly owns (22,100,000) shares of SABB Takaful, representing (65%) of SABB Takaful capital (and does not own any indirect ownership ratio in SABB Takaful). The Saudi British Bank (SABB) does not own any shares in Wala Insurance Company prior to the Merger Transaction (and will obtain (13,272,102) shares of Wala Insurance Company, representing (15.60%) of Wala Insurance Company's capital after the Merger Transaction). The Saudi British Bank (SABB) will become a substantial shareholder in Wala Insurance Company after increasing the capital. The public ownership represents 35% of SABB Takaful capital.

Implementation of the Merger Transaction is conditional upon, amongst other things, obtaining the approval of the Extraordinary General Assembly of Wala Insurance Company and the approval of the Extraordinary General Assembly of SABB Takaful regarding the Merger Transaction. For further information about Merger Transaction Conditions and the necessary procedures for implementing the transaction, See Section No. (6) ("Legal Information") of this Circular. If the Merger Resolution is approved by the requisite number of Wala Insurance Company and SABB Takaful shareholders (at least three-fourths of the shares represented at the extraordinary general assembly meeting) and met all the stipulated and set out conditions in the Merger Agreement in Section No. (6) ("Legal Information") of this Circular including the end of the creditors' objection period or the settlement of all creditors' objections to the Merger Transaction (whichever comes later) in accordance with the provisions of Article No. (193) of the Companies Law. Upon completion of Merger Transaction, the ownership ratio of all existing Wala Insurance Company shareholders will be reduced to (75.99%), SABB Takaful will dissolve, all its shares will be canceled and all its assets and liabilities will be transferred to the merging company. For further information about the associated risks with this, See Section No. (2) ("Risks") of this Circular. Upon completion of the Merger Transaction, all SABB Takaful shareholders (including those who voted or did not vote) will receive the new shares of the merging company in accordance with the exchange ratio. The owners of the new shares will have the same rights as the owners of the existing shares.

Upon approving the Merger Transaction by the required requisite number of Wala Insurance Company and SABB Takaful shareholders, the Merger Transaction decision will become effective after ending the creditors' objection period or the settlement of all creditors' objections to the Merger Transaction (whichever comes later) in accordance with the provisions of Article No. (193) ("Effectiveness of the Merger Transaction Decision" or "Effectiveness of the Merger Transaction") of the Companies Law. The creditors' objection period will start on the following day of the meeting of the Extraordinary General Assembly of SABB Takaful that approved the Merger Transaction. SABB Takaful creditors will be able to submit their objection to the Merger Transaction by registered letters sent to SABB Takaful. In this case, the Merger Transaction shall be suspended until the objecting creditor waives its objection to the Merger Transaction or until SABB Takaful has paid the debt if such debt was payable or submit adequate collateral for the repayment of such debt if such debt has not yet matured. Following the expiry of Creditor Objection Period and Effectiveness of the Merger Transaction Decision, the listing of SABB Takaful shares shall be canceled and the new shares shall be issued as marketable securities in favor of SABB Takaful shareholders in accordance with the shareholders' register on the date of the Effectiveness of the Merger Transaction Decision and considering the settlement procedures (T-2) at the end of the second trading day following the last day of the Effectiveness of the Merger Transaction Decision. The new shares shall be deposited within a period not less than the third trading period after implementing the Merger Transaction Decision and not more than the sixth trading period after implementing the Merger Transaction Decision. Those shares shall be deposited in SABB Takaful shareholders' portfolios with a number of (0.6005476176470590) shares in Wala Insurance Company for each owned share in SABB Takaful.

Wala Insurance Company submitted a request to the Capital Market Authority to register and offer the issued new shares in favor of SABB Takaful shareholders and also submitted a request to Saudi Stock Exchange to list the new shares on Saudi Stock Exchange. All the requirements of the Capital Market Authority have been met in accordance with the provisions of offering securities law and continuing liabilities, considering the issuance of the necessary approvals for the Merger Transaction from the extraordinary general assembly of Wala Insurance Company and the extraordinary general assembly of SABB Takaful after obtaining non-objection from the General Authority for Competition and approval of the Saudi Central Bank for the Merger Transaction, in addition to the approval of the Saudi Stock Exchange, the Capital Market Authority upon increasing the capital and approval of publishing the offer document. All requirements have been met to obtain the Authority's approval to publish this circular, which was announced on the Capital Market Authority website on 12/01/1444H (corresponding to 10/08/2022G).

All the Board of Directors members of Wala Insurance Company, after taking the due diligence, believe that the Merger Transaction shall be for the interest of Wala Insurance Company and the shareholders. This will contribute to enhancing its position in the insurance market in the Kingdom of Saudi Arabia, improving its financial position and achieving its strategy of increasing business and reducing the expenses ratio and increasing profits. Accordingly, the Board of Directors of Wala Insurance Company recommends the shareholders to vote on the decision to increase the capital of Wala Insurance Company for merging Wala Insurance Company with SABB Takaful during the Extraordinary General Assembly meeting of Wala Insurance Company.

With the exception of the below acknowledgment regarding the responsibility of the Board of Directors members of Wala Insurance Company for the accuracy of the contained information in this circular, the Board of Directors members of Wala Insurance Company shall not bear any responsibility for the accuracy and precision of the information relating to SABB Takaful contained in this circular. Noting that all the contained information in this circular relating to SABB Takaful is based on the provided information by SABB Takaful in addition to obtained information from SABB Takaful during the stage of Wala Insurance Company with the help of its advisors studying the necessary professional care on SABB Takaful. SABB Takaful, in accordance with the Merger Agreement, shall guarantee to Wala Insurance Company regarding the correctness and completeness of the provided information to Wala Insurance Company upon conducting a study with the necessary professional care and until the approval date of the Merger Transaction. SABB Takaful shall guarantee that the provided information is non-misleading in all respects. SABB Takaful shall also guarantee under the Merger Agreement that SABB Takaful has not concealed any material information from Wala Insurance Company.

Shareholders shall read this circular fully and carefully and shall review all its sections, particularly Section ("Important Notice") and Section No. (2) ("Risk Factors") before voting at the Extraordinary General Assembly meeting of Wala Insurance Company regarding the Merger Transaction. This circular is extremely important and requires the attention of shareholders. If any of the shareholders has any doubt regarding the content of this circular or regarding the taken actions and procedures, the concerned shareholder shall obtain special financial advice from an independent financial advisor licensed by the Capital Market Authority.

Wala Insurance Company has appointed ALJAZIRA CAPITAL Company (hereinafter is referred to as "ALJAZIRA CAPITAL") as a financial advisor in connection with the Merger Transaction.

### Financial Advisor

الجزيرة كابيتال  
ALJAZIRA CAPITAL  
الجزيرة للأسواق المالية

"This Circular includes information provided as part of the application for registration and offer of securities in compliance with the Rules on the Offer of Securities and Continuing Obligations issued by the Capital Market Authority in the Kingdom of Saudi Arabia (hereinafter is referred to as "the Authority") and the application for listing of securities in compliance with the Listing Rules of the Capital Market. The Board of Directors Members of Wala Insurance Company, collectively and individually, shall bear full responsibility for the accuracy of the contained information in this Circular. The Board of Directors Members of Wala Insurance Company shall also confirm, after conducting all possible studies and having made all reasonable enquiries, there are no other facts the omission of which may make any statement herein misleading. The Authority and Saudi Stock Exchange shall not bear any responsibility for the contents of this Circular, shall not make any representation as to its accuracy or completeness, and shall expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Circular."

"This unofficial English language translation of the official Arabic language of the Circular. No reliance should be placed on this English translation, which may not entirely reflect the official Arabic language Circular. In case of any differences between the two, the Arabic version shall prevail."

This Circular was published on 17/01/1444H, (Corresponding to 15/08/2022G).

## Important Notice

Walaa Insurance Company has prepared this circular in accordance with the requirements of Article No. (57) of the Rules on the Offer of Securities and Continuing Obligations to provide information to shareholders in connection with the submitted to SABB Takaful shareholders for merging the company in Walaa Insurance Company in return for issuing new shares to them in Walaa Insurance Company in accordance with the provisions of Articles No. (191), (192) and (193) of the Companies Law and the provisions of Article No. (49) (1) (a) of the Merger and Acquisition Regulations.

This Circular contains detailed information relating to the Merger Transaction and relevant information thereto. This circular aims to provide information to Walaa Insurance Company shareholders about the Merger Transaction to enable them taking an informed decision when voting on the recommendation of the Board of Directors of Walaa Insurance Company to approve the Merger Transaction by increasing the capital for merging SABB Takaful into Walaa Insurance. Obtaining the approval of Walaa Insurance Company and SABB Takaful shareholders during the extraordinary general assembly meeting held for each company for voting on the transaction, which is a necessary step to complete the Merger. The vote of Walaa Insurance Company Shareholders on decisions of the Extraordinary General Assembly regarding the Merger will be made solely based on the contained information in this Circular. Shareholders can obtain copies of this circular from the Walaa Insurance Company headquarters or by visiting the Walaa Insurance Company website ([www.walaa.com](http://www.walaa.com)), Financial Advisor website ([www.aljaziracapital.com.sa](http://www.aljaziracapital.com.sa)) or Capital Market Authority website ([www.cma.org.sa](http://www.cma.org.sa)).

The Capital Market Authority (CMA) and Saudi Stock Exchange shall not bear any responsibility for the contents of this Circular, shall not make any representation as to its accuracy or completeness, and shall expressly disclaim any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Circular.

The contained statements and information in this Circular are made as at the date of publishing this Circular, unless some other time is specified in relation to them. These statements and information may subject to change after its publication. This circular does not contain any text that can be considered as a prediction, planning or estimation of the current or future financial performance of Walaa Insurance Company No statements in this circular may be interpreted to mean that the earnings per share in the current or future financial periods will necessarily be in line with or exceed the published information in the previous financial statements of Walaa Insurance Company The appearing information and data in this Circular reflects the current point of view of the Walaa Insurance Company Board of Directors about the expected effects and its impact thereon following Completion. It is however not a guarantee of the financial performance of the Merging Company following Completion of the Merger Transaction. Noting that there are various factors could affect the performance of the Merging Company or the achieved results either positively or negatively. For further information, see Section No. (2) ("**Risk Factors**") of this Circular.

According to the requirements of the Rules on the Offer of Securities and Continuing Obligations, Walaa Insurance Company will issue a supplementary shareholders circular at any time after this circular has been published and before the Extraordinary General Assembly of Walaa Insurance Company for the Merger Transaction, if Walaa Insurance Company becomes aware that there has been a significant change in material information contained in this Circular or additional significant matters have become known which would have been required to be included in this Circular.

Walaa Insurance Company has not authorized any person to provide any information or statements or make any statements or explanations on behalf of Walaa Insurance Company's Board of Directors, except as disclosed in this circular. Such information or statements issued by any third party shall not be relied on as having been authorized by Walaa Insurance Company, Al ALJAZIRA CAPITAL Company ("ALJAZIRA CAPITAL") or any of Walaa Insurance Company's advisors in connection with the Merger.

Walaa Insurance Company has appointed Al ALJAZIRA CAPITAL Company ("ALJAZIRA CAPITAL") as a financial advisor in connection with the Merger Transaction. Al ALJAZIRA CAPITAL Company ("ALJAZIRA CAPITAL") shall be subject to the laws and regulations in force in the Kingdom of Saudi Arabia. This company is licensed by the Capital Market Authority to do so, and is acting as an exclusive financial advisor to Walaa Insurance Company in the Merger Transaction. The company shall not work for any other party in the same transaction. Al ALJAZIRA CAPITAL Company ("ALJAZIRA CAPITAL") shall not be responsible for the correctness and accuracy of the contained information and data in this circular. Accordingly, Al ALJAZIRA CAPITAL Company ("ALJAZIRA CAPITAL") or any of its subsidiaries shall not bear any responsibility that may arise from the incorrectness, accuracy or completeness of any of the contained data or information in this circular.

## Forward-looking Expectations and Statements

This Circular contains certain forward-looking statements with respect to Walaa Insurance Company. These forward-looking expectations and statements are not related to any historical or current facts. These future statements often use words such as “will”, “may”, “must”, “continue”, “believe”, “expect”, “intend”, “anticipate”, “intend”, “estimate”, “aim”, “plan”, “target”, “goal”, “should”, “would”, “could”, or other words of similar meaning or the negative thereof. Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from forward-looking statements and expectations. Many of these risks and uncertainties relate to factors and circumstances outside of Walaa Insurance Company’s control or ability to make accurate estimates such as future market conditions and the behavior of other market participants. Forward-looking statements in this Circular include, without limitation, statements relating to the following: (1) preliminary synergy estimates, future capital expenditures, expenses, revenues, economic performance, financial conditions, dividend policy, losses and future prospects, (2) business and management strategies and the expansion and growth of the operations of Walaa Insurance Company following the Merger Transaction, and (3) the main stages and procedures relating to the Merger Transaction and the dates on which these events are expected to occur. Neither the forward-looking statements nor the objectives referred to in this Circular can be ascertained. The Company may not depend mainly on the forward-looking statements and expectations set out in this circular. The advisors, whose names appear in Section “**Walaa Insurance Company’s Directory**” of this Circular, or any of their managers or employees shall not be liable for any direct or indirect loss or damage that any person may incur due to their reliance on any information included in the Circular, or the omission of any information not included in this Circular. None of the above-mentioned intends to update these forward-looking expectations and statements set out in this circular, except as required by law.

These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of any such person, industry results, strategies or events, to be materially different from any results, performance, and achievements or other events or factors expressed or implied by such forward-looking statements. Many of the risks and uncertainties relating to forward-looking statements are beyond Walaa Insurance Company’s abilities to control or estimate precisely, such as future market conditions and the behaviors of other market participants, and therefore undue reliance should not be placed on such statements. Forward-looking statements are not guarantees of future performance. They have not, unless otherwise indicated, been reviewed by the auditors of Walaa Insurance Company except in the referred cases. Forward-looking statements are based on numerous assumptions, including assumptions regarding the present and future business strategies of Walaa Insurance Company and the environment in which it will operate in the future. The contained information in this circular may subject to change, especially Walaa Insurance Company’s financial position and Walaa Insurance Company’s share price so that it could be negatively affected the future developments from economic factors such as inflation factors, other political factors or other factors outside the control of Walaa Insurance Company. The publication of this Circular or any other oral or written information relating to Walaa Insurance Company’s shares shall not be considered as a guarantee, promise or obligation as to achieve any particular revenues or results. For further information about these risks, see Section No. (2) (“**Risk Factors**”) of this circular.

All forward-looking statements made by Walaa Insurance Company or any of the advisors whose names appear in Section (“**Walaa Insurance Company’s Directory**”) acting on behalf of Walaa Insurance Company in this Merger Transaction, whether written or oral, shall be restricted by the important notice contained in this Section of the circular.

## Publication and Distribution Restrictions

This circular is addressed to Walaa Insurance Company Shareholders. This circular may not be published or distributed in any jurisdiction other than the Kingdom of Saudi Arabia or any other jurisdiction in which this circular is in violation of its laws. Walaa Insurance Company will not take any action allowing the issuance of the new shares in a jurisdiction other than the Kingdom of Saudi Arabia. Walaa Insurance Company Shareholders, who reside in a jurisdiction other than the Kingdom of Saudi Arabia, shall attend the Extraordinary General Assembly of Walaa Insurance Company in the Kingdom of Saudi Arabia or vote remotely, or appoint a representative to attend the Extraordinary General Assembly meeting and vote on their behalf.

## Presentation of Financial and Other Information

The financial statements of Walaa Insurance Company for the financial years ending on December 31, 2018G, 2019G and 2020G, and the unaudited financial statements for a period of 9 months of 2021G, have been prepared in accordance with the approved International Financial Reporting Standards (IFRS) in the Kingdom of Saudi Arabia. The contained financial statements in this circular are shall be based on the estimates of Walaa Insurance Company's management. These financial statements have not been independently audited by accountants or others, except as expressly provided otherwise, and with the exception the stated matters to the contrary in this circular. All financial statements included in this circular are in Saudi Riyals (SAR).

This circular has been prepared in accordance with the laws and regulations in force in the Kingdom of Saudi Arabia. The size, type and nature of the contained information therein may differ if this circular was prepared in accordance with the laws or regulations of jurisdictions other than the Kingdom of Saudi Arabia. Walaa Insurance Company does not intend to take any action to publish this circular or to register the proposed shares to be issued in any country other than the Kingdom of Saudi Arabia. This Merger Transaction relates to securities of Saudi joint stock companies listed on the Saudi Stock Exchange. Accordingly, this circular and any other documents or announcements relating to the Merger Transaction will be or have been prepared in accordance with the information disclosure requirements applicable in the Kingdom of Saudi Arabia only, which may differ from those applicable in other jurisdictions.

No person may interpret or consider the contents of this circular as legal, financial, or tax advice, but in the event of any doubt, anyone who reads this circular shall refer to its own advisor regarding its content in the event of any doubt. We recommend that an independent financial advice shall be obtained from any independent financial advisor licensed by the Capital Market Authority and shall rely on its own review of the Merger Transaction to ensure the suitability of the Merger Transaction and the contained information in this circular to investment objectives and financial conditions.

The contents of the Walaa Insurance Company's website or the contents of any other website on which this circular is published, shall not form part of or complement the circular. Walaa Insurance Company's advisors shall not bear any responsibility for the contents of these websites.



# Walaa Insurance Company Directory

## Walaa Insurance Company

Headquarters: Al Khobar, Adel Khashoggi Building,  
Custodian of the Two Holy Mosques Street,  
P. O. Box 31616 Khobar 31952  
Kingdom of Saudi Arabia  
Phone: +966138299380  
Fax: +966138252255  
Email: investors@wala.com  
Website: www.wala.com



### Walaa Insurance Company Representatives

Name: Suleiman Abdul Aziz Al Tuwajri  
Member of the Board of Directors  
Building, Custodian of the Two Holy Mosques Street,  
P. O. Box 31616 Khobar 31952  
Kingdom of Saudi Arabia  
Tel: +966112027770 (Ext.: 17770)  
Fax: N/F  
Email: dddsulaiman@gmail.com

Name: Muhannad Mahmoud Al-Desouki  
Chief Financial Officer  
Building, Custodian of the Two Holy Mosques Street,  
P. O. Box 31616 Khobar 31952  
Kingdom of Saudi Arabia  
Tel: +966138299333 (ext.: 333)  
Fax: +966138652255  
Email: mohannad.d@wala.com

### Financial Advisor to Walaa Insurance Company

AL JAZIRA CAPITAL Company ("ALJAZIRA CAPITAL")  
Riyadh, King Fahd Road, P. O. Box 20438 Riyadh 11455  
Kingdom of Saudi Arabia  
Tel: +966112256000  
Fax: +966112256182  
Website: www.aljaziracapital.com.sa  
Email: contactus@aljaziracapital.com.sa



### Legal Advisor to Walaa Insurance Company

Khalif Al-Enezee Law Office  
Al Maather Street, Futuro Tower, 3rd Floor,  
P. O. Box 69171 Riyadh 11547  
Kingdom of Saudi Arabia  
Tel: +966112767372  
Fax: +966112766960  
Website: www.ekplegal.com  
Email: info@ekplegal.com



**Financial and Tax Due Diligence Advisor to Walaah Insurance Company**

PricewaterhouseCoopers  
Kingdom Tower, 21th Floor  
P. O. Box 13934, Riyadh 11414  
Kingdom of Saudi Arabia  
Phone: +966112110400  
Fax: +966112110250  
Website: www.pwc.com/me  
Email: khalid.mahdhar@pwc.com

**Actuarial Due Diligence Advisor to Walaah Insurance Company**

BADRI Management Consultancy FZCO  
Dubai, P. O. Box 341486 United Arab Emirates (UAE)  
Phone: +966562284707  
Fax: +97143207260  
Email: Hasham.piperdy@badriconsultancy.com  
Website: www.badriconsultancy.com

**Auditors to Walaah Insurance Company**

El Sayed El Ayouty & Co. –Certified Public Auditors  
P. O. Box (780), Jeddah (21421) Kingdom of Saudi Arabia  
Phone: (+966126693478)  
Fax: (+966126602432)  
Email: jeddah@elayouty.com  
Website: www.elayouty.com



Crowe Global / AlAzem, AlSudairy, AlShaikh & Partners -Certified  
Public Auditors  
P. O. Box (10504), Riyadh (11443) Kingdom of Saudi Arabia  
Phone: +966 11 2175000  
Fax: +966 11 2176000  
Email: info@crowe.sa  
Website: http://www.crowe.com/sa

**Pro-forma Financial Statements Accountant to Walaah Insurance Company**

Baker Tilly MKM & Co. Chartered Auditors  
King Faisal Street, Diwan Building -Office 310  
P. O. Box 34422 Khobar  
Kingdom of Saudi Arabia  
Phone: +966138300906  
Fax: +96613834582  
Website: www.bakertillyjfc.com  
Email: info@bakertillyjfc.com



All the advisors and chartered accountants named above have given their written consent to publish their names, logos and statements in accordance with the contained context in this circular. None of them has withdrawn this consent until the date of this circular. They do not have any shares or interest of any kind in Walaah Insurance Company as on the date of this circular.

## Industry and Market Data

The contained information and data in this circular about the insurance sector in the Kingdom were obtained as a result of research on the insurance market derived from publicly available information. The Walaa Insurance Company Board of Directors believes that the contained information in this circular was obtained from reliable sources. Although there is no reason to believe that this information lacks accuracy in its essence, the members of the Walaa Insurance Company's Board of Directors and the advisors whose names appear above have not verified the validity and accuracy of this information and data. Therefore, its accuracy or completeness cannot be guaranteed. In addition, the studies, reports and market research that Walaa Insurance Company's management are considered reliable and used in this circular, have not been verified. Walaa Insurance Company's management does not provide any assurance or guarantees about the accuracy of this information. The information derived from the Central Bank report and the reports of the General Authority for Statistics that were used in this circular are publicly available, and therefore no approval is required to use this information.

The Industry and Market Data of third parties that were used in this circular include all of the following:

Saudi Central Bank ("SAMA")	
<p>P. O. Box 2922 Riyadh 11169 Kingdom of Saudi Arabia Phone: 00966114633000 Fax: 00966114662966 Email: info@sama.gov.sa Website: www.sama.gov.sa</p>	<p>The Saudi Central Bank ("SAMA") is the central bank of the Kingdom of Saudi Arabia. It was established in 1372H (1952G) to carry out a number of tasks, the most important of which are:</p> <ul style="list-style-type: none"> <li>• Issuing the national currency (Saudi Riyal) (SAR) and consolidating its value inside and outside the Kingdom.</li> <li>• Supervising cooperative insurance companies and insurance-related liberal professions companies.</li> <li>• Acting as the government bank and supervising commercial banks.</li> <li>• Managing the country's foreign exchange reserves.</li> <li>• Managing monetary policy to maintain price and exchange rate stability.</li> <li>• Encouraging the growth of the financial and banking system and ensuring its integrity.</li> </ul> <p>The derived information from the Saudi Central Bank report that was used in this circular is publicly available information. Therefore, no approval is required to use this information.</p>
General Authority for Statistics	
<p>Prince Abdul Rahman Abdul Aziz Al Saud Street –Riyadh - Al-Murabba District P. O. Box 3735, Postal Code 11481 Kingsom of Saudi Arabia Phone: 00966114014138 Fax: 00966114059493 Email: info@stats.gov.sa Website: www.stats.gov.sa</p>	<p>The General Authority for Statistics was established in 1379H, corresponding to 1960G in the name of the "Department of General Statistics and Information" before changing its name in 1436H corresponding to 2015G to become the "General Authority for Statistics".</p> <p>The General Authority for Statistics is the only official statistical reference for obtaining statistical data and information in the Kingdom of Saudi Arabia. The General Authority for Statistics implements all statistical work and technical supervision of the statistical sector. It also supervises the implementation of the national strategy for statistical work. The following are some of the entrusted tasks to the General Authority for Statistics:</p> <ul style="list-style-type: none"> <li>• Implementing the statistical work as the sole and official reference for supervising and regulating the statistical sector.</li> <li>• Preparing the national strategy for the statistical work in the Kingdom of Saudi Arabia in coordination with the relevant authorities. Following up on its implementation after its approval and proposing to update it periodically.</li> <li>• Applying internationally recognized standards that include statistical work methodology, conducting studies and research, analyze data and information, and document and preserving all such information and data.</li> <li>• Collecting data and statistical information covering all aspects of life in the Kingdom of Saudi Arabia from its multiple sources.</li> </ul> <p>The derived information from the General Authority for Statistics report that was used in this circular is publicly available information. Therefore, no approval is required to use this information.</p>



## Saudi Stock Exchange

King Fahd Road - Olaya 6897

Unit No. (15)

Riyadh 12211 -3388

Kingdom of Saudi Arabia

Phone: 00966920001919

Email: [csc@Saudi Stock Exchange.com.sa](mailto:csc@Saudi Stock Exchange.com.sa)

Website: [Tadawul.com.sa](http://Tadawul.com.sa)

The Saudi Stock Exchange was established in 1428H (corresponding to 2007G). Saudi Stock Exchange is the only authorized entity to operate as a securities exchange in the Kingdom of Saudi Arabia, where it lists and trades securities. Saudi Stock Exchange is the official source of all information related to the Saudi stock market.

## Summary of the Merger

The Merger Transaction Summary set out below shall provide Walaa Insurance Company's shareholders with an overview of the Merger Transaction. This summary does not include all the information that may be important for shareholders to be able to vote during the extraordinary general assembly meeting of Walaa Insurance Company regarding the Merger Transaction. All shareholders shall consider this summary as just an overview showing information related to the Merger Transaction. Shareholders shall read this circular in its entirety and carefully review all the information and data mentioned therein, to be able to take any decision related to voting on the items of the Extraordinary General Assembly of Walaa Insurance Company regarding the Merger Transaction.

Summary and Details of the Merger Transaction																																																													
<b>Name, Description and Incorporation Information of the Merging Company:</b>	<p>Walaa Cooperative Insurance Company was established as a Saudi Public Joint Stock Company by Council of Ministers Resolution No. (233), dated on 16/09/1427H (corresponding to 09/10/2006G) and Royal Decree No. (M/60), dated on 18/09/1427H (corresponding to 11/10/2006G).</p> <p>The Company has Commercial Register No. (2051034982) issued in Al-Khobar City on 19/06/1428H (corresponding to 04/07/2007G). Walaa Insurance Company has obtained a license to practice insurance activity from the Saudi Central Bank No. (V.M.N/16/20087), dated on 28/06/1429H (corresponding to 02/07/2008G). It's Headquarter located in Adel Khashoggi Building, Custodian of the Two Holy Mosques Street, P.O. Box 31616 Khobar 31952 Kingdom of Saudi Arabia.</p>																																																												
<b>Activity of Walaa Insurance Company</b>	<p>The activities of Walaa Insurance Company, according to its commercial register, are as follows:</p> <ol style="list-style-type: none"> <li>1. Protection Insurance with Savings</li> <li>2. Health Insurance</li> <li>3. General Insurance</li> <li>4. Reinsurance</li> </ol>																																																												
<b>Substantial Shareholders in Walaa Insurance Company, the number of their shares and their ownership ratio before and after the Capital Increase</b>	<p>The following table shows the details of the ownership of the substantial shareholders in Walaa Insurance Company before and after the capital increase, as on 06/11/1443H (corresponding to 05/06/2022G):</p> <table border="1"> <thead> <tr> <th rowspan="2">Shareholder</th> <th colspan="4">Before Capital Increase –Walaa Insurance Company</th> <th colspan="4">After Capital Increase –Walaa Insurance Company</th> </tr> <tr> <th>Number of Shares (Directly Owned)</th> <th>Direct Ownership Ratio</th> <th>Indirect Ownership Ratio</th> <th>Total Ownership Ratio (Direct and Indirect)</th> <th>Number of Shares (Indirectly Owned)</th> <th>Direct Ownership Ratio</th> <th>Indirect Ownership Ratio</th> <th>Total Ownership Ratio (Direct and Indirect)</th> </tr> </thead> <tbody> <tr> <td>American Life Insurance Company*</td> <td>3,551,911</td> <td>5.49%</td> <td>N/F</td> <td>5.49%</td> <td>3,551,911</td> <td>4.18%</td> <td>N/F</td> <td>4.18%</td> </tr> <tr> <td>Arab National Bank (ANB)**</td> <td>3,545,146</td> <td>5.48%</td> <td>4.17%</td> <td>5.48%</td> <td>3,545,146</td> <td>4.17%</td> <td>N/F</td> <td>4.17%</td> </tr> <tr> <td>Saudi British Bank (SAAB)</td> <td></td> <td></td> <td>N/F</td> <td></td> <td>13,272,102</td> <td>15.60%</td> <td>15.60%</td> <td>15.60%</td> </tr> <tr> <td><b>Total</b></td> <td><b>7,097,057</b></td> <td><b>10.98%</b></td> <td><b>N/A</b></td> <td></td> <td><b>13,272,102</b></td> <td><b>15.60%</b></td> <td><b>N/A</b></td> <td></td> </tr> </tbody> </table> <p>Source: Walaa Insurance Company</p> <p>* American Life Insurance Company's direct ownership ratio will decrease from (5.49%) to (4.18%) of the Walaa Insurance Company's capital after the capital increase. Therefore, the company will not become a substantial shareholder in Walaa Insurance Company after the capital increase. Its ownership ratio will be calculated within the ownership of the public.</p> <p>** Arab National Bank (ANB) direct ownership ratio will decrease from (5.48%) to (4.17%) of the Walaa Insurance Company's capital after the capital increase. Therefore, the company will not become a substantial shareholder in Walaa Insurance Company after the capital increase. Its ownership ratio will be calculated within the ownership of the public.</p>								Shareholder	Before Capital Increase –Walaa Insurance Company				After Capital Increase –Walaa Insurance Company				Number of Shares (Directly Owned)	Direct Ownership Ratio	Indirect Ownership Ratio	Total Ownership Ratio (Direct and Indirect)	Number of Shares (Indirectly Owned)	Direct Ownership Ratio	Indirect Ownership Ratio	Total Ownership Ratio (Direct and Indirect)	American Life Insurance Company*	3,551,911	5.49%	N/F	5.49%	3,551,911	4.18%	N/F	4.18%	Arab National Bank (ANB)**	3,545,146	5.48%	4.17%	5.48%	3,545,146	4.17%	N/F	4.17%	Saudi British Bank (SAAB)			N/F		13,272,102	15.60%	15.60%	15.60%	<b>Total</b>	<b>7,097,057</b>	<b>10.98%</b>	<b>N/A</b>		<b>13,272,102</b>	<b>15.60%</b>	<b>N/A</b>	
Shareholder	Before Capital Increase –Walaa Insurance Company				After Capital Increase –Walaa Insurance Company																																																								
	Number of Shares (Directly Owned)	Direct Ownership Ratio	Indirect Ownership Ratio	Total Ownership Ratio (Direct and Indirect)	Number of Shares (Indirectly Owned)	Direct Ownership Ratio	Indirect Ownership Ratio	Total Ownership Ratio (Direct and Indirect)																																																					
American Life Insurance Company*	3,551,911	5.49%	N/F	5.49%	3,551,911	4.18%	N/F	4.18%																																																					
Arab National Bank (ANB)**	3,545,146	5.48%	4.17%	5.48%	3,545,146	4.17%	N/F	4.17%																																																					
Saudi British Bank (SAAB)			N/F		13,272,102	15.60%	15.60%	15.60%																																																					
<b>Total</b>	<b>7,097,057</b>	<b>10.98%</b>	<b>N/A</b>		<b>13,272,102</b>	<b>15.60%</b>	<b>N/A</b>																																																						
<b>Walaa Insurance Company Capital</b>	(SAR 646,397,060) Only six hundred and forty-six million, three hundred and ninety-seven thousand and sixty Saudi Riyals.																																																												
<b>Total Number of Walaa Insurance Company Shares</b>	(64,639,706) Only sixty-four million, six hundred and thirty-nine thousand, seven hundred and six shares																																																												



Summary and Details of the Merger Transaction	
<b>Class of the outstanding shares in Walaa Insurance Company</b>	Ordinary Shares.
<b>Shares Nominal Value in Walaa Insurance Company</b>	(SAR 10) Ten Saudi Riyals per share fully paid.
<b>Total Number of New Shares to be Issued to the Shareholders of SABB Takaful</b>	20,418,619
<b>New Shares Ratio of Walaa Insurance Company Existing Share</b>	The new shares will represent 31.59% of the existing capital of Walaa Insurance Company
<b>Issuance Price of the New Shares</b>	(SAR 10) Ten Saudi Riyals per share
<b>Total Value of the Issuance of the New Shares</b>	The nominal value of each New Share is SAR (10) per share. The issuance value of each New Share (as will be recorded on the financial statements of Walaa Insurance Company) will be determined at a later stage based on the closing price of Walaa Insurance Company share on the last trading day prior to Completion. The total market value of the New Shares based on the exchange ratio and the closing price of Walaa Insurance Company's share of (SAR 17.90) as on 22/07/1443H (corresponding to 23/02/2022G) (which is the last trading day prior to Completion Merger Agreement) is (SAR 365,493,280). The total market value of the New Shares based on the exchange ratio and the closing price of Walaa Insurance Company's share of (SAR 15.72) as on 16/01/1444H (corresponding to 14/08/2022G) (in accordance with the nearest trading day before publishing the circular) is (SAR 320,980,691).
<b>Description of the Merger Transaction</b>	<p>Walaa Insurance Company will make an offer to SABB Takaful shareholders for merging SABB Takaful into Walaa Insurance Company and transferring all its assets and liabilities to Walaa Insurance Company, in return for Walaa Insurance Company issuing New Shares for the benefit of SABB Takaful shareholders by increasing the capital of Walaa Insurance Company from six hundred and forty six million, three hundred and ninety seven thousand and sixty Saudi Riyals (SAR 646,397,060) to eight hundred and fifty million, five hundred and eighty three thousand, two hundred and fifty Saudi Riyals (SAR 850,583,250) by issuing (20,418,619) new shares, thus, the number of its shares increased to (85,058,325) shares, an increase of (31.59%) of the capital before issuing the new shares.</p> <p>After completion of the Merger Transaction, Walaa Insurance Company will continue to exist and will become the merging company. As for SABB Takaful, it will cease, its shares and commercial registration will be cancelled, and all the issued licenses will be cancelled.</p>
<b>Name, Description and Incorporation Information of the Merged Company:</b>	SABB Takaful was established as a Saudi Public Joint Stock Company under Royal Decree No. (M/60) dated on 18/09/1427H (corresponding to 11/10/2006G) and Ministerial Resolution No. (108), dated on 27/04/1428H (corresponding to 15/05/2007G). The Company was established in Riyadh City under Commercial Register No. (1010234032) issued in Riyadh City on 20/05/1428H (corresponding to 06/06/2007G) and Insurance Business License from the Saudi Central Bank No. (V.M.N/5/20079), dated on 29/08/1428H (corresponding to 11/09/2007G). Its shares were listed on 01/06/1428H (corresponding to 16/06/2007G). Its Headquarter is in Riyadh City. The Company's Current Capital is (SAR 340,000,000) divided into (34,000,000) shares with a nominal value of (SAR 10) Ten Saudi Riyals per share. All these shares are fully paid and are listed in Saudi Stock Exchange.
<b>Activity of SABB Takaful (Merged Company)</b>	<p>The activities of SABB Takaful, according to its commercial register, are as follows:</p> <ol style="list-style-type: none"> <li>1. Protection Insurance with Savings</li> <li>2. General Insurance</li> </ol>

**Summary and Details of the Merger Transaction**

<b>Substantial Shareholders in SABB Takaful, the number of their shares and their ownership ratio before and after the Capital Increase</b>	The following table shows the ownership details of the substantial shareholders in SABB Takaful before and after the capital increase:								
	<b>Shareholder</b>	<b>Before Capital Increase – SABB Takaful</b>				<b>After Capital Increase – SABB Takaful</b>			
		<b>Number of Shares (Directly Owned)</b>	<b>Direct Ownership Ratio</b>	<b>Indirect Ownership Ratio</b>	<b>Total Ownership Ratio (Direct and Indirect)</b>	<b>Number of Shares (Indirectly Owned)</b>	<b>Direct Ownership Ratio</b>	<b>Indirect Ownership Ratio</b>	<b>Total Ownership Ratio (Direct and Indirect)</b>
	Saudi British Bank (SAAB)	22,100,000	65%	N/F	65%	Not Applied, as the commercial register of SABB Takaful will be expired and be canceled and its shares will be cancelled.			
<b>Total</b>	<b>22,100,000</b>	<b>65%</b>	<b>N/A</b>						
Source: SABB Takaful									
<b>Capital of SABB Takaful (Merged Company)</b>	(SAR 340,000,000) three hundred and forty million Saudi Riyals.								
<b>SABB Takaful (Merged Company) Number of Shares</b>	(34,000,000) thirty-four million Ordinary Shares, with a nominal value of (SAR 10), fully paid.								
<b>Related Parties</b>	The Merger Transaction does not involve the presence of any related parties.								
<b>Total and Detailed Value of the Consideration</b>	The only consideration for the Merger Transaction is that Walaa Insurance Company will issue new shares on the effective date exclusively for all SABB Takaful shareholders in exchange for transferring the assets and liabilities of SABB Takaful to Walaa Insurance Company at the share exchange ratio specified as follows, (0.6005476176470590) shares of Walaa Insurance Company for each share of SABB Takaful. The nominal value of each Consideration Share is (SAR 204,186,190). The total market value of the Consideration Shares based on the exchange ratio and the closing price of Walaa Insurance Company's share of (SAR 17.90) as on 23/02/2022G (which is the last trading day prior to Completion Merger Agreement) is (SAR 365,493,280). The total market value of the Consideration Shares based on the exchange ratio and the closing price of Walaa Insurance Company's share of (SAR 15.72) as on 16/01/1444H (corresponding to 14/08/2022G) (in accordance with the nearest trading day before publishing the circular) is (SAR 320,980,691). The issuance total value of consideration shares (as will be recorded in the financial statements of Walaa Insurance Company) will be determined later and based on the closing price of Walaa Insurance Company shares on the last trading day prior the date of completion of the Merger Transaction. SABB Takaful Shareholders will not receive any cash consideration arising from the Merger Transaction.								
<b>Merger Transaction Structure</b>	Walaa Insurance Company will increase its capital for the Merger Transaction with SABB Takaful by transferring all the assets and liabilities of SABB Takaful to Walaa Insurance Company in return for Walaa Insurance Company issuing (20,418,619) new ordinary shares to SABB Takaful shareholders as consideration, after obtaining the necessary approvals to complete the Merger Transaction. After the Merger Transaction, the direct ownership ratio of Walaa Insurance Company shareholders in the merging company will be (75.99%). While the direct ownership ratio of SABB Takaful shareholders in the merging company is (24.01%).								

### Summary and Details of the Merger Transaction

The following table shows the details of ownership in Wala'a Insurance Company before and after the capital increase, as on 06/11/1443H (corresponding to 05/06/2022G):

Shareholder	Before Capital Increase –Wala'a Insurance Company				After Capital Increase –Wala'a Insurance Company			
	Number of Shares (Directly Owned)	Direct Ownership Ratio	Indirect Ownership Ratio	Total Ownership Ratio (Direct and Indirect)	Number of Shares (Indirectly Owned)	Direct Ownership Ratio	Indirect Ownership Ratio	Total Ownership Ratio (Direct and Indirect)
American Life Insurance Company*	3,551,911	5.49%	N/F	5.49%	3,551,911	4.18%	N/F	4.18%
Arab National Bank (ANB)**	3,545,146	5.48%	N/F	5.48%	3,545,146	4.17%	N/F	4.17%
Board Members and Senior Executives of Wala'a Insurance Company***	3,030,421	4.69%	1.23%	5.91%	3,030,421	3.56%	0.93%	4.49%
Non-public shareholders of Wala'a Insurance Company (not including substantial shareholders, board members and senior executives)	792,340	1.23%	N/A	1.23%	792,340	0.93%	N/A	0.93%
Saudi British Bank (SAAB)	N/F				13,272,102	15.60%	N/F	15.60%
Board Members and Senior Executives of SABB Takaful***				N/F				
Public	53,719,888	83.11%	N/A		67,963,462	79.90%	N/A	
<b>Total</b>	<b>64,639,706</b>	<b>100%</b>	<b>N/A</b>		<b>85,058,325</b>	<b>100%</b>	<b>N/A</b>	

Source: Wala'a Insurance Company

\* American Life Insurance Company's direct ownership ratio will decrease from (5.49%) to (4.18%) of the Wala'a Insurance Company's capital after the capital increase. Therefore, the company will not become a substantial shareholder in Wala'a Insurance Company after the capital increase. Its ownership ratio will be calculated within the ownership of the public.

\*\* Arab National Bank (ANB) direct ownership ratio will decrease from (5.48%) to (4.17%) of the Wala'a Insurance Company's capital after the capital increase. Therefore, the company will not become a substantial shareholder in Wala'a Insurance Company after the capital increase. Its ownership ratio will be calculated within the ownership of the public.

\*\*\* The indirect ownership of the members of the Board of Directors arises from the indirect ownership of Khalifa Abdul Latif Al Melhem - a member of the Board of Directors - arising from his direct and indirect ownership in Khalifa Abdul Latif Al Melhem Company Ltd., the direct ownership of Mohammad Khalifa Al Melhem and Abdul Aziz Khalifa Al Melhem (sons of Khalifa Abdullatif Al Melhem), the direct ownership of Fahd Suleiman Mohammad Balghunaim (father of Hatem Fahd Balghunaim - a member of the board of directors), the direct ownership of Abdul Elah Al-Juaid (wife of Hatem Fahd Balghunaim), and the direct ownership of Abdul Latif Hamad Al-Jabr (the father of Hisham Abdel Latif Al-Jabr - a member of the Board of Directors).

#### Ownership Structure in Wala'a Insurance Company before and after the capital increase

**Summary and Details of the Merger Transaction**

The following table shows the details of ownership in SABB Takaful before and after the capital increase:

Shareholder	Before Capital Increase – SABB Takaful				After Capital Increase – SABB Takaful			
	Number of Shares (Directly Owned)	Direct Ownership Ratio	Indirect Ownership Ratio	Total Ownership Ratio (Direct and Indirect)	Number of Shares (Indirectly Owned)	Direct Ownership Ratio	Indirect Ownership Ratio	Total Ownership Ratio (Direct and Indirect)
Saudi British Bank (SAAB)	22,100,000	65%	N/F	65%				
Board Members and Senior Executives of SABB Takaful			N/F		Not Applied, as the commercial register of SABB Takaful will be expired and be canceled and its shares listing will be cancelled.			
Public	11,900,00	45%		N/A				
<b>Total</b>	<b>34,000,000</b>	<b>100%</b>		<b>N/A</b>				

Source: SAAB Takaful Company

**Decrease in the Ownership Ratio of the Current Shareholders in Walaa Insurance Company because of the Capital Increase**

After completing the Merger Transaction, the ownership ratio of the existing shareholders in Walaa Insurance Company will decrease from (100%) to (75.99%), i.e. a decrease of (24.01%).

**Statement of the Increase or Decrease in Earnings per Share**

If the desired benefits from the mentioned Merger Transaction in Section No. (4.2.2) of this circular are realized, and if the business merger is successful, it is expected that the Merger Transaction will lead to an increase in earnings per share in the end. The main reasons that may contribute to increasing profitability on the fact that the merging company may be able to obtain a higher volume of business at more rational costs when the business merger is completed. Shareholders shall not rely on expectations related to an increase in earnings per share for realizing the desired benefits from the Merger Transaction when making their decision to vote on Merger Transaction decisions and shall not rely entirely on the forward-looking expectations and statements. These statements shall not be considered as confirmation that the earning per share of the merging company will be equal to or greater than the earnings per share of Walaa Insurance Company for the previous financial periods.

The following table shows the earnings per share for Walaa Insurance Company and SABB Takaful before the Merger Transaction and the pro-forma earnings per share after the merger (based on the Pro-forma Financial Statements as if the Merger Transaction took place on January 1, 2020G):

	Walaa Insurance 2020G	SABB Takaful 2020G	Unified Pro-forma 2020G
Earnings per Share (SAR)	0.82	(0.92)	0.24

For further information about the increase and decrease in earnings per share, see Section No. (4.9) **(Increase or Decrease in Earnings per Share because of Merger Transaction)**.

**Summary and Details of the Merger Transaction**

**Reasons for Merger**

The main drivers of the merger revolve around competitive market share in the insurance sector, which is currently divided among 28 insurance companies. According to the Saudi Insurance Market Report for 2021G issued by the Saudi Central Bank, the 8 largest insurance companies accounted for 77.2% of the total insurance premiums written in 2021G, amounting to 42.03 billion Saudi Riyals. The market share of Walaa Insurance Company accounted for (5.6%) of the total written premiums in 2021G, the market share of SABB Takaful amounted to (0.5%) in the same year, and the combined market share of Walaa Insurance Company and SABB Takaful amounted to (6.1%). The insurance sector in the Kingdom of Saudi Arabia witnessed in 2020G, 2021G and the current year 2022G, several completed mergers between insurance companies, in addition to the announcement of two mergers that are still ongoing. The insurance sector is expected to witness more mergers, and given that one of the initiatives of the Financial Sector Development Program included encouraging and facilitating mergers in the insurance sector, which aims to sustain the sector's growth, stability and durability, increase its contribution to the Gross Domestic Product (GDP), diversify and digitize its products, and enhance innovation and competition. The proposed Merger Transaction of Walaa Insurance Company with SABB Takaful is expected to contribute to acquiring a larger market share, thus enhancing the competitive position of the merging company upon completion of the Merger Transaction. The members of the Board of Directors of Walaa Insurance Company believe that the experience possessed by the SABB Takaful team in terms of protection and savings insurance will add a positive point to improving the market share of the merging company with regard to the protection and savings insurance market in particular.

The motives of the Merger Transaction are summarized, for example, but not limited to the following:

- Increasing and diversifying the customer base,
- Improving the ability of the merging company to invest its fund,
- Reducing the ratio of operating expenses to gross written premiums,
- Improving the merging company's ability to negotiate rates with reinsurers,
- The ability of the merging company to provide insurance products covering all insurance sectors, especially the protection and savings insurance sector for individuals,
- Enhancing the geographical spread of the merging company's business, specifically in the Central District,
- Improving the capital of the merging company,
- Providing insurance products at more competitive prices in the long term,
- The ability of the merging company to maintain the current assessment in the short term and obtain a better assessment in the long term, by international financial rating agencies,
- Benefiting from the integration of administrative and technical expertise that may arise from the business merger, and
- Strengthening banking insurance sales channels and expanding the scope of marketing and selling insurance products through banks.

For further information about the reasons and motives for the Merger Transaction, see Section No. (4.2) **"The Motives of the Merger Transaction and the Implications for the Walaa Insurance Company"** of this circular.

**Summary of the Required Actions and Procedures**

The main steps for completing the Merger Transaction are as follows:

- Publishing the invitation to hold the extraordinary general assembly of Walaa Insurance Company and SABB Takaful for the Merger Transaction.
- Approval of Walaa Insurance Company shareholders during the extraordinary general assembly meeting of the Merger Transaction to increase the capital for merging SABB Takaful into Walaa Insurance Company
- Approval of SABB Takaful shareholders during the extraordinary general assembly meeting of the merger on the submitted offer by the Board of Directors of Walaa Insurance Company for merging SABB Takaful with Walaa Insurance Company in return for issuing new shares by Walaa Insurance Company for SABB Takaful shareholders.
- Publishing the decisions of the extraordinary general assembly of Walaa Insurance Company and SABB Takaful.
- Beginning of the creditors' objection period to the Merger Transaction, which will continue for a period of (30) days from the date of publishing the decisions of the extraordinary general assembly.
- The end of the creditors' objection period or the settlement of all creditors' objections to the Merger Transaction (whichever comes later) in accordance with the provisions of Article No. (193) of the Companies Law.
- Effectiveness of Merger Transaction.
- Issuing and registering the new shares in Walaa Insurance Company for SABB Takaful shareholders and its listing in the Saudi Stock Exchange .
- Cancellation of the listing of SABB Takaful's shares, transferring of all its assets and liabilities to Walaa Insurance Company, canceling the commercial register of SABB Takaful and all other licenses.



Summary and Details of the Merger Transaction	
<b>Entitlement to Profits / Dividend for New Shares</b>	After the completion of the Merger Transaction, the owners of the new shares (The eligible shareholders in SABB Takaful, i.e. the shareholders owning the issued shares in SABB Takaful on the effective date of the Merger Transaction) shall have all the rights related to the currently issued shares in the Walaa Insurance Company, in particular the right to receive any dividends that the merging company announces after completing the Merger Transaction.
<b>Required Approvals in connection with the Capital Increase</b>	<p>The Merger Transaction and the Capital Increase are conditional upon obtaining a number of approvals as follows:</p> <ul style="list-style-type: none"> <li>• The General Authority for Competition non-objection to the economic concentration arising from the Merger Transaction.</li> <li>• Approval of the Saudi Central Bank on the Merger Transaction and the capital increase of Walaa Insurance Company</li> <li>• The approval of the Saudi Stock Exchange on the request of the Walaa Insurance Company to list the new shares issued for the shareholders of SABB Takaful.</li> <li>• Approval of the Capital Market Authority (CMA) on the request of Walaa Insurance Company to increase the capital for merging SABB Takaful with Walaa Insurance Company and on publishing the offer document submitted by Walaa Insurance Company to the shareholders of SABB Takaful.</li> <li>• Approval of the Capital Market Authority (CMA) to hold the Extraordinary General Assembly of Walaa Insurance Company related to the Merger Transaction and the Extraordinary General Assembly of SABB Takaful related to the Merger Transaction.</li> <li>• Approval of the shareholders of Walaa Insurance Company and the shareholders of SABB Takaful to approve the Merger Transaction and the additional decisions.</li> </ul> <p>For further information on other conditions of the Merger and on the conditions that have been satisfied, see Section No. (6) ("<b>Legal Information</b>") of this Circular.</p>
<b>Voting Rights of the New Shares</b>	After completion of the Merger Transaction, the owners of the new shares (the shareholders of SABB Takaful) shall have all the rights related to the currently issued shares in Walaa Insurance Company, especially the voting rights on the decisions of the ordinary and extraordinary general assemblies in accordance with the provisions of the Companies Law and the bylaws of the merging company.
<b>Restrictions on the New Shares</b>	Except for obtaining the approval of the Saudi Central Bank and other relevant regulatory authorities regarding the dispositions of the founding shareholders and major shareholders of SABB Takaful, there are no restrictions or obligations imposed on the New Shares.

**Important Notice:** The proposed capital increase of Walaa Insurance Company is conditional on the approval of Walaa Insurance Company shareholders during the Walaa Insurance Company's extraordinary general assembly meeting of the Merger Transaction, in addition to the approval of the SABB Takaful shareholders during the Extraordinary General Assembly meeting of the Merger Transaction.

All shareholders of Walaa Insurance Company shall read this circular carefully (not only the shown above summary), before voting to approve or disapprove the Merger Transaction and the capital increase during the Walaa Insurance Company's Extraordinary General Assembly meeting of the Merger Transaction. The Shareholders shall carefully read and review both ("**Important Notice**") and Section No. (2) ("**Risk Factors**") before taking any decision in connection with the Merger Transaction.

## Important Dates and Milestones of Merger Transaction

The stated dates in the below tables are the final dates. The dates may change as they are based on several things, including the completion of the required quorum to hold the first extraordinary general meeting of the Walaa Insurance Company Section No. (6) "Legal Information" of this circular clarifies all the Merger Transaction Terms and Conditions. Walaa Insurance Company will announce on its website and/or on the Saudi Stock Exchange website any changes in the mentioned dates in the below timelines.

Event	Timeline / Date
<b>1- The Required Procedures in connection with the Extraordinary General Assembly</b>	
Submitting the final offer document to the Capital Market Authority (CMA) for approval of its publication.	02/01/1444H (Corresponding to 31/07/2022G)
Approval of the Capital Market Authority (CMA) of the capital increase request and the publication of the offer document.	12/01/1444H (Corresponding to 10/08/2022G)
Publishing the Shareholder Circular of Walaa Insurance Company and the addressed offer document to SABB Takaful shareholders.	17/01/1444H (Corresponding to 15/08/2022G)
Providing Walaa Insurance Company's available documents for inspection.	These documents shall be available from the date of publishing the shareholders' circular and the offer document until the end of the offer period (from Sunday to Thursday from nine am until five pm, excluding official holidays in the Kingdom).
Publishing the Circular of SABB Takaful Board of Directors.	19/01/1444H (Corresponding to 17/08/2022G)
Providing SABB Takaful's available documents for inspection.	These documents shall be available from the date of publishing SABB Takaful shareholders' circular until the end of the offer period (from Sunday to Thursday from nine am until five pm, excluding official holidays in the Kingdom).
Approval of the Capital Market Authority (CMA) to hold the Extraordinary General Assembly of Walaa Insurance Company and the Extraordinary General Assembly of the SABB Takaful for the Merger Transaction.	24/01/1444H (Corresponding to 22/08/2022G)
Announcing on the website of the Saudi Stock Exchange meeting invitation for the Extraordinary General Assembly of Walaa Insurance Company for the Merger Transaction (with an indication of the possibility of holding a second meeting one hour after the end of the specified period for convening the first meeting, in case the quorum required for holding the first meeting is not complete).	27/01/1444H (Corresponding to 25/08/2022G)
Announcing on the website of the Saudi Stock Exchange meeting invitation for the Extraordinary General Assembly of SABB Takaful for the Merger Transaction (with an indication of the possibility of holding a second meeting one hour after the end of the specified period for convening the first meeting, in case the quorum required for holding the first meeting is not complete).	27/01/1444H (Corresponding to 25/08/2022G)
Starting the electronic voting period for the shareholders in the Extraordinary General Assembly of Walaa Insurance Company	Starting from 16/02/1444H (Corresponding to 12/09/2022G) until the end of the Extraordinary General Assembly time
Starting the electronic voting period for the shareholders in the Extraordinary General Assembly of SABB Takaful.	Starting from 16/02/1444H (Corresponding to 12/09/2022G) until the end of the Extraordinary General Assembly time
The Extraordinary General Assembly of Walaa Insurance Company for the Merger Transaction (first meeting). The quorum of the assembly is complete in the presence of a number of shareholders representing at least half of the capital of Walaa Insurance Company	19/02/1444H (Corresponding to 15/09/2022G)

Event	Timeline / Date
Holding the Extraordinary General Assembly of Walaa Insurance Company for the Merger Transaction (the second meeting) in the event that the quorum required for the first meeting is not complete. The quorum for the second meeting will be complete in the presence of a number of shareholders representing at least a quarter of the capital of Walaa Insurance Company	One hour after the end of the specified period for convening the first extraordinary general assembly meeting in which the quorum required for its convening has not been reached.
The Extraordinary General Assembly of SABB Takaful for the Merger Transaction (first meeting). The quorum of the assembly is complete in the presence of a number of shareholders representing at least half of the capital of SABB Takaful	19/02/1444H (Corresponding to 15/09/2022G)
Holding the Extraordinary General Assembly of SABB Takaful for the Merger Transaction (the second meeting) in the event that the quorum required for the first meeting is not complete. The quorum for the second meeting will be complete in the presence of a number of shareholders representing at least a quarter of the capital of SABB Takaful	One hour after the end of the specified period for convening the first extraordinary general assembly meeting in which the quorum required for its convening has not been reached.
Publishing the Merger Transaction decision and other decisions taken at the first meeting or the second meeting of the extraordinary general assembly of Walaa Insurance Company regarding the merger on the website of the Saudi Stock Exchange (or announcing that the extraordinary general assembly will not be held in case the quorum is not achieved).	22/02/1444H (Corresponding to 18/09/2022G)
Publishing the Merger Transaction decision and other decisions taken at the first meeting or the second meeting of the extraordinary general assembly of SABB Takaful regarding the merger on the website of the Saudi Stock Exchange (or announcing that the extraordinary general assembly will not be held in case the quorum is not achieved).	22/02/1444H (Corresponding to 18/09/2022G)
<b>3- Procedures in case the quorum is not achieved for the first and second meetings of the extraordinary general assembly of both companies</b>	
Approval of the Capital Market (CMA) to hold the third Extraordinary General Meeting of Walaa Insurance Company for the Merger Transaction, and/or Approval of the Capital Market (CMA) to hold the third Extraordinary General Meeting of SABB Takaful for the Merger Transaction.	25/02/1444H (Corresponding to 21/09/2022G)
Announcing on Saudi Stock Exchange website the invitation for the third extraordinary general meeting of the Walaa Insurance Company for the Merger Transaction, and/or Announcing on Saudi Stock Exchange website the invitation for the third extraordinary general meeting of the SABB Takaful for the Merger Transaction	26/02/1444H (Corresponding to 22/09/2022G)
Starting the electronic voting period for the shareholders at the third extraordinary general meeting of Walaa Insurance Company, and/or starting the electronic voting period for the shareholders at the third extraordinary general meeting of SABB Takaful.	Starting from 14/03/1444H (Corresponding to 10/10/2022G) until the end of the Extraordinary General Assembly time.

Event	Timeline / Date
Holding the third Extraordinary General Assembly of Walaa Insurance Company related to the Merger Transaction, and/or the third extraordinary general meeting of SABB Takaful relating to the Merger Transaction. The quorum is achieved for the third meeting of the Extraordinary General Assembly, regardless of the number of shares represented therein.	17/03/1444H (Corresponding to 13/10/2022G)
The Merger Transaction decision and other decisions taken at the third extraordinary general assembly meeting of Walaa Insurance Company and/or SABB Takaful (as the case may be) shall be published on the Saudi Stock Exchange website.	20/03/1444H (Corresponding to 16/10/2022G)
<b>4- Creditor's Objection Period</b>	
Starting the Creditor's Objection Period	<ul style="list-style-type: none"> <li>22/02/1444H (Corresponding to 18/09/2022G) If a decision approving the Merger Transaction during the first or second extraordinary general assembly meeting of Walaa Insurance Company and SABB Takaful.</li> <li>20/03/1444H (Corresponding to 16/10/2022G) If a decision approving the Merger Transaction during the third extraordinary general assembly meeting of Walaa Insurance Company and SABB Takaful.</li> </ul> <p>The Creditors' Objection Period lasts for a period of (30) days.</p>
Reminder announcement from SABB Takaful about the end of the Creditors' Objection Period	<ul style="list-style-type: none"> <li>20/03/1444H (Corresponding to 16/10/2022G) If a decision approving the Merger Transaction during the first or second extraordinary general assembly meeting of Walaa Insurance Company and SABB Takaful.</li> <li>19/04/1444H (Corresponding to 13/11/2022G) If a decision approving the Merger Transaction during the third extraordinary general assembly meeting of Walaa Insurance Company and SABB Takaful.</li> </ul>
The End of the Creditors' Objection Period.	<ul style="list-style-type: none"> <li>22/03/1444H (Corresponding to 18/10/2022G) If a decision approving the Merger Transaction during the first or second extraordinary general assembly meeting of Walaa Insurance Company and SABB Takaful.</li> <li>21/04/1444H (Corresponding to 15/11/2022G) If a decision approving the Merger Transaction during the third extraordinary general assembly meeting of Walaa Insurance Company and SABB Takaful.</li> </ul>
SABB Takaful announces the presence or absence of creditors' objections.	<ul style="list-style-type: none"> <li>23/03/1444H (Corresponding to 19/10/2022G) If a decision approving the Merger Transaction during the first or second extraordinary general assembly meeting of Walaa Insurance Company and SABB Takaful.</li> <li>22/04/1444H (Corresponding to 16/11/2022G) If a decision approving the Merger Transaction during the third extraordinary general assembly meeting of Walaa Insurance Company and SABB Takaful.</li> </ul>
<b>2- Completion of Merger Transaction</b>	
Effectiveness of Merger Transaction Decision	<p>After the end of the Creditor's Objection Period or the date on which all Creditor's Objection to the Merger Transaction are settled (whichever comes later). It is expected the Merger Transaction decision will be effective on the Merger date:</p> <ul style="list-style-type: none"> <li>23/03/1444H (Corresponding to 19/10/2022G) If a decision approving the Merger Transaction during the first or second extraordinary general assembly meeting of Walaa Insurance Company and SABB Takaful.</li> <li>22/04/1444H (Corresponding to 16/11/2022G) If a decision approving the Merger Transaction during the third extraordinary general assembly meeting of Walaa Insurance Company and SABB Takaful.</li> </ul>

Event	Timeline / Date
Suspension of trading the shares of SABB Takaful	The first trading period after the entry into force of the Merger Transaction decision, and it is expected that this will take place on: <ul style="list-style-type: none"> <li>• 23/03/1444H (Corresponding to 19/10/2022G) If a decision approving the Merger Transaction during the first or second extraordinary general assembly meeting of Walaa Insurance Company and SABB Takaful.</li> <li>• 22/04/1444H (Corresponding to 16/11/2022G) If a decision approving the Merger Transaction during the third extraordinary general assembly meeting of Walaa Insurance Company and SABB Takaful.</li> </ul>
Walaa Insurance Company and SABB Takaful announce the implementation of the Merger Transaction decision.	<ul style="list-style-type: none"> <li>• 23/03/1444H (Corresponding to 19/10/2022G) If a decision approving the Merger Transaction during the first or second extraordinary general assembly meeting of Walaa Insurance Company and SABB Takaful.</li> <li>• 22/04/1444H (Corresponding to 16/11/2022G) If a decision approving the Merger Transaction during the third extraordinary general assembly meeting of Walaa Insurance Company and SABB Takaful.</li> </ul>
Delisting the shares of SABB Takaful from the Saudi Stock Exchange.	During a period, not less than the third trading period after the Merger Transaction decision becomes effective and not more than the sixth trading period after the Merger Transaction decision becomes effective.
Listing the new shares in the Saudi Stock Exchange and allocating them to the shareholders of SABB Takaful who are registered in the SABB Takaful shareholders register at the end of the second trading period after the merger decision became effective.	During a period, not less than the third trading period after the Merger Transaction decision becomes effective and not more than the sixth trading period after the Merger Transaction decision becomes effective.
Amending the commercial register and foreign investment license for Walaa Insurance Company	After completing the Merger Transaction, Walaa Insurance Company will submit a request to the Ministry of Commerce to amend its commercial registration, and it will submit a request to the Ministry of Investment to amend the foreign investment license for Walaa Insurance Company.
Cancellation of the commercial register of SABB Takaful.	After completing the Merger Transaction, Walaa Insurance Company will submit a request to the Ministry of Commerce to cancel and nullify the commercial registration of SABB Takaful.
Deadline for distributing the proceeds of the sale of the fractional shares that have been sold	Within a period not exceeding (30) days from the effective date of the merger decision. It is expected that this will take place on the date of the merger: <ul style="list-style-type: none"> <li>• 23/04/1444H (Corresponding to 17/11/2022G) If a decision approving the Merger Transaction during the first or second extraordinary general assembly meeting of Walaa Insurance Company and SABB Takaful.</li> <li>• 21/05/1444H (Corresponding to 15/12/2022G) If a decision approving the Merger Transaction during the third extraordinary general assembly meeting of Walaa Insurance Company and SABB Takaful.</li> </ul>

\* Note: Any changes in these dates will be announced on the Saudi Stock Exchange website ([www.tadawul.com.sa](http://www.tadawul.com.sa)).



# Table of Contents

Important Notice	i
Walaa Insurance Company Directory	iv
Summary of the Merger	viii
Important Dates and Milestones of Merger Transaction	xv
<b>1</b>	
Terms and Definitions	1
<b>2</b>	
Risk Factors	6
2.1 Risks related to the Merger Transaction and Issuance of New Shares	6
2.2 Risks Related to Change in the Existing Shareholders Ownership and Decrease in the Shares Voting Rights	10
2.3 Legal Risks Related to SABB Takaful	11
2.4 Commercial Risks Related to SABB Takaful	16
2.5 Operational Risks in the Merging Company	24
2.6 Risks Relating to the Insurance Market in the Kingdom of Saudi Arabia	31
<b>3</b>	
Economic and Market Information About the Insurance Sector and its Trends	34
3.1 Economy of the Kingdom of Saudi Arabia	34
3.2 Insurance Sector	35
<b>4</b>	
Merger Transaction	38
4.1 Merger Transaction Overview	38
4.2 Rationale of the Merger Transaction and the Implications for Walaa Insurance Company	40
4.3 The planned change in the board of directors of the merging company	41
4.4 About SABB Takaful Operations	43
4.5 Evaluation of Walaa Cooperative Insurance Company and SABB Takaful evaluation	50
4.6 Details of related parties who have a direct or indirect interest in the Merger Transaction	53
4.7 Ownership structure before and after the capital increase	53

4.8	Pro-forma Financial Statements of Walaa Cooperative Insurance Company for the Purpose of the Merger Transaction	55
4.9	Earnings per share increase/ decrease as a result of the Merger Transaction	61
4.10	Price of Walaa Insurance Company Shares	61

## 5

### Financial Information 62

5.1	Financial information and management's discussion and analysis	62
5.2	Outcomes of SABB Takaful's operations	75

## 6

### Legal Information 120

6.1	Acknowledgments of the board of directors of Walaa Insurance Company	120
6.2	Legal Wording of the Merger Transaction	120
6.3	Required approvals to complete the Merger Transaction	121
6.4	All contracts and agreements related to the Merger Transaction	123
6.5	Substantial terms and conditions, preconditions or undertakings contained in other documents or agreements related to the Merger Transaction	137
6.6	Details of any lawsuit or claim (including any existing or threatened lawsuit) that could substantially affect the business or financial position of Walaa Insurance Company	137
6.7	Details of any lawsuit or claim (including any existing or threatened lawsuit) that could substantially affect the business or financial position of SABB Takaful	138
6.8	Report on bankruptcies of any Board of Directors Member, proposed Board of Directors Member, Senior Executives or Secretary of the Board of Directors of Walaa Insurance Company	138
6.9	Report on any insolvencies in the last five years of a company, in which any Board of Directors Member, proposed Board of Directors Member, Senior Executives or Secretary of the Board of Directors of Walaa Insurance Company was appointed by the insolvent company in a managerial or supervisory position	138

## 7

### Expert Statements 139

8	Expenses	140
9	Exemptions	141
10	Documents Available for Inspection	142
11	Annexes	143
11.1	Annex 1: The annual financial statements of SABB Takaful Company during the three financial years ended on December 31, 2018G, , 2019G and 2020G, and the unaudited financial statements during the nine-month period in 2021G.	143
11.2	Annex 2: The pro forma financial statements of Walaa Insurance Company during the fiscal year ended on December 31, 2020G for the purpose of the Merger Transaction.	390
11.3	Annex 3: Opinion provided by the financial advisor	407
11.4	Annex 4: SABB Takaful's bylaws and its articles of association, including all amendments.	410
11.5	Annex 5: Proposed amendments to the bylaws of Walaa Insurance Company according to the Merger Transaction	444

## Tables

Table: Total receivables, taken provisions against those receivables, their ratio of total receivables, and average collection period.	17
Table of written premiums for the Group's portfolio by product for the financial years ended on December 31, 2018G, 2019G and 2020G.	18
Table of written premiums for the individual insurance portfolio by product for the financial years ended on December 31, 2018G, 2019G and 2020G	18
Population Indicators Table	34
Total Written Insurance Premiums Table	35
Table of depth of the insurance sector in GDP	36
Table of depth of the insurance sector in non-oil GDP	36
Insurance Sector Density Table	36
Detailed table of the workforce in the insurance sector in the Kingdom of Saudi Arabia	37
Table: Written Premiums for Individuals Portfolio by Product for the Financial Years Ended on December 31, 2018G, 2019G and 2020G.	44
Table: Written Premiums for Individuals Portfolio by Product for the Financial Years Ended on December 31, 2018G, 2019G and 2020G.	44
Table No. (5.1): The Comprehensive Income Statement for the fiscal years ended on December 31, 2018G, 2019G and 2020G and the nine-month period ended on September 30, 2020G and 2021G:	75
Table No. (5.2): Key Performance Indicators for the fiscal years ended on December 31, 2018G, 2019G and 2020G and the nine-month period ended on September 30, 2020G and 2021G:	79
Table No. (5.3): Total takaful underwritten contributions according to insurance channel during the fiscal years ended on December 31, 2018G, 2019G and 2020G, and the nine-month period ended on September 30, 2020G and 2021.	90
Table No. (5.4): Total takaful underwritten contributions according to sales channel during the fiscal years ended on December 31, 2018G, 2019G and 2020G, and the nine-month period ended on September 30, 2020G and 2021G.	92
Table No. (5.5): Ceded premiums according to insurance sector during the fiscal years ended on December 31, 2018G, 2019G and 2020G, and the nine-month period ended on September 30, 2020G and 2021G.	93
Table No. (5.6): Net incurred claims and other benefits during the fiscal years ended on December 31, 2018G, 2019G and 2020G, and the nine-month period ended on September 30, 2020G and 2021G.	94
Table No. (5.7): General and administrative expenses during the fiscal years ended on December 31, 2018G, 2019G and 2020G	95
Table No. (5.8): The financial position statement for the fiscal years ended on December 31, 2018G, 2019G and 2020G and the nine-month period ended on September 30, 2021G	98
Table No. (5.9): Key Performance Indicators for the fiscal years ended on December 31, 2018G, 2019G and 2020G and the nine-month period ended on September 30, 2020G and 2021G:	99

Table No. (5.10): Net Retakaful contributions and accounts receivable during the fiscal years ended on December 31, 2018G, 2019G and 2020G and the nine-month period ended on September 30, 2021G 109

Table No. (5.11): Available-for-sale investments were listed for the fiscal years ended on December 31, 2018G, 2019G and 2020G and during the nine-month period ended on September 30, 2021G 110

Table No. (5.12): Available-for-sale investments were listed for the fiscal years ended on December 31, 2018G, 2019G and 2020G and during the nine-month period ended on September 30, 2021G 110

Table No. (5.13): Held-to-Maturity Financial Assets - Investment in local equity shares during the fiscal years ended on December 31, 2018G, 2019G and 2020G and the nine-month period ended on September 30, 2021G 111

Table No. (5.14): Prepaid expenses and other assets during the fiscal years ended on December 31, 2018G, 2019G and 2020G and during the nine-month period ended on September 30, 2021G 112

Table No. (5.15): Receivables and other liabilities during the fiscal years ended on December 31, 2018G, 2019G and 2020G and during the nine-month period ended on September 30, 2021G 113

Table No. (5.16): The changes in SABB Takaful's provision for zakat and income tax during the fiscal years ended on December 31, 2018G, 2019G and 2020G and the nine-month period ended on September 30, 2021G 114

Table No. (5.17): Claims submitted during the fiscal years ended on December 31, 2018G, 2019G and 2020G and during the nine-month period ended on September 30, 2021G 115

Table No. (5.18): The changes in takaful activities reserve of SABB Takaful during the fiscal years ended on December 31, 2018G, 2019G and 2020G and the nine-month period ended on September 30, 2021G 116

Table No. (5.19): Solvency analysis conducted on December 31, 2018G, 2019G and 2020G and September 30, 2021G. 116



## 1

## Terms and Definitions

Term	Definition
<b>Circular or Shareholders' Circular</b>	This shareholder circular relating to the capital increase of Walaa Insurance Company by issuing new shares for merging SABB Takaful into Walaa Insurance Company, prepared by Walaa Insurance Company in accordance with Article No. (57) of the Rules on the Offer of Securities and Continuing Obligations.
<b>Walaa Insurance Company, Merging Company</b>	Walaa Insurance Company
<b>SABB Takaful or Merged Company</b>	SABB Takaful
<b>SABB Takaful Board of Directors' Circular</b>	The Issued Circular by SABB Takaful Board of Directors to SABB Takaful shareholders regarding the submitted offer by Walaa Insurance Company for merger, in which SABB Takaful Board of Directors expresses its opinion to SABB Takaful shareholders regarding that offer and Walaa Insurance Company's plans regarding SABB Takaful.
<b>Both Companies</b>	Walaa Insurance Company and SABB Takaful together.
<b>Memorandum of Understanding</b>	The non-binding memorandum of understanding entered into between Walaa Insurance Company and SABB Takaful on 04/12/1442H (corresponding to 14/07/2021G), and its appendix signed on 06/06/1443H (corresponding to 09/01/2022G).
<b>Merger Agreement</b>	The signed contract between Walaa Insurance Company and SABB Takaful on 23/07/1443H (corresponding to 24/02/2022G), which includes the terms and conditions related to the implementation of the Merger Transaction.
<b>Exchange ratio</b>	Number of the Issued Shares in the Walaa Insurance Company in favour of SABB Takaful shareholders for each one share of SABB Takaful, as specified as follows, (0.6005476176470590) of Walaa Insurance Company's shares for each one of SABB Takaful shares.
<b>Merger Transaction</b>	The proposed Merger Transaction between Walaa Insurance Company and SABB Takaful in accordance with the provisions of Article No. (191), (192) and (193) of the Companies Law and Article No. (49) (1) (a) of the Merger and Acquisition Regulations, through which all the assets and liabilities of SABB Takaful will be transferred to Walaa Insurance Company in return for Walaa Insurance Company issuing new shares for the benefit of SABB Takaful shareholders by increasing the capital of Walaa Insurance Company from (SAR 646,397,060) to (SAR 850,583,250).
<b>Offer Document</b>	The Prepared Offer Document by Walaa Insurance Company in accordance with Article No. (38) of the Merger and Acquisition Regulations regarding the offer made by Walaa Insurance Company to SABB Takaful shareholders for merging SABB Takaful with Walaa Insurance Company in exchange for transferring the assets and liabilities of SABB Takaful to Walaa Insurance Company
<b>Offer or Merger Offer</b>	The Offer related to the securities exchange as provided by Walaa Insurance Company to the SABB Takaful shareholders, including the Offer Document
<b>Offer Period</b>	The extending period from the date of announcing the firm intention of Walaa Insurance Company to make an offer to SABB Takaful shareholders until the issuing date of the extraordinary general assembly's decision regarding the Merger Transaction for each of the two companies, or the termination of the Merger Agreement in accordance with its provisions.
<b>Extraordinary General Assembly Meeting</b>	The Extraordinary General Assembly meeting of the shareholders of the relevant company, which is held in accordance with its Article of Association.

Term	Definition
<b>The Extraordinary General Assembly of Walaa Insurance Company for the Merger Transaction</b>	The Extraordinary General Assembly meeting of Walaa Insurance Company, which will be held to vote on the Merger Transaction and a number of other related decisions will be according to the following: <ol style="list-style-type: none"> <li>Voting on the terms and conditions of Merger Agreement.</li> <li>Voting on the capital increase of Walaa Insurance Company from six hundred and forty-six million, three hundred and ninety-seven thousand and sixty Saudi Riyals (SAR 646,397,060) to eight hundred and fifty million, five hundred and eighty-three thousand, two hundred and fifty Saudi Riyals (SAR 850,583,250), in accordance with the terms and conditions of the Merger Agreement (as detailed in Section No. (6.4) of this circular).</li> <li>Voting on the proposed amendments of the Bylaws for Walaa Insurance Company related to the Merger Transaction (which is contained in Appendix No. (5) "Proposed Amendments to the Bylaws of the Walaa Insurance Company related to the Merger Transaction" of this circular).</li> <li>Voting on authorizing Walaa Insurance Company Board of Directors or any authorized person by Walaa Insurance Company Board of Directors to issue any decision or take any action that may be necessary to implement any of the decisions related to the Merger Transaction.</li> </ol>
<b>The Extraordinary General Assembly of SABB Takaful for the Merger Transaction</b>	The Extraordinary General Assembly meeting of SABB Takaful, which will be held to vote on the submitted offer by Walaa Insurance Company and a number of other related decisions according to the following: <ol style="list-style-type: none"> <li>Voting on the provisions of the Merger Agreement (as detailed in Section No. (6.4) of this circular).</li> <li>Voting on authorizing SABB Takaful Board of Directors or any authorized person by SABB Takaful Board of Directors to issue any decision or take any action that may be necessary to implement any of the decisions related to the Merger Transaction.</li> </ol>
<b>Capital Increase</b>	The proposed increase in the capital of Walaa Insurance Company by issuing (20,418,619) Twenty Million, Four Hundred and Eighteen Thousand, Six Hundred and Nineteen shares for the benefit of SABB Takaful shareholders.
<b>Shares</b>	The issued ordinary shares of Walaa Insurance Company or SABB Takaful, which are fully paid in value, with a nominal value of (SAR 10) ten Saudi Riyals per share.
<b>New Shares or Consideration Shares</b>	The shares that will be issued in Walaa Insurance Company to SABB Takaful shareholders arising from the Merger Transaction amounting to (20,418,619) Twenty Million, Four Hundred and Eighteen Thousand, Six Hundred and Nineteen ordinary shares with a nominal value of (SAR 10) ten Saudi Riyals per share.
<b>Creditors' Objection Period</b>	The period in which the creditors of SABB Takaful shall submit their objections to the Merger Transaction in accordance with the provisions of Article No. (193) of the Companies Law. This period starts from the date of publishing the approval of the Merger Transaction decisions of both Walaa Insurance Company and SABB Takaful and continues for a period of (30) days.
<b>Effectiveness of Merger Transaction Decision or Effectiveness of Merger Transaction</b>	After the end of the creditors' objection period or the settlement of all the creditors' objections to the Merger Transaction (whichever comes later) in accordance with the provisions of Article No. (193) of the Companies Law.
<b>Completion of Merger Transaction</b>	The day on which the new shares are listed on the Saudi Stock Exchange in accordance with the terms and conditions of the Merger Agreement.
<b>Board or Board of Directors</b>	The Related Board of Directors
<b>Business Merger</b>	The businesses merger of Walaa Insurance Company and SABB Takaful (including the integration of administrative functions, organizational structure, information systems, etc.) to achieve the business of the merging company after the completion of the Merger Transaction.
<b>Senior Executives</b>	Any natural person who manages and is responsible for setting and implementing the strategic decisions of the company, including the CEO, its deputies and the chief financial officer.
<b>Substantial Shareholders</b>	A person who owns (5%) or more of the shares in a Walaa Insurance Company or in a SABB Takaful.
<b>Person</b>	Any natural or legal person.
<b>Financial Statements</b>	The audited financial statements of Walaa Insurance Company for the financial years ending on December 31, 2018G, 2019G and 2020G.
<b>Financial Year</b>	The Ended year ending December 31 of each Gregorian year.
<b>Shareholders</b>	Shareholders of Walaa Insurance Company or SABB Takaful, as the context requires.
<b>AI ALJAZIRA CAPITAL Company or ALJAZIRA CAPITAL</b>	AI ALJAZIRA CAPITAL Company ("ALJAZIRA CAPITAL") is the independent financial advisor to Walaa Insurance Company
<b>Financial and Tax Due Diligence Advisor</b>	PricewaterhouseCoopers is the independent Financial and Tax Due Diligence Advisor to Walaa Insurance Company

Term	Definition
<b>Actuarial Due Diligence Advisor</b>	BADRI Management Consultancy Co. FZCO is the independent Actuarial Due Diligence Advisor to Walaa Insurance Company
<b>Auditor of the Pro-forma Financial Statements</b>	Baker Tilly MKM & Co. Chartered Auditors
<b>Legal Advisor</b>	Khalif Al-Enezee Law Office is the independent legal advisor to Walaa Insurance Company
<b>Walaa Insurance Company Auditor</b>	El Sayed El Ayouty & Co. –Certified Public Auditors and Crowe Global / AIAzem, AISudairy, AIShaikh & Partners –Certified Public Auditors.
<b>Advisors</b>	Each of the financial advisor, legal advisor, financial professional due diligence advisor, actuarial advisor, pro-forma financial statement accountant and auditor together.
<b>Bylaws</b>	Bylaws of the related company.
<b>Saudi Riyals (SAR)</b>	Saudi Riyals (SAR) is the official currency in the Kingdom of Saudi Arabia
<b>Closing Price</b>	The last price of the share, that was traded at on the relevant trading day according to the specified mechanism by the Saudi Stock Exchange .
<b>Listing</b>	Listing securities in the Saudi Stock Exchange .
<b>Listed</b>	Shares or securities that have been accepted to be listed in the Saudi Stock Exchange .
<b>Related Parties</b>	<p>In the Rules on the Offer of Securities and Continuing Obligations, it means the following:</p> <ol style="list-style-type: none"> <li>1. Affiliates of the Issuer,</li> <li>2. Substantial Shareholders of the Issuer,</li> <li>3. Board of Directors and Senior Executives of the Issuer,</li> <li>4. Board of Directors and Senior Executives of affiliates of the issuer,</li> <li>5. Board of Directors and Senior Executives of Substantial Shareholders of the issuer, and</li> <li>6. Any relatives of persons described at (1), (2), (3), (4) or (5) above</li> <li>7. Any company controlled by any person described at (1), (2), (3), (4), (5), (6) or (7) above.</li> </ol> <p>In the Merger and Acquisition Regulations, it means a person (whether acting in agreement with the offeror or the offeree company or any of their subsidiaries, or not acting in agreement with them) who owns or deals, directly or indirectly, in the shares of the offeror or the offeree company, whether through a private sale and purchase transaction, offer, or any person (in addition to its ordinary interests as a shareholder) who has an interest or potential interest -whether personal, financial or commercial- in what will arise from the acquisition, merger, or a related party with both the offeror and the offeree company, in a manner that does not conflict with the general application of this definition. The definition includes, but is not limited to, the following:</p> <ol style="list-style-type: none"> <li>1. Any person(s) who has provided financial assistance (other than the ordinary course of business of a bank) to Walaa Insurance Company or SABB Takaful.</li> <li>2. The board members of Walaa Insurance Company or SABB Takaful (or any of their subsidiaries).</li> <li>3. Any person owning 20% of Walaa Insurance Company or SABB Takaful (whether individually or by acting in concert with other(s)).</li> </ol>
<b>Relatives</b>	In the Merger and Acquisition Regulations, it means the following: husband, wife, children and parents.
<b>Insurance Policy</b>	A contract under which the insurance company undertakes to compensate the insured if the damage or loss covered by the policy, in return for the paid membership by the insured to the insurance company.
<b>Insurance</b>	Transferring the burden of risk from the insured to the insurer (or insurance company) and compensating those who suffered damage or loss by the insurer (or insurance company).
<b>Intermediaries</b>	Insurance Intermediaries who negotiate with insurance companies to complete the insurance process for the insured in return for a fee.
<b>Bank Insurance Agreement</b>	A business arrangement whereby insurance products are marketed and distributed through a bank to its customers based on the agreement between the bank and the insurance company.
<b>Legal Deposit</b>	A ratio of the paid-up capital of the insurance company that shall be deducted as a deposit based on the executive regulations of the Cooperative Insurance Companies Control Law.
<b>Kingdom</b>	Kingdom of Saudi Arabia
<b>Central Bank or Saudi Central Bank</b>	Saudi Central Bank
<b>Ministry of Investment</b>	Ministry of Investment in the Kingdom of Saudi Arabia.
<b>Authority, Capital Market Authority or CMA</b>	The Capital Market Authority in the Kingdom of Saudi Arabia

Term	Definition
<b>General Authority for Competition</b>	The General Authority for Competition in the Kingdom of Saudi Arabia
<b>Saudi Stock Exchange or Saudi Stock Exchange</b>	The Saudi Stock Exchange Company is a Saudi Closed Joint Stock Company and the only entity authorized to engage in the listing and trading of securities in the Kingdom.
<b>Capital Market Law</b>	The Issued Capital Market Law in accordance with Royal Decree No. (M/30) dated on 02/06/1424H (corresponding to 31/07/2003G)
<b>Companies Law</b>	Companies Law issued by Royal Decree No. (M/3) dated on 28/01/1437H (corresponding to 11/11/2015G) and amended by Royal Decree No. (M/79) dated on 25/07/1439H (corresponding to 11/04/2018G)
<b>Cooperative Insurance Companies Control Law</b>	Cooperative Insurance Companies Control Law in the Kingdom of Saudi Arabia issued by Royal Decree No. (M/32) dated on 02/06/1424H (corresponding to 31/07/2003G), amended by Royal Decree No. (M/30) dated on 27/5/1434H (corresponding to 08/04/2013G), and amended by Royal Decree No. (M/12) dated on 23/01/1443H (corresponding to 01/09/2021G).
<b>Executive Regulations of Cooperative Insurance Companies Control Law</b>	The Executive Regulations of the Cooperative Insurance Companies Control Law in the Kingdom of Saudi Arabia issued by the Saudi Central Bank on 01/03/1425H (corresponding to 20/04/2004G).
<b>Corporate Governance Regulations</b>	Corporate Governance Regulations issued by the Board of the Capital Market Authority pursuant to Resolution No. (8-16-2017), dated on 16/05/1438H (corresponding to 13/02/2017G) based on the Companies Law issued by Royal Decree No. (M/3) dated on 28/01/1437H (corresponding to 11/11/2015G), and amended by Resolution Board of the Capital Market Authority No. (1-7-2021) dated on 01/06/1442H (corresponding to 14/01/2021G).
<b>Rules on the Offer of Securities and Continuing Obligations</b>	Rules on the Offer of Securities and Continuing Obligations issued by the Board of the Capital Market Authority pursuant to Resolution No. (3-123-2017), dated on 09/04/1439H (corresponding to 27/12/2017G) based on the Capital Market Law issued by Royal Decree No. (M/30) dated on 02/06/1424H (corresponding to 31/07/2003G), as amended by the decision of the Board of the Capital Market Authority No. (5-5-2022), dated on 02/06/1443H (corresponding to 05/01/2022G).
<b>Listing Rules</b>	Listing Rules with the Saudi Stock Exchange approved by the Capital Market Authority Board Resolution No. (3-123-2017), dated on 09/04/1439H (corresponding to 27/12/2017G), amended by Resolution No. (1-104-2019), dated on 01/02/1441H (corresponding to 30/09/2019G), amended by its Resolution No. (1-22-2021), dated on 12/07/1442H (corresponding to 24/02/2021G), amended by its Resolution No. (1-19-2022), dated on 12/07/1443H (corresponding to 13/02/2022G) and amended by its Resolution No. (1-52-2022), dated on 12/09/1443H (corresponding to 13/04/2022G).
<b>Merger and Acquisition Regulations</b>	Merger and Acquisition Regulations issued by the Board of the Capital Market Authority pursuant to Resolution No. (1-50-2007), dated on 21/09/1428H (corresponding to 02/10/2007G) and amended by Resolution No. (3-45-2018), dated on 07/08/1439H (Corresponding to 23/04/2018G).
<b>Social Insurance Law</b>	The Social Insurance Law issued by Royal Decree No. (M/22), dated on 06/09/1389H (corresponding to 15/11/1969G) and amended by Royal Decree No. (M/33), dated on 03/09/1421H (corresponding to 29/11/2000G), applicable as on 01/01/1422H (corresponding to 01/04/2001G).
<b>Reinsurance</b>	Transferring the burdens of insured risks from the insurer to the reinsurer, and compensating the insured by the reinsurer for the paid funds to the insured if they suffer damage or loss.
<b>Gross Insurance Premiums / Written Premiums</b>	The Gross Written Insurance Premiums during a specified period without deducting the insurance premiums assigned to the reinsurance companies.
<b>Insurance Premiums / Ceded Premiums</b>	The Ceded Insurance Premiums to reinsurance companies in the context of reinsurance operations.
<b>Net Insurance Premiums / Written Premiums</b>	The net insurance premiums for each branch are calculated after deducting what is related to it from reinsurance.
<b>Unearned Premiums</b>	Part of the written insurance premiums that covers risks related to subsequent financial periods.
<b>Outstanding Claims</b>	Claims and accidents that the insured has notified the insurance company about and that are still under investigation and have not been settled or paid, and they are equivalent to the value of the claimed losses by the insured based on the insurance amounts in the policy.
<b>Insurance Policy Acquisition Costs</b>	Gross of Insurance Policy Acquisition Costs, including commissions, administrative expenses and other costs attributable to insurance operations.
<b>Total Paid Claims</b>	The value of what the insurance company pays to the insured as compensation for the risks or damages according to the terms and conditions of the insurance policy.
<b>Net Paid Claims</b>	Total claims after deducting the share of reinsurers from those claims.
<b>Claims Settlement</b>	Procedures carried out by insurance companies, whether technical or legal, may delay the payment of claims to their beneficiaries from the policyholders in the same due period.

Term	Definition
<b>Changes in Outstanding Claims</b>	Provision for compensation claims under settlement represents the value of the compensations that have accrued during the period. Those claims are owed by the insurance company, but their value has not been paid until the date of preparing the financial statements.
<b>Incurred Claims but not reported</b>	The incurred amount on the insurer in favor of the insured arising from the claims that occurred and were not reported on the date of preparing the financial statements.
<b>Net Incurred Claims</b>	The paid claims during the period after making settlements for outstanding claims.
<b>Surplus of Takaful Operations</b>	The insurance company's net business outcomes from insurance, and represents the difference between total revenues and total costs and expenses.
<b>Allocation percentage</b>	Ceded Retakaful Premiums on written premiums.
<b>Insured</b>	The natural or legal person who concludes the insurance contract.
<b>Insurer</b>	The insurance company that accepts insurance contracts from the insured and undertakes compensation for the risks directly exposed to the insured.
<b>Claim</b>	A written notice given by the insured to the insurer requesting compensation for a covered accident under the terms of the insurance policy.
<b>Protection Insurance with Savings</b>	Insurance operations in which the insured pays an amount or sums, including the proceeds of savings, at a future date in return for the paid premiums by the insured.
<b>Health Insurance</b>	Insurance for medical costs, medicines, all medical and treatment services and supplies, and management of medical programs.
<b>General Insurance</b>	It includes marine insurance, which includes insurance on cargo and ship hulls, and engineering insurance, which covers contractors' risks, installation risks, constructions, electrical and electronic devices, machinery breakage, and other types of insurance.
<b>Vehicles Insurance</b>	Insurance against losses and liabilities related to vehicles, with the exception of transport risks.
<b>Statutory Reserves</b>	The amounts that the company shall deduct and allocate to cover its financial obligations.
<b>Technical Provisions</b>	Insurance responsibilities, which means the value placed to cover the expected risks arising from a set of policies and their financial obligations.
<b>Retention Rate</b>	A measure of the written premiums held by an insurance company, which may be obtained by dividing the net written premiums by the total written premiums.
<b>Loss Rate</b>	The ratio of net claims incurred to net premiums earned.
<b>Surplus Distribution</b>	The method by which the profit of an insurance or reinsurance company is distributed to policyholders.
<b>Insurance Power of Attorney</b>	A legal person who represents the insurer for a fee to attract and negotiate insurance contracts for the insurer.
<b>Group Portfolio or Group Insurance</b>	It is one of the insurance products divisions offered by SABB Takaful. It includes the following products: credit cards, group life insurance, personal finance, and home finance. These products are offered to institutional customers.
<b>Individual Portfolio or Individual Insurance</b>	It is one of the insurance products divisions offered by SABB Takaful. It includes the following products: Family Takaful for individuals (protection and savings), Education Takaful program, Investment Takaful program, Care Takaful program, Retirement Takaful program, Savings Takaful program, General Saving Takaful Program (Property and Accident), Houses Takaful Program, Personal Accident Takaful Program, Travel Takaful Program, Commercial Takaful, Cargo Takaful Program, Fire and All Risks Property Protection Takaful Program, Personal Accident Takaful Program for Groups, Group Takaful and Group Care Takaful Program.
<b>Investment Portfolio</b>	A company's investment portfolio is a complicated tool of investment that contains two or more assets.
<b>Marsh</b>	A global company that practices insurance brokerage.
<b>Stable</b>	Rating will not change.
<b>A.M. Best</b>	A.M. Best is an American credit rating agency specializing in the insurance sector worldwide.
<b>Standard &amp; Poor's Corporation (S&amp;P)</b>	Standard & Poor's Corporation (S&P) is an American agency specializing in the field of credit ratings.
<b>Moody's</b>	Moody's is an American credit rating agency.
<b>H (Hijri)</b>	Hijri calendar
<b>G (Gregorian)</b>	Gregorian calendar

## 2

# Risk Factors

Each shareholder in Walaa Insurance Company shall read this section related to the risk factors and carefully study all the stated information therein, before taking any decision of approval or rejection during the extraordinary general assembly meeting to vote on the Merger Transaction. Each shareholder in Walaa Insurance Company shall read and study all other information contained in this circular, not only the risk factors shown below. The mentioned risk factors in this circular may not include all the risks that Walaa Insurance Company may face currently or that were monitored before or on the date of the issuance of this circular. There may be additional risk factors other than the mentioned risks in this section. These risks may negatively affect the merging company, but they are either not known to the Board of Directors of Walaa Insurance Company at the date of this circular, or they are not considered among the factors that may affect the Merger Transaction on the date of this circular.

Any of the contained risks in this section will adversely affect the activity of Walaa Insurance Company, its financial position, operations outcomes, future financial flows and profitability of its shares. The realization of any other risks (other than the mentioned below risks) either because the board of directors of Walaa Insurance Company is not aware of them at present. Those risks may not be considered to be material at the issuing date of this circular will also adversely affect the merging company's activity, financial position, financial flows, operations outcomes and profitability of its shares.

The realization of any of the mentioned risks in this section will adversely affect the merging company's activity, its financial position, its operations outcomes, its financial flows, its future expectations and its share profitability. The arrangement presentation of the contained risks in this section does not reflect the order of importance of these risks.

## 2.1 Risks related to the Merger Transaction and Issuance of New Shares

### 2.1.1 Risks associated with not achieving the Desired Value Added from the Merger Transaction

The main motives for completing the Merger Transaction represented in the expected benefits to be achieved from the Merger Transaction of SABB Takaful with Walaa Insurance Company, as explained in Section No. 4.2.2 "**Merger Transaction Motives and Implications for Walaa Insurance Company**" of this circular, with future expectations that cannot be given assurances of their realization or achieve any of the desired results. One of the risks related to the Merger Transaction is the failure of the merging company to achieve the targeted growth opportunities and other benefits within the expected period or according to the currently expected mechanism (or the merging company's failure to achieve them in any way). In addition, the benefits and advantages of the Merger Transaction as set out in this circular are based on forward-looking expectations that cannot be guaranteed to be achieved or achieve any of the desired results and outcomes. Failure to achieve the desired positive results from the Merger Transaction, in whole or in part, will have negative repercussions on the financial performance of the merging company, the outcomes of its operations and the value of its shares after completing the Merger Transaction. This circular contains future data and information related to SABB Takaful and the expectations of the Board of Directors of Walaa Insurance Company regarding the Merger Transaction. Knowing that these data and information are based on expectations, estimates, perceptions and information currently available to the Board of Directors of Walaa Insurance Company This data includes, but not limited to, information about the strategies, plans, objectives, expenditures, expectations and assumptions relating to SABB Takaful. These statements reflect the current vision regarding the future events of the merging company. These statements and information shall not be considered as a guarantee of future performance or consistency with the future strategic plans of the merging company. This data may include certain risks and situations that cannot be foreseen. Some forward-looking statements are also based on assumptions regarding future events. Accordingly, it may prove incorrect or inaccurate any of the assumptions that were used. Several factors may cause the merging company's expectations to differ materially from any future results, performance and/or achievements referred to expressly and/or impliedly in the forward-looking statements. These factors include, but not limited to, the following: changes in the current conditions in light of the spread of the Corona pandemic and its health consequences, changes in the general commercial, economic and political conditions in the Kingdom of Saudi Arabia, modification of government regulations and policies or any other governmental or semi-governmental activities in the Kingdom, existence of an environment with unpredictable competitive prices, changes in the currency exchange rate, interest rate and inflation rate, the merging company failure to acquire a larger market share or to provide



a new insurance product for the merging company or the occurrence of modifications in the commercial strategy of the merging company and many other factors. Many of these factors are related to the macro economy. Accordingly, these factors are outside the merging company's control. Actual results may differ materially from results based on expectations, projections, estimates or future plans. If any of these risks materializes, it will have a negative impact on the merging company, its financial position, its operations outcomes and future prospects after completing the Merger Transaction.

## 2.1.2 Risks Related to Evaluation Process of the exchange ratio of the Merger Transaction

The number of the issued shares by Walaa Insurance Company in accordance with the capital increase in favor of the shareholders of SABB Takaful was determined based on a financial evaluation made on the two companies. According to this evaluation, the share exchange ratio between the merging company and the merged company was also determined, i.e. (0.6005476176470590) shares in Walaa Insurance Company for each share owned in SABB Takaful. The exchange ratio and the final evaluation value for each of the Walaa Insurance Company and SABB Takaful were determined based on a financial evaluation conducted on each of the two mentioned companies. The evaluation process was conducted based on the book value of the two companies after making the necessary professional due diligence adjustments and the fair value of the assets as in the published financial statements for the third quarter of 2021G. Noting that the process of necessary professional due diligence and supporting documents for the assets fair value that were used in evaluating both Walaa Insurance and SABB Takaful companies in its light, were based on what each company provided to the relevant advisors. Any concealment or obscuration of any of the disclosed information materially affects the evaluation process and related amendments. In addition, it has been assumed that the published financial statements are correct and fair and reflect the correct financial position of the two companies without checking their validity. Any difference or error in the financial statements may not reflect the true value of the two companies. There is an ongoing risk arising due to the possibility of changing the factors and assumptions on which the evaluation and the determination of the exchange ratio agreed in the Merger Agreement may change. This is due to the fact that since 23/07/1443H (corresponding to 24/02/2022G) (which is the date of signing the Merger Agreement), each of the two companies has carried out their usual operations. The normal operating practices of both companies will continue until the completion of the Merger Transaction, which makes the financial position of both companies subject to change. In addition, any changes in political, economic and/or other conditions that may affect the financial position of any of the two companies, which will affect the evaluation of each of the two companies. The agreed exchange ratio may not reflect the fair value at the completion date of the Merger Transaction. For further information, see Section No. (4.5) "Evaluation of Walaa Insurance Company and SABB Takaful" of this circular.

## 2.1.3 Risks Related to Integration Process after Completing the Merger Transaction

The Merger Transaction requires preparing a clear mechanism and a dedicated work team to ensure the proper integration of all human and material elements for both Walaa Insurance Company and SABB Takaful. Walaa Insurance Company and SABB Takaful formed a team of executives to develop a plan for organizing the business merger. After the Merger Transaction completion, the integration process will generate many coordinated procedures and steps to be implemented successfully. This matter may not be available due to the possibility of different mechanisms and methods of work applied by each of the two companies. If Walaa Insurance Company is unable to deal with and effectively manage the business merger mechanisms, the business and productivity of the merging company will be affected upon completion of the Merger Transaction. This will lead to the failure to realize the expected benefits from the Merger Transaction, and thus adversely affect the merging company's business, profits, costs, net income, assets, obligations and future expectations, and the consolidated financial results and operations outcomes after completing the Merger Transaction.

In the same context, SABB Takaful was established as a branch of Saudi British Bank, until the date of its separation and registration as an independent company under the Main Commercial Register No. (1010234032), issued on 20/05/1428H (corresponding to 06/06/2007G). Accordingly, SABB Takaful, as at the date of this circular, is still largely dependent in terms of its operations on the support services provided to it by Saudi British Bank, especially under the following agreements:

- The signed lease agreement between SABB Takaful and Saudi British Bank according to which Saudi British Bank leases one of its offices to SABB Takaful to use it as its headquarter.
- Services Assignment Agreement related to Information Security that the Saudi British Bank will provide cyber security services to SABB Takaful,
- Technical Services Agreement whereby the Saudi British Bank will provide a number of technical support services to SABB Takaful,
- Bank Insurance Agreement,
- Joint Customer Information Exchange Agreement for the Saudi British Bank and SABB Takaful.



The merging company shall ensure the transfer of these services by maintaining the above-mentioned agreements or by replacing them with a form that secures business integration and merger. The merging company failure to replace the services provided to SABB Takaful by Saudi British Bank under the aforementioned agreements may adversely affect the transferred operations and businesses to the company from SABB Takaful after completing the Merger Transaction, which may be considered as an obstacle to the integration, merger and unification of the business of the merging company with the business of the merged company. In this context, the existing transactions between the two parties under the bank insurance agreement are not exclusive. SABB Takaful may enter into a bank insurance agreement with one or more banks. The Saudi British Bank shall have the right to sign a similar agreement with one or more insurance companies. The bank insurance agreement shall not obligate the Saudi British Bank to have a minimum number of sales or results that it is obligated to achieve. If a decrease in sales related to the bank insurance agreement, it will adversely affect the merging company's business, profits, costs, net income, assets, liabilities and future prospects.

#### 2.1.4 Risks Related to the Announcement Impact of the Merger Transaction on the Business of the Two Companies

The announcement of the Merger Transaction may lead to all of the following: (a) shifting the focus of the management of Walaa Insurance Company and SABB Takaful to work on completing the Merger Transaction. This matter may affect the level of service provided to existing or potential customers of the two companies, which may lead them not to deal with the two companies, (b) the emergence of fear and instability among the main employees and managers of the two companies in terms of the possibility of losing their jobs after the completion of the Merger Transaction. The two companies' failure to deal with and effectively manage these potential repercussions will have a negative impact on the businesses of the two companies, their productivity and their financial results.

#### 2.1.5 Risks Related to Merger Transaction or its Delay Due to Procedures related to the Creditor Objection Period

To complete the Merger Transaction, the creditors' objection period referred to in Article No. (193) of the Companies Law has expired. Any submitted objections during shall be settled in accordance with the provisions of the Companies Law. The creditors of SABB Takaful shall have the right to object to the Merger Transaction within a period of 30 days from the date of publishing the approval of the Merger Transaction decisions for each of the two companies. If the creditors submit an objection, the Merger Transaction will be suspended until the creditor waives its objection or SABB Takaful pays the debt if it is immediate or provides sufficient guarantee to pay off the debt if the debt is deferred. For further information on the creditors' objection period, see Section No. (6.3.3) of this circular.

If the Merger Transaction completion is delayed due to the creditors' objection period and the procedures for dealing with potential debts, this will lead to the non-realization of the desired benefits from the Merger Transaction, delay in their realization or lead to an increase in the costs associated with the Merger Transaction. This may adversely affect the business of Walaa Insurance Company, its profits, costs, net income, assets and liabilities and its future expectations and the consolidated financial results and operations outcomes after completing the Merger Transaction.

#### 2.1.6 Risks Related the Merging Company's Different Will to be exposed to Risks

The merging company's desire to be exposed to risks may differ from that of Walaa Insurance Company or the current SABB Takaful. The risk management department for each company shall evaluate these risks independently. The Merger Transaction may lead to a different orientation of the merging company with regard to exposure to risks (decreased or increased risk expose desire) with regard to targeting certain categories of customers or the general policy in dealing with customers as in managing investment portfolios and the policy of investments in a category of categories, which leads to reducing the services and products provided to them. Accordingly, if the merging company's low desire to be exposed to risks, the merging company may not renew insurance policies with some customers in some categories who do not comply with the appropriate risk exposure ratio for the merging company at the time, or reduce interest in them. If the merging company's desire to be exposed to risks increases, the merging company may renew or provide insurance policies with some high-risk customers, which adversely affects the merging company's business, profits, costs, net income, assets, liabilities and future expectations.

## 2.1.7 Risks Related to Walaa Insurance Company's Share Price and its Rise in the Market compared to the Agreed Evaluation

According to the Merger Agreement, Walaa Insurance Company and SABB Takaful have agreed upon the exchange ratio, which determines the shares number that SABB Takaful shareholders will obtain in the merging company upon the implementation of the Merger Transaction. The share exchange ratio was determined as follows: (0.6005476176470590) shares in Walaa Insurance Company for each owned share in SABB Takaful. The total value of the consideration shares was determined according to the closing price of the Walaa Insurance Company share, which is (SAR 17.90) as on (22/07/1443H) (corresponding to 23/02/2022G) (which is the last trading day preceding the date of completing the Merger Agreement, is (SAR 365,493,280). (For further information about the evaluation process, see Section (4.5) "Evaluation of Walaa Insurance Company and SABB Takaful" of this circular). After determining the closing price for Walaa Insurance Company's share (which is the closing price for the last trading day prior to the date of concluding the Merger Agreement) described above, the other Merger Transaction procedures have been completed (such as completing the procedures for preparing the required documents by government authorities to obtain the necessary approvals, and starting to review documents by the relevant government authorities, and other normal requirements for all mergers and acquisitions that take place through the issuance of new shares). During that period between the closing price of the share to the last trading day prior to the date of concluding the Merger Agreement and completing the required procedures to complete the Merger Transaction, the share price of Walaa Insurance Company witnessed a decline in the Saudi Stock Market. Whereas, the share price of Walaa Insurance Company, as on 16/01/1444H (corresponding to 14/08/2022G) (which is the last trading day prior to publishing the circular), amounted to (SAR 15.72) (a decrease of 12.2% from the share price of Walaa Insurance Company on the last trading day prior to concluding the Merger Agreement).

Walaa Insurance Company's share price may increase or decrease until the date of the completion of the Merger Transaction (that is, the date on which new shares are issued to the shareholders of SABB Takaful in the merging company upon the effectiveness of the Merger Transaction). The Merger Agreement did not stipulate that the number of new shares will be changed based on the change in the share price of Walaa Insurance Company, as the evaluation of Walaa Insurance Company and the evaluation of SABB Takaful was approved as in the Merger Agreement signed on 23/07/1443H (corresponding to 24/02/2022G). (Final Agreement for Completing the Merger Transaction). The of Walaa Insurance Company's share price and SABB Takaful's share price were not used during the evaluation process. Failure to use the Walaa Insurance Company's share price during the evaluation process and setting the exchange ratio, this will lead to dividing the profits of the merging company over a larger number of shares. The profitability of each share for Walaa Insurance Company shareholders will decrease due to the division of profits by more shares after completing the Merger Transaction; thus, adversely affecting the price of the Merging Company's price.

## 2.1.8 Risks Related to the Provided Opinion of the Financial Advisor to Walaa Insurance Company

The Board of Directors of Walaa Insurance Company received on 23/07/1443H (corresponding to 24/02/2022G) an opinion from the financial advisor of Walaa Insurance Company ("ALJAZIRA CAPITAL") stating that the financial advisor to Walaa Insurance Company ("ALJAZIRA CAPITAL") believes that the exchange ratio is fair for Walaa Insurance Company from a financial point of view as on the date of submitting the opinion, in accordance with the described factors and assumptions in the opinion. The financial advisor of Walaa Insurance Company ("ALJAZIRA CAPITAL") has not verified the accuracy and validity of this information and data. Therefore, its validity or accuracy cannot be guaranteed, on which the financial advisor's opinion of Walaa Insurance Company ("ALJAZIRA CAPITAL") was based regarding the evaluation of the Merger Transaction. (For further information about the opinion, see Appendix No. (3) of this circular). The opinion submitted by the financial advisor of Walaa Insurance Company ("ALJAZIRA CAPITAL") will not be updated. There is no guarantee that the financial advisor of Walaa Insurance Company ("ALJAZIRA CAPITAL") will have the same opinion about the fairness of the exchange ratio on the date of the Extraordinary General Assembly meeting of Walaa Insurance Company for the Merger Transaction. This is due to the possibility of changing the factors and assumptions on which the opinion was based on the date of its submission, or for the incorrectness of the provided information and data to the financial advisor to Walaa Insurance Company ("ALJAZIRA CAPITAL"). The financial advisor opinion of Walaa Insurance Company may not reflect the fair value of the exchange ratio for Walaa Insurance Company, which will lead to the issuance of more shares for SABB Takaful shareholders. This may lead to the division of the merging company's profits over a larger number of shares. Noting that the profitability of each share for the shareholders of Walaa Insurance Company will decrease due to the division of profits by more shares after completing the Merger Transaction; thus, adversely affecting the price of the Merging Company's share.

## 2.2 Risks Related to Change in the Existing Shareholders Ownership and Decrease in the Shares Voting Rights

### 2.2.1 Risks Related to Change in the Existing Shareholders Ownership and Decrease in the Accompanying Voting Rights

The Merger Transaction will take place through a securities exchange offer. Walaa Insurance Company will issue new shares to the shareholders of SABB Takaful in exchange for transferring all SABB Takaful's assets and liabilities to Walaa Insurance Company. According to the completion of the Merger Transaction, the ownership ratio of SABB Takaful shareholders in Walaa Insurance Company will become (24.01%), and in conjunction with that, the ownership ratio of the current shareholders in Walaa Insurance Company will decrease to (75.99%), while their ownership represented 100% before the Merger Transaction. Their ability to influence decisions that require the approval of the merging company shareholders, including selection the members of the merging company board of directors and other important strategic decisions of the acquiring company will be reduced. In addition, their share of the net profit of the merging company will decrease.

### 2.2.2 Risks Related to Change of Substantial Shareholders in Walaa Insurance Company

Upon completion of the Merger Transaction, SABB Takaful shareholders will own (24.01%) of Walaa Insurance Company capital, while, the Saudi British Bank will own (15.60%) of the merging company. American Life Insurance Company will not become a substantial shareholder of Walaa Insurance Company upon the completion of the Merger Transaction. Its ownership ratio will decrease less than (5%). Specifically, its ownership ratio will become (4.18%) of the merging company. Therefore, the Company will no longer be a substantial shareholder of Walaa Insurance Company Arab National Bank will not become a substantial shareholder of Walaa Insurance Company upon completion of the Merger Transaction. Its ownership ratio will decrease less than (5%). Its ownership ratio will become (4.17%) from the merging company. Therefore, the Bank will not be a substantial shareholder of Walaa Insurance Company. Upon completion of the Merger Transaction, the Saudi British Bank will become the only substantial shareholder in the merging company as on the date of this circular, which means that not all existing substantial shareholders in Walaa Insurance Company will become substantial shareholders of the merging company. Therefore, the Merger Transaction will lead to a decrease in the ownership ratio of the current shareholders in Walaa Insurance Company. The Saudi British Bank will become the only substantial shareholder representing the largest number of votes. This will allow the bank to influence the decisions of the Ordinary General Assembly and the Extraordinary General Assembly of the Walaa Insurance Company, including decisions to increase, reduce and merge the capital with another company, appoint auditors for the merging company, approve its financial statements, and appoint members of the board of directors of the merging company.

### 2.2.3 Risks Related to Possible Fluctuations in the Share Price of Walaa Insurance Company until Completing the Merger Transaction

The Walaa Insurance Company's share price may be subject to a large degree of fluctuation until the completion of the Merger Transaction, as a result of the announcement of the Merger Transaction, or the completion of other Merger Transaction procedures, for example, but not limited to, such as the creditors' objection period. During that period between the approval of the Extraordinary General Assembly of Walaa Insurance Company and SABB Takaful, each separately, on the Merger Transaction and the completion of the remaining required procedures to complete the Merger Transaction, the share price of Walaa Insurance Company may be exposed to a large degree of fluctuation. Walaa Insurance Company's share price may subject to increase or decrease until the date of the completion of the Merger Transaction. Accordingly, Walaa Insurance Company's share price at the time of completing the Merger Transaction may differ significantly from its price at the time of publishing this circular, which will affect the market value of Walaa Insurance Company's shares.

### 2.2.4 Risks Related to Sell a Large Number of Shares

Selling a large number of shares in the merging company after the capital increase, especially by the substantial shareholders of SABB Takaful (in particular, the shares that will be issued in favor of the Saudi British Bank at a rate of (15.60%) of the merging company's capital) in the Saudi stock market after completing the Merger Transaction or the expectation of such a transaction, will adversely affect the share price of the merging company in the Saudi financial market. There is no guarantee that these shareholders will retain their shares in the merging company. It is notable that SABB (Saudi British Bank) must obtain the approval of the Saudi Central Bank and other relevant regulatory authorities regarding the disposition of shares that will be issued in its favour.

## 2.2.5 Risks Related to the Current and Past Trading Patterns of Walaa Insurance Company's Shares and Trading Based on the Past Performance of Walaa Insurance Company's Shares

Noting that the previous performance of the Walaa Insurance Company's share is independent and differs from the performance of the Walaa Insurance Company's share after completing the Merger Transaction (and may not be similar in any way). The shareholder base of Walaa Insurance Company after completing the Merger Transaction will differ from the base of its shareholders before completing the Merger Transaction, which will result in a difference in the patterns of share trading compared to the patterns of trading before completing the Merger Transaction, which will affect the share price of Walaa Insurance Company

## 2.2.6 Risks Relate to Decrease in Earnings per Share Arising from the Merger Transaction

The future earnings per share in the Walaa Insurance Company depend on several factors, including the profitability of the Walaa Insurance Company and its ability to maintain its good financial position, capital needs, distributable reserves, credit strength, and general economic conditions. The Pro-forma Financial Statements have shown that increasing the capital of Walaa Insurance Company for merging SABB Takaful into Walaa Insurance Company and transferring the assets and liabilities of SABB Takaful to Walaa Insurance Company, leads to a decrease in earnings per share once the merger. The earnings per share of Walaa Insurance Company amounted to 0.82 Saudi Riyals on 2020G. The earnings per share of the merging company after completing the Merger Transaction amounted to 0.24 Saudi Riyals, as in the pro-forma-consolidated financial statement for 2020G. In addition, the intended value of the Merger Transaction (described in Section No. 4.2.2 "**Merger Transaction Motives and Implications for Walaa Insurance Company**" of this circular) may not be realized, which may result in lower earnings per share in the future. The merging company profits will be distributed to a larger number of outstanding shares, arising from the capital increase of Walaa Insurance Company by issuing consideration shares for the shareholders of SABB Takaful.

## 2.3 Legal Risks Related to SABB Takaful

### 2.3.1 Risks related to dealing with relevant Parties and the Governance Requirements for such dealings

The due diligence inspection report has indicated that SABB Takaful has signed a number of agreements with relevant parties, namely with SABB (which is regarded as one of the relevant parties by virtue of provisions of the two Articles 42 and 43 of the Corporate governance regulations regarded as one of the major stakeholders of the relevant parties). This is besides HSBC Saudi Arabia which is regarded as one of the relevant parties due to being entitled to the authority to affect the decisions issued by SABB Takaful indirectly due to being a subsidiary of SABB. Therefore, all agreements signed by SABB and HSBC Saudi Arabia are subject to the disclosure conditions for conflict of interests besides the previous licensing condition issued by the Stakeholders General Assembly along with refraining the party relevant for conflict of interests (Any Board Member or the Stakeholder) from voting on the decisions related to the contracts signed between him/ her and SABB Takaful. Dealings between SABB Takaful and SABB have included Bank Insurance Agreement (Automatically renewable if it not rescinded by one of its parties and which is still effective as of the date of such Circular), besides a Lease Agreement of SABB Takaful Center located in Riyadh, Al Malaz, Setteen street (Effective as of 07/06/1444H (corresponding to 31/12/2022G) provided that it will be automatically renewable if not rescinded by one of the parties), Services Assignment Agreements related to Information Technology (Automatically renewable if they are not rescinded by one of the parties and which are still effective as from the date of such Circular). In addition to a number of insurance policies included among the standard insurance services frame provided by SABB Takaful. Regarding dealings between SABB Takaful and HSBC Saudi Arabia that allow the legal consultant of Walaa Insurance Company to access and review it, they are regarded as Investments Management Agreement and an Insurance policy that falls within the insurance services frame provided by SABB Takaful. In the light of the statement of SABB Takaful and in accordance with the minutes of General Assembly meetings reviewed by the latter, it is indicated to the legal consultant working for Walaa Insurance Company that the General Assembly of SABB Takaful certified all dealings of SABB Takaful with relevant parties referred to in the General Assembly's meetings held on 13/05/2019G, 15/10/2020G, and 24/06/2021G except the Lease Agreement and Bank Insurance Agreement referred to above. Besides, the Lease Agreement and Bank Insurance Agreement mentioned above are continuous obligations transferred to the merging company after completing the Merger Transaction unless rescinded explicitly.

If the Administration of SABB Takaful violated the disclosure of all current dealings with the relevant parties and violated obtaining the ratification of the General Assembly, this will be regarded as a violation of terms of Companies' systems and Governance law of the companies included besides terms of the governance law of insurance companies; namely, terms related to Conflict of interests. This will force SABB Takaful to take one or more of the following procedures: Appointing one or more consultants to advise SABB Takaful regarding how to manage its businesses and/ or suspending any member

of SABB Takaful's Board of Directors or any employee in case it was proven that he/ she was liable for the violation and/ or prohibiting SABB Takaful from accepting new subscribers, investors, or participants in any of its insurance activities or to limit this in case it is indicated to the Saudi Central Bank that any insurance company or any of the reinsurance companies has violated the terms related to the cooperative insurance companies surveillance system or its executive regulation or that it has followed a policy that will gravely affect its capability to fulfill its obligations.

In case the Merger Transaction has been completed, the merging company will be liable, before all regulatory entities and/ or any other party, for any violation committed by SABB Takaful before the Merger Transaction which includes dealings with relevant parties without obtaining the consent of Stakeholders Ordinary General Assembly and/ or ratification of the Board of Directors. The Merging Company shall abide by systems and regulations of the Corporate Governance. It is noteworthy that if the dealings and agreements are not entered with relevant parties in the future on a mere commercial basis considering the interests of the Merging Company, or some or all of such dealings and agreements were not accepted by the Stakeholders Ordinary General Assembly in the Merging Company, the Merging company will be liable for paying any penalties and/ or compensations emerging out of the violations committed from SABB Takaful side before the Merger Transaction and/ or violations committed after the Merger Transaction. In case this takes place, this will affect the businesses of the merging company and its financial status negatively after the completion of the Merger Transaction.

### 2.3.2 Risks Related to Compliance with the Laws of the Saudi Central Bank

Outsourcing Regulation related to the insurance companies, the reinsurance companies, and the self-employed issued by the General Administration for Control over the insurance companies in the Saudi Central Bank, requires obtaining no objection of the Saudi Central Bank before the insurance companies sign the contracts assigning the core tasks. In this regard and in the light of the subsequent inspection visit conducted by the representatives of the Saudi Central Bank towards SABB Takaful, a letter was sent to SABB Takaful on 30/11/1441H (corresponding to 21/07/2020G) from the Saudi Central Bank including the enumeration of a number of violations for instance: SABB Takaful Administration failure to abide by determining a strategy and a mechanism for attracting and hiring the leader and executive employees. In addition, SABB Takaful depends on SABB, an agreement shall be concluded between SABB Takaful and SABB including a number of technical and non-technical services for SABB Takaful. This stipulates the assignment of a number of core tasks to SABB without receiving a prior no objection from the Saudi Central Bank

SABB Takaful has signed a number of agreements with services providers including a Services Assignment Agreement related to the information technology risks with SABB without obtaining no objection from the Saudi Central Bank. During the due diligence inspection phase, SABB Takaful has mentioned that the aforementioned agreement does not contain the assignment of core tasks. Therefore, it is not necessary to obtain no objection from the Saudi Central Bank. However, nothing proves the legal validity hereof due to the fact that services related to information technology systems are core services (according to clause (45-G) from the annex attached to the Outsourcing Regulation of the insurance companies, reinsurance companies, and the self-employed) whereas the insurance companies are not allowed to assign them to third parties except after obtaining no objection from Saudi Central Bank by virtue of provisions of clause 35 of section (C) of the aforementioned Outsourcing Regulation.

In addition to the Agreements signed with SABB, SABB Takaful has signed agreements for implementing training programs with both Al Jonah Training Center, Al-Mujaz Education & Training, and CSTC for Training without obtaining no objection from the Saudi Central Bank concerning any of those agreements. SABB Takaful has already stated that the abovementioned agreements are not regarded as core tasks. In this regard, it is noteworthy that Employees Training services are examples of arrangements concerning the assignment of notable core tasks in the annex of the Outsourcing Regulation (especially in paragraph (C) hereof). It is also noteworthy that the abovementioned agreements do not include a number of clauses for which the Outsourcing Regulations have stated the necessity to be added in the agreements including core assignment arrangements including confidentiality, privacy, and security of information, third party obligations in case of subcontracting, the obligation of the third party to returning or corrupting all data when the arrangement ends and other clauses. This will form a violation of the Outsourcing Regulation and leads to refusal of penalties and/ or taking procedures against SABB Takaful.

It is indicated from the due diligence inspection report that all of the abovementioned agreements are still effective and will be transferred to the Merging Company after the completion of the Merger Transaction unless the Board of Directors of the Merging Company has decided to terminate them. This will impose the abovementioned penalties on the Merging Company in case the violations were not corrected. Therefore, this will lead to a negative substantial effect on the businesses related to the Merging Company and its financial status, operations outcomes, its share profits, and future prospect.

Hence, in case the Saudi Central Bank has deemed that all or any of the abovementioned agreements are actually subject to the Outsourcing Regulation and that signature and renewal hereof are subject to no objection of the Saudi Central Bank. Penalties may be imposed on the Merging Company and/ or procedures may be taken against it by the Saudi Central Bank including the suspension of any member of the Board of Directors and/ or employees of the Merging Company whose liability for violation is proven and/ or prohibition of the Merging Company from accepting new subscribers, investors or participants in any of its insurance activities and/ or putting limit hereto. Moreover, the Merging Company shall be obliged



to take any other necessary steps and/ or dissolve the Merging Company if the violations were not corrected and financial penalties will be imposed hereon whose value does not exceed one million Saudi Riyals.

In addition to the above, the Saudi Central Bank, in the light of the inspection visit conducted by its representatives, has sent a letter to SABB Takaful on 15/06/1441H (corresponding to 09/02/2020G), including several notes related to violating SABB Takaful the compliance rules put in place by virtue of systems and regulations of the Saudi Central Bank considering the procedure. In the light of the subsequent inspection visit conducted by the representatives of the Saudi Central Bank towards SABB Takaful, a letter was sent to SABB Takaful on 30/11/1441H (corresponding to 21/07/2020G) including the enumeration of the additional violations mentioning for instance: if no evidence was submitted proving that effective procedures are provided to control, follow up, and manage the investigating activities and assets and to verify the investigative borders inside and outside the kingdom; if there are no sufficient number of employees to perform the following tasks: Financial tasks, information technology, obligation, Risk Management, Internal Review, Investment, surge of labour turnover in SABB Takaful; if SABB Takaful did not submit something proving the development of an emergency plan for the tasks assigned to the third party whereas the plan clarifies the procedures to be followed by SABB Takaful in case any assignment arrangement is suddenly terminated or if the third party is not capable to fulfill their obligations for any reason whatsoever in accordance with the Tasks Assignment Agreement.

Moreover, the abovementioned letter of the Saudi Central Bank sent to SABB Takaful on 30/11/1441H (corresponding to 21/07/2020G) has included the number of additional violations including the non-existence of substitution and the succession of updated and approved plans and the non-existence of a plan maintaining the human resources to face the increase in the number of resignations in the leading and technical positions; there are vacancies in the leading positions based on the regulatory structure of SABB Takaful for the non-existence of an approved and updated statement of risks susceptibility made by SABB Takaful; no connection with strategic risks were made by SABB Takaful in 2020G, the Risk Administration did not abide by the timetable to address the earmarked risks as it was noted there are some risks that are still pending since 2017G.

In addition to all the above, it was indicated in the light of the letter received from the external financial auditor of SABB Takaful that SABB Takaful is not complied with the provisions of Article (40) of the executive regulation related to the insurance company surveillance system which obliges the insurance companies to abide by reinsurance a percentage of 30% of total insurance installments at least inside the kingdom while reinsuring. If this was impossible, SABB Takaful shall obtain approval from the Saudi Central Bank to which such amount will be returned. In such case, it will be entitled to the right to oblige SABB Takaful to return the insurance to a certain part of the direct insurance processes which will be subscribed in the Kingdom for a domestic company or domestic companies of reinsurance located inside or outside the Kingdom in accordance with the insurance market status.

On the other hand, SABB Takaful is obliged by virtue of Article 14 of the Cooperative Insurance Companies Control Law and Article 58 of the executive regulation of the Cooperative Insurance Companies Control Law to form a regulatory depository. The legal consultant of Walaa Insurance Company asked SABB Takaful to provide him with a copy of the regulatory depository certificate, however, it stated that the certificate is not available. Noting that it was indicated through the financial statement of SABB Takaful of 2020G that there is a regulatory depository with an amount of 34,000,000 covering 10% of SABB Takaful's capital. In case SABB Takaful fails to form a regulatory depository, it will be violating provisions of Article 14 of the Cooperative Insurance Companies Control Law and Article 58 of the executive regulation of the Cooperative Insurance Companies Control Law. Hence, the Merging Company's Board of Directors shall make sure of the reason for the non-availability of the regulatory depository formation certificate although it was found in the financial statements of SABB Takaful in 2020G.

Any default taking place while correcting the deficiencies mentioned above will lead to charging the Merging Company with any violations and/ or penalties imposed by the Saudi Central Bank. Such violations and/ or penalties are summarized in accordance with the Cooperative Insurance Companies Control Law provisions in Article (19). Whereas if it is indicated to the Saudi Central Bank that any of the insurance companies or reinsurance companies have violated the Cooperative Insurance Companies Surveillance provisions or its executive regulation or has followed a policy that will gravely affect its capability to fulfill its obligations shall take one or more of the following procedures: (1) Appointing one or more consultants to advise the insurance company regarding how to manage its businesses, (2) suspending any member of the Insurance Companies' Board of Directors or any of its employee in case it was proven that/ she was liable for the violation, (3) Prohibiting the Insurance Company from accepting new subscribers, investors, or participants in any of its insurance activities or to limit this, (4) Obliging the Insurance Company to take any other steps if deemed necessary.

### 2.3.3 Risks Related Related to not obtaining the No Objection from the Saudi Central Bank for a Number of Agreements

SABB Takaful has signed a number of agreements with services providers including a Services Assignment Agreement related to the information technology risks with SABB without obtaining no objection from the Saudi Central Bank. During the due diligence inspection phase, SABB Takaful has mentioned that the aforementioned agreement does not contain the assignment of core tasks. Therefore, it is not necessary to obtain no objection from the Saudi Central Bank. However, nothing proves the legal validity hereof due to the fact that services related to information technology systems are core services (according to clause (45-G) from the annex attached to the Outsourcing Regulation of the insurance companies, reinsurance companies, and the self-employed) whereas the insurance companies are not allowed to assign them to third parties except after obtaining no objection from Saudi Central Bank by virtue of provisions of clause 35 of section (C) of the aforementioned Outsourcing Regulation. Furthermore, the letter sent from Saudi Central Bank to SABB Takaful on 30/11/1441 (corresponding to 21/07/2020G) stated that SABB Takaful has signed the Technical Services Provision Agreement with SABB. This Agreement includes the provision of core services with the meaning identified in the Outsourcing Regulation mentioned above. Thus, such agreement requires obtaining the no objection from the Saudi Central Bank however, SABB Takaful did not take any step forward to obtain it till the date of the Circular herein.

In addition to the Agreements signed with SABB, SABB Takaful has signed agreements for implementing training programs with both Al Jonah Training Center, Al-Mujaz Education & Training, and CSTC for Training without obtaining no objection from the Saudi Central Bank concerning any of those agreements. SABB Takaful has already stated that the abovementioned agreements are not regarded as core tasks. In this regard, it is noteworthy that Employees Training services are examples of arrangements concerning the assignment of notable core tasks in the annex of the Outsourcing Regulation (especially in paragraph (C) hereof). It is also noteworthy that the abovementioned agreements do not include a number of clauses for which the Outsourcing Regulations have stated the necessity to be added in the agreements including core assignment arrangements including confidentiality, privacy, and security of information, third party obligations in case of subcontracting, the obligation of the third party to returning or corrupting all data when the arrangement ends and other clauses. This will form a violation of the Outsourcing Regulation and leads to refusal of penalties and/ or taking procedures against SABB Takaful.

Based on the foregoing, it is noticed through the due diligence legal inspection report that any violation committed by SABB Takaful regarding the requirements of Outsourcing Regulation concerning the insurance companies, reinsurance companies, and the self-employed, will impose penalties on SABB Takaful represented in financial penalties. Through such a frame, it is noteworthy that all of the abovementioned agreements herein are still effective. Therefore, they will be transferred to the Merging company after the completion of the Merger Transaction. This in turn will impose the abovementioned penalties on the Merging Company in case the violations were not corrected. Therefore, this will lead to a negative substantial effect on the businesses related to the Merging Company and its financial status, operations outcomes, its share profits, and future prospects.

### 2.3.4 Risks Related to Governance

The Corporate Governance Regulation issued by the Board of Capital Markets Authority and the Insurance Corporate Governance Regulation issued by the Saudi Central Bank includes compulsory clauses concerning the formation of the board of directors, its committees, competencies, responsibilities, meetings, rights and duties of its members, and terms dealing with conflict of interests cases between its members and the Company; to ensure the clarity of the relationship between the Stakeholders from one side and Companies' Board of Directors from another side; and between Board of Directors and Executive Administration team. It also pays great attention to the rights of the Stakeholders in those companies; such as the right to perform ordinary dealing without discrimination and obtaining the information with transparency so that they will be able to practice their statutory rights to the fullest extent.

Failure to comply with the Corporate Governance Law will lead to imposing penalties on SABB Takaful. Whereas Article (19) of the Insurance Company Surveillance System has allowed the Saudi Central Bank to take one or more of the following procedures against the violating insurance companies and reinsurance companies: (1) Appointing one or more consultants to advise the insurance company regarding how to manage its businesses, (2) suspending any member of the Insurance Companies' Board of Directors or any of its employee in case it is proven that/ she is liable for the violation, (3) Prohibiting the Insurance Company from accepting new subscribers, investors, or participants in any of its insurance activities or to limit this, (4) Obliging the Insurance Company to take any other steps if deemed necessary. In case it is indicated to the Saudi Central Bank that the Company continues to violate provisions of such Law or its executive regulation and did not respond to any of the procedures taken by the Saudi Central Bank according to this Article. In spite of imposing the penalties mentioned in such system, the Central Bank may request the dissolution of the company as indicated in Article (21) of the Cooperative Insurance Companies' Surveillance System. Without prejudice to a more severe penalty stipulated in another system, anyone violating any provision of the Cooperative Insurance Companies' Surveillance System will be penalized with an amount not exceeding one million Saudi Riyal and will be imprisoned for a period not exceeding four years or by imposing one of those penalties in addition to all of the above. Violating the provisions of the Corporate Governance Regulation issued by the Capital Markets Authority will impose penalties on the companies besides the procedures taken

against them by the Committee for Resolution of Securities Disputes based on a claim filed against them by the Capital Markets Authority for violating the regulations and rules issued by the Authority by virtue of the provisions of Article fifty-nine of the Capital Market Law. Penalties stipulated in Article fifty-nine of the Capital Market Law include the following: Obliging the Company to take the necessary steps to correct the violation or to avoid the occurrence of a violation; obliging the Company to pay an amount not exceeding triple the amount of the profit achieved or triple the loss avoided as a result from such violation; compensating people affected from such violation; suspending securities brokerage of the Company; confiscating and executing properties and imposing the suspension. Moreover, the Authority may – in addition to taking the previous procedures – request the Committee for Resolution of Securities Disputes to impose a financial penalty not exceeding twenty-five Million Saudi Riyals (25,000,000) for each violation. It is noteworthy that the Merging Company will pay financial penalties and/ or will impose penalties emerging out of any obligations assigned to it from SABB Takaful and/ or its current obligations. This in turn will gravely affect the businesses of the Merging Company, its financial status, and results after the completion of the Merger Transaction.

The legal due diligence investigation conducted on the SABB Takaful showed that SABB Takaful signed with the Saudi British Bank (SAAB) a lease agreement for its centers located in Riyadh and a bank insurance agreement, noting that the Saudi British Bank (SAAB) is one of the related parties (according to the provisions of Articles no. 42 and 43 from the Corporate Governance Regulations that considered major shareholders to be related parties). The two agreements referred to have not been approved by the General Assembly of SABB Takaful, which may constitute a violation of the provisions of the Companies Law, the Listed Companies Governance Regulations and the provisions of the Insurance Companies Governance Regulations, especially the provisions on conflict of interest, and that the two agreements referred to are part of the transactions that will be transferred to the merging company after the completion of the Merger Transaction, and therefore the failure of the General Assembly of SABB Takaful to approve it for any reason may lead, as a result of the completion of the Merger Transaction, to the transfer of responsibility resulting from violating the provisions of the governance regulations of listed companies and insurance companies to the merging company.

In this regard, it is noted that the Bank Insurance Agreement and the Lease Agreement mentioned herein are continuous obligations to be transferred to the Merging Company after the completion of the Merger Transaction if not rescinded. Therefore, the merging company will be liable for the provisions of the Compulsory Governance especially provisions related to conflicts of interests. Thus, the merging company will be liable for any violation to the Governance Law provisions mentioned above if not settled. This will result in paying any penalties and/or compensations resulting from the violations mentioned above. If this takes place, this will negatively affect the merging company's business, financial position, results of operations, and profitability of its shares.

### 2.3.5 Risks Related to Non-Compliance with the Laws of the General Organization for Social Insurance

The presence of employees working for SABB Takaful without declaring them to the General Organization for Social Insurance constitutes a violation of the Insurance Companies Control Law and the Social Insurance Law. Violation of the Social Insurance Law may result in SABB Takaful being subject to the penalties stipulated in Article no. 62 of the Social Insurance Law, which are financial penalties. Therefore, if the employees of Saudi British Bank (SAAB) continue to work for the merging company after completing the Merger Transaction without declaring them to the General Organization for Social Insurance, the latter may be subject to financial penalties as a result of the aforementioned violations, and therefore a material negative impact will appear on the merging company's business, financial position, results of operations and profitability of its shares.

### 2.3.6 Risks Relating to SABB Takaful Claims and Legal Disputes

The financial due diligence report indicated the existence of long-term insurance claims against SABB Takaful, with a total value of (25.27) million Saudi riyals (as on the date of this circular). In addition, SABB Takaful may be subject to claims or complaints by holders of insurance policies issued by it (including insurance policies issued to SABB Takaful clients prior to the Merger Transaction) or by persons with whom it deals in the ordinary course of its business. The merging company cannot ensure that such lawsuits do not occur and that they cannot foresee their results or cost, especially in terms of compensation and/or violations that may be awarded against the merging company. The aforementioned insurance claims may, in the event of a dispute, turn into insurance disputes that expose the merging company to legal claims, noting that SABB Takaful has set 100% of the reserves necessary to meet all its claims, according to the SABB Takaful's management statement. It should also be noted that previous claims and legal disputes that have not been disclosed by SABB Takaful may appear for the purposes of legal due diligence, and the merging company cannot guarantee the absence of such undisclosed lawsuits or judicial claims, and if they exist, the merging company may be subject to prosecution according to the completion of the Merger Transaction. In the event that any or all of the above-mentioned risks are realized, a material negative impact will appear on the merging company's business, financial position, results of operations and profitability of its shares.



## 2.4 Commercial Risks Related to SABB Takaful

### 2.4.1 Risks Related to Development of SABB Takaful Current Business

The current business and activities of SABB Takaful may not grow according to the levels that the members of the Board of Directors of Walaa Insurance Company want to reach after the completion of the Merger Transaction. The objectives of the Merger Transaction may not be achieved (described in Section No. 4.2.2 “**Merger Transaction Motives and Implications for Walaa Insurance Company**” of this Circular), including its ability after completion of the Merger Transaction to retain the existing key employees of SABB Takaful Co. (such as the CEO, CFO, and CIO) and its major clients (such as the Saudi British Bank) after the completion of the Merger Transaction. Therefore, the merging company failure to maintain employees and key customers and/or to face unsuitable conditions for the development of its business, may adversely affect the merging company’s business, financial position and outcomes.

### 2.4.2 Risks Related to the Transferring Process of the Used Information System in SABB Takaful

The financial due diligence indicated that the SABB Takaful information system calculates the technical precautions manually (not automatically). If the technical precautions are not automatically calculated in the future, this may affect the accuracy of calculating technical precautions, which will adversely affect the requirements of the financial report, if the merging company is unable to reform the calculation process, and if the merging company’s management depends on incorrect inputs regarding technical precautions. If it is necessary for the merging company to reverse technical reserves that were not correctly calculated in the financial statements, a negative impact will appear on the merging company’s business, financial position and outcomes after the completion of the Merger Transaction. If the manual calculation of technical precautions leads to material errors in the financial statements of SABB Takaful as declared by the Saudi Central Bank and/or the Zakat, Tax and Customs Authority, or If there is material misstatements in the financial statements of SABB Takaful, the merging company may be subject to penalties and/or taken measures, including suspending any member of the board of directors or any of the employees of the merging company from being held liable for the violation, preventing the merging company from accepting new subscribers, investors or participants in any of its insurance activities or limiting it, obligating the merging company to take any other necessary steps, or dissolving the merging company, if the company did not correct the violations and imposing financial penalties on it whose value does not exceed one million Saudi Riyals. Based on the foregoing, the realization of any of the above-mentioned risks may cause a material negative impact on the merging company’s business, financial condition, operations outcomes and profitability of its shares.

### 2.4.3 Risks Related to Collecting Receivables from Debtors

Below are details of SABB Takaful accounts receivable (includes the net balance of accounts receivable, in addition to the total balance of accounts receivables from related parties):

Table: Details of Accounts Receivable for SABB Takaful (includes the total balance of accounts receivable, in addition to the total balance of the required account receivable from related parties for SABB Takaful).

Customer(s)	Concentration Amount of Accounts Receivable for 2019G (Thousands of Saudi Riyals)	Concentration Ratio of Accounts Receivable for 2019G	Concentration Amount of Accounts Receivable for 2020G (Thousands of Saudi Riyals)	Concentration Ratio of Accounts Receivable for 2020G	Concentration Amount of Accounts Receivable for the Third Quarter of 2021G (Thousands of Saudi Riyals)	Concentration Ratio of Accounts Receivable for the Third Quarter of 2021G
Takaful Policy Holders	1,823	6.77%	19,196	41.15%	10,101	18.61%
Re-Takaful / Reinsurance Companies	3,304	12.27%	1,422	3.05%	29,366	54.10%
Saudi British Bank (Related Party)	21,800	80.96%	26,028	55.80%	14,810	27.29%
<b>Total</b>	<b>26,927</b>	<b>100%</b>	<b>46,646</b>	<b>100%</b>	<b>54,277</b>	<b>100%</b>

Source: Financial Due Diligence Report

In accordance with the financial statements for the third quarter of the financial year 2021G, the receivables amount provision is (1.5) million Saudi Riyals. The provision amount for doubtful debts is (1.4) million Saudi Riyals as on 2020G. The provision amount for doubtful debts is (521) thousands Saudi Riyals as on 2019G. Provisions for doubtful debts shall be calculated, at a minimum, in accordance with Article No. (69) (2) (d) of the Executive Regulations of the Cooperative Insurance Companies Control Law, as follows:

1. 10% of the total amounts owed by reinsurers whose terms exceeded One Hundred and Eighty (180) days
2. 15% of the total amounts owed by the insured, whose terms exceeded ninety (90) days
3. 25% of the total amounts owed by the insured, whose terms exceeded one hundred and eighty (180) days
4. 75% of the total amounts owed over three hundred and sixty (360) days
5. 100% of outstanding and disputed amounts

The following table shows the total receivables, the taken provisions against those receivables and their ratio of the total receivables, the average collection period and written off debts:

**Table: Total receivables, taken provisions against those receivables, their ratio of total receivables, and average collection period.**

	2019G	2020G	Third Quarter of 2021G
Total Receivables (Thousands of Saudi Riyals)	26,927	46,646	54,277
Receivable Provision (Thousands of Saudi Riyals)	(521)	(1,386)	(1,526)
Net Receivables (Thousands of Saudi Riyals)	26,406	45,260	52,751
Net of Written Insurance Premiums (Thousands of Saudi Riyals)	112,650	126,991	103,717
Provision Ratio to Total Receivables	1.93%	2.97%	2.81%
Average Collection Period (Day)*	85.6	130.1	185.6

Source: The financial statements of SABB Takaful for the third quarter of the financial year 2021G, the financial statements of the SABB Takaful for the financial 2020G, the financial due diligence report, and ALJAZIRA CAPITAL analysis.

\* The average collection period is the amount of time (day) that the company takes to receive the due payments from its customers in terms of accounts receivable. It is used to ensure that the company has sufficient liquidity to meet its financial obligations. The method of calculating this period is as follows: Average collection period = (net accounts receivable/net written premiums).

\* Number of Year Days.

If SABB Takaful is unable to collect the receivables from the debtors, a negative impact will appear on the merging company's business, financial position, outcomes, share profitability and forward-looking expectations, and on achieving the desired benefits from the Merger Transaction.

#### 2.4.4 Risks Related to Dealing with Reinsurance Alliances

Previously, SABB Takaful dealt with international and regional reinsurance companies, due to the increasing cost of reinsurance by international companies. SABB Takaful has contracted with a local reinsurance company (the Walaa Insurance Company), in addition to continuing to deal with international reinsurers. Noting that the reinsurance agreement between SABB Takaful and Walaa Insurance Company, so that the reinsurance premiums are distributed by Walaa Insurance Company among other reinsurance companies to reduce the risks of reinsurance premiums concentration on Walaa Insurance Company

Noting that the current arrangement shall take into account the reinsurance with SABB Takaful, especially when starting the business merger process, and if the reinsurance agreement is not restructured in line with the requirements of the merging company, a negative impact will appear on the merging company's business and prospects, and on achieving the desired benefits from the Merger Transaction.

## 2.4.5 Risks Related to Concentration of Written Premiums on Products

The written premiums for the Group's insurance portfolio are concentrated on two products as shown in the table below. The written insurance premiums for the group's insurance portfolio were concentrated in the product of the Takaful program to protect the group's debts. These premiums represented approximately (92.8%), (96.7%) and (86.8%) of the total written insurance premiums for the group's portfolio of SABB Takaful for the financial years ended on December 31, 2018G, 2019G and 2020G.

The following table shows the written insurance premiums for the group insurance portfolio by product for the financial years ended on December 31, 2018G, 2019G and 2020G.

**Table of written premiums for the Group's portfolio by product for the financial years ended on December 31, 2018G, 2019G and 2020G.**

Product	Volume of Written Premiums for the Group's Portfolio for 2018G (Thousands Saudi Riyals)	Concentration Ratio of Written Premiums for the Group's Portfolio for 2018G	Volume of Written Premiums for the Group's Portfolio for 2019G (Thousands Saudi Riyals)	Concentration Ratio of Written Premiums for the Group's Portfolio for 2019G	Volume of Written Premiums for the Group's Portfolio for 2020G (Thousands Saudi Riyals)	Concentration Ratio of Written Premiums for the Group's Portfolio for 2020G
Group Debt Protection Takaful Program	38,573	92.8%	49,731	96.7%	59,959	86.8%
Group Care Takaful Program	3,000	7.2%	1,692	3.3%	9,124	13.2%
<b>Total</b>	<b>41,573</b>	<b>100%</b>	<b>51,422</b>	<b>100%</b>	<b>69,083</b>	<b>100%</b>

Source: Financial Due Diligence Report

The written insurance premiums for the individual portfolio were concentrated in the Savings Takaful Program Product. These premiums represented approximately (96.3%), (89.9%) and (82.8%) of the total written premiums for the individual portfolio of the SABB Takaful for the financial years ended on December 31, 2018G, 2019G and 2020G.

The following table shows the written insurance premiums for the individual insurance portfolio by product for the financial years ended on December 31, 2018G, 2019G and 2020G.

**Table of written premiums for the individual insurance portfolio by product for the financial years ended on December 31, 2018G, 2019G and 2020G**

Product	Volume of Written Premiums for the Individual Insurance Portfolio for 2018G (Thousands Saudi Riyals)	Concentration Ratio of Written Premiums for the Individual Insurance Portfolio for 2018G	Volume of Written Premiums for the Individual Insurance Portfolio for 2019G (Thousands Saudi Riyals)	Concentration Ratio of Written Premiums for the Individual Insurance Portfolio for 2019G	Volume of Written Premiums for the Individual Insurance Portfolio for 2020G (Thousands Saudi Riyals)	Concentration Ratio of Written Premiums for the Individual Insurance Portfolio for 2020G
Savings Takaful Program	75,056	96.3%	69,316	89.9%	69,183	82.8%
Investment Takaful Program	2,673	3.4%	7,415	9.6%	13,888	16.6%
Care Takaful Program	243	0.3%	348	0.5%	447	0.5%
<b>Total</b>	<b>77,971</b>	<b>100%</b>	<b>77,080</b>	<b>100%</b>	<b>83,518</b>	<b>100%</b>

Source: Financial Due Diligence Report

The written insurance premiums for the general insurance portfolio were concentrated in the Property Protection Takaful Program product. These premiums represented approximately (65.6%), (43.4%) and (47.9%) of the total written insurance premiums for the general portfolio of SABB Takaful for the financial years ended on December 31, 2018G, 2019G and 2020G.

The following table shows the written insurance premiums for the general insurance portfolio by product for the financial years ended on December 31, 2018G, 2019G and 2020G.

Table of written premiums for the general insurance portfolio by product for the financial years ended on December 31, 2018G, 2019G and 2020G

Product	Volume of Written Premiums for the General Insurance Portfolio for 2018G (Thousands Saudi Riyals)	Concentration Ratio of Written Premiums for the General Insurance Portfolio for 2018G	Volume of Written Premiums for the General Insurance Portfolio for 2019G (Thousands Saudi Riyals)	Concentration Ratio of Written Premiums for the General Insurance Portfolio for 2019G	Volume of Written Premiums for the General Insurance Portfolio for 2020G (Thousands Saudi Riyals)	Concentration Ratio of Written Premiums for the General Insurance Portfolio for 2020G
Property Protection Takaful Program	13,395	65.6%	11,563	43.4%	23,499	47.9%
Cargo Takaful Program	3,420	16.7%	4,474	16.8%	6,707	13.7%
Fund Takaful Program	314	1.5%	567	2.1%	7,695	15.7%
Other	3,294	16.1%	10,048	37.7%	11,179	22.8%
<b>Total</b>	<b>20,422</b>	<b>100%</b>	<b>26,651</b>	<b>100%</b>	<b>49,080</b>	<b>100%</b>

Source: Financial Due Diligence Report

If one of the written insurance premiums decreases, a negative impact will appear on the merging company's business, financial position, outcomes, share profitability, forward-looking expectations, and on achieving the desired benefits from the Merger Transaction.

#### 2.4.6 Risks Related to Concentration of Underwritten Premiums on Customers

The written insurance premiums for SABB Takaful are concentrated on related parties, namely, the Saudi British Bank (which is one of the substantial owners of SABB Takaful (65.00%)) and the SABB Insurance Agency Company (in which the Saudi British Bank owns (100%) of the capital) and HSBC Saudi Arabia in which the Saudi British Bank owns (49%) of the capital). The written insurance premiums by related parties represented approximately (36.7%) and (36.6%) of the total written insurance premiums for SABB Takaful for the financial years ending on December 31, 2019G and 2020G, respectively. It represented approximately (30.3%) of the total written insurance premiums for SABB Takaful for the nine-month period ending on September 30, 2021G.

The continues presence of the substantial shareholders (the Saudi British Bank) may not be guaranteed in the merging company upon the completion of the Merger Transaction, as, the Saudi British Bank will own (15.6%) of the merging company's capital (while it owns (65.00%) in SABB Takaful). The Saudi British Bank can sell the shares that will be issued to it immediately after obtaining the approval of the Saudi Central Bank and other relevant regulatory authorities. The continuity of the desire of the substantial shareholders of SABB Takaful shall not guarantee to continue working with the merging company, either due to economic conditions, conditions related to the insurance market, the lack of the desired benefit from this business and/or because of their low ownership ratio in the merging company (compared to their previous ownership ratio in SABB Takaful), which in turn will affect the business of the merging company. In the event that the above-mentioned advantages relating to the presence of substantial shareholders of SABB Takaful (The Saudi British Bank) do not continue after the completion of the Merger Transaction, a negative impact will appear on the merging company's business and prospects, and on achieving the desired benefits from the Merger Transaction.

## 2.4.7 Risks related to Disputes and Tax and Zakat Obligations for SABB Takaful

The following tables show the Zakat and Tax Status of SABB Takaful, as it appears in the tax due diligence report.

Summary of SABB Takaful Zakat Status						
Financial Years	2009 -2010G	2011 -2014G	2015 -2016G	2017G	2018G	2019 -2020G
The status of submitting the Zakat declaration by SABB Takaful	Submitted	Submitted	Submitted	Submitted	Submitted	Submitted
Zakat Certificate Status	Obtained	Obtained	Obtained	Obtained	Registered Certificate obtained	Final Certificate obtained
Final Assessment Status	Obtained	Obtained	Obtained	Obtained	Obtained	Initial assessment was received
Differences Status	There are differences	There are differences	There are differences	There are differences	There are differences	N/A
Differences Amounts (Million Saudi Riyals)	1.1	Not Available	0.138	1.8	1.1	N/A
The Paid Amount from the Differences (Million Saudi Riyals)	Not Available	Not Available	0.138	0.260	0.024	N/A
Challenged Amount by SABB Takaful (Million Saudi Riyals)	1.1	Not Available	-	1.54	1.076	N/A
Objections Status by SABB Takaful	Objection terminated	The objection still stands	Objection terminated	Objection terminated	The objection still stands	N/A

Source: Tax Due Diligence

Summary of Withholding Tax for SABB Takaful			
Financial Years	2011 -2014G	2018G	2019 -2020G
The status of filing a tax return by SABB Takaful	The status of filing a tax return was not supplied by SABB Takaful to the financial due diligence advisor during the submission of tax due diligence		Submitted
Status of final review by the Zakat, Tax and Customs Authority	Obtained	Obtained	Initial assessment was received
Differences Status	Not Available	There are differences	N/A
Differences Amounts (Million Saudi Riyals)	Not Available	0.277	N/A
The Paid Amount from the Differences (Million Saudi Riyals)	Not Available	Not Available	N/A
Challenged Amount by SABB Takaful (Million Saudi Riyals)	Not Available	0.277	N/A
Objections Status by SABB Takaful	The objection still stands	The objection has been closed and there are no outstanding amounts	N/A

Source: Tax Due Diligence

It is possible that tax or zakat obligations of (SAR 1.1 million) may arise on Walaa Insurance Company shareholders and SABB Takaful in or outside the Kingdom because of the Merger Transaction or due to the disposition of the shareholders' ownership of Walaa Insurance Company, SABB Takaful or for any other reason, taking into account any tax or zakat exemptions (including the obligation to disclose the Merger Transaction to the relevant tax and zakat authorities inside or outside the Kingdom, or to pay any tax or zakat obligations that may arise of the Merger Transaction). However, the issue of consideration shares for the Merger Transaction is not expected to result in a commitment to revenue fees or the like in the Kingdom (which are fees collected from the relevant government authorities in some countries in exchange for issuing new shares). The Kingdom's zakat and tax regulations do not provide for what allows for the deferral of payment of zakat and taxes on mergers. The merging company cannot confirm that the Zakat, Tax and Customs Authority shall not impose any tax obligations arising from the Merger Transaction. The Zakat, Tax and Customs Authority may deal with the Merger Transaction as a transfer of SABB Takaful's assets and obligations to Walaa Insurance Company at the prevailing market price for those assets and obligations as on the completion date of the Merger Transaction. The Authority may impose tax or zakat obligations on SABB Takaful or the merging company for any reason that may arising from such transfer. The merging company shall pay those obligations that may arise. Due to the flexibility of zakat and tax laws and their change from time to time, the merging company shareholders may be exposed to an increase in the imposed taxes due to the issuance of new tax laws, the amendment of the applicable tax laws and regulations or tax practices, declared or unstated interpretations by the relevant tax authorities of applicable local tax regimes, bilateral agreements or international agreements, or due to case law in relevant courts. If any of the above-mentioned risks materializes, it will have a materially negative impact on the merging company's business, financial condition, operations outcomes and profitability of its shares. The shareholders of Walaa Insurance Company and SABB Takaful to discuss their zakat and tax conditions with their financial and tax advisors.

#### 2.4.8 Risks related to the Accumulated Losses of SABB Takaful

Based on the financial statements for the third quarter of the financial year 2021G, the amount of the accumulated losses is (54.8) million Saudi Riyals. The number of accumulated losses is (56.8) million Saudi Riyals as on 2020G. The number of accumulated losses is (25.5) million Saudi Riyals as on 2019G. These accumulated losses represented 16.1% of the capital of SABB Takaful for the third quarter of the financial year 2021G. These accumulated losses represented (16.7%) and (7.5%) of the capital of SABB Takaful for the financial years ending on December 31, 2020G and 2019G, respectively. Noting that the assets and liabilities of SABB Takaful will be transferred to the merging company after the completion of the Merger Transaction. The merging company shall take corrective actions with regard to stopping the accumulated losses from the business of the SABB Takaful transferred to it, during the business merger process. If the merging company is not able to stop the losses arising from the transferred business of the SABB Takaful to it after the completion of the Merger Transaction, a negative impact will appear on the merging company's business, financial position, results, share profitability and forward-looking expectations and achieving the desired benefits from the Merger Transaction.

#### 2.4.9 Risks Relating to the Remeasurement of Goodwill

Goodwill is defined as an intangible fixed asset, and represents the price paid in excess of the book value of the net acquired assets in mergers and acquisitions. Goodwill is treated in accounting by recording the amounts paid in excess of the book value of the net assets purchased under the name "goodwill", and it is shown in the consolidated financial statements at the book value. Walaa Insurance Company has prepared the hypothetical and condensed consolidated financial statements that transaction with the impact of the Merger Transaction on the consolidated historical statement of financial position and the consolidated historical income statement on December 31, 2020G for Walaa Insurance Company, assuming that the merger has already taken place as on January 1, 2020G. The hypothetical financial statements showed that it is expected that the Merger Transaction will result in a goodwill value of (57.5) million Saudi riyals. It is worth noting that the expected goodwill resulting from the Merger Transaction is not final, and to calculate the amount of goodwill, the share price of Walaa Insurance Company, which is hypothetically modified in the hypothetical financial statements as on February 24, 2022G, was based on (17) Saudi riyals. The total market value of the consideration shares is determined and reflected in the consolidated financial statements at a later time, based on the closing price of Walaa Insurance Company's share price on the last trading day preceding the completion of the Merger Transaction, thus determining the accounting goodwill on the last trading day preceding the completion of the Merger Transaction. It is worth noting that goodwill is re-measured at the end of each financial year, and the re-measurement of goodwill may result in a decrease in its value and thus amortization of part and/or all of the goodwill value at the discretion of the auditor appointed by Walaa Insurance Company. In the event that the re-measurement of the goodwill results in a decrease in its value and consequently the amortization of part and/or all of the goodwill value, this will negatively affect the income statement and the financial position of Walaa Insurance Company after the completion of the Merger Transaction. For more information related to goodwill, please review the hypothetical financial statements in Section No. 4.8 of this circular "**The hypothetical financial statements of Walaa Insurance Company for the purpose of the Merger Transaction**" and Appendix (2) of this circular "**The hypothetical financial statements of Walaa Insurance Company for the fiscal year ending on December 31, 2020G for the purpose of the Merger Transaction**".



#### 2.4.10 Risks Relating to unexploited investment returns

SABB Takaful maintains short-term deposits amounting to 95.5 million SAR as of September 30, 2021G, which generate relatively low rates of return (between 0.65% and 0.90%). Whereas, the financial due diligence indicated that SABB Takaful has a large excess of special solvency requirements (an increase of 182.2 million SAR as on September 30, 2021G). If excess liquidity is utilized, higher rates of return may be achieved while maintaining sound working capital requirements. Therefore, the failure of SABB Takaful to exploit the excess liquidity from the special adequacy requirements will have a negative impact on the profitability of the merging company's share and its future expectations, and on achieving the desired benefits from the Merger Transaction.

#### 2.4.11 Risks Relating to Insurance Claims

The Financial due diligence investigation indicated the entitlement of (117) insurance claims owed by SABB Takaful related to accidents or incidents that occurred more than two years ago, including what dates back to 2012G. The total value of the aforementioned claims is (25.27) million Saudi riyals as on September 30, 2021G.

In this regard, it should be noted that the unpaid claims will be transferred to the Walaa Insurance Company after the completion of the Merger Transaction and that the latter will become obligated to pay these amounts. The transfer of debts represented by the amounts of due and unpaid insurance claims may negatively affect the merging company's finances and increase its burdens, and the merging company's failure to pay the outstanding claims may lead to legal and judicial prosecutions against the merging company. Consequently, a material negative impact will appear on the merging company's business, financial position, results of operations and profitability of its shares.

#### 2.4.12 Risks Relating to Internal Regulations Non-Compliance

The financial due diligence investigation indicated that the reports issued by the Internal Audit Department of SABB Takaful during the years 2020G and 2021G indicated that many elements that require action by the management of the SABB Takaful, including, but not limited to, compliance with anti-money laundering and fraud regulations and regulatory legislation. In the event that the merging company does not comply with the internal regulations and take corrective actions, the merging company will be held accountable and legal penalty. Consequently, a substantial and negative impact will appear on the merging company's business, financial position, results of operations and share profitability.

#### 2.4.13 Risks Relating to Individual Family Takaful Written Premium Fee Costs

SABB Takaful generates most of its profits from the Family Takaful line for individuals through policy fees that are deducted from the values of the investment funds linked to the units of the policyholders. From 2018G until the third quarter of 2021G, these fees amounted to about 20% of the total written premiums for individuals and included annual recurring fees such as acquisition, management, service fees and others. Further, it should be noted that these fees are charged to policyholders on an annual basis indefinitely until the expiry of the policy. Whereas SABB Takaful bears the commission expenses payable to SABB Insurance Agency Company (a wholly owned subsidiary of the Saudi British Bank) only on new business (0% discount on renewal works). Whereas the above-mentioned fees should be reviewed from a business perspective and compared to the best practices in the market especially with regard to the various fees charged to customers in addition to unlimited redundancy as well as clear communications with policyholders in order to ensure customer transparency. Furthermore, it should be considered whether there could be any requirement for SABB Insurance Agency to account for a portion of the fees charged to customers (which would be considered common practice) if it not been a related party, as well as the total commission expense charged by SABB Insurance Agency Company on the SABB Takaful, against the prevailing similar market rates, which will be charged by the SABB Insurance Agency Company to the merging company after the completion of the Merger Transaction. In the event that pricing is not based on a commercial perspective, it will have a fundamentally negative impact on the merging company's business, financial position, results of operations and profitability of its shares.

#### 2.4.14 Risks Relating to SABB Takaful's dealings with Walaa Insurance Company

It is worth noting that SABB Takaful deals with Walaa Insurance Company within the normal course of business as a broker and reinsurer for reinsurance in general insurance policies. As on September 30, 2021G, SABB Takaful recorded receivables from Walaa Insurance Company amounting to 206 thousand Saudi riyals. Such instruments will be transferred to Walaa Insurance Company after the completion of the Merger Transaction. In the event that no technical evaluation was carried out to determine the extent to which the risks of retaining insurance policies after the completion of the Merger Transaction, it will have a fundamentally negative impact on the merging company's business and financial position, results of its operations and profitability of its shares.

#### 2.4.15 Risks Relating to the Management of SABB Takaful Investments

SABB Takaful investments linked to units and held for Family Takaful policyholders are managed exclusively by HSBC Saudi Arabia (a related party to SABB Takaful), through an investment service provision agreement between the two parties. Whereas HSBC Saudi Arabia is entitled to collect management fees imposed on family takaful insurance policyholders for individuals in accordance with the terms of Islamic investment funds and SABB Takaful is entitled to receive distribution fees (named as discount income in the income statement). While it cannot be ascertained whether the discount income received is assumed to be a preferential rate or is made on commercial grounds. Therefore, the investment strategy and agreement shall be evaluated by the merging company in order to determine the most economically beneficial investment fund that can be offered to unit-linked policyholders. In the event that the investment agreement is not evaluated and the search for the most economically beneficial investment fund is not conducted, it will have a fundamentally negative impact on the merging company's business, financial position, results of operations and profitability of its shares.

#### 2.4.16 Risks Relating to the Loss Rate of the Group Care Takaful Plan

With respect to the Group Care Takaful business line, which consists of more than 90% of group insurance policies from related parties in SABB Takaful, the technical performance and loss rate (underwriting costs of insurance policies net claims incurred to net premiums earned) were on the increased trend from 18.1% in fiscal year 2018G to 65.3% in fiscal year 2019G and 115.4% in fiscal year 2020G on the back of an increase in policy acquisition costs (after the related party documents were transferred to a third party broker), i.e. an increase in net claims (i.e. paid claims, change in outstanding debt and unreported losses) size and severity, in addition to the increase in the unexpired risk reserve as the calculated final net loss ratio assumed to the unexpired risk reserve is on an increasing trend (according to the actuarial calculation of SABB Takaful). Group Care Takaful Insurance increased from 103.5% in 2020G to 94.6% in the third quarter of 2021G, driven by lower insurance policy acquisition costs (-16.4%) mainly due to the non-renewal of credit card portfolio with the Saudi British Bank and a decrease in the initial insurance terms (-18.6%) based on the actuary's recommendation to reduce the reserve based on a reduction in the inflation rate assumption from 6.0% to 4.0% per annum, along with the effect of the 28.4% reduction in general and administrative expenses during the same period, as well as the decrease in the level of unearned reserve. In the event that there is a shortage of technical reserves, it will fundamentally and negatively affect the merging company's business, financial position, results of operations and share profitability.

#### 2.4.17 Risks Relating to Insurance Policy Acquisition Costs

Before the fiscal year 2019G, the SABB Takaful insures the group's portfolio through the direct channel without the costs of acquisition insurance policies, but it was transferred as of the second half of the fiscal year 2019G to a third-part broker (Marsh) that charges 15.0% of commission expenses, which negatively affected the profitability of SABB Takaful by 8 million Saudi riyals in the fiscal year 2019G, 9.4 million Saudi riyals in the fiscal year 2020G and 6.3 million Saudi riyals at the beginning of the year 2015G.

#### 2.4.18 Risks Relating to Employee Turnover and Dropout

In light of the subsequent inspection visit conducted by representatives of the Saudi Central Bank to the SABB Takaful, a letter was sent to SABB Takaful on 01/04/1441H (corresponding to 28/11/2019G), noting that there was not a sufficient number of employees to perform the following tasks: financial, technical information, compliance, risk management, internal audit, investment, and the high rate of job dropout in SABB Takaful.

SABB Takaful relies heavily on its employees to carry out the business requirements and employee leakage is a negative factor, which requires SABB Takaful to find other employees and then train them and ensure their full knowledge of the work. The recruitment process is a cumbersome and costly process, as it may require SABB Takaful to submit job offers with high financial benefits to attract the necessary competencies and/or SABB Takaful may have to deal with recruitment companies to bring in employees, which in turn constitutes an additional financial burden in the recruitment process. In the event that SABB Takaful is not able to maintain its employees, prevent job leakage and maintain a moderate employee turnover rate, a material negative impact will appear on the merging company's business, financial position, results of operations and profitability of its shares.

In addition to the above, it should be noted that, according to the Financial Due Diligence Report, the following positions were vacant as of September 30, 2021G:

- Senior Claims Manager
- Chief Financial Officer
- Chief Technology Officer



It is worth noting that during the fourth quarter of 2021G, two main positions became vacant:

- Compliance Manager.
- Corporate Governance Manager

The vacancy of the above-mentioned positions and jobs may affect the continuity of SABB Takaful's work, and compliance with the relevant legislation, and therefore in the event of the occurrence of one or all of these risks, a material negative impact will appear on the merging company's business, financial position, results of operations, share profitability and future prospects.

## 2.5 Operational Risks in the Merging Company

### 2.5.1 Risks Relating to SABB Takaful not disclosing all material information during the due diligence process

The Merger Transaction will be executed in accordance with Articles No. (191), (192) and (193) of the Companies Law and subparagraph no. (1) of Paragraph no. (a) of Article no. (49) of the Merger and Acquisition Regulations, by merging SABB Takaful into Walaa Insurance Company and transferring all SABB Takaful's assets and liabilities to Walaa Insurance Company. For this purpose, Walaa Insurance Company, in cooperation with its advisors, conducted a due diligence investigation of the business of SABB Takaful. It was also agreed between the two companies on the coefficient and value of the exchange of shares based on several matters, including the documents and information that were provided by SABB Takaful to investigation within the framework of due diligence procedures, noting that some of the required documents were not submitted by SABB Takaful, due to its secrecy, or neglected to provide some of the required documents, either due to its loss or unavailability. In the event of the emergence of any material operational, legal or financial risks related to SABB Takaful's business, assets or liabilities, they were not disclosed or reached during Walaa Insurance Company and its advisors conducting due diligence procedures on SABB Takaful, its business and assets, or if the expected, calculated or disclosed by SABB Takaful or any of its advisors, these risks (or information that was not disclosed to Walaa Insurance Company) will have a negative and material impact on the merging company's business, financial position and results after the completion of the Merger Transaction, especially that it will be write-off of SABB Takaful as a result of the Merger Transaction, which entails the impossibility of pursuing it.

### 2.5.2 Risks Relating to Business Merger

The Merger Transaction requires the merger of Walaa Insurance Company business and the business of SABB Takaful, including the integration of administrative functions, organizational structure, information systems, and others. Due to the complex nature of the business combination process, the merging company will be exposed to operational risks resulting from difficulties, which it might face during the business merger of SABB Takaful into Walaa Insurance Company, thus leading to losses, particularly due to the inadequacy or failure of preventive and corrective measures and its internal systems or due to other external factors. The merging company may also be exposed to fraud by some of its employees or by any other party, and if the merging company transactions with unauthorized transactions, errors in operation, clerical errors, or errors in record keeping resulting from a defect in computer hardware or communication systems. A negative impact will appear on the acquiring company's business and the acquiring company cannot guarantee that it will not incur any losses due to the failure of any of these controls or detection systems or the containment of operational risks in the future. In the event that any of the internal procedures or systems of the merging company fail to contain, disclose or address these risks quickly and effectively, if one or all of these risks are realized, a negative impact will appear on the merging company's business, financial position, results of operations and future prospects.

### 2.5.3 Risks Relating to the Merging of the Financial Report

The Merger Transaction requires the implementation of a mechanism to ensure the effective merging of the financial report, in order to ensure the conduct of the merging company's business and its ability to issue its financial reports effectively after the completion of the Merger Transaction. The process of merging the financial report of Walaa Insurance Company with the SABB Takaful shall be managed in line with the expectations and requirements of the Walaa Insurance Company. Accordingly, there are risks represented in the inability of the merging company to manage the process of merging of the financial report in a manner consistent with its expectations. It may require a period of time and additional costs in order for the merging company to be able to include the financial report in the required manner and to impose financial penalties on the merging company in the event of a violation of the regulations related to the merging of the financial report. The thing which will affect its business and profitability. In the event that the process of merging the financial report is not managed effectively, or if the necessary technical and operational support services are not provided, or if they are not of high quality, and thus negatively affect the merging company's business, profits, costs, net income, assets, obligations and future expectations, and the consolidated financial results and results of operations after the completion of the Merger Transaction.

## 2.5.4 Risks Relating to the Merging Company's Revenues and its ability to distribute profits to shareholders

The revenues of Walaa Insurance Company amounted to 848.9 million riyals in the year 2020G, and Walaa Insurance Company did not distribute cash dividends during the two years, and there are currently no restrictions imposed on Walaa Insurance Company with regard to distributing profits to its shareholders. The revenues of the SABB Takaful amounted to 130.5 million riyals in the year 2020G, and the SABB Takaful did not distribute any profits. It must be taken into account that after the completion of the Merger Transaction, the business and revenues of Walaa Insurance Company may be affected by a number of risks of operational, financial and economic factors and factors related to insurance market conditions, which the merging company may not expect or that may be out of its control, which will affect its business and profitability. In addition, the merging company's ability to distribute profits to shareholders may be affected by the restrictions that may be imposed on it in the future by the Saudi Central Bank. As, the distribution of profits to shareholders requires the approval of the Saudi Central Bank, and the Saudi Central Bank may consider at that time - and according to the circumstances - that the merging company must strengthen its capital by keeping the profits in the merging company's financial position and not distributing them in order to support the merging company's business. The merging company cannot confirm that its revenues and/or its distributable reserves and/or its earnings per share and/or its dividend distribution will be equal or greater than the earnings per share of Walaa Insurance Company prior to the completion of the Merger Transaction.

## 2.5.5 Risks of non-compliance with existing regulations and/or issuance of new regulations

Walaa Insurance Company and SABB Takaful are subject to a number of laws and regulations, including, for example, the regulations of the Ministry of Commerce, the Ministry of Investment, the Capital Market Authority, the Saudi Central Bank, the Council of Cooperative Health Insurance, the Zakat, Tax and Customs Authority, and the Ministry of Human Resources and Social Development. It is worth noting that the legal due diligence investigation of the SABB Takaful revealed some violations with regard to compliance with the current regulations, including but not limited to: 1) Not obtaining a civil defense license for the head office on SABB Takaful 2) Violating the regulations of the Saudi Central Bank related to money laundering. It should be noted that the merging company shall comply with all laws and regulations referred to above and/or other regulations applicable to it at all times and after the completion of the Merger Transaction, and the merging company shall correct the violations according to the requirements of the Saudi Central Bank. The merging company's violation or non-compliance with the terms and conditions of these regulations may lead to the cancellation or suspension of the licenses issued to it or the imposition of penalties or financial fines on it, as the list of fines and penalties for municipal violations issued by Cabinet Resolution No. (218) on 6/8/1422H and its executive instructions stipulated the imposition of fines of no less than (200) Saudi riyals and not more than (500) Saudi riyals in the event that the municipal license and the civil defense license were not renewed. In addition, these laws and regulations may change in the future or be updated by the supervisory authorities and the competent authorities - and thus - the issuance of new laws and regulations from time to time. The merging company cannot assure that future changes in the regulations will not negatively affect its business, its financial position or the results of its operations, and the merging company cannot provide any guarantee that it will be able to adapt to all these changes in a timely manner. In the event that one or all of these risks are realized, a negative impact will appear on the merging company's business, its financial position, results of operations, share profitability and future prospects.

## 2.5.6 Risks Relating Not Issuing or Maintaining Licenses

Walaa Insurance Company currently owns valid insurance licenses (as on the date of this circular) issued to it by the Saudi Central Bank to practice insurance activity in the branches of general insurance, health insurance, protection insurance, savings and reinsurance. These licenses are considered an essential factor for Walaa Insurance Company ability to continue providing its business in the insurance activity. Walaa Insurance Company owns a valid foreign investment license (as on the date of this circular) issued by the Ministry of Investment.

SABB Takaful currently owns a valid insurance license (as on the date of this circular) issued to it by the Saudi Central Bank to practice protection, savings and general insurance activity. The merging company shall also maintain the licenses previously issued to it, which are the license to practice general insurance, health insurance, protection insurance, savings and reinsurance. The issuance and maintaining of the above-mentioned licenses is an essential factor for the continuity of the merging company's business and/or its expansion. It is worth noting that obtaining these permits and approvals may take a long and unpredictable time, and that the merging company may not be able to obtain these approvals and permits, and therefore this will affect the merging company's ability to conduct its business and achieve its objectives. It is worth noting that the merging company shall comply at all times with the instructions of the Saudi Central Bank and its implementing regulations to maintain the licenses issued to it. The Saudi Central Bank has the right to withdraw the licenses issued to the merging company in the following cases: If the licensed activity has not been carried out within six months, and/or if the merging company does not meet the requirements of the law or the executive regulations of the Saudi Central Bank, and/or if the Saudi Central Bank finds that the merging company has intentionally provided it with incorrect information or data, if the Saudi Central Bank finds that the rights of the insured, beneficiaries or shareholders

are at risk of being lost as a result of the way in which the activity is conducted, and/or if the merging company goes bankrupt, making it unable to meet its obligations, and/or If the merging company practices the activity in a deliberate manner of fraud and deception, and/or if the capital falls below the prescribed minimum, and/or if the insurance activity in the insurance branches has decreased to the level that the Saudi Central Bank deems ineffective in its performance, and/or if the merging company refuses to pay the claims owed to the beneficiaries unjustly, and/or if the merging company prevents the inspection team assigned by the Saudi Central Bank from performing its tasks in examining the records, and/or if the merging company refrains from implementing a final judgment issued to any insurance disputes and other cases. The withdrawal or non-issuance of any of the licenses and permits for the merging company will have a material negative impact on the merging company's business, financial condition, results of operations, share profit and future prospects.

## 2.5.7 Risks Relating to Anti-Money Laundering and Combating the Financing of Terrorism Regulations

Walaa Insurance Company and SABB Takaful are currently compliant with the Anti-Money Laundering and Combating the Financing of Terrorism Regulations issued by the Saudi Central Bank (Anti-Money Laundering and Terrorist Financing Rules for Insurance Companies, Anti-Money Laundering Law and its Implementing Regulations, Anti-Terrorism Crimes and Financing Law and its Implementing Rules) and these regulations clarify the necessary procedures to be taken when accepting any client (whether an individual or a company), and it also explains the due diligence procedures to be followed, in addition to the procedures for reporting suspicious operations and other procedures. Walaa Insurance Company and SABB Takaful are currently storing information about their clients through their computer systems. It is worth noting that the merging company shall, upon completion of the Merger Transaction, continue to comply with the provisions of the anti-money laundering and combating the financing of terrorism regulations. The merging company will review the information of the clients whose valid insurance policies will be transferred to it after the completion of the Merger Transaction and will also save their information within the computer systems of the merging company. Since the review of these files and ensure their compliance with the regulations of anti-money laundering and combating the financing of terrorism and keeping them within the computer systems of the merging company is considered a process that requires time, this may result in the merging company not complying with the anti-money laundering and combating the financing of terrorism regulations at some time. Nor can the merging company guarantee its full and permanent compliance with these procedures and requirements. Failure to comply with anti-money laundering and combating terrorist financing regulations makes the merging company liable to legal accountability and thus leads to the imposition of fines and/or penalties that will be borne by the merging company. In the event that the merging company does not comply with the regulations of anti-money laundering and combating the financing of terrorism, this will result in a violation of them by the regulatory authorities, and thus a material negative impact will appear on the merging company's business, financial condition, results of operations, share profitability and future prospects.

The Saudi Central Bank banned SABB Takaful, on 12/01/1439H (corresponding to 02/10/2017G) and by letter No. 39100003911, from issuing or renewing any protection and/or savings insurance policies due to SABB Takaful's non-compliance with anti-money laundering and terrorist financing procedures, while obligating it to appoint an independent advisor at its expense to correct the violations. Then, the Saudi Central Bank reversed the ban decision under letter No. 391000074014 dated 27/06/1439 H (corresponding to 15/03/2018G), which states that SABB Takaful was allowed to resume protection and savings insurance activity after it became clear to the Saudi Central Bank that SABB Takaful had processed the observations leading to suspension. The Saudi Central Bank's recent decision to lift the suspension is conditional on the SABB Takaful continuing to abide by the rules and requirements of the Saudi Central Bank related to combating financial crimes and money laundering. Nevertheless, SABB Takaful received on 19/09/1441H (corresponding to 12/05/2020G) an email from the Saudi Central Bank regarding the inspection visit, which included a number of observations made by the Saudi Central Bank regarding the existence of shortcomings in the procedures taken by the SABB Takaful regarding the combating money laundering and terrorism financing, which exposes SABB Takaful to penalties in the event of its failure at any time and/or to stop its business in the event that it does not take the necessary measures to correct the deficiencies and/or in the event of repeating previous violations and/or committing new ones. It is worth noting that in the event of the completion of the Merger Transaction, the merging company will be responsible to all statutory authorities and/or any other party in relation to any violations committed by SABB Takaful prior to the completion of the Merger Transaction, especially with regard to the requirements of combating financial crimes and money laundering, which may lead to the merging company being charged with any violations and/or penalties imposed by the Saudi Central Bank. These violations and/or penalties are summarized according to the provisions of the Cooperative Insurance Companies Control Law, in Article no. (19), where the Saudi Central Bank has the right if it finds that any of the insurance companies or reinsurance companies have violated the provisions of the supervision of cooperative insurance companies law or its implementing regulations or have followed a policy that seriously affects their ability to meet their obligations, to take one or more of the following actions: (1) appointing one or more consultants to advise the insurance company in the conduct of its business; (2) Suspend any member of the board of directors or any of the insurance company's employees who is proven responsible for the violation, (3) prevent the insurance company from accepting new subscribers or investors in any of its insurance activities, or (4) obligate the insurance company to take any other steps it deems necessary.

## 2.5.8 Risks relating to the impact of declining customer confidence

The merging company cannot guarantee that the confidence of customers will remain at the same level, especially customers of SABB Takaful, whose insurance policies will be transferred to it upon completion of the Merger Transaction. Also, the merging company cannot guarantee that the confidence of its current customers will remain at the same level upon completion of the Merger Transaction, due to the possibility of shifting the interest and/or focus of some departments in the merging company to the business merger process, thus reducing interest and/or focusing on customer service, which in turn will lead to the decreased customer confidence in the merging company. Any decline in the degree of customer confidence in the merging company will lead to an increase in the number of cases of cancellation and/or non-renewal of insurance policies in the merging company, which will negatively affect the sales of the merging company after the completion of the Merger Transaction, and consequently a negative impact will appear on the merging company's business, financial position and results. And its share profitability and future expectations and to achieve the desired benefits from the Merger Transaction.

## 2.5.9 Risks Relating to Reputation of the Merging Company

The merging company's reputation is critical to attracting and retaining new clients and establishing a strong relationship with counterparties. The merging company's reputation may be damaged in the future as a result of several factors, including, but not limited to: a decline in its financial results or modification, or legal or regulatory actions against the merging company, or the behavior of one of its employees that may cause the merging company to breach the applicable regulatory requirements. The damage to the merging company's reputation will negatively affect its business, financial position, results of operations, share profitability and future expectations, and negatively affect its market value and share price.

## 2.5.10 Risks Relating Not Controlling Prices

Walaa Insurance Company is obligated to follow the instructions of the Saudi Central Bank and the recommendations of the actuarial consultant with regard to setting quotations for insurance policies and in relation to insurance policies in the health and vehicle insurance branches (comprehensive and third-party insurance). SABB Takaful is also obligated to follow these instructions. Whereas, Walaa Insurance Company and SABB Takaful annually (and based on the pricing adequacy report issued by the actuarial consultant for each company) submit quotations to the Saudi Central Bank as a statutory requirement. Actuarial consultants issue pricing adequacy reports by studying the insurance portfolio owned by Walaa Insurance Company and owned by SABB Takaful, and based on actuarial data that takes into account the performance of these insurance policies (in view of the performance of the insurance portfolio in general). It is worth noting that all insurance policies owned by SABB Takaful will be transferred to the merging company upon completion of the Merger Transaction, and upon the expiry of the term of these insurance policies and other insurance policies in the insurance portfolio of the merging company, the actuarial consultant will re-examine the adequacy of pricing to comply with the statutory requirements, in view of the merging company's insurance portfolio (which will include the insurance policies transferred to it from SABB Takaful). The recommendations of the actuarial consultant at that time may require changing the prices of the insurance policies for the merging company's portfolio, due to the possibility of changing the performance of the insurance portfolio at that time. The rise in the prices of some or all of these insurance policies will lead to the merging company's inability to attract new clients and the loss of its current clients, which will affect the merging company's market share and thus negatively affect the merging company's business, financial position, results of operations, share profitability and future prospects.

## 2.5.11 Risks Relating to Future Statements

The members of the Walaa Insurance Company Board of Directors believe that the Merger Transaction is in the interest of the shareholders of Walaa Insurance Company, and the justifications for the Merger Transaction are included in this shareholders circular (explained in Section No. 4.2.2 "**The Rationale of the Merger Transaction and the Implications for Walaa Insurance Company**" of this circular). It is worth noting that the future results and performance data of the merging company cannot be accurately and definitively expected. In fact, they may differ from what is found in the current shareholders circular, and the actual results of the merging company's performance may differ from those studies on which the Merger Transaction decision was based by members of the Walaa Insurance Company board of directors. As these studies were built on foundations, including the assumption of the success of the business integration process and the assurance of business integration upon completion of the Merger Transaction. The merging company may face complications in terms of business integration, and this will not contribute to achieving the desired benefits from the Merger Transaction. Therefore, the merging company's ability to achieve positive results is linked to the successful achievement of the Merger Transaction goals. The merging company cannot be certain that the Merger Transaction objectives will be successfully achieved at the present time. Shareholders should not rely entirely on future expectations and representations. Accordingly, these statements should not be considered as confirmation that the profit per share of the merging company will be equal to or greater than the profit per share of the Walaa Insurance Company for the previous financial periods. In the event that some or all of the expected financial statements are not achieved in the future, a material negative impact will appear on the merging company's business, financial position, results of operations and profitability of its shares.

### 2.5.12 Risks Relating to Reliance on Key Personnel and Talent Acquisition

Walaa Insurance Company relies on key employees to ensure the success and continuity of its business, such as its CEO, CFO, and Technical Director. It is worth noting that the merging company will need to move and maintain the technical team responsible for the current protection and savings insurance with SABB Takaful, due to their experience in the current portfolio owned by SABB Takaful and in the operating systems of these insurance policies. The success of the merging company will also depend largely on the extent to which the aforementioned employees will continue to work for it upon completion of the Merger Transaction. It is possible that one of the employees referred to receives job offers from other companies and/or one or all of the employees referred to want to leave the merging company for other reasons related to the business merger or for personal reasons, and therefore the merging company cannot guarantee that the referred employees will remain in the business or find alternatives for them in the event they leave the merging company. Consequently, the loss of key employees, or the inability to find replacements for them, will have a fundamentally negative impact on the merging company's business, financial condition, results of operations and profitability of its shares.

### 2.5.13 Risks Relating to Employee Behavior and Misconduct

Walaa Insurance Company and SABB Takaful apply internal policies for employees that include work procedures, professional conduct and tasks assigned to each department. The application of such policies is very important, as it helps in avoiding employees' mistakes and regulating their behavior to avoid imposing any fines and/or penalties and/or the emergence of any legal issues as a result of any mistakes made by them. Walaa Insurance Company has developed a program to ensure the smooth transition of SABB Takaful employees. The program includes familiarizing the moving employees with the work environment, culture and structure in addition to the work procedures, activities and internal policies applicable in the merging company. The merging company cannot guarantee the success of the employee transition programme. Therefore, it should be noted that the merging company cannot guarantee the compliance of all its employees with the regulations governing the rules of work procedures, the professional conduct of employees and the tasks assigned to each department. The merging company cannot guarantee that errors and/or misconduct of its employees will be avoided upon completion of the Merger Transaction, during and/or after the completion of the business combination. The merging company cannot guarantee that its employees will not commit fraud, willful error, omission, fraud, misappropriation, theft, forgery, misuse of property of the merging company or act on its behalf without obtaining the internally required administrative authorizations. Therefore, these actions may entail consequences and responsibilities towards the clients of the merging company and/or towards the regulatory and supervisory authorities, and therefore the merging company will bear the payment of fines and/or bear the penalties and/or incur compensation for legal cases. In the event that one or all of these risks are realized, a material negative impact will appear on the merging company's business, financial condition, results of operations and profitability of its shares.

### 2.5.14 Risks Relating to Insufficient Provisions (Reserves)

Pursuant to the provisions of Article no. (69) of the Executive Regulations of the Cooperative Insurance Companies Control Law, Walaa Insurance Company and SABB Takaful shall maintain financial provisions to meet and cover financial obligations, and these provisions include (1) Provisions for unearned premiums, (2) Provisions for outstanding claims, (3) Provisions for claims settlement expenses, (4) Provisions for risks occurring but not yet claimed, (5) Provisions for risks not waived, (6) Provisions for Disaster, and (7) Provisions for General Expenses. The reserve ratio will be reviewed and evaluated after the completion of the Merger Transaction to take the appropriate action in the event of any need to make any amendments to ensure compliance with the instructions of the executive regulations of the Cooperative Insurance Companies Control Law issued by the Saudi Central Bank. The size of these provisions shall be estimated upon completion of the Merger Transaction, based on the expected trends in the volume of claims and their frequency according to the data available at that time. Establishing an adequate level of claims reserves is an inherently uncertain process due to the difficulty and complexity of making the necessary assumptions. Since the size of the reserves depends on future estimates, it is possible that an insufficiency in the merging company's reserves may occur in any of the periods. It is worth noting that it is not possible to guarantee the commitment of the merging company to maintain the necessary financial provisions and/or reserves at all times, especially since the Merger Transaction will result in the transfer of the obligations of the SABB Takaful to the merging company. In the event that the actual obligations exceed the value of the calculated reserves, the merging company will have to increase the necessary reserves, and this will have a negative impact on the income statement and financial position of the merging company, its financial position and the results of its operations.

### 2.5.15 Risks Relating to Operating Systems and Information Technology

During the business merger process, the merging company may use the operating systems of SABB Takaful, evaluate and maintain what suits its operational requirements and exclude systems that are not in line with its operational requirements. The process of transferring and integrating operational systems for SABB Takaful will represent additional risks and costs for the merging company due to the multiplicity of operating systems used. It is worth noting that the information technology systems are very important and essential for the merging company in terms of its ability to carry out its work, especially the preservation of its customers' information and the conduct of the review and management of the claims submitted to it. It is worth noting that complications may occur that may contribute to human errors in dealing with technical information



systems upon completion of the Merger Transaction. This is due to the fact that the merging company will have a large number of technical operating systems, which will distract the information technology team and the employees who use these systems to perform their daily tasks alike, by virtue of their dealing with different technical systems from those they dealt with in the past. In addition, despite the technical progress in the field of protection of electronic systems and the preservation of information stored electronically, the information technology systems of the merging company may be exposed at any time to technical risks, including the collapse of its electronic system, failure in its protection systems, penetration of its systems and information, or receipt of electronic viruses, or the occurrence of human errors, natural disasters, fires, faults in the communication network, or the lack of skilled labor necessary to operate or repair these systems. In the event of such risks and technical problems with the merging company, its business will be greatly affected, its service to its customers, its claims handling and the issuance of its periodic financial reports in a timely manner, which will expose the merging company to accountability and legal penalty. Consequently, a material negative impact will appear on the merging company's business, financial position, results of operations and profitability of its shares.

### 2.5.16 Risks Relating to the Credit Rating of Reinsurers

Pursuant to the provisions of the Executive Regulations of the Cooperative Insurance Companies Control Law in relation to reinsurance credit rating requirements, the selection of reinsurers is subject to the terms of the minimum credit rating limit, which indicate that reinsurers with a credit rating lower than BBB according to S&P agency or equivalent rating from other rating agencies shall not be dealt with. Walaah Insurance Company currently deals with (90) reinsurance companies, all of which are rated. SABB Takaful deals with (45) reinsurance companies, all of which are rated. Walaah Insurance Company and SABB Takaful are committed to the requirements of the reinsurance credit rating as on the date of this circular. It is worth noting that, after the completion of the Merger Transaction, the merging company shall continue to comply with the requirements of the reinsurance credit rating set by the Saudi Central Bank. It should be noted that there is no guarantee that the merging company will comply at all times with these requirements due to the possibility of reducing the credit rating of reinsurers during their dealings with the merging company. If this is done, the merging company shall stop reinsurance arrangements with those companies and find alternatives. It is worth noting that if the merging company wants to deal with reinsurers not approved by the Saudi Central Bank and /or reinsurers with a rating lower than the regulatory requirements, the merging company shall obtain a written approval from the Saudi Central Bank. Failure to comply with the requirements of the credit rating of reinsurers exposes the merging company to penalties and/or fines from the Saudi Central Bank. It should also be noted that in the event of a downgrading of the credit rating of a reinsurer dealing with the merging company, it will be costly to find an alternative reinsurer and the terms and conditions of the new agreements may differ from the previous ones, which are not commensurate with the operations of the merging company at that time. In the event that one or all of these risks are realized, a negative impact will appear on the merging company's business, its financial position, results of operations, share profitability and future prospects.

### 2.5.17 Risks Relating to Miscalculation of Risks and Risk Assessment Policies

Walaah Insurance Company conducts detailed studies of potential risks before issuing insurance policies for submitted applications. These studies are carried out by experts in the underwriting process, and they use specific programs in order to estimate potential losses and risks with the help of the independent actuary, who in turn studies the patterns of risk development and future expectations based on historical performance, and if the risks are not accurately assessed, Walaah Insurance Company may incur financial losses that negatively affect its future performance. It is worth noting that the merging company may incur additional costs and financial losses in the event that SABB Takaful does not follow accurate and correct studies in the process of evaluating the potential risks of the existing insurance policies of SABB Takaful and the new insurance policies issued - if issued before the completion of the Merger Transaction-, therefore, If it is found that SABB Takaful miscalculated the risks when issuing these documents and when these documents were transferred to the merging company, and the occurrence of high insurance claims as a result, it would have a fundamentally negative impact on the merging company's business, its financial position, the results of its operations and the profitability of its shares. In addition, the risk management policies of Walaah Insurance Company and SABB Takaful are based on observing the historical behavior of the market, and therefore, these policies may not be able to accurately predict potential future risks, which may be greater than those that have been inferred through historical means, and in the presence of a lack of data available about the Saudi insurance market, this information may not be accurate, complete, up-to-date or they have not been properly evaluated in all cases. The merging company's risk management policies, procedures and controls may not be fully effective in all cases and circumstances, which will lead to Walaah Insurance Company obtaining unrealistic information in order to assess its exposure to risks on a correct basis. As a result, the high level of risks to which the merging company is exposed as a result will negatively affect the business of the merging company, its financial position and the results of its operations, and that the merging company, after the completion of the Merger Transaction, may face the risks that the previous management of SABB Takaful did not accurately predict and estimate potential risks in its current operations, which will fundamentally and negatively affect the merging company's business, financial position, results of operations and profitability of its shares.

## 2.5.18 Risks Relating to Maintaining Solvency Margin Requirements

According to the requirements of the Saudi Central Bank with regard to maintaining the solvency margin, which requires maintaining a 100% solvency margin. The solvency margin of Walaa Insurance Company amounted to (185%) as on 22/10/1442H (corresponding to 30/06/2021G). The solvency margin of SABB Takaful amounted to (185%) as on 30/06/2021G. Because the two companies have practiced their usual business since that date, which makes their financial position subject to change, it is necessary to verify the continuity of compliance with the requirements of the solvency margin of the merging company upon completion of the Merger Transaction. It is worth noting that in the event of non-compliance with the solvency margin according to the requirements of the Saudi Central Bank, the merging company is obliged to take corrective measures according to Article no. (68) of the executive regulations of the Cooperative Insurance Companies Control Law. In the event of non-compliance with the provisions of this article, the Saudi Central Bank has the right to take measures, including imposing the suspension of subscription to any new insurance policy, liquidating some assets, adjusting prices, withdrawing the license and other penalties that fundamentally affect the business of the merging company.

## 2.5.19 Risks Relating to Saudization and Labour Law

The merging company shall obligate to maintain a Saudization percentage according to the requirements of the executive regulations of the Cooperative Insurance Companies Control Law and according to the regulations of the Ministry of Human Resources and Social Development, and it will require that some positions be filled with Saudi employees only. Note that the Saudization rates imposed by the Ministry of Human Resources and Social Development for insurance companies whose employees range from (200) to (499) employees are as follows: from zero to 34% for the green range, from 35% to 45% for the low green range, from 46% to 56% for the medium green range, from 57% to 66% for the high green range, and from 67% to 100% for the platinum range. Based on the foregoing, the merging company will implement a replacement plan that includes qualifying Saudis for positions limited to Saudi employees only. It is worth noting, that it cannot be certain that all Saudi employees in SABB Takaful have the desire to work in the merging company upon completion of the merger, nor can it be certain that all current employees of the merging company wish to continue working in their current jobs upon completion of the Merger Transaction, which presents the Saudization rate to decline and the merging company may not be able to compensate for the decrease in the Saudization rate, as the merging company will have difficulties from time to time in hiring and retaining Saudi employees, due to the competition in hiring and training Saudi employees within the insurance market. The merging company's failure to comply or its inability to achieve the required Saudization ratios may lead to a lowering of its classification in the Nitaqat program, as well as it may expose the merging company to penalties and/or to take measures against it by the Saudi Central Bank, including suspending any member of the board of directors or any of the employees of the merging company who has responsibility for the violation, or preventing the merging company from accepting new subscribers, investors or participants in any of its insurance activities, or limiting that, or obliging the merging company to take any other steps necessary, or dissolve the merging company if it does not correct the violations and imposing financial penalties on it, the value of which does not exceed one million Saudi riyals. It is also worth noting that if the plan to replace Saudi employees in positions that are restricted to Saudi employees does not succeed, this will lead to the imposition of penalties and/or fines by the Saudi Central Bank. The failure to employ the required number of Saudi employees, or the failure to transfer a sufficient number of Saudi employees from SABB Takaful to the Walaa Insurance Company, and/or the failure of the current employees of the Walaa Insurance Company to remain in their jobs, will lead to a decrease in the Saudization rate of the merging company after the implementation of the Merger Transaction decision. Consequently, the merging company will be accountable to the Ministry of Human Resources and Social Development and/or the Saudi Central Bank. In the event that the merging company does not comply with the requirements of Saudization, this will result in its violation by the regulatory authorities, and thus a material negative impact will appear on the merging company's business, financial position, results of operations, share profitability and future prospects.

It should be noted in this context that the inspection visit conducted by the representatives of the Saudi Central Bank to SABB Takaful revealed that the SABB Takaful's Board of Directors was not committed to defining the strategy and mechanism for attracting and appointing leading and executive employees and the presence of a number of vacancies in leadership positions, instead of the SABB Takaful's reliance on the Saudi British Bank in this regard, the SABB Takaful does not have an updated and approved succession and replacement plan, and the SABB Takaful does not have a plan to maintain its human resources, especially Saudi employees, in the required proportions, in order to face the high number of resignations in leadership and technical positions. Accordingly, the merging company will face obstacles such as the inability to obtain additional visas or the inability to replace Saudi employees with non-Saudi employees, and consequently the company may be forced to employ non-Saudi employees; thus the merging company may be imposed to accountability by the Ministry of Human Resource and Social Development and/ or the Saudi Central Bank. In case of the merge company did not comply with Saudization requirements, it will be violated by the regulatory entities. Thus this will be creating a negative impact on the merging company's business, financial position, results of operations, share profit and future prospects.

## 2.6 Risks Relating to the Insurance Market in the Kingdom of Saudi Arabia

### 2.6.1 Risks Relating to the Economic Performance of the Kingdom

The expected future performance of the merging company depends on a number of factors that are related to the economic conditions in the Kingdom in general, including, but not limited to, inflation factors, GDP growth, average per capita income, and the like. The Kingdom's economy depends mainly on oil and oil industries, which still control a large share of the gross domestic product. Accordingly, any unfavorable fluctuations in oil prices will have a direct and fundamental impact on the growth plans of the Saudi economy in general and on government spending rates, which will negatively affect the insurance sector as a whole, which would also negatively affect the performance of the merging company in the post-merger stage due to its work within the Saudi economic system and its impact on government spending rates. In addition, the continuation of the growth of the Saudi economy depends on several other factors, including the continuation of population growth and investments of the public and private sectors in infrastructure, so any change in any of these factors will have a significant impact on the economy. Consequently, a material negative impact will appear on the merging company's business at the stage after the completion of the Merger Transaction, especially the results of its operations, its financial position and its future prospects.

### 2.6.2 Risks Relating to Increased Competition and the Ability to Expand in the Insurance Market in the Kingdom

The number of current insurance companies authorized to operate in the Kingdom is (28) insurance companies. According to the Saudi insurance market report for the year 2021G issued by the Saudi Central Bank, the largest 8 insurance companies accounted for (77.2%) of the total insurance premiums written in 2021G, amounting to (42.03) billion Saudi riyals. The insurance sector in the Kingdom of Saudi Arabia faced in the year 2020G, the year 2021G and the current year 2022G, several completed mergers between insurance companies, in addition to the announcement of two mergers that are still in progress. The insurance sector is expected to witness more mergers, given that one of the initiatives of the Financial Sector Development Program included encouraging and facilitating mergers in the insurance sector. It is worth noting that if the market share in the insurance sector is concentrated on a limited number of companies, small companies will lose their ability to control the pricing of their products, as they must take into account the prices applied by large companies when determining the prices of their products. The market share of Walaa Insurance Company amounted to (5.6%) of the total written premiums in the year 2021G, and the market share of the SABB Takaful amounted to (0.5%) of the total written premiums in the year 2021G, and the combined market share of Walaa Insurance Company and SABB Takaful accounted for (6.1%) of the total written premiums in 2021G. It is worth noting that upon the completion of the Merger Transaction, the merging company will continue to operate within a large competitive market, as competition arises when there are other companies operating in the same business sector and these other insurance companies offer similar and competitive products and services to the merging company's products and services in all branches of (general insurance, health insurance, protection insurance and savings). Therefore, there are no guarantees that the merging company will be able to compete in the market with high efficiency after the completion of the Merger Transaction, and it is worth noting that any change in the competitive environment leads to either an increase in the number of companies operating in the sector and/or to the development of new insurance products and/or to an increase in price competitiveness in the sector or other factors, a decrease in the market share of the merging company and/or prices of insurance products and/or a decrease in profit margins, in the event that one or all of these risks are realized, this will have a material negative impact on the merging company's business, financial position, results of operations and profitability of its shares.

### 2.6.3 Risks Relating to Investment

Walaa Insurance Company is committed to the instructions contained in the Executive Regulations of the Cooperative Insurance Companies Control Law, the Investment Regulations issued by the Saudi Central Bank, and the investment policy of Walaa Insurance Company. The value of the investments for Walaa Insurance Company as on 30/09/2021G amounted to (746.2) million Saudi riyals. The value of the investment portfolio of SABB Takaful as on 30/09/2021G amounted to (607.8) million Saudi riyals. It is worth noting that the investment portfolio of SABB Takaful will be transferred to the merging company upon completion of the Merger Transaction. The merging company will review the investment portfolio that has been transferred to it to verify its compliance with its investment regulations and to ensure that it is consistent with the merging company's investment strategy. It is worth noting that in the event that the portfolio of SABB Takaful does not comply with the investment regulations of the merging company, a restructuring will be carried out for the investment portfolio transferred from SABB Takaful. Restructuring the portfolio may result in the sale of securities at inappropriate prices, which negatively affects the performance of the merging company's investment portfolio. It is worth noting that the operational results of the merging company depend on the performance of its investment portfolio and are also subject at all times to several risks such as the relationship with the general economic conditions, the level of volatility in the market, the volatility of market prices, liquidity and credit risks, in addition to the political and security conditions. In addition, the inability of the merging company to balance its investment portfolio and match it with its liabilities will force it to



liquidate its investments at certain times at prices that may not be appropriate at the time, which will negatively affect the performance of the investment portfolio. Also, the merging company shall comply at all times with the requirements of the Investment Regulations and the Cooperative Insurance Companies Control Law and its Executive Regulations. In the event that the merging company does not comply with these requirements, it will face fines and/or penalties and/or impose a restructuring of the portfolio, which will have a material negative impact on the performance of the portfolio and the merging company's business.

#### 2.6.4 Risks relating to the insurance business cycle and the effect of economic factors

The insurance sector at the global level has witnessed periodic changes with significant fluctuations in the results of operations, due to competition, catastrophic events, economic and social conditions experienced by all countries from time to time in general, and other factors beyond the control of companies operating in the insurance sector. Consequently, this may result in periods characterized by competition in prices resulting from excess supply, as well as periods in which companies are allowed to obtain better insurance premium prices, and it is expected that the business cycle of insurance companies will be affected from time to time, which will negatively and fundamentally affect the merging company's business at some point after the completion of the Merger Transaction, especially the results of its operations, its financial position and its future prospects.

#### 2.6.5 Risks Relating to VAT

The Kingdom issued the value-added tax law, which became effective on 14/4/1439 H (corresponding to 01/01/2018G). This law imposes a value-added tax of 5% on a number of products and services, including those of the SABB Takaful. On 17/10/1441H (corresponding to 09/06/2020G), and in response to the economic impact of the new Corona virus, the Board of Directors of the Zakat, Tax and Customs Authority issued Resolution No. (20-3-2) to amend the executive regulations of the value-added tax law to increase the value-added tax rate to (15%), starting from the date of 10/11/1441H (corresponding to 01/07/2020G). This increase or any future increase may affect customer spending and competition in the market, in addition to the possibility that SABB Takaful may make mistakes while implementing the regulatory requirements for VAT, which may lead to the imposition of penalties by the Zakat, Tax and Customs Authority in accordance with the VAT law, which will negatively and materially affect the business of the merging company in the post-merger stage, especially the results of its operations, its financial position and future prospects.

#### 2.6.6 Risks relating to coronavirus pandemic

In view of the current conditions and the rapid spread of the new Corona virus in the world, and the decisions issued by the competent authorities in the Kingdom regarding precautionary and preventive measures to address and limit the spread of the emerging Corona virus until the date of this circular, it is worth noting that there were and still a negative effect on the economy and business in general. The pandemic negatively affected many businesses in the Kingdom and abroad. There is no guarantee that this pandemic will not continue for the foreseeable future.

In this regard, it should be noted that in the absence of an infrastructure to sell the products of SABB Takaful from a distance, the merging company may face some difficulties in selling these products, especially the low percentage of sales, due to the low levels of traditional buying and selling deals through the presence of customers personally to the SABB Takaful centers, especially in the event that preventive measures are imposed by the competent authorities that may limit mobility and/or working hours and/or the number of customers that can be accommodated in SABB Takaful centers.

In this regard, we note that it was found from the financial and actuarial audit that SABB Takaful did not adopt an emergency response policy that would allow it to reduce the negative repercussions on its business as a result of the pandemic or the official measures imposed in this regard. In fact, the actuary suggested during the fiscal year 2020G that SABB Takaful form a contingency reserve with a total value of 1,500,000 million SAR (One million five hundred thousand Saudi riyals).

In addition to the above, the negative effects on the business of SABB Takaful, according to the management of SABB Takaful, are as follows:

- Decrease in interest income equal to (2,000,000) two million Saudi riyals.
- Decrease in the rate of sales of family takaful insurance policies products to individuals, as the average monthly sales decreased from 160 policies - before the pandemic - to 25 policies - during the pandemic -.
- Facing difficulties in collecting receivables from debtors.
- Increase in the rates of insurance claims related to deaths caused by infections with the Corona virus, which according to the management of the SABB Takaful amounted to (111) one hundred and eleven claims, amounting to (2,200,000) two million and two hundred thousand Saudi riyals of the total value of the claims, while the value of the unpaid claims amounted to a total value of (500,000) five hundred thousand Saudi riyals.

- Decline in the value of investment funds, especially during the month of March of the fiscal year 2020G, where the value of net assets decreased by the equivalent of (400,000) four hundred thousand Saudi riyals.
- Increase in IT expenses to secure the possibility of working remotely and working from home.

In the event that the negative effects of the pandemic continue on the economy and business, which will negatively and fundamentally affect the business of the merging company in the post-merger stage, especially the results of its operations, financial position and future prospects.

# 3

## Economic and Market Information About the Insurance Sector and its Trends

### 3.1 Economy of the Kingdom of Saudi Arabia

#### 3.1.1 Overview of the Kingdom of Saudi Arabia Economy

The Kingdom has made an effort in out-of-the-ordinary thinking to develop strategies necessary to achieve sustainable long-term growth of the economy, while at the same time addressing the short-term impact through reforms aimed at diversifying sources of income.

According to the Financial Stability Report in 2022G issued by the Saudi Central Bank, real GDP data showed an increase of about 3.2% in 2021G, compared to a decrease of 4.1% in 2020G, in light of the increase in activities in both the oil and non-oil sectors throughout 2021G. The oil sector increased by 0.2% in 2021G, compared to a decrease of 6.6% in 2020G. The non-oil sector recorded a growth of 4.9% in 2021G, compared to a decrease of 2.2% in 2020G, due to the return of life to normal after lifting the restrictions of the Corona virus pandemic and the resumption of economic activities.

#### 3.1.2 Exports and Imports of Kingdom of Saudi Arabia

According to the foreign trade report for the year 2021G issued by the General Authority for Statistics, the value of the Kingdom's merchandise exports for the year 2021G amounted to approximately (1,035.7) billion riyals, compared to about (652.0) billion riyals in 2020G, with an increase of 58.9%. The value of petroleum exports for the year 2021G reached (758.2) billion riyals, with an increase of 69.4% compared to its value in 2020G amounting to (447.6) billion riyals. The value of non-oil merchandise exports in 2021G amounted to (277.5) billion riyals, with an increase of 35.8% compared to their value in 2020G amounting (204.4) billion riyals. While the value of merchandise imports for the year 2021G amounted to (573.2) billion riyals, with an increase of 10.8% compared to its value in 2020G, which amounted to (517.5) billion riyals.

#### 3.1.3 Diversification of the economy and lower unemployment

The diversification of the economy is expected to create job opportunities in sectors other than the oil sector. The unemployment rate for Saudis reached 11.0% in the fourth quarter of 2021G, compared to 12.6% in the fourth quarter of 2020G. The government sector is the main source of jobs for Saudi citizens, while the private sector depends on the employment of expatriate workers.

**Population Indicators Table**

Category	Unit	2017G	2018G	2019G	2020G	Compound population growth 2016G – 2020G
Total Population	Thousand	32,613	33,414	34,218	35,013	2.4%
Male	Thousand	18,746	19,241	19,739	20,231	2.6%
Female	Thousand	13,866	14,173	14,479	14,782	2.2%

Source: General Authority for Statistics

## 3.2 Insurance Sector

### 3.2.1 Insurance Sector Overview

The insurance sector is one of the most important financial services sectors in any economy, and it keeps pace with all other economic activities and contributes to supporting them and maintaining their stability. The large and growing population base in the Kingdom of Saudi Arabia, the increased awareness of the importance of insurance and the increasing number of vehicles have supported the growth of the gross insurance premiums. Motor and health insurance has been one of the main lines of insurance over the previous years. The competition in the insurance market is growing, so companies must provide insurance solutions based on technology, consumer-centric strategies and diversify their products, which would achieve greater growth for the sector in addition to taking advantage of the opportunities available to insurance lines, such as protection and savings insurance, which is almost absent in the individuals sector and we find it primarily for protection against groups in international companies or personal and real estate loans in some banks. While general insurance penetration has increased over the years in line with the rise in the motor and health insurance business, there is still ample space for growth. The insurance sector is affected by risk factors that differ from the rest of the sectors according to its nature. As compulsory insurance products are considered one of the market drivers for growth, such as health insurance and motor insurance, and accordingly, the factor of great competition in the market and the growth of the number of competitors is one of the most important risks facing insurance companies. The Council of Health Insurance is considered one of the main drivers of health insurance growth and demand, as the regulations issued by it are mandatory, such as insurance coverage for various segments of non-Saudi workers in the private sector, which in turn drives the growth of demand in the market. It is also worth noting that the rise in interest rates on the dollar supports the returns on the investments of insurance companies, as it may contribute to an additional rise in interest, which leads to additional profits and thus the growth of the sector in conjunction with that rise. The Saudi Central Bank is the regulatory authority in the Kingdom of Saudi Arabia with regard to insurance business.

**Total Written Insurance Premiums Table**

	2017G		2018G		2019G		2020G		2021G	
	Million Saudi Riyals	Total %	Million Saudi Riyals	Total %	Million Saudi Riyals	Total %	Million Saudi Riyals	Total %	Million Saudi Riyals	Total %
Health Insurance	19,036	52.1%	19,883	56.8%	22,475	59.3%	22,837	58.9%	25,109	59.7%
General Insurance	16,327	44.7%	14,028	40.1%	14,281	37.7%	14,678	37.9%	15,214	36.2%
Protection and Savings Insurance	1,140	3.1%	1,103	3.1%	1,135	3.0%	1,264	3.3%	1,707	4.1%
<b>Total</b>	<b>36,503</b>	<b>100%</b>	<b>35,015</b>	<b>100%</b>	<b>37,891</b>	<b>100%</b>	<b>38,779</b>	<b>100%</b>	<b>42,031</b>	<b>100%</b>

Source: Saudi Insurance Market Report 2021G - Saudi Central Bank

Total written premiums increased to 42.0 billion riyals in 2021G, compared to 38.8 billion riyals in 2020G, with an increase of 8.4%. Health insurance maintained its position as the largest insurance activity in 2021G, and the share of health insurance in the total written insurance premiums to reached 59.7% in 2021G, compared to 58.9% in 2020G, while the share of general insurance in the insurance sector decreased to 36.2% in 2021G compared to 37.9% in 2020G. The protection and savings insurance activity also maintained its rank in terms of being the least sized insurance activity, as its share in the total written insurance premiums amounted to 4.1% in 2021G compared to 3.3% in 2020G.

### 3.2.2 Insurance Market Depth

Insurance depth is defined as the ratio of total written insurance premiums to GDP, as the compound annual growth rate reached (1.4%) during the period between 2017G and 2021G. In 2021G, the insurance depth of GDP witnessed a decrease to 1.34%, compared to 1.48% in 2020G. The general insurance and health insurance for the year 2021G, compared to the year 2020G, decreased from 0.56% to 0.49% of the GDP for general insurance, and from 0.87% to 0.80% for the GDP for health insurance, while there was no change in the protection and savings insurance in the same period. Depth of non-oil insurance is defined as the ratio of total written insurance premiums to non-oil GDP. The insurance depth of non-oil GDP decreased to 1.91% in 2021G, compared to 1.92% in 2020G. The compound annual growth rate of insurance depth from non-oil GDP reached (1.0%) during the period between 2017G and 2021G. The depth of general insurance in non-oil GDP decreased from 0.73% to 0.69% in 2021G compared to the same period in 2020G, and the depth of health insurance in non-oil GDP increased from 1.13% to 1.14% of the same period, and protection and savings insurance also increased from 0.06% to 0.08% at the same period.

**Table of depth of the insurance sector in GDP**

Insurance Type	2017G	2018G	2019G	2020G	2021G	Compound Annual Growth Rate (2017G-2021G)
General Insurance	0.64%	0.48%	0.48%	0.56%	0.49%	(6.5%)
Health Insurance	0.74%	0.68%	0.76%	0.87%	0.80%	2.0%
Protection and Savings Insurance	0.04%	0.04%	0.04%	0.05%	0.05%	5.7%
<b>Total</b>	<b>1.42%</b>	<b>1.19%</b>	<b>1.27%</b>	<b>1.48%</b>	<b>1.34%</b>	<b>(1.4%)</b>

Source: Saudi insurance market report for the year 2021G - the Saudi Central Bank, and AlJazira Capital analysis

**Table of depth of the insurance sector in non-oil GDP**

Insurance Type	2017G	2018G	2019G	2020G	2021G	Compound Annual Growth Rate (2017G-2021G)
General Insurance	0.89%	0.73%	0.70%	0.73%	0.69%	(6.2%)
Health Insurance	1.04%	1.03%	1.10%	1.11%	1.14%	2.3%
Protection and Savings Insurance	0.06%	0.06%	0.06%	0.06%	0.08%	7.5%
<b>Total</b>	<b>1.99%</b>	<b>1.82%</b>	<b>1.87%</b>	<b>1.92%</b>	<b>1.91%</b>	<b>(1.0%)</b>

Source: Saudi insurance market report for the year 2021G - the Saudi Central Bank, and AlJazira Capital analysis

### 3.2.3 Insurance Market Density

Insurance density is defined as the per capita spending on insurance (total written insurance premiums divided by population). The insurance density increased from 1,095 riyals per person in the year 2020G to 1,200 riyals per person in the year 2021G, with an increase of 9.6%. The compound annual growth rate of the insurance market density reached 1.7% during the period from 2017G to 2021G.

**Insurance Sector Density Table**

Insurance Type	2017G (SAR)	2018G (SAR)	2019G (SAR)	2020G (SAR)	2021G (SAR)	Compound Annual Growth Rate (2017G-2021G)
General Insurance	502	420	417	414	435	(3.5%)
Health Insurance	585	595	657	645	717	5.2%
Protection and Savings Insurance	35	33	33	36	49	8.8%
<b>Total</b>	<b>1,121</b>	<b>1,048</b>	<b>1,107</b>	<b>1,095</b>	<b>1,200</b>	<b>1.7%</b>

Source: Saudi insurance market report for the year 2021G - the Saudi Central Bank, and AlJazira Capital analysis

### 3.2.4 The workforce in the insurance sector in the Kingdom of Saudi Arabia

The total number of employees working in insurance companies in the Kingdom of Saudi Arabia reached 10,092 in 2021G, compared to 11,015 in 2020G, and the percentage of Saudi employees working in insurance companies increased from 75% in 2020G to 77% in 2021G. The annual growth rate of the percentage of Saudi employees working in insurance companies reached 2.8% during the period between 2017G and 2021G.

**Detailed table of the workforce in the insurance sector in the Kingdom of Saudi Arabia**

Number of Employees	2017G	2018G	2019G	2020G	2021G	Compound Annual Growth Rate (2017G-2021G)
Non-Saudi	3,523	3,243	2,879	2,703	2,455	(8.6%)
Saudi	7,749	8,483	8,334	8,321	8,447	2.2%
<b>Total</b>	<b>11,272</b>	<b>11,726</b>	<b>11,213</b>	<b>11,015</b>	<b>10,902</b>	<b>(0.8%)</b>
Saudization Rate	69%	72%	74%	75%	77%	2.8%

Source: Saudi insurance market reports for the years 2017G, 2019G and 2021G - Saudi Central Bank

### 3.2.5 Insurance Market Trends in Kingdom of Saudi Arabia

The insurance sector is one of the most important sectors of financial services that keep pace with all other economic activities and contribute to their support and maintaining their stability, as there is a direct link and a reciprocal influence between the development of insurance on the one hand and the development of the economy in general on the other hand. The contribution of the insurance sector in emerging economies is considered effective in the growth of GDP, and according to the document of the Financial Sector Development Program (one of the programs for Vision 2030), the total written premiums as a proportion of non-oil GDP are targeted to reach 2.4% by 2025G and 4.3% by 2030G (compared to 1.9% recorded in 2019G), and it is targeted that the percentage of health insurance coverage from the cost of medical care will reach 45% by 2025G (compared to 33% recorded in 2019G), and it is targeted that the percentage of insured vehicles will reach 77% by 2025G (compared to 39.6% recorded in 2019G).

As the fourth pivotal initiative of the Financial Sector Development Program focuses on ensuring the imposition of compulsory insurance on health insurance to reduce fraudulent practices, and to continue developing the existing insurance sector; For example: increasing total written premiums, increasing volume, and decreasing cost-to-income ratio.

According to the financial report in 2022G issued by the Saudi Central Bank, the insurance sector launched many new products in 2021G, and it is expected that product diversification will help insurance companies expand market coverage and improve financial performance. It is expected that mergers in the insurance sector will help the insurance sector become more competitive and robust, due to the formation of major insurance companies with a larger capital base and a broader capacity for development and innovation. The insurance sector has also been able to better preserve the rights of the insured parties, in addition to improving the quality of services and reduce expenses through economies of scale, which will reflect positively on the financial sector, its clients and insurance beneficiaries.

## 4

## Merger Transaction

### 4.1 Merger Transaction Overview

On 05/12/1442H (corresponding to 15/07/2021G), Walaa Cooperative Insurance Company announced the signing of a non-binding Memorandum of Understanding with SABB Takaful, with the aim of evaluating the feasibility of merging the two companies, in addition to conducting verification studies and due diligence in financial, legal and actuarial terms. The signing of the non-binding memorandum of understanding came according to the preliminary results of studies and discussions on the proposed Merger Transaction. The two companies have agreed under this non-binding memorandum that the proposed Merger Transaction will take place through a securities exchange offer through which the assets and liabilities of SABB Takaful will be transferred to Walaa Cooperative Insurance Company in return for issuing new shares for the benefit of SABB Takaful shareholders in Walaa Cooperative Insurance Company. Accordingly, the two companies formed a working group consisting of members of the executive management of each company to study and review the commercial, financial and legal aspects of the proposed structure of the Merger Transaction.

Accordingly, in Walaa Cooperative Insurance Company and SABB Takaful signed a binding Merger Agreement on 23/07/1443H (corresponding to 24/02/2022G), according to which it was agreed to take the necessary steps to implement the Merger Transaction in accordance with the provisions of Articles no. (191) and (192) and (193) of the Companies Law and subparagraph no. (1) of paragraph (a) of Article no. (49) of the Merger and Acquisition Regulations. The two parties agreed that the only compensation for the merger would be for the Walaa Cooperative Insurance Company to issue new shares on the effective date of the Merger Transaction decision (taking into account the settlement procedures) exclusively for the benefit of the eligible shareholders of SABB Takaful in exchange for the merger of SABB Takaful into Walaa Cooperative Insurance Company, where Walaa Cooperative Insurance Company will issue ( 0.6005476176470590) share in Walaa Cooperative Insurance Company for each share owned in SABB Takaful.

Walaa Cooperative Insurance Company will increase its capital by issuing (20,418,619) new ordinary shares with a total nominal value of (10) Saudi riyals in exchange for merging SABB Takaful into Walaa Cooperative Insurance Company. It has been agreed that there will be no cash consideration for SABB Takaful shareholders, and the total number of consideration shares is (20,418,619) shares fully paid and with a nominal value per share of (10) ten Saudi riyals, so that the total nominal value of the consideration shares is an amount of (204,186,190) Saudi riyals.

The total value of the Merger Transaction was determined based on the nominal value of the consideration shares. The total nominal value of the consideration shares is (204,186,190) Saudi riyals, and the total market value of the consideration shares is based on the exchange ratio and the closing price of Walaa Cooperative Insurance Company's share of (17.90) Saudi riyals as on the date of (22/07/1443H) (corresponding to 23/02/2022G) (which is the last trading day preceding the date of concluding the Merger Agreement) an amount of (365,493,280) Saudi riyals. The total market value of the consideration shares, based on the exchange ratio and the closing price of Walaa Cooperative Insurance Company's share, is (15.72) Saudi riyals as on 16/01/1444H (corresponding to 14/08/2022G) (according to the nearest trading day before publishing the circular) amounting to (320,980,691) Saudi riyals. Determining the total value of the consideration shares that will be reflected in the financial statements of Walaa Cooperative Insurance Company at a later time based on the closing price of Walaa Cooperative Insurance Company shares on the last trading day preceding the effective date of the Merger Transaction decision.

On the date of the completion of the Merger Transaction, the shareholders of Walaa Cooperative Insurance Company will own (75.99%) of the shares of the merging company, and the shareholders of SABB Takaful will own (24.01%) of the shares of the merging company.

In the event that the process of calculating the number of shares due to any of the shareholders of SABB Takaful based on the exchange ratio results in fractional shares, the resulting number will be rounded to the lowest whole number. For example, if a shareholder of SABB Takaful owns (22) shares in SABB Takaful, he will be allocated (13) shares of the consideration shares and not (14) shares. The fractional shares will be collected and sold in the Saudi financial market at the market price at that time on behalf of the eligible shareholders of SABB Takaful, and then the proceeds resulting from the process of selling the fractional shares will be distributed to the beneficiaries, each according to what he is entitled to, within a maximum period of thirty (30) days from the date of completion of the Merger Transaction. The costs related to the sale of the fractional shares will be deducted from the total proceeds from the sale of the fractional shares.



The following table shows the details of ownership in Walaa Cooperative Insurance Company before and after the capital increase, as on 06/11/1443H (corresponding to 05/06/2022G):

Shareholder	Before the capital increase - Walaa Insurance Company				After the capital increase - Walaa Insurance Company			
	Number of Shares (Directly Owned)	Direct Ownership Ratio	Indirect Ownership Ratio	Total Ownership Ratio (Direct and Indirect)	Number of Shares (Directly Owned)	Direct Ownership Ratio	Indirect Ownership Ratio	Total Ownership Ratio (Direct and Indirect)
American Life Insurance <sup>*</sup>	3,551,911	5.49%	None	5.49%	3,551,911	4.18%	None	4.18%
Arab National Bank <sup>**</sup>	3,545,146	5.48%	None	5.48%	3,545,146	4.17%	None	4.17%
Board Members and Senior Executives of Walaa Insurance Company <sup>***</sup>	3,030,421	4.69%	1.23%	5.91%	3,030,421	3.56%	0.93%	4.49%
Non-public shareholders of Walaa Insurance Company (not including major shareholders, board members and senior executives)	792,340	1.23%	Not applicable	1.23%	792,340	0.93%	Not applicable	0.93%
Saudi British Bank					13,272,102	15.60%	None	15.60%
Members of the Board of Directors and Senior Executives of SABB Takaful			None				None	
The Public	53,719,888	83.11%	Not applicable		67,963,462	79.90%	Not applicable	
<b>Total</b>	<b>64,639,706</b>	<b>100%</b>	<b>Not applicable</b>		<b>85,058,325</b>	<b>100%</b>	<b>Not applicable</b>	

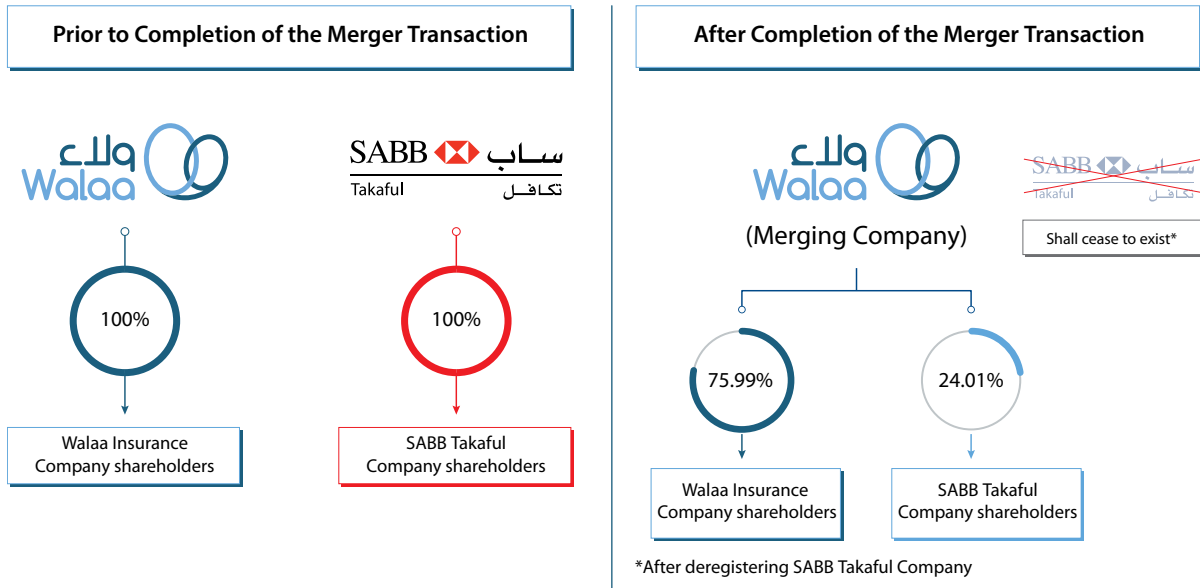
Source: Walaa Cooperative Insurance Company

<sup>\*</sup>It is worth noting that American Life Insurance Company's direct ownership percentage will decrease from (5.49%) to (4.18%) of the Walaa Cooperative Insurance Company's capital after the capital increase, and therefore it will not become a major shareholder in Walaa Cooperative Insurance Company after the capital increase. The percentage of its ownership is calculated within the ownership of the public.

<sup>\*\*</sup>It is worth noting that ANB's direct ownership percentage will decrease from (5.48%) to (4.17%) of the Walaa Cooperative Insurance Company's capital after the capital increase, and therefore it will not become a major shareholder in Walaa Cooperative Insurance Company after the capital increase. The percentage of its ownership is calculated within the ownership of the public.

<sup>\*\*\*</sup> The indirect ownership of the members of the Board of Directors results from the indirect ownership of Khalifa Abdul Latif Al Melhem - a member of the Board of Directors - resulting from his direct and indirect ownership in Khalifa Abdul Latif Al Melhem Company Limited, and the direct ownership of Mohammed Khalifa Al Melhem and Abdulaziz Khalifa Al Melhem (sons of Khalifa Abdul Latif Al Melhem) and the direct ownership of Fahd Suleiman Muhammad Balghoneim (father of Hatem Fahd Balghoneim - a member of the Board of Directors -), the direct ownership of Dina Abdul Ilah Al-Juaid (the wife of Hatem Fahd Balghoneim), and the direct ownership of Abdul Latif Hamad Al Jabr (the father of Hisham Abdul Latif Al Jabr - a member of the Board of Directors -).

Walaa Cooperative Insurance Company has appointed Al-Jazira Capital Company as a financial advisor in relation to the Merger Transaction, and the following is a simplified model of the structure of the Merger Transaction:



## 4.2 Rationale of the Merger Transaction and the Implications for Walaa Insurance Company

### 4.2.1 Important Notice

The information contained in this section reflects the current opinion of Walaa Cooperative Insurance Company, represented by the opinion of its board members regarding the benefits and advantages currently expected to be achieved from the Merger Transaction. We would like to point out that the information contained in this section includes expectations and future statements and is therefore subject to risks and fluctuations and should not be relied upon completely. For more information on these risks, please refer to Section No. (2) of this circular ("**Risk Factors**"). It should also be noted that the information in this section has been included based on preliminary assessments conducted by Walaa Cooperative Insurance Company and is therefore subject to change after completion studies and analyzes of how to merge the business of Walaa Cooperative Insurance Company and SABB Takaful, bearing in mind that there is no intention to update or revise any of the information, expectations and future statements contained in this section unless such update or revision is required by the relevant regulations. Any information in this section shall be deemed to be projections or predictions about the current or future financial performance of Walaa Cooperative Insurance Company.

### 4.2.2 Rationale of the Merger Transaction and the Implications for Walaa Insurance Company

The rationale of the Merger Transaction revolves around the competitive market share in the insurance sector, which is currently divided among 28 insurance companies. According to the Saudi Insurance Market Report for 2021G issued by the Saudi Central Bank, the 8 largest insurance companies accounted for 77.2% of the total written insurance premiums in 2021G, amounting to 42.03 billion Saudi riyals. The insurance sector in the Kingdom of Saudi Arabia faced in 2020G, 2021G and this year 2022G, several completed mergers between insurance companies, in addition to the announcement of two mergers that are still in progress. The insurance sector is expected to witness more mergers and given that one of the initiatives of the Financial Sector Development Program included encouraging and facilitating mergers in the insurance sector, which aims to sustain the sector's growth, stability and durability, increase its contribution to the GDP, diversify and digitize its products, and enhance innovation and competition. It is worth noting that if the market share in the insurance sector is concentrated on a limited number of companies, small companies will lose their ability to control the pricing of their products, as they must take into account the prices applied by large companies when determining the prices of their products. The market share of Walaa Cooperative Insurance Company amounted to (5.6%) of the total written premiums for the year 2021G, and the market share of the SABB Takaful amounted to (0.5%) of the total written premiums for the year 2021G, and the combined market share of Walaa Cooperative Insurance Company and SABB Takaful amounted to (6.1%) of the total written insurance premiums for the year 2021G.

The proposed Merger Transaction of Walaa Cooperative Insurance Company with SABB Takaful is expected to contribute to acquiring a larger market share, thus enhancing the competitive position of the merging company upon completion

of the Merger Transaction. The members of the Board of Directors of Walaa Cooperative Insurance Company believe that the experience possessed by the SABB Takaful team and the technical infrastructure owned by SABB Takaful with regard to insurance of protection and long-term savings will be a positive point with a comparative advantage to improve the market share of the merging company with regard to the protection and savings insurance market in particular. It is worth noting that the merging company currently has a valid license to provide protection and savings products. The desired benefits of the merger are summarized in enhancing competitiveness in the sector, improving operational efficiency, reducing expenditures, attracting and maintaining qualified human competencies, and other effects that are positively reflected on the Kingdom's economy, the financial sector, the insurance sector, the insured and the beneficiaries of insurance coverage. In addition, since the merging company will have a stronger capital, it will be more able to bear risks, absorb more insurance underwritings, and provide better insurance services to its clients. It is also expected that the new capital of the merging company will contribute to improving the ability of the merging company to invest its money and thus increase the investment returns resulting from those investments. On the other hand, it is expected that the new capital of the merging company will contribute to obtaining a better evaluation by international financial rating agencies. In addition, due to the expected increase in the volume of business, the merging company will have a better ability to negotiate the rates of reinsurance operations with the reinsurance companies.

The Board of Directors of Walaa Cooperative Insurance Company believes that the merging company will be able to reduce the ratio of operating expenses to the total written insurance premiums, in proportion to the size of its new business, which will include the business of SABB Takaful. In addition, the Board of Directors of Walaa Cooperative Insurance Company believes that the merging company will be able in the long term to offer more competitive rates to its customers in the insurance market in the individual and corporate sectors, when the business merger is completed.

The rationale of the Merger Transaction is summarized, for example, but not limited to the following:

- Increasing and diversifying the customer base; and
- Improving the ability of the merging company to invest its money; and
- Reducing the ratio of operating expenses to total written premiums; and
- Improving the merging company's ability to negotiate rates with reinsurers; and
- The ability of the merging company to provide insurance products covering all insurance sectors, especially the protection and savings insurance sector for individuals; and
- Enhancing the geographical spread of the merging company's business, specifically in the central region; and
- Improving the capital of the merging company; and
- The ability to offer insurance products at more competitive prices in the long term; and
- The ability of the merging company to maintain the current assessment in the short term and obtain a better assessment in the long term, by international financial rating agencies; and
- Benefiting from the integration of administrative and technical expertise that may result from the business merger; and
- Strengthening banking insurance sales channels and expanding the scope of marketing and selling insurance products through banks.

It is worth noting that the Merger Transaction is endorsed and recommended by the Boards of Directors of Walaa Cooperative Insurance Company and SABB Takaful.

### 4.3 The planned change in the board of directors of the merging company

Walaa Cooperative Insurance Company is currently managed by a board of directors consisting of 11 members and they are as follows:

1. Mr. Suleiman bin Abdullah Al-Qadi, Chairman of the Board of Directors and a non-executive member.
2. Mr. Khalifa bin Abdullatif Al-Mulhim, Vice Chairman of the Board of Directors and a non-executive member.
3. Mr. Sulaiman bin Abdulaziz Al-Tuwaijri, Non-Executive Member.
4. Mr. Wassef Salem Al-Jabshah, Non-Executive Member.
5. Mr. Waleed bin Muhammad Al-Jaafari, Non-Executive Member.
6. Mr. Jamil bin Abdullah Al-Mulhim, Independent Member.
7. Mr. Hisham bin Abdullatif Al-Jabr, Non-Executive Member.

8. Mr. Abdullatif bin Khalifa Al-Mulhim, Non-Executive Member.
9. Mr. Osama bin Mirza Al-Khunaizi, Independent Member.
10. Mr. Hatem bin Fahd Balghoneim, Independent Member.
11. Mr. Abdulaziz bin Saud Al Shabibi, Independent Member.

Current senior executives of Walaa Cooperative Insurance Company are:

1. Mr. Johnson Varghese, Chief Executive Officer.
2. Mr. Muhannad Mahmoud El-Desouky, Chief Financial Officer.
3. Mr. Wassef Farouk Manhas, Chief Technical Officer for General Insurance and Motor Vehicles.
4. Mr. Ghayas Hassan Khan, Chief Technical Officer for Medical Insurance, Protection and Savings.
5. Mr. Fahad Khaled Abalkhail, Executive Vice President of Sales and Marketing.
6. Mr. Turki Abdulaziz Al-Buraik, Executive Vice President of Human Resources and Public and Government Relations.

After the completion of the Merger Transaction, Mr. (Sulaiman bin Abdullah Al-Qadi) will remain as Chairman of the Board of Directors and Mr. / (Khalifa bin Abdullatif Al-Mulhim) as Vice Chairman of the Board of Directors.

The following table shows the executive management of the merging company

Name	Position in the merging company	Current Position
Johnson Varghese	Chief Executive Officer	Chief Executive Officer - Walaa Cooperative Insurance Company
Muhannad Mahmoud El-Desouky	Chief Financial Officer	Chief Financial Officer - Walaa Cooperative Insurance Company
Wassef Farouk Manhas	Chief Technical Officer for General Insurance and Motor Vehicles	Chief Technical Officer for General Insurance and Motor Vehicles - Walaa Cooperative Insurance Company
Ghayas Hassan Khan	Chief Technical Officer for Medical Insurance, Protection and Savings	Chief Technical Officer for Medical Insurance, Protection and Savings - Walaa Cooperative Insurance Company
Fahad Khaled Abalkhail	Executive Vice President of Sales and Marketing	Executive Vice President of Sales and Marketing - Walaa Cooperative Insurance Company
Turki Abdulaziz Al-Buraik	Executive Vice President of Human Resources and Public and Government Relations	Executive Vice President of Human Resources and Public and Government Relations - Walaa Cooperative Insurance Company

As on the date of this circular, the executive management of the merging company is represented by the executive management of Walaa Cooperative Insurance Company only, and the executive management structure of the above merging company may be expanded during the integration process and after the completion of the Merger Transaction, and this requires obtaining the approval of the Nominations and Remunerations Committee and the approval of the Walaa Board of Directors.

It is also worth noting that the merging company will absorb all employees of the SABB Takaful, without imposing any mandatory layoff, and the capabilities and expertise of SABB Takaful employees will be utilized in the merging company according to the needs of the business merger process and the integration plan.

## 4.4 About SABB Takaful Operations

### A. Establishment

The establishment of SABB Takaful as a Saudi public joint stock company was approved by Royal Decree No. (M/60) dated 18/09/1427H (corresponding to 11/10/2006G) and Cabinet Resolution No. (108) dated 27/04/1428H (corresponding to 15/05/2007G), and the company was established in the city of Riyadh under Commercial Registration No. 1010234032 issued in Riyadh on 20/05/1428H (corresponding to 06/06/2007G), and insurance business license from the Saudi Central Bank No. (V.M.N/E/20079) dated 29/08/1428H (corresponding to 11/09/2007G), and listed its shares dated 01/06/1428H (corresponding to 16/06/2007G), and the capital of SABB Takaful upon incorporation amounted to (100,000,000) one hundred million Saudi riyals divided into (2,000,000) two million shares with a nominal value of (50) fifty Saudi riyals per share. SABB Takaful increased its capital in 2009 from (100,000,000) one hundred million Saudi riyals to (340,000,000) three hundred and forty million Saudi riyals, divided into (34,000,000) thirty-four million shares with a nominal value of (10) ten Saudi riyals per share.

The current capital of SABB Takaful is (340,000,000) three hundred and forty million Saudi riyals, divided into (34,000,000) thirty-four million shares, with a nominal value of (10) ten Saudi riyals per share, and all of those shares are fully paid-up and listed in the Saudi Stock Exchange since 01/06/1428H (corresponding to 16/06/2007G). SABB Takaful works in the field of general insurance, protection and savings insurance. The current headquarters of SABB Takaful is located in Riyadh.

The major shareholder in SABB Takaful is represented by the Saudi British Bank, which directly owns (65.00%) of the capital of SABB Takaful (and does not own any indirect ownership percentage in SABB Takaful), and the Saudi British Bank does not own any shares in Wala Cooperative Insurance before the Merger Transaction (and it will get a direct ownership percentage (15.6%) in Wala Cooperative Insurance Company after the Merger Transaction). It is worth noting that the Saudi British Bank will become a major shareholder in Wala Cooperative Insurance Company after the Merger Transaction.

### B. The fiscal year and the auditors

The fiscal year of SABB Takaful begins on the first of January and ends on December 31 of the same year of each Gregorian year. The General Assembly of SABB Takaful has appointed Mr. Ibrahim Ahmed Al-Bassam and Partners and Dr. Muhammad Al-Omari and Partners as its auditors.

### C. Capital Structure and Shareholders

The current capital of SABB Takaful is (340,000,000) three hundred and forty million Saudi riyals divided into (34,000,000) thirty-four million shares with a nominal value of (10) ten Saudi riyals per share. The following table shows the ownership structure of SABB Takaful as at the date of this circular:

Shareholder	Number of Shares	Direct Ownership Percentage (%)
Saudi British Bank	22,100,000	65.00%
Members of the Board of Directors and Senior Executives of SABB Takaful	None	None
The Public	11,900,000	35.00%
<b>Total</b>	<b>34,000,000</b>	<b>100.0%</b>

Source: Saudi Stock Exchange and SABB Takaful

## D. Overview of SABB Takaful Business

SABB Takaful provides various types of insurance services based on the principles of cooperative insurance and under the supervision of the Saudi Central Bank, which is the official regulator responsible for implementing the insurance companies' monitoring law and its implementing regulations in the Kingdom of Saudi Arabia. The insurance services offered by SABB Takaful in the Kingdom of Saudi Arabia include protection, savings and general insurance.

The following table shows the written insurance premiums for the group's portfolio by product for the financial years ending on December 31, 2018G, 2019G and 2020G.

Table: Written insurance premiums for the group's portfolio by product for the fiscal years ending on December 31, 2018G, 2019G and 2020G

Product	2018G (Thousands Saudi Riyals)	2019G (Thousands Saudi Riyals)	2020G (Thousands Saudi Riyals)	Annual change percentage 2018G - 2019G	Annual change percentage 2019G - 2020G	Compound annual growth rate 2018G - 2020G
Group Debt Protection Takaful Program	38,573	49,731	59,959	28.9%	20.6%	24.7%
Group Care Takaful Program	3,000	1,692	9,124	(43.6%)	439.2%	74.4%
<b>Total</b>	<b>41,573</b>	<b>51,422</b>	<b>69,083</b>	<b>23.7%</b>	<b>34.3%</b>	<b>28.9%</b>

Source: Financial Due Diligence Report

The following table shows the written insurance premiums for the individual portfolio by product for the financial years ending on December 31, 2018G, 2019G and 2020G.

Table: Written Premiums for Individuals Portfolio by Product for the Financial Years Ended on December 31, 2018G, 2019G and 2020G.

Product	2018G (Thousands Saudi Riyals)	2019G (Thousands Saudi Riyals)	2020G (Thousands Saudi Riyals)	Annual change percentage 2018G - 2019G	Annual change percentage 2019G - 2020G	Compound annual growth rate 2018G - 2020G
Savings Takaful Program	75,056	69,316	69,183	(7.6%)	(0.2%)	(4.0%)
Investment Takaful Program	2,673	7,415	13,888	177.4%	87.3%	127.9%
Care Takaful Program	243	348	447	43.2%	28.4%	35.6%
<b>Total</b>	<b>77,971</b>	<b>77,080</b>	<b>83,518</b>	<b>(1.1%)</b>	<b>8.4%</b>	<b>3.5%</b>

Source: Financial Due Diligence Report

The following table shows the written insurance premiums for the individual portfolio by product for the financial years ending on December 31, 2018G, 2019G and 2020G.

Table: Written Premiums for Individuals Portfolio by Product for the Financial Years Ended on December 31, 2018G, 2019G and 2020G.

Product	2018G (Thousands Saudi Riyals)	2019G (Thousands Saudi Riyals)	2020G (Thousands Saudi Riyals)	Annual change percentage 2018G - 2019G	Annual change percentage 2019G - 2020G	Compound annual growth rate 2018G - 2020G
Property Protection Takaful Program	13,395	11,563	23,499	(13.7%)	103.2%	32.5%
Cargo Takaful Program	3,420	4,474	6,707	30.8%	49.9%	40.0%
Money Takaful Program	314	567	7,695	80.6%	1257.1%	395.0%
Other	3,294	10,048	11,179	205.0%	11.3%	84.2%
<b>Total</b>	<b>20,422</b>	<b>26,651</b>	<b>49,080</b>	<b>30.5%</b>	<b>84.2%</b>	<b>55.0%</b>

Source: Financial Due Diligence Report

## E. Reinsurance

For the purpose of reducing the risks of the insurance business and ensuring the stability of operations and capital sources, and to reduce the risk of losses and for the purpose of contributing to the stability of profitability, SABB Takaful reinsures part of the risks insured under its insurance operations. This is in line with the executive regulations issued by the Saudi Central Bank. To reduce the risk of reinsurance concentration, SABB Takaful has established reinsurance programs with many well-known international reinsurance companies and a local reinsurance company. Whereas, SABB Takaful deals with many reinsurance companies whose classification is not less than the minimum, as stipulated in the regulation for reinsurance business issued by the Saudi Central Bank. As follows:

Rating Company	Minimum Rating
AM Best	B+
Standard & Poor's Corporation (S&P)	BBB
Moody's Investor Service (Moody's)	Baa

The following table provides a definition of the rating types for the AM Best Company:

AM Best Company Rating	
Rating	Rating Definition
A+	A rating by AM Best means that the rated entity has a superior ability to meet its continuing insurance obligations.
A	A rating by AM Best means that the rated entity has an excellent ability to meet its continuing insurance obligations.
A-	A rating by AM Best means that the rated entity has an excellent ability to meet its continuing insurance obligations.
B++	A rating by AM Best means that the rated entity's financial strength is subject to adverse changes in underwriting and economic conditions.

The following table provides a definition of the rating types for a Standard & Poor's Corporation (S&P):

Standard & Poor's Corporation (S&P) Rating	
Rating	Rating Definition
AA	A credit rating by Standard & Poor's means that the rated entity has a very high ability to meet its financial obligations. It should be noted that no positive sign (+) has been added to the rating score to show the relative position within the rating categories, as the positive sign (+) indicates the upper limit in the "AA" group (very low risk).
AA	A credit rating by Standard & Poor's means that the rated entity has a very high ability to meet its financial obligations. It should be noted that no positive sign (+) or negative sign (-) has been added to the rating score to show the relative position within the rating categories, as not adding the sign indicates the average limit in the "AA" group (very low risk).
AA-	A credit rating by Standard & Poor's means that the rated entity has a very high ability to meet its financial obligations. It should be noted that a negative sign (-) has been added to the rating score to show the relative position within the rating categories, where the negative sign (-) indicates the minimum in the "AA" group (very low risk).
A+	A credit rating by Standard & Poor's means that the rated entity has a high ability to meet its financial obligations but is somewhat vulnerable to the adverse effects of changes in economic conditions. It should be noted that a positive sign (+) has been added to the rating score to show the relative position within the rating categories, where the positive sign (+) indicates the upper limit in the "A" group (low risk).
A	A credit rating by Standard & Poor's means that the rated entity has a high ability to meet its financial obligations. It should be noted that no positive sign (+) or negative sign (-) has been added to the rating score to show the relative position within the rating categories, as not adding the sign indicates the average limit in the "A" group (low risk).
A-	A credit rating by Standard & Poor's means that the rated entity has a high ability to meet its financial obligations, but is somewhat vulnerable to the adverse effects of changes in economic conditions. It should be noted that the negative sign (-) has been added to the rating score to show the relative position within the rating categories, where the negative sign (-) indicates the minimum in the "A" group (low risk).
BBB	A credit rating by Standard & Poor's means that the rated entity has sufficient ability to meet its financial obligations. But it is likely to weaken in favorable or changing economic conditions. It should be noted that no positive sign (+) or negative sign (-) was added to the rating score to show the relative position within the rating categories, as not adding the sign indicates the average limit in the "BBB" group (average quality).



The following table provides a definition of rating types for Moody's Investor Service (Moody's):

Moody's Investor Service (Moody's) Rating	
Rating	Rating Definition
A3	Rating by Moody's means that the entity is rated as upper medium and is subject to low credit risk. It should be noted that the number (3) has been added to the classification score to show the relative position within the classification categories, as the number (3) refers to the minimum in the "A" group.

The ratings mainly indicate the strength of the financial position of the reinsurance company and its efficiency in covering claims, in addition to the quality of its service and the strength of its reinsurance programs. SABB Takaful deals with more than 40 reinsurance companies rated by international rating agencies.

The following table shows the reinsurance companies that SABB Takaful deals with and the rating of each reinsurance company.

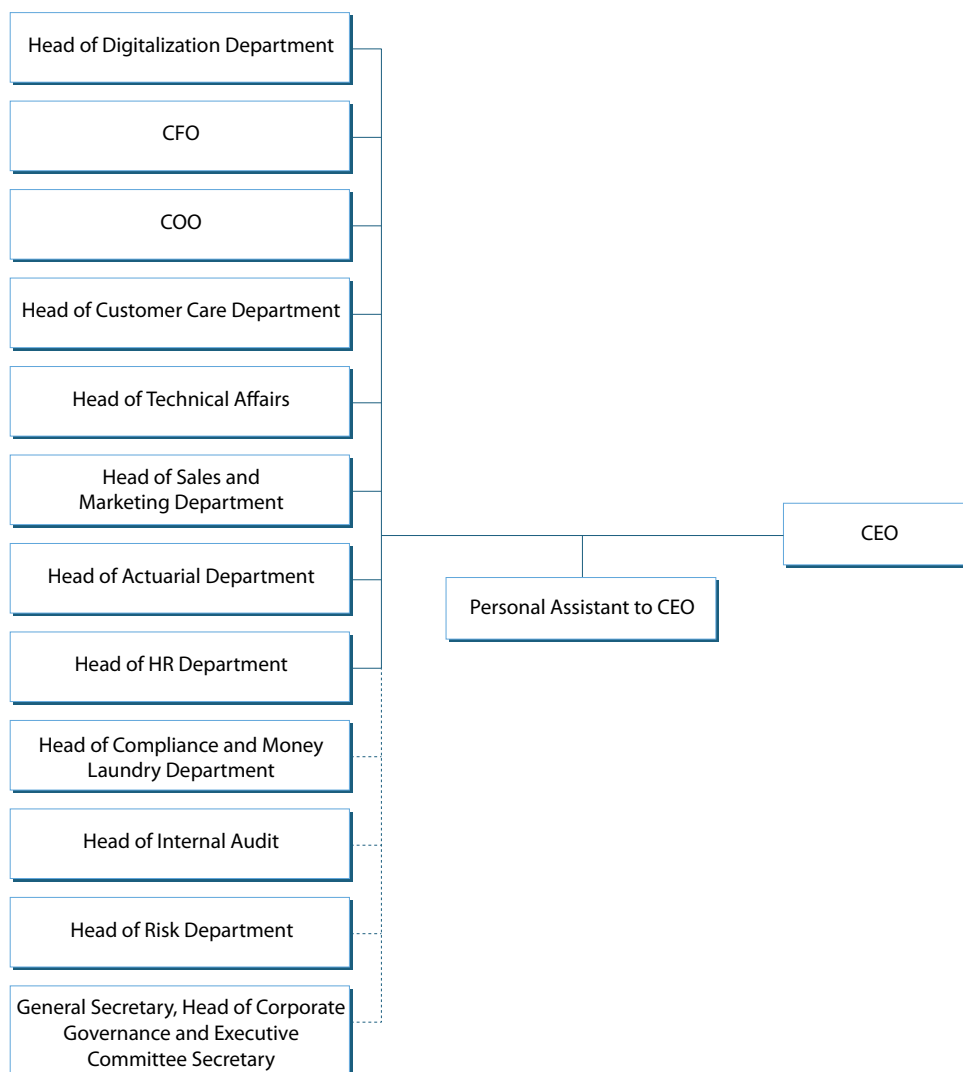
The following table shows the reinsurance companies that SABB Takaful deals with:

No.	Reinsurer	Country	Rating	Rating Company
1	Arab Business Community Insurance Company	UAE	A-	AM Best
2	Active Capital Reinsurance Company Limited	United States of America	A-	AM Best
3	Abu Dhabi National Insurance Company (ADNIC)	UAE	A	AM Best
4	IIG Middle East and Africa Company Limited	UAE	A+	S&P
5	Al Ahlia Insurance Company	Kuwait	A-	AM Best
6	Al Dhafra Insurance Company	UAE	B++	AM Best
7	Gulf Insurance Company	Qatar	BBB	S&P
8	Allianz International Insurance Company	United Kingdom	AA	S&P
9	Antarah Reinsurance Company	UAE	A	S&P
10	Argo International Insurance Company Limited	UAE	A-	AM Best
11	Arma Insurance Company	UAE	A+	S&P
12	Aspen Insurance Holding Company	Switzerland	A	S&P
13	Aviva Insurance Company	United Kingdom	A-	S&P
14	AXA Insurance Company	UAE	A-	AM Best
15	Barents Reinsurance Company	Lebanon	A	AM Best
16	Berkshire Hathaway International Insurance Co.	UAE	AA+	S&P
17	BMI Reinsurance Company	United States of America	A-	AM Best
18	Chaser Insurance Company	United Kingdom	A	AM Best
19	Emerald Insurance Company	South Africa	AA-	S&P
20	Generali Insurance Company	United Kingdom	AA-	S&P
21	Hannover Reinsurance Company	Bahrain	AA-	S&P
22	Houston Casualty Reinsurance Co.	United Kingdom	A+	AM Best
23	Korean Reinsurance Company	UAE	A	S&P
24	Kuwait Reinsurance Company	Kuwait	A-	AM Best
25	Liberty Insurance Brokers Co.	UAE	A	AM Best
26	Lloyd's Insurance Company	United Kingdom	AA+	S&P
27	Markel International Insurance Company	UAE	A+	AM Best
28	Middle East and North Africa Reinsurance Company	UAE	A-	AM Best

No.	Reinsurer	Country	Rating	Rating Company
29	Misr Insurance Company	UAE	B++	AM Best
30	Munich Reinsurance Company	UAE	AA-	S&P
31	New India Assurance Company	UAE	B++	AM Best
32	Ocean Reinsurance Company	Panama	A-	AM Best
33	Oman Insurance Company	UAE	A-	S&P
34	Pinnacle Reinsurance Company	Australia	A	AM Best
35	Probitas Reinsurance Company	United Kingdom	A+	AM Best
36	Protection Reinsurance Company	United Kingdom	A	S&P
37	QBE Insurance Group Limited	UAE	A+	S&P
38	Royal & Sun Alliance Insurance Company	United Kingdom	A	S&P
39	Saudi Reinsurance Company	KSA	A3	MOODY'S
40	Central Reinsurance Corporation	Morocco	B++	AM Best
41	Swiss Reinsurance Group	Switzerland	AA-	S&P
42	Talbot Insurance Company Limited	United Kingdom	A	AM Best
43	Zurich Insurance Group	UAE	A+	AM Best
44	Jane Reinsurance Company	UAE	AA+	S&P
45	Central Reinsurance Fund	France	A-	S&P

Source: SABB Takaful

## F. Organizational Structure of SABB Takaful



Note: Head of Internal Audit Department and Head of Compliance shall report to the Audit Committee. Both shall only refer administratively to the CEO of the Risk Department

Head of Risk Department shall report to the Risk Committee and shall only refer administratively to the CEO

General Secretary, Head of Corporate Governance and Executive Committee Secretary shall report to the Company's Board of Directors and shall only refer administratively to the CEO

## G. Members of the Board of Directors and Executive Management of SABB Takaful

SABB Takaful is managed by a Board of Directors consisting of seven (7) members appointed by the Ordinary General Assembly of SABB Takaful. The Board of Directors has sub-committees that include the Executive Committee, the Audit Committee, the Nomination and Remuneration Committee, the Risk Management Committee and the Investment Committee. These committees support the role of the Board of Directors in following up and reviewing the activities of the SABB Takaful and providing the management with the necessary guidance and direction. These committees meet periodically to study various issues, carry out the tasks entrusted to them, and submit their reports to the Board of Directors.

The members of the SABB Takaful's Board of Directors, as of the date of this circular, consist of seven (7) members appointed for the session extending from 14/11/1443H (corresponding to 13/06/2022G) to 16/12/1446H (corresponding to 12/06/2025G), as follows:

	Name	Position	Representation	Ownership percentage in SABB Takaful	Representation as a board member or manager in other companies
1	Mr. Mohammed bin Abdulaziz Al-Shaya	Chairman of the Board - Non-Executive	Representative of the Saudi British Bank	None	<ul style="list-style-type: none"> <li>National Transformation Program</li> <li>Alessa Industries Company</li> <li>General Authority for Competition</li> <li>Saudi White Cement Company</li> <li>Amlak International Company</li> <li>HSBC Saudi Arabia Company</li> <li>Al Rabie Saudi Foods Company</li> </ul>
2	Mr. Yasser Al-Barrak	Board Member - Non-Executive	Representative of the Saudi British Bank	None	<ul style="list-style-type: none"> <li>Saudi British Bank</li> </ul>
3	Mr. Firas Abdulaziz Aba Al-Khail	Board Member - Independent	In his personal capacity	None	<ul style="list-style-type: none"> <li>Human Resources Development Fund (HRDF)</li> <li>Tamkeen Technologies Co.</li> <li>HADAF for Business Services Company</li> </ul>
4	Mr. Faris Fahid Al-Sharif	Board Member - Non-Executive	Representative of the Saudi British Bank	None	<ul style="list-style-type: none"> <li>Saudi British Bank</li> </ul>
5	Mr. Ayman Wajeeh Al-Taweel	Board Member - Independent	In his personal capacity	None	<ul style="list-style-type: none"> <li>Saudi Arabian Military Industries</li> <li>Aircraft Accessories and Components Company</li> <li>Saaf Housing Development Association</li> </ul>
6	Mr. Salman Ahmed Akbar	Board Member - Independent	In his personal capacity	None	<ul style="list-style-type: none"> <li>Yana Company</li> <li>Saudi Steel Pipe Company</li> <li>Twilight Liberty Company</li> <li>Al Baraka Bank (Pakistan)</li> </ul>
7	Mr. Mohamed Abdul Ramhan Al Mousa	Board Member - Non-Executive	Representative of the Saudi British Bank	None	<ul style="list-style-type: none"> <li>Saudi British Bank</li> </ul>

Source: SABB Takaful

The following table shows the members of the executive management of SABB Takaful and the number of shares they own in SABB Takaful:

Name	Position	Ownership percentage in SABB Takaful
Hussam Abdul Rahman Al-Khayal	Chief Executive Officer	None
Mslivan Lukathan	CFO (Acting)	None
Hamad Al-Mohammed	Head of Sales and Marketing Department	None
Faisal Al Arifi	Head of human resources department	None
Fouad Zafar	Head of the actuarial department	None
Rola Al-Smail	Acting Head of Governance Department and Secretary of the Board	None
Hussein Al Ahmad	Head of the Internal Audit Department	None
Raghad Al-Tuwairqi	Acting Head of Compliance	None
Nawal Al Shammari	Head of Risk	None
Amal Al Anzi	Head of Customer Care Department (Acting)	None

Source: SABB Takaful

## 4.5 Evaluation of Walaa Cooperative Insurance Company and SABB Takaful evaluation

It was agreed between Walaa Cooperative Insurance Company and SABB Takaful on the exchange ratio, which determines the number of shares that the shareholders of SABB Takaful will obtain in the merging company upon the implementation of the Merger Transaction, after negotiation and discussion between the two companies. During this negotiation phase, Walaa Cooperative Insurance Company took the advice of its advisors in addition to reviewing the necessary professional care statements of SABB Takaful's business.

The discussions that took place regarding the exchange ratio were subject to the provisions of the memorandum of understanding signed between Walaa Cooperative Insurance Company and SABB Takaful on 04/12/1442H (corresponding to 14/07/2021G), so that it was agreed between the two companies that if a final decision is reached regarding the Merger Transaction, it will be done by merging SABB Takaful into Walaa Cooperative Insurance Company through Walaa Cooperative Insurance Company issuing new shares to the shareholders of SABB Takaful in exchange for transferring the assets and liabilities of SABB Takaful to Walaa Cooperative Insurance Company (for more details on the agreed provisions for the merger please see section No. 6.5 "The Substantive Terms and Conditions and Preconditions or Undertakings in the Merger Agreement"), as it was agreed between the two companies that the evaluation process will be as follows:

- The book value of the equity after making the adjustments that will be agreed upon according to the results of the necessary professional examination and any other adjustments, provided that the book value of the equity is based on the financial statements announced of each of the two companies before or on the date of signing the Merger Agreement. Accordingly, the book value of equity methodology has been used (as published in the financial statements for the third quarter of 2021G), after making the necessary adjustments.

The following shows a table showing the evaluation method and the calculation of the exchange ratio

In Saudi Riyals, except as otherwise noted			
As in the announced financial statements for the third quarter of 2021G	Walaa Cooperative Insurance Company	SABB Takaful	Merging Company
A. Book Value of Equity as on 30/09/2021G*	869,538,000	300,816,000	
<b>Adjustments to the book value of equity of Walaa Cooperative Insurance Company</b>			
(-) Shortage of reserves for claims incurred but not reported to secure protection and savings	(6,925,000)		
(-) Additional precautions for existing receivables that are more than 360 days old	(1,625,000)		
(-) Adding precautions for debits from reinsurance	(1,114,000)		
(-) Write-off of the receivables required from the Saudi British Bank and about which there is a dispute	(4,211,000)		
(-) Additional precautions for existing receivables that are in an incorrect age category	(677,000)		
(-) Advance Payments	(267,000)		
(-) Non-refundable value added tax	(192,000)		
(-) Non-compliance with the requirements of refundable tax invoices	(245,000)		
(-) Expenses related to the Merger Transaction	(3,091,000)		
(+) Volume of maximizing the value of Walaa Cooperative Insurance company's investment in Najm Insurance Services Company	18,030,934		
(+) Re-evaluation of land owned by Walaa Cooperative Insurance Company compared to what was recorded in the financial statements for the third quarter of 2021G	8,933,957		Not applicable
B. Total adjustments for Walaa Cooperative Insurance Company (consisting of due diligence adjustments and the inputs of Walaa Cooperative Insurance Company and SABB Takaful agreed upon by both parties)	8,617,891		
<b>Adjustments to the book value of the equity of SABB Takaful</b>			
(-) Additional precautions for outstanding accounts receivable		(133,000)	
(-) Professional expenses related to IFRS17		(1,050,000)	
(-) Professional expenses related to the Merger Transaction		(5,711,000)	
(-) Obligations towards SABB Takaful employees		(3,900,000)	
(-) Differences resulting from the zakat examination for the year 2018G		(891,000)	
(-) Possible zakat liabilities for the years 2019G and 2020G		(877,000)	
(-) VAT paid and recorded as prepaid		(970,000)	
(-) Shortage of reserves for claims incurred but not reported - Technical reserves		(2,034,000)	
(-) Shortage of insufficient reserve of premiums		(5,655,000)	
(-) Shortage of life insurance reserves for individuals not linked to investment units		(2,200,000)	
C. Total adjustments for SABB Takaful (consisting of due diligence adjustments and the inputs of Walaa Cooperative Insurance Company and SABB Takaful agreed upon by both parties)		(23,421,000)	

In Saudi Riyals, except as otherwise noted			
As in the announced financial statements for the third quarter of 2021G	Walaa Cooperative Insurance Company	SABB Takaful	Merging Company
Final evaluation after due diligence amendments and the inputs of Walaa Cooperative Insurance Company and SABB Takaful agreed upon by both parties	(A + B) (878,155,891)	(A + C) (277,395,000)	(1,155,550,891)
Ownership in the merging company (%)	(75.99%)	(24.01%)	100%
<b>Number of Walaa Cooperative Insurance Company's currently issued shares (shares)</b>			<b>64,639,706</b>
<b>Number of SABB Takaful's currently issued shares (shares)</b>			<b>34,000,000</b>
<b>Number of shares to be issued to the shareholders of SABB Takaful (Shares)</b>			<b>20,418,619</b>
<b>Exchange ratio for every (1) share owned in SABB Takaful (number of shares to be issued in favor of SABB Takaful shareholders ÷ number of SABB Takaful shares currently issued)</b>			<b>0.6005476176470590</b>
<b>Total number of shares of the merging company (after completing the Merger Transaction) (shares)</b>			<b>85,058,325</b>

The book value has been adjusted to exclude the actuarial loss of end-of-service benefits, which are part of the operating provisions of the policyholders

Based on the exchange ratio mentioned above, Walaa Cooperative Insurance Company will increase its capital and issue (20,418,619) ordinary shares with a nominal value of (10) ten Saudi riyals per share and registered in favor of the shareholders of SABB Takaful, with a total nominal value of (204,186,190) Saudi riyals. The total market value of the consideration shares, based on the exchange ratio and on the closing price of Walaa Cooperative Insurance Company's share, is (15.72) Saudi riyals as on (16/01/1444H) corresponding to (14/08/2022G) (according to the nearest trading day before publishing the circular) amounting to (320,980,691) Saudi riyals. The total value of the consideration shares that will be reflected in the financial statements of Walaa Cooperative Insurance Company will be determined at a later time based on the closing price of Walaa Cooperative Insurance Company shares on the last trading day preceding the effective date of the Merger Transaction decision.

The following is a table showing the value of the consideration according to the share price of Walaa Cooperative Insurance Company and its comparison with the market value of SABB Takaful:

<b>Number of shares that will be issued to the shareholders of SABB Takaful</b>		(20,418,619) Ordinary Share
<b>The total value of the consideration according to the closing price of Walaa Cooperative Insurance Company on 22/07/1443H (corresponding to 23/02/2022G) (which is the last trading day preceding the date of concluding the Merger Agreement)</b>	(365,493,280) SAR	<ul style="list-style-type: none"> <li>Closing price for Walaa Cooperative Insurance Company: (17.90) Saudi riyals.</li> </ul>
<b>The total value of the consideration according to the closing price of Walaa Cooperative Insurance Company on 16/01/1444H (corresponding to 14/08/2022G) (according to the nearest trading day before publishing the circular)</b>	(320,980,691) SAR	<ul style="list-style-type: none"> <li>Closing price for Walaa Cooperative Insurance Company: (15.72) Saudi riyals.</li> </ul>
<b>The market value of SABB Takaful on the date of 22/07/1443H (corresponding to 23/02/2022G) (which is the last trading day preceding the date of concluding the Merger Agreement)</b>	(936,700,000) SAR	<ul style="list-style-type: none"> <li>Closing price for SABB Takaful: (27.55 SAR).</li> <li>The number of shares currently issued in SABB Takaful (34,000,000) ordinary shares.</li> </ul>
<b>The market value of SABB Takaful on 16/01/1444H (corresponding to 14/08/2022G) (according to the nearest trading day before publishing the circular)</b>	(580,720,000) SAR	<ul style="list-style-type: none"> <li>Closing price for SABB Takaful: (17.08) Saudi riyals.</li> <li>The number of shares currently issued in SABB Takaful (34,000,000) ordinary shares.</li> </ul>
<b>The percentage of the difference between the market value of SABB Takaful and the total value of the consideration on the date of 22/07/1443H (corresponding to 23/02/2022G) (which is the last trading day preceding the date of concluding the Merger Agreement)</b>		Decrease about (60.98%)
<b>The percentage of the difference between the market value of the SABB Takaful and the total value of the consideration on 16/01/1444H (corresponding to 14/08/2022G) (according to the nearest trading day before publishing the circular)</b>		Decrease about (44.73%)



The following is a detailed table showing the method of calculating the exchange ratio:

Item	Note
Evaluation of the merging company (after the Merger Transaction)	Evaluation of Walaa Cooperative Insurance Company + Evaluation of SABB Takaful
The percentage of ownership of Walaa Cooperative Insurance Company in the merging company (after the merger)	$\frac{\text{Walaa Cooperative Insurance Evaluation}}{\text{Evaluation of the merging company (After the merger)}}$
The percentage of ownership of SABB Takaful in the merging company (after the merger)	$\frac{\text{Evaluation of SABB Takaful Company}}{\text{Evaluation of the merging company (After the merger)}}$
Number of shares held by Walaa Cooperative Insurance Company's current shareholders after the Merger Transaction	As before the capital increase, i.e. (64,639,706) shares
Number of new shares for current SABB Takaful shareholders	$\frac{\text{Number of Walaa Cooperative Insurance Company shares currently issued} \times \text{Number of Walaa Cooperative Insurance Company's ownership percentage in the merging company (after the merger transaction)}}{\text{Number of Walaa Cooperative Insurance Company shares currently issued}}$
Exchange ratio for every (1) share owned in SABB Takaful	$\frac{\text{Number of shares that will be issued to the shareholders of SABB Takaful Company for the purpose of the merger transaction}}{\text{Number of SABB Takaful Company shares currently issued}}$

## 4.6 Details of related parties who have a direct or indirect interest in the Merger Transaction

This Merger Transaction does not involve any related parties.

## 4.7 Ownership structure before and after the capital increase

Ownership structure before and after the capital increase

The following table shows the details of ownership in Walaa Cooperative Insurance Company before and after the capital increase, as on 06/11/1443H (corresponding to 05/06/2022G):

Shareholder	Before the capital increase - Walaa Insurance Company				After the capital increase - Walaa Insurance Company			
	Number of Shares (Directly Owned)	Direct Ownership Ratio	Indirect Ownership Ratio	Total Ownership Ratio (Direct and Indirect)	Number of Shares (Directly Owned)	Direct Ownership Ratio	Indirect Ownership Ratio	Total Ownership Ratio (Direct and Indirect)
American Life Insurance*	3,551,911	5.49%	None	5.49%	3,551,911	4.18%	None	4.18%
Arab National Bank**	3,545,146	5.48%	None	5.48%	3,545,146	4.17%	None	4.17%
Board Members and Senior Executives of Walaa Insurance Company***	3,030,421	4.69%	1.23%	5.91%	3,030,421	3.56%	0.93%	4.49%
Non-public shareholders of Walaa Insurance Company (not including major shareholders, board members and senior executives)	792,340	1.23%	Not applicable	1.23%	792,340	0.93%	Not applicable	0.93%

Shareholder	Before the capital increase - Walaa Insurance Company				After the capital increase - Walaa Insurance Company			
	Number of Shares (Directly Owned)	Direct Ownership Ratio	Indirect Ownership Ratio	Total Ownership Ratio (Direct and Indirect)	Number of Shares (Directly Owned)	Direct Ownership Ratio	Indirect Ownership Ratio	Total Ownership Ratio (Direct and Indirect)
Saudi British Bank					13,272,102	15.60%	None	15.60%
Members of the Board of Directors and Senior Executives of SABB Takaful			None				None	
The Public	53,719,888	83.11%	Not applicable		67,963,462	79.90%	Not applicable	
<b>Total</b>	<b>64,639,706</b>	<b>100%</b>	<b>Not applicable</b>		<b>85,058,325</b>	<b>100%</b>	<b>Not applicable</b>	

Source: Walaa Cooperative Insurance Company

<sup>†</sup>It is worth noting that American Life Insurance Company's direct ownership percentage will decrease from (5.49%) to (4.18%) of the Walaa Cooperative Insurance Company's capital after the capital increase, and therefore it will not become a major shareholder in Walaa Cooperative Insurance Company after the capital increase. The percentage of its ownership is calculated within the ownership of the public.

<sup>\*\*</sup>It is worth noting that ANB's direct ownership percentage will decrease from (5.48%) to (4.17%) of the Walaa Cooperative Insurance Company's capital after the capital increase, and therefore it will not become a major shareholder in Walaa Cooperative Insurance Company after the capital increase. The percentage of its ownership is calculated within the ownership of the public.

<sup>\*\*\*</sup> The indirect ownership of the members of the Board of Directors results from the indirect ownership of Khalifa Abdul Latif Al Melhem - a member of the Board of Directors - resulting from his direct and indirect ownership in Khalifa Abdul Latif Al Melhem Company Limited, and the direct ownership of Mohammed Khalifa Al Melhem and Abdulaziz Khalifa Al Melhem (sons of Khalifa Abdul Latif Al Melhem) and the direct ownership of Fahd Suleiman Muhammad Balghoneim (father of Hatem Fahd Balghoneim - a member of the Board of Directors -), the direct ownership of Dina Abdul Ilah Al-Juaid (the wife of Hatem Fahd Balghoneim), and the direct ownership of Abdul Latif Hamad Al Jabr (the father of Hisham Abdul Latif Al Jabr - a member of the Board of Directors -).

## 4.8 Pro-forma Financial Statements of Walaa Cooperative Insurance Company for the Purpose of the Merger Transaction

The following pro-forma and condensed consolidated financial information and related notes prepared by the management of Walaa Cooperative Insurance Company deal with clarifying the material effects of the Merger Transaction between Walaa Cooperative Insurance Company and SABB Takaful on the consolidated historical financial position statement and the consolidated historical income statement on December 31, 2020G, assuming that the two companies are merged indeed, as on January 1, 2020G, according to the structure that will result in the Merger Transaction, after making the necessary adjustments in accordance with the attached clarifications to the pro-forma financial information. The presentation of the pro-forma financial information is based on certain conceptual assumptions and has been prepared for illustrative purposes only. Because of their nature, the pro-forma statement of financial position and the pro-forma income statement treat a default situation and, therefore, do not represent or give a true picture of the financial position and financial performance of Walaa Cooperative Insurance Company upon completion of the Merger. Furthermore, the pro-forma financial information is only meaningful in conjunction with the historical financial statements of Walaa Cooperative Insurance Company and SABB Takaful for the fiscal year ended December 31, 2020G, and the following is a summary of the pro-forma consolidated financial statements:

### 4.8.1 Pro-forma Statement of Financial Position for Walaa Cooperative Insurance Company and SABB Takaful as of December 31, 2020G

	Note	Walaa Cooperative Insurance Company (the Merging Company)	SABB Takaful (the Merging Company) (Audited)	Conceptual Adjustments	Conceptual Adjustments ( Not Audited)
		(Audited)	(Audited)		
(Thousands Saudi riyals)					
<b>Assets</b>					
Cash and cash equivalents		687,297	68,215	13,582	769,094
Short Term Deposit		217,274	120,345	-	337,619
Insurance premiums and reinsurance receivables debit - net		333,020	45,260	-	378,280
Reinsurers' share of unearned premiums		363,490	25,527	-	389,017
Reinsurers' share of outstanding claims		162,891	46,757	-	209,648
Reinsurers' share of incurred but not reported claims		57,700	27,237	-	84,937
Reinsurers' share of the accounting reserves		138,959	-	-	138,959
Deferred insurance policy acquisition costs		25,355	3,947	-	29,302
Investments		515,790	559,960	-	1,075,750
Due from insurance operations		86,072	31,656	-	117,728
Prepaid Expenses and Other Assets		90,243	3,762	-	94,005
Long Term Deposits		50,000	-	-	50,000
Goodwill		24,415	-	57,513	81,928
Property and equipment, net		14,240	8	-	14,248
Intangible assets		34,720	2,029	-	36,749
Statutory deposit		64,640	34,000	(13,582)	85,058
Receivable statutory deposit income		10,114	4,612	-	14,726
Accrued commission income		3,882	-	-	3,882
<b>Total assets</b>		<b>2,880,102</b>	<b>973,315</b>	<b>57,513</b>	<b>3,910,930</b>

	Note	Walaa Cooperative Insurance Company (the Merging Company)	SABB Takaful (the Merging Company)	Conceptual Adjustments	Conceptual Adjustments
		(Audited)	(Audited)		(Not Audited)
(Thousands Saudi riyals)					
<b>Liabilities</b>					
Claims payable to insurance policyholders		34,794	-	-	34,794
Accrued expenses and other liabilities		152,190	49,435	-	201,625
Reinsurance balances payable		232,814	25,014	-	257,828
Unearned premiums		789,964	34,283	-	824,247
Unearned reinsurance commissions		20,472	4,722	-	25,194
Claims under settlement		233,498	56,628	-	290,126
Claims incurred not reported		170,977	36,383	-	207,360
Total accounting reserves		138,959	-	-	138,959
Liabilities to Shareholder Operations		86,072	31,656	-	117,728
End of service indemnity		21,724	6,316	-	28,040
Zakat and income tax		28,864	4,991	-	33,855
Return on commission income accrued to the Saudi Central Bank		10,114	4,612	-	14,726
Accumulated surplus payable		9,774	6,593	-	16,367
Reserve for Existing Risks		-	8,836	-	8,836
Reserve for items not linked to units		-	7,607	-	7,607
Takaful activities reserve		-	406,636	-	406,636
Reserve additional insurance premiums		26,010	-	-	26,010
Other technical reserves		8,642	-	-	8,642
<b>Total Liabilities</b>		<b>1,964,868</b>	<b>683,712</b>	<b>-</b>	<b>2,648,580</b>
<b>Equity Rights</b>					
Capital		646,397	340,000	(135,814)	850,583
Issuance bonus		103,277	-	142,930	246,207
Regular reserve		63,327	14,788	(14,788)	63,327
Retained earnings		81,304	(64,566)	64,566	81,304
Fair value reserve on available for sale investments		21,989	599	(599)	21,989
Defined benefit remeasurement reserve for insurance operations		(1,060)	(1,218)	1,218	(1,060)
<b>Total Equity</b>		<b>915,234</b>	<b>289,603</b>	<b>57,513</b>	<b>1,262,350</b>
<b>Total Liabilities and Equity</b>		<b>2,880,102</b>	<b>973,315</b>	<b>57,513</b>	<b>3,910,930</b>

#### 4.8.2 Pro-forma income statement for Walaa Cooperative Insurance Company and SABB Takaful as of December 31, 2020G.

	Note	Walaa Cooperative Insurance Company (the Merging Company)	SABB Takaful (the Merging Company) (Audited)	Conceptual Adjustments	Conceptual Adjustments
		(Audited)	(Audited)		(Not Audited)
(Thousands Saudi riyals)					
<b>Revenues</b>					
Total Written Premiums		1,472,703	201,681	-	1,674,384
Ceded Reinsurance Premiums					
- Local		(11,866)	(13,933)	-	(25,799)
- Foreign		(597,154)	(76,578)	-	(673,732)
Takaful plan holders' costs		-	16,796	-	16,796
		<b>(609,020)</b>	<b>(73,715)</b>	-	<b>(682,735)</b>
Excess loss expense		(13,747)	(975)	-	(14,722)
Net written premiums		849,936	126,991	-	976,927
Changes in unearned premiums		(109,854)	(18,580)		(128,434)
Changes in reinsurance share of unearned premiums		56,530	14,582	-	71,112
Net earned premiums		796,612	122,993	-	919,605
Reinsurance commissions		41,047	5,352		46,399
Other underwriting income		11,218	2,190	-	13,408
<b>Total revenue</b>		<b>848,877</b>	<b>130,535</b>	-	<b>979,412</b>
<b>Subscription costs and expenses</b>					
Total Paid Claims		592,437	46,075	-	638,512
Qualifying and eligibility of documents		16,507	67,140	-	83,647
Expenses incurred in connection with claims		33,602	978	-	34,580
Reinsurers' share of paid claims		(66,180)	(38,010)	-	(104,190)
<b>Net claims and other benefits paid</b>		<b>576,366</b>	<b>76,183</b>	-	<b>652,549</b>
Changes in outstanding claims		72,653	22,236	-	94,889
Changes in reinsurers' share of outstanding claims		(47,806)	(8,298)	-	(56,104)
Changes in claims incurred but not reported		(47,807)	8,748	-	(39,059)
Changes in the share of reinsurance claims from incurred claims but not reported		4,012	(18,312)	-	(14,300)
<b>Net incurred claims and other benefits</b>		<b>557,418</b>	<b>80,557</b>	-	<b>637,975</b>

	Note	Walaa Cooperative Insurance Company (the Merging Company)	SABB Takaful (the Merging Company) (Audited)	Conceptual Adjustments	Conceptual Adjustments
		(Audited)			( Not Audited)
		(Thousands Saudi riyals)			
<b>Subscription costs and expenses (continued)</b>					
Additional insurance premium reserves		21,040	-	-	21,040
Other technical reserves		(22,467)	-	-	(22,467)
Insurance policy issuance costs		48,229	14,863	-	63,092
Changes in the reserve of takaful activities		-	16,378	-	16,378
Changes in reserve for items not linked to units		-	1,137	-	1,137
Changes in the reserve for unexpired risks		-	2,947	-	2,947
Other underwriting expenses		32,365	-	-	32,365
<b>Total subscription costs and expenses</b>		<b>636,585</b>	<b>115,882</b>	<b>-</b>	<b>752,467</b>
<b>Net underwriting income</b>		<b>212,292</b>	<b>14,653</b>	<b>-</b>	<b>226,945</b>
<b>(Expense)/ Other operating income</b>					
(Provision)/ Reversal of doubtful receivable		(8,155)	(866)	-	(9,021)
General and administrative expenses		(141,849)	(48,869)	-	(190,718)
Commission income from investments		-	1,425	-	1,425
Income from deposits		9,624	2,911	-	12,535
Income from Sukuk		5,320	3,983	-	9,303
Realized dividends from investments		3,019	225	-	3,244
<b>Total other operating expenses</b>		<b>(132,041)</b>	<b>(41,191)</b>	<b>-</b>	<b>(173,232)</b>
Net income for the year before zakat, income tax and attribution of the surplus		80,251	(26,538)	-	53,713
zakat		(20,380)	(4,764)	-	(25,144)
Income tax		(1,122)	-	-	(1,122)
Total income for the year		58,749	(31,302)	-	27,447
Net surplus attributable to insurance operations		(7,626)	-	-	(7,626)
<b>Net income attributable to shareholders</b>		<b>51,123</b>	<b>(31,302)</b>	<b>-</b>	<b>19,821</b>
<b>Earnings per share</b>					
Basic and Diluted earnings per share		0.82	(0.92)		0.24
<b>Weighted average number of outstanding shares (in thousands)</b>		<b>62,699</b>	<b>34,000</b>		<b>83,118</b>



### 4.8.3 Notes to the pro-forma consolidated financial information

#### 1. Basis for preparation and presentation of pro forma financial information

This pro forma financial information and the accompanying notes describe the effects on the statement of financial position and income statement of a potential merger ("Merger Transaction") between Walaa Cooperative Insurance Company ("Walaa Cooperative Insurance Company" or the "Merging Company") and SABB Takaful ("SABB Takaful" or "Merging Company") as if it had occurred on January 1, 2020G. This hypothetical financial information was derived from the audited financial statements of Walaa Cooperative Insurance Company and SABB Takaful as on December 31, 2020G, which amended to reflect:

- **Effect of the Merger Transaction**

The Merger Transaction will take place by issuing (20,418,619) shares with a nominal value of (10) ten Saudi riyals per share by Walaa Cooperative Insurance Company to the shareholders of SABB Takaful, in the process of exchanging shares with a exchange ratio of (0.6005476176470590) shares in Walaa Cooperative Insurance Company for each share owned by SABB Takaful. After the Merger Transaction, the capital of the merging company after the completion of the Merger Transaction will be (850,583,250) Saudi riyals consisting of (85,058,325) shares with a nominal value of (10) ten Saudi riyals per share.

The pro forma financial information presentation of the merged entity is based on certain prognostic assumptions and has been prepared for illustrative purposes only. Because of their nature, the pro forma statement of financial position and pro forma income statement treat a hypothetical situation and therefore do not represent or give a true picture of the financial position and financial performance upon completion of the Merger Transaction. Furthermore, the pro forma financial information is only meaningful in conjunction with the historical financial statements of Walaa Cooperative Insurance Company and SABB Takaful for the fiscal year ending on December 31, 2020. The pro forma financial information does not take into account the positive effect of the synergies expected as a result of the Merger Transaction or the costs incurred to achieve the Merger Transaction. The pro forma financial information has been prepared and presented based on the accounting policies of Walaa Cooperative Insurance Company as shown in its audited financial statements for the year ended December 31, 2020G. The accounting policies used by Walaa Cooperative Insurance Company as shown in its audited financial statements for the year ended December 31, 2020G, do not differ materially from those used by SABB Takaful.

#### 2. Pro Forma Adjustment

The pro forma adjustments are based upon initial estimates and changeable assumptions. The pro forma adjustments that included in pro forma financial information are as follows:

##### A. Recording the issuance of shares by Walaa Insurance Company to the shareholders of SABB Takaful:

For the purpose of pro forma financial information, the number of new shares that issued against Merger Transaction is calculated at the share exchange ratio of (0.6005476176470590) new share in Walaa Insurance Company for each single share owned in SABB Takaful as shown below:

Existing shares of SABB Takaful	34,000,000 shares
Exchange ratio	0.6005476176470590
<b>No. of shares to be issued in Walaa Insurance Company for the shareholders of SABB Takaful</b>	<b>20,418,619 shares</b>
Nominal value of shares issued by Walaa Insurance Company to the shareholders of SABB Takaful	SAR 204,186,190
Issued capital of Walaa Insurance Company	SAR 646,397,060
<b>Total capital Walaa Insurance Company after completion of the Merger Transaction</b>	<b>SAR 850,583,250</b>

## B. Recording the share premium of Walaa Insurance Company by the Merger Transaction

The shares value to be issued has been calculated on the basis of Walaa Insurance Company's closing price on the day before the signing of this Merger Agreement, i.e., February 24, 2022. This closing price was SAR 17 per share published on the Saudi Stock Exchange . The Purchase consideration is based upon the indicative price of share.

	(In Saudi Riyals)
Total consideration (20,418,619 share of SAR 17 per share)	347,116,523
Less: Par value of shares issued by Walaa Insurance Company to the SABB Takaful	(204,186,190)
<b>Share Premium</b>	<b>142,930,333</b>

## C. Recording the Goodwill representing increase in the consideration for the acquisition of the net assets of SABB Takaful as at December 31, 2020:

	(In Saudi Riyals)
Net assets of SABB Takaful as at December 31, 2020 (C1)	289,603,333
Less: total consideration paid for SABB's Equity (C2)	347,116,523
Goodwill (C2-C1)	57,513,190

## D. Exchange ratio under this Merger Agreement

	Walaa Insurance Company	SABB Takaful
Total shareholders' equity consideration as at September 30, 2021 (unaudited) (in '000 SAR)	869,538	300,106
Agreed Adjustments Amount	8,618	(22,711)
Total Adjusted Shareholders' Equity (unaudited) (in '000 SAR) (D1)	878,156	277,395
No. of outstanding shares (share) (D2)	64,639,706	34,000,000
Adjusted carrying value of share (In Saudi Riyals) (D1/ D2)	13.59	8.16
<b>Exchange ratio (No. ordinary share in Walaa to one share in SABB) (D3)</b>	<b>0.60054761764706</b>	

### 4.8.4 Comparison between KPIs of Walaa Insurance Company under Consolidated Pro-Forma Statements and Financial Statements of Walaa Insurance Company

The following key performance indicators (KPIs) were calculated as at December 31, 2020G as per Walaa Insurance Company and in accordance with the pro forma financial statements as follows:

KPI	Walaa Insurance Company (December 31, 2020)	Pro forma consolidated statements (December 31, 2020)
Growth rate of gross premiums written (calculated based on the gross premiums written of Walaa Insurance Company in 2019)	21.17%	37.76%
Gross premiums written (in '000 SAR)	1,472,703	1,674,384
Net premiums written (in '000 SAR)	849,936	976,927
Net income attributable to shareholders (in '000 SAR)	51,123	19,821
Total assets (in '000 SAR)	2,880,102	3,910,930
Total equity (in '000 SAR)	915,234	1,262,350

KPI	Walaa Insurance Company (December 31, 2020)	Pro forma consolidated statements (December 31, 2020)
Retention rate (Net premiums written / gross premiums written)	57.71%	58.34%
Loss rate (Net claims incurred/ net premiums written)	69.97%	69.37%
Profit margin (net income attributable to shareholders/ net underwriting income)	24.08%	8.73%
Return on equity (net income attributable to shareholders/ total equity)	5.58%	1.57%

#### 4.9 Earnings per share increase/ decrease as a result of the Merger Transaction

If the intended benefits of the merger (as described in Section 4.2.2 “Reasons of the Merger Transaction and its impact on Walaa Insurance Company” of this Circular) are realized, and if the merger is successful, then the Merger Transaction is expected to lead to an increase in earnings per share in the long-term. The key reasons that may contribute to increased earnings is that the Merging Company may be able to obtain higher turnover at more cost-saving costs upon the successful completion of the merger. Shareholders shall not rely on expectations of an increase in earnings per share when deciding to vote on merger decisions and not dependence completely on future expectations and reports. These reports should not be deemed to confirm that the earnings per share of Merging Company will equal or exceed the earnings per share of Walaa Insurance Company for the previous financial period.

The following table shows the earnings per share of both Walaa Insurance Company and SABB Takaful before the Merger Transaction and the per forma earnings per share after the Merger Transaction (based on the pro forma financial statements as if the Merger Transaction were in financial year 2020).

	Walaa Insurance Company 2020	SABB Takaful Company 2020	Consolidated Pro-Forma 2020
Earnings per share (SAR)	0.82	(0.92)	0.24

#### 4.10 Price of Walaa Insurance Company Shares

The following table shows the performance of Walaa Insurance Company’s shares at the end of each calendar month during the twelve months preceding the date of publishing the shareholders’ circular:

Date	Walaa insurance company’s closing price per share (SAR)
31/07/2022G	14.14
30/06/2022G	13.08
31/05/2022G	15.80
28/04/2022G	16.60
31/03/2021G	16.82
28/02/2022G	18.10
31/01/2022G	19.70
30/12/2021G	18.98
30/11/2021G	19.64
31/10/2021G	21.10
30/09/2021G	21.48
31/08/2021G	22.28
29/07/2021G	24.68

Source: Saudi Stock Exchange

# 5

## Financial Information

### 5.1 Financial information and management's discussion and analysis

#### 5.1.1 Introduction

The following discussion and analysis of SABB's financial position and results of its operation are based on the audited financial statements for the years ended December 31, 2018, December 31, 2019 and December 31, 2020, as well as the unaudited financial statements for the nine-month period ended September 30, 2021 and their accompanying notes (which are "period under analysis", "analysis period" or "historical period"). Those statements were audited by auditors with SABB Takaful.

Please note that the figures shown in this section have been rounded to the nearest thousand Saudi Riyals. Unless otherwise stated, the figures and ratios are rounded to the nearest decimal place, so the sum of those figures may differ from the figures in the tables. It should also be noted that all percentages, margins, annual expenses and compound annual growth rates are calculated on the basis of these rounded figures.

#### 5.1.2 Financial Statement Representations by directors of Walaa Insurance Company

The Board of Directors of Walaa Insurance Company has discussed and analyzed the financial position of SABB Takaful. The directors of Walaa Cooperative Insurance Company shall not be liable for the accuracy and completeness of the Information about SABB Takaful information contained in this section which relates only to SABB Takaful. The information in this section has been obtained from public sources (including SABB Takaful's financial statements) as well as the information provided by SABB Takaful. Under the Merger Agreement, SABB Takaful is obliged to supply Walaa Insurance Company with all the information required to prepare the circular. Moreover, SABB Takaful provided an assurance to Walaa Insurance Company under the Merger Agreement (as defined in such agreements) with respect to the accuracy and completeness of the information (in all material respects) provided to Walaa Insurance Company during the conducting the necessary professional care studies as at the date of its submission and that the information provided is not misleading in all material respects. In accordance with the Merger Agreement, SABB Takaful confirmed that it did not deliberately conceal any material information from Walaa Insurance Company except for information that was withheld by Walaa Insurance Company during the professional care studies. This information was withheld due to its confidentiality and the contractual or statutory restrictions preventing its disclosure.

For the purpose of this section, Walaa Insurance Company assumed that the financial information in this section have been obtained from the audited financial statements of SABB Takaful without any material amendment to it and that the financial statements of SABB Takaful have been prepared in accordance with the International Financial Reporting Standards (IFRS) and amended by Saudi Central Bank ("SAMA") for calculating zakat and taxes. For more details about the approved accounting framework of SABB Takaful, please see section 3.1.1 in relation of accounting policies.

Walaa Insurance Company assumed that it does not intend to make any material changes to SABB Takaful activities, and that any changes in its business activities will not have or may have a significant impact on the SABB Takaful's financial position within 12 months before the date of this circular.

#### 5.1.3 Accounting Policies

The accounting policies, estimates and assumptions used in the preparation of these condensed interim financial statements are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2020 except for the adoption of the new standards and applying amendments to existing standards, which had a non-material impact or had no financial impact on the condensed interim financial statements of SABB Takaful in the current period or previous periods, and which is expected to have a non-material impact for the future period.

## Standards in issue but not yet effective

SABB Takaful has not early adopted the following new standards that has been issued but is not yet effective for the accounting year of SABB Takaful beginning on January 1, 2021 and is currently evaluating their impact:

### IFRS 17 “Insurance Contracts”

#### Overview

This standard has been published on 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 2005, 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 comprises:
  - 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 but the CSM cannot be negative, so changes in future cash flows that are greater than the remaining CSM are recognized in profit or loss.

A report will be prepared on the impact of changes in the discount rate on profit or loss or other comprehensive income, depending on the accounting policies.

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, the CSM is also adjusted for in addition to adjustment under general model:

- The entity’s share of the fair value of underlying items; and
- The effect of the time value of money and 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 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 model remains applicable for the measurement of incurred claims. However, the entity is not required to adjust future cash flows for the time value of money and the effect of financial risk if those cash flows are expected to be paid/received in one year or less from the date the claims are incurred.

### Effective date

The effective date of IFRS 17 and the deferral of the IFRS 9 temporary exemption in IFRS 4, is currently January 1, 2023 and It will replace IFRS No. 4 “Insurance Contracts”. Earlier application is permitted if both IFRS 15 – Revenue from Contracts with Customers and IFRS 9 – Financial Instruments have also been applied. SABB Takaful expects a material impact on measurement, insurance disclosure and reinsurance that will affect the income list and financial position list. SABB Takaful decided not to early apply the new standard.

### 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

SABB Takaful 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 applying of IFRS 17, which requires the development and design of new business processes and procedures, including any system development required by IFRS 17 and detailed business needs assessment. The main areas being designed and the progress made by SABB so far are as follows:

Impact Area	Summary of impact
Governance and control	SABB Takaful has developed a comprehensive governance programme for IFRS 17 that includes the establishment of a control steering committee to monitor progress in the implementation and determination of roles and responsibilities of various stakeholders.
Operations area	SABB Takaful is proceeding on operational aspects of the design phase that include the development of a comprehensive data policy and dictionary of data. SABB Takaful is also finalizing structural designs for various subsystems. SABB Takaful has made progress by evaluating business requirements and is currently working to select vendors upon completion of the various processes required to transition and assessment the new resources required.
Technical and financial area	After making the policy decisions required by IFRS 17, SABB Takaful has completed various policy studies involving several technical and financial matters. Policy decisions are taken after the necessary discussions among the different stakeholders. Currently, the majority of the policy studies have been approved by SABB’s Steering Committee on the IFRS 17”.
Confirmation plan	In coordination with other stakeholders, SABB Takaful is working to finalise the confirmation plan for the transition and post-implementation period.



SABB Takaful has undertaken a gap analysis in 2019 and the key areas of gaps are outlined below. However, these gaps continue to be turned out later as part of the IFRS 17 applying.

Impact Area	Summary of impact
Financial impact	<p>The difference range between the profit model and the overall financial results of SABB Takaful depends on several factors, such as:</p> <p>The current accounting policy allows the loss contract to be offset against the profit contract. Separating the costly and non-costly contracts, and then separating the different accounting treatment of loss against the contractual service margin may lead to significant differences in the profits of SABB compared to the current portfolio.</p> <p>Decision on a transition approach may result in differences in future profit flows.</p>
Data impact	<p>In terms of hosting capacities, it is necessary to develop or substantially strengthen the data storage capacity to store the data input from the source systems and the dedicated storage capacity of the results.</p> <p>The standard requires retroactive application unless this is not feasible. Often, the required data for the transition (historical data) to make fully or modified retrospective calculations will be available. However, the process of identifying these historical assets is expected to be particularly difficult due to the manual nature of historical models and the archiving of data that were mainly managed in Excel.</p>
IT systems	<p>The calculation procedures and data storage capacities required under IFRS 17 (for the general model and the variable fee approach in particular) are much more complex than current reporting systems. The current models are considered unlikely to be sufficient, in the long term, to meet the requirements of IFRS 17 and may not fulfil the governance requirements that will be important given the accuracy of the information required.</p> <p>A contractual service margin solution will be needed as well as new models.</p>
Process impact	<p>New procedures are needed to support IFRS 17. These areas will include consolidation decisions, preliminary calculations, subsequent measurement, opening of CSM and risk adjustment accounts.</p>

## IFRS 9 – Financial instruments

This standard was published on July 24, 2014G 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, fair value through other comprehensive income or 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 would be 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 based only on 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 statement of income.

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 statement of income.

## 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.

### Effective date

The published effective date of IFRS 9 was January 1, 2018G. However, amendments to IFRS 4 – Insurance Contracts: Applying IFRS 9 – Financial Instruments with IFRS 4 – Insurance Contracts, published on September 12, 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.
  - Annual reporting periods beginning on or after January 1, 2023G. On March 17, 2020G, the IASB extended the effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4 to January 1, 2023. 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
- 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.

SABB Takaful has performed a detailed assessment beginning January 1, 2017: (1) The carrying amount of the SABB Takaful’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, SABB Takaful determined that it is eligible for the temporary exemption. Consequently, the SABB Takaful 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 SABB Takaful’s financial statements.

### Impact Assessment

As at December 31, 2020, SABB Takaful has total financial assets and insurance related assets amounting to SAR 833.6 million and SAR 103.4 million, respectively (as at December 31, 2019: SAR 808.27 million and SAR 60.58 million). Currently, the financial assets held at amortized cost consist of financial assets held until maturity, short-term deposits, cash and cash equivalents, legal deposit and certain other receivables amounting to SAR 420 million (as at December 31, 2019: SAR 424.40 million). The fair value of investments associated with the unit held in fair value through other comprehensive income as at December 31, 2020 amounted to SAR 406.6 million (as at December 31, 2019: SAR 376.8 million). For equity instruments, SABB Takaful expects to use the FVTOCI method based on the business models and the strategic nature of these investments. SABB Takaful also anticipates to use the “amortized cost” method for its investments in debt instruments based on nature and business models of SABB Takaful. According to IAS 39, investments related to units currently classified as available-for-sale will be carried out through FVTPL in accordance with IFRS 9. However, SABB Takaful has not conducted a detailed assessment to determine whether the debt instruments meet the debt principal and interest payment tests as required by IFRS 9. Credit risk exposure, concentration of credit risk and credit quality of these financial assets are mentioned in the Risk management policies. The SABB Takaful’s financial assets have low credit risk as at December 31, 2020 and 2019.

## D. Functional and Presentation Currency

“Saudi Riyals” is the SABB Takaful’s functional and presentation currency. These condensed interim financial statements have been presented in Saudi Arabian Riyals (SAR). All amounts in these financial statements have been rounded to the nearest Saudi Arabian Riyals thousands, except where otherwise indicated.

The significant accounting policies used in preparing these financial statements are set out below:

### Revenue recognition

#### Recognition of ceded and commission revenue

Ceded are recorded in the statement of income based on straight line method over the insurance policy coverage. Unearned ceded represent the portion of ceded written relating to the coverage period applicable in the reporting date. The change in the provision for unearned ceded is taken to the statement of income in the same order that revenue is recognised over the period of risk.

For unit-linked policies related to the unit, the costs of Takaful plan holder include fees of policy management, investment management, termination or other contract service. Fees may be for fixed amounts or may vary depending on the amounts managed and will generally be charged as an adjustment to the investment balance of policyholders. The costs of the Takaful plan holders are recognized in the same period when the fees are charged to the holders on the income list.

Commission revenue from Re-Takaful contracts related to General Takaful and Family Takaful segments is deferred and amortized on the straight-line method over the period of Re-Takaful contracts.

Re-Takaful commissions include sharing profits in Re-Takaful contracts. SABB Takaful recognizes its share of profits on an accrual basis when amounts may be determined with reasonable accuracy.

#### Investment Revenues

According to the actual profit rate, Investment revenues are calculated for held-to-maturity investments and Murabaha deposits.

Investment revenues include quantitative discounts relating to investments associated with the unit, which are calculated in accordance with the terms of the agreement with the fund manager and are accounted for on an accrual basis.

#### Re-Takaful

SABB Takaful assigns the Takaful risk,  $y$ , in the normal course of business, for all its departments. The Re-Takaful contracts are those entered into by SABB Takaful under which the company is compensated for losses arising from the Takaful contracts issued. The Re-Takaful arrangements do not relieve SABB Takaful from its obligations to policyholders.

The benefits to which SABB Takaful is entitled under the issued Re-Takaful contracts are recognized as Re-Takaful assets. These assets consist of the Re-Takaful share of paid claims and other receivables such as Re-Takaful commissions and the Re-Takaful share of outstanding claims that depend on the expected claims and benefits arising under the related Re-Takaful contracts.

Recoverable amounts from or due to Re-Takaful companies are recognized in a manner similar to those relating to the concerned Takaful contracts and in accordance with the terms of each Re-Takaful contract.

At each reporting date, SABB Takaful conduct an audit to ensure that there is evidence that the value of Re-Takaful assets is impaired. If there is such evidence, SABB Takaful will formally evaluate the recoverable amount. If the carrying value of the Takaful asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The impairment is also recognised in income statement.

#### Receivables

Contributions receivable are stated at gross written contribution receivable from Takaful contracts, less an allowance for any uncollectible amounts. Contributions and Re-Takaful 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 and whenever events or circumstances indicate that the carrying amount may not be recoverable, the impairment loss is recorded in the statement of income. Receivable balances are derecognised when the Company no longer controls the contractual rights that comprise the receivable balance, which is normally the case when the receivable balance is sold, or all the cash flows attributable to the balance are passed through to an independent third party. Receivables disclosed fall under the scope of IFRS 4 “Insurance contracts”.

## Investments

SABB Takaful's investments are classified as available-for-sale investments and held-to-maturity investments.

The classification is based on purpose of purchasing.

### 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 related statements of income under "Realized gain / (loss) on investments available-for-sale investments."

Dividend, commission income/ deduction of commissions 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 related statement of comprehensive income, as impairment charges.

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

Financial assets available-for-sale and held are intended to cover the liabilities associated with contract-linked units of assets for which the investment risk is mostly borne by the Takaful policyholders. These financial assets represent investments in units of the Mutual Funds which it easy to market it. Changes in the fair value of insurance liabilities are charged to other comprehensive income to match changes in the fair value of underlying investments in other comprehensive income.

### Held-To-Maturity Investments

Investments having fixed or determinable payments and fixed maturity are classified as "held-to-maturity investments" when the Company has the positive intention and ability to hold to maturity. These 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. Amortized 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 is estimated based on discounted cash flows using commission for items with similar terms and risk characteristics.

### De-Recognition of Financial Instruments

The derecognition of a financial instrument takes place when SABB Takaful 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 SABB Takaful has also transferred substantially all risks and rewards of ownership.

### Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a currently enforceable legal right to offset the recognised amounts and when SABB Takaful have 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 SABB Takaful 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 marketplace.

## Impairment of Financial Assets

SABB Takaful 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 becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties; or

Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in SABB Takaful, including:

- Adverse changes in the payment status of issuers or debtors in the Company; or
- National or local economic conditions at the country of the issuers that correlate with defaults on the assets.

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

- For assets carried at fair value, impairment is the significant or prolonged decline in the fair value of the financial asset.
- For assets carried at amortized cost, impairment is based on estimated future cash flows that are discounted at the original effective commission rate.

The determination of what is 'significant' or 'prolonged' requires judgement. A year of 12 months or longer is considered to be prolonged and a decline of 30% from original cost is considered significant as per SABB Takaful's policy. In making this judgement, SABB Takaful 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 current fair value, less any impairment loss on that investment previously recognised in the statement of income and statement of comprehensive income.

## Fixed Assets - Motor Vehicles

Motor vehicles are stated at cost less accumulated depreciation and any impairment losses, if any. 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 SABB Takaful 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 is depreciated less the estimated residual value of motor vehicles on the straight-line method over useful lives estimated 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 revenue- net" in the statement of income.

## Earnings Per Share (EPS)

SABB Takaful provides information on earnings per ordinary share of it. Basic earnings per share have been calculated by dividing the profits or losses attributable to the normal shareholders of SABB Takaful by the weighted average number of outstanding ordinary shares for the year.

## Cash Flow Statement

The SABB Takaful'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

SABB Takaful shall distribute 10% of net surplus arising from the Takaful Operations to Takaful policyholders and the remaining 90% to SABB Takaful shareholders in conformity with the insurance law and its implementing regulations issued by SAMA. Any deficit arising from Takaful operations is transferred to entire shareholders' operations.

## Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated depreciation 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.

The estimated useful lives for the current year are 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 the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify 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 derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

## Leases

### Right-of-use assets/ lease liabilities

At initial measurement, SABB Takaful reassesses at inception of a contract whether a 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 determined if most of the benefits will flow to SABB Takaful and SABB Takaful can direct the use of these assets.

Upon commencement or revaluation of the contract containing a lease element, SABB Takaful allocates the consideration in the contract to each lease element on the basis of its independent relative rates. However, for land and building leases where SABB Takaful is the lessee, it determines not to separate items not associated with the lease and accounting from items not associated with the lease as a single lease item.

### Right-Of-Use Assets

SABB Takaful applies cost model and measures right-of-use assets at cost:

- Less any accumulated depreciation and any accumulated impairment losses,
- Is adjusted for any re-measurement of the lease liability resulting from lease modifications.

In general, right-of-use assets are equal to rental liabilities. However, if there are additional costs such as site processing, non-refundable deposits, application funds, other transaction costs, etc., they must be added to the value of the right-of-use assets.

Right-of-use assets are subsequently depreciated on a straight-line basis from the date of commencement to the early end of the useful lives of the right-of-use assets or the end of the lease term. Estimated useful lives of right-of-use assets are determined on the same standard basis as property and equipment.

## Lease Liability

At initial recognition, the lease liability is the present value of remaining lease payments that are not paid to lessor using the interest rate included in such lease or incremental borrowing rate to SABB Takaful if it is impossible to determine the interest rate. In general, SABB Takaful uses the incremental borrowing rate as discount rate.

After the commencement of the lease, SABB Takaful measures the lease liabilities by:

- Increasing the carrying amount to reflect interest on the lease liability;
- Reducing the carrying amount to reflect the lease payments made; and
- Remeasuring the carrying amount to reflect any reassessment or lease modifications. The lease liabilities are measured by the amortized cost using the effective interest rate method and it will be remeasured when there is a change in future rentals arising from a change in index or price, if there is a change in SABB Takaful's estimate of the amount to be paid under the residual value guarantee, or if SABB Takaful changes its valuation if it is to exercise the option of purchase, addition or termination.

When the lease liability is re-measured in this way, the corresponding adjustment to the carrying value of the right-of-use asset is made, or recorded in the profit or loss if the carrying value of the right-of-use asset is reduced to zero.

## Short-Term Leases and Leases Of Low-Value Assets

SABB Takaful has resolved not to recognize right-of-use assets and lease liabilities for short-term leases for stores with a lease term of 12 months or less and leases of low-value assets, including IT equipment. SABB Takaful makes lease payments associated with leases as expense based on straight-line method 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).

## End of Service Benefits (EOSB)

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

## Provisions, Accrued Expenses and Other Liabilities

Provisions are recognised when SABB Takaful has an 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.

## Dividends

The dividend to SABB Takaful's shareholders is recognised as a liability in SABB Takaful's financial statements in the period when the dividend is approved by SABB Takaful's shareholders.



## Zakat and Income Tax

SABB Takaful is governed by the regulations in force in Zakat, Tax and Customs Authority. Zakat is calculated on shares of Saudi shareholders in equity or net income in accordance with the grounds set out in the zakat bases. Income tax is calculated on the share of foreign shareholders in adjusted net income for the year. Zakat and income tax are payable on a quarterly basis through the income statement. Additional due amounts, if any, are accounted for under the final assessments when determined.

## Deferred tax income

The deferred income tax is shown using the liability approach on provisional differences arising between carrying values of assets and liabilities for the purposes of the preparation of the financial report and amounts used for tax purposes. The amount of deferred tax provided is based on the anticipated method of achieving or settling carrying values of assets and liabilities using tax rates that were applied or shall be applied primarily at the reporting date. The deferred tax asset is only recognised to the extent that taxable profits are likely to be available in the future and accounts payables can be used. The deferred tax asset is reduced to the extent that the relevant tax benefits are not likely to be realized.

Deferred tax liabilities and assets shall not be recognised for temporary differences between carrying value and tax base for investments in foreign operations, as the group is able to control the timing of the reversal of temporary differences and it is likely that these differences will not be reversed in the near future.

Deferred tax income liabilities and assets are offset only when there is an enforceable legal right to offset between current tax assets and liabilities and where deferred tax balances are linked to the same tax authority. The offset is carried out between the current tax assets and liabilities only when the entity has an enforceable legal right to offset and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously.

Deferred and current tax is recognised in profit or loss, except where the tax relates to items included in other comprehensive income or directly in equity. In this case, the tax is also recognised.

## Cash and Cash Equivalents

Cash and cash equivalents consist of cash at bank and Murabaha deposits that have original maturity of less than three months from the date of acquisition. Murabaha deposits are considered deposits with local banks that have original maturity of less than three months from the date of acquisition which are listed at amortized cost and special returns are calculated on the basis of the actual profit rate.

## Short-term deposits

Short-term deposits represent deposits with local banks with original maturities of more than three months from the date of acquisition. The carrying value of short-term deposits are rounded off to the fair value at the date of the financial position statement.

## Foreign currencies

Transactions denominated in foreign currencies are retranslated to Saudi Riyals at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities balances 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 other 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 SABB Takaful's foreign currency transactions are primarily in US dollars, foreign exchange gains and losses are not significant and have not been separately disclosed.

## Operating segments

An operating segment is a distinguishable component of the SABB Takaful that is engaged in providing products or services (an operating segment), which is subject to risk and rewards that are different from those of other segments. The operating results of the segment are regularly reviewed by the Chief Operating Decision Maker (CODM) in order to allocate resources to each segment and to assess its performance and any separate financial information available. For management purposes, the SABB Takaful is organized into business units based on their products and services and has the following major reportable segments:

1. Family Takaful Products that meet individual consumer needs by protecting financial needs of family members in the event of death or disability of the policyholder, as well as child education, retirement savings, family protection and similar products. These products meet the needs of many segments of the Saudi market.
2. Group family Takaful that provides coverage for employees and their families in the event of death and permanent total disability. As it is presented as a package of Group Takaful solutions, it meets the needs of groups of different sizes and nature and is ideal for companies or institutions.
3. General Takaful Products for Business where they provide coverage related to property, personal accidents and marine cargo against unexpected events. Individual general Takaful programs provide protection for individuals and families against bad events in relation to household property, events while travelling and personal accidents for the policyholder.

The performance of the segment is assessed based on profit or loss of the segment which, in some respects, is measured differently from profit or loss on the financial statements. Zakat and income tax are managed on the basis of SABB Takaful as a whole and are not distributed to individual operating segments and allocated solely to shareholder operations.

No inter-segment transactions occurred during the period. If any transaction were to occur, it shall be occurred according to the transfer prices on a commercial basis and under the same terms as dealing with other parties. Segment revenue, expense and results will then include those transfers between operating segments which will then be eliminated at the level of the financial statements of SABB Takaful.

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 shall not include SABB Takaful's shareholder operations. Income earned from investment in Murabaha deposits and Sukuks is the only revenue-generating activity. Direct operating expenses and indirect expenses shall be distributed to this segment on an appropriate basis. Takaful operations Surplus for this sector are distributed appropriately.

Since SABB Takaful conducts all of its business in Kingdom of Saudi Arabia, hence, the reporting is provided only reports in the business segments.

## Statutory Reserve

In accordance with the SABB Takaful's articles of association, it shall allocate 20% of its annual net income to the statutory reserve until it has a reserve equal to the share capital of SABB Takaful. The statutory reserve is unavailable for distribution among SABB Takaful shareholders until the dissolution of SABB Takaful.

## Policy Maturity and Return

Return of the Takaful policy refers to that the Family Takaful policyholders for individuals terminate such policies whether partially or fully. The return of the Takaful policies registered according to notifications received and added to the income statement in the period in which the notification was provided. Benefits refer to the amount provided to the insurer at the end of the entitlement period for the Family Takaful contract for individuals. The return and maturity of the Takaful policies are calculated based on the terms of the Takaful contracts.

## Fair Values

Fair values 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 flows 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 are taken from observable market where possible, but where this is not feasible, a level of professional judgment is required in establishing fair values.

## Product classification

Takaful contracts are those contracts where SABB Takaful (the insurer) accepts significant Takaful risk from another party (the holders of the Takaful plans/ policies) by agreeing to compensate the Takaful policyholder if a specified uncertain future event (the insured incident) adversely affects the Takaful policyholder.

If the contract classified as a Takaful contract, the contract remains so for the remainder of the contract, even if the Takaful risks are substantially reduced during the period unless all rights and obligations are used or terminated.

In Family Takaful segment for individual, investment contracts represent those contracts that do not transfer financial risks without significant Takaful risks.

## 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, the current best estimates of future contractual cash flows, administration expenses and claims handling are used. 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.

## 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 Takaful premiums earned. All other 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 year and are treated as a change in accounting estimate.

The deferred policy acquisition costs are considered in the adequacy test of liabilities at each reporting date following the assessment of useful life of deferred policy acquisition costs and whether the impairment is required. Expected useful lives are assessed or whether any impairment of policies is needed at each reporting date or more frequently in the event of circumstances requiring 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 additional impairment write-offs in the statement of income.

## Claims

Claims consist of amounts payable to Takaful policyholders and third parties and related loss adjustment expenses, net of 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 insurer 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 of group family products and general Takaful products, a provision based on management's judgment and the SABB Takaful's prior experience is maintained for the cost of settling claims incurred but not reported including related claims handling costs at the statement of financial position date.

The outstanding claims are shown on a gross basis and the related share of the re-Takaful is shown separately. Further, the SABB Takaful 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.

## Takaful Activities Reserve

Takaful contracts are defined as those involving significant insurance risks in one case only, namely, that an insured incident may result in the insurer making substantial additional payments in any scenario except scenarios that lack commercial content, at the commencement of the contract. Such contracts remain insurance contracts until all rights and obligations are cancelled or terminated. Any contracts that are not considered insurance contracts in accordance with international financial report standards are classified as investment contracts.

This reserve is related to family Takaful contracts for individuals, who get human life insurance, such as death over a long period of time. Takaful premiums are directly recognized as liabilities. Such liabilities are increased or reduced by the change in unit prices as in the case of unit-related contracts and reduced by the costs of the Takaful plan holders or the revaluation of the Takaful plan. At the date of each report, this reserve is calculated on the basis of the actuarial valuation method by an independent actuarial expert using the Fund's current rate module.

For unit-linked insurance policies, the liability is equivalent to key investments. The investment components of these insurance contracts are designated as financial assets available for sale held to cover unit-linked liabilities. Changes in the fair value of insurance liabilities are charged to other comprehensive income to match changes in the fair value of underlying investments in other comprehensive income.

### Applicable Risk Reserve

At each statement of financial position date, the applicable risk reserve is calculated when the unearned ceded to all takaful contracts is not sufficient (based on actual experience) to meet the projected cost of future claims.

### Non-Unit-Linked Items Reserve

A reserve for non-unit-linked items is calculated based on the present value of assumed future expenses and claims less the present value of estimated future revenue arising from fees on all family Takaful policies for individual. The present value is calculated using prudent assumptions (margins added on the best estimates).

## 5.2 Outcomes of SABB Takaful's operations

### 5.2.1 SABB Takaful's Income statement

**Table No. (5.1): The Comprehensive Income Statement for the fiscal years ended on December 31, 2018G, 2019G and 2020G and the nine-month period ended on September 30, 2020G and 2021G:**

Thousand Saudi riyals	Fiscal Year 2018G (Audited)	Fiscal YEAR 2019G (Audited)	Fiscal YEAR 2020G (Audited)	Annual change percentage during 2018G -2019G	Annual Change percentage during 2019G - 2020G	Compound annual growth rate 2018G - 2020G	During the nine-month period ended on September 30, 2020G (Unaudited)	During the nine-month period ended on September 30, 2021G (Unaudited)	Change percentage during 2020G - 2021G
<b>Revenues</b>									
<b>Gross Underwritten Insurance Premiums</b>									
Family Takaful	119,544	128,502	152,601	7.5%	18.8%	13.0%	111,167	116,871	5.1%
General Takaful	20,422	26,651	49,080	30.5%	84.2%	55.0%	26,527	28,974	9.2%
<b>Total</b>	<b>139,966</b>	<b>155,153</b>	<b>201,681</b>	<b>10.9%</b>	<b>30.0%</b>	<b>20.0%</b>	<b>137,694</b>	<b>145,845</b>	<b>5.9%</b>
<b>Ceded Retakaful Premiums</b>									
Ceded Local Retakaful Premiums	(9,201)	(7,999)	(14,122)	(13.1%)	76.5%	23.9%	(6,123)	(19,010)	210.5%
Ceded Foreign Retakaful Premiums	(33,210)	(50,678)	(77,364)	52.6%	52.7%	52.6%	(52,300)	(37,145)	(29.0%)
takaful policyholders' fees	15,002	16,174	16,796	7.8%	3.8%	5.8%	12,501	14,027	12.2%
<b>Net Underwritten Insurance Premiums</b>	<b>112,558</b>	<b>112,650</b>	<b>126,991</b>	<b>0.1%</b>	<b>12.7%</b>	<b>6.2%</b>	<b>91,772</b>	<b>103,717</b>	<b>13.0%</b>
Change in Unearned Takaful Premiums	4,824	(6,138)	(18,580)	(227.2%)	202.7%	NA	(1,512)	12,403	(920.3%)

Thousand Saudi riyals	Fiscal Year 2018G (Audited)	Fiscal Year 2019G (Audited)	Fiscal Year 2020G (Audited)	Annual change percentage during 2018G -2019G	Annual change percentage during 2019G - 2020G	Compound annual growth rate 2018G - 2020G	During the nine-month period ended on September 30, 2020G (Unaudited)	During the nine-month period ended on September 30, 2021G (Unaudited)	Change percentage during 2020G - 2021G
Change in Retakaful (Retrocession) ceded of unearned premiums	(3,833)	3,977	14,582	(203.8%)	266.7%	NA	2,471	(9,238)	(473.9%)
<b>Net Earned Takaful Premiums</b>	<b>113,549</b>	<b>110,489</b>	<b>122,993</b>	<b>(2.7%)</b>	<b>11.3%</b>	<b>4.1%</b>	<b>92,731</b>	<b>106,882</b>	<b>15.3%</b>
Fees and commissions income	5,836	5,088	5,352	(12.8%)	5.2%	(4.2%)	3,848	6,751	75.4%
Income from other underwriting types	-	-	2,190	NA	NA	NA	1,999	111	(94.4%)
<b>Total revenues</b>	<b>119,385</b>	<b>115,577</b>	<b>130,535</b>	<b>(3.2%)</b>	<b>12.9%</b>	<b>4.6%</b>	<b>98,578</b>	<b>113,744</b>	<b>15.4%</b>
<b>Underwriting costs and expenses</b>									
Total Paid Claims	(45,338)	(39,239)	(47,053)	(13.5%)	19.9%	1.9%	(23,579)	(67,024)	184.3%
Retakaful (Retrocession) ceded of paid claims	34,888	31,181	38,010	(10.6%)	21.9%	4.4%	18,502	52,939	186.1%
Reinstatement and maturity of the policies	(95,954)	(81,688)	(67,140)	(14.9%)	(17.8%)	(16.4%)	(51,775)	(57,986)	12.0%
<b>Net paid claims and other benefits</b>	<b>(106,404)</b>	<b>(89,746)</b>	<b>(76,183)</b>	<b>(15.7%)</b>	<b>15.1%</b>	<b>(15.4%)</b>	<b>(56,852)</b>	<b>(72,071)</b>	<b>26.8%</b>
Changes in net outstanding claims	2,933	682	(3,924)	(76.7%)	(675.4%)	NA	(5,285)	2,905	(155.0%)
Changes in the net unreported incurred claims	1,058	(1,872)	(450)	(276.9%)	(76.0%)	NA	(1,423)	(5,808)	308.2%
<b>Net incurred claims and other benefits</b>	<b>(102,413)</b>	<b>(90,936)</b>	<b>(80,557)</b>	<b>(11.2%)</b>	<b>(11.4%)</b>	<b>(11.3%)</b>	<b>(63,560)</b>	<b>(74,974)</b>	<b>18.0%</b>
Change in Takaful Activities Reserve	17,983	4,610	(16,378)	(74.4%)	(455.3%)	NA	(12,291)	(11,831)	(3.7%)
Changes in the non-unit reserve	(1,268)	(891)	(1,137)	(29.7%)	27.6%	(5.3%)	15	7,040	46.833.3%
Changes in the unexpired risks reserve	2,541	(2,898)	(2,947)	(214.0%)	1.7%	NA	1,026	6,086	493.2%

Thousand Saudi riyals	Fiscal Year 2018G (Audited)	Fiscal Year 2019G (Audited)	Fiscal Year 2020G (Audited)	Annual change percentage during 2018G - 2019G	Annual change percentage during 2019G - 2020G	Compound annual growth rate 2018G - 2020G	During the nine-month period ended on September 30, 2020G (Unaudited)	During the nine-month period ended on September 30, 2021G (Unaudited)	Change percentage during 2020G - 2021G
The costs of underwriting insurance policies	(3,552)	(5,630)	(14,863)	58.5%	164.0%	104.6%	(10,802)	(13,128)	21.5%
<b>Total Underwriting costs and expenses</b>	<b>(86,709)</b>	<b>(95,745)</b>	<b>(115,882)</b>	<b>10.4%</b>	<b>21.0%</b>	<b>15.6%</b>	<b>(85,612)</b>	<b>(86,807)</b>	<b>1.4%</b>
<b>Net underwriting income</b>	<b>32,676</b>	<b>19,832</b>	<b>14,653</b>	<b>(39.3%)</b>	<b>(26.1%)</b>	<b>(33.0%)</b>	<b>12,966</b>	<b>26,937</b>	<b>107.8%</b>
<b>(Expenses)/ Income of other operations</b>									
General and administrative expenses	(42,767)	(50,686)	(49,735)	18.5%	(1.9%)	7.8%	(36,770)	(26,319)	(28.4%)
Discounts income	1,598	1,524	1,425	(4.6%)	(6.5%)	(5.6%)	990	1,202	21.4%
Deposits Income	5,312	6,440	2,911	21.2%	54.8%	(26.0%)	2,199	1,958	(11.0%)
Sukuk Income	4,237	3,792	3,983	(10.5%)	5.0%	(3.0%)	2,968	3,109	4.8%
Dividends	0	0	225	NA	NA	NA	155	211	36.1%
<b>Total other net operating expenses</b>	<b>(31,620)</b>	<b>(38,930)</b>	<b>(41,191)</b>	<b>23.1%</b>	<b>5.8%</b>	<b>14.1%</b>	<b>(30,458)</b>	<b>(19,839)</b>	<b>(34.9%)</b>
<b>Net income/ (loss) during the period before the distribution of the dividends and before the deduction of zakat and income tax</b>	<b>1,056</b>	<b>(19,098)</b>	<b>(26,538)</b>	<b>(1908.5%)</b>	<b>39.0%</b>	<b>NA</b>	<b>(17,492)</b>	<b>7,098</b>	<b>(140.6%)</b>
Net income during the period of Takaful operations	0	0	0	NA	NA	NA	-	(596)	NA
<b>Net income/ (loss) during the period attributable to shareholders before the deduction of zakat and income tax</b>	<b>1,056</b>	<b>(19,098)</b>	<b>(26,538)</b>	<b>(1908.5%)</b>	<b>39.0%</b>	<b>NA</b>	<b>(17,492)</b>	<b>6,502</b>	<b>(137.2%)</b>
Zakat and tax during this period	(6,034)	(5,702)	(4,764)	(5.5%)	(16.5%)	(11.1%)	(3,804)	(4,446)	16.9%

Thousand Saudi riyals	Fiscal Year 2018G (Audited)	Fiscal Year 2019G (Audited)	Fiscal Year 2020G (Audited)	Annual change percentage during 2018G - 2019G	Annual change percentage during 2019G - 2020G	Compound annual growth rate 2018G - 2020G	During the nine-month period ended on September 30, 2020G (Unaudited)	During the nine-month period ended on September 30, 2021G (Unaudited)	Change percentage during 2020G - 2021G
<b>Net income/ (loss) during the period attributable to shareholders after the deduction of zakat and income tax</b>	(4,978)	(24,800)	(31,302)	398%	26%	150.8%	(21,296)	2,056	(109.7%)
<b>Items that shall be reclassified in the income statement during subsequent periods</b>									
Changes in the fair value of available-for-sale investments - (unrealized)	4,064	45,503	30,220	1019.7%	(33.6%)	172.7%	10,019	(49,950)	(598.6%)
Changes in the fair value of the takaful activities reserve - (unrealized)	(4,064)	(45,503)	(30,220)	1019.7%	(33.6%)	172.7%	(10,019)	49,950	(598.6%)
Fair value reserve for the investments in available-for-sale equity	-	649	(50)	NA	(107.7%)	NA	130	199	53.1%
<b>Items that shall not be reclassified in the income statement during subsequent periods</b>									
Revaluation of the retirement gratuity liabilities	(38)	(610)	(395)	1505.3%	(35.2%)	222.4%	(275)	508	(284.7%)
<b>Total comprehensive loss during the year</b>	<b>(5,016)</b>	<b>(24,761)</b>	<b>(31,747)</b>	<b>393.6%</b>	<b>28.2%</b>	<b>151.6%</b>	<b>(21,441)</b>	<b>2,763</b>	<b>(112.9%)</b>

Source: SABB Takaful's financial statements



**Table No. (5.2): Key Performance Indicators for the fiscal years ended on December 31, 2018G, 2019G and 2020G and the nine-month period ended on September 30, 2020G and 2021G:**

Thousand Saudi riyal	Fiscal Year 2018G (Audited)	Fiscal Year 2019G (Audited)	Fiscal Year 2020G (Audited)	Annual Percentage change 2018G -2019G	Annual change percentage during 2019G - 2020G	Compound annual growth rate 2018G - 2020G	During the nine-month period ended on September 30, 2020G (Unaudited)	During the nine-month period ended on September 30, 2021G (Unaudited)	Change Percentage during the period 2020G -2021G
Allocation percentage	30.3%	37.8%	45.4%	7.5	7.5	15.1	42.4%	38.5%	(3.9)
Insurance premium fees as a percentage of Individual family takaful	19.2%	21.0%	20.1%	1.7	(0.9)	0.9	19.5%	20.1%	0.6
Net loss rate	72.6%	82.8%	88.8%	10.2	5.9	16.1	86.8%	76.3%	(10.5)
Commission Cost Percentage	2.5%	3.8%	8.1%	1.3	4.3	5.7	7.9%	8.3%	0.4
Commission Income Percentage	12.6%	9.3%	7.0%	(3.3)	(2.3)	(5.7)	6.9%	10.3%	3.4
Net Income or (Loss) Margin	(3.6%)	(16.0%)	(15.5%)	(12.4)	0.5	(12.0)	(15.5%)	1.4%	16.9
Percentage of the takaful premiums					Percentage point				Percentage point
Takaful premiums of the relevant parties	28.2%	36.7%	36.6%	8.5	(0.1)	4	36.3%	30.3%	(6.0)
Takaful premiums insured through SIAL (a relevant agent)	67.4%	59.6%	51.2%	(7.8)	(8.4)	(16.2)	57.7%	59.6%	1.9

Source: Management information and financial statements of SABB Takaful

The loss rate is calculated as the percentage of the net incurred claims and other benefits, changes in takaful activities reserve, changes in the non-unit reserve, Changes in the unexpired risks reserve and the costs of underwriting takaful policies out of total revenue.

## Family Takaful

Family Takaful provides life insurance to corporate groups that are primarily insured through bank insurance products (the protection and credit provided to the corporate group) in partnership with the Saudi British Bank (SABB). In addition, family takaful includes protection and savings products offered to individuals, which mainly include long-term investment plans within the framework of unit-linked funds managed by HSBC Saudi Arabia "HSBC" (a relevant party). All family takaful business offered to individuals, is insured through SIAL (a relevant party's agent). Family Takaful increased by 7.5% from 119.5 million Saudi riyals during the fiscal year 2018G to 128.5 million Saudi riyals during the 2019G as a result of the growth in the creditors' premiums of the group (B) amounting to 11.1 million Saudi riyals, of which 10.3 million Saudi riyals was related to the Saudi British Bank (SABB) and relevant parties. Family takaful increased by 18.8% until it reached 152.6 million Saudi riyals during the fiscal year 2020G, due to the investment takaful plan, which is linked to the overall performance of the market. This was also coupled with an increase in group takaful premiums with a value of 17.7 million Saudi riyals, of which 15.5 million Saudi riyals were related to SABB and relevant parties.

Family Takaful increased by 5.1% from 111.2 million Saudi riyals during the nine-month period ended on September 30, 2020G to 116.9 million Saudi riyals during the nine-month period ended on September 30, 2021G as a result of another increase in the single investment takaful plan amounting to 5.7 million Saudi riyals according to the improvement in the overall market performance.

## General Takaful

General Takaful relates to property insurance, marine insurance and other products. General Takaful increased by 30.5% from 20.4 million Saudi riyals during the fiscal year 2018G to 26.7 million Saudi riyals during the fiscal year 2019G, due to "Comprehensive Banking Coverage Insurance" underwritten to SABB and HSBC Saudi Arabia with a value of 7.3 million Saudi riyals. General Takaful increased by 84.2% until it reached 49.1 million Saudi riyals during the fiscal year 2020G, due to the insured business through new channel intermediaries (Marsh and Fenchurch Faris).

General Takaful increased by 9.2% from 26.5 million Saudi riyals during the nine-month period ended on September 30, 2020G to 29.0 million Saudi riyals during the nine-month period ended on September 30, 2021G due to SABB Takaful's increased credit on intermediate channel related to foreign entities and SIAL (a relevant agent).

## Ceded Local Retakaful Premiums

The ceded local Retakaful premiums relate to the local companies' share of the underwritten contributions ceded under the voluntary Retakaful arrangements and covenants. The overall cession percentage is due to SABB Takaful's risk cession policy in each of the three business lines. The ceded local Retakaful premiums decreased by 13.1% from 9.2 million Saudi riyals during the fiscal year 2018G to 8.0 million Saudi riyals during the fiscal year 2019G due to a decrease in the retention rate of marine insurance premiums, which led to an increase in the Retakaful percentage of general takaful, as it was coupled with an increase in the allocation of SABB premiums underwritten through "Marsh".

The ceded Local Retakaful Premiums increased by 76.5% until they reached 14.1 million Saudi riyals during the fiscal year 2020G driven by growth in new business acquired through third party's intermediaries related to the general takaful business line, in addition to the impact of group family takaful premiums of the Saudi British Bank (SABB) all year round.

The ceded Local Retakaful Premiums increased by 210.5% from 6.1 million Saudi riyals during the nine-month period ended on September 30, 2020G to 19.0 million Saudi riyals during the nine-month period ended on September 30, 2021G pursuant to Retakaful contracts concluded with local insurance companies such as Walaa Insurance Company that contributed to an increase of 8.4 million Saudi riyals during the ceded Local Retakaful Premiums.

## Ceded Foreign Retakaful Premiums

The ceded foreign Retakaful premiums relate to the foreign companies' share of the underwritten contributions ceded under the voluntary Retakaful arrangements and covenants. The overall cession percentage is due to SABB Takaful's risk cession policy in each of the three business lines. The ceded Retakaful premiums increased by 52.7% from 33.2 million Saudi riyals during the fiscal year 2018G to 50.7 million Saudi riyals during the fiscal year 2019G due to a decrease in the retention rate of marine insurance premiums, which led to an increase in the Retakaful percentage of general takaful, as it was coupled with an increase in the allocation of SABB premiums underwritten through "Marsh".

The ceded Retakaful Premiums increased by 52.7% until they reached 77.4 million Saudi riyals during the fiscal year 2020G driven by growth in new business acquired through third-party's intermediaries related to the general takaful business line, in addition to the impact of group family takaful premiums of the Saudi British Bank (SABB) all year round.

The ceded Retakaful premiums decreased by 29.0% from 52.3 million Saudi riyals during the nine-month period ended on September 30, 2020G to 37.1 million Saudi riyals during the nine-month period ended on September 30, 2021G due to SABB Takaful's tendency to expand Retakaful programs with local companies in compliance with the regulatory requirements.

## Takaful policyholders' fees

Takaful policyholders' fees include various fees (such as acquisition fees, mortality fees, subscription administrative fees, etc.) which are deducted from family takaful investment funds offered to individuals in accordance with many various fees. The takaful policyholders' fees are the main factor for the profitability of SABB Takaful on Long-term savings products, which constitute 20% of the total underwritten insurance premiums (on Takaful policies) during the period. The takaful policyholders' fees increased by 7.8% from 15.0 million Saudi riyals during the fiscal year 2018G to 16.2 million Saudi riyals during the 2019G, driven by the increase in acquisition fees, and continued to increase until they reached 16.8 million Saudi riyals during 2020G in line with the increase in acquisition fees.

The takaful policyholders' fees increased by 12.2% from 12.5 million Saudi riyals during the nine-month period ended on September 30, 2020G, to 14.0 million Saudi riyals during the nine-month period ended on September 30, 2021G, in line with the growth in Individual family takaful during this period.

## Change in Unearned Takaful Premiums

The change in unearned takaful premiums relates to general takaful and group family takaful products. The change in unearned takaful premiums decreased by 227.2% from 4.8 million Saudi riyals during the fiscal year 2018G to a negative balance of 6.1 million Saudi riyals during the 2019G and continued to decline to a negative balance of 18.5 million Saudi riyals during the 2020G. The change in unearned takaful premiums increased by 920.3% from a negative balance of 1.5 million Saudi riyals during the nine-month period ended on September 30, 2020G, to 12.4 million Saudi riyals during the nine-month period ended on September 30, 2021G. The change between fiscal periods is directly related to the issuance of insurance policies.

## Change in Retakaful (Retrocession) ceded of unearned premiums

The change in Retakaful (Retrocession) ceded of unearned premiums relates to general takaful and group family takaful products. The change in Retakaful (Retrocession) ceded of unearned premiums increased by 203.8% from a negative balance of 3.8 million Saudi riyals during the fiscal year 2018G to 4.0 million Saudi riyals during the fiscal year 2019G and continued to increase until it reached 14.6 million Saudi riyals during the fiscal year 2020G. The change in Retakaful (Retrocession) ceded of unearned premiums decreased by 473.9% from 2.5 million Saudi riyals during the nine-month period ended on September 30, 2020G, to negative balance 9.2 million Saudi riyals during the nine-month period ended on September 30, 2021G. The change between fiscal periods is directly related to the issuance of insurance policies.

## Fees and commissions income

Fees and commissions income relates to commission received from reinsurers. Fees and commissions income decreased by 12.8% from 5.8 million Saudi riyals during the fiscal year 2018G to 5.1 million Saudi riyals during the fiscal year 2019G due to the change in the Retakaful arrangements to voluntary Retakaful, which led to a decrease in commission income. Fees and commissions income increased by 5.2% until they reached 5.4 million Saudi riyals during the fiscal year 2020, in line with the growth in the gross underwritten insurance premiums related to general takaful during this period. Fees and commissions income increased by 75.4% from 3.8 million Saudi riyals during the nine-month period ended on September 30, 2020G to 6.8 million Saudi riyals during the nine-month period ended on September 30, 2021G due to the growth in gross underwritten insurance premiums related to general takaful, in addition to the shift towards Retakaful covenants.

## Income from other underwriting types

Income from other underwriting types relates to SABB Takaful's share in the agreement of the cooperative insurance company that operates the compulsory Umrah product referred to as the "joint Umrah arrangement". SABB Takaful agreement in fiscal year 2020G with 26 other insurance companies. The income from other underwriting types amounted to 2.1 million Saudi riyals during the fiscal year 2020G, and decreased by 94.4% from 2.0 million Saudi riyals during the nine-month period ended on September 30, 2020G to 111 thousand Saudi riyals during the nine-month period ended on September 30, 2021G due to travel restrictions imposed because of the emerging coronavirus pandemic.

## Total Paid Claims

Total paid claims decreased by 13.5% from 45.3 million Saudi riyals during the fiscal year 2018G to 39.2 million Saudi riyals during the 2019G due to a decrease in family insurance claims (group life insurance) amounting to 10.9 million Saudi riyals, related to heart attacks and road accidents. Total paid claims increased by 20.0% until they reached 47.1 million Saudi riyals during the fiscal year 2020G as a result of the increase in family takaful claims by 16.0 million Saudi riyals, offset by a decrease in general takaful by 8.1 million Saudi riyals. Total paid claims increased by 184.3% from 23.6 million Saudi riyals during the nine-month period ended on September 30, 2020G to 67.0 million Saudi riyals during the nine-month period ended on September 30, 2021G due to the increase in deaths related to the family takaful sector, with a value of 38.5 million Saudi riyals, in addition to an increase of 2.8 million Saudi riyals due to a fire accident that occurred in the fiscal year 2021G related to general takaful.

## Retakaful (Retrocession) ceded of paid claims

The Retakaful (Retrocession) ceded of paid claims decreased by 10.6% from 34.9 million Saudi riyals during the fiscal year 2018G to 31.1 million Saudi riyals during the fiscal year 2019G and increased until they reached 38.0 million Saudi riyals during the fiscal year 2020G. The Retakaful (Retrocession) ceded of paid claims increased by 186.1% from 18.5 million Saudi riyals during the nine-month period ended on September 30, 2020G, to 52.9 million Saudi riyals during the nine-month period ended on September 30, 2021G. Changes in the Retakaful (Retrocession) ceded of paid claims conform to the total claims paid up to the Retakaful (Retrocession) ceded limit in group family takaful and general takaful.

## Reinstatement and maturity of the policies

The reinstatement and maturity of the policies relate exclusively to family takaful products offered to individuals, and primarily paid either by the policyholder's cession or by completing the subscription maturity cycle. The reinstatement and maturity of the policies, in addition to the premiums of Individual family takaful, are offset by the change in the takaful activities reserve, and therefore they do not have any impact on profitability. The reinstatement and maturity of the policies decreased by 14.9% from 96.0 million Saudi riyals during the fiscal year 2018G to 81.7 million Saudi riyals during the fiscal year 2019G. They continued to decline by 17.8% until they reached 67.1 million Saudi riyals during the fiscal year 2020G. The reinstatement and maturity of the policies increased by 12.0% from 51.8 million Saudi riyals during the nine-month period ended on September 30, 2020G, to 58.0 million Saudi riyals during the nine-month period ended on September 30, 2021G.

## Changes in net outstanding claims

Changes in net outstanding claims decreased by 76.7% from 2.9 million Saudi riyals during the fiscal year 2018G to 682 thousand Saudi riyals during 2019G due to the decrease in the outstanding general takaful claims. Changes in the net outstanding claims, decreased by 675.4% until they reached a negative balance of 4.0 million Saudi riyals during the fiscal year 2020G due to the increase in the outstanding claims for Group family takaful. Changes in the net outstanding claims, increased by 155.0% from a negative balance of 5.3 million Saudi riyals during the nine-month period ended on September 30, 2020G, to 2.9 million Saudi riyals during the nine-month period ended on September 30, 2021G and mainly related to general takaful due to the fire accident occurred in Olayan Food Services Co.

## Changes in the net unreported incurred claims

Changes in the net unreported incurred claims relate to the provision of unreported incurred claims, which is an estimate of claims that occurred during the reporting period but are expected to be reported later. Changes in the net unreported incurred claims decreased by 276.9% from 1.1 million Saudi riyals during the fiscal year 2018G to a negative balance of 1.9 million Saudi riyals during the fiscal year 2019G. They continued to decline by 76.0% until they reached a negative balance of 450 thousand Saudi riyals during the fiscal year 2020. The changes in the net unreported incurred claims increased by 308.2% from a negative balance of 1.4 million Saudi riyals during the nine-month period ended on September 30, 2020G, to a negative balance of 5.8 million Saudi riyals during the nine-month period ended on September 30, 2021G. Calculations shall be made as recommended by SABB Takaful's actuary.

## Change in Takaful Activities Reserve

The changes in the Takaful activities reserve relate to the long-term savings products offered to individuals, and the changes emerge from reversing the gross underwritten insurance premiums, and the reinstatement and maturity of the policies as these elements has no impact on the profitability of SABB Takaful. The changes in the Takaful activities reserve decreased by 74.4% from 18.0 million Saudi riyals during the fiscal year 2018G to 4.6 million Saudi riyals during the fiscal year 2019G. They continued to decline by 455.3% until they reached a negative balance of 16.4 million Saudi riyals during the fiscal year 2020G. The change in the takaful activities reserve decreased by 3.7% from a negative balance of 12.3 million Saudi riyals during the nine-month period ended on September 30, 2020, to a negative balance of 11.8 million

Saudi riyals during the nine-month period ended on September 30, 2021G.

## Changes in the non-unit reserves

Changes in the non-unit reserve relate only to the individual family takaful business and is calculated in accordance with the present value of assumed future expenditures minus the present value of future income generated by fees on all family insurance policies offered to individuals. The changes in the Takaful activities reserve decreased by 29.7% from 1.3 million Saudi riyals during the fiscal year 2018G to 891 thousand Saudi riyals during the fiscal year 2019G, and increased by 27.6% to 1.1 million Saudi riyals during the financial year 2020G due to the lack of clarity in the current economic environment because of the COVID-19 pandemic. Changes in the non-unit reserve increased by 46.8333% from 15,000 Saudi riyals during the nine-month period ended on September 30, 2020G to 7.0 million Saudi riyals during the nine-month period ended on September 30, 2021G due to the decrease in the inflation rate assumed by the actuary from 6% annually to 4% annually in addition to the reversal of the contingency reserve at amount of 1.5 million Saudi riyals because of COVID-19 pandemic.

## Changes in the unexpired risks reserve

Changes in the unexpired risks reserve are calculated when the unearned premiums in all takaful contracts are not sufficient to match the expected cost of future claims. Changes in the unexpired risks reserve decreased by 214.0% from 2.5 million Saudi riyals during the fiscal year 2018G to 2.9 million Saudi riyals during the fiscal year 2019G due to the increase in unearned insurance premiums related to the credit group. Changes in the unexpired risks reserve increased by 1.7 until they reached 2.9 million Saudi riyals during the fiscal year 2020G in line with the increase in unearned insurance premiums related to Group family takaful. Changes in the unexpired risks reserve increased by 493.2% from 1.0 million Saudi riyals during the nine-month period ended on September 30, 2020G to 6.1 million Saudi riyals during the nine-month period ended on September 30, 2021G due to the decrease in general and administrative costs and a decrease in the balance of unearned takaful premiums on 30 September 2021G compared to December 31, 2020G.

## The costs of underwriting insurance policies

The costs of underwriting insurance policies increased by 58.5% from 3.6 million Saudi riyals during the fiscal year 2018G to 5.6 million Saudi riyals during the 2019G due to appointing SABB Takaful as an intermediary for group family takaful premiums related to the relevant parties starting from the second half of the fiscal year 2019G. The costs of underwriting insurance policies increased by 164.0% until they reached 14.8 million Saudi riyals during the fiscal year 2020G due to the impact of appointing SABB Takaful all year round as an intermediary for group family takaful premiums related to the relevant party's policies with a maximum commission of 15.0%. The costs of underwriting insurance policies continued to rise by 21.5 % from 10.8 million Saudi riyals during the nine-month period ended on September 30, 2020G, to 13.1 million Saudi riyals during the nine-month period ended on September 30, 2021G. It is worth noting that the appointment of the intermediary is due to the merger of the Saudi British Bank (SABB) and Alawwal Bank, which owns shares in Wataniya Insurance Co. It was agreed to appoint an intermediary to ensure that the policy was granted without any preferential rates.

## General and administrative expenses

General and administrative expenses increased by 18.5% from 42.8 million Saudi riyals during the fiscal year 2018G to 50.7 million Saudi riyals during the fiscal year 2019G, driven by an increase in staff costs, board of directors' fees and their remuneration amounting to 5.6 million Saudi riyals. General and administrative expenses decreased by 1.9% until they reached 49.7 million Saudi riyals during the fiscal year 2020, due to the decrease in legal and professional fees as a result of the release of the due amounts related to the advisory services of IFRS 17. General and administrative expenses decreased by 28.4% from 36.8 million Saudi riyals during the nine-month period ended on September 30, 2020G to 26.3 million Saudi riyals during the nine-month period ended on September 30, 2021G due to the decrease in staff costs coupled with the continuous decline in legal and professional fees.

## Discounts income

The discounts income is paid to SABB Takaful by HSBC Saudi Arabia according to the Investment Services Agreement under which SABB Takaful is entitled to receive a monthly fee from HSBC Saudi Arabia on investments made in Islamic mutual funds (for the savings of single policyholders' premium). The discounts income decreased by 14.6% from 1.6 million Saudi riyals during the fiscal year 2018G to 1.5 million Saudi riyals during the fiscal year 2019G, and continued to decline by 6.5% until it reached 1.4 million Saudi riyals during the fiscal year 2020G. The discounts income increased by 21.4% from 990 thousand Saudi riyals during the nine-month period ended on September 30, 2020G to 1.2 million Saudi riyals during the nine-month period ended on September 30, 2021G.

The fund Management fees are calculated according to the net asset value of the units held in the fund on each valuation day held by the client as follows:

- HSBC Multi Assets Defensive Fund: 0.35% as fund Management fees
- HSBC Multi Assets Balanced Fund: 0.42% as fund Management fees
- HSBC Multi Assets Growth Fund: 0.45% as fund Management fees
- HSBC Saudi Riyal Trading Fund: 0.10% as fund Management fees

## Deposits Income

The deposits income relates mainly to term deposits and cash. The deposits income increased by 21.2% from 5.3 million Saudi riyals during the fiscal year 2018G to 6.4 million Saudi riyals during the fiscal year 2019G in line with the increase in the average Murabaha rate from 2.4% to 3.3%. The deposits income decreased by 54.8% until it reached 3.0 million Saudi riyals during the fiscal year 2020G due to the reduction in murabaha deposits and murabaha rates to 1.7%. The deposits income decreased by 11.0% from 2.2 million Saudi riyals during the nine-month period ended on September 30, 2020G to 2.0 million Saudi riyals during the nine-month period ended on September 30, 2021G in line with the reduction in Murabaha balances and short-term deposits.

## Sukuk Income

The income from sukuk relates to assets held to maturity (mainly the sukuk issued by General Authority of Civil Aviation, Ministry of Finance and Bank Albilad, etc.). The income from sukuk decreased by 10.5% from 4.2 million Saudi riyals during the fiscal year 2018G to 3.8 million Saudi riyals during the fiscal year 2019G. The income from Sukuk increased by 5.0% until it reached 4.0 million Saudi riyals during the fiscal year 2020G. It increased by 4.8% from 3.0 million Saudi riyals during the nine-month period ended on September 30, 2020G, to 3.1 million Saudi riyals during the nine-month period ended on September 30, 2021G. The volatility of sukuk income is in line with the amount of deposits and their maturity during the year and reinvestment in new sukuk.

## Dividends

The dividends are related to SABB Takaful's investment in Aramco shares. The dividends value reached 255 thousand Saudi riyals during the fiscal year 2020G, 155 thousand Saudi riyals during the nine-month period ended on September 30, 2020G, and 211 thousand Saudi riyals during the nine-month period ended on September 30, 2021G.

## Net income during the period of Takaful operations

The net income during the period of takaful operations reached a surplus of 596 thousand Saudi riyals, as well as the surplus gained during the nine-month period ended on September 30, 2021G, is also attributed to takaful operations, while SABB Takaful did not record any surplus during 2018G, 2019G and 2020G.

## Zakat and Tax during this period

Zakat and tax during this period decreased by 6.0% from 6.0 million Saudi riyals during the fiscal year 2018G to 5.7 million Saudi riyals during the 2019G and continued to increase by 16.0% until they reached 4.8 million Saudi riyals during the 2020G mainly due to the increase in costs of underwriting policies, in addition to increasing the unexpired risks reserve. Zakat and tax during this period increased by 16.9% from 3.8 million Saudi riyals during the nine-month period ended on September 30, 2020G to 4.4 million Saudi riyals during the nine-month period ended on September 30, 2021G due to the improvement of the financial outcomes during this period.

## 5.2.2 SABB Takaful's sectoral information

### Sectoral information for the fiscal year 2018G

Thousand Saudi riyals	Shareholders' Operations	Individual family takaful	Group family takaful	General Takaful	Fiscal Year 2018G (Audited)
<b>Total takaful underwritten contributions</b>	-	77,971	41,573	20,422	139,966
Net takaful underwritten contributions	-	91,986	16,333	4,239	112,558
Net Earned Takaful Contributions	-	91,986	16,417	5,146	113,549
Fees and commissions revenues	-	78	266	5,492	5,836
<b>Total revenue</b>	-	<b>92,064</b>	<b>16,683</b>	<b>10,638</b>	<b>119,385</b>
Net incurred claims and other benefits	-	(95,901)	(4,845)	(1,667)	(102,413)
Changes in Takaful Activities Reserve	-	17,983	-	-	17,983
Changes in the non-unit reserve	-	(1,268)	-	-	(1,268)
Changes in the unexpired risks reserve	-	-	2,302	239	2,541
The costs of underwriting takaful policies	-	(935)	(469)	(2,148)	(3,552)
<b>Net underwriting income during the year</b>	-	<b>11,943</b>	<b>13,671</b>	<b>7,062</b>	<b>32,676</b>
General and administrative expenses	(2,938)	(14,689)	(12,578)	(12,562)	(42,767)
Quantity discounts income	-	1,598	-	-	1,598
Deposits Revenues	4,601	286	220	205	5,312
Sukuk Income	4,237	-	-	-	4,237
Total income/ (loss) during the year before the deduction of zakat and tax	5,900	(862)	1,313	(5,295)	1,056
Zakat and Tax during the year	(6,034)	-	-	-	(6,034)
<b>Total income/ (loss) during this period after the deduction of zakat and tax</b>	<b>(134)</b>	<b>(862)</b>	<b>1,313</b>	<b>(5,295)</b>	<b>(4,978)</b>
<b>Key Performance Indicators</b>					
Net loss rate	NA	87,0%	18.1%	33.6%	72.6%

Source: SABB Takaful's financial statements

The loss rate is calculated as the percentage of the net incurred claims and other benefits, changes in takaful activities reserve, changes in the non-unit reserve, Changes in the unexpired risks reserve and the costs of underwriting takaful policies out of total revenue.

During the fiscal year 2018G, the total takaful underwritten contributions amounted to 140.0 million Saudi riyals and the Individual family takaful constituted the largest percentage of the total takaful underwritten contributions, representing 55.7%. While the Group family takaful, achieved a percentage of 29.7%, and the general takaful, achieved a percentage of 14.6% during the same period.



## Sectoral information for the fiscal year 2019G

Thousand Saudi riyal	Shareholders' Operations	Individual family takaful	Group family takaful	General Takaful	Fiscal Year 2019G (Audited)
<b>Total takaful underwritten contributions</b>	-	77,080	51,422	26,651	155,153
Net Takaful Underwritten Contributions	-	92,299	16,938	3,413	112,650
Net Earned Takaful Contributions	-	92,299	15,061	3,129	110,489
Fees and commissions revenues	-	639	-	4,449	5,088
<b>Total revenue</b>	-	<b>92,938</b>	<b>15,061</b>	<b>7,578</b>	<b>115,577</b>
Net incurred claims and other benefits	-	(83,385)	(6,354)	(1,197)	(90,936)
Changes in Takaful Activities Reserve	-	4,610	-	-	4,610
Changes in the non-unit reserve	-	(891)	-	-	(891)
Changes in the unexpired risks reserve	-	-	(1,481)	(1,417)	(2,898)
The costs of underwriting takaful policies	-	(1,569)	(2,007)	(2,054)	(5,630)
<b>Net underwriting income during the year</b>	-	<b>11,703</b>	<b>5,219</b>	<b>2,910</b>	<b>19,832</b>
General and administrative expenses	(4,397)	(17,681)	(15,749)	(12,859)	(50,686)
Quantity discounts income	-	1,524	-	-	1,524
Deposits Revenues	5,546	349	279	266	6,440
Sukuk Income	3,788	2	2	-	3,792
Total income/ (loss) during the year before the deduction of zakat and tax	4,937	(4,103)	(10,249)	(9,683)	(19,098)
Zakat and Tax during the year	(5,702)	-	-	-	(5,702)
<b>Total income/ (loss) during this period after the deduction of zakat and tax</b>	<b>(765)</b>	<b>(4,103)</b>	<b>(10,249)</b>	<b>(9,683)</b>	<b>(24,800)</b>
<b>Key Performance Indicators</b>					
Net loss rate	NA	87.4%	65.3%	61.6%	82.8%

Source: SABB Takaful's financial statements

The loss rate is calculated as the percentage of the net incurred claims and other benefits, changes in takaful activities reserve, changes in the non-unit reserve, Changes in the unexpired risks reserve and the costs of underwriting takaful policies out of total revenue.

During the fiscal year 2019G, the total takaful underwritten contributions reached 155.1 million Saudi riyals, and the individual family takaful continued to constitute the largest percentage of the total takaful underwritten contributions, representing 49.7%, followed by the Group family takaful at a percentage of 33.1%, then the general takaful, which achieved a percentage of 17.2% during same period.

## Sectoral information for the fiscal year 2020G

Thousand Saudi riyals	Shareholders' Operations	Individual family Takaful	Group family takaful	General Takaful	Fiscal Year 2020G (Audited)
<b>Total takaful underwritten contributions</b>	-	83,518	69,083	49,080	201,681
Net Takaful Underwritten Contributions	-	99,358	21,335	6,298	126,991
Net Earned Takaful Contributions	-	99,358	18,264	5,371	122,993
Fees and commissions revenues	-	-	-	5,352	5,352
Revenues of other underwriting types	-	-	-	2,190	2,190
<b>Total revenue</b>	-	<b>99,358</b>	<b>18,264</b>	<b>12,913</b>	<b>130,535</b>
Net incurred claims and other benefits	-	(67,998)	(7,386)	(5,173)	(80,557)
Changes in Takaful Activities Reserve	-	(16,378)	-	-	(16,378)
Changes in the non-unit reserve	-	(1,137)	-	-	(1,137)
Changes in the unexpired risks reserve	-	-	(3,977)	1,030	(2,947)
The costs of underwriting takaful policies	-	(1,840)	(9,714)	(3,309)	(14,863)
<b>Net underwriting income during the year</b>	-	<b>12,005</b>	<b>(2,813)</b>	<b>5,461</b>	<b>14,653</b>
General and administrative expenses	(8,571)	(14,357)	(13,432)	(13,375)	(49,735)
Quantity discounts income	-	1,425	-	-	1,425
Deposits Revenues	2,616	59	119	117	2,911
Sukuk Income	3,763	110	110	-	3,983
Dividend Revenues	225	-	-	-	225
Total income/ (loss) during the year before the deduction of zakat and tax	(1,967)	(758)	(16,016)	(7,797)	(26,538)
Zakat and Tax during the year	(4,764)	-	-	-	(4,764)
<b>Total income/ (loss) during this period after the deduction of zakat and tax</b>	<b>(6,731)</b>	<b>(758)</b>	<b>(16,016)</b>	<b>(7,797)</b>	<b>(31,302)</b>
<b>Key Performance Indicators</b>					
Net loss rate	NA	87.9%	115.4%	57.7%	88.8%

Source: SABB Takaful's financial statements

The loss rate is calculated as the percentage of the net incurred claims and other benefits, changes in takaful activities reserve, changes in the non-unit reserve, Changes in the unexpired risks reserve and the costs of underwriting takaful policies out of total revenue.

During the fiscal year 2020G, the total takaful underwritten contributions reached 201.7 million Saudi riyals, and the Individual family takaful continued to constitute the largest percentage of the total takaful underwritten contributions, representing 41.4%, followed by the Group family takaful at a percentage of 34.3%, then the general takaful, which achieved a percentage of 24.3% during same period.

## Sectoral information during the nine-month period ended on September 30, 2020G

Thousand Saudi riyals	Shareholders' Operations	Individual family takaful	Group family takaful	General Takaful	During the nine-month period ended on September 30, 2020G
<b>Total underwritten Contributions</b>	-	<b>64,068</b>	<b>47,099</b>	<b>26,527</b>	<b>137,694</b>
Net underwritten Contributions	-	75,847	11,815	4,110	91,772
Net Earned Contributions	-	75,847	12,675	4,209	92,731
Fees and commissions revenues	-	-	-	3,848	3,848
Revenues of other underwriting types	-	-	-	1,999	1,999
<b>Total revenue</b>	-	<b>75,847</b>	<b>12,675</b>	<b>10,056</b>	<b>98,578</b>
Net incurred claims and other benefits	-	(52,019)	(6,105)	(5,436)	(63,560)
Changes in Takaful Activities Reserve	-	(12,291)	-	-	(12,291)
Changes in the non-unit reserve	-	15	-	-	15
Changes in the unexpired risks reserve	-	-	213	813	1,026
The costs of underwriting takaful policies	-	(1,372)	(7,221)	(2,209)	(10,802)
<b>Net underwriting income during this period</b>	-	<b>10,180</b>	<b>(438)</b>	<b>3,224</b>	<b>12,966</b>
General and administrative expenses	(3,055)	(12,601)	(11,477)	(9,637)	(36,770)
Discounts income	-	990	-	-	990
Deposits Revenues	1,951	50	99	99	2,199
Sukuk Income	2,766	102	100	-	2,968
Dividend Revenues	155	-	-	-	155
Total income/ (loss) during this period before the distribution of the dividends, and before the deduction of zakat and tax	1,817	(1,279)	(11,716)	(6,314)	(17,492)
Zakat and Tax during the year	-	-	-	-	(3,804)
<b>Total income/ (loss) during this period after the deduction of zakat and tax</b>	<b>1,817</b>	<b>(1,279)</b>	<b>(11,716)</b>	<b>(6,314)</b>	<b>(21,296)</b>
<b>Key Performance Indicators</b>					
Net loss rate	NA	86.6%	103.5%	67.9%	86.8%

Source: SABB Takaful's financial statements

The loss rate is calculated as the percentage of the net incurred claims and other benefits, changes in takaful activities reserve, changes in the non-unit reserve, Changes in the unexpired risks reserve and the costs of underwriting takaful policies out of total revenue.

During the nine-month period ended on September 30, 2020G, the total takaful underwritten contributions reached 137.7 million Saudi riyals, and the Individual family takaful continued to constitute the largest percentage of the total takaful underwritten contributions, representing 46.5%, followed by the Group family takaful at a percentage of 34.2%, then the general takaful, which achieved a percentage of 19.3% during the same period.

## Sectoral information during the nine-month period ended on September 30, 2021G

Thousand Saudi riyals	Shareholders' Operations	Individual family takaful	Group Family Takaful	General Takaful	During the nine-month period ended on September 30, 2021G
<b>Gross Underwritten Takaful premiums</b>	-	69,817	47,055	28,973	145,845
Net Underwritten Takaful Premiums	-	83,147	15,427	5,143	103,717
Net Earned Takaful Premiums	-	83,147	18,180	5,555	106,882
Fees and commissions income	-	-	-	6,751	6,751
Other Insurance Revenues	-	-	-	111	111
<b>Total revenues</b>	-	<b>83,147</b>	<b>18,180</b>	<b>12,417</b>	<b>113,744</b>
Net incurred claims and other benefits	-	(57,768)	(13,515)	(3,691)	(74,974)
Changes in Takaful Activities Reserve	-	(11,831)	-	-	(11,831)
Changes in the non-unit reserve	-	7,040	-	-	7,040
Changes in the unexpired risks reserve	-	-	3,697	2,389	6,086
The costs of underwriting insurance policies	-	(1,724)	(7,384)	(4,020)	(13,128)
<b>Net underwriting income during this period</b>	-	<b>18,864</b>	<b>978</b>	<b>7,095</b>	<b>26,937</b>
General and administrative expenses	(3,850)	(7,692)	(8,076)	(6,701)	(26,319)
Quantity discounts income	-	1,202	-	-	1,202
Deposits Income	1,822	27	54	55	1,958
Sukuk Income	2,942	83	84	-	3,109
Dividends	211	-	-	-	211
Total income/ (loss) during this period before the distribution of the dividends, and before the deduction of zakat and tax	1,125	12,484	(6,960)	449	7,098
Net income during the period of Takaful operations	-	-	-	-	(596)
Zakat and Tax during the year	-	-	-	-	(4,446)
<b>Total income/ (loss) during this period after the deduction of zakat and tax</b>	<b>1,125</b>	<b>12,484</b>	<b>(6,960)</b>	<b>449</b>	<b>2,056</b>
<b>Key Performance Indicators</b>					
Net loss rate	NA	77.3%	94.6%	42.9%	76.3%

Source: SABB Takaful's financial statements

The loss rate is calculated as the percentage of the net incurred claims and other benefits, changes in takaful activities reserve, changes in the non-unit reserve, Changes in the unexpired risks reserve and the costs of underwriting takaful policies out of total revenue.

During the nine-month period ended on September 30, 2021G, the total takaful underwritten contributions reached 145.8 million Saudi riyals, and the Individual family takaful continued to constitute the largest percentage of the total takaful underwritten contributions, representing 47.9%, followed by the Group family takaful at a percentage of 32.3%, then the general takaful, which achieved a percentage of 19.9% during the same period.

### 5.2.3 Total takaful underwritten contributions according to SABB Takaful's insurance sector

**Table No. (5.3): Total takaful underwritten contributions according to insurance channel during the fiscal years ended on December 31, 2018G, 2019G and 2020G, and the nine-month period ended on September 30, 2020G and 2021.**

Thousand Saudi riyals	Fiscal Year 2018G (Audited)	Fiscal Year 2019G (Audited)	Fiscal Year 2020G (Audited)	Annual change percentage during 2018G -2019G	Annual percentage change 2019G - 2020G	Compound annual growth rate 2018G - 2020G	During the nine-month period ended on September 30, 2020G (Unaudited)	During the nine-month period ended on September 30, 2021G (Unaudited)	Change Percentage during the period 2020G - 2021G
Individual family takaful	77,971	77,080	83,518	(1.1%)	8.4%	3.5%	64,068	69,817	9.0%
Group family takaful	41,573	51,422	69,083	23.7%	34.3%	29%	47,099	47,055	(0.1%)
General Takaful	20,422	26,651	49,080	30.5%	84.2%	55.0%	26,527	28,973	9.2%
<b>Total</b>	<b>139.966</b>	<b>155.153</b>	<b>201.681</b>	<b>10.9%</b>	<b>30.0%</b>	<b>20.0%</b>	<b>137,694</b>	<b>145,845</b>	<b>5.9%</b>
<b>As a percentage of total underwritten contributions</b>									
Individual family takaful	55.7%	49.7%	41.4%	(6.0)	(8.3)	(14.3)	46.5%	47.9%	1.4
Group family takaful	29.7%	33.1%	34.3%	3.4	1.2	4.6	34.2%	32.3%	(2.1)
General Takaful	14.6%	17.2%	24.3%	2.6	7.1	9.7	19.3%	19.9%	0.6

Source: Management information and supervision template of Saudi Central Bank (SAMA).

#### Individual family takaful

Individual family takaful shall be entirely carried out by the agent of the relevant party "SIAL", and it contains two types of products: (1) A regular premium product with a duration of 3 to 25 years, (2) a single premium investment product, which has less protection and requires only one premium paid by the client for his desired investment strategy. Both products offer a combination of savings and protection. Single commissions are only charged in the first year for all products and do not apply upon renewal. The Takaful Plan and unit-linked savings are a regular premium product while the Investment Takaful plan is a single premium product. Policyholders' premiums are invested exclusively in funds managed by HSBC Saudi Arabia and recorded as available-for-sale financial assets against a reserve designated for takaful activities.

Individual family takaful decreased by 1.1% from 78.0 million Saudi riyals during the fiscal year 2018G to 77.1 million Saudi riyals during the fiscal year 2019G due to the reduction in unit linked savings from 75.1 million Saudi riyals during the fiscal year 2018G to 69.3 million Saudi riyals during the fiscal year 2019G due to suspending SABB Takaful from underwriting new insurance policies between October 2018 and March 2019. This was offset by an increase in the investment takaful plan from 2.7 million Saudi riyals during the fiscal year 2018G to 7.4 million Saudi riyals during 2019G, in line with market performance.

Individual family takaful increased by 8.4% from 77.1 million Saudi riyals during the fiscal year 2019G to 83.5 million Saudi riyals during the fiscal year 2020G, mainly due to the increase in the investment takaful plan from 7.4 million Saudi riyals during the fiscal year 2019G to 13.9 million Saudi riyals during the fiscal year 2020G, in line with market performance.

Individual family takaful increased by 9.0% from 64.1 million Saudi riyals during the nine-month period ended on September 30, 2020G to 69.8 million Saudi riyals during the fiscal year 2021G due to the increase in the takaful protection plan because of new insurance premiums in line with market performance. Since this is a single premium product, most premiums are recorded as new business while excess payments are considered renewals.

## Group family takaful

Group family takaful consists of two products: (i) Group protection, a policy that provides death and disability coverage primarily to corporate employees, and (ii) Group Credit, a policy that provides death and disability coverage equivalent to the loan amount owed to the financial institution.

Group family takaful increased by 23.7% from 41.6 million Saudi riyals during the fiscal year 2018G to 51.4 million Saudi riyals during the fiscal year 2019 due to the increase in group credit premiums related to relevant parties.

Group family takaful continued to increase by 34.3% to 69.1 million Saudi riyals during the fiscal year 2020G, driven by the relevant parties' premiums directly after the merger of the Saudi British Bank (SABB) and Alawwal Bank, with the significant increase in the volume of SABB's group credit portfolio, in addition to new business with third parties through intermediaries such as "Fenchurch Faris" and Golden Broker, with a value of 4.1 million Saudi riyals.

Group Family Takaful remained stable at 47.1 million Saudi riyals during the nine-month period ended on September 30, 2020G and 2021G, despite the non-renewal of the Saudi British Bank's credit card portfolio, which was compensated by new business by third-party intermediaries.

## General Takaful

General Takaful consists of property insurance products, marine takaful, money takaful, and Combined Bankers Blanket Bond etc.

General Takaful increased by 30.5% from 20.4 million Saudi riyals during the fiscal year 2018G to 26.7 million Saudi riyals during the fiscal year 2019G, primarily driven by the premiums of combined Bankers Blanket Bond with a value of 7.3 million Saudi riyals related to a global coverage by HSBC Saudi Arabia to corporate group entities, it is offered by SABB Takaful to the Saudi British Bank and HSBC Saudi Arabia and is 100% backed under a voluntary reinsurance agreement.

General Takaful continued to increase by 84.2% until it reached 49.1 million Saudi riyals during the fiscal year 2020G, due to an increase in most products as a result of new premiums insured by intermediaries, which mainly related to "Saudi Marsh""Fenchurch Faris" and "Masarat Insurance". This was also offset by a reduction in the combined Bankers Blanket Bond amounting to 6.1 million Saudi riyals, as SABB stopped purchasing this kind of policies.

General Takaful increased by 9.2% from 26.5 million Saudi riyals during the nine-month period ended on September 30, 2020G to 29.0 million during the nine-month period ended on September 30, 2021G due to the growth in new insurance premiums, especially in marine properties and products that were insured via "Fenchurch Faris" with a value of 2.3 million Saudi riyals, "AON" with a value of 1.2 million Saudi riyals, and other intermediaries, this was offset by a reduction in the premiums of "Marsh" by 3.6 million Saudi riyals.

## 5.2.4 Total takaful underwritten contributions according to SABB Takaful's sales channel

**Table No. (5.4): Total takaful underwritten contributions according to sales channel during the fiscal years ended on December 31, 2018G, 2019G and 2020G, and the nine-month period ended on September 30, 2020G and 2021G.**

Thousand Saudi riyals	Fiscal Year 2018G (Audited)	Fiscal Year 2019G (Audited)	Fiscal Year 2020G (Audited)	Annual change percentage during 2018G -2019G	Annual change percentage during 2019G - 2020G	Compound annual growth rate 2018G - 2020G	During the nine-month period ended on September 30, 2020G (Unaudited)	During the nine-month period ended on September 30, 2021G (Unaudited)	Change Percentage during the period 2020G - 2021G
Direct sales	44,288	40,118	4,355	(9.4%)	(89.1%)	(68.6%)	2,768	3,273	18.2%
Agents	94,287	92,401	103,212	(2.0%)	11.7%	4.6%	79,394	86,919	9.5%
Intermediaries	1,391	22,634	94,114	1527.2%	315.8%	722.6%	55,532	55,653	0.2%
<b>Total</b>	<b>139,966</b>	<b>155,153</b>	<b>201,681</b>	<b>10.9%</b>	<b>30.0%</b>	<b>20.0%</b>	<b>137,694</b>	<b>145,845</b>	<b>5.9%</b>
<b>As a percentage of total underwritten contributions</b>									
Direct sales	31.6%	25.9%	2.2%	(5.7)	(23.7)	(29.4)	2.0%	2.2%	0.2
Agents	67.4%	59.6%	51.2%	(7.8)	(8.4)	(16.2)	57.7%	59.6%	1.9
Intermediaries	1.0%	14.6%	46.7%	13.6	32.1	45.7	40.3%	38.2%	(2.2)

Source: Management information and supervision template of Saudi Central Bank (SAMA).

### Direct sales

Previously, SABB Takaful bought the group family takaful (SABB and relevant parties represent more than 90% of it) through direct sales without commission, but as of the second half of the fiscal year 2019G, an intermediary who charged a commission of 15% on the premiums of the relevant dealings, was contracted, in addition to other intermediaries for other premiums after the completion of the merger between SABB and Alawwal Bank. The intermediary submitted the guarantee of granting policy according to the required competencies without any preferential rates between SABB and Alawwal Bank, which has an insurance subsidiary called "Wataniya Insurance Co."

Direct sales decreased by 9.4% from 44.3 million Saudi riyals during the fiscal year 2018G to 40.1 million Saudi riyals during the fiscal year 2019G due to contracting with an intermediary in the middle of the 2019G.

Direct sales decreased by 89.1% from 40.1 million Saudi riyals during the fiscal year 2019G to 4.4 million Saudi riyals during the fiscal year 2020G due to the impact of contracting with an intermediary all year round. Direct sales continued to decline by 18.2% from 2.8 million Saudi riyals during the nine-month period ending in September 30, 2020G to 3.3 million Saudi riyals during the nine-month period ending September 30, 2021G.

### Agents

Premiums insured through agents mainly relate to individual family takaful premiums, which are fully insured through a relevant party's agent (SIAL), while general takaful premiums are insured through a relevant party's agent (SIAL) and other third parties' agents.

Sales through agents decreased by 2.0% from 94.3 million Saudi riyals during the fiscal year 2018G to 92.4 million Saudi riyals during the fiscal year 2019G, in line with increasing reliance on sales through intermediaries and direct sales of general takaful premiums.

Sales increased by 11.7% from 92.4 million Saudi riyals during the fiscal year 2019G to 103.2 million Saudi riyals during the fiscal year 2020G, and continued to increase by 9.5% from 79.4 million Saudi riyals during the nine-month period ended on September 30, 2020G to 87.0 million Saudi riyals as during the nine-month period ended on September 30, 2021G, in line with the increase in individual family takaful sales.



## Intermediaries

As of the second half of the fiscal year 2019G, Intermediaries such as “Marsh”, “Finchurch Faris”, “Masarat Insurance” and others were contracted, after the completion of the merger between SABB and Alawwal Bank. The intermediary submitted the guarantee of granting policy according to the required competencies without any preferential rates between SABB and Alawwal Bank, which has an insurance subsidiary called “Wataniya Insurance Co.”

Sales increased through intermediaries by 1527.2% from 1.4 million Saudi riyals during the fiscal year 2018G to 22.6 million Saudi riyals during the fiscal year 2019G due to contracting with an intermediary in the middle of the 2019G. Sales continued to increase by 315% until they reached 94.1 million Saudi riyals during the fiscal year 2020G due to the impact of contracting with an intermediary all year round, and they mainly related to group family takaful premiums and general family takaful.

The Sales conducted through the intermediaries remained stable at 55.6 million Saudi riyals during the nine-month period ended on September 30, 2020G and 2021G.

### 5.2.5 Ceded premiums according to SABB Takaful's insurance sector

**Table No. (5.5): Ceded premiums according to insurance sector during the fiscal years ended on December 31, 2018G, 2019G and 2020G, and the nine-month period ended on September 30, 2020G and 2021G.**

Thousand Saudi riyals	Fiscal Year 2018G (Audited)	Fiscal Year 2019G (Audited)	Fiscal Year 2020G (Audited)	Annual change percentage during 2018G -2019G	Annual change percentage during 2019G - 2020G	Compound annual growth rate 2018G - 2020G	During the nine-month period ended on September 30, 2020G (Unaudited)	During the nine-month period ended on September 30, 2021G (Unaudited)	Change Percentage during the period 2020G - 2021G
Individual family takaful	991	2,868	1,957	189.4%	(31.7%)	40.6%	722	697	(3.5%)
Group family takaful	25,221	33,650	47,392	33.4%	40.8%	37.1%	35,284	31,628	(10.4%)
General Takaful	16,199	22,160	42,137	36.8%	90.2%	61.3%	22,417	23,830	6.3%
<b>Total</b>	<b>42,411</b>	<b>58,677</b>	<b>91,486</b>	<b>38.4%</b>	<b>55.9%</b>	<b>46.9%</b>	<b>58,423</b>	<b>56,155</b>	<b>(3.9%)</b>
<b>Outsourcing Percentage as a percentage of total contributions of the written Takaful</b>									
Individual family takaful	1.3%	3.7%	2.3%	2.4	(1.4)	1.0	1.1%	1.0%	(1.0)
Group family takaful	60.7%	65.4%	68.6%	4.7	3.2	7.9	74.9%	67.2%	(7.7)
General Takaful	79.3%	83.1%	85.9%	3.8	2.8	6.6	84.5%	82.2%	(2.3)
<b>Total</b>	<b>30.3%</b>	<b>37.8%</b>	<b>45.4%</b>	<b>7.5</b>	<b>7.6</b>	<b>15.1</b>	<b>42.4%</b>	<b>38.5%</b>	<b>(3.9)</b>

Source: Management information and supervision template of Saudi Central Bank (SAMA).

### Individual family takaful

The ceded Insurance premiums in the individual family takaful increased by 189.3% from 991 thousand Saudi riyals during the fiscal year 2018G to 2.9 million Saudi riyals during the fiscal year 2019G in line with the increase in the allocation percentage from 1.3% to 3.7%.

The ceded Insurance premiums in the individual family takaful decreased by 31.7% from 2.9 Saudi riyals during the fiscal year 2019G to 1.9 million Saudi riyals during the fiscal year 2020G in line with the reduction in the allocation percentage to 2.3%.

The ceded Insurance premiums in the individual family takaful decreased by 3.5% from 722 thousand Saudi riyals during the nine-month period ended on September 30, 2020G to 697 thousand Saudi riyals as during the nine-month period ended on September 30, 2021G, in line with the reduction in the allocation percentage to 1.0%.

## Group family takaful

The ceded Insurance premiums in the group family takaful increased by 33.4% from 25.2 million Saudi riyals during the fiscal year 2018G to 33.7 million Saudi riyals during the fiscal year 2019G, in line with the increase in the allocation percentage from 60.7% to 65.4%, driven by the increase in the allocation percentage related to the premiums of SABB's group credit underwritten during the second half of the fiscal year 2019G through Marsh. The ceded Insurance premiums in the group family takaful continued to increase by 40.8% until they reached 47.4 million Saudi riyals during the fiscal year 2020G due to the impact on the policies of the group family takaful (group credit) related to SABB all year round, through which the percentage of allocation was increased at the end of the fiscal year 2019G.

The ceded Insurance premiums in the group family takaful decreased by 10.4% from 35.3 million Saudi riyals during the nine-month period ended on September 30, 2020G to 31.6 million Saudi riyals as during the nine-month period ended on September 30, 2021G due to the reduction in the percentage of allocation related to the premiums of Saudi British Bank (group credit).

## General Takaful

The ceded insurance premiums in the general takaful increased by 36.8% from 16.2 million Saudi riyals during the fiscal year 2018G to 22.2 million Saudi riyals during the fiscal year 2019G due to the reduction in the retention rate of marine insurance premiums, which led to an increase in the allocation percentage from 79.3% to 83.1% during the same period. The ceded insurance premiums in the general takaful continued to increase by 90.2% until they reached 42.1 million Saudi riyals during the fiscal year 2020G due to the growth in new business acquired through the third party's intermediaries in the general takaful business line.

The ceded insurance premiums in the general takaful increased by 6.3% from 22.4 million Saudi riyals during the nine-month period ended on September 30, 2020G to 23.8 million Saudi riyals during the nine-month period ended on September 30, 2021G, in line with the increase in total underwritten insurance premiums.

### 5.2.6 SABB Takaful's Net Claims

**Table No. (5.6): Net incurred claims and other benefits during the fiscal years ended on December 31, 2018G, 2019G and 2020G, and the nine-month period ended on September 30, 2020G and 2021G.**

Thousand Saudi riyal	Fiscal Year 2018G (Audited)	Fiscal Year 2019G (Audited)	Fiscal Year 2020G (Audited)	Annual change percentage during 2018G - 2019G	Annual change percentage during 2019G - 2020G	Compound annual growth rate 2018G - 2020G	During the nine-month period ended on September 30, 2020G (Unaudited)	During the nine-month period ended on September 30, 2021G (Unaudited)	Change Percentage during the period 2020G - 2021G
Individual family takaful	(95,901)	(83,385)	(67,998)	(13.1%)	(18.5%)	(15.8%)	(52,019)	(57,768)	11.1%
Group family takaful	(4,845)	(6,354)	(7,386)	31.1%	16.2%	23.5%	(6,105)	(13,515)	121.4%
General Takaful	(1,667)	(1,197)	(5,173)	(28.2%)	332.2%	76.2%	(5,436)	(3,691)	(32.1%)
<b>Total</b>	<b>(102,413)</b>	<b>(90,936)</b>	<b>(80,557)</b>	<b>(11.2%)</b>	<b>(11.4%)</b>	<b>(11.3%)</b>	<b>(63,560)</b>	<b>(74,974)</b>	<b>18.0%</b>

Source: Management information and supervision template of Saudi Central Bank (SAMA).

## Individual family takaful

The claims of individual family takaful decreased by 13.1% from 95.9 million Saudi riyals during the fiscal year 2018G to 83.4 million Saudi riyals during the same fiscal year. The claims of individual family takaful continued to decline by 18.5% until they reached 68.0 million Saudi riyals during the fiscal year 2020G, in line with the reduction in re-maturity and subrogation, driven either by the policyholder's cession or by completing the premiums maturity cycle. The claims of individual family takaful increased by 11.1% from 52.0 million Saudi riyals during the nine-month period ended on September 30, 2020G to 57.8 million Saudi riyals during the nine-month period ended on September 30, 2021G, in line with the increase in re-maturity and subrogation.

## Group family takaful

The claims of group family takaful increased by 31.1% from 4.8 million Saudi riyals during the fiscal year 2018G to 6.4 million Saudi riyals during the fiscal year 2019G, in line with the increase in the changes of the unreported incurred claims. The claims of group family takaful continued to increase by 16.2% until they reached 7.4 million Saudi riyals during the fiscal year 2020G, in line with the increase in paid claims, as it was coupled with an increase in the changes of outstanding claims.

The claims of group family takaful increased by 121.4% from 6.1 million Saudi riyals during the nine-month period ended on September 30, 2020G to 13.5 million Saudi riyals during the nine-month period ended on September 30, 2021G, mainly due to an increase in paid claims amounting to 38.5 million Saudi riyals, driven by an increase in deaths.

## General Takaful

The claims of general takaful decreased by 28.2% from 1.7 million Saudi riyals during the fiscal year 2018G to 1.2 million Saudi riyals during the fiscal year 2019G, mainly due to a reduction in the changes of the outstanding claims reserve as a result of a reduction in fire claims, as well this was also offset by an increase in paid claims.

The claims of general takaful increased by 332.2% from 1.2 million Saudi riyals during the fiscal year 2019G to 5.2 million Saudi riyals during the fiscal year 2020G, mainly due to an increase in the changes of outstanding claims reserve due to the increase in fire and embezzlement claims, as it was coupled with an increase in the changes of unreported incurred claims reserve. General Takaful decreased by 32.1% from 5.4 million Saudi riyals during the nine-month period ended on September 30, 2020G, to 3.7 million Saudi riyals during the nine-month period ended on September 30, 2021G, due to a reduction in the outstanding claims reserve coupled with an increase in the changes of the unreported incurred claims reserve. This was also coupled with an increase in paid claims related to a fire accident that occurred in 2021G.

### 5.2.7 SABB Takaful's General and administrative expenses

**Table No. (5.7): General and administrative expenses during the fiscal years ended on December 31, 2018G, 2019G and 2020G**

Thousand Saudi riyals	Fiscal Year 2018G (Audited)	Fiscal Year 2019G (Audited)	Fiscal Year 2020G (Audited)	Annual change percentage during 2018G - 2019G	Annual change percentage during 2019G - 2020G	Compound annual growth rate 2018G - 2020G	During the nine-month period ended on September 30, 2020G (Unaudited)	During the nine-month period ended on September 30, 2021G (Unaudited)	Change Percentage during the period 2020G - 2021G
Staff costs	26,499	31,181	26,631	17.7%	(14.6%)	0.2%	23,647	15,479	(34.5%)
IT maintenance costs	2,864	3,909	4,515	36.5%	15.5%	25.6%	3,315	2,861	(13.7%)
Legal and professional fees	5,172	6,342	3,025	22.6%	(52.3%)	(23.5%)	1,843	297	(83.9%)
Rental fees	512	610	518	19.1%	(15.1%)	0.6%	438	423	(3.6%)
Travel expenses	173	-	-	NA	NA	NA	350	323	(7.7%)
Marketing and advertising	-	1,081	1,338	NA	23.8%	NA	996	(206)	(120.7%)
A Provision for bad debts	-	(2,054)	866	NA	(142.2%)	NA	218	139	(36.1%)
Others expenses	4,609	5,220	4,271	13.3%	(18.2%)	(3.7%)	2,909	3,152	8.3%
<b>Total Takaful Operations</b>	<b>39,829</b>	<b>46,289</b>	<b>41,164</b>	<b>16.2%</b>	<b>(11.1%)</b>	<b>1.7%</b>	<b>33,715</b>	<b>22,468</b>	<b>(33.4%)</b>
Staff costs	-	-	4,335	NA	NA	NA	-	2,251	NA
IT maintenance costs	610	-	-	NA	NA	NA	-	-	NA
Rental fees	-	-	84	NA	NA	NA	-	69	NA

Thousand Saudi riyals	Fiscal Year 2018G (Audited)	Fiscal Year 2019G (Audited)	Fiscal Year 2020G (Audited)	Annual change percentage during 2018G - 2019G	Annual change percentage during 2019G - 2020G	Compound annual growth rate 2018G - 2020G	During the nine-month period ended on September 30, 2020G (Unaudited)	During the nine-month period ended on September 30, 2021G (Unaudited)	Change Percentage during the period 2020G - 2021G
Board and committee expenses	1,149	2,105	1,874	83.2%	(11.0%)	27.7%	1,366	400	(70.7%)
Others	1,179	2,292	2,278	94.4%	(0.6%)	39.0%	1,688	861	(49.5%)
<b>Total Shareholders' Operations</b>	<b>2,938</b>	<b>4,397</b>	<b>8,571</b>	<b>49.7%</b>	<b>94.9%</b>	<b>70.8%</b>	<b>3,055</b>	<b>3,850</b>	<b>26.0%</b>
<b>Total</b>	<b>42,767</b>	<b>50,686</b>	<b>49,735</b>	<b>18.5%</b>	<b>(1.9%)</b>	<b>7.8%</b>	<b>36,770</b>	<b>26,319</b>	<b>(28.4%)</b>
Number of employees	59	66	59	11.9%	(10.6%)	0.0%	59	57	(3.4%)
Number of employees from external sources	8	7	6	(12.5%)	(14.3%)	(13.4%)	8	6	(25.0%)
<b>Total</b>	<b>67</b>	<b>73</b>	<b>65</b>	<b>9.0%</b>	<b>(11.0%)</b>	<b>(1.5%)</b>	<b>67</b>	<b>63</b>	<b>(6.0%)</b>
Average cost per employee	18,564	17,654	20,589	(4.9%)	16.6%	5.3%	21,318	19,851	(6.9%)
Average cost per employee from external sources	29,167	53,917	43,903	84.9%	(18.6%)	22.7%	31,647	22,360	(29.3%)

Source: SABB Takaful's financial statements

## Staff costs

Staff costs include basic salaries, housing allowance, end-of-service gratuity, and expenses of the General Organization for Social Insurance, health insurance, and others. Employees' salaries costs increased by 17.7% from 26.5 million Saudi riyals during the fiscal year 2018G to 31.2 million during the fiscal year 2019G, due to the increase in housing allowance costs and basic salaries in line with the increase in the number of employees.

Staff costs decreased by 0.7% from 31.2 million Saudi riyals during the fiscal year 2019G to 31.0 million Saudi riyals during the fiscal year 2020G, due to the decrease in the costs of employees' health insurance and social insurance in line with the decrease in the number of employees.

Staff costs decreased by 23.9% from 23.6 million Saudi riyals during the nine-month period ended on September 30, 2020G, to 18.0 million Saudi riyals during the nine-month period ended on September 30, 2021G, in line with the reduction in the number of employees and the lack of resources to cover employees' bonuses.

## IT maintenance costs

IT maintenance costs relate to programmed monthly service agreements with SABB to provide IT services and related security services.

IT maintenance costs increased by 12.5% from 3.5 million Saudi riyals during the fiscal year 2018G to 3.9 million Saudi riyals during the fiscal year 2019G, as SABB Takaful implemented 3 systems in 2018G, upon which IT maintenance costs increased. IT maintenance costs continued to increase by 15.5% until they reached 4.5 million Saudi riyals during the fiscal year 2020, to meet the needs of working from home against the backdrop of implementing quarantine due to COVID-19.

IT maintenance costs decreased by 13.7% from 3.3 million Saudi riyals during the nine-month period ended on September 30, 2020G, to 2.9 million Saudi riyals during the nine-month period ended on September 30, 2021G.

## Legal and professional fees

Legal and professional fees mainly include consultancy, legal and external audit fees. The costs of legal and professional fees increased by 22.6% from 5.2 million Saudi riyals during the fiscal year 2018G to 6.3 million Saudi riyals during the fiscal year 2019G, as SABB Takaful was calculating expenses based on approved budgets, which were prepared according to the business strategy.

Legal and professional fees decreased by 52.3% from 6.3 million Saudi riyals during the fiscal year 2019G to 3.0 million Saudi riyals during the fiscal year 2020G, and continued to decline by 83.9% from 1.8 million Saudi riyals during the nine-month period ended on September 30, 2020G to 297 thousand Saudi riyals during the nine-month period ended on September 30, 2021G, due to a change in the method of calculating costs, which are calculated on an actual basis (instead of the budget).

## Rental fees

The rental fees relate to the rented offices in the SABB building. Rental fees increased by 19.1% from 512 thousand Saudi riyals during the fiscal year 2018G to 610 thousand Saudi riyals during the fiscal year 2019G, as SABB Takaful failed to record rental fees and withholding them in the due fees.

Rental fees remained stable at 600,000 Saudi riyals during the fiscal year 2019G and 2020G, as they were not modified in the contract.

Rental fees increased by 12.2% from 438 thousand Saudi riyals during the nine-month period ended on September 30, 2020G to 492 thousand Saudi riyals during the nine-month period ended on 30 September 2021G, as SABB Takaful failed to record rental fees and withholding them in the due fees. It is worth noting that the rental terms were not modified according to the management.

## The expenses of board and committee

Board and committee expenses relate to directors' remuneration, bonuses and allowances. Board and committee expenses increased by 83.2% from 1.1 million Saudi riyals during the fiscal year 2018G to 2.1 million Saudi riyals during the fiscal year 2019G, as SABB Takaful was calculating expenses based on approved budgets, which were prepared according to the business strategy.

Board and committee expenses decreased by 11.0% from 2.1 million Saudi riyals during the fiscal year 2019G to 1.9 million Saudi riyals during the fiscal year 2020G, and continued to decline by 70.7% from 1.4 million Saudi riyals during the nine-month period ended on September 30, 2020G, until they reached 400 Thousand Saudi riyals during the nine-month period ended on September 30, 2021G, due to a change in the method of calculating costs, which are calculated on an actual basis (instead budget).

## Travel expenses

Travel expenses are calculated depending on business requirements. Travel expenses reached 173 thousand Saudi riyals during the fiscal year 2018G, and decreased by 7.7% from 350 thousand Saudi riyals during the nine-month period ended on September 30, 2020G to 323 thousand Saudi riyals during the nine-month period ended on September 30, 2021G.

## Marketing and advertising

Marketing and advertising expenses increased by 23.8% from 1.1 million Saudi riyals during the fiscal year 2018G to 1.3 million Saudi riyals during the fiscal year 2020G. Marketing and advertising expenses decreased by 131.1% from 996 Thousand Saudi riyals during the nine-month period ended on September 30, 2020G, to a loss of 206 Thousand Saudi riyals during the nine-month period ended on September 30, 2021G, as SABB Takaful was calculating the expenses based on approved budgets, which were prepared according to the business strategy.

## A Provision for doubtful debts

The provision for bad debts reached an amount of 2.1 million Saudi riyals during the fiscal year 2019G and related to the collection of overdue balances. The provision for bad debts decreased by 142.2% to 866 thousand Saudi riyals during the fiscal year 2020G, due to the increase in the policyholders' accounts receivable. The provision for bad debts decreased by 36.1% from an amount of 218 thousand Saudi riyals during the nine-month period ended on September 30, 2020G to 139 thousand Saudi riyals during the nine-month period ended on 30 September 2021G, due to the increase in policyholders' accounts receivable.

## Other expenses

Other expenses include taxes, depreciation and regulatory fees, etc. Other expenses increased by 29.8% from 5.8 million Saudi riyals during the fiscal year 2018G to 7.5 million Saudi riyals during the fiscal year 2019G, due to the increase in taxes and regulatory fees.

Other expenses decreased by 12.8% from 7.5 million Saudi riyals during the fiscal year 2019G to 6.5 million Saudi riyals during the fiscal year 2020G, as SABB Takaful wrote off costs with a value of 1.2 million Saudi riyals. They continued to decline by 12.7% from 4.6 million Saudi riyals during the nine-month period ended on September 30, 2020G, until they reached 4.0 million Saudi riyals during the nine-month period ended on September 30, 2021G, due to the reduction in regulatory fees and office expenses by 1.1 million Saudi riyals, which was offset by an increase in taxes amounting to 672 thousand Saudi riyals.

### 5.2.8 SABB Takaful's financial position statement

**Table No. (5.8): The financial position statement for the fiscal years ended on December 31, 2018G, 2019G and 2020G and the nine-month period ended on September 30, 2021G**

Thousands Saudi riyals	As on December 31, 2018G (Audited)	As on December 31, 2019G (Audited)	As on December 31, 2020G (Audited)	As on September 30, 2021G (Unaudited)
<b>Assets</b>				
Cash and cash equivalents	244,019	146,986	68,215	55,692
Short-term deposits	-	66,277	120,345	95,458
Net Retakaful contributions and accounts receivable	12,650	26,406	45,260	52,751
Retakaful (Retrocession) ceded of unearned takaful contributions	6,969	10,946	25,527	16,289
Retakaful (Retrocession) ceded of outstanding claims	57,730	47,644	73,994	109,341
Costs of underwriting deferred insurance policies	1,019	1,985	3,947	2,499
<b>Investments</b>				
Available-for-sale financial assets	352,115	383,869	413,621	461,575
Held-to-maturity financial assets	120,899	146,372	146,339	146,214
Prepaid expenses and other assets	1,232	1,062	3,762	4,719
Fixed assets	146	75	8	-
Intangible assets	1,859	2,216	2,029	1,478
Statutory deposit	34,000	34,000	34,000	34,000
Outstanding revenues from a statutory deposit	3,509	4,355	4,612	4,707
<b>Total assets</b>	<b>836,147</b>	<b>872,193</b>	<b>941,659</b>	<b>984,723</b>
<b>Liabilities</b>				
Receivables and other liabilities	19,378	35,542	41,695	35,470
Provision for zakat and income tax	6,034	5,778	4,991	4,044
Retakaful operators' credit balances	5,880	15,864	25,014	12,705
Unearned contributions	9,565	15,703	34,283	21,880
Retakaful Operators' Unearned Commission	2,290	1,910	4,722	3,160
Total outstanding claims	71,186	62,290	93,011	131,260
Unexpired risks reserve	2,991	5,889	8,836	2,750
Non-unit reserve	5,579	6,470	7,607	568

Thousands Saudi riyals	As on December 31, 2018G (Audited)	As on December 31, 2019G (Audited)	As on December 31, 2020G (Audited)	As on September 30, 2021G (Unaudited)
Provision for employees' end of service gratuity	4,916	5,875	6,316	6,495
Credit Surplus Distribution	6,593	6,593	6,593	7,188
Takaful Activities Reserve	352,115	376,834	406,636	454,390
Outstanding revenues from a statutory deposit	3,509	4,355	4,612	4,707
<b>Total Liabilities and Surplus of Takaful Operations</b>	<b>490,036</b>	<b>543,103</b>	<b>644,316</b>	<b>684,617</b>
Capital	340,000	340,000	340,000	340,000
Statutory reserve	14,788	14,788	14,788	14,788
Accumulated losses	(8,464)	(25,524)	(56,826)	(54,770)
Revaluation of the retirement gratuity liabilities	(213)	(823)	(1,218)	(710)
Fair value reserve of the available-for-sale financial assets	0	649	599	798
<b>Net equity</b>	<b>346,111</b>	<b>329,090</b>	<b>297,343</b>	<b>300,106</b>
<b>Total Liabilities, Surplus of Takaful Operations and Shareholders' equity</b>	<b>836,147</b>	<b>872,193</b>	<b>941,659</b>	<b>984,723</b>

Source: SABB Takaful's financial statements

\*SABB Takaful audited the outstanding and other liabilities and determined that there was a surplus of 7.7 million Saudi riyals on December 31, 2019. Accordingly, the following audited amounts in the interim and condensed statement of financial position have been amended as on December 31, 2020G and January 1, 2020G, through reducing the outstanding liabilities and accumulated losses by 7.7 million Saudi riyals as of January 1, 2020G which is reflected in the inverted balance sheet in line with the SABB Takaful's audited financial statements. No other captions were affected by the restatement of the financial position.

**Table No. (5.9): Key Performance Indicators for the fiscal years ended on December 31, 2018G, 2019G and 2020G and the nine-month period ended on September 30, 2020G and 2021G:**

Thousand Saudi riyals	As on December 31, 2018G (Audited)	As on December 31, 2019G (Audited)	As on December 31, 2020G (Audited)	As on September 30, 2021G (Unaudited)
Unearned contributions/ Gross Takaful premiums	6.8%	10.1%	17.0%	15.9%
Retakaful (Retrocession) ceded of unearned takaful contributions/ Total unearned contributions	72.9%	69.7%	74.5%	74.4%
Retakaful (Retrocession) ceded of outstanding Claims/ Total outstanding claims	81.1%	76.5%	79.6%	83.3%
Accumulated losses as a percentage of the capital	2.5%	7.5%	16.7%	16.1%

Source: Management information and financial statements of SABB Takaful

## Cash and cash equivalents

Cash and cash equivalents mainly include (cash equivalents and Murabaha deposits). Cash and cash equivalents decreased from 244.0 million Saudi riyals as on December 31, 2018G to 147.0 million Saudi riyals as on December 31, 2019G, due to cash used in operations amounting to 74.1 million Saudi riyals to increase Short-term deposits with a value of 66.3 million Saudi riyals coupled with cash used in investment activities amounting to 22.9 million Saudi riyals.

Cash and cash equivalents continued to decline, until they reached 68.2 million Saudi riyals as of December 31, 2020G, due to a reduction in cash used in operating activities with a value of 81.3 million Saudi riyals, mainly generating from the increase in short-term deposits amounting to 54.0 million Saudi riyals during the same period.

Cash and cash equivalents decreased from 68.2 million Saudi riyals as on December 31, 2020G to 55.7 million Saudi riyals as on September 30, 2021G, due to an increase in cash generated from operating activities with a value of 15.8 million Saudi riyals due to the maturity of short-term deposits, which was primarily offset by the cash used in investment activities for held-to-maturity investment purchases with a value of 3.2 million Saudi riyals.



## Short-term deposits

The value of short-term deposits reached 66.2 million Saudi riyals as on December 31, 2019G. Short-term deposits increased to 120.3 million Saudi riyals as on December 31, 2020G, due to short-term deposits amounting to 60.3 million Saudi riyals in the local banks (Gulf International Bank and National Bank of Kuwait) generating revenues at rates of 0.65 % and 0.90%. Short-term deposits decreased from 120.3 million Saudi riyals as on December 31, 2020G to 95.5 million Saudi riyals as on September 30, 2021G due to maturities of short-term deposits amounting to 40 million Saudi riyals, which was offset by an investment of 15 million Saudi riyals in short-term deposits in Gulf International Bank.

## Retakaful contributions and accounts receivable

Retakaful contributions and accounts receivable mainly include contributions due from insurance premiums (corporate customers and relevant parties) and reinsurance companies after deducting provision for bad debts. Retakaful contributions and accounts receivable increased from 12.7 million Saudi riyals as on December 31, 2018G to 26.4 million Saudi riyals as on December 31, 2019G due to (issuance of a group family takaful policy for SABB during November 2019G at a value of 14.6 million Saudi riyals, which was not settled at the end of the year).

Retakaful contributions and accounts receivable increased to reach 45.2 million Saudi riyals as of December 31, 2020G, in line with the growth in the total general takaful underwritten contributions.

Retakaful contributions and accounts receivable increased from 45.3 million Saudi riyals as on December 31, 2020G to 52.8 million Saudi riyals as on September 30, 2021G due to an increase in the balance of accounts receivable owed by reinsurance companies with a value of 27.9 million Saudi riyals, driven by the increase in general incurred claims which are recoverable from reinsurers, this was offset by a decrease in the balance owed by policyholders, who pay premiums, by 9.1 million Saudi riyals.

## Retakaful (Retrocession) ceded of unearned takaful contributions

Retakaful (Retrocession) ceded of unearned takaful contributions in group family takaful, is primarily related to the two lines of general takaful business. The balance of Retakaful (Retrocession) ceded of unearned takaful contributions reached 7.0 million Saudi riyals as on December 31, 2018G, 11.0 million Saudi riyals as on December 31, 2019G and 25.5 million Saudi riyals as on December 31, 2020. These changes in the balance were in line with the changes in the total unearned insurance premiums.

Retakaful (Retrocession) ceded of unearned takaful contributions decreased from 25.5 million Saudi riyals as on December 31, 2020G to 16.3 million Saudi riyals as on September 30, 2021G in line with the changes in the total unearned insurance premiums.

## Retakaful (Retrocession) ceded of outstanding claims

Retakaful (Retrocession) ceded of outstanding claims decreased from 57.7 million Saudi riyals as on December 31, 2018G to 47.6 million Saudi riyals as on December 31, 2019G due to the settlements of general takaful claims, which amounted to 11.3 million Saudi riyals, generating from two massive fire accidents in (Ghassan Ahmed Al Sulaiman Trading LLC and Pharma Pharmaceutical Industries),

Retakaful (Retrocession) ceded of outstanding claims increased to reach 74.0 million Saudi riyals as on December 31, 2020G due to the increase in deaths and disability accidents in line with the increase in general takaful claims by 5.9 million Saudi riyals, generating from fire accidents that occurred during the same year and the increase in the reserves of the unreported incurred claims amounted to 8.0 million Saudi riyals. Retakaful (Retrocession) ceded of outstanding claims continued to increase until it reached 109.3 million Saudi riyals as on September 30, 2021G due to a fire claim amounting to 36.0 million Saudi riyals in Olayan Food Services Co. during 2021G.

## Costs of underwriting deferred insurance policies

The costs of underwriting deferred insurance policies include commissions and other fees directly related to the purchase and renewal of takaful contracts that are deferred and amortized according to the terms of the related takaful contracts. The costs of underwriting deferred insurance policies increased from 1.0 million Saudi riyals as on December 31, 2018G to 2.0 million Saudi riyals as on December 31, 2019G and continued to increase until they reached 4.0 as on December 31, 2020G due to the increase in the costs of insurance premium acquisition with a value of 9.2 million Saudi riyals. This was driven by commission from insurance policies related to group family takaful issued for SABB.

The costs of underwriting deferred insurance policies decreased from 4.0 million Saudi riyals as on December 31, 2020G to 2.5 million Saudi riyals as on September 30, 2021G, as part of the group family takaful contributions, is nearing completion, which led to a decrease in the costs of underwriting deferred insurance policies in line with the unearned contributions.

### Available-for-sale financial assets

Available-for-sale financial assets relate to investments in local funds and shares managed by HSBC Saudi Arabia (a relevant party) on behalf of policyholders for individuals underwritten in long-term protection plans. Available-for-sale financial assets increased from 352.1 million Saudi riyals as on December 31, 2018G to 383.9 million Saudi riyals as on December 31, 2019G due to an increase in the fair value of 45.5 million Saudi riyals. This was also offset by the redemption of (net purchases) with a value of 14.4 million Saudi riyals. Available-for-sale financial assets increased to 413.6 million Saudi riyals as on December 31, 2020 and continued to increase until they reached 461.6 million Saudi riyals as on September 30, 2021G, due to the fair value increase by 30.2 million Saudi riyals and 50.0 million Saudi riyals, respectively.

### Held-to-maturity financial assets

Held-to-maturity financial assets relate to investments in governmental and quasi-governmental instruments and investment in local banks. Most of these investments are classified as shareholders' operations. Held-to-maturity financial assets increased from 120.9 million Saudi riyals as on December 31, 2018G to 146.4 million Saudi riyals as on December 31, 2019G due to purchases (net redemption) with a value of 25.4 million Saudi riyals. Held-to-maturity financial assets remained relatively stable at 146.3 million Saudi riyals as of December 31, 2020G and settled at 146.3 million Saudi riyals as on September 30, 2021.

### Prepaid expenses and other assets

Prepaid expenses and other assets include balances owed by relevant parties, prepaid support, other fees and other accounts receivable. Prepaid expenses and other assets decreased from 1.2 million Saudi riyals as on December 31, 2018G to 1.1 million Saudi riyals as on December 31, 2019G due to a decrease in the receivables of the relevant parties. Prepaid expenses and other assets increased from 1.1 million Saudi riyals as on December 31, 2019G to 3.8 million Saudi riyals as on December 31, 2020G due to accounts receivable related to the Umrah agreement, which amounted to 2.2 million Saudi riyals. Prepaid expenses and other assets increased to 4.7 million Saudi riyals as of September 30, 2021G due to the increase in discounts income owed by HSBC in line with the growth in total underwritten contributions of individual family takaful, with an increase in value-added tax accounts receivable.

### Fixed assets

Fixed assets mainly relate to vehicles that have been fully depreciated as of September 30, 2021G. Fixed assets decreased from 146 thousand Saudi riyals as on December 31, 2018G to 75 thousand Saudi riyals as on December 31, 2019G. It continued to decline from 8 thousand Saudi riyals as on December 31, 2020G to zero on September 30, 2021G due to annual depreciation.

### Intangible assets

Intangible assets include information technology software used by management. Intangible assets increased from 1.9 million Saudi riyals as on December 31, 2018G to 2.2 million Saudi riyals as on December 31, 2019G due to injections of 2.1 million Saudi riyals offset by depreciation of 1.8 million Saudi riyals during the same period. Intangible assets decreased from 2.2 million Saudi riyals as on December 31, 2019G, to 2.0 million Saudi riyals as on December 31, 2020G due to deductions of 576 thousand Saudi riyals combined with amortization of 763 thousand Saudi riyals during the same period. Intangible assets decreased to 1.5 million Saudi riyals as of September 30, 2021G, due to amortization of 551,000 Saudi riyals during the same period.

### Statutory deposit

The statutory deposit is a deposit equal to 10% of the capital paid to SABB Takaful, which is a retained balance and cannot be withdrawn as required under the insurance laws and regulations of the Kingdom of Saudi Arabia and the regulations of the Saudi Central Bank. The value of the statutory deposit reached 34.0 million Saudi riyals as on December 31, 2018G, 2019G, 2020G and during the nine-month period ending on September 30, 2021G.

## Outstanding revenues from a statutory deposit

The outstanding revenues from the statutory deposit relates to the accumulated profits generated by the statutory deposit. The outstanding revenues from the statutory deposit increased from 3.5 million Saudi riyals as of December 31, 2018G to 4.4 million Saudi riyals as of December 31, 2019G. They continued to increase until they reached 4.6 million Saudi riyals as on December 31, 2020G and 4.7 million Saudi riyals as on September 30, 2021G. The increase in this balance relates to the profit generated by the statutory Murabaha deposit. It is worth noting that the increase is annually declining due to the general reduction in the Murabaha return rate during this period, and this entire income is retained as a liability due to Saudi Central Bank sine die until it becomes payable.

## Receivables and other liabilities

Receivables and other liabilities relate to professional and utilities expenses, personnel expenses and other outstanding expenses, in addition to balances due to customers, and related to relevant parties and other balances. Receivables and other liabilities increased from 19.4 million Saudi riyals as on December 31, 2018G to 35.5 million Saudi riyals as on December 31, 2019G due to an increase in the balances due to customers with a value of 10.0 million Saudi riyals, coupled with an increase in credit commissions and SABB's balance of 2.2 million Saudi riyals and 1.5 million Saudi riyals, respectively. Receivables and other liabilities increased to 41.7 million Saudi riyals as of December 31, 2020G, due to the increase in other balances owed to agents and customers, amounting to 2.3 million Saudi riyals and 2.0 million Saudi riyals, respectively. This was coupled with an increase in outstanding taxes with a value of 1.5 million Saudi riyals. Receivables and other liabilities decreased from 41.7 million Saudi riyals as of December 31, 2020G to 35.5 million Saudi riyals as of September 30, 2021G due to the settlement of withholding tax dues with a value of 3.6 million Saudi riyals.

## Provision for zakat and income tax

The provision for zakat and income tax decreased from 6.0 million Saudi riyals as of December 31, 2018G to 5.0 million Saudi riyals as of December 31, 2020G. It continued to decline to 4.0 million Saudi riyals as of September 30, 2021G.

## Retakaful operators' credit balances

Retakaful operators' credit balances increased from 5.9 million Saudi riyals as on December 31, 2018G to 15.9 million Saudi riyals as of December 31, 2019G due to an increase in the balance payable to General Re, which amounted to 9.2 million Saudi riyals. Retakaful operators' credit balances continued to increase until they reached to 25.0 million Saudi riyals as of December 31, 2020G, due to the increase in the balances owed to Fenchre, Aspen RE and Walaa Insurance Company, with a value of 10.5 million Saudi riyals. Retakaful operators' credit balances decreased from 25.0 million Saudi riyals as on December 31, 2020G to 12.7 million Saudi riyals as on September 30, 2021G due to the balance settlement of major reinsurance companies such as Marsh and Venturi with a value of 8.1 million Saudi riyals.

## Unearned contributions

Unearned contributions relate to the producers of group family takaful and general takaful. Unearned contributions increased from 9.6 million Saudi riyals as on December 31, 2018G to 15.7 million Saudi riyals as on December 31, 2019G in line with the increase in total takaful premiums from 140.0 million Saudi riyals during fiscal year 2018G to 155.0 million Saudi riyals during fiscal year 2019G. This is due to the fact that most of the new business acquired during the fiscal year 2019G, were at the end of the year. The balance of unearned contributions continued to increase to 34.3 million Saudi riyals as of December 31, 2020, due to the increase in takaful premiums, mainly related to general takaful products, amounting to 22.4 million Saudi riyals supported by the increase in the issued insurance premiums related to property all risks coverage. The unearned contributions decreased from 34.3 million Saudi riyals as on December 31, 2020G to 21.9 million Saudi riyals as on September 30, 2021G due to the discrepancy in the reporting period, where the unearned contributions depend on the issuance date of the policy.

## Retakaful Operators' Unearned Commission

Retakaful Operators' Unearned Commission mainly relates to Retakaful (Retrocessions) ceded of incurred commission expenses and shall be charged at a later period. The Retakaful Operators' Unearned Commission decreased from 2.3 million Saudi riyals as on December 31, 2018G to 1.9 million Saudi riyals as of December 31, 2019G in line with the start date of insurance premiums. The Retakaful Operators' Unearned Commission increased from 1.9 million Saudi riyals as of December 31, 2020G, in line with the increase in insurance premiums underwriting costs of 9.2 million Saudi riyals. The Retakaful Operators' Unearned Commission decreased from 4.7 million Saudi riyals as on December 31, 2020G to 3.2 million Saudi riyals as on September 30, 2021G due to the discrepancy in the reporting period, where the unearned contributions depend on the issuance date of the policy.

## Total outstanding claims

The total outstanding claims decreased from 71.1 million Saudi riyals as on December 31, 2018G to 62.3 million Saudi riyals as on December 31, 2019G due to settlement of fire claims (general takaful) due on December 31, 2018G, with a value of 12.4 million Saudi riyals, generating from two massive fire accidents in (Ghassan Ahmed Al Sulaiman Trading LLC and Pharma Pharmaceutical Industries), This was offset by an increase of 3.0 million Saudi riyals in the changes of unreported incurred claims for the operations of both general takaful and family takaful.

The total outstanding claims increased until they reached 93.0 million Saudi riyals as of December 31, 2020G, due to the increase in family takaful claims, mainly related to group claims, which increased by 13.9 million Saudi riyals. This was coupled with increase in general takaful claims and unreported incurred claims with values of 7.7 million Saudi riyals and 8.5 million Saudi riyals, respectively.

The total outstanding claims increased to 131.3 million Saudi riyals as on September 30, 2021G due to the increase in fire accidents with a value of 33.4 million Saudi riyals and mainly related to Olayan Food Services Co. with a value of 32.7 million Saudi riyals.

## Unexpired risks reserve

The unexpired risks reserve is calculated when the unearned contributions in all takaful contracts is insufficient (based on actual experience) to meet the expected cost of future claims. The unexpired risks reserve increased from 3.0 million Saudi riyals as on December 31, 2018G to 5.9 million Saudi riyals as on December 31, 2019G and continued to increase until it reached 8.8 million Saudi riyals as on December 31, 2020G in line with the increase in the acquisition costs of the insurance premiums and general expenses. The unexpired risks reserve decreased from 8.8 million Saudi riyals as on December 31, 2020G to 2.8 million Saudi riyals as on September 31, 2021G due to the decrease in general and administrative costs and a decrease in the balance of unearned takaful premiums on September 30, 2021G compared to December 31, 2020.

## Non-unit reserves

The non-unit reserve related to individual family takaful products. It is calculated on the basis of the present value of the expected future expenses and claims, minus the present value of the expected future income stemming from the fees of the unit-linked savings premiums. The non-unit reserve increased from 5.6 million Saudi riyals as on December 31, 2018G to 7.6 million Saudi riyals as on December 31, 2020G, mainly due to a contingency reserve of 1.5 million Saudi riyals related to the current COVID-19 pandemic. The balance of non-unit reserve decreased to 568 thousand Saudi riyals as of September 30, 2021G, due to releasing the reserve of potential liabilities related to the current COVID-19 pandemic, in addition to the reduction in inflation (according to the actuary's report) and the decrease in general and administrative expenses.

## Provision for employees' end of service gratuity

Provision for employees' end of service gratuity is calculated at the present value of the expected future payments in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Provision for employees' end-of-service gratuity increased from 4.9 million Saudi riyals as on December 31, 2018G to 5.9 million Saudi riyals as on December 31, 2019G and continued to increase to 6.5 million Saudi riyals as on September 30, 2021G, mainly due to the higher cost of service provided to active employees over the years, coupled with the reduction in the applied discount rate in line with the yields of the sovereign bonds.

## Credit Surplus Distribution

The credit surplus distribution represents the cumulative outcomes of insurance operations during a specific period. The credit surplus distribution remained stable at 6.6 million Saudi riyals as on December 31, 2018G, 2019G and 2020G, as no surplus was recorded. The credit surplus distribution increased from 6.6 million Saudi riyals as on December 31, 2020G to 7.2 million Saudi riyals as on September 30, 2021G due to the surplus of 596 thousand Saudi riyals recorded during the nine-month period ended on September 30, 2021G.

## Takaful Activities Reserve

Takaful activities reserve relates to the individual savings product. The reserve is calculated according to the value of the fund units for each single contract on the valuation date, in addition to the technical provisions to cover the protection elements. The investments of Takaful operations held by SABB Takaful cover 100% of the takaful activities reserve. Growth during such period is increased with the value of the underwritten insurance premiums according to the individual family takaful business line, reduced by the reinstatement and maturity of policies, subject to a change in the fair value of the

underlying investment funds and reduced by takaful policyholders' fees that SABB Takaful deducts from policyholders for various activities (acquisition, death rate, policy management, services and credit increase etc.). Takaful activities reserve increased from 352.1 million Saudi riyals as on December 31, 2018G to 376.8 million Saudi riyals as on December 31, 2019G and to 406.6 million Saudi riyals as on December 31, 2020G, and continued to increase until it reached 454.4 million Saudi riyals as of September 30, 2021G.

## Outstanding revenues from a statutory deposit

The outstanding revenues from the statutory deposit relates to the accumulated profits generated by the statutory deposit. The outstanding revenues from the statutory deposit increased from 3.5 million Saudi riyals as on December 31, 2018G to 4.4 million Saudi riyals as on December 31, 2019G and continued to increase until it reached 4.7 million Saudi riyals as on September 30, 2021G, in line with the profit generated from the statutory Murabaha deposit.

The increase is annually declining due to the general reduction in the Murabaha return rate during this period. This entire income is retained as a liability due to Saudi Central Bank sine die until it becomes payable.

## Capital

The capital reached 340.0 million Saudi riyals, without any change during this period, divided into 34 million outstanding shares with a nominal value of 10 Saudi riyals each. The capital remained stable at 340.0 million Saudi riyals as on December 31, 2018G, 2019G, 2020G and during the nine-month period ending on September 30, 2021G.

## Statutory reserve

The statutory reserve is not distributable in accordance with the requirements of insurance laws and regulations in the Kingdom of Saudi Arabia. The statutory reserve remained stable at 14.8 million Saudi riyals as on December 31, 2018G, 2019G, 2020G and during the nine-month period ending on September 30, 2021G, due to the failure of SABB Takaful to generate income in the past three years.

## Accumulated losses

Accumulated losses increased from 8.5 million Saudi riyals as in 2018G to 33.3 million Saudi Riyals as in 2019G and continued to increase until they reached 64.6 million Saudi riyals as in 2020G, due to incurred losses during the fiscal years 2018G, 2019G and 2020G, respectively. The accumulated losses decreased from 56.9 million Saudi riyals as in 2020G to 54.8 million Saudi riyals as on September 30, 2021G, as SABB Takaful achieved a net income of 2.1 million Saudi riyals at the end of the period.

## Revaluation of the retirement gratuity liabilities

Revaluation of the retirement gratuity liabilities relates to a reserve that aggregates actuarial gains/ losses arising from revaluation of employees' end of service gratuity. The revaluation of the retirement gratuity liabilities increased from 213,000 Saudi riyals as on December 31, 2018G to a deficit of 823 thousand Saudi riyals as on December 31, 2019G, due to actuarial losses amounting to 610 thousand Saudi riyals driven by experience (increased salaries or lower employee turnover rates than expected). The revaluation of the retirement gratuity liabilities continued to increase until they reached a deficit of 1.1 million Saudi riyals as of December 31, 2020G due to actuarial losses amounting to 395 thousand Saudi riyals. The revaluation of the retirement gratuity liabilities decreased to a deficit of 710 thousand Saudi riyals as on September 30, 2021, due to changes in financial assumptions (high discount rate).

## Fair value reserve of the available-for-sale financial assets

The fair value reserve of available-for-sale financial assets relates to the reserve in which the unrealized change in the fair value of the available-for-sale investments accumulates. The fair value reserve of available-for-sale financial assets reached 649 thousand Saudi riyals as of December 31, 2019G. The fair value reserve of available-for-sale financial assets decreased from 649 thousand Saudi riyals as on December 31, 2019G to 599 thousand Saudi riyals as of December 31, 2020G. The fair value reserve of available-for-sale financial assets increased to 798 thousand Saudi riyals as of September 30, 2021G.

## 5.2.9 SABB Takaful's sectoral information

### Sectoral information for the fiscal year 2018G

Thousands Saudi riyals	Shareholders' Operations	Individual family takaful	Group family takaful	General Takaful	As on December 31, 2018G (Audited)
<b>Assets</b>					
Cash and cash equivalents	194,312	22,402	14,314	12,991	244,019
Net Retakaful premiums and accounts receivable	-	-	8,990	3,660	12,650
Retakaful (Retrocession) ceded of unearned takaful premiums	-	-	485	6,484	6,969
Retakaful (Retrocession) ceded of pending claims	-	226	29,486	28,018	57,730
Costs of underwriting deferred insurance policies	-	-	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
Intangible assets	-	-	-	-	6,746
<b>Total assets</b>					<b>836,147</b>
<b>Liabilities</b>					
Retakaful operators' credit balances	-	471	(408)	5,817	5,880
Unearned contributions	-	-	1,431	8,134	9,565
Retakaful Operators' Unearned Commission	-	-	-	2,290	2,290
Total pending claims	-	1,285	38,040	31,861	71,186
Unexpired risks reserve	-	-	566	2,425	2,991
Non-unit reserve	-	5,579	-	-	5,579
Provision for employees' end of service gratuity	-	1,642	1,437	1,837	4,916
Takaful Activities Reserve	-	352,115	-	-	352,115
Unallocated liabilities	-	-	-	-	35,514
<b>Total Liabilities</b>					<b>490,036</b>

Source: SABB Takaful's financial statements

## Sectoral information for the fiscal year 2019G

Thousands Saudi riyals	Shareholders' Operations	Individual family takaful	Group family takaful	General Takaful	As on December 31, 2019G (Audited)
<b>Assets</b>					
Cash and cash equivalents	106,251	14,966	11,218	14,551	146,986
Short-term deposits	66,277	-	-	-	66,277
Net Retakaful contributions and accounts receivable	-	-	23,020	3,386	26,406
Retakaful (Retrocession) ceded of unearned takaful contributions	-	-	5,326	5,620	10,946
Retakaful (Retrocession) ceded of outstanding claims	-	743	27,620	19,281	47,644
Costs of underwriting deferred insurance policies	-	-	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
Unclassified assets	-	-	-	-	7,708
<b>Total assets</b>					<b>872,193</b>
<b>Liabilities</b>					
Retakaful operators' credit balances	-	80	11,971	3,813	15,864
Unearned contributions	-	-	8,149	7,554	15,703
Retakaful Operators' Unearned Commission	-	-	-	1,910	1,910
Total outstanding claims	-	2,595	36,897	22,798	62,290
Unexpired risks reserve	-	-	2,047	3,842	5,889
Non-unit reserve	-	6,470	-	-	6,470
Provision for employees' end of service gratuity	-	1,996	1,728	2,151	5,875
Takaful Activities Reserve	-	376,834	-	-	376,834
Unallocated liabilities	-	-	-	-	52,268
<b>Total Liabilities</b>					<b>543,103</b>

Source: SABB Takaful's financial statements



## Sectoral information for the fiscal year 2020G

Thousands Saudi riyals	Shareholders' Operations	Individual family takaful	Group family takaful	General Takaful	As on December 31, 2020G (Audited)
<b>Assets</b>					
Cash and cash equivalents	56,243	7,357	2,459	2,156	68,215
Short-term deposits	95,308	5,007	10,015	10,015	120,345
Net Retakaful contributions and accounts receivable	-	-	23,407	21,853	45,260
Retakaful (Retrocession) ceded of unearned takaful contributions	-	-	5,625	19,902	25,527
Retakaful (Retrocession) ceded of outstanding claims	-	821	46,030	27,143	73,994
Costs of underwriting deferred takaful policies	-	-	1,545	2,402	3,947
Available-for-sale financial investments	6,985	406,636	-	-	413,621
Held-to-maturity financial investments	136,451	4,944	4,944	-	146,339
Statutory deposit	34,000	-	-	-	34,000
Unclassified assets	-	-	-	-	10,411
<b>Total assets</b>					<b>941,659</b>
<b>Liabilities</b>					
Retakaful operators' credit balances	-	488	2,987	21,539	25,014
Unearned contributions	-	-	11,518	22,765	34,283
Retakaful Operators' Unearned Commission	-	-	-	4,722	4,722
Total outstanding claims	-	3,048	56,030	33,933	93,011
Unexpired risks reserve	-	-	6,024	2,812	8,836
Non-unit reserve	-	7,607	-	-	7,607
Provision for employees' end of service gratuity	-	2,586	19,64	1,766	6,316
Takaful Activities Reserve	-	406,636	-	-	406,636
Unallocated liabilities	-	-	-	-	57,891
<b>Total Liabilities</b>					<b>644,316</b>

Source: SABB Takaful's financial statements

## Sectoral information during the six-month period ended on September 30, 2021G

Thousands Saudi riyals	Shareholders' Operations	Individual family takaful	Group family takaful	General Takaful	As on September 30, 2021G (Unaudited)
<b>Assets</b>					
Cash and cash equivalents	46,554	6,057	2,218	863	55,692
Short-term deposits	70,421	5,007	10,015	10,015	95,458
Net Retakaful contributions and accounts receivable	-	250	44,767	7,734	52,751
Retakaful (Retrocession) ceded of unearned takaful contributions	-	-	4,205	12,084	16,289
Retakaful (Retrocession) ceded of outstanding claims	-	280	55,438	53,623	109,341
Costs of underwriting deferred insurance policies	-	-	1,014	1,485	2,499
Available-for-sale financial assets	7,185	454,390	-	-	461,575
Held-to-maturity financial assets	136,268	4,973	4,973	-	146,214
Statutory deposit	34,000	-	-	-	34,000
Unclassified assets	-	-	-	-	10,904
<b>Total assets</b>					<b>984,723</b>
<b>Liabilities</b>					
Retakaful operators' credit balances	-	933	-	11,772	12,705
Unearned contributions	-	-	7,346	14,534	21,880
Retakaful Operators' Unearned Commission	-	-	-	3,160	3,160
Total outstanding claims	-	818	68,957	61,485	131,260
Unexpired risks reserve	-	-	2,328	422	2,750
Non-unit reserve	-	568	-	-	568
Provision for employees' end of service gratuity	8	2,711	2,011	1,765	6,495
Takaful Activities Reserve	0	454,390	-	-	454,390
Unallocated liabilities	0	-	-	-	51,409
<b>Total Liabilities</b>					<b>684,617</b>

Source: SABB Takaful's financial statements

## 5.2.10 SABB Takaful's Net Retakaful contributions and accounts receivable

**Table No. (5.10): Net Retakaful contributions and accounts receivable during the fiscal years ended on December 31, 2018G, 2019G and 2020G and the nine-month period ended on September 30, 2021G**

Thousands Saudi riyals	As on December 31, 2018G (Audited)	As on December 31, 2019G (Audited)	As on December 31, 2020G (Audited)	As on September 30, 2021G (Unaudited)
Takaful policyholders	7,992	1,823	19,196	10,101
Retakaful Companies	7,220	3,304	1,422	29,366
Amounts owed by Saudi British Bank - the parent company of SABB Takaful	13	21,800	26,028	14,810
<b>Total</b>	<b>15,225</b>	<b>26,927</b>	<b>46,646</b>	<b>54,277</b>
Loan impairment allowance	(2,575)	(521)	(1,386)	(1,526)
<b>Net</b>	<b>12,650</b>	<b>26,406</b>	<b>45,260</b>	<b>52,751</b>

Source: SABB Takaful's financial statements

A Provision for Retakaful contributions and accounts receivable during the fiscal years ended on December 31, 2018G, 2019G and 2020G and the nine-month period ended on September 30, 2021G

Thousands Saudi riyals	As on December 31, 2018G (Audited)	As on December 31, 2019G (Audited)	As on December 31, 2020G (Audited)	As on September 30, 2021G (Unaudited)
<b>Changes in loan impairment allowance</b>				
In the beginning of the year	2,071	2,575	521	1,386
Recorded during the year	504	(2,054)	-	-
Charged during the year	-	-	865	140
<b>At the end of the year</b>	<b>2,575</b>	<b>521</b>	<b>1,386</b>	<b>1,526</b>

Source: SABB Takaful's financial statements

### Takaful policyholders

The balance of takaful policyholders relates to corporate customers' accounts receivable on group family takaful premiums and general takaful premiums. The balance of takaful policyholders decreased from 8.0 million Saudi riyals as on December 31, 2018G to 1.8 million Saudi riyals as on December 31, 2019G, driven by the non-renewal of third parties' most premiums. The balance of takaful policyholders increased to 19.2 million Saudi riyals as of December 31, 2020, in line with the growth in the premiums of general takaful and group family takaful insured through channel intermediaries. The balance of takaful policyholders decreased to 10.1 million Saudi riyals as of September 30, 2021G as a result of settlements.

### Retakaful Companies

The balance of Retakaful companies includes net subrogated recoveries and returns of canceled premiums. The balance of Retakaful companies decreased from 7.2 million Saudi riyals as on December 31, 2018G to 3.3 million Saudi riyals as on December 31, 2019G and continued to decline until it reaches 1.4 million Saudi riyals as on December 31, 2020G due to receiving claims amounts from the Retakaful companies. The balance of Retakaful companies increased to 29.4 million Saudi riyals as of September 30, 2021G, driven by the increase in the volume of SABB's and Alawwal Bank's premiums of the group family takaful, which witnessed an increase in the Retakaful operators' balance "Gen Re" with a value of 15.8 million Saudi riyals, "RGA" with a value of 3.6 million Saudi riyals, "AXA" with a value of 3.2 million Saudi riyals and "Swiss Re" with a value of 3.9 million Saudi riyals and others due to the increase in their Retakaful (Retraction) ceded.

### Amounts owed by Saudi British Bank - the parent company of SABB Takaful

The balance of the amounts owed by Saudi British Bank increased from 13,000 Saudi riyals as on December 31, 2018G to 21.8 million Saudi riyals as on December 31, 2019G due to issuing 5 new premiums during the second half of the fiscal year 2019G that were not settled at the end of the year. The balance of the amounts owed by Saudi British Bank increased to 26.0 million Saudi riyals as of December 31, 2020G, in line with SABB premiums during this period. Amounts owed by the Saudi British Bank decreased to 14.8 million Saudi riyals as of September 30, 2021G in line with SABB premiums during this period, specifically the non-renewal of insurance premiums related to general takaful.

### 5.2.11 SABB Takaful's available-for-sale financial assets

**Table No. (5.11): Available-for-sale investments were listed for the fiscal years ended on December 31, 2018G, 2019G and 2020G and during the nine-month period ended on September 30, 2021G**

Thousand Saudi riyals	As on December 31, 2018G (Audited)	As on December 31, 2019G (Audited)	As on December 31, 2020G (Audited)	As on September 30, 2021G (Unaudited)
<b>Listed available-for-sale investments</b>				
<b>Takaful Operations</b>				
Investment in Amanah Mutual Funds	352,115	376,834	406,636	454,390
<b>Total Takaful Operations</b>	<b>352,115</b>	<b>376,834</b>	<b>406,636</b>	<b>454,390</b>
<b>Shareholders' Operations</b>				
Investment in Amanah Mutual Funds	-	7,035	6,985	7,185
Total Shareholders' Operations	-	7,035	6,985	7,185
<b>Total</b>	<b>352,115</b>	<b>383,869</b>	<b>413,621</b>	<b>461,575</b>

Source: SABB Takaful's financial statements

### Available-for-sale financial assets

Available-for-sale financial assets relate to investments in local funds and shares managed by HSBC Saudi Arabia (a relevant party) on behalf of the policyholders who pay premiums of individual family takaful insurance and participated in long-term protection plans. Available-for-sale financial assets increase with the value of underwritten insurance premiums of the individual family takaful, and decrease through the processes of reinstatement and maturity of the policies, taking into account the change in the fair value of the underlying investment funds and its reduction through takaful policyholders' fees that SABB Takaful imposed on policyholders for various activities (acquisition, death rate, policy management, services and credit increase etc.).

Available-for-sale financial assets increased from 352.1 million Saudi riyals as on December 31, 2018G to 383.9 Saudi riyals as on December 31, 2019G, driven by an increase in the fair value of 45.5 million Saudi riyals in exchange for redemptions (net purchases) with a value of 14.4 million Saudi riyals.

The balance also increased to 413.6 million Saudi riyals as on December 31, 2020G and continued to increase until it reached 461.6 million Saudi riyals as on September 30, 2021G, due to an increase in the fair value of 30.2 million Saudi riyals and 50.0 million Saudi riyals, respectively.

### 5.2.12 SABB Takaful's held-to-maturity financial assets

**Table No. (5.12): Available-for-sale investments were listed for the fiscal years ended on December 31, 2018G, 2019G and 2020G and during the nine-month period ended on September 30, 2021G**

Thousand Saudi riyals	As on December 31, 2018G (Audited)	As on December 31, 2019G (Audited)	As on December 31, 2020G (Audited)	As on September 30, 2021G (Unaudited)
<b>Held-to-maturity investments Unlisted</b>				
<b>Takaful operations</b>				
Ministry of Finance Sukuk (Series 5)	-	4,922	4,944	-
Ministry of Finance Sukuk (Series 6)	-	4,922	4,944	4,973
Ministry of Finance Sukuk (Series 7)	-	-	-	4,973
<b>Total Takaful Operations</b>	<b>-</b>	<b>9,844</b>	<b>9,888</b>	<b>9,946</b>
<b>Shareholders' Operations</b>				
Sukuk of General Authority of Civil Aviation (Series 1)	50,580	50,580	50,050	50,236

Thousand Saudi riyals	As on December 31, 2018G (Audited)	As on December 31, 2019G (Audited)	As on December 31, 2020G (Audited)	As on September 30, 2021G (Unaudited)
Sukuk of National Industrialization Company (Tasnee)	50,230	-	-	-
Bank Albilad Sukuk	20,089	20,080	20,573	-
Ministry of Finance Sukuk (Series 1)	-	10,168	10,159	10,074
Ministry of Finance Sukuk (Series 2)	-	10,1485	10,448	10,323
Ministry of Finance Sukuk (Series 3)	-	20,084	20,087	20,189
Ministry of Finance Sukuk (Series 4)	-	25,131	25,134	25,295
Ministry of Finance Sukuk (Series 5)	-	-	-	20,151
Total Shareholders' Operations	120,899	136,528	136,451	136,268
<b>Total</b>	<b>120,899</b>	<b>146,372</b>	<b>146,339</b>	<b>146,214</b>

Source: SABB Takaful's financial statements

**Table No. (5.13): Held-to-Maturity Financial Assets - Investment in local equity shares during the fiscal years ended on December 31, 2018G, 2019G and 2020G and the nine-month period ended on September 30, 2021G**

Thousand Saudi riyals	As on December 31, 2018G (Audited)	As on December 31, 2019G (Audited)	As on December 31, 2020G (Audited)	As on September 30, 2021G (Unaudited)
Governmental and quasi-governmental	50,580	126,292	125,766	146,214
Banks and other financial institutions	20,089	20,080	20,573	-
Companies	50,230	-	-	-
<b>Total</b>	<b>120,899</b>	<b>146,372</b>	<b>146,339</b>	<b>146,214</b>

Source: SABB Takaful's financial statements

## Held-to-maturity investments - Unlisted

They mainly include government and quasi-government investments and investments in local banks. Most of these investments are classified as shareholders' operations.

Held-to-maturity financial assets increased from 120.9 million Saudi riyals on December 31, 2018G to 146.3 million Saudi riyals on December 31, 2019G due to the increase in purchases (after deducting the redemption) with value of 25.4 million Saudi riyals. The balance remained stable at 146.3 million Saudi riyals as of December 31, 2020G, and the held-to-maturity investments settled at 146.2 million Saudi riyals as of September 30, 2021G.

## Takaful Operations

Takaful operations include investment in the Ministry of Finance sukuk. Each of them is valued at 4.9 million and are allocated to the both business lines of group family takaful and individual family takaful. These investments pay semi-annual coupons, generate returns of 2.17% and mature on March 23, 2025G.

## Shareholders' Operations

Shareholders' operations include various investments in the General Authority of Civil Aviation, Bank Albilad, Tasnee and the Ministry of Finance in Saudi Riyals fully attributable to the shareholders.

## Sukuk of General Authority of Civil Aviation

The sukuk of General Authority of Civil Aviation, are associated with a major investment with a nominal value of 50.0 million Saudi riyals and pays semi-annual coupons, generate a return of 2.5% and matures on January 10, 2022G. On September 30, 2021G, the book value of the investment reached 50.6 million Saudi riyals.

## Bank Albilad Sukuk

Bank Albilad sukuk are associated with a principal investment with a nominal value of 20.0 million Saudi riyals that pays quarterly coupons, and generate a variable return that decreased during this period from 4.8% during the fiscal year 2018G to 4.4% during the fiscal year 2019G to 2.9% during the fiscal year 2020G and 2.8% as on September 30, 2021G. The book value of this investment reached 20.0 million Saudi riyals, and matures on August 30, 2021G.

## Sukuk of National Industrialization Company (Tasnee)

The sukuk of National Industrialization Company are associated with a principal investment with a nominal value of 50.0 million Saudi riyals that pays annual coupons, and generates a return of 4.0%. This investment matures on May 10, 2019.

## Ministry of Finance Sukuk

The Ministry of Finance Sukuk were acquired as four detailed investments during the fiscal year 2019G with a total nominal value of 65.0 million Saudi riyals. During the first half of the fiscal year 2021G, SABB acquired an additional investment in the Ministry of Finance sukuk with a nominal value of 20.1 million Saudi riyals.

### 5.2.13 SABB Takaful's Prepaid expenses and other assets

**Table No. (5.14): Prepaid expenses and other assets during the fiscal years ended on December 31, 2018G, 2019G and 2020G and during the nine-month period ended on September 30, 2021G**

Thousand Saudi riyals	Takaful Operations	Shareholders' Operations	As on December 31, 2018G (Audited)	Takaful Operations	Shareholders' Operations	As on December 31, 2019G (Audited)	Takaful Operations	Shareholders' Operations	As on December 31, 2020G (Audited)	Takaful Operations	Shareholders' Operations	As on September 30, 2021G (Unaudited)
Relevant parties' liabilities	440	-	440	220	-	220	552	-	552	2,178	-	2,178
Prepaid payments and other expenses	403	389	792	549	293	842	3,206	4	3,210	2,102	439	2,541
<b>Total</b>	<b>843</b>	<b>389</b>	<b>1,232</b>	<b>769</b>	<b>293</b>	<b>1,062</b>	<b>3,758</b>	<b>4</b>	<b>3,762</b>	<b>4,280</b>	<b>439</b>	<b>4,719</b>

Source: SABB Takaful's financial statements

## Relevant parties' liabilities

Relevant parties' liabilities relate to takaful operations and include balances owed by HSBC. Relevant parties' liabilities decreased from 440 thousand Saudi riyals as on December 31, 2018G to 220 thousand Saudi riyals as on December 31, 2019G. They continued to increase until they reached 552 thousand Saudi riyals as on December 31, 2020G and 2.2 million Saudi riyals as on September 30, 2021G. The change is due to claims on balances owed by relevant parties.

## Prepaid payments and other expenses

The prepaid payments and other expenses include medical insurance, support and other expenses paid in advance as well as employee advances and income due on deposits and other accounts receivable. The prepaid payments and other expenses increased from 792 thousand Saudi riyals as on December 31, 2018G to 3.2 million Saudi riyals as on December 31, 2020G due to the increase in the dues of Umrah product by 2.2 million riyals. The prepaid payments and other expenses decreased to 2.1 million Saudi riyals as of September 30, 2021G, due to the settlement of the Umrah product, and this was offset by advances for medical insurance amounting to 900 thousand Saudi riyals.

## 5.2.14 SABB Takaful's Receivables and other liabilities

**Table No. (5.15): Receivables and other liabilities during the fiscal years ended on December 31, 2018G, 2019G and 2020G and during the nine-month period ended on September 30, 2021G**

Thousand Saudi riyals	Takaful Operations	Shareholders' Operations	As on December 31, 2018G (Audited)	Takaful Operations	Shareholders' Operations	As on December 31, 2019G (Audited)	Takaful Operations	Shareholders' Operations	As on December 31, 2020G (Audited)	Takaful Operations	Shareholders' Operations	As on September 30, 2021G (Unaudited)
Accounts payable and Dues	16,051	1,414	17,465	26,643	2,647	29,290	29,088	3,560	32,648	25,608	1,194	26,802
Relevant parties' Claims	1,700	-	1,700	3,244	-	3,244	3,824	-	3,824	3,156	-	3,156
Agents' Accounts payable	213	-	213	3,008	-	3,008	5,223	-	5,223	5,512	-	5,512
<b>Total</b>	<b>17,964</b>	<b>1,414</b>	<b>19,378</b>	<b>32,895</b>	<b>2,647</b>	<b>35,542</b>	<b>38,135</b>	<b>3,560</b>	<b>41,695</b>	<b>34,276</b>	<b>1,194</b>	<b>35,470</b>

Source: SABB Takaful's financial statements

### Accounts payable and Dues

Accounts payable and dues include claims owed to customers, due professional fees, and utilities and other expenses. Accounts payable and dues increased from 17.5 million Saudi riyals as on December 31, 2018G to 29.3 million Saudi riyals as on December 31, 2019G due to an increase in claims payable to customers by 10.0 million Saudi riyals, coupled with an increase in tax consultancy fees of 2.0 million Saudi riyals during this period. Accounts payable and dues continued to increase until they reached 32.6 million Saudi riyals as of December 31, 2020G, due to an increase in claims payable to customers of 2.0 million Saudi riyals coupled with an increase in withholding tax payable by 1.5 million Saudi riyals. Accounts payable and dues decreased to 26.8 million Saudi riyals as of September 30, 2021G, mainly due to the settlement of payable withholding tax of 3.1 million Saudi riyals.

### Relevant parties' Claims

Relevant parties' claims relate to amounts owed to the Saudi British Bank and SABB Insurance Agency Limited "SIAL". Relevant parties' claims increased from 1.7 million Saudi riyals as on December 31, 2018G to 3.2 million Saudi riyals as on December 31, 2019G due to the decrease in settlements.

Relevant parties' claims increased from 3.2 million Saudi riyals as of December 31, 2019G to 3.8 million Saudi riyals as of 2020G. They decreased to 3.2 million Saudi riyals as of September 30, 2021G due to the decrease in settlements.

### Agents' Accounts payable

Agents' Accounts payable includes commission owed to agents and intermediaries for premiums sold through indirect channels. Agents' Accounts payable increased from 213,000 Saudi riyals as of December 31, 2018G to 3.0 million Saudi riyals. They continued to increase to 5.2 million Saudi riyals as of December 31, 2020G, in line with the increase in the percentage of total underwritten insurance premiums from indirect channels from 68.4% during the fiscal year 2018G to 97.8% during the fiscal year 2020G. The balance of agents' accounts payable continued to increase to 5.5 million Saudi riyals as of September 30, 2021, in line with the increase in the total underwritten insurance premiums and acquisition costs of insurance premiums.



## 5.2.15 SABB Takaful's provision for zakat and income tax

**Table No. (5.16): The changes in SABB Takaful's provision for zakat and income tax during the fiscal years ended on December 31, 2018G, 2019G and 2020G and the nine-month period ended on September 30, 2021G**

Thousands Saudi riyals	As on December 31, 2018G (Audited)	As on December 31, 2019G (Audited)	As on December 31, 2020G (Audited)	As on September 30, 2021G (Unaudited)
In the beginning of the year	4,452	6,017	5,778	4,991
Charged during the year	6,017	5,778	4,764	4,446
Amendments made during the previous year	-	(59)	-	-
Payments during the year	(4,452)	(5,958)	(5,551)	(5,393)
<b>At the end of the year</b>	<b>6,017</b>	<b>5,778</b>	<b>4,991</b>	<b>4,044</b>

Source: SABB Takaful's financial statements

During the quarter ended on March 31, 2015G, Zakat, Tax and Customs Authority issued the final tax certificates as of 2008G to 2010G.

On November 27, 2018G, Zakat, Tax and Customs Authority issued the tax/ zakat assessment as of the year ended on December 31, 2011G to 2014G. SABB Takaful raised an objection to the assessment of Zakat, Tax and Customs Authority. Zakat, Tax and Customs Authority rejected the objection and SABB Takaful filed an appeal before the General Secretariat of Zakat, Tax and Customs Committees (the "Secretariat"). Zakat, Tax and Customs Authority presented its arguments to the Secretariat as the claim of SABB Takaful was accepted regarding the costs of underwriting deferred takaful policies. The other claims were rejected. SABB Takaful has filed an appeal against this rejection. The appeal is still pending before the secretariat, and the secretariat has not set a hearing yet. The management believes that SABB Takaful's argument is strong in the appeal as it relates primarily to matters already resolved in favor of SABB Takaful in previous appeals relating to previous assessments (20/10/2007G).

In 2019, Zakat, Tax and Customs Authority issued a tax /zakat assessment for the year ended on December 31, 2018G. SABB Takaful raised an objection to the assessment of Zakat, Tax and Customs Authority. The Zakat, Tax and Customs Authority examined the claim and issued an amended assessment in April 2020G. Zakat, Tax and Customs Authority, under the amended assessment, accepted the SABB Takaful's argument regarding withholding tax. As for other matters related to zakat, SABB Takaful filed an appeal before the Secretariat, whereas the net zakat return amounted to about 900 thousand Saudi riyals. The management firmly believes that the SABB Takaful's argument, in relation to the said appeal, is strong.

In 2020, the Zakat, Tax and Customs Authority issued the final assessments as of the year ended on December 31, 2015G to 2017G. As the assessments are relatively important, SABB Takaful settled the additional zakat liabilities during 2015G and 2016G "subject matter of the said objection" and raised another objection to the assessment conducted in 2017G. The additional zakat liability for 2017 was 1.9 million Saudi riyals. During April 2021, the Zakat, Tax and Customs Authority issued an amended assessment for the fiscal year 2017, in which it partially accepted the appeal filed by SABB Takaful to reduce the additional Zakat liability to 259.0 million Saudi riyals. SABB Takaful shall conduct an assessment on the settlement of the additional Zakat liability or file an appeal to the Secretariat.

Zakat, Tax and Customs Authority has started auditing tax/ zakat returns for the two years ended on December 31, 2019G and 2020G. The assessments of those fiscal years are still pending.

Furthermore, during the quarter ended on March 31, 2020, Zakat, Tax and Customs Authority issued an assessment in accordance with the tax auditing that was conducted in relation to value added tax (VAT). Zakat, Tax and Customs Authority decided, under the aforementioned assessment, to apply a value-added tax of 5% on the fees of the takaful plan imposed on life insurance policyholders provided by SABB Takaful in the individual family takaful from January 1, 2018G to September 30, 2020G, in addition to late payment penalty in total of 1.68 million Saudi riyals. During the nine-month period ended on September 30, 2020G, SABB Takaful took advantage of the "exemption from fines and financial penalties initiative" launched by Zakat, Tax and Customs Authority and paid the basic amount of value-added tax, the subject matter of the objection, with a value of 970,000 Saudi riyals. Upon payment, Zakat, Tax and Customs Authority waived the late payment penalties amounting to 710,000 Saudi riyals.

In response thereto, on September 18, 2020G, SABB Takaful submitted an objection letter through the portal of Zakat, Tax and Customs Authority, to object to the issued SADAD invoices. Along with such letter, SABB Takaful made the payment, subject matter of the objection to settle all invoices issued by Zakat, Tax and Customs Authority. On July 13, 2020G, a response was received from Zakat, Tax and Customs Authority rejecting the objection stated in the letter of objection. On August 10, 2020G, SABB Takaful filed an appeal to the General Secretariat of Zakat, Tax and Customs Committees (the

“Secretariat”). A hearing was scheduled on May 24, 2021G, before the Tax Committee for Resolution of Tax Violations and Disputes affiliate with the General Secretariat of Zakat, Tax and Customs Committees as SABB Takaful's appeal to cancel the assessment, was dismissed. The reason for making the decision in favor of Zakat, Tax and Customs Authority, is not yet known, and the minutes of the meeting and the decision shall be announced soon. After the announcement of the decision, SABB Takaful shall file a second level appeal (before any Tax Committee for Resolution of Tax Violations and Disputes) within the schedule and may also consider the option of holding an Alternative Dispute Resolution (ADR) discussion.

## 5.2.16 SABB Takaful's Claims

**Table No. (5.17): Claims submitted during the fiscal years ended on December 31, 2018G, 2019G and 2020G and during the nine-month period ended on September 30, 2021G**

Thousand Saudi riyals	As on December 31, 2018G (Audited)	As on December 31, 2019G (Audited)	As on December 31, 2020G (Audited)	As on September 30, 2021G (Unaudited)
<b>Family takaful outstanding claims</b>				
Outstanding claims reserves	18,988	17,725	32,254	27,230
Unreported incurred claims reserves and other reserves	20,337	21,767	26,824	42,545
<b>General takaful outstanding claims</b>				
Outstanding claims reserves	27,302	16,669	24,374	45,015
Unreported incurred claims reserves and other reserves	4,559	6,129	9,559	16,470
<b>Total outstanding claims</b>	<b>71,186</b>	<b>62,290</b>	<b>93,011</b>	<b>131,260</b>

Source: SABB Takaful's financial statements

### Family takaful outstanding claims

#### Outstanding claims reserves

The reserves of family takaful outstanding claims include group family takaful and individual family takaful. The reserves of outstanding takaful claims decreased from 19.0 million Saudi riyals as on December 31, 2018G to 17.7 million Saudi riyals as on December 31, 2019G due to settling a claim amounting to 3.0 million Saudi riyals that was outstanding during the same period. The outstanding claims reserves increased to 32.3 million Saudi riyals as of December 31, 2020G due to the increase in due death claims related to group family takaful and individual family takaful and due disability accidents claims related to group family takaful. The outstanding claims reserves decreased to 27.2 million Saudi riyals as on September 30, 2021G, due to the decrease in outstanding death claims.

#### Unreported incurred claims reserves and other reserves

The unreported incurred claims reserves and other reserves relate to the valuation of claims that are expected to be reported subsequent to the statement of financial position date, and in which the Insurable event occurred prior to the statement of financial position date. The primary method used by SABB Takaful in evaluating the cost of reported claims and unreported incurred claims, is to use past claim settlements to forecast future claim settlements.

### General takaful outstanding claims

#### Outstanding claims reserves

The outstanding claims reserves related to general takaful decreased from 27.3 million Saudi riyals as on December 31, 2018G to 16.7 million Saudi riyals as on December 31, 2019G, due to a reduction in fire claims by 12.5 million Saudi riyals, offset by the increase in damage claims by 1.4 million Saudi riyals. The outstanding claims reserves increased to 24.4 million Saudi riyals as of December 31, 2020G, due to the increase in fire and cash embezzlement claims, amounting to 7.2 million Saudi riyals. The outstanding claims reserves increased to 45.0 million Saudi riyals as on September 30, 2021G, due to the fire accident occurred in Olayan Food Services Co., with a value of 36.9 million Saudi riyals.

## Unreported incurred claims reserves and other reserves

The unreported incurred claims reserves and other reserves relate to the valuation of claims that are expected to be reported subsequent to the statement of financial position date, and in which the Insurable event occurred prior to the statement of financial position date. The primary method used by SABB Takaful in evaluating the cost of reported claims and unreported incurred claims, is to use past claim settlements to forecast future claim settlements.

### 5.2.17 Takaful activities reserve of SABB Takaful

**Table No. (5.18): The changes in takaful activities reserve of SABB Takaful during the fiscal years ended on December 31, 2018G, 2019G and 2020G and the nine-month period ended on September 30, 2021G**

Thousands Saudi riyals	As on December 31, 2018G (Audited)	As on December 31, 2019G (Audited)	As on December 31, 2020G (Audited)	As on September 30, 2021G (Unaudited)
Balance in the beginning of the year	381,038	352,115	376,834	406,636
Changes in reserve during the year	(17,983)	(4,610)	16,378	11,831
Costs of takaful plan participants	(15,003)	(16,174)	(16,796)	(14,027)
Net change in the fair value of investments	4,064	45,503	30,220	49,950
<b>Balance at the end of the year</b>	<b>352,115</b>	<b>376,834</b>	<b>406,636</b>	<b>454,390</b>

Source: SABB Takaful's financial statements

## Takaful Activities Reserve

The changes in the takaful activities reserve relate to the individual savings product. The reserve is calculated according to the value of the fund units for each single contract on the valuation date, in addition to the technical provisions to cover the protection elements. Accordingly, the investments of Takaful operations of which 100% are held by SABB Takaful, are covered by Takaful activities reserve. Growth during such period is increased with the value of the underwritten contributions according to the individual family takaful business line, reduced by the reinstatement and maturity of policies, subject to a change in the fair value of the underlying investment funds and reduced by takaful policyholders' fees that SABB Takaful deducts from policyholders for various activities (acquisition, death rate, policy management, services and credit increase etc.).

### 5.2.18 Solvency analysis of SABB Takaful

**Table No. (5.19): Solvency analysis conducted on December 31, 2018G, 2019G and 2020G and September 30, 2021G.**

Thousands Saudi riyals	As on December 31, 2018G (Audited)	As on December 31, 2019G (Audited)	As on December 31, 2020G (Audited)	As on September 30, 2021G (Unaudited)
<b>Permitted Assets</b>				
Takaful policyholders (general and health takaful)	54,129	43,469	84,312	96,711
Takaful policyholders (Protection and saving)	126,488	94,539	161,946	119,991
Permitted Assets - Shareholders	304,037	350,459	328,999	299,574
Other permitted assets that cover the minimum margin requirement	-	-	-	-
<b>Total Permitted Assets</b>	<b>484,654</b>	<b>488,467</b>	<b>575,257</b>	<b>516,276</b>
<b>Liabilities</b>				
Takaful policyholders' liabilities (general and health takaful)	52,203	49,449	100,572	99,818
Takaful policyholders' liabilities (Protection and saving)	429,043	488,614	538,321	574,846
Liabilities - Shareholders	10,957	34,857	44,819	236

Thousands Saudi riyals	As on December 31, 2018G (Audited)	As on December 31, 2019G (Audited)	As on December 31, 2020G (Audited)	As on September 30, 2021G (Unaudited)
Minus: Liabilities that can be excluded from the minimum margin requirement	(309,743)	(376,834)	(406,636)	(454,390)
<b>Total Liabilities</b>	<b>182,460</b>	<b>196,086</b>	<b>277,076</b>	<b>220,510</b>
<b>Net permitted Assets</b>				
Net takaful policyholders' permitted assets (general and health) before amendment	1,926	(5,980)	(16,260)	(3,107)
Net takaful policyholders' permitted assets (protection and saving) before amendment	(302,555)	(394,075)	(376,375)	(454,855)
Net permitted assets - shareholders before amendment	293,080	315,602	284,180	299,338
Permitted amendments, additions and exemptions	309,743	376,834	406,636	454,390
<b>Total Net permitted Assets</b>	<b>302,194</b>	<b>292,381</b>	<b>298,181</b>	<b>295,766</b>
Margin requirement for general and health takaful	2,036	3,120	5,292	19,221
Margin requirement for protection and saving takaful	32,161	40,191	44,505	40,290
<b>Total Margin requirement</b>	<b>34,197</b>	<b>43,311</b>	<b>49,797</b>	<b>59,511</b>
Minimum Capital	100,000	100,000	100,000	100,000
<b>Total Minimum Margin Requirement</b>	<b>100,000</b>	<b>100,000</b>	<b>100,000</b>	<b>100,000</b>
<b>The surplus (minus) of the net permitted assets above the minimum margin requirement</b>	<b>202,194</b>	<b>192,381</b>	<b>198,181</b>	<b>195,766</b>
<b>Key Performance Indicators</b>				
<b>Surplus ratio</b>	<b>202%</b>	<b>192%</b>	<b>198%</b>	<b>195%</b>

Source: SABB Takaful's financial statements

SABB Takaful has maintained an increase in the net permitted assets above the minimum solvency margin requirement throughout this period.

The total net permitted assets of SABB Takaful are above the minimum solvency margin requirement throughout this period. The surplus decreased from 202.2 million Saudi riyals as on December 31, 2018G to 192.4 million Saudi riyals as on December 31, 2019G, mainly due to the increase in total liabilities (+13.6 million Saudi riyals) offset by the increase in total assets by (+ 3.8 million Saudi riyals)

The surplus net permitted assets increased to 198.2 million Saudi riyals as of December 31, 2020G, in line with the increase in the policyholders' operations (general and protection) during the fiscal year 2020G.

The surplus net permitted assets decreased from 198.2 million Saudi riyals as on December 31, 2020G to 195.8 million Saudi riyals as on September 30, 2021G. It is worth noting that SABB Takaful maintained a high level of balances such as balances with banks, Murabaha and short-term deposits with a relatively low return.

## 5.2.19 SABB Takaful's cash flows statement

Thousands Saudi riyals	As on December 31, 2018G (Audited)	As on December 31, 2019G (Audited)	As on December 31, 2020G (Audited)	As on September 30, 2021G (Unaudited)
<b>Cash flows of operating activities</b>				
Net income/ (loss) before the distribution of the dividends, and before the deduction of zakat and tax	1,056	(19,098)	(26,538)	7,098
Amortization	610	869	763	570
Depreciation	83	71	67	8
Sukuk Income	(4,237)	(3,826)	(4,017)	(3,135)
Amortization of Sukuk dividends	-	34	40	30
Amortization of sukuk deductions	-	-	(5)	(4)
Reversal of reduction in the value of/ (impairment expenses) of Retakaful contributions and accounts receivable	504	(2,054)	865	139
Provision for employees' end of service gratuity	885	1,206	1,457	1,414
<b>Total adjustments for non-cash items</b>	<b>1,099</b>	<b>(22,798)</b>	<b>(27,368)</b>	<b>6,120</b>
<b>Changes in operating assets and liabilities:</b>				
Net Retakaful contributions and accounts receivable	1,342	(11,702)	(18,854)	(7,491)
Short-term deposits	-	(66,277)	(54,068)	24,887
Retakaful (Retocession) ceded of unearned takaful contributions	3,833	(3,977)	(14,581)	9,238
Retakaful (Retocession) ceded of outstanding claims	8,352	10,086	(26,350)	(35,347)
Costs of underwriting deferred takaful policies	(195)	(966)	(1,962)	1,448
Available-for-sale Financial assets	28,922	(31,105)	(29,752)	(47,954)
Prepaid expenses and other assets	506	170	(2,700)	(957)
Receivables and other liabilities	668	23,904	6,153	(6,225)
Retakaful operators' credit balances	(2,694)	9,984	9,150	(12,309)
Unearned contributions	(4,824)	6,138	18,580	(12,403)
Retakaful Operators' Unearned Commission	(265)	(380)	2,812	(1,562)
<b>Total outstanding claims</b>	<b>(12,343)</b>	<b>(8,896)</b>	<b>30,721</b>	<b>38,249</b>
Unexpired risks reserve	(2,540)	2,898	2,947	(6,086)
Non-unit reserve	1,268	891	1,137	(7,039)
Takaful Activities Reserve	(28,922)	24,719	29,802	47,754
<b>Total changes in operating assets and liabilities</b>	<b>(7,991)</b>	<b>(67,311)</b>	<b>(74,333)</b>	<b>(9,677)</b>
End of service gratuity paid to Employees	(3,098)	(857)	(1,411)	(681)
Paid Zakat and income tax	(4,452)	(5,958)	(5,551)	(5,393)
<b>Net cash (spent in)/ generated from the operating activities</b>	<b>(15,541)</b>	<b>(74,126)</b>	<b>(81,295)</b>	<b>(15,751)</b>
<b>Cash flows of investing activities</b>				
Entitlements of held-to-maturity financial assets	17,000	50,000	-	(20,076)
Purchase of held-to-maturity investments	-	(75,209)	-	20,000

Thousands Saudi riyals	As on December 31, 2018G (Audited)	As on December 31, 2019G (Audited)	As on December 31, 2020G (Audited)	As on September 30, 2021G (Unaudited)
Received Sukuk Income	4,202	3,528	3,100	3,304
Purchase of intangible assets	(741)	(1,226)	(576)	-
<b>Net cash (spent in)/ generated from investing activities</b>	<b>20,461</b>	<b>(22,907)</b>	<b>2,524</b>	<b>3,228</b>
<b>Net change in cash and cash equivalents</b>	<b>4,920</b>	<b>(97,033)</b>	<b>(78,771)</b>	<b>(12,523)</b>
<b>Cash and cash equivalents in the beginning of the year</b>	<b>239,099</b>	<b>244,019</b>	<b>146,986</b>	<b>68,215</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>244,019</b>	<b>146,986</b>	<b>68,215</b>	<b>55,692</b>
<b>Non-cash supplemental information:</b>				
Net change in the fair value of available-for-sale investments	4,064	45,503	30,220	49,950
Net change in the fair value of available-for-sale investments in local equity shares	0	649	(50)	199

Source: SABB Takaful's financial statements

## Net cash (spent in)/ generated from the operating activities

Net cash (spent in)/ generated from the operating activities represents the change in SABB Takaful's working capital during these periods.

During the fiscal year 2018G, Net cash spent in the operating activities reached 15.5 million Saudi riyals, mainly due to claims settlement, coupled with employees' end of service gratuity and income tax paid during this year. During the fiscal years 2019G and 2020G, the net cash spent in the operating activities reached 74.1 million Saudi riyals and 81.3 million Saudi riyals, respectively, due to the increase in short-term deposits.

During the nine-month period ended on September 30, 2021G, the net cash generated from operating activities reached 15.8 million Saudi riyals due to the maturity of short-term deposits, and this was also offset by an increase in contributions receivable and settlements of balances due to Retakaful companies.

## Net cash (spent in)/ generated from investing activities

The change in net cash (spent in)/ generated from investing activities mainly relates to the purchase or redemption of investments, received Sukuk Income, and the purchase of intangible assets.

During the fiscal year 2018G, the net cash generated from investing activities reached 20.5 million Saudi riyals in the fiscal year 2018G, mainly due to the entitlements of held-to-maturity assets (Power and Water Utility Company for Jubail and Yanbu Sukuk (MARAFIQ) and the Sukuk of Saudi Hollandi Bank (Alawwal Bank)).

During the fiscal year 2019G, the net cash spent in investing activities reached 22.9 million Saudi riyals due to the purchase of held-to-maturity assets with a value of 75.2 million Saudi riyals, and this was offset by the entitlements of held-to-maturity assets amounting to 50.0 million Saudi riyals.

During the fiscal year 2020G, the net cash generated from investing activities primarily relates to sukuk income. The net cash spent in investing activities reached 2.5 million Saudi riyals.

During the nine-month period ended on September 30, 2021G, the net cash spent in investing activities primarily relates to the entitlements of held-to-maturity assets. The net cash spent in investing activities reached 3.2 million Saudi riyals.

## 6

## Legal Information

### 6.1 Acknowledgments of the board of directors of Walaa Insurance Company

The board of directors of Walaa Insurance Company acknowledges the followings:

1. That the Merger Transaction does not violate the relevant laws and regulations in the Kingdom of Saudi Arabia.
2. The issuance does not violate any of the contracts or agreements to which Walaa Insurance Company is a party.
3. This section includes all the essential legal information related to the documents of the Merger Transaction, which the shareholders of Walaa Insurance Company shall take into consideration to vote due diligence knowledge.
4. There is no other essential legal information in this section, the omission of which shall make the other data misleading and ambiguous.

The board of directors of Walaa Insurance Company consider that the Merger Transaction, which is the subject of this circular, is fair and reasonable, after exerting the necessary professional care as they see fit under the prevailing circumstances and with the assistance of their advisors and after taking into consideration the market situation on the date of publication of this circular and the future growth opportunities of the merging company and the expected benefits from the Merger Transaction and also after acting on the opinion of AlJazira Capital Company ("AlJazira Capital") on 23/07/1443H (corresponding to 24/02/2022G) (a copy thereof is attached entitled "Annex No. (3)" to this circular) that according to the assumptions set out in such opinion, the exchange ratio agreed under the Merger Agreement is financially fair. As the board of directors of Walaa Insurance Company see that the Merger Transaction is in the interest of Walaa Insurance Company and its shareholders, and therefore they unanimously recommend the to ratify the decision of the Merger Transaction. It is also worth noting that all Board of Directors Members of Walaa Insurance Company, who shall vote during the extraordinary general assembly meeting of Walaa Insurance Company, shall approve the Merger Transaction. However, it is worth noting that the Board of Directors Members of Walaa Insurance Company did not take into account the individual investment objectives or the circumstances of each shareholder separately, and due to the different situations and circumstances of each shareholder, the Board of Directors Members of Walaa Insurance Company confirm on the need of Walaa Insurance Company shareholders to obtain Independent professional consultancy of a financial advisor licensed by the Capital Market Authority in the event of doubt about an issue related to the Merger Transaction. Shareholders shall also rely on their review of the Merger Transaction to ensure the adequacy of the Merger Transaction according to the information set out in this circular and their financial conditions.

### 6.2 Legal Wording of the Merger Transaction

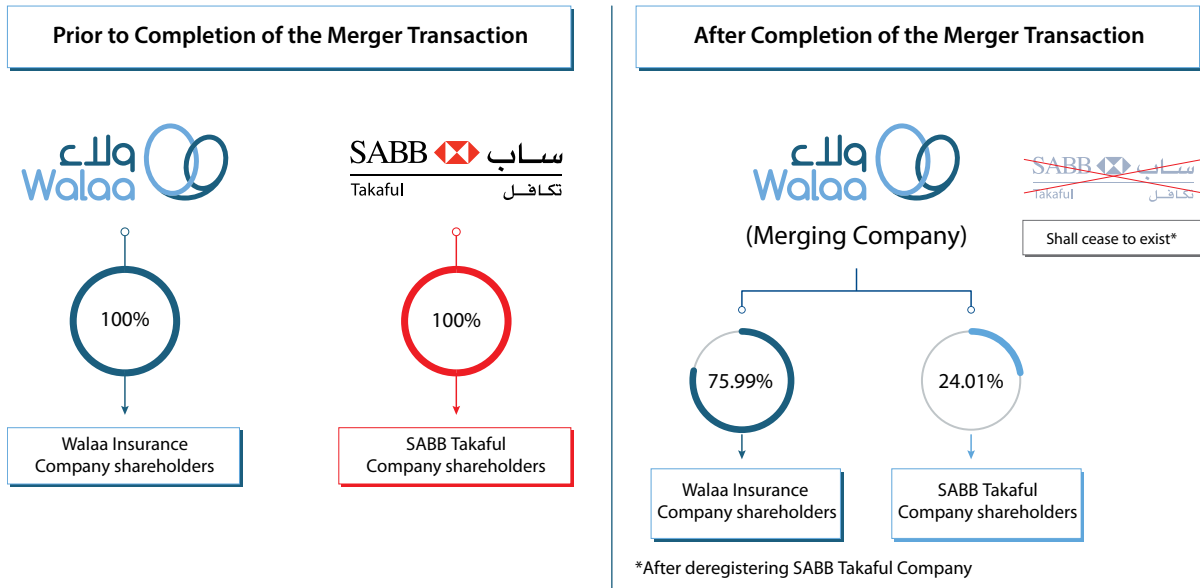
The Merger Transaction shall be executed in accordance with Articles (191), (192) and (193) of the Companies Law and sub-paragraph (1) of paragraph (a) of Article (49) of the Merger and Acquisition Regulations. After fulfilling the preconditions mentioned in the Merger Agreement and summarized in Section 6.4.4 of this Circular and completing the Merger Transaction in accordance with the schedule set out in Section ("**Important Dates and milestones of the Merger Transaction**"), all SABB Takaful's assets and its liabilities shall be transferred to Walaa Insurance Company which shall, in return, issue new shares to the shareholders of SABB Takaful Company registered in the shareholders' register at the end of the second trading period after the effectiveness of the Merger Transaction decision.

After the effectiveness of the Merger Transaction decision (i.e., the expiry of the creditors' objection to the Merger Transaction, which shall continue for a period of (30) days from the date of publishing the decisions of the extraordinary general assembly approving the Merger Transaction or settling all the creditors' objections to the Merger Transaction (whichever comes later) in accordance with the provisions of Article (193) From the Companies Law), the Walaa Insurance Company shall continue its activity, while the SABB Takaful shall be closed and all its shares shall be canceled and its commercial registration with the Ministry of Commerce shall be written off in accordance with Articles (191), (192) and (193) of the Companies Law.



Due to the Merger Transaction, the SABB Takaful’s shareholders shall receive 0.6005476176470590 shares in Walaa Insurance Company for each share they own in SABB Takaful. This means that Walaa Insurance Company shall issue (20,418,619) new ordinary shares to SABB Takaful’s shareholders. Such new shares shall be issued by increasing the capital of Walaa Insurance Company from six hundred and forty-six million three hundred and ninety-seven thousand and sixty (646,397,060) Saudi riyals to eight hundred and fifty million five hundred and eighty-three thousand two hundred and fifty (850,583,250) Saudi riyals by increasing the number of issued shares of the Walaa Insurance Company from sixty-four million six hundred and thirty-nine thousand seven hundred and six (64,639,706) shares to eighty-five million and fifty-eight thousand three hundred and twenty-five (85,058,325) shares.

A summary of the legal wording of the Merger Transaction is stated below, noting that both companies shall continue to use their names and trademarks during the execution of the merger:



## 6.3 Required approvals to complete the Merger Transaction

### 6.3.1 Government approvals

The Merger Transaction requires obtaining a number of government approvals, which are as follows:

- Obtaining Non-objection Certificate from the General Authority for Competition to the economic concentration resulting from the Merger Transaction. The company obtained the Non-objection Certificate from the General Authority for Competition on 18/08/1443H (corresponding to 21/03/2022G).
- Obtaining the approval of the Saudi Central Bank on the Merger Transaction and increasing the capital of Walaa Insurance Company. The Saudi Central Bank’s approval was obtained on 02/01/1444H (corresponding to 31/07/2022G).
- Obtaining the approval of Saudi Stock Exchange to list the shares issued to the shareholders of the SABB Takaful in accordance with the process of increasing the capital of the Walaa Insurance Company. The approval of Saudi Stock Exchange was obtained on 11/01/1444H (corresponding to 09/08/2022G).
- Obtaining the approval of the Capital Market Authority on the request to increase the capital of Walaa Insurance Company and publishing the offer document. The approval of Capital Market Authority was obtained on 12/01/1444H (corresponding to 10/08/2022G).
- Obtaining the approval of the Capital Market Authority to invite the extraordinary general assembly of Walaa Insurance Company and SABB Takaful - each separately - regarding the Merger Transaction.

### 6.3.2 The approval of Extraordinary General Assembly

One of the conditions for completing the Merger Transaction is to obtain the approval of the Extraordinary General Assembly by a majority of no less than three quarters of the shares represented in the Extraordinary General Assembly meeting of Walaa Insurance Company and SABB Takaful, on the following decisions:

1. The approval of the Extraordinary General Assembly of Walaa Insurance Company for the Merger Transaction and other related decisions, which is to vote on the capital increase in accordance with the terms and conditions of the Merger Agreement (which is detailed in Section 6.4 of this circular), and approval of the proposed amendments to the bylaws of Walaa Insurance Company related to the Merger Transaction (detailed in Annex No. 5 of this Circular), and approving the authorization of the Board of Directors of Walaa Insurance Company or any person authorized by the its Board of Directors to issue any decision or take any action that may be necessary to implement any of the aforementioned decisions related to the Merger Transaction.
2. The approval of the Extraordinary General Assembly of SABB Takaful for the Merger Transaction and other related decisions, which is to vote on the offer submitted by Walaa Insurance Company in accordance with the terms and conditions of the Merger Agreement (which are detailed in Section No. 6.4 of this circular), and to authorize the Board of Directors of SABB Takaful , or any person authorized by its Board of Directors of, to issue any decision or take any action that may be necessary to implement any of the decisions related to the Merger Transaction.

Walaa Insurance Company shall submit to the Capital Market Authority a request to invite the Extraordinary General Assembly after publishing this circular, and after obtaining the approval of the Capital Market Authority to hold the Extraordinary General Assembly. Walaa Insurance Company shall publish the invitation to the meeting of the Extraordinary General Assembly, which shall be held after (21) days at least from the publication date of the invitation.

The meeting of the Extraordinary General Assembly of Walaa Insurance Company shall be valid if attended by shareholders representing at least half of the capital of Walaa Insurance Company If this quorum is not completed in the first meeting, the second meeting of the Extraordinary General Assembly shall be held one hour after the end of the period specified for convening the first meeting, provided that the invitation to hold the first meeting includes a statement that a second meeting can be held one hour after the end of the period set for the first meeting in case the quorum is not reached. The second meeting of the Extraordinary General Assembly shall be valid if attended by shareholders representing at least one quarter of the capital of the Walaa Insurance Company If the necessary quorum is not completed in the second meeting, Walaa Insurance Company shall submit a request to the Capital Market Authority to obtain its approval to hold a third meeting of the Extraordinary General Assembly after a period of no less than (21) days from the date of publishing the previous invitation. The third meeting will be valid regardless of the number of shares represented therein.

All shareholders registered in the shareholder register of Walaa Insurance Company, at the end of trading on the day of the extraordinary general assembly meeting related to the Merger Transaction, are entitled to attend the assembly. Any shareholder shall be able to attend in person and vote on the agenda items, or delegate another person to attend and vote on his behalf in accordance with the relevant procedures, whether this person is a shareholder in a Walaa Insurance Company or otherwise, provided that this person is not a member of the Board of Directors of Walaa Insurance Company or any of its employees. The power of attorney shall be in writing and signed by the authorized shareholder and certified by the Chamber of Commerce or by one of the authorized persons from the Capital Market Authority, the Notary Public or the persons authorized to do notary work. The attorney shall present the original attested power of attorney upon his attendance on the day when the Extraordinary General Assembly are held, in addition to the original national ID, passport, or a legal residency permit. Shareholders shall also be able to vote remotely (electronically) on the items of the extraordinary general assembly agenda related to the Merger Transaction. Electronic voting shall be available at least (3) days before the date of the Extraordinary General Assembly, and the dates, on which electronic voting will be available, shall be specified within the invitation to convene the Extraordinary General Assembly.

The Merger Transaction decision shall be approved during the Extraordinary General Assembly of Walaa Insurance Company, if the approval decision is issued by a majority of three quarters of the shares represented in the meeting (whether in person or by attorney). The shareholder who owns shares in both Walaa Insurance Company and SABB Takaful shall be not entitled to vote on the Merger Transaction decisions except through the extraordinary general assembly of one of the two companies. The votes in the extraordinary general assemblies are calculated on the basis of one vote per share, and the shareholder who does not attend the extraordinary general assembly of the Merger Transaction, whether in person, by an attorney or electronically, shall lose his right to vote on the decisions of the assembly.

Shareholders wishing to vote electronically can do so through ("Tadawulaty") a service provided by the Saudi Stock Exchange, provided that the shareholders have registered in the ("Tadawulaty") service, noting that registration and voting in the services ("Tadawulaty") is free for all shareholders. For more information, please visit the following link: <http://login.tadawulaty.com.sa/ir/user/login.xhtml?lang=ar>

### 6.3.3 Creditors objection period

According to the provisions of Article (193) of the Companies Law, the creditors of SABB Takaful shall be entitled to object to the Merger Transaction during the creditor's objection period, which extends for a period of (30) days from the date of publishing the decisions of the extraordinary general assembly approving the Merger Transaction. Accordingly, after the approval of the Extraordinary General Assembly of both companies on the merger deal, Walaa Insurance Company and SABB Takaful Company will publish the decisions of the Extraordinary General Assembly, and this announcement will indicate the right of SABB Takaful's creditors to object to the Merger Transaction by sending a registered letter to the headquarters of SABB Takaful, within (30) days from the date of publishing the decisions of the extraordinary general assembly relating to the Merger Transaction.

The Merger Transaction decision shall be effective after the lapse of (30) days from its announcement, if there is no existing objection raised by any of SABB Takaful's creditors to the Merger Transaction. If any of the creditors raised their objections within the aforementioned period, the Merger Transaction shall be suspended until the creditors withdraw their objection or until SABB Takaful fulfills the debt if it is payable immediately, or Walaa Insurance Company or SABB Takaful provides sufficient guarantee to pay it on its time if it is payable later.

## 6.4 All contracts and agreements related to the Merger Transaction

The Board of Directors of Walaa Insurance Company and the Board of Directors of SABB Takaful entered into a merger agreement on 23/07/1443H (corresponding to 24/02/2022G), (hereinafter referred to as "Merger Agreement" or the "Agreement"). This agreement included particular conditions for the implementation of the Merger Transaction in accordance with the measures, procedures, and exchange ratio specified in this circular, in addition to certain undertakings and guarantees by the management of the two companies. Therefore, the Merger Transaction shall be subject to the terms set out in the Merger Agreement. A summary of the main terms and conditions set out in the Merger Agreement, is stated below:

### 6.4.1 Agreement to complete the Merger Transaction

Both Walaa Insurance Company and SABB Takaful have agreed to complete the Merger Transaction between them in accordance with the terms set forth in the Merger Agreement and the applicable rules and regulations, and to deal in good faith to apply all conditions and accomplish of all work necessary to complete the Merger Transaction. Each party agreed to do all the work and obtain licenses and approvals necessary to complete the aforementioned Merger Transaction, and accordingly it was agreed between Walaa Insurance Company and SABB Takaful on the following:

- A. In consideration of the SABB Takaful's undertakings stipulated within the Merger Agreement, Walaa Insurance Company undertook to prepare the offer document, Shareholders' Circular and all the documents and requests necessary to increase its capital (as detailed in Section No. 6.3 of this circular). The Board of Directors of Walaa Insurance Company shall also invite the Extraordinary General Assembly to convene - after fulfilling all the preconditions (as detailed in Section No. 6.4 of this circular) - to approve, by a majority of not less than three quarters of the shares represented in the Extraordinary General Assembly, the Merger Transaction and other related decisions, which is to vote on the capital increase in accordance with the terms and conditions of the Merger Agreement (which is detailed in Section 6.4 of this circular), vote on the proposed amendments to the bylaws of Walaa Insurance Company related to the Merger Transaction (detailed in Annex No. 5 of this Circular), and vote on the authorization of the Board of Directors of Walaa Insurance Company or any person authorized by the its Board of Directors to issue any decision or take any action that may be necessary to implement any of the aforementioned decisions related to the Merger Transaction.
- B. In consideration of the undertakings of Walaa Insurance Company set forth in the Merger Agreement, SABB Takaful undertakes – provided that all the preconditions stipulated in the Merger Agreement detailed in Sections Nos. 6.4.4 and 6.4.18 of this Circular and provided that Walaa Insurance Company publishes this circular – to adhere to the schedule of the Merger Transaction through:
  - Publication of the SABB Takaful Board of Directors' circular containing the recommendation of the SABB Takaful's Board of Directors to approve the Merger Transaction; and
  - Inviting the Extraordinary General Assembly of SABB Takaful to convene in purpose of voting, by a majority of no less than three quarters of the shares represented in the Extraordinary General Assembly meeting, on the Merger Transaction and other related decisions, which is to vote on the offer submitted by Walaa Insurance Company in accordance with the terms and conditions of the Merger Agreement (which is detailed in Section 6.4 of this Circular) and authorizing the SABB Takaful's Board of Directors, or any person authorized by the SABB Takaful's Board of Directors, to issue any decision or take any action that may be necessary to implement any of the decisions relating to the Merger Transaction.

## 6.4.2 Guarantees and Undertakings

- A. Walaa Insurance Company undertakes and confirms to SABB Takaful, that the guarantees and undertakings, which are detailed in Section No. 6.4.2 of this circular, and with the exception of those matters that were disclosed by Walaa Insurance Company in the disclosure letter and/ or in the additional disclosure letter exchanged between the two companies, in accordance with the provisions detailed in Section 6.4.3 of this circular, are true, accurate and not ambiguous and do not include any false information or omission to mention any facts, information, circumstances or foreseeable events that would affect the desire of SABB Takaful (objectively). ) to continue with the Merger Transaction.
- B. SABB Takaful undertakes and confirms to Walaa Insurance Company, that the guarantees and undertakings, which are detailed in Section No. 6.4.2 of this circular, and with the exception of those matters that were disclosed by SABB Takaful in the disclosure letter and/ or in the additional disclosure letter exchanged between the two companies, in accordance with the provisions detailed in Section 6.4.3 of this circular, are true, accurate and not ambiguous and do not include any false information or omission to mention any facts, information, circumstances or foreseeable events that would affect the desire of Walaa Insurance Company (objectively) to continue with the Merger Transaction.

As per the foregoing, the following guarantees and undertakings were mutually interchanged between Walaa Insurance Company and SABB Takaful:

### 6.4.2.1 Guarantees and undertakings related to the Walaa Insurance Company and SABB Takaful:

Walaa Insurance Company undertook and confirmed to SABB Takaful, which, in return, undertook and confirmed to Walaa Insurance Company all of the following:

- It is a registered joint stock company and its shares are listed in the Saudi Stock Exchange.
- It carries out its activity taking into account the laws and regulations in force in the Kingdom of Saudi Arabia, especially the regulations of the Saudi Central Bank, and that it has obtained the necessary license to conduct cooperative insurance business in the Kingdom of Saudi Arabia, and this license is still valid and effective on the date of signing the Merger Agreement.
- That it has not been declared bankrupt or any of its subsidiaries has been declared bankrupt and/ or no bankruptcy proceedings have been conducted against it and/ or any of its subsidiaries.
- The Chairman of its Board of Directors has been authorized and he has the necessary powers to sign the Merger Agreement, fulfil the business requirements and deals stipulated in the Merger Agreement. Furthermore, signing the Merger Agreement and completing the works stipulated in the said agreement were approved by Walaa Insurance Company and SABB Takaful. The provisions of the Merger Agreement shall be binding on Walaa Insurance Company and SABB Takaful.
- Signing the Merger Agreement and the completion of the Merger Transaction shall not be restricted to fulfilling any condition and/ or approval of any third party or governmental authority except for those expressly provided for in the Merger Agreement and which are detailed in Section 6.4.4 of this Circular.
- Signing the Merger Agreement shall not intrinsically constitute a breach of any regulations and/ or any binding contractual provisions.
- It shall not issue any securities or shares to any third party, except for securities or shares required for the purposes of completing the Merger Transaction (i.e. the issue of consideration shares according to the exchange ratio).
- The disclosed documents (including the Articles of Association, Bylaws, licenses and permissions) are, at the date of signing the Merger Agreement, true, valid and not ambiguous.

### 6.4.2.2 Guarantees related to the financial documents of Walaa Insurance Company and SABB Takaful:

- Walaa Insurance Company undertook and confirmed to SABB Takaful, which, in return, undertook and confirmed to Walaa Insurance Company all of the following:
- Its accounts and financial documents have been prepared in accordance with the general accounting principles in force in the Kingdom of Saudi Arabia.
- The value of its fixed assets as shown in its financial documents is the lowest value after calculating the depreciation value.
- On the agreed accounting date (30/09/2021G), the inventory owned and used in its business (if any), which is duplicate or unused, has been written off from the financial statements, and the Slow-moving assets have been written off, and the remaining assets (if any) are stated at their minimum and net realizable value.

- It has the necessary reserves to cover its liabilities in accordance with the regulations in force.
- The financial statements do not include any unusual or recurring items.
- The submitted financial documents reflect the burdens in a comprehensive, accurate and non-misleading manner as on the agreed accounting date (30/09/2021G).
- The submitted financial documents reflect financial outcomes in a comprehensive, accurate and non-misleading manner as on the agreed accounting date (30/09/2021G).
- The submitted financial documents reflect the status of liabilities and burdens in a comprehensive, accurate and non-misleading manner as on the agreed accounting date (30/09/2021G).
- It has continued to carry out its business in a normally since the agreed accounting date (30/09/2021G), and that (a) it did not suffer from any event that had a negative essential impact on its business; (b) it did not purchase any fixed assets or sell any of its assets except that is within the normal course of its business; (c) it has not incurred any burdens or waived any rights or essential claims of any kind; (d) it has not written off any assets with a total value exceeding a total amount of three million (3,000,000) Saudi riyals; (e) it has not any capital burdens, whose value exceeds a total amount of five million (5,000,000) Saudi riyals, or the total of which exceeds a total amount of ten million (10,000,000) Saudi riyals; (f) it has not borrowed any amounts of more than a total amount of million (1,000,000) Saudi riyals that have not been fully paid; (g) it has not increased the dues, salaries or bonuses due to any of its employees, or has not made any amendment to the employees' remuneration and incentive program, except for what is within its normal business; (h) it did not make any amendment to the work or accounting systems or create any new system for the employees' remuneration; (h) it did not amend the terms of dealing with clients; (i) otherwise the normal scope of business, it did not terminate or receives notice of termination or any essential amendment of the existing contractual relation with any of the major clients or suppliers with whom it deals in the ordinary course of its business; (j) it has not made any essential amendment to its accounting policy; (k) it has not made any essential amendment to its tax policy or procedures, including how bad debts or reserves are calculated; (l) it did not refrain from purchasing or postpone the purchase of any equipment or assets necessary for the purposes of its normal day-to-day business; (m) it did not undertake to amend or agree to amend the terms and conditions of its regular dealings with its clients; (n) it did not make any amendment to the terms of its insurance products; (o) it did not undertake in writing or orally to do any of the aforementioned matters; and (p) it did not sign any agreement aimed at writing off or excluding any of its assets or debts from its financial statements as on the date of signing the Merger Agreement.
- Its financial documents accurately and comprehensively show all of its assets and liabilities as on the agreed accounting date (30/09/2021G) and that it did not enter into any transactions or sign any covenants that would exploit any of its assets or burdens.

#### 6.4.2.3 Guarantees related to the assets of Walaa Insurance Company and SABB Takaful:

Walaa Insurance Company undertook and confirmed to SABB Takaful, which, in return, undertook and confirmed to Walaa Insurance Company all of the following:

- It owns all of its assets and there are no restrictions imposed on its ownership of those assets, and there are no mortgages or liens on any of them.
- It is fully entitled to dispose of the assets and properties necessary to carry out its activities normally without any burdens or restrictions of any kind.
- It is not a party to any lease agreement related to any of its assets whose value exceeds a total amount of five hundred thousand (500,000) Saudi riyals.
- It operates its centers and offices under valid lease contracts, which are not subject to any judicial disputes.

#### 6.4.2.4 Guarantees related to the burdens of Walaa Insurance Company and SABB Takaful:

Walaa Insurance Company undertook and confirmed to SABB Takaful, which, in return, undertook and confirmed to Walaa Insurance Company that it has not incurred any burdens arising from the following:

- Guarantees, indemnities, warrants or similar liabilities that exist or may result from any previous covenants, except as disclosed in the disclosure letter and/ or additional disclosure letter.
- Guarantees or undertakings, except those required by law and resulting from ordinary dealings.
- Any shareholders' claims or by any other person or company associated with the shareholders, including financial claims relating to borrowed funds etc., notwithstanding the provisions due to executive directors under employment contracts signed with them, their terms of employment or insurance policies with preferential terms that benefit the aforementioned executive directors.

- Any financial liabilities owed to a third party, including banks and financial institutions, except for what has been disclosed.
- Any property or rights to property, including lease rights.
- Any shares, debt securities or other securities.
- Any amounts owed to third parties.

Walaa Insurance Company further undertook and confirmed to SABB Takaful, which, in return, undertook and confirmed to Walaa Insurance Company that on the date of the Merger Agreement:

- There are no outstanding and unpaid debts, and that
- The required reserve has been generated to cover outstanding debts including wages payable to employees.

#### 6.4.2.5 Guarantees related to the tax dues of Walaa Insurance Company and SABB Takaful:

Walaa Insurance Company undertook and confirmed to SABB Takaful, which, in return, undertook and confirmed to Walaa Insurance Company that it has done, accurately and within the statutory period, all of the following:

- Keeping and archiving the tax and zakat documents submitted by it and it submitted the zakat tax declarations on their due date.
- Paying all tax dues on time.
- Declaring all taxable activities.

Walaa Insurance Company further informed SABB Takaful, which, in return, informed Walaa Insurance Company, of all of the following:

- It is not a party to any existing tax dispute with any tax authority in the Kingdom of Saudi Arabia.
- That there are no facts that would result in additional tax burdens whose value exceeds a total amount of two million (2,000,000) Saudi riyals.
- It has not done any activity that is subject to objection or reclassification by a competent tax authority according to considerations related to tax evasion.
- It did not participate in any agreement involved tax evasion.
- That there are no dues in favor of the General Organization for Social Insurance that have not been paid on the date of the Merger Agreement.

#### 6.4.2.6 Guarantees related to the business of Walaa Insurance Company and SABB Takaful:

Walaa Insurance Company undertook and confirmed to SABB Takaful, which, in return, undertook and confirmed to Walaa Insurance Company all of the following:

- It operates exclusively under its trade name and does not use any other pseudonyms or names close to the name referred to.
- Its business is managed exclusively by its managers and employees, and there is no third party has been assigned to manage the company's business.
- It is not a party to any undisclosed partnership.
- It operates under valid licenses and permissions.
- It does not engage in any activities other than insurance business licensed to be carried out by the Saudi Central Bank.
- Notwithstanding the information disclosed in the documents submitted for the purposes of conducting a legal due diligence study, no warning has been sent from the Saudi Central Bank or any other government authority in relation to any violation or breach of the compliance rules applicable to insurance companies.
- It is not a party to any agreements contain non-commercial terms, except as disclosed.
- There are no agreements concluded with relevant parties except for what was disclosed through the documents submitted for the purposes of conducting a legal due diligence study.
- There is no violation of any contractual obligations it has signed on or abode by.



#### 6.4.2.7 Guarantees related to the employees of Walaa Insurance Company and SABB Takaful:

Walaa Insurance Company undertook and confirmed to SABB Takaful, which, in return, undertook and confirmed to Walaa Insurance Company all of the following:

- It shall not be entitled to pay any compensation in excess of the statutory compensation that may be due in the event of termination of any of the employment contracts signed with its employees.
- All labor claims have been disclosed.
- It does not owe any amounts, compensation or profits to its former or current directors or employees.
- It shall be entitled to the labor laws and regulations and has not violated any provisions of the Labor Law and its executive regulations.
- There are no amounts owed to any of the shareholders, except for the distributable profits, taking into account the regulations in force.
- It is not in violation of any applicable labor laws or regulations in the Kingdom of Saudi Arabia.
- There are no collective labor claims against it.
- Its employees and managers are not bound to any non-competitive obligation towards former employers.
- It did not violate any provisions related to the recruitment of workers and employees.

#### 6.4.2.8 Guarantees related to the pension systems of Walaa Insurance Company and SABB Takaful:

Walaa Insurance Company undertook and confirmed to SABB Takaful, which, in return, undertook and confirmed to Walaa Insurance Company all of the following: Notwithstanding the employees' mandatory health insurance, it shall not compensate any of its employees according to any compensation system that entitles its beneficiaries to obtain additional amounts or compensation, in addition to the end-of-service gratuity stipulated in the Labor Law and its executive regulations.

#### 6.4.2.9 Guarantees related to the insurance of Walaa Insurance Company and SABB Takaful:

Walaa Insurance Company undertook and confirmed to SABB Takaful, which, in return, undertook and confirmed to Walaa Insurance Company all of the following:

- It has concluded insurance policies to protect all substantial elements related to its business and employees.
- Its insurance policies are all valid and effective.
- It did not receive any warnings from the reinsurers regarding the termination of the insurance or its expiry.
- It does not deal with any insurance intermediaries that are not licensed to practice their activity.

#### 6.4.2.10 Guarantees related to the lawsuits and disputes of Walaa Insurance Company and SABB Takaful:

Walaa Insurance Company undertook and confirmed to SABB Takaful, which, in return, undertook and confirmed to Walaa Insurance Company all of the following:

- Notwithstanding the disclosed claims and the ordinary insurance claims whose value does not exceed a total amount of five hundred thousand (500,000) Saudi riyals, there are no existing or potential judicial or arbitration disputes on the date of the Merger Agreement, and no judicial proceedings have been brought against it of any kind and by any party.
- No court judgment or verdicts were given against it.

#### 6.4.2.11 Guarantees related to the information of Walaa Insurance Company and SABB Takaful:

Walaa Insurance Company undertook and confirmed to SABB Takaful, which, in return, undertook and confirmed to Walaa Insurance Company all of the following:

- All information disclosed and shared with the other party or its advisors for the purposes of the Merger Transaction is true, accurate, complete and not misleading or ambiguous.
- All facts that were stated in the Merger Agreement with respect to the Company, its business, its financial condition and its undertakings and guarantees are true, accurate and not misleading or ambiguous.



#### 6.4.2.12 Guarantees of Walaa Insurance Company and SABB Takaful:

Walaa Insurance Company undertook and confirmed to SABB Takaful, which, in return, undertook and confirmed to Walaa Insurance Company all of the following:

- It conducts its business subject to the laws and regulations in force in the Kingdom of Saudi Arabia.
- It shall abide by the provisions and requirements of the Anti-Money Laundering regulation and has not violated any of its requirements or provisions.
- It shall abide by data protection regulations and the privacy and confidentiality of personal information.
- It has all the rights and licenses necessary to use the information technology (IT) systems.

#### 6.4.2.13 Guarantees related to the information technology (IT) systems of Walaa Insurance Company:

Walaa Insurance Company has undertaken and confirmed to SABB Takaful Company, the following facts regarding its information technology (IT) systems to:

- Its information technology (IT) systems are functional and have the capacity to meet its purpose.
- Walaa Cooperative Insurance Co. has not faced, during the three years ending on the date of signing the Merger Agreement, any problem in the services of its digital systems that lasted for more than five consecutive hours as a result of a security breach or any malfunction in it, and there are no facts that would lead to any of the previous problems.

#### 6.4.3 Disclosure obligation of both Walaa Insurance Company and SABB Takaful Company:

- Walaa Insurance Company undertakes to disclose to SABB Takaful, in writing, pursuant to a disclosure letter delivered to SABB Takaful on the date of signing the Merger Agreement, any issues or circumstances that would make any of the undertakings and guarantees of Walaa Insurance Company detailed in Section 6.4.2 above, incorrect, inaccurate, misleading, or likely to affect the desire of the other party to proceed with the completion of the Merger Transaction. Walaa Insurance Company also undertakes to disclose to SABB Takaful Company any further issues that arise during the period from the date of signing the Merger Agreement to the date of the completion of the Merger Transaction that have the aforementioned legal effect on any of the undertakings and guarantees mentioned above.
- SABB Takaful undertakes to disclose to Walaa Cooperative Insurance Co, in writing, pursuant to a disclosure letter delivered to Walaa Insurance Company on the date of signing the Merger Agreement, any issues or circumstances that would make any of SABB Takaful Company's undertakings and guarantees detailed in Section 6.4.2 above, incorrect, inaccurate, misleading, or likely to affect the desire of the other party to proceed with the completion of the Merger Transaction. SABB Takaful Company also undertook to disclose any further issues that arise during the period from the date of signing the Merger Agreement to the date of the completion of the Merger Transaction that have the aforementioned legal effect on any of the undertakings and guarantees mentioned above.

#### 6.4.4 Preconditions

Completion of the Merger Transaction shall be subject to the fulfillment of the following preconditions:

- Non-objection Certificate from the General Authority for Competition to the economic concentration resulting from the Merger Transaction;
- The approval of the Saudi Central Bank on the Merger Transaction and capital increase of Walaa Insurance Company;
- The approval of Saudi Stock Exchange on the request to list the new shares of Walaa Insurance Company in accordance with the listing rules;
- The approval of the Capital Market Authority on a request to increase the capital of the Walaa Insurance Company by issuing new shares to the shareholders of SABB Takaful for the purpose of implementing the Merger Transaction and approval for publishing the offer document;
- The Approval of the Extraordinary General Assembly of Walaa Insurance Company by a majority of no less than three quarters of the shares represented in the meeting on the Merger Transaction and other related decisions, to increase the capital of Walaa Insurance Company in accordance with the terms and conditions of the Merger Agreement (which are detailed in Section No. 6.4 of this circular), and approval of the proposed amendments to the Bylaws of Walaa Insurance Company related to the Merger Transaction

(detailed in Annex No. 5 of this circular), and approval of authorizing the Board of Directors of Walaa Insurance Company or any person authorized by the Board of Directors of Walaa Insurance Company to issue any decision or take any action that may be necessary to carry out any of the said decisions relating to the Merger Transaction;

- The approval of the Extraordinary General Assembly of SABB Takaful by a majority of no less than three quarters of the shares represented in the meeting on the Merger Transaction and other related decisions, which is to vote on the offer submitted by Walaa Insurance Company in accordance with the terms and conditions of the Merger Agreement (which are detailed in Section No. 6.4 of this circular), and authorizing the Board of Directors of SABB Takaful, or any person authorized by the Board of Directors of SABB Takaful, to make any decision or take any action that may be necessary to implement any of the decisions relating to the Merger Transaction; and
- The end of the creditors' objection period or the settlement of all creditors' objections to the Merger Transaction (whichever comes later) in accordance with the provisions of Article (193) of the Companies Law.

#### 6.4.5 Pending undertakings and procedures until the effectiveness date of the Merger Transaction decision

SABB Takaful undertakes and confirms to Walaa Insurance Company, which, in return, undertakes and confirms to SABB Takaful that they shall both abide by all of the following conditions during the period starting from the date of signing the Merger Agreement to the date of completing the Merger Transaction, which are as follows:

- Refraining from taking any action that would result in a breach of any granted guarantees and undertakings detailed above in Section 6.4.2 of this Circular.
- Refraining from making any changes or making any decisions that, collectively and individually, would have a negative impact on its business, assets or reputation.
- Refraining, during the period from the date of signing the Merger Agreement to the effectiveness date of the Merger Transaction decision, from disposing of any of its assets, or acquiring or agreeing to acquire the assets of the other party, except for the assets that are within the normal transactions or within the scope of the Merger Transaction business.
- Managing its business normally during the period extending from the date of signing the Merger Agreement and the effectiveness date of the Merger Transaction decision, refraining from carrying out any activities outside the scope of normal business without obtaining the other party's prior written consent and refraining from causing any decline in the assets except for the assets which are within the normal business.
- Refraining from placing any of its assets under a mortgage or issuing approval to do.
- Refraining from doing or causing any act or incident that may negatively affect the state of the assets or their financial condition, and both parties shall take all precautionary measures to prevent the occurrence of such an incident. Without prejudice to the foregoing, both parties undertake to renew and ensure the continued validity of all licenses and permits necessary to continue operating as of the date of signing the Merger Agreement.
- Refraining, unless at the request of the Saudi Central Bank, from rescinding, terminating or doing what would put an end to any of the signed reinsurance agreements or any of the insurance policies on its assets and liabilities, and if any of the aforementioned agreements and/or insurance policies expire or are expected to expire before the completion date of the Merger Transaction, the related party shall do his best, in cooperation with the other party and after consultation with it, to renew or replace it with contracts or policies that provide similar coverage which were secured by the expired contracts and/ or policies mentioned above.
- Continuing to operate its business normally and ordinarily, and refraining from carrying out any business outside its ordinary scope of activity without obtaining the prior, written and express consent of the other party, and no party may exhaust net assets, otherwise in a manner consistent with its normal activity.
- Providing the other party's representatives and advisors with an access to the books, records, information and documents necessary to complete the due diligence examination as required to complete the Merger Transaction.

Walaa Insurance Company and SABB Takaful Company undertake to inform the other party in writing and within 3 working days from the date of signing the Merger Agreement to the effectiveness date of the Merger Transaction decision, if any of the following events occurred prior to the effectiveness date of the Merger Transaction decision:

- Entering into any new financing agreement or repaying any existing loan including shareholders' loans;
- Entering into any new transactions with relevant parties (except for insurance policies which are within the scope of normal business, and with the exception of transactions signed between SABB Takaful and the Saudi British Bank, HSBC Holdings plc, Olayan Saudi Holding Company (OSHCO) and any of their subsidiaries);
- Entering into agreements, contracts or substantial liabilities or amending or terminating any of them, with a value that exceeds five million (5,000,000) Saudi riyals (excluding contracts concluded in the course of normal operations, and in connection with the bank insurance agreements and insurance policies of SABB Takaful);
- Incurring any capital expenditures or acquiring any assets whose value individually exceeds a total amount of three million (3,000,000) Saudi riyals;
- Placing any of its assets under a mortgage;
- Making any essential amendments to the terms and conditions of employment contract, including the benefits payable to any of the Board of Directors members, executive directors, officers or employees, or appointing or approving the appointment of any of the senior executives.

Walaa Insurance Company and SABB Takaful undertake to carry out the following, starting from the date of signing the Merger Agreement to the effectiveness date of the Merger Transaction decision and/ or termination of the Merger Agreement:

- Any action shall not be taken (whether directly or indirectly) to enter into any discussions or negotiations with any other person or authority with respect to a merger or any other similar process, or any action or any procedure to the contrary, including but not be limited to, the Board of Directors' recommendation to the shareholders regarding another offer that is competing or in conflict with the terms of the offer document and/ or the Merger Agreement and/ or any of the documents related to the Merger Transaction;
- Full cooperation shall be offered to the other party in the fastest and most effective manner in relation to submitting the files, declarations and requests required to obtain all approvals, permits, letters of non-objection, or other similar approvals as required by the laws in the Kingdom of Saudi Arabia, or the competent governmental authorities to complete the Merger Transaction in accordance with the terms and conditions of the Merger Agreement. As per the foregoing, each party shall cooperate with the other party to inform it of the status of any files, requests or any communications related to the Merger Transaction, and any other inquiries or requests for additional information from or to any competent governmental authority within the Kingdom of Saudi Arabia.

Notwithstanding the foregoing, SABB Takaful declared to Walaa Insurance Company, the following:

- SABB Takaful has expressed its intention to pay bonuses to some of its employees and managers based on the remuneration and incentive program adopted by SABB Takaful related to the completion of the Merger Transaction, with a total value of two million four hundred thousand (2,400,000) Saudi riyals representing the remuneration due on the fiscal year ended on December 31, 2021G; and
- SABB Takaful acknowledged that the loaned employees from the Saudi British Bank, will leave SABB Takaful after the completion of the Merger Transaction, provided that the aforementioned employees and some employees and managers of SABB Takaful shall receive remunerations due to the completion of the Merger Transaction, with a total value of three million nine hundred thousand (3,900,000) Saudi riyals.

Notwithstanding the foregoing, Walaa Insurance Company declared to SABB Takaful, the following:

- Walaa Insurance Company shall pay a number of capital liabilities to implement its business plan related to the purchase of information technology systems and devices and information security systems and to implement the office and subsidiaries renovation project, with a total value of thirty-seven million and one hundred thousand (37,100,000) Saudi riyals; and
- Walaa Insurance Company announced its intention to pay a number of operational expenses and liabilities related to bonuses and remunerations to some of its employees and managers, after signing the Merger Agreement with a total value of two million four hundred and eight thousand and twenty-three (2,408,023) Saudi riyals.

The two parties have agreed that the above-mentioned acknowledgments issued by each of them, shall not constitute a breach of any of the terms of the Merger Agreement, especially the acknowledgments and guarantees granted by each party, and shall not constitute a substantial negative impact on the both companies' business.

## 6.4.6 Effectiveness of the Merger Agreement

On the date of signing the Merger Agreement, each party undertakes to sign the documents described below and hand them over to the representative of the other party:

### A. Documents that Walaa Insurance Company shall sign and deliver to representatives of SABB Takaful:

- A signed copy of the Merger Agreement; and
- A signed copy of the disclosure letter and its annexes; and
- A copy of the meeting minutes of the board of directors of Walaa Insurance Company, which agreed to sign the Merger Agreement.

### B. Documents that SABB Takaful shall sign and deliver to representatives of Walaa Insurance Company:

- A signed copy of the Merger Agreement; and
- A signed copy of the disclosure letter and its annexes; and
- A copy of the meeting minutes of the board of directors of SABB Takaful, which agreed to sign the Merger Agreement; and
- A copy of the meeting minutes of the board of directors of SABB Takaful, which states that the value of the termination fee is fair and thus inuring to the interest of the SABB Takaful's shareholders in accordance with the provisions of Clause (B) of Article 36 of the Merger and Acquisition Regulations.

For the purpose of completing the Merger Transaction, Walaa Insurance Company and SABB Takaful shall do the following:

- Registering the new shares issued in Walaa Insurance Company in favor of the SABB Takaful's shareholders in return for transferring all the assets and liabilities of SABB Takaful to Walaa Insurance Company according to the agreed exchange ratio. The SABB Takaful's shareholders shall not receive any cash consideration due to the Merger Transaction. If the process of calculating the number of shares due to any of the SABB Takaful's shareholders according to the exchange ratio results in fractional shares, the resulting number shall be rounded up to the lowest integer number, and the fractional shares shall be collected and sold in the Saudi stock market at the market price at that time, on behalf of the SABB Takaful's shareholders. Then, the proceeds of the sale shall be distributed to the beneficiaries on a pro rata basis, within a maximum period of thirty (30) days from the date of completing the Merger Transaction. The costs related to the sale of the fractional shares shall be deducted from the total proceeds of the sale of the fractional shares.
- Transferring of all the assets and liabilities of SABB Takaful to the Walaa Insurance Company in exchange for the registration of the new shares issued in the Walaa Insurance Company in favor of the SABB Takaful's shareholders. The date of the shares registration in favor of the SABB Takaful's shareholders shall be considered as the effectiveness date of the Merger Transaction decision.
- The board of directors of Walaa Insurance Company shall hold a meeting to take all the decisions stipulated in the Merger Agreement.

Walaa Insurance Company and SABB Takaful shall, from the date of signing the Merger Agreement until the effectiveness date of the Merger Transaction decision, make reasonable efforts to (a) complete all tax, zakat and value-added tax returns to Zakat, Tax and Customs Authority (b) process all Zakat assessments with Zakat, Tax and Customs Authority and (c) Obtaining final Zakat and tax certificates from the Zakat, Tax and Customs Authority covering the taxable and Zakat periods ending on the effectiveness date of the Merger Transaction.

## 6.4.7 Termination of the Merger Agreement

If any of the preconditions are not fulfilled after the lapse of a maximum period of nine months from the date of signing the Merger Agreement, and unless otherwise agreed between the two parties, Walaa Insurance Company or SABB Takaful shall be entitled to terminate the agreement under a letter directed to the other party. The termination shall enter into force once the said letter of termination is sent and the provisions of the Merger Agreement shall apply. Noting that the right to terminate the Merger Agreement is not granted to the party that gave grounds to the termination of the Merger Agreement by violating any of the basic duties imposed under the agreement.

In addition to the above, the Merger Agreement may be terminated at any time prior to the completion date of the Merger Transaction in the following cases:

- According to the written mutual consent of Walaa Insurance Company and SABB Takaful to terminate the Merger Agreement; or
- By either party, if a material adverse change was made as detailed in Section 6.4.8 of this Circular; or
- By either party, upon written notice to the other party in any of the following cases:
  - Issuance of a law that makes the continuation of the Merger Transaction illegal or illegitimate.
  - If a judgment, judicial order, decree, or decision issued by any governmental authority or court with a jurisdiction, which is to terminate the Merger Transaction between the two companies, such judgment, order or decree shall be final and not subject to any appeal.

Upon termination of the Merger Agreement, the mutual liabilities of the two parties stipulated in the Merger Agreement shall be forfeited, otherwise the following:

- Termination fees shall be paid;
- Provisions of the Merger Agreement stipulated to survive the termination of the Merger Agreement (which are related to the termination fees, services, confidential information, entire agreement, assignment of or amendment to Merger Agreement only under a written approval by its parties, notices, non-establishment of rights for third parties and disputes); and
- Provisions of the Merger Agreement related to the confidentiality and privacy of information and declarations.

If the Merger Agreement is terminated, the two parties undertake to cooperate in good faith to cancel any agreements, licenses or approvals signed or obtained for the purpose of completing the Merger Transaction.

## 6.4.8 Material adverse change

If Walaa Insurance Company or SABB Takaful Company suffered a material adverse change (or material adverse effect) due to any of the following cases:

- Any event, series of events or incident, including a breach of the essential undertakings and guarantees by one of the parties, that leads to a decrease in the net book value of (15%) or more, except in cases where the reduction results from fluctuations in the financial markets or the interest rate or currency exchange rates, commodity prices, other general economic conditions, or general conditions that generally affect the insurance sector, or any amendments to the applicable regulations, laws or accounting practices.
- A breach of the pending undertakings and procedures by any party until the effectiveness date of the Merger Transaction decision detailed in Section 6.4.5 of this circular.
- A breach of essential undertakings by Walaa Insurance Company or SABB Takaful.
- The bankruptcy or insolvency of Walaa Insurance Company or SABB Takaful.

The following provisions shall be applied:

If any of the parties finds that (or is likely to occur) any material adverse change before the effectiveness of the Merger Transaction decision, the other party shall be notified immediately of that. Accordingly, representatives of Walaa Insurance Company and SABB Takaful shall meet to discuss the circumstances and elements of the material adverse change within a period not exceeding (10) ten days from the date of the notice. If the representatives of the two companies did not agree that the event or circumstance constitutes a material adverse change, the parties shall appoint an independent expert (the "Expert") and assign him as an expert and not as an arbitrator, in order to reconsider the prevailing circumstances and issue a final and binding decision/ report on the parties on the occurrence or non-occurrence of the material adverse effect. As for the cost of appointing the expert, it shall be paid by both parties, and if a material adverse change has not occurred, the party who claimed its occurrence, shall compensate the other party for the costs incurred. If the representatives of the two parties failed to agree on the appointment of the expert, the party who made the negative adverse change shall be entitled

to resort to the Saudi Center for Commercial Arbitration (the "Center") for the purpose of appointing the expert, provided that the center's decision is binding on both parties in this regard.

If the occurrence of a material adverse change, finally and definitively confirmed by the appointed expert, the following provisions shall be applied:

- The parties may agree to proceed with the Merger Transaction in accordance with the terms of the Merger Agreement, regardless of the material adverse change; or
- The aggrieved party may terminate the Merger Agreement and require the other party to pay the termination fees immediately.

The right to terminate the Merger Agreement and to claim termination fees as per the foregoing shall be exercised within a period of (30) thirty working days from the notice date of the occurrence of the material adverse change or within (30) thirty working days from the date of issuing the final expert report, under pain of losing the right and considering that the aggrieved party has waived his right to terminate the Merger Agreement and to claim termination fees.

#### 6.4.9 Termination fees

In consideration of the SABB Takaful's approval to allocate resources and incur expenses and burdens in order to achieve the Merger Transaction, Walaa Insurance Company undertakes to pay the specified termination fees amounting to a total of five million (5,000,000) Saudi riyals to SABB Takaful within a maximum period of five working days from the date of submitting SABB Takaful Company's claim, according to the following cases:

- If the Board of Directors of Walaa Insurance Company decides to withdraw its recommendation to vote in favor of completing the Merger Transaction or to substantially amend it comparing to what is specified in the shareholders' circular or amend the offer made to the SABB Takaful's shareholders in accordance with the conditions set out in the offer document;
- If Walaa Insurance Company fails to take the necessary measures to enforce the Merger Transaction within a maximum of nine months from the date of signing the Merger Agreement, notwithstanding the measures that the SABB Takaful's Board of Directors agreed not to take;
- If Walaa Insurance Company breaches any of the liabilities imposed on it during the period starting from the date of signing the Merger Agreement and the completion of the Merger Transaction, which is detailed in Section 6.4.5 of this circular, causing the offer to be withdrawn or expired;
- If Walaa Insurance Company causes the withdrawal or expiration of the merger offer submitted in the shareholders' circular and the offer document;
- If SABB Takaful decides to terminate the Merger Agreement due to the occurrence of a material adverse change in the business of Walaa Insurance Company as detailed in Section 6.4.8 of this circular.

In consideration of the approval of Walaa Insurance Company to allocate resources and incur expenses and burdens in order to achieve the Merger Transaction, SABB Takaful undertakes to pay the specified termination fees amounting to a total of five million (5,000,000) Saudi riyals to Walaa Insurance Company within a maximum period of five working days from the date of submitting the claim of Walaa Insurance Company, according to the following cases:

- If SABB Takaful's Board of Directors decides to withdraw its recommendation to vote in favor of completing the Merger Transaction or to substantially amend it comparing to what is specified in the circular of SABB Takaful's Board of Directors;
- If SABB Takaful fails to take the necessary measures to enforce the Merger Transaction within a maximum of nine months from the date of signing the Merger Agreement, notwithstanding the measures that the Board of Directors of Walaa Insurance Company, agreed not to take;
- If SABB Takaful breaches any of the liabilities imposed to the during the period starting from the date of signing the Merger Agreement and the completion of the Merger Transaction, which is detailed in Section 6.4.5 of this circular, causing the offer to be withdrawn or expired;
- If SABB Takaful breaches the obligations stipulated in Clause (a) of Article 36 of the Merger and Acquisition Regulations, represented by the following: (a) The issuance of any authorized unissued shares, (b) issuing or granting rights in connection with any unissued shares, (c) creating, issuing or permitting the creation or issuance of any securities convertible into shares or subscription rights to shares, (d) Selling, disposing of, or acquiring, or agreeing to sell, dispose of, or acquire any assets of a value equal to (10%) or more of its net assets and in accordance with the latest audited preliminary financial statements, or audited annual financial statements, whichever is later, whether through a transaction or several transactions, (e) the purchase of its shares, (f) the conclusion of contracts outside its normal course of business;
- If Walaa Insurance Company decides to terminate the Merger Agreement due to the occurrence of a material adverse change in the business of SABB Takaful or due to SABB Takaful's material breach of the guarantees and undertakings;



- Failure to complete the Merger Transaction due to SABB Takaful's breach of its obligations towards the creditors during the creditors' objection period pursuant to the provisions of Article (193) of the Companies Law.

The parties agree that if the termination fees are paid pursuant to the foregoing clauses, the paying party shall be released from paying any additional amounts that may be payable due to the termination of the Merger Agreement.

#### 6.4.10 Declarations and confidentiality obligation

##### A. Non-disclosure obligation:

Otherwise required by applicable regulations or as agreed under the Merger Agreement, Walaa Insurance Company has undertaken and confirmed to SABB Takaful, which has undertaken and confirmed to Walaa Insurance Company that they shall both refrain from making any declarations related to the Merger Agreement or the business or dealings of the other party of any kind to any party, including the press or the public, without obtaining the written consent of the other party, notwithstanding the following declarations:

- Declarations made in the ordinary course of business; and
- Declarations, which are not related to the Merger Transaction.

##### B. Confidentiality obligation

Both Walaa Insurance Company and SABB Takaful shall maintain the confidentiality of the information exchanged during the negotiation phase of the Merger Transaction, notwithstanding the following information:

- Information that is publicly available or becomes publicly available without breach of the confidentiality set forth in the Merger Agreement;
- Information received by one of the parties from a third person and the latter did not commit any breach or violation in order to obtain it;
- Information required to be disclosed under applicable regulations or by competent authorities;
- Information disclosed with the consent of the other party;
- Information disclosed to advisors to the extent necessary to allow the disclosing party to exercise its rights under the Merger Agreement.
- The confidentiality obligation shall remain valid for two calendar years after the termination of the Merger Agreement.

#### 6.4.11 The Merger Agreement

The Merger Agreement, with all its terms and complete annexes, was concluded and made by and between Walaa Insurance Company and SABB Takaful, and it supersedes any previous agreements between the two parties, including the memorandum of understanding signed between the two parties on 04/12/1442H (corresponding to 14/07/2021G) and its annex signed on 06/06/1443H (corresponding to 09/01/2022G).

#### 6.4.12 Acknowledgments

Walaa Insurance Company and SABB Takaful acknowledge that, by signing the Merger Agreement, any guarantees granted to them shall be unreliable and they shall not have any rights from any person who is not a party to the Merger Agreement, otherwise expressly indicated in the Merger Agreement, and any terms of the Agreement Merger shall not release the both parties from their liability regarding any fraudulent acts.

#### 6.4.13 Severability of invalid Clauses

If any clause of the Merger Agreement is found to be invalid or void, it shall be separated from the rest of the clauses of the Merger Agreement, which shall remain valid with all its clauses.

#### 6.4.14 Waiver

Neither Walaa Insurance Company nor SABB Takaful Company may waive its rights to any third party without the written consent of the other party.



### 6.4.15 No Waiver (of the right to submit a claim)

The delay of any party to claim any of its rights or to implement any of the provisions of the Merger Agreement shall not be deemed a waiver by the mentioned party of its right to submit a claim and/ or enforce the application of the provisions referred to in the Merger Agreement.

#### 6.4.15.1 Governing Law and Dispute Resolution

The Merger Agreement shall be governed by and interpreted in accordance with the laws in force in the Kingdom of Saudi Arabia. If any dispute arising between Walaa Insurance Company and SABB Takaful regarding the Merger Agreement, they shall make every effort to settle the dispute amicably. If the dispute was not resolved amicably, within a period of thirty days from the date of the dispute notice, either party shall be entitled to refer the dispute to arbitration in accordance with the arbitration regulation of the Saudi Center for Commercial Arbitration, which shall appoint one arbitrator only. The arbitrator shall be an attorney with experience of not less than ten years in the insurance sector, and the both parties should agree on him. If the two parties failed to agree on the appointment of the arbitrator, the dispute shall be referred to an arbitration committee of three arbitrators, each party appointing one of them while the arbitrators appointed by the parties to preside the arbitration committee appoint the third. The place of arbitration is Riyadh, the language of arbitration is Arabic, and the arbitration decision shall be final, irrevocable and binding on the parties and shall not be subject to any appeals.

### 6.4.16 Governance of the merging company

It was agreed between the two companies not to change the board of directors of Walaa Insurance Company after the completion of the Merger Transaction, as the current members of Walaa Insurance Company, which are (11) members kept their positions as the board of directors' members.

Noting that the current Board of Directors members of Walaa Insurance Company are as follows:

1. Mr. Suleiman bin Abdullah Al-Qadi, Chairman and Non-Executive Member.
2. Mr. Khalifa bin Abdullatif Al-Mulhim, Vice Chairman and Non-Executive Member.
3. Mr. Sulaiman bin Abdulaziz Al-Tuwaijri, Non-Executive Member.
4. Mr. Wassef Salem Al-Jabshah, Non-Executive Member.
5. Mr. Waleed bin Muhammad Al-Jaafari, Non-Executive Member.
6. Mr. Jamil bin Abdullah Al-Mulhim, Independent Member.
7. Mr. Hisham bin Abdullatif Al-Jabr, Non-Executive Member.
8. Mr. Abdullatif bin Khalifa Al-Mulhim, Non-Executive Member.
9. Mr. Osama bin Mirza Al-Khunaizi, independent member.
10. Mr. Hatem bin Fahd Balghunaim, independent member.
11. Mr. Abdulaziz bin Saud Al Shabibi, independent member.

After the completion of the Merger Transaction, Mr. Suleiman bin Abdullah Al-Qadi shall remain as Chairman of the Board of Directors and Mr. Khalifa bin Abdullatif Al-Mulhim as Vice Chairman of the Board of Directors. The Merger Agreement does not include any amendment to the members of the current board of directors of the merging company.

The following table shows the executive management of the merging company

Name	Position in the merging company	Current position
Johnson Varghese	CEO	CEO - Walaa Insurance Company
Muhannad Mahmoud El Desouky	Chief Financial Officer	Chief Financial Officer - Walaa Insurance Company
Wassef Farouk Manhas	Chief Technical Officer for General and Vehicle Insurance	Chief Technical Officer for General and Vehicle Insurance – Walaa Insurance Company
Ghayas Hassan Khan	Chief Technical Officer for Medical Insurance, Protection and Savings	Chief Technical Officer for Medical Insurance, Protection and Savings – Walaa Insurance Company
Fahad Khaled Abalkhail	Deputy Chief Sales and Marketing Officer	Deputy Chief Sales and Marketing Officer - Walaa Insurance Company
Turki Abdulaziz Al-Buraik	Executive Vice President of Human Resources, Public and Governmental Relations	Executive Vice President of Human Resources, Public and Governmental Relations – Walaa Insurance Company

As on the date of this circular, the executive management of the merging company is represented by the executive management of Walaa Insurance Company only, and the Merger Agreement does not include any amendment to the current board of directors members of the merging company. The executive management structure of the above merging company may be expanded during the integration process and after the completion of the Merger Transaction, and this requires obtaining the approval of the Nomination and Remuneration Committee of the Walaa Insurance Company, the approval of its Board of Directors and the approval of Saudi Central Bank.

It is also worth noting that the merging company shall be comprised of all the SABB Takaful's employees, without imposing any mandatory layoff and the capabilities and expertise of SABB Takaful's employees shall be utilized in the merging company according to the requirements of the business merger process and the integration plan.

#### 6.4.17 Summary of the completion terms of the Merger Transaction

The Merger Transaction shall be subject to the following conditions:

1. Obtaining Non-objection Certificate from the General Authority for Competition to the economic concentration resulting from the Merger Transaction and increasing the capital of Walaa Insurance Company, the approval of Saudi Stock Exchange to list the shares issued to the shareholders of the SABB Takaful in accordance with the process of increasing the capital of the Walaa Insurance Company, and the approval of the Capital Market Authority on increasing the capital of Walaa Insurance Company and publishing the offer document.
2. The Board of Directors of Walaa Insurance Company, the Board of Directors of SABB Takaful and the executive directors shall be bound to all provisions of the Merger Agreement, and that it was not terminated by any of the two companies due to the occurrence of one of the reasons for the termination described in Section No. 6.4.7 of this circular, and the non-violation of any clause of the Merger Agreement, and shall comply with all applicable laws and regulations in the Kingdom.
3. The approval of the Extraordinary General Assembly of Walaa Insurance Company by a majority of no less than three quarters of the shares represented in the meeting on the Merger Transaction and other related decisions, to increase the capital, in accordance with the terms and conditions of the Merger Agreement (which are detailed in Section No. 6.4 of this circular), and approval of the proposed amendments to the Bylaws of Walaa Insurance Company related to the Merger Transaction (detailed in Annex No. 5 of this circular), and approval of authorizing the Board of Directors of Walaa Insurance Company or any person authorized by the Board of Directors of Walaa Insurance Company to issue any decision or take any action that may be necessary to carry out any of the said decisions relating to the Merger Transaction.
4. The approval of the Extraordinary General Assembly of SABB Takaful by a majority of no less than three quarters of the shares represented in the meeting on the Merger Transaction and other related decisions, which is to vote on the offer submitted by Walaa Insurance Company in accordance with the terms and conditions of the Merger Agreement (which are detailed in Section No. 6.4 of this circular), and authorizing the Board of Directors of SABB Takaful, or any person authorized by the Board of Directors of SABB Takaful, to make any decision or take any action that may be necessary to implement any of the decisions relating to the Merger Transaction.
5. The end of the creditors' objection period or the settlement of all creditors' objections to the Merger Transaction (whichever comes later) in accordance with the provisions of Article (193) of the Companies Law.
6. The Merger Transaction shall also be completed before the final effectiveness date agreed upon in the Merger Agreement, which is 30/04/1444H (corresponding to 24/11/2022G), unless Walaa Insurance Company and SABB Takaful agree in writing to extend the completion date of the final effectiveness. The failure of any court, legislative body, or governmental authority or entity in the Kingdom of Saudi Arabia to take, or demand to take, any action, or propose an amendment to the regulations, laws, or procedures after the date of signing the Merger Agreement, which renders the implementation or continuation of the Merger Transaction illegal or illegitimate.

## 6.5 Substantial terms and conditions, preconditions or undertakings contained in other documents or agreements related to the Merger Transaction

Notwithstanding the Merger Agreement, all of its substantial terms and conditions, and the preconditions or undertakings contained therein, in Section 6.4 and the conditions detailed in Section 6.4.18 of this Circular, there are no other documents, agreements or conditions related to the Merger Transaction.

## 6.6 Details of any lawsuit or claim (including any existing or threatened lawsuit) that could substantially affect the business or financial position of Walaa Insurance Company

Notwithstanding the lawsuits set out below, Walaa Insurance Company is not a litigant to any lawsuits or outstanding claims that could substantially affect its business, and there are no (to its Board of Directors' knowledge) any potential lawsuits or claims that could significantly affect the business of Walaa Insurance Company

Status quo	Claims	Date of filing the lawsuit	Claimant	Lawsuit type
Pending the appointment of an actuary by the committee to examine the case and submit a report on it during the next hearing on 14/11/1443H (corresponding to 13/06/2022G).	The claimant claims the liquidation of his dues for the life insurance with a total value of SAR 895,000.	05/07/1442H (corresponding to 17/02/2021G)	Natural person	Insurance
The Court of Appeal in Abu Dhabi dismissed the request to include insurance companies in the lawsuit. Walaa Insurance Company has not received any notice that the claimant filed an appeal against the judgment until the date hereof.	In this lawsuit, the claimant requests the inclusion of Walaa Insurance Company and several other insurance companies to collectively compensate it in the lawsuit filed against it by a legal person, in order to pay a compensation with a total value of 5,000,000 United States dollars to a legal person according to an insurance policy on the managers' liability.	05/05/1443H (corresponding to 09/12/2021G)	Natural person	Insurance
Waiting for scheduling the date of the next hearing by the Committees for Resolution of Insurance Disputes & Violations	The claimant claims from Walaa Insurance Company the payment of commissions, which are owed to it, according to its allegation, with a total value of 3,201,219 Saudi riyals in return for insurance policies whose premiums have not been paid.	26/05/1443H (corresponding to 30/12/2021G)	Legal person	Insurance
Waiting for scheduling the date of the next hearing by the Committees for Resolution of Insurance Disputes & Violations	The claimant claims from Walaa Insurance Company the payment of rejected insurance claims with a total value of 5,894,667.66 Saudi riyals.	03/08/1443H (corresponding to 06/03/2022G)	Legal person	Insurance
Waiting for scheduling the date of the next hearing by the Committees for Resolution of Insurance Disputes & Violations	The claimant claims from Walaa Insurance Company the payment of rejected insurance claims with a total value of 1,556,705.12 Saudi riyals.	17/08/1443H (corresponding to 20/03/2022G)	Legal person	Insurance

Source: Walaa Insurance Company

## 6.7 Details of any lawsuit or claim (including any existing or threatened lawsuit) that could substantially affect the business or financial position of SABB Takaful

SABB Takaful is not a litigant to any lawsuits or outstanding claims that could substantially affect its business, and there are no (to its Board of Directors' knowledge) any potential lawsuits or claims that could significantly affect SABB Takaful's business.

## 6.8 Report on bankruptcies of any Board of Directors Member, proposed Board of Directors Member, Senior Executives or Secretary of the Board of Directors of Walaa Insurance Company

The Board of Directors members of Walaa Insurance Company acknowledge that no board member, any of board proposed members, any of the senior executives or the Secretary of the Board of directors shall be exposed to any case of bankruptcy.

## 6.9 Report on any insolvencies in the last five years of a company, in which any Board of Directors Member, proposed Board of Directors Member, Senior Executives or Secretary of the Board of Directors of Walaa Insurance Company was appointed by the insolvent company in a managerial or supervisory position

During the previous five years, none of the board of directors' members of Walaa Insurance Company, senior executives, or the Secretary of the Board of directors had ever worked in any insolvent company in a managerial or supervisory position.

## 7

## Expert Statements

All advisors whose names appear in Section (the “**Walaa Insurance Company’s Directory**”) have given their written consent, to the reference to their names, addresses and logos and to publish their statements in this Circular, and none of them has withdrawn their consent until the date of this Circular.

## 8

## Expenses

Walaa Insurance Company shall pay the costs and expenses related to the completion of the Merger Transaction, which are estimated at approximately (5) five million Saudi riyals and include the fees of the financial advisor, legal advisor, financial and tax professional services advisor, actuarial professional services advisor, pro forma financial statements accountant and other advisors, in addition to fees of the government agencies to obtain statutory approvals, coordination and advertising expenses, and all other costs related to the completion of the Merger Transaction. We kindly note that the amounts referred to above do not include the costs and expenses related to merging the businesses of the two companies during the post-completion phase of the Merger Transaction.

## 9

## Exemptions

Walaa Insurance Company has not submitted any exemption request to the Capital Market Authority.



## 10

## Documents Available for Inspection

Copies of the following documents shall be available for inspection at the headquarters of Walaa Insurance Company (Address: Al Khobar, Adel Khashoggi Building, Custodian of the Two Holy Mosques Street, P.O.: 31616, Khobar, 31952, Kingdom of Saudi Arabia, Tel: +966138299380, Fax: +966138252255, from Sunday to Thursday, from nine in the morning until five in the evening, excluding official holidays in the Kingdom of Saudi Arabia from the date of publishing the shareholders' circular and the offer document until the end of the offer period:

1. SABB Takaful's bylaws and its articles of association.
2. Merger Agreement (in English).
3. The audited financial statements of SABB Takaful during the three fiscal years ended on December 31, 2018G, 2019G and 2020G and the unaudited financial statements of SABB Takaful during the nine-month period in 2021G.
4. The pro forma financial statements of Walaa Insurance Company during the fiscal year ended on December 31, 2020G for the purpose of the Merger Transaction.
5. Evaluation report issued by the financial advisor of Walaa Insurance Company (AlJazira Capital Company).
6. Advisors' letters of approval for the use of their names, logos and statements in this circular.

# 11

## Annexes

- 11.1 Annex 1: The annual financial statements of SABB Takaful Company during the three financial years ended on December 31, 2018G, , 2019G and 2020G, and the unaudited financial statements during the nine-month period in 2021G.



---

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

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

---



.....

<b>INDEX</b>	<b>PAGE</b>
Independent auditors' audit report	1 - 6
Statement of financial position	7 - 8
Statement of income	9
Statement of comprehensive income	10
Statement of changes in shareholders' equity	11
Statement of cash flows	12
Notes to the financial statements	13 - 59



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

***Opinion***

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as modified by the Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax.

***Basis for Opinion***

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

***Key Audit Matters***

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



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

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



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

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





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

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

The Board of Directors of the Company (the "Directors") are responsible for the other information. The Other information consists of the information included in the Company's 2018 annual report, other than the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

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

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

***Responsibilities of The Directors and Those Charged with Governance for the Financial Statements***

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

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

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

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

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



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

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

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

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

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

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



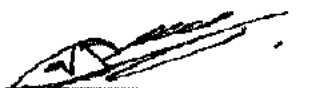
**INDEPENDENT AUDITORS' REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS TO THE SHAREHOLDERS' OF SABB TAKAFUL COMPANY (A SAUDI JOINT STOCK COMPANY)**  
(continued)


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

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

**PricewaterhouseCoopers**  
P. O. Box 8282  
Riyadh 11482  
Kingdom of Saudi Arabia

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

  
**Mafaddal Ali**  
Certified Public Accountant  
Registration No. 447

  
**Abdullah M. AlAzem**  
Certified Public Accountant  
Registration No. 335

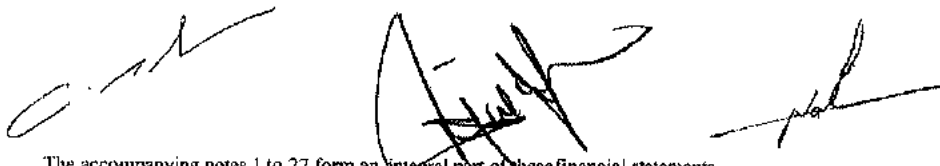
Date: 19 Rajab 1440H  
Corresponding to: 26 March 2019



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

**STATEMENT OF FINANCIAL POSITION  
AT 31 DECEMBER 2018**

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

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

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

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

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

**SABB Takaful Company (A Saudi Joint Stock Company)**
**STATEMENT OF INCOME**

For the year ended 31 December 2018

	Note	2018 (Audited) SAR '000	2017 (Audited) SAR '000
<b>REVENUES</b>			
Gross contributions written			
- Family Takaful	17	119,544	148,386
- General Takaful	17	20,422	26,698
		<u>139,966</u>	<u>175,084</u>
Retakaful contribution ceded			
- Local retakaful contribution ceded	17	(9,201)	(7,656)
- Foreign retakaful contribution ceded	17	(33,210)	(43,639)
Planholder charges	17	15,003	20,941
		<u>112,558</u>	<u>142,730</u>
Net contributions written			
Changes in unearned contributions	17	4,834	6,185
Changes in retakaful share of unearned contributions	17	(3,833)	(3,174)
		<u>113,549</u>	<u>145,741</u>
Net contributions earned			
Fees and commission income		5,836	5,743
		<u>119,385</u>	<u>151,484</u>
<b>UNDERWRITING COSTS AND EXPENSES</b>			
Gross claims paid	11(a)	(45,330)	(45,517)
Retakaful share of claims paid	11(a)	34,888	33,054
Surrenders and maturities	18	(95,954)	(73,720)
		<u>(106,404)</u>	<u>(86,183)</u>
Net claims and other benefits paid			
Changes in outstanding claims, net		2,933	(3,034)
Changes in BNR, net		1,058	(474)
		<u>(102,413)</u>	<u>(87,691)</u>
Net claims and other benefits incurred			
Changes in reserve for takaful activities	9(a)	17,983	(23,233)
Changes in non-unit reserve		(1,268)	(4,311)
Changes in unexpired risk reserve		2,541	(5,531)
Policy acquisition costs		(3,552)	(5,638)
		<u>(86,709)</u>	<u>(126,404)</u>
Total underwriting costs and expenses			
Net underwriting income		32,676	25,080
<b>OTHER OPERATING (EXPENSES)/ INCOME</b>			
General and administrative expenses	19	(42,767)	(39,895)
Rebate income		1,598	1,340
Income from deposits		5,212	2,955
Income from sukuk		4,237	5,035
		<u>(31,620)</u>	<u>(30,565)</u>
TOTAL OTHER OPERATING EXPENSES, NET			
Total income/ (loss) for the year		1,056	(5,485)
Total (income)/ loss for the year attributed to the takaful operations		-	-
Total income/ (loss) for the year attributable to the shareholders		1,056	(5,485)
Earnings / (loss) per share (SAR per share)	20	0.03	(0.16)

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

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

**STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2018

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

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



**SABB Takaful Company (A Saudi Joint Stock Company)**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
 For the year ended 31 December 2018

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

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



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

**SABB Takaful Company (A Saudi Joint Stock Company)**
**STATEMENT OF CASH FLOWS**

For the year ended 31 December 2018

	Notes	2018 SAR'000	2017 SAR'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income/ (loss) for the year		1,056	(5,483)
<b>Adjustment for non-cash items:</b>			
Amortisation		610	499
Depreciation		83	80
Income from sukuk		(4,237)	(5,035)
Gain on sale of fixed assets		-	(19)
Provision of impairment on contribution and retakaful receivables	5	504	1,052
Provision for employees' end-of-service benefits	10	1,046	37
		(938)	(8,871)
<b>Changes in operating assets and liabilities:</b>			
Contributions and retakaful receivables, net		1,342	(2,510)
Retakaful share of unearned contributions		3,833	3,174
Retakaful share of outstanding claims		8,352	(9,719)
Deferred policy acquisition costs		(195)	261
Available-for-sale financial assets		28,922	(27,297)
Prepaid expenses and other assets		506	16
Accrued and other liabilities		668	5,435
Retakaful balances payable		(2,694)	559
Unearned contributions		(4,824)	(6,185)
Unearned retakaful commission		(265)	(239)
Gross outstanding claims		(12,343)	11,227
Unexpired risk reserve		(2,540)	5,531
Non-unit reserve		1,268	4,311
Surplus distribution payable		-	(47)
Reserve for takaful activities		(28,922)	27,297
		(7,830)	2,943
Employees' end-of-service benefits paid	10	(3,259)	(151)
Zakat and income tax paid	15(c)	(4,452)	(5,663)
<b>Net cash used in operating activities</b>		<b>(15,541)</b>	<b>(2,871)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Maturity of hold-to-maturity financial assets		17,000	50,000
Income received from sukuk		4,202	5,266
Purchase of intangible assets		(741)	(1,104)
Purchase of fixed assets		-	(201)
Proceeds from sale of fixed assets		-	19
<b>Net cash generated from investing activities</b>		<b>20,461</b>	<b>53,980</b>
<b>Net change in cash and cash equivalents</b>		<b>4,920</b>	<b>51,109</b>
<b>Cash and cash equivalents, at the beginning of the year</b>	7	<b>239,099</b>	<b>187,990</b>
<b>Cash and cash equivalents, at the end of the year</b>	7	<b>244,019</b>	<b>239,099</b>
<b>Non-cash supplemental information:</b>			
Net change in fair value of available-for-sale investments	4(c)	4,064	25,005

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

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

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

#### 1 ORGANIZATION AND PRINCIPAL ACTIVITIES

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

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

#### 2 BASIS OF PREPARATION

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

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as modified by Saudi Arabian Monetary Authority (SAMA) for the accounting of zakat and income tax, which requires, adoption of all IFRSs as issued by the International Accounting Standards Board ("IASB") except for the application of International Accounting Standard (IAS) 12 - "Income Taxes" and IFRIC 21 - "Levies" so far as these relate to zakat and income tax. As per the SAMA Circular no. 38100074519 dated April 11, 2017 and subsequent amendments through certain clarifications relating to the accounting for zakat and income tax ("SAMA Circular"), the zakat and income tax are to be accrued on a quarterly basis through shareholders equity under retained earnings.

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

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

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

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

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

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

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

**2 BASIS OF PREPARATION (CONTINUED)**

**b) Functional and presentational currency**

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

**c) Fiscal year**

The Company follows a fiscal year ending December 31.

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

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

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

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

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

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

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

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

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

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

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

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

**- Impairment of financial assets**

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

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

**2 BASIS OF PREPARATION (CONTINUED)**

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

**- Impairment of receivables**

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

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

**- Fair value of financial instruments**

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

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

**3 SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

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

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

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

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

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

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

During 2018, the Company performed a high-level impact assessment of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects no significant impact on its statement of financial position and equity, except for the effect of applying the impairment requirements of IFRS 9. However, the impact of the same is not expected to be significant. At present it is not possible to provide reasonable estimate of the effects of application of this new standard as the Company is yet to perform a detailed review.

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

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

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

**Revenue recognition**

*Recognition of contribution and commission revenue*

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

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

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



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

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue recognition (continued)**

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

*Investment income*

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

**Claims**

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

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

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

**Retakaful**

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

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

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

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

**Deferred policy acquisition costs**

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

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

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



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

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

#### 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **Liability adequacy test**

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

##### **Receivables**

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

##### **Investments**

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

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

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

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

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

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

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

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

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

##### *Held-to-maturity financial assets*

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

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

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Derecognition of financial instruments**

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

**Offsetting**

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

**Trade date accounting**

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

**Impairment of financial assets**

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

Evidence of impairment may include:

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

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

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

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

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

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

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**Motor vehicles**

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

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

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

**Intangible assets**

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

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

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

- Software - 5 years

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

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

**Leases**

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

**Impairment of non-financial assets**

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

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

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

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

**Provisions, accrued expenses and other liabilities**

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

**Dividend distribution**

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

**Zakat and income taxes**

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

**Cash and cash equivalents**

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

**Foreign currencies**

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

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

**Operating segments**

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

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

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

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Operating segments (continued)**

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

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

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

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

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

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

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

**Statutory reserve**

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

**Fair values**

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

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

**Reserve for takaful activities**

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

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

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

**Product classification**

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

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

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

**Surrenders and maturities**

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

**Earnings per share**

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

**Cash flow statement**

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

**Surplus distribution**

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



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

**4 INVESTMENTS**

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

	<i>31 December 2018</i>	
	<i>SAR'000</i>	
	<i>Takaful Operations</i>	<i>Shareholders' Operations</i>
<i>Available-for-sale investments – Quoted</i>		
Investment in Amanah Mutual Funds – 4 (c)	352,115	-
<i>Held-to-maturity investments – Unquoted</i>		
General Authority of Civil Aviation Sukuk (GACA - I)	-	50,580
The National Industrialization Company Sukuk (TASNEE)	-	50,230
Bank AlBilad Sukuk	-	20,089
	-	120,899
<b>Total investments</b>	<b>352,115</b>	<b>120,899</b>
	<i>31 December 2017</i>	
	<i>SAR'000</i>	
	<i>Takaful Operations</i>	<i>Shareholders' Operations</i>
<i>Available-for-sale investments – Quoted</i>		
Investment in Amanah Mutual Funds – 4 (c)	381,037	-
<i>Held-to-maturity investments – Unquoted</i>		
Saudi Hollandi Bank Sukuk (SHB-IV)	-	5,010
General Authority of Civil Aviation Sukuk (GACA - I)	-	50,576
The National Industrialization Company Sukuk (TASNEE)	-	50,177
The Power and Water Utility Company for Jubail and Yanbu Sukuk (MARAFIQ)	-	12,033
Bank AlBilad Sukuk	-	20,068
	-	137,864
<b>Total investments</b>	<b>381,037</b>	<b>137,864</b>

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

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

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



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

For the year ended 31 December 2018

**4 INVESTMENTS (CONTINUED)**
**b) Held-to-maturity financial assets (continued)**

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

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

The movements in investments held to maturity are as follows:

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

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

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

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

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

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

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

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

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

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

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

**4 INVESTMENTS (CONTINUED)**

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

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

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

**d) Credit quality of total investments**

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

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

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

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

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

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

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

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

**5 CONTRIBUTIONS AND RETAKAFUL RECEIVABLES, NET**

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

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

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

(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 2018	12,650	10,581	1,388	487	194
31 December 2017	14,496	9,462	2,489	2,445	100

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

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

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

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

**6 PREPAID EXPENSES AND OTHER ASSETS**

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

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

**7 CASH AND CASH EQUIVALENTS**

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

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

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

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

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

**8 STATUTORY DEPOSIT**

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

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

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

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

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

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

**b) Movement in net unearned contribution**

	2018		
	Gross SAR'000	Retakaful share SAR'000	Net SAR'000
Balance as at the beginning of the year	14,389	(10,802)	3,587
Contribution written during the year	61,995	(41,423)	20,572
Contribution earned during the year	(66,819)	45,256	(21,563)
<b>Balance as at the end of the year</b>	<b>9,565</b>	<b>(6,969)</b>	<b>2,596</b>
	2017		
	Gross SAR'000	Retakaful share SAR'000	Net SAR'000
Balance as at the beginning of the year	20,574	(13,976)	6,598
Contribution written during the year	78,131	(52,362)	25,769
Contribution earned during the year	(84,316)	55,536	(28,780)
<b>Balance as at the end of the year</b>	<b>14,389</b>	<b>(10,802)</b>	<b>3,587</b>

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

	2018		
	Gross SAR'000	Retakaful share SAR'000	Net SAR'000
Balance as at the beginning of the year	824	(2,555)	(1,731)
Incurred during the year	1,019	(2,290)	(1,271)
Amortised during the year	(824)	2,555	1,731
<b>Balance as at the end of the year</b>	<b>1,019</b>	<b>(2,290)</b>	<b>(1,271)</b>
	2017		
	Gross SAR'000	Retakaful share SAR'000	Net SAR'000
Balance as at the beginning of the year	1,085	(2,794)	(1,709)
Incurred during the year	824	(2,555)	(1,731)
Amortised during the year	(1,085)	2,794	1,709
<b>Balance as at the end of the year</b>	<b>824</b>	<b>(2,555)</b>	<b>(1,731)</b>

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

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

**d) Non-unit reserve**

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

**e) Unexpired risk reserve**

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

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

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

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

**10.1 Principal actuarial assumptions**

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

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

**10.2 Sensitivity of actuarial assumptions**

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

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

**11 CLAIMS**

**a) Net claims incurred**

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

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

**b) Outstanding claims**

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

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



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

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2018

#### 11 CLAIMS (continued)

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

	2018 SAR'000	2017 SAR'000
Investment grade	57,730	66,082

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

#### 12 ACCRUED AND OTHER LIABILITIES

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

#### 13 SHARE CAPITAL

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

<u>As at 31 December 2018</u>		
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>
<u>As at 31 December 2017</u>		
Shareholders	Shareholding	SAR'000
The Saudi British Bank	65.00%	221,000
Other	35.00%	119,000
	<u>100.00%</u>	<u>340,000</u>

#### 14 STATUTORY RESERVE

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

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

**15 PROVISION FOR ZAKAT AND INCOME TAX**

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

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

b) Zakat charge for the year

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

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

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

c) Movements in zakat provision

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

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

d) Income tax charge for the year

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

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

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

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

**e) Status of assessments**

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

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

**16 SURPLUS DISTRIBUTION PAYABLE**

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

**17 NET CONTRIBUTION EARNED AND PLANHOLDER CHARGES**

	<i>For the year ended 31 December 2018</i>		
	<i>Family 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>

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

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

**18 SURRENDERS AND MATURITIES**

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

**19 GENERAL AND ADMINISTRATIVE EXPENSES**

	<i>2018</i>		
	<i>SAR'000</i>		
	<i>Takaful Operations</i>	<i>Shareholders' Operations</i>	<i>Total</i>
Employee costs	26,499	-	26,499
IT maintenance costs	2,864	610	3,474
Legal and professional charges	5,172	-	5,172
Rent expenses	512	-	512
Travel expenses	173	-	173
Directors' fees and other expenses	-	1,149	1,149
Other	4,609	1,179	5,788
	<u>39,829</u>	<u>2,938</u>	<u>42,767</u>
	<i>2017</i>		
	<i>SAR'000</i>		
	<i>Takaful Operations</i>	<i>Shareholders' Operations</i>	<i>Total</i>
Employee costs	24,277	-	24,277
IT maintenance costs	3,823	-	3,823
Legal and professional charges	3,086	501	3,587
Rent expenses	570	-	570
Travel expenses	70	-	70
Directors' fees and other expenses	-	918	918
Other	5,191	1,459	6,650
	<u>37,017</u>	<u>2,878</u>	<u>39,895</u>

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

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

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

**21 FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

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

**Determination of fair value and fair value hierarchy**

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

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

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

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

**a) Carrying amounts and fair value**

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

<i>31 December 2018</i>		Fair value			
SAR'000	Carrying value	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>					
- Available for sale financial assets	352,115	352,115	-	-	352,115
<b>Financial assets not measured at fair value</b>					
- Held-to-maturity financial assets	120,899	-	-	120,899	120,899
- Cash and cash equivalents	244,019	-	-	244,019	244,019
	<b>364,918</b>	<b>-</b>	<b>-</b>	<b>364,918</b>	<b>364,918</b>
<b>Financial liabilities measured at fair value through statement of income</b>					
- Reserve for takaful activities	-	352,115	-	-	352,115
	<b>-</b>	<b>352,115</b>	<b>-</b>	<b>-</b>	<b>352,115</b>

<i>31 December 2017</i>		Fair value			
SAR'000	Carrying value	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>					
- Available for sale financial assets	381,037	381,037	-	-	381,037
<b>Financial assets not measured at fair value</b>					
- Held-to-maturity financial assets	137,864	-	-	137,864	137,864
- Cash and cash equivalents	239,099	-	-	239,099	239,099
	<b>376,963</b>	<b>-</b>	<b>-</b>	<b>376,963</b>	<b>376,963</b>
<b>Financial liabilities measured at fair value through statement of income</b>					
- Reserve for takaful activities	-	381,037	-	-	381,037
	<b>-</b>	<b>381,037</b>	<b>-</b>	<b>-</b>	<b>381,037</b>

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

**22 SEGMENTAL INFORMATION**

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

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

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

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

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

**22 SEGMENTAL INFORMATION (CONTINUED)**

	Shareholders' Operations SAR '000	Individual Family (Protection & Savings) SAR '000	Group Family (Protection & Savings) SAR '000	General Takaful SAR '000	Total SAR '000
For the year ended 31 December 2017					
Gross contributions written	-	96,953	51,433	26,698	175,084
Net contributions written	-	116,961	20,929	4,840	142,730
Net contributions earned	-	116,961	23,757	5,023	145,741
Fees and commission income	-	426	184	5,133	5,743
Total revenue	-	117,387	23,941	10,156	151,484
Net claims and other benefits incurred	-	(75,688)	(11,034)	(969)	(87,691)
Changes in reserve for takaful activities	-	(23,233)	-	-	(23,233)
Changes in non-unit reserve	-	(4,311)	-	-	(4,311)
Changes in unexpired risk reserve	-	-	(2,868)	(2,663)	(5,531)
Policy acquisition costs	-	(2,214)	(1,134)	(2,290)	(5,638)
Net underwriting income for the year	-	11,941	8,905	4,234	25,080
General and administrative expenses	(2,878)	(13,702)	(12,135)	(11,180)	(39,895)
Rebate income	-	1,340	-	-	1,340
Income from deposits	2,717	184	54	-	2,955
Income from sukuk	5,035	-	-	-	5,035
Total income / (loss) for the year	4,874	(237)	(3,176)	(6,946)	(5,485)
Purchase of intangibles	1,104	-	-	-	1,104
Purchase of motor vehicle	201	-	-	-	201
Proceeds from sale of motor vehicle	19	-	-	-	19
Amortisation	499	-	-	-	499
Depreciation	80	-	-	-	80
<b>31 December 2018</b>					
Intangible assets	1,859	-	-	-	1,859
Fixed assets	146	-	-	-	146
<b>Assets</b>					
Cash and cash equivalents	194,312	22,402	14,314	12,991	244,019
Contributions and retakaful receivables, net	-	-	8,990	3,660	12,650
Retakaful share of unearned contributions	-	-	485	6,484	6,969
Retakaful share of outstanding claims	-	226	29,436	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
<b>Total assets</b>					<b>836,147</b>
<b>Liabilities</b>					
Retakaful balances payable	-	471	(408)	5,817	5,880
Unearned contributions	-	-	1,431	8,134	9,565
Unearned retakaful commission	-	-	-	2,290	2,290
Gross outstanding claims	-	1,285	38,040	31,861	71,186
Unexpired risk reserve	-	-	566	2,425	2,991
Non-unit reserve	-	5,579	-	-	5,579
Provision for employees' end-of-service benefits	-	1,642	1,437	1,837	4,916
Reserve for takaful activities	-	352,115	-	-	352,115
Unallocated liabilities	-	-	-	-	35,514
<b>Total liabilities</b>					<b>490,036</b>



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

**22 SEGMENTAL INFORMATION (CONTINUED)**

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

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

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

**23 RELATED PARTY TRANSACTIONS AND BALANCES**

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

*a) Transactions with related parties*

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

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

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

*b) Balances with related parties*

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

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

\* policyholders' asset under management

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

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

**23 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**

*c) Compensation of key management personnel*

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

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

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

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

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

**24 SUPPLEMENTARY INFORMATION**

**Financial position**

	SAR '000					
	2018			2017		
	Takaful Operations	Shareholders' Operations	Total	Takaful Operations	Shareholders' Operations	Total
<b>ASSETS</b>						
Cash and cash equivalents	49,707	194,312	244,019	33,746	205,353	239,099
Contributions and retakaful receivables, net	12,650	-	12,650	14,496	-	14,496
Retakaful share of unearned contributions	6,969	-	6,969	10,802	-	10,802
Retakaful share of outstanding claims	57,730	-	57,730	66,082	-	66,082
Defered policy acquisition costs	1,019	-	1,019	824	-	824
Due from/ (to) shareholders/ takaful operations	(2,167)	2,167	-	22,202	(22,202)	-
Available-for-sale financial assets	352,115	-	352,115	381,037	-	381,037
Held-to-maturity financial assets	-	120,899	120,899	-	137,864	137,864
Prepaid expenses and other assets	843	309	1,232	1,463	275	1,738
Fixed assets	-	146	146	-	229	229
Intangible assets	-	1,859	1,859	-	1,728	1,728
Statutory deposit	-	34,000	34,000	-	34,000	34,000
Accrued income on statutory deposit	-	3,509	3,509	-	2,800	2,800
<b>TOTAL ASSETS</b>	<b>478,866</b>	<b>357,281</b>	<b>836,147</b>	<b>530,652</b>	<b>360,047</b>	<b>890,699</b>
<b>LIABILITIES</b>						
Accrued and other liabilities	17,964	1,414	19,378	17,217	1,493	18,710
Provision for zakat and income tax	-	6,034	6,034	-	4,452	4,452
Retakaful balances payable	5,880	-	5,880	8,574	-	8,574
Unearned contributions	9,565	-	9,565	14,389	-	14,389
Unearned retakaful commission	2,290	-	2,290	2,555	-	2,555
Gross outstanding claims	71,186	-	71,186	83,529	-	83,529
Unexpired risk reserve	2,991	-	2,991	5,531	-	5,531
Non-unit reserve	5,579	-	5,579	4,311	-	4,311
Provision for employees' end-of-service benefits	4,916	-	4,916	7,091	-	7,091
Surplus distribution payable	6,593	-	6,593	6,593	-	6,593
Reserve for takaful activities	352,115	-	352,115	381,037	-	381,037
Accrued income on statutory deposit	-	3,509	3,509	-	2,800	2,800
<b>TOTAL LIABILITIES</b>	<b>479,079</b>	<b>10,957</b>	<b>490,036</b>	<b>530,827</b>	<b>8,745</b>	<b>539,572</b>
Takaful operations' surplus	-	-	-	-	-	-
<b>TOTAL LIABILITIES AND TAKAFUL OPERATIONS' SURPLUS</b>	<b>479,079</b>	<b>10,957</b>	<b>490,036</b>	<b>530,827</b>	<b>8,745</b>	<b>539,572</b>
<b>SHAREHOLDERS' EQUITY</b>						
Share capital	-	340,000	340,000	-	340,000	340,000
Legal reserve	-	14,788	14,788	-	14,577	14,577
Remeasurements of retirement benefit obligations	(213)	-	(213)	(175)	-	(175)
Accumulated losses	-	(8,464)	(8,464)	-	(3,275)	(3,275)
	(213)	346,324	346,111	(175)	351,302	351,127
<b>TOTAL LIABILITIES, TAKAFUL OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY</b>	<b>478,866</b>	<b>357,281</b>	<b>836,147</b>	<b>530,652</b>	<b>360,047</b>	<b>890,699</b>

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

**24. SUPPLEMENTARY INFORMATION (continued)**

**Statement of income**

	SAR '000					
	2018			2017		
	Takaful Operations	Shareholders' Operations	Total	Takaful Operations	Shareholders' Operations	Total
<b>REVENUES</b>						
Gross contributions written						
- Family Takaful	119,544	-	119,544	148,386	-	148,386
- General Takaful	20,422	-	20,422	26,698	-	26,698
Gross contributions written	139,966	-	139,966	175,084	-	175,084
Retakaful contribution ceded						
- Local retakaful contribution ceded	(9,201)	-	(9,201)	(7,656)	-	(7,656)
- Foreign retakaful contribution ceded	(33,210)	-	(33,210)	(45,639)	-	(45,639)
Planholder charges	15,003	-	15,003	20,941	-	20,941
Net contributions written	112,558	-	112,558	142,730	-	142,730
Changes in gross unearned contributions	4,824	-	4,824	6,185	-	6,185
Changes in retakaful share of unearned contributions	(3,833)	-	(3,833)	(3,174)	-	(3,174)
Net contributions earned	113,549	-	113,549	145,741	-	145,741
Fees and commission income	5,836	-	5,836	5,743	-	5,743
<b>Total revenue</b>	<b>119,385</b>	<b>-</b>	<b>119,385</b>	<b>151,484</b>	<b>-</b>	<b>151,484</b>
<b>UNDERWRITING COSTS AND EXPENSES</b>						
Gross claims paid	(45,336)	-	(45,336)	(45,517)	-	(45,517)
Retakaful share of claims paid	34,888	-	34,888	33,054	-	33,054
Surrenders and maturities	(98,984)	-	(98,984)	(73,720)	-	(73,720)
Net claims and other benefits paid	(106,404)	-	(106,404)	(86,183)	-	(86,183)
Changes in outstanding claims, net	2,933	-	2,933	(1,034)	-	(1,034)
Changes in IIRNR, net	1,058	-	1,058	(474)	-	(474)
Net claims and other benefits incurred	(102,413)	-	(102,413)	(87,691)	-	(87,691)
Changes in reserve for takaful activities	17,983	-	17,983	(23,233)	-	(23,233)
Changes in non-uni reserve	(1,368)	-	(1,368)	(4,311)	-	(4,311)
Changes in unexpired risk reserve	2,541	-	2,541	(5,531)	-	(5,531)
Policy acquisition costs	(3,652)	-	(3,652)	(5,638)	-	(5,638)
<b>Total underwriting costs and expenses</b>	<b>(86,709)</b>	<b>-</b>	<b>(86,709)</b>	<b>(126,404)</b>	<b>-</b>	<b>(126,404)</b>
<b>Net underwriting income</b>	<b>32,676</b>	<b>-</b>	<b>32,676</b>	<b>25,080</b>	<b>-</b>	<b>25,080</b>
<b>OTHER OPERATING (EXPENSES)/ INCOME</b>						
General and administrative expenses	(39,829)	(2,938)	(42,767)	(37,017)	(2,878)	(39,895)
Interest income	1,598	-	1,598	1,340	-	1,340
Income from deposits	711	4,601	5,312	338	2,717	2,955
Income from sukuk	-	4,237	4,237	-	5,035	5,035
<b>TOTAL OTHER OPERATING EXPENSES, NET</b>	<b>(37,520)</b>	<b>5,900</b>	<b>(31,620)</b>	<b>(35,439)</b>	<b>4,874</b>	<b>(30,565)</b>
<b>Total income/ (loss) for the year</b>	<b>(4,844)</b>	<b>5,900</b>	<b>1,056</b>	<b>(10,359)</b>	<b>4,874</b>	<b>(5,485)</b>
Shareholders' absorption of deficit/ (surplus) transferred to shareholders from takaful operations	4,844	(4,844)	-	10,359	(10,359)	-
<b>Net result after shareholders' absorption of deficit/ transfer of surplus to shareholders</b>	<b>-</b>	<b>1,056</b>	<b>1,056</b>	<b>-</b>	<b>(5,485)</b>	<b>(5,485)</b>

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

**24. SUPPLEMENTARY INFORMATION (continued)**

**Statement of comprehensive income**

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

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

**24. SUPPLEMENTARY INFORMATION (continued)**

**Statement of cash flows**

CASHFLOWS FROM OPERATING ACTIVITIES	SR '000					
	2018			2017		
	Takaful Operations	Shareholders' Operations	Total	Takaful Operations	Shareholders' Operations	Total
Net income / (loss) for the year	-	1,056	1,056	-	(5,485)	(5,485)
Adjustment for non-cash items:						
Amortisation	-	610	610	-	499	499
Depreciation	-	83	83	-	80	80
Income from sukuk	-	(4,237)	(4,237)	-	(5,035)	(5,035)
Gain on sale of fixed assets	-	-	-	-	(19)	(19)
Shareholders' appropriation from deficit/ surplus	(4,844)	4,844	-	(10,359)	10,359	-
Provision of impairment on contribution and retakaful receivables	504	-	504	1,052	-	1,052
Provision for employees' end-of-service benefits	1,046	-	1,046	37	-	37
	(3,294)	2,356	(938)	(9,270)	399	(8,871)
Changes in operating assets and liabilities:						
Contributions and retakaful receivable, net	1,342	-	1,342	(2,510)	-	(2,510)
Retakaful share of unearned contributions	3,833	-	3,833	3,174	-	3,174
Retakaful share of outstanding claims	8,352	-	8,352	(9,719)	-	(9,719)
Deferred policy acquisition costs	(195)	-	(195)	261	-	261
Available-for-sale financial assets	28,922	-	28,922	(27,297)	-	(27,297)
Prepaid expenses and other assets	620	(114)	506	117	(101)	16
Accrued and other liabilities	747	(79)	668	5,335	100	5,435
Retakaful balances payable	(2,694)	-	(2,694)	559	-	559
Gross unearned contributions	(4,824)	-	(4,824)	(6,185)	-	(6,185)
Unearned retakaful commission	(265)	-	(265)	(239)	-	(239)
Gross outstanding claims	(12,343)	-	(12,343)	11,227	-	11,227
Unexpired risk reserve	(2,540)	-	(2,540)	5,531	-	5,531
Non-unit reserve	1,268	-	1,268	4,311	-	4,311
Reserve for takaful activities	(28,922)	-	(28,922)	27,297	-	27,297
Surplus paid	-	-	-	(47)	-	(47)
	(9,993)	2,163	(7,830)	2,545	398	2,943
Employees' end-of-service benefits paid	(3,289)	-	(3,289)	(151)	-	(151)
Zakat and tax paid	-	(4,452)	(4,452)	-	(5,663)	(5,663)
Net cash (used in)/ generated from operating activities	(13,252)	(2,289)	(15,541)	2,394	(5,265)	(2,871)
<b>CASHFLOWS FROM INVESTING ACTIVITIES</b>						
Maturity of held-to-maturity financial assets	-	17,000	17,000	-	50,000	50,000
Income received from sukuk	-	4,202	4,202	-	5,266	5,266
Purchase of intangible assets	-	(741)	(741)	-	(1,104)	(1,104)
Purchase of fixed assets	-	-	-	-	(201)	(201)
Proceeds from sale of fixed assets	-	-	-	-	19	19
Net cash generated from investing activities	-	20,461	20,461	-	53,980	53,980
<b>CASHFLOWS FROM FINANCING ACTIVITIES</b>						
Due from/ (to) shareholders / takaful operations, net	29,213	(29,213)	-	5,823	(5,823)	-
Net change in cash and cash equivalents	15,961	(11,041)	4,920	(3,429)	54,538	51,109
Cash and cash equivalents, beginning of the year	33,746	205,353	239,099	37,175	150,815	187,990
Cash and cash equivalents, end of the year	49,707	194,312	244,019	33,746	205,353	239,099
<b>Non-cash supplemental information:</b>						
Net change in fair value of available for sale investments	4,064	-	4,064	25,005	-	25,005



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

**25 RISK MANAGEMENT**

**Risk governance**

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

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

**Board of Directors**

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

**Board Risk Committee**

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

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

**25 RISK MANAGEMENT (CONTINUED)**

**Risk governance (continued)**

**Chief Risk Officer (CRO)**

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

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

**a) Takaful risk**

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

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

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

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

**25 RISK MANAGEMENT (CONTINUED)**

**a) Takaful risk (continued)**

**Family takaful**

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

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

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

**General takaful**

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

*Property all risk, fire, personal accident products*

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

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

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

*Marine cargo product*

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

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

**Frequency and severity of claims**

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

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

**25 RISK MANAGEMENT (CONTINUED)**

**a) Takaful risk (continued)**

**Concentration of takaful risk**

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

	<i>Outstanding claim reserves - Gross</i>	<i>Outstanding claim Reserves - Net</i>	<i>Gross unearned contributions</i>	<i>Net unearned contributions</i>
<i>2018 (Amounts in SAR '000)</i>				
Individual Family	1,285	1,059	-	-
Group Family	38,040	8,554	1,431	946
General Takaful	31,861	3,843	8,134	1,650
	<u>71,186</u>	<u>13,456</u>	<u>9,565</u>	<u>2,596</u>
<i>2017 (Amounts in SAR '000)</i>				
Individual Family	2,081	1,643	-	-
Group Family	57,278	13,082	1,616	1,030
General Takaful	24,170	2,722	12,773	2,557
	<u>83,529</u>	<u>17,447</u>	<u>14,389</u>	<u>3,587</u>

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

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

**Process used to decide on assumptions**

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

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

**25 RISK MANAGEMENT (CONTINUED)**

**a) Takaful risk (continued)**

**Process used to decide on assumptions (continued)**

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

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

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

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

**Sensitivity of claims**

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

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

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

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

**25 RISK MANAGEMENT (CONTINUED)**

**a) Takaful risk (continued)**

**Claims development**

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

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

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

**Claims development table**

**Claims development table gross of reinsurance:**

Amounts in SAR '000

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

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

**25 RISK MANAGEMENT (CONTINUED)**

**a) Takaful risk (continued)**

**Claims development table (continued)**

**Claims development table net of reinsurance:**

Amounts in SAR '000

	<u>2013 &amp; 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	54,576	13,197	13,279	16,596	15,462	11,493	11,493
- One year later	46,277	12,941	12,537	15,463	12,192	-	12,192
- Two years later	44,838	12,776	11,701	14,995	-	-	14,995
- Three years later	44,975	12,776	11,476	-	-	-	11,476
- Four years later	44,852	12,775	-	-	-	-	12,775
- Five years later	44,771	-	-	-	-	-	44,771
Current estimate of cumulative claims	44,771	12,775	11,476	14,995	12,192	11,493	107,702
Cumulative payments to date	44,771	12,775	11,301	14,196	11,579	6,453	101,074
Outstanding claim reserves	-	-	175	800	613	5,040	6,628
Add: Incurred but not reported (IBNR) and other reserves							6,828
Liability recognized in the statement of financial position							13,456
Accident year							
Estimate of ultimate claim loss							
- At end of accident year	44,095	10,475	13,197	13,279	16,596	15,459	15,459
- One year later	37,605	8,672	12,941	12,537	15,463	-	15,463
- Two years later	36,547	8,291	12,776	11,701	-	-	11,701
- Three years later	36,742	8,232	12,776	-	-	-	12,776
- Four years later	36,620	8,231	-	-	-	-	8,231
- Five years later	36,539	-	-	-	-	-	36,539
Current estimate of cumulative claims	36,539	8,231	12,776	11,701	15,463	15,459	100,169
Cumulative payments to date	36,539	8,231	12,776	11,196	12,803	9,063	90,607
Outstanding claim reserves	-	-	-	505	2,660	6,396	9,561
Add: Incurred but not reported (IBNR) and other reserves							7,886
Liability recognized in the statement of financial position							17,447



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

**25 RISK MANAGEMENT (CONTINUED)**

**b) Retakaful risk**

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

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

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

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

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

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

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

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



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

**25 RISK MANAGEMENT (CONTINUED)**

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

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

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

**Currency Risk**

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

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

*Sensitivity analysis - Currency risk:*

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

**Commission Rate Risk**

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

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

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

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

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

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

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

**25 RISK MANAGEMENT (CONTINUED)**

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

*Other Price Risk*

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

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

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

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

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

**d) Credit risk**

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

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

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

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

**25 RISK MANAGEMENT (CONTINUED)**

**d) Credit risk (continued)**

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

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

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

**Concentration of credit risk**

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

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

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

**25 RISK MANAGEMENT (CONTINUED)**

**c) Liquidity risk**

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

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

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

**Maturity Profiles**

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

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

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

**25 RISK MANAGEMENT (CONTINUED)**

**e) Liquidity risk (continued)**

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

**f) Operational risk**

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

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

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

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

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

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

**25 RISK MANAGEMENT (CONTINUED)**

**g) Capital management**

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

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

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

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

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

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

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

**26 RECLASSIFICATION OF COMPARATIVE FIGURES**

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

**27 APPROVAL OF THE FINANCIAL STATEMENTS**

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



---

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

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

---





<b>INDEX</b>	<b>PAGE</b>
Independent auditors' audit report	1 - 6
Statement of financial position	7 - 8
Statement of income	9
Statement of comprehensive income	10
Statement of changes in shareholders' equity	11
Statement of cash flows	12
Notes to the financial statements	13 - 67



**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><b><i>Valuation of ultimate claim liabilities arising from takaful contracts</i></b></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"> <li>- Evaluated whether the Company's actuarial methodologies were consistent with generally accepted actuarial practices and with prior years. We sought sufficient justification for any significant differences;</li> <li>- Assessed the reasonableness of key actuarial assumptions including claims ratios and expected frequency and severity of claims.; and</li> <li>- Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivities to the key assumptions performed.</li> <li>- Assessed the adequacy of the Company's disclosures regarding assumptions used and sensitivities as included in the accounting policies and in note 26 to the financial statements.</li> </ul>



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

Key audit matters	How the matter was addressed in our audit
<p><b>Valuation of life takaful contract liabilities (Reserve for takaful activities)</b></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"> <li>- Evaluated whether the Company's actuarial methodologies were consistent with generally accepted actuarial practices and with prior years. We sought sufficient justification for any significant differences;</li> <li>- Assessed key actuarial assumptions such as investment return, discount rates, and operating assumptions, such as expense, mortality and persistency; and</li> <li>- Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivities to the key assumptions performed.</li> <li>- Assessed the adequacy of the Company's disclosures regarding assumptions used and sensitivities as included in the accounting policies and in note 26 to the financial statements.</li> </ul>



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

***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  
Riyadh 11482  
Kingdom of Saudi Arabia

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

**Mufaddal Ali**  
Certified Public Accountant  
Registration No. 447

**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**

	Notes	31 December 2019 (Audited) SAR'000	31 December 2018 (Audited) SAR'000
<b>ASSETS</b>			
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
<b>TOTAL ASSETS</b>		<b>872,193</b>	<b>836,147</b>

Bakheet AlZahrani  
  
 Chief Financial Officer

Hussam Alkhayat  
  
 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**

		<b>31 December 2019 (Audited) SAR'000</b>	<b>31 December 2018 (Audited) SAR'000</b>
<b>LIABILITIES</b>			
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
<b>TOTAL LIABILITIES</b>		<b>550,843</b>	<b>490,036</b>
Takaful operations' surplus		-	-
<b>TOTAL LIABILITIES AND TAKAFUL OPERATIONS' SURPLUS</b>		<b>550,843</b>	<b>490,036</b>
<b>SHAREHOLDERS' EQUITY</b>			
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	-
<b>TOTAL EQUITY</b>		<b>321,350</b>	<b>346,111</b>
<b>TOTAL LIABILITIES, TAKAFUL OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY</b>		<b>872,193</b>	<b>836,147</b>

Bakheet AlZahrani  
  
 Chief Financial Officer

Hussain Alkhatat  
  
 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 <i>(restated*)</i>
<b>REVENUES</b>			
<b>Gross contributions written</b>			
- Family Takaful	18	128,502	119,544
- General Takaful	18	26,651	20,422
		<u>155,153</u>	<u>139,966</u>
<b>Retakaful contribution ceded</b>			
- Local retakaful contribution ceded	18	(7,999)	(9,201)
- Foreign retakaful contribution ceded	18	(50,670)	(33,210)
Planholder charges	18	16,174	15,003
		<u>Net contributions written</u>	<u>112,658</u>
Changes in unearned contributions	18	(6,130)	4,824
Changes in retakaful share of unearned contributions	18	3,977	(3,833)
		<u>Net contributions earned</u>	<u>110,489</u>
Fees and commission income		5,088	5,836
		<u>Total revenue</u>	<u>115,577</u>
			<u>119,385</u>
<b>UNDERWRITING COSTS AND EXPENSES</b>			
Gross claims paid	12(a)	(39,239)	(45,338)
Retakaful share of claims paid	12(a)	31,181	34,888
Surrenders and maturities	19	(81,689)	(95,534)
		<u>Net claims and other benefits paid</u>	<u>(89,746)</u>
Changes in outstanding claims, net		682	2,933
Changes in IBNR, net		(1,873)	1,058
		<u>Net claims and other benefits incurred</u>	<u>(90,936)</u>
Changes in reserve for tafaful activities	10(a)	4,610	12,983
Changes in non-undif reserve		(891)	(1,268)
Changes in unexpired risk reserve		(2,898)	2,541
Policy acquisition costs		(6,630)	(3,552)
		<u>Total underwriting costs and expenses</u>	<u>(95,745)</u>
		<u>Net underwriting income</u>	<u>19,832</u>
			<u>32,676</u>
<b>OTHER OPERATING (EXPENSES)/INCOME</b>			
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>TOTAL OTHER OPERATING EXPENSES, NET</u>	<u>(38,930)</u>
			<u>(31,620)</u>
<b>Net (loss)/ income for the year before zakaat and tax</b>		<u>(19,098)</u>	<u>1,056</u>
Net (loss)/ income for the year attributed to the tafaful operations		-	-
		<u>Net (loss)/ income for the year attributable to shareholders before zakaat and tax</u>	<u>(19,098)</u>
Zakaat and tax for the year	16(f)-3(b)	(5,702)	(6,034)
		<u>Net loss attributable to the shareholders after zakaat and tax</u>	<u>(24,800)</u>
			<u>(4,978)</u>
<b>Loss per share (SAR per share) (Basic)</b>	10(f) & 21	<u>(0.73)</u>	<u>(0.15)</u>

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

Bakheet Al-Zahrani  
Chief Financial Officer

Hussain Alkhatay  
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)
<b>Net loss attributable to the shareholders after zakat and tax</b>		<b>(24,800)</b>	<b>(4,978)</b>
<b>Other comprehensive income/ (loss)</b>			
<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)	46,503	4,064
- Fair value change in reserve for takaful activities – unrealized	10(e)	(45,803)	(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)
<b>Total comprehensive loss for the year</b>		<b>(24,761)</b>	<b>(5,016)</b>

Bakheet AlZahrani

Chief Financial Officer

Hussain Alkhatay

Chief Executive Officer

Mohammad Alshayea

Chairman

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

Page | 10


**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>Re-measurements 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)
Re-measurements of retirement benefit obligations	-	-	(510)	-	-	(510)
Fair value reserve on available-for-sale financial assets	-	-	-	649	-	649
Total comprehensive income for the year	-	-	(510)	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>Re-measurements 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)
Re-measurements 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
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net (loss)/ income before attribution and zakat and tax		(19,098)	1,056
<b>Adjustment for non-cash items:</b>			
Amortisation		869	610
Depreciation		71	83
Income from sukuk		(3,826)	(4,237)
Amortization of premium on sukuk		34	-
(Reversal)/ Provision of impairment on contribution and retakaful receivables	5	(2,054)	504
Provision for employees' end-of-service benefits	11	1,306	885
		(22,798)	(1,099)
<b>Changes in operating assets and liabilities:</b>			
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)	(193)
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 Zakat and income tax paid	11 16(c)	(5,958)	(3,098)
		(5,958)	(4,452)
<b>Net cash used in operating activities</b>		<b>(74,126)</b>	<b>(15,541)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
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)
<b>Net cash (used in)/ generated from investing activities</b>		<b>(22,907)</b>	<b>20,461</b>
<b>Net change in cash and cash equivalents</b>		<b>(97,033)</b>	<b>4,920</b>
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
<b>Non-cash supplemental information:</b>			
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 AlZalwani

Chief Financial Officer

Hussam Alkhaya

Chief Executive Officer

Mubammad 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.

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

**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).

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

**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.



**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**

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:

**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)**

**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 (VEA)** 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.

<b>Impact Area</b>	<b>Summary of Impact</b>
Financial Impact	<p>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:</p> <ul style="list-style-type: none"> <li>▪ 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.</li> <li>▪ The choice of transition approach will result in differences in the future profit streams.</li> </ul>
Data Impact	<p>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.</p> <p>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.</p>
IT Systems	<p>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.</p>
Process Impact	<p>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.</p>

**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)**

**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** 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:

- 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.

**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 published effective date of IFRS 9 was 1<sup>st</sup> January 2018. However, amendments to IFRS 4 – Insurance Contracts: Applying IFRS 9 – Financial Instruments with IFRS 4 – Insurance Contracts, published on 12<sup>th</sup> 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.

**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)**

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.



**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)**

**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.

**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)**

**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.



**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)**

**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.

**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)**

**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.

**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)**

**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.

**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)**

**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 recognised.

**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.

**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)**

**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 sukuk 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.

**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)**

**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		
	Takaful Operations	Shareholders' Operations	Total
<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>136,328</u>	<u>146,372</u>
<b>Total investments</b>	<u><b>386,678</b></u>	<u><b>143,563</b></u>	<u><b>530,241</b></u>

	31 December 2018		
	SAR'000		
	Takaful Operations	Shareholders' Operations	Total
<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
	-	120,899	120,899
<b>Total investments</b>	<u><b>352,115</b></u>	<u><b>120,899</b></u>	<u><b>473,014</b></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><b>146,372</b></u>	<u><b>120,899</b></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:

	<b>2019</b>	<b>2018</b>
	<b>SAR'000</b>	<b>SAR'000</b>
Fixed-rate securities	126,292	50,580
Floating-rate securities	20,080	70,319
	<u>146,372</u>	<u>120,899</u>

The movements in investments held to maturity are as follows:

	<b>2019</b>		<b>2018</b>	
	<b>SAR'000</b>		<b>SAR'000</b>	
	<b>Takaful</b>	<b>Shareholders'</b>	<b>Takaful</b>	<b>Shareholders'</b>
	<b>Operations</b>	<b>Operations</b>	<b>Operations</b>	<b>Operations</b>
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:

<b>Maturity profile</b>	<b>Maturity date</b>
- 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:

<b>Name of the fund</b>	<b>2019</b>	<b>2018</b>
	<b>SAR'000</b>	<b>SAR'000</b>
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
	<u>376,834</u>	<u>352,115</u>

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



**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 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
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
	<u>26,927</u>	<u>15,225</u>
Provision for impairment	(521)	(2,575)
	<u>26,406</u>	<u>12,650</u>

(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	<u>521</u>	<u>2,575</u>

(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		
	Takaful Operations	Shareholders' Operations	Total
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		
	Takaful Operations	Shareholders' Operations	Total
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		
	Takaful Operations	Shareholders' Operations	Total
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		
	Takaful Operations	Shareholders' Operations	Total
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	<u>376,834</u>	<u>352,115</u>

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	(71,535)	53,745	(18,190)
Balance as at the end of the year	<u>15,703</u>	<u>(10,946)</u>	<u>4,757</u>
	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	<u>9,565</u>	<u>(6,969)</u>	<u>2,596</u>

**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</i> SAR'000	<i>Unearned retakaful commission</i> SAR'000
Balance as at the beginning of the year	1,019	(2,290)
Incurrd during the year	1,985	(1,910)
Amortised during the year	(1,019)	2,290
Balance as at the end of the year	<u>1,985</u>	<u>(1,910)</u>
	2018	
	<i>Deferred policy acquisition costs</i> SAR'000	<i>Unearned retakaful commission</i> SAR'000
Balance as at the beginning of the year	824	(2,555)
Incurrd during the year	1,019	(2,290)
Amortised during the year	(824)	2,555
Balance as at the end of the year	<u>1,019</u>	<u>(2,290)</u>

**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:

	<i>2019</i>	<i>2018</i>
	<i>SAR'000</i>	<i>SAR'000</i>
Present value of defined benefit obligation	<b>5,875</b>	4,916
Fair value of plan assets	-	-
Defined benefit obligation at the closing of the year	<u><b>5,875</b></u>	<u>4,916</u>

**11.2 Movement of defined benefit obligation**

	<i>2019</i>	<i>2018</i>
	<i>SAR'000</i>	<i>SAR'000</i>
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	<b>(1,280)</b>	<b>(3,259)</b>
Defined benefit obligation at the closing of the year	<u><b>5,875</b></u>	<u>4,916</u>

**11.3 Reconciliation of present value of defined benefit obligation**

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

**11.4 Principal actuarial assumptions**

<u>Actuarial assumptions</u>	<b>2019</b>	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**

	<u>SAR'000</u>		
	<u>Impact on defined benefit obligation</u>		
	<u>Change in assumption</u>	<u>Increase in assumption</u>	<u>Decrease in assumption</u>
Discount rate	1%	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>Total</i>
	<i>Takaful</i>	<i>Takaful</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>Total</i>
	<i>Takaful</i>	<i>Takaful</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**

	<b>2019</b>		
	<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

	<b>2018</b>		
	<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**

	<u>2019</u> <u>SAR'000</u>	<u>2018</u> <u>SAR'000</u>
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:

	<u>2019</u> <u>SAR'000</u>	<u>2018</u> <u>SAR'000</u>
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>
<b>Saudi shareholders' share @ 74%</b>	<b>243,891</b>	<b>240,339</b>
Saudi shareholders' share of adjusted profit/(loss) for the year	(12,771)	341
<b>Saudi shareholders' share of the zakat base</b>	<b>231,120</b>	<b>240,680</b>
<b>Zakat charge for the year @ 2.5%</b>	<b>5,778</b>	<b>6,017</b>

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:

	<u>2019</u> <u>SAR'000</u>	<u>2018</u> <u>SAR'000</u>
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:

	<u>2019</u> <u>SAR'000</u>	<u>2018</u> <u>SAR'000</u>
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	1,036	(6,034)	(4,978)
Statement of change in shareholders' equity	Total comprehensive income after zakat and tax	1,918	(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</i>	<i>General</i>	<i>Total</i>
	<i>Takaful</i>	<i>Takaful</i>	<i>Total</i>
	<i>SAR'000</i>	<i>SAR'000</i>	<i>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
<b>Net contribution earned and planholder charges</b>	<b>107,360</b>	<b>3,129</b>	<b>110,489</b>

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

**19 SURRENDERS AND MATURITIES**

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

**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**

	<i>2019</i>		
	<i>SAR'000</i>		
	<i>Takaful Operations</i>	<i>Shareholders' Operations</i>	<i>Total</i>
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
	<u>46,289</u>	<u>4,397</u>	<u>50,686</u>
	<i>2018</i>		
	<i>SAR'000</i>		
	<i>Takaful Operations</i>	<i>Shareholders' Operations</i>	<i>Total</i>
Employee costs	26,499	-	26,499
IT maintenance costs	2,864	610	3,474
Legal and professional charges	5,172	-	5,172
Rent expenses	512	-	512
Travel expenses	173	-	173
Directors' fees and other expenses	-	1,149	1,149
Other	4,609	1,179	5,788
	<u>39,829</u>	<u>2,938</u>	<u>42,767</u>

**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:

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

**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 advantageous 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.

<b>31 December 2019</b>		<b>Fair value</b>			
<b>SAR'000</b>	<b>Carrying value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets measured at fair value</b>					
- Available for sale financial assets	383,869	383,869	-	-	383,869
<b>Financial assets not measured at fair value</b>					
- 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
	<b>393,635</b>	<b>-</b>	<b>-</b>	<b>394,158</b>	<b>394,158</b>
<b>Financial liabilities measured at fair value through statement of income</b>					
- Reserve for takaful activities	-	-	376,834	-	376,834
	<b>-</b>	<b>-</b>	<b>376,834</b>	<b>-</b>	<b>376,834</b>
<b>31 December 2018</b>		<b>Fair value</b>			
<b>SAR'000</b>	<b>Carrying value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets measured at fair value</b>					
- Available for sale financial assets	352,115	352,115	-	-	352,115
<b>Financial assets not measured at fair value</b>					
- 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
	<b>398,918</b>	<b>-</b>	<b>-</b>	<b>398,918</b>	<b>398,918</b>
<b>Financial liabilities measured at fair value through statement of income</b>					
- Reserve for takaful activities	-	-	352,115	-	352,115
	<b>-</b>	<b>-</b>	<b>352,115</b>	<b>-</b>	<b>352,115</b>

**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</i> SAR'000	<i>Individual Family (Protection &amp; Savings)</i> SAR'000	<i>Group Family (Protection &amp; Savings)</i> SAR'000	<i>General Takaful</i> SAR'000	<i>Total</i> SAR'000
<b>For the year ended 31 December 2019</b>					
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-unity 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' Operators SAR '000	Individual Family (Protection & Savings) SAR '000	Group Family (Protection & Savings) SAR '000	General Takaful SAR '000	Total SAR '000
<b>For the year ended 31 December 2018 (restated)</b>					
Gross contributions written	-	77,971	41,573	20,422	139,966
Net contributions written	-	91,986	16,333	4,239	112,558
Net contributions earned	-	91,986	16,417	5,146	113,549
Fees and commission income	-	78	266	5,492	5,836
Total revenue	-	92,064	16,683	10,638	119,385
Net claims and other benefits incurred	-	(95,901)	(4,845)	(1,667)	(102,413)
Changes in reserve for takaful activities	-	17,983	-	-	17,983
Changes in non-uit reserve	-	(1,268)	-	-	(1,268)
Changes in unexpired risk reserve	-	-	2,702	239	2,941
Policy acquisition costs	-	(935)	(469)	(2,148)	(3,552)
<b>Net underwriting income for the year</b>	-	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
<b>Total income/(loss) for the year before zakat and tax</b>	5,900	(862)	1,313	(5,295)	1,056
Zakat and tax for the year	(6,034)	-	-	-	(6,034)
<b>Total income/(loss) for the year after zakat and tax</b>	(134)	(862)	1,313	(5,295)	(4,978)
Purchase of intangibles	741	-	-	-	741
Amortisation	610	-	-	-	610
Depreciation	83	-	-	-	83
<b>31 December 2019</b>					
Intangible assets	2,216	-	-	-	2,216
Fixed assets	75	-	-	-	75
<b>Assets</b>					
Cash and cash equivalents	106,251	14,966	11,218	14,551	146,986
Short term deposits	66,277	-	-	-	66,277
Contributions and takaful receivables, net	-	-	23,020	3,386	26,406
Takaful share of unearned contributions	-	-	5,326	5,620	10,946
Takaful 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
<b>Total assets</b>					<b>872,193</b>
<b>Liabilities</b>					
Takaful balances payable	-	80	11,971	3,813	15,864
Unearned contributions	-	-	4,149	7,454	15,703
Unearned takaful 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-uit 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
<b>Total liabilities</b>					<b>580,843</b>



**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)**

	<i>Shareholders' Operations</i> SAR'000	<i>Individual Family (Protection &amp; Savings)</i> SAR'000	<i>Group Family (Protection &amp; Savings)</i> SAR'000	<i>General Takaful</i> SAR'000	<i>Total</i> SAR'000
31 December 2018					
Intangible assets	1,859	-	-	-	1,859
Fixed assets	146	-	-	-	146
<b>Assets</b>					
Cash and cash equivalents	194,312	22,402	14,314	12,991	244,019
Contributions and retakaful receivables, net	-	-	8,990	3,660	12,650
Retakaful share of unearned contributions	-	-	485	6,484	6,969
Retakaful share of outstanding claims	-	226	29,486	28,018	57,730
Deferred policy acquisition costs	-	-	47	972	1,019
Available-for-sale financial assets	-	352,115	-	-	352,115
Held-to-maturity financial assets	120,899	-	-	-	120,899
Statutory deposit	34,000	-	-	-	34,000
Unallocated assets	-	-	-	-	6,746
Total assets					836,147
<b>Liabilities</b>					
Retakaful balances payable	-	471	(408)	5,817	5,880
Unearned contributions	-	-	1,431	8,134	9,565
Unearned retakaful commission	-	-	-	2,290	2,290
Gross outstanding claims	-	1,285	38,040	31,861	71,186
Unexpired risk reserve	-	-	566	2,425	2,991
Non-uit 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	<i>Protection &amp; Savings</i> SAR'000	<i>Property &amp; Casualty</i> SAR'000	<i>*Motor</i> SAR'000	<i>Total</i> SAR'000
<b>Gross written contribution</b>				
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 products.

For the year ended 31 December 2018	<i>Protection &amp; Savings</i> SAR'000	<i>Property &amp; Casualty</i> SAR'000	<i>*Motor</i> SAR'000	<i>Total</i> SAR'000
<b>Gross written contribution</b>				
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 products.

**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
<b>The Saudi British Bank</b> <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
<b>Other entities controlled, jointly controlled or significantly influenced by related parties</b>		
Policy acquisition costs paid	3,798	3,581
<b>HSBC Saudi Arabia Limited - IBSA</b>		
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:

			2019 Amounts in '000	2018
	Nature	Notes		
<b>HSBC Saudi Arabia Limited</b>				
Available-for-sale financial assets *	Asset	4(c)	376,834	352,115
Rebate on unit-linked financial assets	Asset	6	220	440
<b>The Saudi British Bank</b>				
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
<b>SABB Insurance Agency Limited</b>				
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	
	Takaful Operations	Shareholders' Operations	Takaful Operations	Shareholders' Operations
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
<b>ASSETS</b>						
Cash and cash equivalents	49,735	106,251	146,986	49,707	194,312	244,019
Short term deposits	-	66,277	66,277	-	-	-
Contributions and takaful 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	760	293	1,052	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
<b>TOTAL ASSETS</b>	<b>537,240</b>	<b>334,953</b>	<b>872,193</b>	<b>478,866</b>	<b>357,281</b>	<b>836,147</b>
<b>LIABILITIES</b>						
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 takaful 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-claim 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
<b>TOTAL LIABILITIES</b>	<b>538,063</b>	<b>12,780</b>	<b>550,843</b>	<b>479,079</b>	<b>10,957</b>	<b>490,036</b>
Takaful operations' surplus	-	-	-	-	-	-
<b>TOTAL LIABILITIES AND TAKAFUL OPERATIONS' SURPLUS</b>	<b>538,063</b>	<b>12,780</b>	<b>550,843</b>	<b>479,079</b>	<b>10,957</b>	<b>490,036</b>
<b>SHAREHOLDERS' EQUITY</b>						
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
<b>TOTAL LIABILITIES, TAKAFUL OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY</b>	<b>537,240</b>	<b>334,953</b>	<b>872,193</b>	<b>478,866</b>	<b>357,281</b>	<b>836,147</b>

**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
<b>REVENUES</b>						
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
Reinsured contribution ceded						
- Local reinsured contribution ceded	(7,999)	-	(7,999)	(9,201)	-	(9,201)
- Foreign reinsured contribution ceded	(50,670)	-	(50,670)	(33,210)	-	(33,210)
Policyholder charges	16,174	-	16,174	15,003	-	15,003
Net contributions written	112,658	-	112,658	112,558	-	112,558
Changes in gross unearned contributions	(6,130)	-	(6,130)	4,824	-	4,824
Changes in reinsured share of unearned contributions	3,977	-	3,977	(1,833)	-	(1,833)
Net contributions earned	110,409	-	110,409	113,549	-	113,549
Fees and commission income	5,008	-	5,008	5,836	-	5,836
<b>Total revenue</b>	<b>115,577</b>	<b>-</b>	<b>115,577</b>	<b>119,385</b>	<b>-</b>	<b>119,385</b>
<b>UNDERWRITING COSTS AND EXPENSES</b>						
Gross claims paid	(39,239)	-	(39,239)	(45,338)	-	(45,338)
Reinsured 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)
<b>Total underwriting costs and expenses</b>	<b>(95,745)</b>	<b>-</b>	<b>(95,745)</b>	<b>(86,709)</b>	<b>-</b>	<b>(86,709)</b>
<b>Net underwriting income</b>	<b>19,832</b>	<b>-</b>	<b>19,832</b>	<b>32,676</b>	<b>-</b>	<b>32,676</b>
<b>OTHER OPERATING EXPENSES/INCOME</b>						
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	3,798	3,792	-	4,237	4,237
<b>TOTAL OTHER OPERATING EXPENSES, NET</b>	<b>(43,867)</b>	<b>4,937</b>	<b>(38,930)</b>	<b>(37,520)</b>	<b>5,900</b>	<b>(31,620)</b>
<b>Net loss for the period before attribution and zakat and tax</b>	<b>(24,835)</b>	<b>4,937</b>	<b>(19,098)</b>	<b>(4,844)</b>	<b>5,900</b>	<b>1,056</b>
Shareholders' absorption of deficit/ (surplus transferred to shareholders) from takaful operations	24,835	(24,835)	-	4,844	(4,844)	-
<b>Net loss attributable to the shareholders before zakat and tax</b>	-	<b>(19,098)</b>	<b>(19,098)</b>	-	<b>1,056</b>	<b>1,056</b>
<b>Zakat and tax for the period</b>	-	<b>(5,702)</b>	<b>(5,702)</b>	-	<b>(6,034)</b>	<b>(6,034)</b>
<b>Net loss attributable to the shareholders before zakat and tax</b>	-	<b>(24,800)</b>	<b>(24,800)</b>	-	<b>(4,978)</b>	<b>(4,978)</b>

**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)
<b>Other comprehensive income</b>						
<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)
<b>Total comprehensive income/ (loss) for the year</b>	<b>39</b>	<b>(24,800)</b>	<b>(24,761)</b>	<b>(38)</b>	<b>(4,978)</b>	<b>(5,016)</b>

**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**

CASHFLOWS FROM OPERATING ACTIVITIES	SR '000					
	2019			2018		
	Takaful Operations	Shareholders' Operations	Total	Takaful Operations	Shareholders' Operations	Total
Net loss for the period before attribution and zakat and tax	-	(19,098)	(19,098)	-	1,056	1,056
Adjustment for non-cash items:						
Amortisation	-	869	869	-	610	610
Depreciation	-	71	71	-	83	83
Income from sukuk	(4)	(3,822)	(3,826)	-	(4,237)	(4,237)
Amortization of premium on sukuk	-	34	34	-	-	-
Shareholders' appropriation from deficit/ surplus	(24,035)	24,035	-	(4,844)	4,844	-
Provision of impairment on contribution and retakaful receivables	(2,854)	-	(2,854)	504	-	504
Provision for employees' end-of-service benefits	1,206	-	1,206	885	-	885
	(24,887)	2,089	(22,798)	(3,453)	2,356	(1,099)
Changes in operating assets and liabilities:						
Contributions and retakaful receivable, net	(11,702)	-	(11,702)	1,342	-	1,342
Murabaha deposits	-	(66,277)	(66,277)	-	-	-
Retakaful share of unearned contributions	(3,977)	-	(3,977)	3,833	-	3,833
Retakaful share of outstanding claims	10,086	-	10,086	8,352	-	8,352
Deferred policy acquisition costs	(966)	-	(966)	(195)	-	(195)
Available-for-sale financial assets	(24,719)	(6,386)	(31,105)	28,922	-	28,922
Prepaid expenses and other assets	74	96	170	620	(114)	506
Accrued and other liabilities	22,670	1,234	23,904	747	(79)	668
Retakaful balances payable	9,984	-	9,984	(2,694)	-	(2,694)
Gross unearned contributions	6,138	-	6,138	(4,824)	-	(4,824)
Unearned retakaful commission	(380)	-	(380)	(265)	-	(265)
Gross outstanding claims	(8,896)	-	(8,896)	(12,343)	-	(12,343)
Unexpired risk reserve	2,898	-	2,898	(2,340)	-	(2,340)
Non-imp. reserve	891	-	891	(1,268)	-	(1,268)
Reserve for takaful activities	24,719	-	24,719	(28,922)	-	(28,922)
	1,933	(69,244)	(67,311)	(10,154)	2,163	(7,991)
Employees' end-of-service benefits paid, net of transfer in	(857)	-	(857)	(3,098)	-	(3,098)
Zakat and tax paid	-	(5,958)	(5,958)	-	(4,452)	(4,452)
Net cash (used in)/ generated from operating activities	1,076	(75,202)	(74,126)	(13,252)	(2,289)	(15,541)
CASHFLOWS FROM INVESTING ACTIVITIES						
Maturity of held-to-maturity financial assets	-	50,000	50,000	-	17,000	17,000
Purchase of held-to-maturity financial assets	(9,840)	(65,369)	(75,209)	-	-	-
Income received from sukuk	-	3,528	3,528	-	4,202	4,202
Purchase of intangible assets	-	(1,226)	(1,226)	-	(741)	(741)
Purchase of fixed assets	-	-	-	-	-	-
Proceeds from sale of fixed assets	-	-	-	-	-	-
Net cash generated from investing activities	(9,840)	(61,067)	(70,907)	-	20,461	20,461
CASHFLOWS FROM FINANCING ACTIVITIES						
Due from/ (to) shareholders/ takaful operations, net	(208)	208	-	29,213	(29,213)	-
Net change in cash and cash equivalents	(8,972)	(88,061)	(97,033)	15,961	(11,041)	4,920
Cash and cash equivalents, beginning of the year	49,707	194,312	244,019	33,746	205,353	239,099
Cash and cash equivalents, end of the year	40,735	106,251	146,986	49,707	194,312	244,019
Non-cash supplemental information:						
Net change in fair value of available for sale investments	45,503	-	45,503	4,064	-	4,064
Net change in fair value of available-for-sale investments in local equity shares	-	649	649	-	-	-

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

**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.



**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)**

**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 mechanisms 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.

**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)**

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>Outstanding claim reserves - Gross</i>	<i>Outstanding claim Reserves - Net</i>	<i>Gross unearned contributions</i>	<i>Net unearned contributions</i>
<b>2019 (Amounts in SAR '000)</b>				
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
	<b>62,290</b>	<b>14,646</b>	<b>15,703</b>	<b>4,757</b>
<b>2018 (Amounts in SAR '000)</b>				
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
	<b>71,186</b>	<b>13,456</b>	<b>9,565</b>	<b>2,596</b>

**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 Bornhutter-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>Impact of change in net claim ratio by +/- 10%</u>	<u>2019</u>	<u>2018</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						Total
	2014 & earlier	2015	2016	2017	2018	2019	
Accident year							
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	2013 & earlier	2014	2015	2016	2017	2018	Total
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	Amounts in SAR '000						
	2014 & earlier	2015	2016	2017	2018	2019	Total
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	Amounts in SAR '000						
	2013 & earlier	2014	2015	2016	2017	2018	Total
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

**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)****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	
<b>Impact on carrying amount by +/- 10% in exchange rates</b>		
<b>Retakful balances receivables</b>		
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 sukuk. Murabaha deposits are short term in nature which will be matured within a year and the maturity profile of sukuk 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
<b>Insurance Operations</b>				
2019	25,072	9,844	-	34,916
2018	30,696	-	-	30,696
<b>Shareholders' Operations</b>				
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</i> <i>SAR'000</i>	<i>Effect on Company's profit</i> <i>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 effected 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	-
	<b>501,682</b>	<b>350,092</b>

	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	-
	<b>472,642</b>	<b>349,211</b>

**Concentration of credit risk**

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

Amount in '000	2019	2018	2019	2018	2019	2018
	Investment grade		Non-investment grade		Unrated	
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	-	-	-	-	-
	<b>403,805</b>	<b>405,367</b>	<b>-</b>	<b>-</b>	<b>447,969</b>	<b>416,576</b>

**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					
	<i>Takaful Operations</i>			<i>Shareholders</i>		
	Up to one year SAR'000	More than one year SAR'000	Total SAR'000	Up to one year SAR'000	More than one year SAR'000	Total SAR'000
<b>ASSETS</b>						
Available-for-sale financial assets	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>
<b>LIABILITIES</b>						
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)**

**c) Liquidity risk (continued)**

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

**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.



---

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

**FINANCIAL STATEMENTS  
TOGETHER WITH THE  
INDEPENDENT AUDITORS' REPORT  
FOR THE YEAR ENDED  
31 DECEMBER 2020**

---



<b>INDEX</b>	<b>PAGE</b>
Independent auditors' audit report	1 - 6
Statement of financial position	7 – 8
Statement of income	9
Statement of comprehensive income	10
Statement of changes in shareholders' equity	11
Statement of cash flows	12
Notes to the financial statements	13 – 68



## 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 2020, 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, which include significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020 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)**

<b>Key audit matters</b>	<b>How the matter was addressed in our audit</b>
<p><b><i>Valuation of ultimate claim liabilities arising from takaful contracts</i></b></p> <p>As at 31 December 2020, gross outstanding claims including claims incurred but not reported (IBNR) amounted to Saudi Riyals 93.01 million as disclosed 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 Company's actuary (management's expert) 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 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 management's expert 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"> <li>- Evaluated whether the Company's actuarial methodologies were consistent with generally accepted actuarial practices and with prior years. We sought sufficient justification for any significant differences;</li> <li>- Assessed the reasonableness of key actuarial assumptions including claims ratios and expected frequency and severity of claims.; and</li> <li>- Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivities to the key assumptions performed.</li> <li>- Assessed the adequacy of the Company's disclosures regarding assumptions used and sensitivities as included in the accounting policies and in note 26 to the financial statements.</li> </ul>



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

<b>Key audit matters</b>	<b>How the matter was addressed in our audit</b>
<p><b><i>Valuation of life takaful contract liabilities (Reserve for takaful activities)</i></b></p> <p>As at 31 December 2020, the Company had reserve for takaful activities amounting to Saudi Riyals 406.63 million as disclosed 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 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 management's expert 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"> <li>- Evaluated whether the Company's actuarial methodologies were consistent with generally accepted actuarial practices and with prior years. We sought sufficient justification for any significant differences;</li> <li>- Assessed key actuarial assumptions such as investment return, discount rates, and operating assumptions, such as expense, mortality and persistency; and</li> <li>- Reviewed the appropriateness of the calculation methods and approach along with the assumptions used and sensitivities to the key assumptions performed.</li> <li>- Assessed the adequacy of the Company's disclosures regarding assumptions used and sensitivities as included in the accounting policies and in note 26 to the financial statements.</li> </ul>



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

***Other information included in the Company's 2020 annual report***

Management is responsible for the other information. The Other information consists of the information included in the Company's 2020 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.

**PricewaterhouseCoopers**  
P. O. Box 8282  
Riyadh 11482  
Kingdom of Saudi Arabia

**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: 16 Sha'ban 1442H  
Corresponding to: 29 March 2021



**SABB Takaful Company (A Saudi Joint Stock Company)**
**STATEMENT OF FINANCIAL POSITION**

AT 31 DECEMBER 2020

	Notes	31 December 2020 (Audited) SAR'000	31 December 2019 (Audited) SAR'000
<b>ASSETS</b>			
Cash and cash equivalents	7	68,215	146,986
Short term deposits	8	120,345	66,277
Contributions and retakaful receivables, net	5	45,260	26,406
Retakaful share of unearned contributions	10(b)	25,527	10,946
Retakaful share of outstanding claims	12(b)	73,994	47,644
Deferred policy acquisition costs	10(c)	3,947	1,985
Investments			
Available-for-sale financial assets	4(a) & (c)	413,621	383,869
Held-to-maturity financial assets	4(b)	146,339	146,372
Prepaid expenses and other assets	6	3,762	1,062
Fixed assets		8	75
Intangible assets		2,029	2,216
Statutory deposit	9	34,000	34,000
Accrued income on statutory deposit		4,612	4,355
<b>TOTAL ASSETS</b>		<b>941,659</b>	<b>872,193</b>

Najji AlMustafa

Chief Financial Officer

Hussam Alkhayal

Chief Executive Officer

Mohammad Alshayea

Chairman

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

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**STATEMENT OF FINANCIAL POSITION (CONTINUED)**  
 AT 31 DECEMBER 2020

	Notes	31 December 2020 (Audited) SAR'000	31 December 2019 (Audited) SAR'000
<b>LIABILITIES</b>			
Accrued and other liabilities	13	49,435	43,282
Provision for zakat and income tax	16	4,991	5,778
Retakaful balances payable		25,014	15,864
Unearned contributions	10(b)	34,283	15,703
Unearned retakaful commission	10(c)	4,722	1,910
Gross outstanding claims	12(b)	93,011	62,290
Unexpired risk reserve	10(e)	8,836	5,889
Non-unit reserve	10(d)	7,607	6,470
Provision for employees' end-of-service benefits	11	6,316	5,875
Surplus distribution payable	17	6,593	6,593
Reserve for takaful activities	10(a),4(c)	406,636	376,834
Accrued income on statutory deposit		4,612	4,355
<b>TOTAL LIABILITIES</b>		<b>652,056</b>	550,843
Takaful operations' surplus		-	-
<b>TOTAL LIABILITIES AND TAKAFUL OPERATIONS' SURPLUS</b>		<b>652,056</b>	550,843
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	14	340,000	340,000
Statutory reserve	15	14,788	14,788
Accumulated losses		(64,566)	(33,264)
Remeasurements of retirement benefit obligations	11	(1,218)	(823)
Fair value reserve on available-for-sale financial assets	4(d)	599	649
<b>NET EQUITY</b>		<b>289,603</b>	321,350
<b>TOTAL LIABILITIES, TAKAFUL OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY</b>		<b>941,659</b>	872,193

Naji AlMustafa

Chief Financial Officer

Hussam Alkhalayal

Chief Executive Officer

Mohammad Alshayea

Chairman

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

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

### STATEMENT OF INCOME

For the year ended 31 December 2020

	Note	2020 (Audited) SAR '000	2019 (Audited) SAR '000
<b>REVENUES</b>			
<b>Gross contributions written</b>			
- Family Takaful	18	152,601	128,502
- General Takaful	18	49,080	26,651
		<b>201,681</b>	<b>155,153</b>
Retakaful contribution ceded			
- Local retakaful contribution ceded	18	(14,122)	(7,999)
- Foreign retakaful contribution ceded	18	(77,364)	(50,678)
Planholder charges	18	16,796	16,174
		<b>126,991</b>	<b>112,650</b>
Net contributions written			
Changes in unearned contributions	18	(18,580)	(6,138)
Changes in retakaful share of unearned contributions	18	14,582	3,977
		<b>122,993</b>	<b>110,489</b>
Net contributions earned			
Fees and commission income		5,352	5,088
Other underwriting income		2,190	-
		<b>130,535</b>	<b>115,577</b>
<b>UNDERWRITING COSTS AND EXPENSES</b>			
Gross claims paid	12(a)	(47,053)	(39,239)
Retakaful share of claims paid	12(a)	38,010	31,181
Surrenders and maturities	19	(67,140)	(81,688)
		<b>(76,183)</b>	<b>(89,746)</b>
Net claims and other benefits paid			
Changes in outstanding claims, net		(3,924)	682
Changes in IBNR, net		(450)	(1,872)
		<b>(80,557)</b>	<b>(90,936)</b>
Net claims and other benefits incurred			
Changes in reserve for takaful activities	10(a)	(16,378)	4,610
Changes in non-unit reserve		(1,137)	(891)
Changes in unexpired risk reserve		(2,947)	(2,898)
Policy acquisition costs		(14,863)	(5,630)
		<b>(115,882)</b>	<b>(95,745)</b>
Total underwriting costs and expenses			
Net underwriting income		14,653	19,832
<b>OTHER OPERATING EXPENSES</b>			
General and administrative expenses	20	(49,735)	(50,686)
Rebate income		1,425	1,524
Income from deposits		2,911	6,440
Income from sukuk		3,983	3,792
Dividend income		225	-
		<b>(41,191)</b>	<b>(38,930)</b>
TOTAL OTHER OPERATING EXPENSES, NET			
Net loss for the year before attribution and zakat and tax		(26,538)	(19,098)
Net loss for the year attributed to the takaful operations		-	-
Net loss for the year attributable to shareholders before zakat and tax		(26,538)	(19,098)
Zakat and tax for the year	16(a)	(4,764)	(5,702)
Net loss attributable to the shareholders after zakat and tax		(31,302)	(24,800)
Loss per share (SAR per share) (Basic)	21	(0.92)	(0.73)

Naji AlMustafa

Chief Financial Officer

Hussam Alkhayal

Chief Executive Officer

Mohammad Alshayea

Chairman

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



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

**STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2020

	Notes	2020 SAR'000	2019 SAR'000
<b>Net loss attributable to the shareholders after zakat and tax</b>		<b>(31,302)</b>	<b>(24,800)</b>
<b>Other comprehensive income</b>			
<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)	<b>30,220</b>	45,503
- Fair value change in reserve for takaful activities – unrealized	10(a)	<b>(30,220)</b>	(45,503)
- Fair value reserve on available-for-sale financial assets		<b>(50)</b>	649
<i>Items that will not be reclassified to statement of income in subsequent periods</i>			
- Re-measurements of retirement benefit obligations	11	<b>(395)</b>	(610)
<b>Total comprehensive loss for the year</b>		<b><u>(31,747)</u></b>	<b><u>(24,761)</u></b>

Naji AlMustafa



Chief Financial Officer

Hussam Alkhalaf



Chief Executive Officer

Mohammad Alshayea



Chairman

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

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
 For the year ended 31 December 2020

	<i>Share Capital</i>	<i>Statutory Reserve</i>	<i>Remeasurements of retirement benefit obligations</i>	<i>Fair value reserve on available-for- sale financial assets</i>	<i>Accumulated losses</i>	<i>Total</i>
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Balance as at 1 January 2020	340,000	14,788	(823)	649	(33,264)	321,350
<i>Total comprehensive loss for the year</i>						
Net loss attributable to the shareholders after zakat and tax	-	-	-	-	(31,302)	(31,302)
Remeasurements of retirement benefit obligations	-	-	(395)	-	-	(395)
Fair value reserve on available-for-sale financial assets	-	-	-	(50)	-	(50)
Total comprehensive loss for the year	-	-	(395)	(50)	(31,302)	(31,747)
Transfer to statutory reserve (Note 15)	-	-	-	-	-	-
Balance as at 31 December 2020	<u>340,000</u>	<u>14,788</u>	<u>(1,218)</u>	<u>599</u>	<u>(64,566)</u>	<u>289,603</u>
<i>Total comprehensive loss 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 loss 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>

Najj AlMustafa

Chief Financial Officer

Hussam Alkhayal

Chief Executive Officer


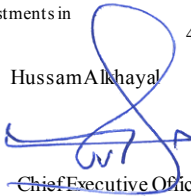

Mohammad Alshayea

Chairman

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

**SABB Takaful Company (A Saudi Joint Stock Company)**
**STATEMENT OF CASH FLOWS**

For the year ended 31 December 2020

	Notes	2020 SAR'000	2019 SAR'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss before attribution and zakat and tax		(26,538)	(19,098)
<u>Adjustment for non-cash items:</u>			
Amortisation		763	869
Depreciation		67	71
Income from sukuk		(4,017)	(3,826)
Amortization of premium on sukuk		40	34
Amortization of discount on sukuk		(5)	-
Reversal of impairment / (impairment charge) on contribution and retakaful receivables	5	865	(2,054)
Provision for employees' end-of-service benefits	11	1,457	1,206
		(27,368)	(22,798)
<u>Changes in operating assets and liabilities:</u>			
Contributions and retakaful receivables, net		(18,854)	(11,702)
Short term deposits		(54,068)	(66,277)
Retakaful share of unearned contributions		(14,581)	(3,977)
Retakaful share of outstanding claims		(26,350)	10,086
Deferred policy acquisition costs		(1,962)	(966)
Available-for-sale financial assets		(29,752)	(31,105)
Prepaid expenses and other assets		(2,700)	170
Accrued and other liabilities		6,153	23,904
Retakaful balances payable		9,150	9,984
Unearned contributions		18,580	6,138
Unearned retakaful commission		2,812	(380)
Gross outstanding claims		30,721	(8,896)
Unexpired risk reserve		2,947	2,898
Non-unit reserve		1,137	891
Reserve for takaful activities		29,802	24,719
		(74,333)	(67,311)
Employees' end-of-service benefits paid, net of transfer in	11	(1,411)	(857)
Zakat and income tax paid	16(c)	(5,551)	(5,958)
<b>Net cash used in operating activities</b>		<b>(81,295)</b>	<b>(74,126)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Maturity of held-to-maturity financial assets		-	50,000
Purchase of held-to-maturity financial assets		-	(75,209)
Income received from sukuk		3,100	3,528
Purchase of intangible assets		(576)	(1,226)
<b>Net cash generated from/(used in) from investing activities</b>		<b>2,524</b>	<b>(22,907)</b>
<b>Net change in cash and cash equivalents</b>		<b>(78,771)</b>	<b>(97,033)</b>
<b>Cash and cash equivalents, at the beginning of the year</b>	7	<b>146,986</b>	<b>244,019</b>
<b>Cash and cash equivalents, at the end of the year</b>	7	<b>68,215</b>	<b>146,986</b>
<b>Non-cash supplemental information:</b>			
Net change in fair value of available-for-sale investments	4(c)	30,220	45,503
Net change in fair value of available-for-sale investments in local equity shares	4(d)	(50)	649
Naji AlMustafa		Hussam Alkhayal	Mohammad Alshayea
			
Chief Financial Officer		Chief Executive Officer	Chairman

The accompanying notes 1 to 27 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 2020

#### 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.

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.

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2020

**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.

In preparing this annual financial statements, the significant judgments made by the management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 December 2019. However, the Company has reviewed the key sources of estimation uncertainties disclosed in the last annual financial statements against the backdrop of the COVID-19 pandemic. For further details, refer to the note below to these financial statements. Management will continue to assess the situation, and reflect any required changes in future reporting periods.

**Impact of covid-19 on the technical reserves and financial assets**

The Coronavirus ("COVID-19") pandemic continues to disrupt global markets as many geographies are experiencing a "second wave" of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the effective measures taken by the Government, following which the Government has now ended the lockdowns and has begun taking phased measures to normalization. Recently, number of COVID-19 vaccines have been approved for mass distribution by various governments around the world. The Government has also approved a vaccine which is currently available for healthcare workers and certain other categories of people and it will be available to the masses in general during 2021. Despite the fact that there are some uncertainties around the COVID-19 vaccine such as how long the immunity last, whether vaccine will prevent transmission or not etc.; however, the testing results showed exceptionally high success rates. Hence, the Company continues to be cognizant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time, and is closely monitoring its operations at a granular level.

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

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

#### 2 BASIS OF PREPARATION (CONTINUED)

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

###### Impact of covid-19 on the technical reserves and financial assets (continued)

The liquidity and solvency positions of the Company remain strong as at the date of issuing these financial statements.

Notwithstanding these challenges, management believes that the technical reserves on life takaful business remains largely unaffected as the overall mortality due to COVID-19 in the Kingdom of Saudi Arabia is very low. Based on these factors the Company's management believes that the COVID-19 pandemic has had no material effects on Company's reported results for the year ended 31 December 2020. The Company continues to monitor the situation closely.

To cater for any potential impacts, the COVID-19 pandemic may have had on the financial assets of the Company, the Company has performed an assessment in accordance with its accounting policy, to determine whether there is an objective evidence that a financial asset or a group of financial assets has been impaired. For debt financial assets, these include factors such as, significant financial difficulties of issuers or debtors, default or delinquency in payments, probability that the issuer or debtor will enter bankruptcy or other financial reorganization, etc. In case of equities classified under available-for-sale, the Company has performed an assessment to determine whether there is a significant or prolonged decline in the fair value of financial assets below their cost.

Based on these assessments, the Company's management believes that the COVID-19 pandemic has had no material effects on Company's reported results for the year ended 31 December 2020. The Company's management continues to monitor the situation closely.

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).

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2020

**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.



**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
 For the year ended 31 December 2020

**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 2019 except for the adoption of new standards as mentioned in note 3(a).

**a) Adoption of new standards and amendments**

The following new standards, amendments and revisions to existing standards, which were issued by the International Accounting Standards Board (IASB), have been effective from 1 January 2020 and accordingly adopted by the Company. The Company has assessed that the amendments have no significant impact on the Company's financial statements., as applicable:

<b>Standard/ Amendments</b>	<b>Description</b>	
Amendments to IFRS 3	Definition of business	1 January 2020
Amendments to References to the Conceptual Framework in IFRS Standards.	The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform	1 January 2020
Amendments to IAS 1 & IAS 8	Definition of material	1 January 2020

**b) 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 2020 and is currently assessing their impact:

<b>Standard/ Interpretation</b>	<b>Description</b>	<b>Effective from periods beginning on or after the following date</b>
IFRS 17	Insurance Contracts	See note below
IFRS 9	Financial Instruments	See note below
Amendments to IFRS 16	COVID-19 – Related Rent Concessions	1 June 2020
Amendments to IAS 37	Onerous contracts – Cost of Fulfilling a contract	1 January 2023

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
 For the year ended 31 December 2020

**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 2005, 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 2020

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**Effective date**

The effective date of IFRS 17 is currently 1 January 2023 and will supersede IFRS 4 “Insurance Contracts”. Earlier adoption is permitted if both IFRS 15 “Revenue from Contracts with Customers” and IFRS 9 “Financial Instruments” have also been applied. The Company expects a material impact on measurement and disclosure of insurance and reinsurance that will affect both the statement of income and the statement of financial position. The Company has decided not to early adopt this new standard.

**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 design phase of IFRS 17 implementation which requires developing and designing new processes and procedures for the business including any system developments required under IFRS 17 and detailed assessment of business requirements. Following are the main areas under design phase and status of the progress made so far by the Company:

<u>Impact Area</u>	<u>Summary of Impact</u>
<b>Governance and control framework</b>	The Company has put in place a comprehensive IFRS 17 governance program which includes establishing oversight steering committee for monitoring the progress of implementation and assigning roles and responsibilities to various stakeholders.
<b>Operational area</b>	The Company is in progress of designing operational aspects of the design phase which includes establishing comprehensive data policy and data dictionary. Also the Company is finalizing architectural designs for various sub-systems. The Company has progressed through assessment of business requirements and currently working on vendor selection while finalizing various process needed for transition and assessment of new resources needed.
<b>Technical and financial area</b>	The Company has completed various policy papers encompassing various technical and financial matters after concluding on policy decisions required under the IFRS 17 standard. The policy decisions are taken after due deliberations among various stakeholders. Currently majority of policy papers have been approved by the Company's IFRS 17 project steering committee.
<b>Assurance plan</b>	The Company is working along with other stakeholders to finalize the assurance plan for transitional and post-implementation periods.

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.

<u>Impact Area</u>	<u>Summary of Impact</u>
Financial Impact	<p>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:</p> <ul style="list-style-type: none"> <li>▪ 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.</li> <li>▪ The choice of transition approach will result in differences in the future profit streams.</li> </ul>

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
 For the year ended 31 December 2020

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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.

**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.

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
 For the year ended 31 December 2020

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**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.

**Effective date**

The published effective date of IFRS 9 was 1<sup>st</sup> January 2018. However, amendments to IFRS 4 – Insurance Contracts: Applying IFRS 9 – Financial Instruments with IFRS 4 – Insurance Contracts, published on 12<sup>th</sup> 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, 2023. On March 17, 2020, the International Accounting Standards Board (“IASB”) decided to extend the effective date of IFRS 17 and the IFRS 9 temporary exemption in IFRS 4 from January 1, 2021 to January 1, 2023. 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, 2020, the Company has total financial assets and insurance related assets amounting to SR 833.6 million and SR 103.4 million, respectively (2019: SR 808.27 million and SR 60.58 million). 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 420 million (2019: SR 424.40 million). Fair value of unit linked investments held at fair value through other comprehensive income (FVOCI) as at December 31, 2020 is SR 406.6 million (2019: SR 376.8 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, 2020 and 2019.

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2020

**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.

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2020

**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.



**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2020

**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 prolonged 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.

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2020

**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 Central Bank ("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.

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2020

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Leases**

*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.

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2020

**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.

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2020

**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 recognised.

**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 follows:

- (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.

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2020

**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 sukuk 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.

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2020

**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 2020

#### 4 INVESTMENTS

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

	31 December 2020		
	SAR '000		
	Takaful Operations	Shareholders' Operations	Total
<i>Available-for-sale investments – Quoted</i>			
Investment in Amanah Mutual Funds – note 4(c)	406,636	-	406,636
Investment in local equity shares – note 4(d)	-	6,985	6,985
	<u>406,636</u>	<u>6,985</u>	<u>413,621</u>
<i>Held-to-maturity investments – Unquoted – note 4(b)</i>			
General Authority of Civil Aviation Sukuk (GACA – I)	-	50,050	50,050
Bank AlBilad Sukuk	-	20,573	20,573
Ministry of Finance Sukuk (MOF-I)	-	10,159	10,159
Ministry of Finance Sukuk (MOF-II)	-	10,448	10,448
Ministry of Finance Sukuk (MOF-III)	-	20,087	20,087
Ministry of Finance Sukuk (MOF-IV)	-	25,134	25,134
Ministry of Finance Sukuk (MOF-V)	4,944	-	4,944
Ministry of Finance Sukuk (MOF-VI)	4,944	-	4,944
	<u>9,888</u>	<u>136,451</u>	<u>146,339</u>
<b>Total investments</b>	<u><b>416,524</b></u>	<u><b>143,436</b></u>	<u><b>559,960</b></u>

	31 December 2019		
	SAR '000		
	Takaful Operations	Shareholders' Operations	Total
<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>
<b>Total investments</b>	<u><b>386,678</b></u>	<u><b>143,563</b></u>	<u><b>530,241</b></u>

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

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

#### 4 INVESTMENTS (CONTINUED)

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

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

	<b>2020</b> <b>SAR'000</b>	<b>2019</b> <b>SAR'000</b>
Government and quasi government	125,766	126,292
Banks and other financial institutions	20,573	20,080
	<u>146,339</u>	<u>146,372</u>

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

	<b>2020</b> <b>SAR'000</b>	<b>2019</b> <b>SAR'000</b>
Fixed-rate securities	125,766	126,292
Floating-rate securities	20,573	20,080
	<u>146,339</u>	<u>146,372</u>

The movements in investments held to maturity are as follows:

	<b>2020</b> <b>SAR'000</b>		<b>2019</b> <b>SAR'000</b>	
	<i>Takaful Operations</i>	<i>Shareholders' Operations</i>	<i>Takaful Operations</i>	<i>Shareholders' Operations</i>
Balance as at the beginning of the year	9,844	136,528	-	120,899
Purchased during the year	-	-	9,868	65,000
Matured during the year	-	-	-	(50,000)
Unamortized premium/ (discount)	5	(40)	(28)	335
Accrued income on sukuk	39	(37)	4	294
	<u>9,888</u>	<u>136,451</u>	<u>9,844</u>	<u>136,528</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:

<i>Maturity profile</i>	<i>Maturity date</i>
- 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 2020 is 2.66 % per annum (2019: 2.86 % per annum).

The fair value of held-to-maturity investments as at 31 December 2020 is SAR 146.65 (31 December 2019: SAR 146.89 million).

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

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

#### 4 INVESTMENTS (CONTINUED)

##### e) 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	2020 SAR'000	2019 SAR'000
Multi-Assets Balanced Fund	250,884	223,023
Multi-Assets Defensive Fund	41,442	44,096
Multi-Assets Growth Fund	99,430	93,171
Saudi Riyal Trading Fund	14,880	16,544
	<u>406,636</u>	<u>376,834</u>

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

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

	2020 SAR'000	2019 SAR'000
Balance as at the beginning of the year	376,834	352,115
Purchased during the year	83,517	77,080
Sold during the year	(83,935)	(97,864)
	<u>376,416</u>	<u>331,331</u>
Net change in fair values of investments	30,220	45,503
Balance as at the end of the year	<u>406,636</u>	<u>376,834</u>

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

The movements in the available- for-sale financial assets - investment in local equity shares were as follows:

	2020 SAR'000	2019 SAR'000
Balance as at the beginning of the year	7,035	-
Purchased during the year	-	6,386
	<u>7,035</u>	<u>6,386</u>
Net change in fair value of investment	(50)	649
Balance as at the end of the year	<u>6,985</u>	<u>7,035</u>

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

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

#### 4 INVESTMENTS (CONTINUED)

##### e) Credit quality of total investments

	2020 SAR'000	2019 SAR'000
Saudi sovereign debt	125,766	133,327
Investment grade	20,573	20,080
Unrated	406,636	376,834
Equity shares	6,985	-
Total	<u>559,960</u>	<u>530,241</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.

#### 5 CONTRIBUTIONS AND RETAKAFUL RECEIVABLES, NET

	2020 SAR'000	2019 SAR'000
Policyholders	19,196	1,823
Retakaful companies	1,422	3,304
Due from The Saudi British Bank – parent of the Company	26,028	21,800
	<u>46,646</u>	26,927
Provision for impairment	(1,386)	(521)
	<u>45,260</u>	<u>26,406</u>

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

	2020 SAR'000	2019 SAR'000
At the beginning of the year	521	2,575
Released during the year	-	(2,054)
Charged during the year	865	-
At the end of the year	<u>1,386</u>	<u>521</u>

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

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

#### 5 CONTRIBUTIONS AND RETAKAFUL RECEIVABLES, NET (Continued)

(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 2020	45,260	42,654	1,800	742	64
31 December 2019	26,406	25,674	264	417	51

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 SAR 25.44 million (2019: SAR 21.20 million), classified as investment grade rating under Standard and Poor's rating methodology. Past due but not impaired balances include SAR 0.63 million (2019: SAR 0.6 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 70% (31 December 2019: 96%) of the premiums receivable as at 31 December 2020. For more details, please refer note 24(b).

#### 6 PREPAID EXPENSES AND OTHER ASSETS

	2020 SAR'000		
	Takaful Operations	Shareholders' Operations	Total
Due from a related party	552	-	552
Prepayments and others	3,206	4	3,210
	<u>3,758</u>	<u>4</u>	<u>3,762</u>
	2019 SAR'000		
	Takaful Operations	Shareholders' Operations	Total
Due from a related party	220	-	220
Prepayments and others	549	293	842
	<u>769</u>	<u>293</u>	<u>1,062</u>

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

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

#### 7 CASH AND CASH EQUIVALENTS

	2020 SAR'000		
	Takaful Operations	Shareholders' Operations	Total
Bank balances	11,972	752	12,724
Murabaha deposits	-	55,491	55,491
	<u>11,972</u>	<u>56,243</u>	<u>68,215</u>
	2019 SAR'000		
	Takaful Operations	Shareholders' Operations	Total
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>

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 2020 and 2019.

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 2020 is 2.4% per annum (2019: 3.64 % 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 2020 is 0.75 % per annum. The average variable commission rate 2.4 % per annum was short term deposits as at 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 (2019: SAR 34 million) in a bank designated by SAMA at commission rate of 0.29% per annum (2019: 1.72 % 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

	2020 SAR'000	2019 SAR'000
Balance as at the beginning of the year	376,834	352,115
Changes in reserve during the year	16,378	(4,610)
Planholder charges	(16,796)	(16,174)
Net change in fair value of investments	30,220	45,503
Balance as at the end of the year	<u>406,636</u>	<u>376,834</u>

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

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

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

##### b) Movement in net unearned contribution

	2020		
	Gross SAR'000	Retakaful share SAR'000	Net SAR'000
Balance as at the beginning of the year	15,703	(10,946)	4,757
Contribution written during the year	118,163	(90,531)	27,632
Contribution earned during the year	(99,583)	75,950	(23,633)
Balance as at the end of the year	<u>34,283</u>	<u>(25,527)</u>	<u>8,756</u>
	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	<u>15,703</u>	<u>(10,946)</u>	<u>4,757</u>

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

	2020	
	Deferred policy acquisition costs SAR'000	Unearned retakaful commission SAR'000
Balance as at the beginning of the year	1,985	(1,910)
Incurred during the year	16,825	(8,164)
Amortised during the year	(14,863)	5,352
Balance as at the end of the year	<u>3,947</u>	<u>(4,722)</u>
	2019	
	Deferred policy acquisition costs SAR'000	Unearned retakaful commission SAR'000
Balance as at the beginning of the year	1,019	(2,290)
Incurred during the year	6,596	(4,708)
Amortised during the year	(5,630)	5,088
Balance as at the end of the year	<u>1,985</u>	<u>(1,910)</u>

##### d) Non-unit reserve

During the year ended 31 December 2020, the Company has recorded a non-unit reserve of SAR 7.6 million (2019: SAR 6.5 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 6.02 million (2019: SAR 2.05 million) and SAR 2.81 million (2019: SAR 3.84 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 2020

**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:

	<i>2020</i>	<i>2019</i>
	<i>SAR'000</i>	<i>SAR'000</i>
Present value of defined benefit obligation	<b>6,316</b>	5,875
Fair value of plan assets	-	-
Defined benefit obligation at the closing of the year	<b>6,316</b>	<b>5,875</b>

**11.2 Movement of defined benefit obligation**

	<i>2020</i>	<i>2019</i>
	<i>SAR'000</i>	<i>SAR'000</i>
Defined benefit obligation at the beginning of the year	<b>5,875</b>	4,916
Charge to statement of income	<b>1,457</b>	1,206
Charge to statement of comprehensive income	<b>395</b>	610
Transfer in	<b>34</b>	423
Payment of benefits during the year	<b>(1,445)</b>	(1,280)
Defined benefit obligation at the closing of the year	<b>6,316</b>	<b>5,875</b>

**11.3 Reconciliation of present value of defined benefit obligation**

	<i>2020</i>	<i>2019</i>
	<i>SAR'000</i>	<i>SAR'000</i>
Defined benefit obligation at the beginning of the year	<b>5,875</b>	4,916
Current service cost	<b>1,457</b>	1,206
Benefits paid	<b>(1,445)</b>	(1,280)
Transfer in	<b>34</b>	423
Actuarial loss from experience adjustments	<b>395</b>	610
Defined benefit obligation at the closing of the year	<b>6,316</b>	<b>5,875</b>

**11.4 Principal actuarial assumptions**

<u>Actuarial assumptions</u>	<b>2020</b>	<b>2019</b>
- Discount rate	2.8%	2.7%
- Salary growth rate	2.8%	2.7%

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	0.1 %	5,719	7,016
Salary growth increase	0.1 %	7,009	5,713



**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2020

**12 CLAIMS**

**a) Net claims incurred**

	<i>For the year ended 31 December 2020</i>		
	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>
	<i>Family Takaful</i>	<i>General Takaful</i>	<i>Total</i>
Claims paid	42,323	4,730	47,053
Re-takaful share of claims paid	(35,170)	(2,840)	(38,010)
Net claims paid	7,153	1,890	9,043
Changes in outstanding claims and IBNR	19,840	11,143	30,983
Changes in re-takaful share of outstanding claims and IBNR	(18,749)	(7,861)	(26,610)
Net claims incurred	8,244	5,172	13,416

	<i>For the year ended 31 December 2019</i>		
	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>
	<i>Family Takaful</i>	<i>General Takaful</i>	<i>Total</i>
Claims paid	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

**b) Outstanding claims**

	<i>2020</i>		
	<i>Gross SAR'000</i>	<i>Retakaful Share SAR'000</i>	<i>Net SAR'000</i>
Family Takaful outstanding claims			
- Outstanding claim reserves	32,254	(25,273)	6,981
- Incurred but not reported reserve and other reserves	26,824	(21,578)	5,246
General Takaful outstanding claims			
- Outstanding claim reserves	24,374	(21,484)	2,890
- Incurred but not reported reserve and other reserves	9,559	(5,659)	3,900
Total outstanding claims	93,011	(73,994)	19,017

	<i>2019</i>		
	<i>Gross SAR'000</i>	<i>Retakaful Share SAR'000</i>	<i>Net 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

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

For the year ended 31 December 2020

**12 CLAIMS (continued)**
**c) Credit quality of retakaful share of outstanding claims**

	2020 SAR'000	2019 SAR'000
Investment grade	<u>73,994</u>	<u>47,644</u>

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

**13 ACCRUED AND OTHER LIABILITIES**

	2020 SAR'000		
	<i>Takaful Operations</i>	<i>Shareholders</i>	<i>Total</i>
Accounts payable and accruals	36,828	3,560	40,388
Due to related parties	3,824	-	3,824
Payable to agents	5,223	-	5,223
	<u>45,875</u>	<u>3,560</u>	<u>49,435</u>
	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>

**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 2020 and 31 December 2019 is as follows:

	As at 31 December 2020	
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 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>

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
 For the year ended 31 December 2020

**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.

**16 PROVISION FOR ZAKAT AND INCOME TAX**

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

	2020 SAR'000	2019 SAR'000
Provision for zakat	4,764	5,719
Provision for tax	-	(17)
	<u>4,764</u>	<u>5,702</u>

**b) Zakat charge for the year**

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

	2020 SAR'000	2019 SAR'000
Equity	354,788	354,788
Opening allowances and other adjustments	5,551	12,370
Book value of long term assets	(79,535)	(37,576)
	<u>280,804</u>	<u>329,582</u>
<b>Saudi shareholders' share @ 74%</b>	<b>208,981</b>	<b>243,891</b>
Saudi shareholders' share of adjusted profit/(loss) for the year	(22,080)	(12,771)
<b>Saudi shareholders' share of the zakat base</b>	<b>186,901</b>	<b>231,120</b>
<b>Zakat charge for the year</b>	<b>4,764</b>	<b>5,778</b>

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:

	2020 SAR'000	2019 SAR'000
At the beginning of the year	5,778	6,017
Charge during the year	4,764	5,778
Prior year adjustment	-	(59)
Payments during the year	(5,551)	(5,958)
At the end of the year	<u>4,991</u>	<u>5,778</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:

	2020 SAR'000	2019 SAR'000
At the beginning of the year	-	17
Charge during the year	-	(17)
At the end of the year	<u>-</u>	<u>-</u>

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
 For the year ended 31 December 2020

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

**e) Status of assessments**

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. The Company filed an appeal in first quarter of year 2020 against the said assessment. Subsequent to year ended 31 December 2019, GAZT has requested the information relating to the tax years 2015 to 2017. The Company provided the requested information during first quarter of 2020. During April 2020, GAZT raised a revised assessment for year 2018. In the revised assessment, GAZT has accepted Company's viewpoint with respect to withholding tax and hence GAZT has removed the related additional liability. For the remaining of the exposure amounting to SAR 0.9 million, the Company filed an appeal with The Committee for the Settlement of Tax Violations and Disputes (CSTVD) during the year ended 31 December 2020. The management strongly believes that the Company is in a strong position with respect to the aforementioned appeal.

Further, during the quarter ended 31 March 2020, GAZT has raised an assessment based on the tax audit conducted with respect to Value Added Tax (VAT). In the said assessment, GAZT has decided to apply 5% VAT on the planholder charges in life insurance policies supplied by the Company under Individual Family with effect from 1 January 2018 till 31 March 2020 along with the late payment penalties, amounting to SAR 1.8 million in total. During quarter ended 30 June 2020, after waiving the penalty amount, GAZT has raised the invoices for settlement amounting to SAR 0.8 million. In response, on 18 June 2020, the Company submitted an objection letter through the GAZT portal, objecting to the SADAD invoices issued. In parallel to this letter, the Company made payment under protest to settle all raised invoices by GAZT. A response to this objection letter was received on 13 July 2020 in which GAZT rejected the objection. During the quarter ended 30 September 2020, the Company has filed an appeal with General Secretariat of Tax Committees (GSTC) and currently GSTC response is awaited.

**17 SURPLUS DISTRIBUTION PAYABLE**

	<b>2020</b>	<b>2019</b>
	<b>SAR'000</b>	<b>SAR'000</b>
Opening surplus distribution payable as at January 1	<b>6,593</b>	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	<b>6,593</b>	6,593

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

For the year ended 31 December 2020

**18 NET CONTRIBUTION EARNED AND PLANHOLDER CHARGES**

	<i>For the year ended 31 December 2020</i>		
	<i>Family</i>	<i>General</i>	<i>Total</i>
	<i>Takaful</i>	<i>Takaful</i>	
<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>	
Gross written contribution	152,601	49,080	201,681
Planholder charges	16,796	-	16,796
Re-takaful contribution ceded	(48,704)	(42,782)	(91,486)
Changes in gross unearned contributions	(3,369)	(15,211)	(18,580)
Changes in retakaful share of unearned contributions	299	14,283	14,582
Net contribution earned and planholder charges	<u>117,623</u>	<u>5,370</u>	<u>122,993</u>

	<i>For the year ended 31 December 2019</i>		
	<i>Family Takaful</i>	<i>General</i>	<i>Total</i>
	<i>Takaful</i>	<i>Takaful</i>	
<i>SAR'000</i>	<i>SAR'000</i>	<i>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>

**19 SURRENDERS AND MATURITIES**

	<i>SAR'000</i>	
	<i>2020</i>	<i>2019</i>
Surrenders	42,511	49,070
Maturities	24,629	32,618
	<u>67,140</u>	<u>81,688</u>

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

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

#### 20 GENERAL AND ADMINISTRATIVE EXPENSES

	2020		
	SAR'000		
	<i>Takaful Operations</i>	<i>Shareholders' Operations</i>	<i>Total</i>
Employee costs	26,631	4,335	30,966
IT maintenance costs	4,515	-	4,515
Legal and professional charges	3,025	-	3,025
Rent expenses	518	84	602
Board and Committee expenses	-	1,874	1,874
Marketing & Advertising	1,338	-	1,338
Doubtful debt provision	866	-	866
Other	4,271	2,278	6,549
	<u>41,164</u>	<u>8,571</u>	<u>49,735</u>
	2019		
	SAR'000		
	<i>Takaful Operations</i>	<i>Shareholders' Operations</i>	<i>Total</i>
Employee costs	31,181	-	31,181
IT maintenance costs	3,909	-	3,909
Legal and professional charges	6,342	-	6,342
Rent expenses	610	-	610
Board and Committee expenses	-	2,105	2,105
Marketing & Advertising	1,081	-	1,081
Doubtful debt provision	(2,054)	-	(2,054)
Other	5,220	2,292	7,512
	<u>46,289</u>	<u>4,397</u>	<u>50,686</u>

#### 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:

	2020	2019
Net loss for the year attributable to the shareholders after zakat and tax (SAR'000)	<u>(31,302)</u>	<u>(24,800)</u>
Weighted average number of ordinary shares (Number in thousands)	<u>34,000</u>	<u>34,000</u>
<b>Loss per share (SAR)</b>	<u><b>(0.92)</b></u>	<u><b>(0.73)</b></u>

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

For the year ended 31 December 2020

**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 advantageous 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 2020	SAR'000	Carrying value	Fair value			Total
			Level 1	Level 2	Level 3	
Financial assets measured at fair value						
- Available for sale financial assets						
		413,621	413,621	-	-	413,621
Financial assets not measured at fair value						
- Held-to-maturity financial assets						
		146,339	-	-	146,650	146,650
- Short term deposits						
		120,345	-	-	120,345	120,345
- Statutory deposit						
		34,000	-	-	34,000	34,000
- Cash and cash equivalents						
		68,215	-	-	68,215	68,215
		368,899	-	-	369,210	369,210
Financial liabilities measured at fair value thorough statement of income						
- Reserve for takaful activities						
		-	-	406,636	-	406,636
		-	-	406,636	-	406,636
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

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

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

#### 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, fees and commission income, net claims incurred, surrenders and maturities, policy acquisition costs and other related costs, underwriting surplus, investment income, general and administrative expenses, net surplus/ (deficit), surplus/ (loss) from takaful operations, net profit, purchase of intangible assets and motor vehicle, amortisation, depreciation, intangible assets, available for sale investments, contribution receivables - net, retakaful share of outstanding claims and unearned contributions, deferred policy acquisition costs, total assets, reserve for takaful activities, gross unearned contributions and commission income, gross outstanding claims and total liabilities, by business segment, are stated below.

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

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

	<i>Shareholders' Operations SAR'000</i>	<i>Individual Family (Protection &amp; Savings) SAR'000</i>	<i>Group Family (Protection &amp; Savings) SAR'000</i>	<i>General Takaful SAR'000</i>	<i>Total SAR'000</i>
<b>For the year ended 31 December 2020</b>					
Gross contributions written	-	83,518	69,083	49,080	201,681
Net contributions written	-	99,358	21,335	6,298	126,991
Net contributions earned	-	99,358	18,264	5,371	122,993
Fees and commission income	-	-	-	5,352	5,352
Other underwriting income	-	-	-	2,190	2,190
Total revenue	-	99,358	18,264	12,913	130,535
Net claims and other benefits incurred	-	(67,998)	(7,386)	(5,173)	(80,557)
Changes in reserve for takaful activities	-	(16,378)	-	-	(16,378)
Changes in non-unit reserve	-	(1,137)	-	-	(1,137)
Changes in unexpired risk reserve	-	-	(3,977)	1,030	(2,947)
Policy acquisition costs	-	(1,840)	(9,714)	(3,309)	(14,863)
Net underwriting income for the year	-	12,005	(2,813)	5,461	14,653
General and administrative expenses	(8,571)	(14,357)	(13,432)	(13,375)	(49,735)
Rebate income	-	1,425	-	-	1,425
Income from deposits	2,616	59	119	117	2,911
Income from sukuk	3,763	110	110	-	3,983
Dividend income	225	-	-	-	225
Total loss for the year before zakat and tax	(1,967)	(758)	(16,016)	(7,797)	(26,538)
Zakat and tax for the year	(4,764)	-	-	-	(4,764)
Total loss for the period after zakat and tax	(6,731)	(758)	(16,016)	(7,797)	(31,302)
Purchase of intangibles	576	-	-	-	576
Amortisation	763	-	-	-	763
Depreciation	67	-	-	-	67



**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2020

**23 SEGMENTAL INFORMATION (CONTINUED)**

	<i>Shareholders' Operations SAR '000</i>	<i>Individual Family (Protection &amp; Savings) SAR '000</i>	<i>Group Family (Protection &amp; Savings) SAR '000</i>	<i>General Takaful SAR '000</i>	<i>Total SAR '000</i>
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 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
<b>31 December 2020</b>					
Intangible assets	2,029	-	-	-	2,029
Fixed assets	8	-	-	-	8
<b>Assets</b>					
Cash and cash equivalents	56,243	7,357	2,459	2,156	68,215
Short term deposits	95,308	5,007	10,015	10,015	120,345
Contributions and retakaful receivables, net	-	-	23,407	21,853	45,260
Retakaful share of unearned contributions	-	-	5,625	19,902	25,527
Retakaful share of outstanding claims	-	821	46,030	27,143	73,994
Deferred policy acquisition costs	-	-	1,545	2,402	3,947
Available-for-sale financial assets	6,985	406,636	-	-	413,621
Held-to-maturity financial assets	136,451	4,944	4,944	-	146,339
Statutory deposit	34,000	-	-	-	34,000
Unallocated assets	-	-	-	-	10,411
<b>Total assets</b>					<b>941,659</b>
<b>Liabilities</b>					
Retakaful balances payable	-	488	2,987	21,539	25,014
Unearned contributions	-	-	11,518	22,765	34,283
Unearned retakaful commission	-	-	-	4,722	4,722
Gross outstanding claims	-	3,048	56,030	33,933	93,011
Unexpired risk reserve	-	-	6,024	2,812	8,836
Non-unit reserve	-	7,607	-	-	7,607
Provision for employees' end-of-service benefits	-	2,586	1,964	1,766	6,316
Reserve for takaful activities	-	406,636	-	-	406,636
Unallocated liabilities	-	-	-	-	65,631
<b>Total liabilities</b>					<b>652,056</b>

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2020

**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 2019					
Intangible assets	2,216	-	-	-	2,216
Fixed assets	75	-	-	-	75
<b>Assets</b>					
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
<b>Liabilities</b>					
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

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

For the year ended 31 December 2020	Protection & Savings SAR'000	Property & Casualty SAR'000	*Motor SAR'000	Total SAR'000
<b>Gross written contribution</b>				
Individual	83,518	297	-	83,815
Micro enterprises	11	5	-	16
Small enterprises	222	7,979	-	8,201
Medium enterprises	1,405	15,628	-	17,033
Large enterprises	67,445	25,171	-	92,616
	152,601	49,080	-	201,681

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

For the year ended 31 December 2019	Protection & Savings SAR'000	Property & Casualty SAR'000	*Motor SAR'000	Total SAR'000
<b>Gross written contribution</b>				
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.

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

### NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020

#### 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:

	2020 SAR'000	2019 SAR'000
<b>The Saudi British Bank</b> (a shareholder of the Company)		
Contributions	72,132	55,855
Claims paid	39,826	23,942
Other expenses		
- IT maintenance cost and related expenses	3,423	2,997
Investment income on murabaha deposits	72	709
<b>Other entities controlled, jointly controlled or significantly influenced by related parties</b>		
Policy acquisition costs paid	3,925	3,798
<b>HSBC Saudi Arabia Limited – IBSA</b>		
Contributions	1,634	1,141
Rebate on unit-linked investments	1,425	1,524

'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	2020 Amounts in '000	2019 Amounts in '000
<b>HSBC Saudi Arabia Limited</b>				
Available-for-sale financial assets *	Asset	4(c)	406,636	376,834
Rebate on unit-linked financial assets	Asset	6	552	220
<b>The Saudi British Bank</b>				
Contribution receivable – gross	Asset	5	26,028	21,800
Bank balances	Asset	7	12,724	17,515
Statutory deposit	Asset	9	34,000	34,000
Gross outstanding claims	Liability	12(b)	46,405	27,134
Other expenses under service level agreement	Liability	13	2,894	2,114
Profit commission payable	Liability	13	-	176
<b>SABB Insurance Agency Limited</b>				
Commission payable	Liability	13	930	954

\* 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 2020

**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 :

	2020 SAR'000		2019 SAR'000	
	Takaful Operations	Shareholders' Operations	Takaful Operations	Shareholders' Operations
Salaries and other benefits (including end-of-service benefits)	5,956	-	5,278	-
Directors' fees and other committees	-	2,389	-	948
Number of key management personnel	5	7	5	7

*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 2020 amounting to SAR 406.64 million (2019: SAR 376.83 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 2020

**25 SUPPLEMENTARY INFORMATION**

**Financial position**

	SAR '000					
	2020			2019		
	Takaful Operations	Shareholders' Operations	Total	Takaful Operations	Shareholders' Operations	Total
<b>ASSETS</b>						
Cash and cash equivalents	11,972	56,243	68,215	40,735	106,251	146,986
Short term deposits	25,037	95,308	120,345	-	66,277	66,277
Contributions and retakaful receivables, net	45,260	-	45,260	26,406	-	26,406
Retakaful share of unearned contributions	25,527	-	25,527	10,946	-	10,946
Retakaful share of outstanding claims	73,994	-	73,994	47,644	-	47,644
Deferred policy acquisition costs	3,947	-	3,947	1,985	-	1,985
Due from/ (to) shareholders'/ takaful operations	31,656	(31,656)	-	22,077	(22,077)	-
Available-for-sale financial assets	406,636	6,985	413,621	376,834	7,035	383,869
Held-to-maturity financial assets	9,888	136,451	146,339	9,844	136,528	146,372
Prepaid expenses and other assets	3,758	4	3,762	769	293	1,062
Fixed assets	-	8	8	-	75	75
Intangible assets	-	2,029	2,029	-	2,216	2,216
Statutory deposit	-	34,000	34,000	-	34,000	34,000
Accrued income on statutory deposit	-	4,612	4,612	-	4,355	4,355
<b>TOTAL ASSETS</b>	<b>637,675</b>	<b>303,984</b>	<b>941,659</b>	<b>537,240</b>	<b>334,953</b>	<b>872,193</b>
<b>LIABILITIES</b>						
Accrued and other liabilities	45,875	3,560	49,435	40,635	2,647	43,282
Provision for zakat and income tax	-	4,991	4,991	-	5,778	5,778
Retakaful balances payable	25,014	-	25,014	15,864	-	15,864
Unearned contributions	34,283	-	34,283	15,703	-	15,703
Unearned retakaful commission	4,722	-	4,722	1,910	-	1,910
Gross outstanding claims	93,011	-	93,011	62,290	-	62,290
Unexpired risk reserve	8,836	-	8,836	5,889	-	5,889
Non-unit reserve	7,607	-	7,607	6,470	-	6,470
Provision for employees' end-of-service benefits	6,316	-	6,316	5,875	-	5,875
Surplus distribution payable	6,593	-	6,593	6,593	-	6,593
Reserve for takaful activities	406,636	-	406,636	376,834	-	376,834
Accrued income on statutory deposit	-	4,612	4,612	-	4,355	4,355
<b>TOTAL LIABILITIES</b>	<b>638,893</b>	<b>13,163</b>	<b>652,056</b>	<b>538,063</b>	<b>12,780</b>	<b>550,843</b>
Takaful operations' surplus	-	-	-	-	-	-
<b>TOTAL LIABILITIES AND TAKAFUL OPERATIONS' SURPLUS</b>	<b>638,893</b>	<b>13,163</b>	<b>652,056</b>	<b>538,063</b>	<b>12,780</b>	<b>550,843</b>
<b>SHAREHOLDERS' EQUITY</b>						
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	(1,218)	-	(1,218)	(823)	-	(823)
Fair value reserve on available-for-sale financial assets	-	599	599	-	649	649
Accumulated losses	-	(64,566)	(64,566)	-	(33,264)	(33,264)
	(1,218)	290,821	289,603	(823)	322,173	321,350
<b>TOTAL LIABILITIES, TAKAFUL OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY</b>	<b>637,675</b>	<b>303,984</b>	<b>941,659</b>	<b>537,240</b>	<b>334,953</b>	<b>872,193</b>

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2020

**25. SUPPLEMENTARY INFORMATION (continued)**

**Statement of income**

	SAR '000					
	2020			2019		
	Takaful Operations	Shareholders' Operations	Total	Takaful Operations	Shareholders' Operations	Total
<b>REVENUES</b>						
<b>Gross contributions written</b>						
- Family Takaful	152,601	-	152,601	128,502	-	128,502
- General Takaful	49,080	-	49,080	26,651	-	26,651
<b>Gross contributions written</b>	<b>201,681</b>	<b>-</b>	<b>201,681</b>	<b>155,153</b>	<b>-</b>	<b>155,153</b>
Retakaful contribution ceded						
- Local retakaful contribution ceded	(14,122)	-	(14,122)	(7,999)	-	(7,999)
- Foreign retakaful contribution ceded	(77,364)	-	(77,364)	(50,678)	-	(50,678)
Planholder charges	16,796	-	16,796	16,174	-	16,174
<b>Net contributions written</b>	<b>126,991</b>	<b>-</b>	<b>126,991</b>	<b>112,650</b>	<b>-</b>	<b>112,650</b>
Changes in gross unearned contributions	(18,580)	-	(18,580)	(6,138)	-	(6,138)
Changes in retakaful share of unearned contributions	14,582	-	14,582	3,977	-	3,977
<b>Net contributions earned</b>	<b>122,993</b>	<b>-</b>	<b>122,993</b>	<b>110,489</b>	<b>-</b>	<b>110,489</b>
Fees and commission income	5,352	-	5,352	5,088	-	5,088
Other underwriting income	2,190	-	2,190	-	-	-
<b>Total revenue</b>	<b>130,535</b>	<b>-</b>	<b>130,535</b>	<b>115,577</b>	<b>-</b>	<b>115,577</b>
<b>UNDERWRITING COSTS AND EXPENSES</b>						
Gross claims paid	(47,053)	-	(47,053)	(39,239)	-	(39,239)
Retakaful share of claims paid	38,010	-	38,010	31,181	-	31,181
Surrenders and maturities	(67,140)	-	(67,140)	(81,688)	-	(81,688)
<b>Net claims and other benefits paid</b>	<b>(76,183)</b>	<b>-</b>	<b>(76,183)</b>	<b>(89,746)</b>	<b>-</b>	<b>(89,746)</b>
Changes in outstanding claims, net	(3,924)	-	(3,924)	682	-	682
Changes in IBNR, net	(450)	-	(450)	(1,872)	-	(1,872)
<b>Net claims and other benefits incurred</b>	<b>(80,557)</b>	<b>-</b>	<b>(80,557)</b>	<b>(90,936)</b>	<b>-</b>	<b>(90,936)</b>
Changes in reserve for takaful activities	(16,378)	-	(16,378)	4,610	-	4,610
Changes in non-unit reserve	(1,137)	-	(1,137)	(891)	-	(891)
Changes in unexpired risk reserve	(2,947)	-	(2,947)	(2,898)	-	(2,898)
Policy acquisition costs	(14,863)	-	(14,863)	(5,630)	-	(5,630)
<b>Total underwriting costs and expenses</b>	<b>(115,882)</b>	<b>-</b>	<b>(115,882)</b>	<b>(95,745)</b>	<b>-</b>	<b>(95,745)</b>
<b>Net underwriting income</b>	<b>14,653</b>	<b>-</b>	<b>14,653</b>	<b>19,832</b>	<b>-</b>	<b>19,832</b>
<b>OTHER OPERATING (EXPENSES)/ INCOME</b>						
General and administrative expenses	(41,164)	(8,571)	(49,735)	(46,289)	(4,397)	(50,686)
Rebate income	1,425	-	1,425	1,524	-	1,524
Income from deposits	295	2,616	2,911	894	5,546	6,440
Income from sukuk	220	3,763	3,983	4	3,788	3,792
Dividend income	-	225	225	-	-	-
<b>TOTAL OTHER OPERATING EXPENSES, NET</b>	<b>(39,224)</b>	<b>(1,967)</b>	<b>(41,191)</b>	<b>(43,867)</b>	<b>4,937</b>	<b>(38,930)</b>
<b>Net loss / (income) for the period before attribution and zakat and tax</b>	<b>(24,571)</b>	<b>(1,967)</b>	<b>(26,538)</b>	<b>(24,035)</b>	<b>4,937</b>	<b>(19,098)</b>
<b>Shareholders' absorption of deficit/ (surplus transferred to shareholders) from takaful operations</b>	<b>24,571</b>	<b>(24,571)</b>	<b>-</b>	<b>24,035</b>	<b>(24,035)</b>	<b>-</b>
<b>Net loss attributable to the shareholders before zakat and tax</b>	<b>-</b>	<b>(26,538)</b>	<b>(26,538)</b>	<b>-</b>	<b>(19,098)</b>	<b>(19,098)</b>
<b>Zakat and tax for the period</b>	<b>-</b>	<b>(4,764)</b>	<b>(4,764)</b>	<b>-</b>	<b>(5,702)</b>	<b>(5,702)</b>
<b>Net loss attributable to the shareholders before zakat and tax</b>	<b>-</b>	<b>(31,302)</b>	<b>(31,302)</b>	<b>-</b>	<b>(24,800)</b>	<b>(24,800)</b>

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2020

**25. SUPPLEMENTARY INFORMATION (continued)**

**Statement of comprehensive income**

	SAR '000					
	2020			2019		
	Takaful Operations	Shareholders' Operations	Total	Takaful Operations	Shareholders' Operations	Total
Net loss attributable to the shareholders after zakat and tax	-	(31,302)	(31,302)	-	(24,800)	(24,800)
<b>Other comprehensive income</b>						
<i>Items that will be reclassified to statement of income in subsequent periods</i>						
- Fair value change in available for sale investments – unrealized	30,220	-	30,220	45,503	-	45,503
- Fair value change in reserve for takaful activities – unrealized	(30,220)	-	(30,220)	(45,503)	-	(45,503)
- Fair value reserve on available-for-sale financial assets	(50)	-	(50)	649	-	649
<i>Items that will not be reclassified to statement of income in subsequent periods</i>						
- Remeasurements of retirement benefit obligations	(395)	-	(395)	(610)	-	(610)
<b>Total comprehensive loss for the year</b>	<b>(445)</b>	<b>(31,302)</b>	<b>(31,747)</b>	<b>39</b>	<b>(24,800)</b>	<b>(24,761)</b>

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2020

**25. SUPPLEMENTARY INFORMATION (continued)**

**Statement of cash flows**

	SR '000					
	2020			2019		
	Takaful Operations	Shareholders' Operations	Total	Takaful Operations	Shareholders' Operations	Total
<b>CASHFLOWS FROM OPERATING ACTIVITIES</b>						
Net loss for the period before attribution and zakat and tax	-	(26,538)	(26,538)	-	(19,098)	(19,098)
Adjustment for non-cash items:						
Amortisation	-	763	763	-	869	869
Depreciation	-	67	67	-	71	71
Income from sukuk	(216)	(3,801)	(4,017)	(4)	(3,822)	(3,826)
Amortization of premium on sukuks	-	40	40	-	34	34
Amortization of discount on sukuks	(5)	-	(5)	-	-	-
Shareholders' appropriation from deficit/ surplus	(24,569)	24,569	-	(24,035)	24,035	-
Provision of impairment on contribution and retakaful receivables	865	-	865	(2,054)	-	(2,054)
Provision for employees' end-of-service benefits	1,457	-	1,457	1,206	-	1,206
	(22,468)	(4,900)	(27,368)	(24,887)	2,089	(22,798)
<b>Changes in operating assets and liabilities:</b>						
Contributions and retakaful receivable, net	(18,854)	-	(18,854)	(11,702)	-	(11,702)
Murabaha deposits	-	(54,068)	(54,068)	-	(66,277)	(66,277)
Retakaful share of unearned contributions	(14,581)	-	(14,581)	(3,977)	-	(3,977)
Retakaful share of outstanding claims	(26,350)	-	(26,350)	10,086	-	10,086
Deferred policy acquisition costs	(1,962)	-	(1,962)	(966)	-	(966)
Available-for-sale financial assets	(29,802)	50	(29,752)	(24,719)	(6,386)	(31,105)
Prepaid expenses and other assets	(2,989)	289	(2,700)	74	96	170
Accrued and other liabilities	5,240	913	6,153	22,670	1,234	23,904
Retakaful balances payable	9,150	-	9,150	9,984	-	9,984
Gross unearned contributions	18,580	-	18,580	6,138	-	6,138
Unearned retakaful commission	2,812	-	2,812	(380)	-	(380)
Gross outstanding claims	30,721	-	30,721	(8,896)	-	(8,896)
Unexpired risk reserve	2,947	-	2,947	2,898	-	2,898
Non-unit reserve	1,137	-	1,137	891	-	891
Reserve for takaful activities	29,802	-	29,802	24,719	-	24,719
	(16,617)	(57,716)	(74,333)	1,933	(69,244)	(67,311)
Employees' end-of-service benefits paid, net of transfer in	(1,411)	-	(1,411)	(857)	-	(857)
Zakat and tax paid	-	(5,551)	(5,551)	-	(5,958)	(5,958)
Net cash used in operating activities	(18,028)	(63,267)	(81,295)	1,076	(75,202)	(74,126)
<b>CASHFLOWS FROM INVESTING ACTIVITIES</b>						
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	-	3,100	3,100	-	3,528	3,528
Purchase of intangible assets	-	(576)	(576)	-	(1,226)	(1,226)
Purchase of fixed assets	-	-	-	-	-	-
Proceeds from sale of fixed assets	-	-	-	-	-	-
Net cash generated from/ (used) in investing activities	-	2,524	2,524	(9,840)	(13,067)	(22,907)
<b>CASHFLOWS FROM FINANCING ACTIVITIES</b>						
Due from/ (to) shareholders'/ takaful operations, net	(10,735)	10,735	-	(208)	208	-
Net change in cash and cash equivalents	(28,763)	(50,008)	(78,771)	(8,972)	(88,061)	(97,033)
Cash and cash equivalents, beginning of the year	40,735	106,251	146,986	49,707	194,312	244,019
Cash and cash equivalents, end of the year	11,972	56,243	68,215	40,735	106,251	146,986
<b>Non-cash supplemental information:</b>						
Net change in fair value of available for sale investments	30,220	-	30,220	45,503	-	45,503
Net change in fair value of available-for-sale investments in local equity shares	-	(50)	(50)	-	649	649



**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2020

**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 Defense' framework as part of the Risk Governance framework. Ownership of risk management responsibilities are entrusted across the first line of defense (Function owners) whilst monitoring responsibilities are entrusted with the Second Line (Risk Management Function). Third Line of Defense (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.

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2020

**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 plans 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.

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

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

#### 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 2020

**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 2020 and 2019, 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:

	<u>Outstanding</u> <u>claim</u> <u>reserves - Gross</u>	<u>Outstanding</u> <u>claim</u> <u>Reserves - Net</u>	<u>Gross</u> <u>unearned</u> <u>contributions</u>	<u>Net</u> <u>unearned</u> <u>contributions</u>
<b>2020 (Amounts in SAR '000)</b>				
Individual Family	3,048	2,227	-	-
Group Family	56,030	9,999	11,518	5,894
General Takaful	33,933	6,790	22,765	2,862
	<b>93,011</b>	<b>19,016</b>	<b>34,283</b>	<b>8,756</b>
<b>2019 (Amounts in SAR '000)</b>				
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
	<b>62,290</b>	<b>14,646</b>	<b>15,703</b>	<b>4,757</b>

**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 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 and economic conditions.

**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 2020

#### 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 Bornhuetter-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.

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

	<u>2020</u>	<u>2019</u>
	<u>Amount in SAR '000</u>	
<b><u>Impact of change in net claim ratio by +/- 10%</u></b>		
Accident and Liability	148	48
Marine	38	41
Property	315	95
Group	1,589	1,008

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

For the year ended 31 December 2020

**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:**

2020	Amounts in SAR '000						Total
	2015 & earlier	2016	2017	2018	2019	2020	
Accident year							
Estimate of ultimate claim loss							
- At end of accident year	290,174	63,245	63,579	54,787	37,117	72,525	72,525
- One year later	270,015	57,030	48,474	46,758	35,577	-	35,577
- Two years later	261,477	54,691	48,779	46,345	-	-	46,345
- Three years later	263,987	52,403	48,085	-	-	-	48,085
- Four years later	243,609	51,903	-	-	-	-	51,903
- Five years later	243,586	-	-	-	-	-	243,586
Current estimate of cumulative claims	243,586	51,903	48,085	46,345	35,577	72,525	498,021
Cumulative payments to date	231,358	51,326	47,177	41,787	29,234	40,512	441,394
Outstanding claim reserves	12,228	577	908	4,558	6,343	32,013	56,627
Add: Incurred but not reported (IBNR) and other reserves	219	388	323	590	2,264	32,600	36,384
Liability recognized in the statement of financial position	12,447	965	1,231	5,148	8,607	64,613	93,011
2019	Amounts in SAR '000						
Accident year	2014 & earlier	2015	2016	2017	2018	2019	Total
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

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

For the year ended 31 December 2020

**26 RISK MANAGEMENT (CONTINUED)**
**a) Insurance risk (continued)**
**Claims development table (continued)**
**Claims development table net of reinsurance:**

2020	Amounts in SAR '000						Total
	<u>2015 &amp; earlier</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	
Accident year							
Estimate of ultimate claim loss							
- At end of accident year	81,046	16,596	15,462	11,493	9,608	47,206	47,206
- One year later	71,755	15,463	12,192	9,593	9,300	-	9,300
- Two years later	69,315	14,995	12,251	9,481	-	-	9,481
- Three years later	69,226	14,627	12,053	-	-	-	12,053
- Four years later	69,000	14,386	-	-	-	-	14,386
- Five years later	68,947	-	-	-	-	-	68,947
Current estimate of cumulative claims	68,947	14,386	12,053	9,481	9,300	47,206	161,373
Cumulative payments to date	68,947	14,322	11,831	8,309	7,582	40,512	151,504
Outstanding claim reserves	-	64	222	1,172	1,718	6,694	9,869
Add: Incurred but not reported (IBNR) and other reserves	59	80	67	119	752	8,069	9,147
Liability recognized in the statement of financial position	59	144	289	1,291	2,470	14,763	19,016

2019	Amounts in SAR '000						Total
	<u>2014 &amp; earlier</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</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

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

For the year ended 31 December 2020

**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 2020

#### 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:**

	2020	2019
	SAR'000	
<b>Impact on carrying amount by +/- 10% in exchange rates</b>		
<u>Retakaful balances receivables</u>		
US Dollars	81	314

##### **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.

Special 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 2020 would impact commission income by approximately SAR 228 thousand (2019: SAR 449 thousand) annually in aggregate.

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

The commission and non-commission bearing investments of the Company and their maturities as at December 31, 2020 and 2019 are as follows:

Amount in SAR '000	Non-commission		
	Less than 1 year	More than 1 year	bearing
			Total
<b>Insurance Operations</b>			
2020	25,037	9,888	34,925
2019	25,072	9,844	34,916
<b>Shareholders' Operations</b>			
2020	171,370	115,878	287,248

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

For the year ended 31 December 2020

2019	170,676	136,528	-	307,204
------	---------	---------	---	---------

**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 617 million (2019: SAR 660 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</i> <i>SAR'000</i>	<i>Effect on Company's profit</i> <i>SAR'000</i>
<i>December 31, 2020</i>	+/- 61,545	+/- 1,311
<i>December 31, 2019</i>	+/- 65,971	+/- 1,959

The sensitivity analysis presented is based upon the portfolio position as at 31 December 2020 and 2019. 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.
- 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 2020

**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.

	<i>2020</i>	
	<i>SAR'000</i>	
	<i>Takaful Operations</i>	<i>Shareholders</i>
Contributions and retakaful receivable, net	45,260	-
Retakaful share of outstanding claims	73,994	-
Cash and cash equivalents	11,972	56,243
Short term deposits	25,037	95,308
Held-to-maturity financial assets	9,888	136,451
Statutory deposit	-	34,000
Other receivables	552	-
	<u>166,703</u>	<u>322,002</u>
	<i>2019</i>	
	<i>SAR'000</i>	
	<i>Takaful Operations</i>	<i>Shareholders</i>
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
Held-to-maturity financial assets	9,843	136,529
Statutory deposit	-	34,000
Other receivables	220	-
	<u>124,848</u>	<u>343,057</u>

**Concentration of credit risk**

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

Amount in '000	<b>2020</b>		<b>2019</b>		<b>2020</b>		<b>2019</b>	
	<i>Investment grade</i>		<i>Non-investment grade</i>		<i>Unrated</i>			
Held-to-maturity financial assets	146,339	146,372	-	-	-	-	-	-
Contributions and retakaful receivable, net	806	3,135	-	-	44,454	-	23,271	-
Cash and cash equivalents	68,215	146,986	-	-	-	-	-	-
Retakaful share of outstanding claims	-	-	-	-	73,994	-	47,644	-
Statutory deposit	34,000	34,000	-	-	-	-	-	-
Other receivables	-	-	-	-	552	-	220	-
Short term deposits	120,345	66,277	-	-	-	-	-	-
	<u>369,705</u>	<u>396,770</u>	<u>-</u>	<u>-</u>	<u>119,000</u>	<u>-</u>	<u>71,135</u>	<u>-</u>

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

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2020

#### 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.
- Asset Liability Management (ALM) study is conducted and results presented to Management Committee, Board Investment Committee and Board.

##### 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.

	----- 2020 -----					
	Takaful Operations			Shareholders		
	Up to one year SAR'000	More than one year SAR'000	Total SAR'000	Up to one year SAR'000	More than one year SAR'000	Total SAR'000
<b>ASSETS</b>						
Available-for-sale financial assets	406,636	-	406,636	6,985	-	6,985
Held-to-maturity financial assets	-	9,888	9,888	-	136,451	136,451
Contributions and retakaful receivable, net	45,260	-	45,260	-	-	-
Retakaful share of outstanding claims	73,994	-	73,994	-	-	-
Cash and cash equivalents	11,972	-	11,972	56,243	-	56,243
Short term deposits	25,037	-	25,037	95,308	-	95,308
	<u>562,899</u>	<u>9,888</u>	<u>572,787</u>	<u>158,536</u>	<u>136,451</u>	<u>294,987</u>
<b>LIABILITIES</b>						
Reserve for takaful activities	406,636	-	406,636	-	-	-
Gross outstanding claims	93,011	-	93,011	-	-	-
Retakaful balances payable	25,014	-	25,014	-	-	-
Accrued and other liabilities	45,875	-	45,875	3,560	-	3,560
	<u>570,536</u>	<u>-</u>	<u>570,536</u>	<u>3,560</u>	<u>-</u>	<u>3,560</u>

**SABB Takaful Company (A Saudi Joint Stock Company)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 31 December 2020

**26 RISK MANAGEMENT (CONTINUED)**

**e) Liquidity risk (continued)**

	----- 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
<b>ASSETS</b>						
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>
<b>LIABILITIES</b>						
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>

**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.
- Adherence to delegated authorities set by the Board

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 2020

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

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

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

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

The Company is in compliance with all externally imposed capital requirements with sound solvency margin. The capital structure of the Company as at 31 December 2020 consists of paid-up share capital of SAR 340 million, statutory reserves of SAR 14.8 million and accumulated losses of SAR 64.57 million (December 31, 2019: paid-up share capital of SAR 340 million, statutory reserves of SAR 14.8 million and accumulated losses of SAR 33.26 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 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on March 15, 2021.



**SABB TAKAFUL COMPANY**  
(A SAUDI JOINT STOCK COMPANY)  
**INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED) AND  
INDEPENDENT AUDITORS' REVIEW REPORT**  
**FOR THE THREE AND NINE-MONTH PERIODS ENDED  
30 SEPTEMBER 2021**



SABB TAKAFUL COMPANY (A Saudi Joint Stock Company)

---

INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE THREE AND NINE MONTH PERIODS ENDED 30 SEPTEMBER 2021

<b>INDEX</b>	<b>PAGE</b>
Independent auditors' review report	1
Interim condensed statement of financial position	2 - 3
Interim condensed statement of income	4
Interim condensed statement of comprehensive income	5
Interim condensed statement of changes in shareholders' equity	6 - 7
Interim condensed statement of cash flows	8 - 9
Notes to the interim condensed financial statements	10 - 44





**INDEPENDENT AUDITORS' REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL STATEMENTS**

**The Shareholders**  
**SABB Takaful Company**  
 (A Saudi Joint Stock Company)  
 Riyadh  
 Kingdom of Saudi Arabia

**INTRODUCTION**

We have reviewed the accompanying Interim condensed statement of financial position of SABB Takaful Company (A Saudi Joint Stock Company) (the "Company") as of 30 September 2021 and the related interim condensed statement of income and comprehensive income for the three and nine month periods then ended, the interim condensed statements of changes in equity and cash flows for the nine-month period then ended, and a summary of significant accounting policies and other explanatory notes (the "interim condensed financial statements").

Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34 - "Interim Financial Reporting" ("IAS 34") that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

**SCOPE OF REVIEW**

We conducted our review in accordance with International Standard on Review Engagement 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", that is endorsed in the Kingdom of Saudi Arabia. A review of interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**CONCLUSION**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 that is endorsed in the Kingdom of Saudi Arabia.

**OTHER MATTER**

The financial statements of the Company for the year ended 31 December 2020, were audited by other auditors who expressed an unmodified opinion on those financial statements on 16 Sha'ban 1442H (corresponding to 29 March 2021). Also, the interim condensed financial statements of the Company for the period ended 30 September 2020 were reviewed by the same auditors, who issued an unmodified conclusion on those interim condensed financial statements on 24 Rabi' Al Awwal 1442H (corresponding to 10 November 2020).

For Dr. Mohamed Al-Amri & Co.  
 P. O. Box 8736  
 Riyadh 11492  
 Kingdom of Saudi Arabia

For Al-Bassam & Co.  
 P. O. Box 69658  
 Riyadh 11557  
 Kingdom of Saudi Arabia

Jihad Al-Amri  
 Certified Public Accountant  
 License No. 362

Ibrahim A. Al-Bassam  
 Certified Public Accountant  
 License No. 327

Date: 3 Rabi' al-Thani 1443 (H)  
 Corresponding to: 8 November 2021 (G)



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

 INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION  
 As at 30 September 2021

		<b>30 September</b>	<b>31 December</b>	<b>1 January</b>
		<b>2021</b>	<b>2020</b>	<b>2020</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>	<b>(Audited)</b>
Notes		<b>SAR'000</b>	<b>SAR'000</b>	<b>SAR'000</b>
			<i>(Restated)</i>	<i>(Restated)</i>
<b>ASSETS</b>				
Cash and cash equivalents	5	<b>55,692</b>	68,215	146,986
Short term deposits		<b>95,458</b>	120,345	66,277
Contributions and retakaful / reinsurance receivables, net	4	<b>52,751</b>	45,260	26,406
Retakaful / reinsurance share of unearned contributions	7(b)	<b>16,289</b>	25,527	10,946
Retakaful / reinsurance share of outstanding claims including incurred but not reported "IBNR"	6	<b>109,341</b>	73,994	47,644
Deferred policy acquisition costs		<b>2,499</b>	3,947	1,985
Available-for-sale investments	3	<b>461,575</b>	413,621	383,869
Held-to-maturity investments	3	<b>146,214</b>	146,339	146,372
Prepaid expenses and other assets		<b>4,719</b>	3,762	1,062
Fixed assets		-	8	75
Intangible assets		<b>1,478</b>	2,029	2,216
Statutory deposit		<b>34,000</b>	34,000	34,000
Accrued income on statutory deposit		<b>4,707</b>	4,612	4,355
<b>TOTAL ASSETS</b>		<b>984,723</b>	941,659	872,193

Meiselvan Loganathan

Acting Chief Financial Officer

Hussam Alkhayal

Chief Executive Officer

Mohammad Alshayea

Chairman

The accompanying notes 1 to 17 form an integral part of these interim condensed financial statements.

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

## INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED) (continued)

		<b>30 September</b>	<b>31 December</b>	<b>1 January</b>
		<b>2021</b>	<b>2020</b>	<b>2020</b>
		<b>(Unaudited)</b>	<b>(Audited)</b>	<b>(Audited)</b>
Notes		<b>SAR'000</b>	<b>SAR'000</b>	<b>SAR'000</b>
			<i>(Restated)</i>	<i>(Restated)</i>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>LIABILITIES</b>				
Accrued and other liabilities		<b>35,470</b>	41,695	35,542
Provision for zakat and income tax	11	<b>4,044</b>	4,991	5,778
Retakaful / reinsurers' balances payable		<b>12,705</b>	25,014	15,864
Unearned contributions	7(b)	<b>21,880</b>	34,283	15,703
Unearned retakaful / reinsurance commission		<b>3,160</b>	4,722	1,910
Gross outstanding claims including IBNR	6	<b>131,260</b>	93,011	62,290
Unexpired risk reserve	7(d)	<b>2,750</b>	8,836	5,889
Non-unit reserve	7(c)	<b>568</b>	7,607	6,470
Provision for employees' end-of-service benefits		<b>6,495</b>	6,316	5,875
Surplus distribution payable		<b>7,188</b>	6,593	6,593
	7(a),			
Reserve for takaful activities	3(c)	<b>454,390</b>	406,636	376,834
Accrued income on statutory deposit		<b>4,707</b>	4,612	4,355
<b>TOTAL LIABILITIES</b>		<b>684,617</b>	644,316	543,103
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	12	<b>340,000</b>	340,000	340,000
Statutory reserve		<b>14,788</b>	14,788	14,788
Accumulated losses		<b>(54,770)</b>	(56,826)	(25,524)
Remeasurements of employees' end-of-service benefits		<b>(710)</b>	(1,218)	(823)
Fair value reserve on available-for-sale investments		<b>798</b>	599	649
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>300,106</b>	297,343	329,090
<b>TOTAL LIABILITIES, TAKAFUL OPERATIONS' SURPLUS AND SHAREHOLDERS' EQUITY</b>		<b>984,723</b>	941,659	872,193

Meiselvan Loganathan

Acting Chief Financial Officer

Hussam Alkhayal

Chief Executive Officer

Mohammad Alshayea

Chairman

The accompanying notes 1 to 17 form an integral part of these interim condensed financial statements.

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

## INTERIM CONDENSED STATEMENT OF INCOME (UNAUDITED)

For the three and nine month periods ended 30 September 2021

	<i>Three months ended 30 September 2021</i>	<i>Three months ended 30 September 2020</i>	<i>Nine months ended 30 September 2021</i>	<i>Nine months ended 30 September 2020</i>
<b>REVENUES</b>	<i>Notes</i> <b>SAR'000</b>	<b>SAR'000</b>	<b>SAR'000</b>	<b>SAR'000</b>
<b>Gross contributions written</b>				
- Family Takaful	39,609	40,986	116,871	111,167
- General Takaful	4,750	4,572	28,974	26,527
	<b>44,359</b>	<b>45,558</b>	<b>145,845</b>	<b>137,694</b>
Retakaful / reinsurance contribution ceded				
- Local retakaful / reinsurance contribution ceded	(5,667)	(1,587)	(19,010)	(6,123)
- Foreign retakaful / reinsurance contribution ceded	(9,352)	(14,764)	(37,145)	(52,300)
Planholder charges	4,753	4,236	14,027	12,501
	<b>34,093</b>	<b>33,443</b>	<b>103,717</b>	<b>91,772</b>
Changes in unearned contributions	8,360	2,750	12,403	(1,512)
Changes in retakaful / reinsurance share of unearned contributions	(7,016)	(2,363)	(9,238)	2,471
	<b>35,437</b>	<b>33,830</b>	<b>106,882</b>	<b>92,731</b>
<b>Net contributions earned</b>				
Fees and commission income	2,448	1,446	6,751	3,848
Other underwriting income	3	-	111	1,999
	<b>37,888</b>	<b>35,276</b>	<b>113,744</b>	<b>98,578</b>
<b>UNDERWRITING COSTS AND EXPENSES</b>				
Gross claims paid	(25,067)	(6,828)	(67,024)	(23,579)
Retakaful / reinsurance share of claims paid	19,658	5,268	52,939	18,502
Surrenders and maturities	(17,991)	(16,195)	(57,986)	(51,775)
	<b>(23,400)</b>	<b>(17,755)</b>	<b>(72,071)</b>	<b>(56,852)</b>
Changes in outstanding claims, net	2,786	(3,864)	2,905	(5,285)
Changes in IBNR, net	(3,374)	(261)	(5,808)	(1,423)
	<b>(23,988)</b>	<b>(21,880)</b>	<b>(74,974)</b>	<b>(63,560)</b>
<b>Net claims and other benefits incurred</b>				
Changes in reserve for takaful activities	(5,377)	(8,528)	(11,831)	(12,291)
Changes in non-unit reserve	2,105	2,035	7,040	15
Changes in unexpired risk reserve	1,667	428	6,086	1,026
Policy acquisition costs	(4,344)	(3,552)	(13,128)	(10,802)
	<b>(29,937)</b>	<b>(31,497)</b>	<b>(86,807)</b>	<b>(85,612)</b>
<b>Total underwriting costs and expenses</b>				
	<b>7,951</b>	<b>3,779</b>	<b>26,937</b>	<b>12,966</b>
<b>OTHER OPERATING (EXPENSES)/ INCOME</b>				
General and administrative expenses	(8,414)	(11,051)	(26,319)	(36,770)
Rebate income	442	330	1,202	990
Income from deposits	701	372	1,958	2,199
Income from sukuk	1,019	917	3,109	2,968
Dividend income	70	70	211	155
	<b>(6,182)</b>	<b>(9,362)</b>	<b>(19,839)</b>	<b>(30,458)</b>
<b>TOTAL OTHER OPERATING EXPENSES, NET</b>				
<b>Net income / (loss) for the period before attribution and zakat and income tax</b>	<b>1,769</b>	<b>(5,583)</b>	<b>7,098</b>	<b>(17,492)</b>
Net income for the period attributed to the takaful operations	(133)	-	(596)	-
	<b>1,636</b>	<b>(5,583)</b>	<b>6,502</b>	<b>(17,492)</b>
<b>Net income / (loss) for the period attributable to shareholders before zakat and tax</b>				
Zakat and income tax for the period	11 (1,422)	(1,355)	(4,446)	(3,804)
	<b>214</b>	<b>(6,938)</b>	<b>2,056</b>	<b>(21,296)</b>
<b>Net income / (loss) attributable to the shareholders after zakat and income tax</b>				
<b>Income / (loss) per share (SAR per share) (Basic)</b>	9 <b>0.01</b>	<b>(0.20)</b>	<b>0.06</b>	<b>(0.63)</b>

Meiselvan Loganathan

Acting Chief Financial Officer

Hussam Alkhayal

Chief Executive Officer

Mohammad Alshayea

Chairman

The accompanying notes 1 to 17 form an integral part of these interim condensed financial statements.

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

## INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the three month and nine month periods ended 30 September 2021

Notes	Three months	Three months	Nine months	Nine months
	ended 30 September 2021	ended 30 September 2020	ended 30 September 2021	ended 30 September 2020
	SAR'000	SAR'000	SAR'000	SAR'000
<b>Net income / (loss) attributable to the shareholders after zakat and income tax</b>	<b>214</b>	<b>(6,938)</b>	<b>2,056</b>	<b>(21,296)</b>
<b>Other comprehensive (loss) / income:</b>				
<i>Items that will be reclassified to statement of income in subsequent periods</i>				
- Fair value change in unit-linked available for sale investments – unrealized	3(c) (23,624)	19,254	(49,950)	10,019
- Fair value change in reserve for takaful activities – unrealized	7(a) 23,624	(19,254)	49,950	(10,019)
- Fair value reserve on available-for-sale equity investments	-	679	199	130
<i>Items that will not be reclassified to statement of income in subsequent periods</i>				
- Re-measurements of employees' end-of-service benefits	587	(113)	508	(275)
<b>Total comprehensive income / (loss) for the period</b>	<b>801</b>	<b>(6,372)</b>	<b>2,763</b>	<b>(21,441)</b>

Meiselvan Loganathan

Acting Chief Financial Officer

Hussam Alkhalaf

Chief Executive Officer

Mohammad Alshayea

Chairman

The accompanying notes 1 to 17 form an integral part of these interim condensed financial statements.

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

 INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)  
 For the nine-month period ended 30 September 2021

	<i>Share capital</i>	<i>Statutory reserve</i>	<i>Remeasurements of employees' end- of-service benefits</i>	<i>Fair value reserve on available- for-sale equity investments</i>	<i>Accumulated losses</i>	<i>Total</i>
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Balance as at 1 January 2021 - Restated	340,000	14,788	(1,218)	599	(56,826)	297,343
<i>Total comprehensive income for the period</i>						
Net income attributable to the shareholders after zakat and tax	-	-	-	-	2,056	2,056
Remeasurements of employees' end-of-service benefits	-	-	508	-	-	508
Fair value reserve on available-for- sale investments	-	-	-	199	-	199
Total comprehensive income for the period	-	-	508	199	2,056	2,763
Balance as at 30 September 2021	<u>340,000</u>	<u>14,788</u>	<u>(710)</u>	<u>798</u>	<u>(54,770)</u>	<u>300,106</u>

Meiselvan Loganathan  
  
 Acting Chief Financial Officer

Hussam Alkhalayal  
  
 Chief Executive Officer

Mohammad Alshayea  
  
 Chairman

The accompanying notes 1 to 17 form an integral part of these interim condensed financial statements.

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

## INTERIM CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

(continued)

For the nine-month period ended 30 September 2021

	<i>Share Capital</i>	<i>Statutory reserve</i>	<i>Remeasurements of employees' end-of-service benefits</i>	<i>Fair value reserve on available- for-sale equity investments</i>	<i>Accumulated losses</i>	<i>Total</i>
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Balance as at 1 January 2020 – before adjustment	340,000	14,788	(823)	649	(33,264)	321,350
Impact of prior year restatement	-	-	-	-	7,740	7,740
Balance as at 1 January 2020 – as restated (note 16)	340,000	14,788	(823)	649	(25,524)	329,090
<i>Total comprehensive income for the period:</i>						
Net loss attributable to the shareholders after zakat and tax	-	-	-	-	(21,296)	(21,296)
Remeasurements of employees' end-of-service benefits	-	-	(275)	-	-	(275)
Fair value reserve on available-for-sale investments	-	-	-	130	-	130
Total comprehensive loss for the period	-	-	(275)	130	(21,296)	(21,441)
Balance as at 30 September 2020 - restated	<u>340,000</u>	<u>14,788</u>	<u>(1,098)</u>	<u>779</u>	<u>(46,820)</u>	<u>307,649</u>

Meiselvan Loganathan

Acting Chief Financial Officer

Hussam Alkhayal

Chief Executive Officer

Mohammad Alshayea

Chairman

The accompanying notes 1 to 17 form an integral part of these interim condensed financial statements.

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

## INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)

For the nine-month period ended 30 September 2021

	<i>Nine months ended 30 September 2021 SAR'000</i>	<i>Nine months ended 30 September 2020 SAR'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income / (loss) before attribution and zakat and income tax	7,098	(17,492)
<u>Adjustments for non-cash items:</u>		
Amortisation	570	562
Depreciation	8	52
Income from sukuk	(3,135)	(2,994)
Amortization of premium on sukuk	30	30
Amortization of discount on sukuk	(4)	(4)
Allowance of impairment on contribution and retakaful / reinsurance receivables	139	218
Provision for employees' end-of-service benefits	1,414	1,123
	<b>6,120</b>	<b>(18,505)</b>
<b>Changes in operating assets and liabilities:</b>		
Contributions and retakaful/ reinsurance receivables, net	(7,491)	5,576
Short term deposits	24,887	66,277
Retakaful / reinsurance share of unearned contributions	9,238	(2,471)
Retakaful / reinsurance share of outstanding claims	(35,347)	(30,855)
Deferred policy acquisition costs	1,448	(16)
Available-for-sale investments	(47,954)	(9,809)
Prepaid expenses and other assets	(957)	(3,841)
Accrued and other liabilities	(6,225)	(77)
Retakaful / reinsurance balances payable	(12,309)	10,331
Unearned contributions	(12,403)	1,512
Unearned retakaful / reinsurance commission	(1,562)	585
Gross outstanding claims	38,249	37,563
Unexpired risk reserve	(6,086)	(1,026)
Non-unit reserve	(7,039)	(15)
Reserve for takaful activities	47,754	9,809
	<b>(9,677)</b>	<b>65,038</b>
Employees' end-of-service benefits paid	(681)	(1,123)
Zakat and income tax paid	(5,393)	(5,551)
	<b>(15,751)</b>	<b>58,364</b>
<b>Net cash (used in) / from operating activities</b>	<b>(15,751)</b>	<b>58,364</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of held-to-maturity investments	(20,076)	-
Maturity of held-to-maturity investments	20,000	-
Income received from sukuk	3,304	3,204
Purchase of intangible assets	-	(576)
	<b>3,228</b>	<b>2,628</b>
<b>Net cash from/ (used in) / from investing activities</b>	<b>3,228</b>	<b>2,628</b>

The accompanying notes 1 to 17 form an integral part of these interim condensed financial statements.



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

 INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED) (continued)  
 For the nine-month period ended 30 September 2021

		<i>Nine months ended 30 September 2021</i>	<i>Nine months ended 30 September 2020</i>
	<i>Note</i>	<i>SAR'000</i>	<i>SAR'000</i>
<b>Net change in cash and cash equivalents</b>		<b>(12,523)</b>	60,992
<b>Cash and cash equivalents, at the beginning of the period</b>	5	<b>68,215</b>	146,986
<b>Cash and cash equivalents, at the end of the period</b>	5	<b>55,692</b>	207,978
<b>Non-cash supplemental information:</b>			
Net change in fair value of available-for-sale investments		<b>49,950</b>	10,019
Net change in fair value of available-for-sale investments in local equity shares		<b>199</b>	130

Meiselvan Loganathan  
  
 Acting Chief Financial Officer

Hussam Alkhayal  
  
 Chief Executive Officer

Mohammad Alshayea  
  
 Chairman

The accompanying notes 1 to 17 form an integral part of these interim condensed financial statements.

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

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the three month and nine month periods ended 30 September 2021

**1. ORGANISATION 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.

The Company has signed a non-binding Memorandum of Understanding (the "MOU") with Walaa Cooperative Insurance Co ("Walaa") on 14 July 2021 (corresponding to 04 Thul-Hijjah 1442H) to evaluate a potential merger between the two companies. Companies will conduct operational, technical, financial, legal, and actuarial due diligence and engage in non-binding discussions on the terms and conditions of the potential merger. Both Companies have agreed that proposed merger remains conditional to the approval of SAMA, other regulatory authorities and shareholders' general assembly approvals, the potential merger will be implemented by way of an exchange of shares, where Walaa will issue new shares to the Company's shareholders in exchange for all issued shares of the Company after the proposed merger is completed. The potential merger expects to absorb all of the Company's employees into Walaa, and should not result in any involuntary redundancies. The Company has appointed Financial Advisor for the proposed merger.

**2. BASIS OF PREPARATION, BASIS OF PRESENTATION, SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS AND RISK MANAGEMENT POLICIES***(a) Basis of presentation and measurement*

The interim condensed financial statements of the Company as at and for the three and nine-months periods ended 30 September 2021 have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

These interim condensed financial statements have been prepared under the going concern basis and the historical cost convention, except for unit-linked available-for-sale investments measured at fair value, 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 interim condensed financial statements have been prepared on the going concern basis.

The interim condensed 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 interim condensed 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 13). Assets, liabilities, revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined and approved by the management and the Board of Directors.

The interim condensed statement of financial position, interim condensed statements of income, comprehensive income and cash flows of the takaful operations and shareholders' operations which are presented in Note 13 of the interim condensed 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 interim condensed statements of financial position, interim condensed 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.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
For the three month and nine month periods ended 30 September 2021

**2. BASIS OF PREPARATION, BASIS OF PRESENTATION, SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS AND RISK MANAGEMENT POLICIES (continued)**

*(a) Basis of presentation and measurement (continued)*

In preparing the Company-level interim condensed 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.

The interim condensed financial statements does not include all of the information required for full annual financial statements and should be read in conjunction with the annual financial statements as of and for the year ended 31 December 2020.

*(b) Critical accounting judgments, estimates and assumptions*

The preparation of interim condensed financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed financial statements, the significant judgments made by the management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 December 2020. However, the Company has reviewed the key sources of estimation uncertainties disclosed in the last annual financial statements against the backdrop of the COVID-19 pandemic. For further details, refer to the note below to these interim condensed financial statements. Management will continue to assess the situation, and reflect any required changes in future reporting periods.

*(c) Impact of covid-19 on the technical reserves and financial assets*

The Coronavirus ("COVID-19") pandemic continues to disrupt global markets as many geographies are experiencing a "second wave" of infections despite having previously controlled the outbreak through aggressive precautionary measures such as imposing restrictions on travel, lockdowns and strict social distancing rules. The Government of Kingdom of Saudi Arabia ("the Government") however has managed to successfully control the outbreak to date, owing primarily to the effective measures taken by the Government, following which the Government has now ended the lockdowns and has begun taking phased measures to normalization. Recently, number of COVID-19 vaccines have been approved for mass distribution by various governments around the world. The Government has also approved a vaccine which is currently available for healthcare workers and certain other categories of people and it will be available to the masses in general during 2021. Despite the fact that there are some uncertainties around the COVID-19 vaccine such as how long the immunity last, whether vaccine will prevent transmission or not etc.; however, the testing results showed exceptionally high success rates. Hence, the Company continues to be cognizant of both the micro and macroeconomic challenges that COVID-19 has posed, the teething effects of which may be felt for some time, and is closely monitoring its operations at a granular level.

The liquidity and solvency positions of the Company remain strong as at the date of issuing these interim condensed financial statements.

Notwithstanding these challenges, management believes that the technical reserves on life takaful business remains largely unaffected as the overall mortality due to COVID-19 in the Kingdom of Saudi Arabia is very low.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
For the three month and nine month periods ended 30 September 2021

**2. BASIS OF PREPARATION, BASIS OF PRESENTATION, SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS AND RISK MANAGEMENT POLICIES (continued)**

*(c) Impact of covid-19 on the technical reserves and financial assets (continued)*

To cater for any potential impacts, the COVID-19 pandemic may have had on the financial assets of the Company, the Company has performed an assessment in accordance with its accounting policy, to determine whether there is an objective evidence that a financial asset or a group of financial assets has been impaired. For debt financial assets, these include factors such as, significant financial difficulties of issuers or debtors, default or delinquency in payments, probability that the issuer or debtor will enter bankruptcy or other financial reorganization, etc. In case of equities classified under available-for-sale, the Company has performed an assessment to determine whether there is a significant or prolonged decline in the fair value of financial assets below their cost.

Based on these assessments, the Company's management believes that the COVID-19 pandemic has had no material effects on Company's reported results for the three and nine-month periods ended 30 September 2021. The Company's management continues to monitor the situation closely.

*(d) Significant accounting policies*

The accounting policies, estimates and assumptions used in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2020, except for the new standards and adoption of the amendments to existing standards which have had either insignificant effect or no financial impact on the interim condensed financial statements of the Company on the current period or prior periods and are expected to have a insignificant effect in future period.

*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 2021 and is currently assessing their impact:

**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).

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
For the three month and nine month periods ended 30 September 2021

**2. BASIS OF PREPARATION, BASIS OF PRESENTATION, SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS AND RISK MANAGEMENT POLICIES (continued)**

*(d) Significant accounting policies (continued)*

*Standards issued but not yet effective (continued)*

**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 2005, 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 INTERIM CONDENSED FINANCIAL STATEMENTS  
For the three month and nine month periods ended 30 September 2021

**2. BASIS OF PREPARATION, BASIS OF PRESENTATION, SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS AND RISK MANAGEMENT POLICIES (continued)**

(d) *Significant accounting policies (continued)*

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

**Effective date**

The effective date of IFRS 17 and the deferral of the IFRS 9 temporary exemption in IFRS 4, is currently 1 January 2023, and will supersede IFRS 4 “Insurance Contracts”. Earlier adoption permitted if both IFRS 15 “Revenue from Contracts with Customers” and IFRS 9 “Financial Instruments” have also been applied. The Company expects a material impact on measurement and disclosure of insurance and reinsurance that will affect both the statement of income and the statement of financial position. The Company has decided not to early adopt this new standard.

**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 design phase of IFRS 17 implementation which requires developing and designing new processes and procedures for the business including any system developments required under IFRS 17 and detailed assessment of business requirements. Following are the main areas under design phase and status of the progress made so far by the Company:

<u>Impact Area</u>	<u>Summary of Impact</u>
<b>Governance and control framework</b>	The Company has put in place a comprehensive IFRS 17 governance program which includes establishing oversight steering committee for monitoring the progress of implementation and assigning roles and responsibilities to various stakeholders.
<b>Operational area</b>	The Company is in progress of designing operational aspects of the design phase which includes establishing comprehensive data policy and data dictionary. Also the Company is finalizing architectural designs for various sub-systems. The Company has progressed through assessment of business requirements and currently working on vendor selection while finalizing various process needed for transition and assessment of new resources needed.
<b>Technical and financial area</b>	The Company has completed various policy papers encompassing various technical and financial matters after concluding on policy decisions required under the IFRS 17 standard. The policy decisions are taken after due deliberations among various stakeholders. Currently majority of policy papers have been approved by the Company's IFRS 17 project steering committee.
<b>Assurance plan</b>	The Company is working along with other stakeholders to finalize the assurance plan for transitional and post-implementation periods.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the three month and nine month periods ended 30 September 2021

## 2. BASIS OF PREPARATION, BASIS OF PRESENTATION, SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS AND RISK MANAGEMENT POLICIES (continued)

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

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.

<u>Impact Area</u>	<u>Summary of Impact</u>
Financial Impact	<p>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:</p> <ul style="list-style-type: none"> <li>▪ 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.</li> <li>▪ The choice of transition approach will result in differences in the future profit streams.</li> </ul>
Data Impact	<p>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.</p> <p>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.</p>
IT Systems	<p>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.</p> <p>A CSM engine as well as new models will be required.</p>
Process Impact	<p>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.</p>

### 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:

#### (i) 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").

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the three month and nine month periods ended 30 September 2021

**2. BASIS OF PREPARATION, BASIS OF PRESENTATION, SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS AND RISK MANAGEMENT POLICIES (continued)**

*(d) Significant accounting policies (continued)*

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

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 ` 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.

(ii) 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.

(iii) 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.



SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
For the three month and nine month periods ended 30 September 2021

**2. BASIS OF PREPARATION, BASIS OF PRESENTATION, SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS AND RISK MANAGEMENT POLICIES (continued)**

*(d) Significant accounting policies (continued)*

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

**Effective date**

The published effective date of IFRS 9 was 1<sup>st</sup> January 2018. However, amendments to IFRS 4 – Insurance Contracts: Applying IFRS 9 – Financial Instruments with IFRS 4 – Insurance Contracts, published on 12<sup>th</sup> 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, 2023 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 January 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.

*(e) Functional and presentation currency*

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

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

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the three month and nine month periods ended 30 September 2021

**3. INVESTMENTS**

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

	<i>30 September 2021</i> <i>SAR'000 (Unaudited)</i>		
	<i>Takaful</i> <i>Operations</i>	<i>Shareholders'</i> <i>Operations</i>	<i>Total</i>
<i>Available-for-sale investments – Quoted</i>			
Investment in Amanah Mutual Funds – note 3(c)	454,390	-	454,390
Investment in local equity shares – note 3(d)	-	7,185	7,185
	<b>454,390</b>	<b>7,185</b>	<b>461,575</b>
<i>Held-to-maturity investments – Unquoted – note 3(b)</i>			
General Authority of Civil Aviation Sukuk (GACA – I)	-	50,236	50,236
Ministry of Finance Sukuk (MOF-I)	-	10,074	10,074
Ministry of Finance Sukuk (MOF-II)	-	10,323	10,323
Ministry of Finance Sukuk (MOF-III)	-	20,189	20,189
Ministry of Finance Sukuk (MOF-IV)	-	25,295	25,295
Ministry of Finance Sukuk (MOF-V)	-	20,151	20,151
Ministry of Finance Sukuk (MOF-VI)	4,973	-	4,973
Ministry of Finance Sukuk (MOF-VII)	4,973	-	4,973
	<b>9,946</b>	<b>136,268</b>	<b>146,214</b>
<b>Total investments</b>	<b>464,336</b>	<b>143,453</b>	<b>607,789</b>

	<i>31 December 2020</i> <i>SAR'000 (Audited)</i>		
	<i>Takaful</i> <i>Operations</i>	<i>Shareholders'</i> <i>Operations</i>	<i>Total</i>
<i>Available-for-sale investments – Quoted</i>			
Investment in Amanah Mutual Funds – note 3(c)	406,636	-	406,636
Investment in local equity shares – note 3(d)	-	6,985	6,985
	<b>406,636</b>	<b>6,985</b>	<b>413,621</b>
<i>Held-to-maturity investments – Unquoted – note 3(b)</i>			
General Authority of Civil Aviation Sukuk (GACA – I)	-	50,050	50,050
Bank AIBilad Sukuk	-	20,573	20,573
Ministry of Finance Sukuk (MOF-I)	-	10,159	10,159
Ministry of Finance Sukuk (MOF-II)	-	10,448	10,448
Ministry of Finance Sukuk (MOF-III)	-	20,087	20,087
Ministry of Finance Sukuk (MOF-IV)	-	25,134	25,134
Ministry of Finance Sukuk (MOF-V)	4,944	-	4,944
Ministry of Finance Sukuk (MOF-VI)	4,944	-	4,944
	<b>9,888</b>	<b>136,451</b>	<b>146,339</b>
<b>Total investments</b>	<b>416,524</b>	<b>143,436</b>	<b>559,960</b>

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
For the three month and nine month periods ended 30 September 2021

### 3. INVESTMENTS (continued)

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.

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:

<i>Maturity profile</i>	<i>Maturity date</i>
- General Authority of Civil Aviation Sukuk (GACA - I)	18 January 2022
- 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
- Ministry of Finance Sukuk (MOF-VII)	21 January 2028

(b) The fair value of held-to-maturity investments as at 30 September 2021 was SAR 146.5 million (31 December 2020: SAR 146.65 million).

(c) The movement in the available-for-sale investments held to cover unit-linked liabilities was as follows:

	<b>30 September 2021 (Unaudited) SAR'000</b>	<b>31 December 2020 (Audited) SAR'000</b>
Opening balance	<b>406,636</b>	376,834
Purchased during the period/ year	<b>69,817</b>	83,517
Sold during the period/ year	<b>(72,013)</b>	(83,935)
Net change in fair values of investments	<b>404,440 49,950</b>	376,416 30,220
Closing balance	<b>454,390</b>	406,636

(d) Available-for-sale investments - Investment in local equity shares

The movements in the available-for-sale investments in local equity shares were as follows:

	<b>30 September 2021 (Unaudited) SAR'000</b>	<b>31 December 2020 (Audited) SAR'000</b>
Balance as at the beginning of the period/ year	<b>6,985</b>	7,035
Purchased during the period/ year	<b>-</b>	-
Net change in fair values of investments	<b>6,985</b>	7,035
Balance as at the end of the period/ year	<b>200</b>	(50)
	<b>7,185</b>	6,985

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
For the three month and nine month periods ended 30 September 2021

### 3. INVESTMENTS (continued)

(d) Available-for-sale investments - Investment in local equity shares (continued)

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.

### 4. CONTRIBUTIONS AND RETAKAFUL RECEIVABLES, NET

	<i>30 September 2021 (Unaudited) SAR'000</i>	<i>31 December 2020 (Audited) SAR'000</i>
Policyholders	<b>10,101</b>	19,196
Retakaful / reinsurance companies	<b>29,366</b>	1,422
Due from The Saudi British Bank (SABB Bank) – parent of the Company	<b>14,810</b>	26,028
	<b>54,277</b>	46,646
Provision for impairment	<b>(1,526)</b>	(1,386)
	<b>52,751</b>	45,260

Balances receivables from a shareholder is 27 % (31 December 2020: 56 %) of the gross receivables and the Company does not foresee any credit risk as the SABB Bank has very good credit rating.

### 5. CASH AND CASH EQUIVALENTS

	<i>30 September 2021 (Unaudited) SAR'000</i>		
	<i>Takaful Operations</i>	<i>Shareholders' Operations</i>	<i>Total</i>
Bank balances	<b>9,138</b>	<b>1,097</b>	<b>10,235</b>
Murabaha deposits	-	<b>45,457</b>	<b>45,457</b>
	<b>9,138</b>	<b>46,554</b>	<b>55,692</b>

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
For the three month and nine month periods ended 30 September 2021

## 5. CASH AND CASH EQUIVALENTS (continued)

	31 December 2020 (Audited)		
	SAR'000		
	Takaful Operations	Shareholders' Operations	Total
Bank balances	11,972	752	12,724
Murabaha deposits	-	55,491	55,491
	11,972	56,243	68,215

Bank balances are maintained with SABB Bank, a shareholder of the Company.

## 6. OUTSTANDING CLAIMS INCLUDING INCURRED BUT NOT REPORTED "IBNR" AND OTHER RESERVES

	30 September 2021 (Unaudited)		
	Gross SAR'000	Retakaful / reinsurance share SAR'000	Net SAR'000
Family Takaful outstanding claims			
- Outstanding claims reserves	27,230	(22,950)	4,280
- Incurred but not reported reserve and other reserves	42,545	(32,768)	9,777
General Takaful outstanding claims			
- Outstanding claims reserves	45,015	(42,331)	2,684
- Incurred but not reported reserve and other reserves	16,470	(11,292)	5,178
Total	131,260	(109,341)	21,919

	31 December 2020 (Audited)		
	Gross SAR'000	Retakaful / reinsurance share SAR'000	Net SAR'000
Family Takaful outstanding claims			
- Outstanding claim reserves	32,254	(25,273)	6,981
- Incurred but not reported reserve and other reserves	26,824	(21,578)	5,246
General Takaful outstanding claims			
- Outstanding claim reserves	24,374	(21,484)	2,890
- Incurred but not reported reserve and other reserves	9,559	(5,659)	3,900
Total	93,011	(73,994)	19,017

The gross outstanding claims include SAR 43.5 million as at 30 September 2021 (as at 31 December 2020: SAR 46.4 million) payable to the Parent Company.

SABB Takaful Company (A Saudi Joint Stock Company)

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the three month and nine month periods ended 30 September 2021

**7. RESERVE FOR TAKAFUL ACTIVITIES, NET UNEARNED CONTRIBUTION INCOME AND OTHER RESERVES**

 (a) *Movement in reserve for takaful activities*

	<i>Nine months ended 30 September 2021 (Unaudited) SAR'000</i>	<i>Year ended 31 December 2020 (Audited) SAR'000</i>
Balance as at the beginning of the period/year	406,636	376,834
Changes in reserve during the period/year	11,831	16,378
Planholder charges	(14,027)	(16,796)
Net change in fair value of investments	49,950	30,220
Balance as at the end of the period/year	454,390	406,636

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

 (b) *Movement in net unearned contribution*

	<i>For the nine months ended 30 September 2021 (Unaudited)</i>		
	<i>Gross SAR'000</i>	<i>Retakaful / reinsurance share SAR'000</i>	<i>Net SAR'000</i>
Balance as at the beginning of the period	34,283	(25,527)	8,756
Contribution written during the period	76,029	(55,457)	20,572
Contribution earned during the period	(88,432)	64,695	(23,737)
Balance as at the end of the period	21,880	(16,289)	5,591

	<i>For the year ended 31 December 2020 (Audited)</i>		
	<i>Gross SAR'000</i>	<i>Retakaful / reinsurance share SAR'000</i>	<i>Net SAR'000</i>
Balance as at the beginning of the year	15,703	(10,946)	4,757
Contribution written during the year	118,163	(90,531)	27,632
Contribution earned during the year	(99,583)	75,950	(23,633)
Balance as at the end of the year	34,283	(25,527)	8,756

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
For the three month and nine month periods ended 30 September 2021

**7. RESERVE FOR TAKAFUL ACTIVITIES, NET UNEARNED CONTRIBUTION INCOME AND OTHER RESERVES (continued)**

(c) *Non-unit reserve*

As at 30 September 2021, the Company has recorded a non-unit reserve of SAR 0.6 million (31 December 2020: SAR 7.61 million) pertaining to the 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.

(d) *Unexpired risk reserve*

This reserve comprises of premium deficiency reserve of SAR 2.4 million (31 December 2020: SAR 6.02 million) and SAR 0.4 million (31 December 2020: SAR 2.81 million) pertaining to group family and general takaful segments respectively.

**8. 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.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the three month and nine month periods ended 30 September 2021

## 8. SEGMENTAL INFORMATION (continued)

	<i>Shareholders' Operations</i> SAR'000	<i>Individual Family (Protection &amp; Savings)</i> SAR'000	<i>Group Family (Protection &amp; Savings)</i> SAR'000	<i>General Takaful</i> SAR'000	<i>Total</i> SAR'000
<b>For the three month period ended 30 September 2021 (Unaudited)</b>					
Gross contributions written	-	23,368	16,241	4,750	44,359
Net contributions written	-	27,865	5,628	600	34,093
Net contributions earned	-	27,865	6,066	1,506	35,437
Fees and commission income	-	-	-	2,448	2,448
Other underwriting income	-	-	-	3	3
Total revenue	-	27,865	6,066	3,957	37,888
Net claims and other benefits incurred	-	(17,576)	(5,274)	(1,138)	(23,988)
Changes in reserve for takaful activities	-	(5,377)	-	-	(5,377)
Changes in non-unit reserve	-	2,105	-	-	2,105
Changes in unexpired risk reserve	-	-	808	859	1,667
Policy acquisition costs	-	(591)	(2,384)	(1,369)	(4,344)
Net underwriting income for the period	-	6,426	(784)	2,309	7,951
General and administrative expenses	(1,245)	(2,471)	(2,436)	(2,262)	(8,414)
Rebate income	-	442	-	-	442
Income from deposits	652	10	20	19	701
Income from sukuk	962	28	29	-	1,019
Dividend income	70	-	-	-	70
Total income/(loss) for the period before attribution and zakat and tax	439	4,435	(3,171)	66	1,769
Amortisation	-	-	-	-	-
Depreciation	-	-	-	-	-



SABB Takaful Company (A Saudi Joint Stock Company)

 NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
 For the three month and nine month periods ended 30 September 2021

**8. SEGMENTAL INFORMATION (continued)**

	<i>Shareholders' Operations</i>	<i>Individual Family (Protection &amp; Savings)</i>	<i>Group Family (Protection &amp; Savings)</i>	<i>General Takaful</i>	<i>Total</i>
	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>
<b>For the nine month period ended 30 September 2021 (Unaudited)</b>					
Gross contributions written	-	69,817	47,055	28,973	145,845
Net contributions written	-	83,147	15,427	5,143	103,717
Net contributions earned	-	83,147	18,180	5,555	106,882
Fees and commission income	-	-	-	6,751	6,751
Other underwriting income	-	-	-	111	111
Total revenue	-	83,147	18,180	12,417	113,744
Net claims and other benefits incurred	-	(57,768)	(13,515)	(3,691)	(74,974)
Changes in reserve for takaful activities	-	(11,831)	-	-	(11,831)
Changes in non-unit reserve	-	7,040	-	-	7,040
Changes in unexpired risk reserve	-	-	3,697	2,389	6,086
Policy acquisition costs	-	(1,724)	(7,384)	(4,020)	(13,128)
Net underwriting income for the period	-	18,864	978	7,095	26,937
General and administrative expenses	(3,850)	(7,692)	(8,076)	(6,701)	(26,319)
Rebate income	-	1,202	-	-	1,202
Income from deposits	1,822	27	54	55	1,958
Income from sukuk	2,942	83	84	-	3,109
Dividend income	211	-	-	-	211
Total income/ (loss) for the period before attribution and zakat and tax	1,125	12,484	(6,960)	449	7,098
Amortisation	-	-	-	-	-
Depreciation	-	-	-	-	-

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
For the three month and nine month periods ended 30 September 2021

## 8. SEGMENTAL INFORMATION (continued)

	<i>Shareholders' Operations</i> <i>SAR'000</i>	<i>Individual Family (Protection &amp; Savings)</i> <i>SAR'000</i>	<i>Group Family (Protection &amp; Savings)</i> <i>SAR'000</i>	<i>General Takaful</i> <i>SAR'000</i>	<i>Total</i> <i>SAR'000</i>
<b>As at 30 September 2021 (Unaudited)</b>					
<b><u>Assets</u></b>					
Cash and cash equivalents	46,554	6,057	2,218	863	55,692
Short term deposits	70,421	5,007	10,015	10,015	95,458
Contributions and retakaful / reinsurance receivables, net	-	250	44,767	7,734	52,751
Retakaful / reinsurance share of unearned contributions	-	-	4,205	12,084	16,289
Retakaful / reinsurance share of outstanding claims including IBNR	-	280	55,438	53,623	109,341
Deferred policy acquisition costs	-	-	1,014	1,485	2,499
Available-for-sale investments	7,185	454,390	-	-	461,575
Held-to-maturity investments	136,268	4,973	4,973	-	146,214
Statutory deposit	34,000	-	-	-	34,000
Unallocated assets					10,904
<b>Total assets</b>					<b>984,723</b>
<b><u>Liabilities</u></b>					
Retakaful / reinsurance balances payable	-	933	-	11,772	12,705
Unearned contributions	-	-	7,346	14,534	21,880
Unearned retakaful / reinsurance commission	-	-	-	3,160	3,160
Gross outstanding claims including IBNR	-	818	68,957	61,485	131,260
Unexpired risk reserve	-	-	2,328	422	2,750
Non-unit reserve	-	568	-	-	568
Provision for employees' end-of-service benefits	8	2,711	2,011	1,765	6,495
Reserve for takaful activities	-	454,390	-	-	454,390
Unallocated liabilities					51,409
<b>Total liabilities</b>					<b>684,617</b>

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

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the three month and nine month periods ended 30 September 2021

## 8. 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 three month period ended 30 September 2020 (Unaudited)					
Gross contributions written	-	24,725	16,261	4,572	45,558
Net contributions written	-	28,706	3,975	762	33,443
Net contributions earned	-	28,706	3,977	1,147	33,830
Fees and commission income	-	-	-	1,446	1,446
Other underwriting income	-	-	-	-	-
Total revenue	-	28,706	3,977	2,593	35,276
Net claims and other benefits incurred	-	(16,222)	(3,479)	(2,179)	(21,880)
Changes in reserve for takaful activities	-	(8,528)	-	-	(8,528)
Changes in non-unit reserve	-	2,035	-	-	2,035
Changes in unexpired risk reserve	-	-	(348)	776	428
Policy acquisition costs	-	(488)	(2,393)	(671)	(3,552)
Net underwriting income for the period	-	5,503	(2,243)	519	3,779
General and administrative expenses	(1,096)	(3,675)	(3,389)	(2,891)	(11,051)
Rebate income	-	330	-	-	330
Income from deposits	329	9	17	17	372
Income from sukuk	863	28	26	-	917
Dividend income	70	-	-	-	70
Total income/(loss) for the period before attribution and zakat and tax	166	2,195	(5,589)	(2,355)	(5,583)
Purchase of intangibles	93	-	-	-	93
Amortisation	210	-	-	-	210
Depreciation	17	-	-	-	17

SABB Takaful Company (A Saudi Joint Stock Company)

 NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
 For the three month and nine month periods ended 30 September 2021

**8. SEGMENTAL INFORMATION (continued)**

	<i>Shareholders' Operations</i>	<i>Individual Family (Protection &amp; Savings)</i>	<i>Group Family (Protection &amp; Savings)</i>	<i>General Takaful</i>	<i>Total</i>
	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>
For the nine month period ended 30 September 2020 (Unaudited)					
Gross contributions written	-	64,068	47,099	26,527	137,694
Net contributions written	-	75,847	11,815	4,110	91,772
Net contributions earned	-	75,847	12,675	4,209	92,731
Fees and commission income	-	-	-	3,848	3,848
Other underwriting income	-	-	-	1,999	1,999
Total revenue	-	75,847	12,675	10,056	98,578
Net claims and other benefits incurred	-	(52,019)	(6,105)	(5,436)	(63,560)
Changes in reserve for takaful activities	-	(12,291)	-	-	(12,291)
Changes in non-unit reserve	-	15	-	-	15
Changes in unexpired risk reserve	-	-	213	813	1,026
Policy acquisition costs	-	(1,372)	(7,221)	(2,209)	(10,802)
Net underwriting income for the period	-	10,180	(438)	3,224	12,966
General and administrative expenses	(3,055)	(12,601)	(11,477)	(9,637)	(36,770)
Rebate income	-	990	-	-	990
Income from deposits	1,951	50	99	99	2,199
Income from sukuk	2,766	102	100	-	2,968
Dividend income	155	-	-	-	155
Total income/(loss) for the period before attribution and zakat and tax	1,817	(1,279)	(11,716)	(6,314)	(17,492)
Purchase of intangibles	576	-	-	-	576
Amortisation	562	-	-	-	562
Depreciation	52	-	-	-	52

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
For the three month and nine month periods ended 30 September 2021

## 8. 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
<i>As at 31 December 2020 (Audited) (Restated)</i>					
<b>Assets</b>					
Cash and cash equivalents	56,243	7,357	2,459	2,156	68,215
Short term deposits	95,308	5,007	10,015	10,015	120,345
Contributions and retakaful / reinsurance receivables, net	-	-	23,407	21,853	45,260
Retakaful / reinsurance share of unearned contributions	-	-	5,625	19,902	25,527
Retakaful / reinsurance share of outstanding claims	-	821	46,030	27,143	73,994
Deferred policy acquisition costs	-	-	1,545	2,402	3,947
Available-for-sale investments	6,985	406,636	-	-	413,621
Held-to-maturity investments	136,451	4,944	4,944	-	146,339
Statutory deposit	34,000	-	-	-	34,000
Unallocated assets					10,411
Total assets					<u>941,659</u>
<b>Liabilities</b>					
Retakaful / reinsurance balances payable	-	488	2,987	21,539	25,014
Unearned contributions	-	-	11,518	22,765	34,283
Unearned retakaful / reinsurance commission	-	-	-	4,722	4,722
Gross outstanding claims including IBNR	-	3,048	56,030	33,933	93,011
Unexpired risk reserve	-	-	6,024	2,812	8,836
Non-unit reserve	-	7,607	-	-	7,607
Provision for employees' end-of-service benefits	-	2,586	1,964	1,766	6,316
Reserve for takaful activities	-	406,636	-	-	406,636
Unallocated liabilities					57,891
Total liabilities					<u>644,316</u>

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

For the three-month period ended 30 September 2021 (Unaudited)	Protection & Savings SAR'000	Property & Casualty SAR'000	*Motor SAR'000	Total SAR'000
<b>Gross written contribution</b>				
Individual	23,368	46	-	23,414
Micro enterprises	1	3	-	4
Small enterprises	171	1,553	-	1,724
Medium enterprises	775	3,278	-	4,053
Large enterprises	15,294	(130)	-	15,164
	<u>39,609</u>	<u>4,750</u>	-	<u>44,359</u>

\*As of date, the Company does not have approval to underwrite Motor product.

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
For the three month and nine month periods ended 30 September 2021

## 8. SEGMENTAL INFORMATION (continued)

For the nine-month period ended 30 September 2021 (Unaudited)	Protection & Savings SAR'000	Property & Casualty SAR'000	*Motor SAR'000	Total SAR'000
<b>Gross written contribution</b>				
Individual	69,817	221	-	70,038
Micro enterprises	1	3	-	4
Small enterprises	210	4,764	-	4,974
Medium enterprises	992	13,308	-	14,300
Large enterprises	45,851	10,678	-	56,529
	<b>116,871</b>	<b>28,974</b>	-	<b>145,845</b>

\*As of date, the Company does not have approval to underwrite Motor product.

For the three-month period ended 30 September 2020 (Unaudited)	Protection & Savings SAR'000	Property & Casualty SAR'000	*Motor SAR'000	Total SAR'000
<b>Gross written contribution</b>				
Individual	24,725	93	-	24,818
Micro enterprises	2	5	-	7
Small enterprises	121	586	-	707
Medium enterprises	532	2,447	-	2,979
Large enterprises	15,606	1,441	-	17,047
	<b>40,986</b>	<b>4,572</b>	-	<b>45,558</b>

\*As of date, the Company does not have approval to underwrite Motor product.

For the nine-month period ended 30 September 2020 (Unaudited)	Protection & Savings SAR'000	Property & Casualty SAR'000	*Motor SAR'000	Total SAR'000
<b>Gross written contribution</b>				
Individual	64,068	249	-	64,317
Micro enterprises	2	5	-	7
Small enterprises	132	3,325	-	3,457
Medium enterprises	796	5,587	-	6,383
Large enterprises	46,169	17,361	-	63,530
	<b>111,167</b>	<b>26,527</b>	-	<b>137,694</b>

\*As of date, the Company does not have approval to underwrite Motor product.

## 9. BASIC INCOME / (LOSS) PER SHARE

Income / (loss) per share amounts are calculated by dividing the net income / (loss) for the period attributable to ordinary shareholders after zakat and tax of the Company by the weighted average number of ordinary shares outstanding during the period as follows:

	Three months ended 30 September 2021 (Unaudited) SAR'000	Three months ended 30 September 2020 (Unaudited) SAR'000	Nine months ended 30 September 2021 (Unaudited) SAR'000	Nine months ended 30 September 2020 (Unaudited) SAR'000
Net profit / (loss) for the period attributable to the shareholders after zakat and tax (SAR'000)	214	(6,938)	2,056	(21,296)
Weighted average number of ordinary shares (Number in thousands)	34,000	34,000	34,000	34,000
Income / (loss) per share (SAR)	0.01	(0.20)	0.06	(0.63)

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the three month and nine month periods ended 30 September 2021

**10. RELATED PARTY TRANSACTIONS**

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 Board of Directors.

(a) *Transactions with related parties*

The summary of major related party transactions is as follows:

	<i>Three months ended 30 September 2021 SAR'000 (Unaudited)</i>	<i>Three months ended 30 September 2020 SAR'000 (Unaudited)</i>	<i>Nine months ended 30 September 2021 SAR'000 (Unaudited)</i>	<i>Nine months ended 30 September 2020 SAR'000 (Unaudited)</i>
<b>The Saudi British Bank</b> <i>(a shareholder of the Company)</i>				
Contributions	13,399	14,854	42,801	48,100
Claims paid	(22,171)	5,435	(58,870)	18,778
Other expenses				
- IT maintenance cost and related expenses	908	1,050	2,599	2,478
Investment income on murabaha deposits	-	16	-	62
<b>Other entities controlled, jointly controlled or significantly influenced by related parties</b>				
Policy acquisition costs paid	1,400	1,375	4,043	2,877
<b>HSBC Saudi Arabia Limited – IBSA</b>				
Contributions	-	-	-	1,168
Rebate on unit-linked investments	442	330	1,202	990
<b>M/s. Al Olayan Group</b>				
Contributions	1,661	1,196	3,032	1,196
Claims paid	(338)	-	(613)	-

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 will provide operational services to the Company including use of fixed assets and IT infrastructure at a consideration mutually agreed between the parties.

(b) *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 period is as follows:

	<i>Nine months ended 30 September 2021 SAR'000 (Unaudited)</i>		<i>Nine months ended 30 September 2020 SAR'000 (Unaudited)</i>	
	<i>Takaful Operations</i>	<i>Shareholders' Operations</i>	<i>Takaful Operations</i>	<i>Shareholders' Operations</i>
Salaries and other benefits including end-of-service benefits	3,859	-	4,635	-
Directors' remuneration and other benefits	-	1,017	-	1,194
Number of key management personnel	5	7	5	8

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

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the three month and nine month periods ended 30 September 2021

**11. ZAKAT AND TAX**
***Status of Assessment***

During the quarter ended 31 March 2015, the Zakat, Tax and Customs Authority (ZATCA) (previously General Authority of Zakat and Tax) issued the final tax certificates for the years from 2008 to 2010.

On 27 November 2018, ZATCA has issued the tax/zakat assessments for the years ended 31 December 2011 to 2014. The Company filed an objection against the ZATCA assessment. The ZATCA rejected the objection and the Company filed an appeal before the General Secretariat of Tax Committees (GSTC). Hearing was conducted by the GSTC and the case is heard. The ruling is awaited from the GSTC.

In 2019, the ZATCA issued the tax/zakat assessment for the year ended 31 December 2018. The Company filed an objection against the ZATCA assessment. The ZATCA studied the case and issued a revised assessment in April 2020. In the revised assessment, ZATCA has accepted Company's viewpoint on withholding tax matters. For other zakat matters, the Company filed an appeal before the GSTC (Zakat impact SAR 0.9 million). Hearing was conducted by the GSTC and the case is heard. The ruling is awaited from the GSTC.

In 2020, the ZATCA raised the final assessments for the years ended 31 December 2015 to 2017. Considering materiality of the assessments, the Company settled additional zakat liabilities for 2015 and 2016 "under protest" and filed an objection against the assessment for 2017. The additional zakat liability for 2017 was SAR 1,871,293. During April 2021, the ZATCA raised a revised assessment for the year 2017 in which it has partially accepted the appeal submitted by the company reducing the additional zakat liability to SAR 258,943. The Company opted to settle the additional zakat liabilities on account of the revised assessment for the year 2017 "under protest". The assessments for FY15 to FY17 have been finalized.

The ZATCA has started the audit on tax/zakat returns for the years ended 31 December 2019 and 2020. Draft assessments were issued, final assessments are awaited.

Further, during the quarter ended 31 March 2020, the ZATCA raised an assessment based on the tax audit conducted with respect to Value Added Tax (VAT). In the said assessment, the ZATCA had decided to apply 5% VAT on the planholder charges for life insurance policies supplied by SABB Takaful Company under Individual Family with effect from 1 January 2018 till 30 November 2019 along with the late payment penalties, amounting to SAR 1.68 million. During the six-months period ended 30 June 2020, the Company used the ZATCA initiative program and paid the principal VAT amount of SAR 0.97 million under protest. Upon the payment, the ZATCA waived the late payment penalties amounting to SAR 0.71 million.

In parallel, on 18 June 2020, the Company submitted an objection letter through the ZATCA portal, objecting to the assessment/SADAD invoices issued. A response to the objection letters was received on 13 July 2020 in which the ZATCA rejected the objection. On 10 August 2020, the Company filed an appeal with General Secretariat of Tax Committees (GSTC) for all periods apart from January 2019's assessment. A hearing was scheduled and heard on 24 May 2021 with the Tax Violations and Disputes Resolution Committee (TVDRC) of the GSTC whereby the Company lost its appeal to overturn the assessment. Following review of the decision, the Company decided not to pursue the case to the second level of the GSTC (i.e. the Tax Violations and Disputes Appellate Committee (TVDAC)). On this basis there are no further appeals for which the Company will be able to recover the additional taxes paid (i.e. SAR 0.93 million (excluding January 2019's assessment)).

With regards to January 2019 assessment which amounted to SAR 37k, SABB Takaful have the option to appeal to the first level of GSTC. There was issues with the ZATCA / GSTC portal and therefore the appeal following ZATCA's rejection had not proceeded to the GSTC level, SABB Takaful have until 8 November 2021 to appeal the January 2019 assessment. Based on the outcome and decisions for the January 2018 period, the Company is currently evaluating and may consider pursue the customer for the tax liability with respect to January 2019 period.

**12. 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 30 September 2021 and as at 30 September 2020 is as follows:

Shareholders	Shareholding	SAR*000
The Saudi British Bank	65.00%	221,000
Others	35.00%	119,000



SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
For the three month and nine month periods ended 30 September 2021

### 13. SUPPLEMENTARY INFORMATION

#### Interim condensed statement of financial position

	SAR '000					
	30 September 2021 (Unaudited)			31 December 2020 (Audited)		
	Takaful Operations	Shareholders' Operations	Total	Takaful Operations	Shareholders' Operations	Total
				<i>(Restated)</i>		
<b>ASSETS</b>						
Cash and cash equivalents	9,138	46,554	55,692	11,972	56,243	68,215
Short term deposits	25,037	70,421	95,458	25,037	95,308	120,345
Contributions and retakaful / reinsurance receivables, net	52,751	-	52,751	45,260	-	45,260
Retakaful / reinsurance share of unearned contributions	16,289	-	16,289	25,527	-	25,527
Retakaful / reinsurance share of outstanding claims including IBNR	109,341	-	109,341	73,994	-	73,994
Deferred policy acquisition costs	2,499	-	2,499	3,947	-	3,947
Due from/ (to) shareholders' / takaful operations	(9,717)	9,717	-	31,656	(31,656)	-
Available-for-sale investments	454,390	7,185	461,575	406,636	6,985	413,621
Held-to-maturity investments	9,946	136,268	146,214	9,888	136,451	146,339
Prepaid expenses and other assets	4,280	439	4,719	3,758	4	3,762
Fixed assets	-	-	-	-	8	8
Intangible assets	-	1,478	1,478	-	2,029	2,029
Statutory deposit	-	34,000	34,000	-	34,000	34,000
Accrued income on statutory deposit	-	4,707	4,707	-	4,612	4,612
<b>TOTAL ASSETS</b>	<b>673,954</b>	<b>310,769</b>	<b>984,723</b>	637,675	303,984	941,659

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the three month and nine month periods ended 30 September 2021

13. SUPPLEMENTARY INFORMATION (continued)

**Interim condensed statement of financial position (continued)**

	SAR '000					
	30 September 2021 (Unaudited)			31 December 2020 (Audited)		
	Takaful Operations	Shareholders' Operations	Total	Takaful Operations	Shareholders' Operations	Total
				<i>(Restated)</i>		
<b>LIABILITIES</b>						
Accrued and other liabilities	34,276	1,194	35,470	38,135	3,560	41,695
Provision for zakat and income tax	-	4,044	4,044	-	4,991	4,991
Retakaful / reinsurance balances payable	12,705	-	12,705	25,014	-	25,014
Unearned contributions	21,880	-	21,880	34,283	-	34,283
Unearned retakaful / reinsurance commission	3,160	-	3,160	4,722	-	4,722
Gross outstanding claims including IBNR	131,260	-	131,260	93,011	-	93,011
Unexpired risk reserve	2,750	-	2,750	8,836	-	8,836
Non-unit reserve	568	-	568	7,607	-	7,607
Provision for employees' end-of-service benefits	6,487	8	6,495	6,316	-	6,316
Surplus distribution payable	7,188	-	7,188	6,593	-	6,593
Reserve for takaful activities	454,390	-	454,390	406,636	-	406,636
Accrued income on statutory deposit	-	4,707	4,707	-	4,612	4,612
<b>TOTAL LIABILITIES</b>	<b>674,664</b>	<b>9,953</b>	<b>684,617</b>	<b>631,153</b>	<b>13,163</b>	<b>644,316</b>
<b>SHAREHOLDERS' EQUITY</b>						
Share capital	-	340,000	340,000	-	340,000	340,000
Statutory reserve	-	14,788	14,788	-	14,788	14,788
Accumulated losses	-	(54,770)	(54,770)	-	(56,826)	(56,826)
Remeasurements of employees' end-of-service benefits	(710)	-	(710)	(1,218)	-	(1,218)
Fair value reserve on available-for-sale investments	-	798	798	-	599	599
	(710)	300,816	300,106	(1,218)	298,561	297,343
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>673,954</b>	<b>310,769</b>	<b>984,723</b>	<b>629,935</b>	<b>311,724</b>	<b>941,659</b>

SABB Takaful Company (A Saudi Joint Stock Company)

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the three month and nine month periods ended 30 September 2021

## 13. SUPPLEMENTARY INFORMATION (continued)

Interim condensed statement of income

	SAR '000					
	For the three-month period ended 30 September 2021 (Unaudited)			For the three-month period ended 30 September 2020 (Unaudited)		
	Takaful Operations	Shareholders' Operations	Total	Takaful Operations	Shareholders' Operations	Total
<b>REVENUES</b>						
<b>Gross contributions written</b>						
- Family Takaful	39,609	-	39,609	40,986	-	40,986
- General Takaful	4,750	-	4,750	4,572	-	4,572
<b>Gross contributions written</b>	<b>44,359</b>	<b>-</b>	<b>44,359</b>	<b>45,558</b>	<b>-</b>	<b>45,558</b>
Retakaful contribution ceded						
- Local retakaful / reinsurance contribution ceded	(5,667)	-	(5,667)	(1,587)	-	(1,587)
- Foreign retakaful / reinsurance contribution ceded	(9,352)	-	(9,352)	(14,764)	-	(14,764)
Planholder charges	4,753	-	4,753	4,236	-	4,236
<b>Net contributions written</b>	<b>34,093</b>	<b>-</b>	<b>34,093</b>	<b>33,443</b>	<b>-</b>	<b>33,443</b>
Changes in gross unearned contributions	8,360	-	8,360	2,750	-	2,750
Changes in retakaful share of unearned contributions	(7,016)	-	(7,016)	(2,363)	-	(2,363)
<b>Net contributions earned</b>	<b>35,437</b>	<b>-</b>	<b>35,437</b>	<b>33,830</b>	<b>-</b>	<b>33,830</b>
Fees and commission income	2,448	-	2,448	1,446	-	1,446
Other underwriting income	3	-	3	-	-	-
<b>Total revenue</b>	<b>37,888</b>	<b>-</b>	<b>37,888</b>	<b>35,276</b>	<b>-</b>	<b>35,276</b>
<b>UNDERWRITING COSTS AND EXPENSES</b>						
Gross claims paid	(25,067)	-	(25,067)	(6,828)	-	(6,828)
Retakaful share of claims paid	19,658	-	19,658	5,268	-	5,268
Surrenders and maturities	(17,991)	-	(17,991)	(16,195)	-	(16,195)
<b>Net claims and other benefits paid</b>	<b>(23,400)</b>	<b>-</b>	<b>(23,400)</b>	<b>(17,755)</b>	<b>-</b>	<b>(17,755)</b>
Changes in outstanding claims, net	2,786	-	2,786	(3,864)	-	(3,864)
Changes in IBNR, net	(3,374)	-	(3,374)	(261)	-	(261)
<b>Net claims and other benefits incurred</b>	<b>(23,988)</b>	<b>-</b>	<b>(23,988)</b>	<b>(21,880)</b>	<b>-</b>	<b>(21,880)</b>
Changes in reserve for takaful activities	(5,377)	-	(5,377)	(8,528)	-	(8,528)
Changes in non-unit reserve	2,105	-	2,105	2,035	-	2,035
Changes in unexpired risk reserve	1,667	-	1,667	428	-	428
Policy acquisition costs	(4,344)	-	(4,344)	(3,552)	-	(3,552)
<b>Total underwriting costs and expenses</b>	<b>(29,937)</b>	<b>-</b>	<b>(29,937)</b>	<b>(31,497)</b>	<b>-</b>	<b>(31,497)</b>
<b>Net underwriting income</b>	<b>7,951</b>	<b>-</b>	<b>7,951</b>	<b>3,779</b>	<b>-</b>	<b>3,779</b>

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the three month and nine month periods ended 30 September 2021

**13. SUPPLEMENTARY INFORMATION (continued)**

**Interim condensed statement of income (continued)**

	SAR '000					
	For the three-month period ended 30 September 2021 (Unaudited)			For the three-month period ended 30 September 2020 (Unaudited)		
	Takaful Operations	Shareholders' Operations	Total	Takaful Operations	Shareholders' Operations	Total
<b><u>OTHER OPERATING (EXPENSES)/ INCOME</u></b>						
General and administrative expenses	(7,169)	(1,245)	(8,414)	(9,955)	(1,096)	(11,051)
Rebate income	442	-	442	330	-	330
Income from deposits	49	652	701	43	329	372
Income from sukuk	57	962	1,019	54	863	917
Dividend income	-	70	70	-	70	70
<b>TOTAL OTHER OPERATING (EXPENSES)/ INCOME, NET</b>	<b>(6,621)</b>	<b>439</b>	<b>(6,182)</b>	<b>(9,528)</b>	<b>166</b>	<b>(9,362)</b>
<b>Net income / (loss) for the period before attribution and zakat and tax</b>	<b>1,330</b>	<b>439</b>	<b>1,769</b>	<b>(5,749)</b>	<b>166</b>	<b>(5,583)</b>
Shareholders' absorption of deficit/ (surplus transferred to shareholders) from takaful operations	(1,197)	1,197	-	5,749	(5,749)	-
<b>Net income after Shareholders' appropriations before zakat and tax</b>	<b>133</b>	<b>1,636</b>	<b>1,769</b>	<b>-</b>	<b>(5,583)</b>	<b>(5,583)</b>
Zakat and tax for the period	-	(1,422)	(1,422)	-	(1,355)	(1,355)
<b>Net income after zakat and tax</b>	<b>133</b>	<b>214</b>	<b>347</b>	<b>-</b>	<b>(6,938)</b>	<b>(6,938)</b>

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
For the three month and nine month periods ended 30 September 2021

## 13. SUPPLEMENTARY INFORMATION (continued)

Interim condensed statement of income (continued)

	SAR '000					
	For the nine-month period ended 30 September 2021 (Unaudited)			For the nine-month period ended 30 September 2020 (Unaudited)		
	Takaful Operations	Shareholders' Operations	Total	Takaful Operations	Shareholders' Operations	Total
<b>REVENUES</b>						
<b>Gross contributions written</b>						
- Family Takaful	116,871	-	116,871	111,167	-	111,167
- General Takaful	28,974	-	28,974	26,527	-	26,527
<b>Gross contributions written</b>	<b>145,845</b>	<b>-</b>	<b>145,845</b>	137,694	-	137,694
Retakaful contribution ceded						
- Local retakaful contribution ceded	(19,010)	-	(19,010)	(6,123)	-	(6,123)
- Foreign retakaful contribution ceded	(37,145)	-	(37,145)	(52,300)	-	(52,300)
Planholder charges	14,027	-	14,027	12,501	-	12,501
<b>Net contributions written</b>	<b>103,717</b>	<b>-</b>	<b>103,717</b>	91,772	-	91,772
Changes in gross unearned contributions						
Changes in gross unearned contributions	12,403	-	12,403	(1,512)	-	(1,512)
Changes in retakaful share of unearned contributions	(9,238)	-	(9,238)	2,471	-	2,471
<b>Net contributions earned</b>	<b>106,882</b>	<b>-</b>	<b>106,882</b>	92,731	-	92,731
Fees and commission income	6,751	-	6,751	3,848	-	3,848
Other underwriting income	111	-	111	1,999	-	1,999
<b>Total revenue</b>	<b>113,744</b>	<b>-</b>	<b>113,744</b>	98,578	-	98,578
<b>UNDERWRITING COSTS AND EXPENSES</b>						
Gross claims paid	(67,024)	-	(67,024)	(23,579)	-	(23,579)
Retakaful share of claims paid	52,939	-	52,939	18,502	-	18,502
Surrenders and maturities	(57,986)	-	(57,986)	(51,775)	-	(51,775)
<b>Net claims and other benefits paid</b>	<b>(72,071)</b>	<b>-</b>	<b>(72,071)</b>	(56,852)	-	(56,852)
Changes in outstanding claims, net						
Changes in outstanding claims, net	2,905	-	2,905	(5,285)	-	(5,285)
Changes in IBNR, net	(5,808)	-	(5,808)	(1,423)	-	(1,423)
<b>Net claims and other benefits incurred</b>	<b>(74,974)</b>	<b>-</b>	<b>(74,974)</b>	(63,560)	-	(63,560)
Changes in reserve for takaful activities						
Changes in reserve for takaful activities	(11,831)	-	(11,831)	(12,291)	-	(12,291)
Changes in non-unit reserve	7,040	-	7,040	15	-	15
Changes in unexpired risk reserve	6,086	-	6,086	1,026	-	1,026
Policy acquisition costs	(13,128)	-	(13,128)	(10,802)	-	(10,802)
<b>Total underwriting costs and expenses</b>	<b>(86,807)</b>	<b>-</b>	<b>(86,807)</b>	(85,612)	-	(85,612)
<b>Net underwriting income</b>	<b>26,937</b>	<b>-</b>	<b>26,937</b>	12,966	-	12,966

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
For the three month and nine month periods ended 30 September 2021

**13. SUPPLEMENTARY INFORMATION (continued)**

**Interim condensed statement of income (continued)**

	SAR '000					
	For the nine-month period ended 30 September 2021			For the nine-month period ended 30 September 2020		
	Takaful Operations	Shareholders' Operations	Total	Takaful Operations	Shareholders' Operations	Total
<b><u>OTHER OPERATING (EXPENSES)/ INCOME</u></b>						
General and administrative expenses	(22,469)	(3,850)	(26,319)	(33,715)	(3,055)	(36,770)
Rebate income	1,202	-	1,202	990	-	990
Income from deposits	136	1,822	1,958	248	1,951	2,199
Income from sukuk	167	2,942	3,109	202	2,766	2,968
Dividend income	-	211	211	-	155	155
<b>TOTAL OTHER OPERATING (EXPENSES)/ INCOME, NET</b>	<b>(20,964)</b>	<b>1,125</b>	<b>(19,839)</b>	<b>(32,275)</b>	<b>1,817</b>	<b>(30,458)</b>
<b>Net income / (loss) for the period before attribution and zakat and tax</b>	<b>5,973</b>	<b>1,125</b>	<b>7,098</b>	<b>(19,309)</b>	<b>1,817</b>	<b>(17,492)</b>
Shareholders' absorption of deficit/ (surplus transferred to shareholders) from takaful operations	(5,377)	5,377	-	19,309	(19,309)	-
<b>Net income after Shareholders' appropriations before zakat and tax</b>	<b>596</b>	<b>6,502</b>	<b>7,098</b>	<b>-</b>	<b>(17,492)</b>	<b>(17,492)</b>
Zakat and tax for the period	-	(4,446)	(4,446)	-	(3,804)	(3,804)
<b>Net income after zakat and tax</b>	<b>596</b>	<b>2,056</b>	<b>2,652</b>	<b>-</b>	<b>(21,296)</b>	<b>(21,296)</b>

SABB Takaful Company (A Saudi Joint Stock Company)

 NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
 For the three month and nine month periods ended 30 September 2021

**13. SUPPLEMENTARY INFORMATION (continued)**
**Interim condensed statement of comprehensive income**

	SAR '000					
	For the three-month period ended 30 September 2021			For the three-month period ended 30 September 2020		
	Takaful Operations	Shareholders' Operations	Total	Takaful Operations	Shareholders' Operations	Total
<b>Net income after zakat and tax</b>	<b>133</b>	<b>214</b>	<b>347</b>	-	(6,938)	(6,938)
<b>Other comprehensive income</b>						
<i>Items that will be reclassified to statement of income in subsequent periods</i>						
- Fair value change in unit-linked available for sale investments – unrealized	(23,624)	-	(23,624)	19,254	-	19,254
- Fair value change in reserve for takaful activities – unrealized	23,624	-	23,624	(19,254)	-	(19,254)
- Fair value reserve on available-for- sale equity investments	-	-	-	-	679	679
<i>Items that will not be reclassified to statement of income in subsequent periods</i>						
- Remeasurements of employees' end-of-service benefits	587	-	587	(113)	-	(113)
<b>Total comprehensive income for the period</b>	<b>720</b>	<b>214</b>	<b>934</b>	(113)	(6,259)	(6,372)
<b>Reconciliation:</b>						
Less: Net income attributable to takaful operations transferred to surplus distribution payable			(133)			-
<b>Total comprehensive income for the period</b>			<b>801</b>			<b>(6,372)</b>

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the three month and nine month periods ended 30 September 2021

13. SUPPLEMENTARY INFORMATION (continued)

**Interim condensed statement of comprehensive income (continued)**

	SAR *000					
	For the nine-month period ended 30 September 2021			For the nine-month period ended 30 September 2020		
	Takaful Operations	Shareholders' Operations	Total	Takaful Operations	Shareholders' Operations	Total
Net income after zakat and tax	596	2,056	2,652	-	(21,296)	(21,296)
Other comprehensive income						
<i>Items that will be reclassified to statement of income in subsequent periods</i>						
- Fair value change in unit-linked available for sale investments – unrealized	(49,950)	-	(49,950)	10,019	-	10,019
- Fair value change in reserve for takaful activities – unrealized	49,950	-	49,950	(10,019)	-	(10,019)
- Fair value reserve on available-for- sale equity investments	-	199	199	-	130	130
<i>Items that will not be reclassified to statement of income in subsequent periods</i>						
- Remeasurements of employees' end-of-service benefits	508	-	508	(275)	-	(275)
<b>Total comprehensive income for the period</b>	<b>1,104</b>	<b>2,255</b>	<b>3,359</b>	<b>(275)</b>	<b>(21,166)</b>	<b>(21,441)</b>
<b>Reconciliation:</b>						
Less: Net income attributable to takaful operations transferred to surplus distribution payable			(596)			-
<b>Total comprehensive income for the period</b>			<b>2,763</b>			<b>(21,441)</b>



SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
For the three month and nine month periods ended 30 September 2021**13. SUPPLEMENTARY INFORMATION** (continued)**Interim condensed statement of cash flows**

	SR '000					
	For the nine-month period ended 30 September 2021			For the nine-month period ended 30 September 2020		
	Takaful Operations	Shareholders' Operations	Total	Takaful Operations	Shareholders' Operations	Total
<b>CASHFLOWS FROM OPERATING ACTIVITIES</b>						
Net income / (loss) for the period before attribution and zakat and tax	596	6,502	7,098	-	(17,492)	(17,492)
<b>Adjustment for non-cash items:</b>						
Amortisation	-	570	570	-	562	562
Depreciation	7	1	8	-	52	52
Income from sukuk	(167)	(2,968)	(3,135)	(198)	(2,796)	(2,994)
Amortization of premium on sukus	-	30	30	-	30	30
Amortization of discount on sukus	-	(4)	(4)	(4)	-	(4)
Shareholders' appropriation from deficit/ surplus	5,374	(5,374)	-	(19,309)	19,309	-
Allowance of impairment on contribution and retakaful receivables	139	-	139	218	-	218
Provision for employees' end-of-service benefits	1,414	-	1,414	1,123	-	1,123
	7,363	(1,243)	6,120	(18,170)	(335)	(18,505)
<b>Changes in operating assets and liabilities:</b>						
Contributions and retakaful receivable, net	(7,491)	-	(7,491)	5,576	-	5,576
Short term deposits	-	24,887	24,887	-	66,277	66,277
Retakaful share of unearned contributions	9,238	-	9,238	(2,471)	-	(2,471)
Retakaful share of outstanding claims including IBNR	(35,347)	-	(35,347)	(30,855)	-	(30,855)
Deferred policy acquisition costs	1,448	-	1,448	(16)	-	(16)
Available-for-sale investments	(47,754)	(200)	(47,954)	(9,809)	-	(9,809)
Prepaid expenses and other assets	(522)	(435)	(957)	(4,035)	194	(3,841)
Accrued and other liabilities	(3,856)	(2,369)	(6,225)	(597)	520	(77)
Retakaful balances payable	(12,309)	-	(12,309)	10,331	-	10,331
Gross unearned contributions	(12,403)	-	(12,403)	1,512	-	1,512
Unearned retakaful commission	(1,562)	-	(1,562)	585	-	585
Gross outstanding claims including IBNR	38,249	-	38,249	37,563	-	37,563
Unexpired risk reserve	(6,086)	-	(6,086)	(1,026)	-	(1,026)
Non-unit reserve	(7,039)	-	(7,039)	(15)	-	(15)
Reserve for takaful activities	47,754	-	47,754	9,809	-	9,809
	(30,317)	20,640	(9,677)	(1,618)	66,656	65,038
Employees' end-of-service benefits paid, net of transfer in	(681)	-	(681)	(1,123)	-	(1,123)
Zakat and tax paid	-	(5,393)	(5,393)	-	(5,551)	(5,551)
Net cash (used in) / from operating activities	(30,998)	15,247	(15,751)	(2,741)	61,105	58,364

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the three month and nine month periods ended 30 September 2021

13. SUPPLEMENTARY INFORMATION (continued)

Interim condensed statement of cash flows (continued)

	SR '000					
	For the nine-month period ended 30 September 2021			For the nine-month period ended 30 September 2020		
	Takaful Operations	Shareholders' Operations	Total	Takaful Operations	Shareholders' Operations	Total
<b>CASHFLOWS FROM INVESTING ACTIVITIES</b>						
Maturity of held-to-maturity investments	-	20,000	20,000	-	-	-
Purchase of held-to-maturity investments	-	(20,076)	(20,076)	-	-	-
Income received from sukuk	-	3,304	3,304	104	3,100	3,204
Purchase of intangible assets	-	-	-	-	(576)	(576)
Net cash from investing activities	-	3,228	3,228	104	2,524	2,628
<b>CASHFLOWS FROM FINANCING ACTIVITIES</b>						
Due from/ (to) shareholders'/ takaful operations, net	28,164	(28,164)	-	3,131	(3,131)	-
Net change in cash and cash equivalents	(2,834)	(9,689)	(12,523)	494	60,498	60,992
Cash and cash equivalents, beginning of the period	11,972	56,243	68,215	40,735	106,251	146,986
Cash and cash equivalents, end of the period	9,138	46,554	55,692	41,229	166,749	207,978
<b>Non-cash supplemental information:</b>						
Net change in fair value of available for sale investments	49,950	-	49,950	10,019	-	10,019
Net change in fair value of available-for-sale investments in local equity shares	-	199	199	-	130	130

14. RISK MANAGEMENT

The risk management policies used in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended December 31, 2020.

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

## NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

For the three month and nine month periods ended 30 September 2021

**15. 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.

<i>30 September 2021</i>		Fair value			
SAR'000	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
- Available for sale investments	461,575	7,185	454,390	-	461,575
Financial assets not measured at fair value					
- Held-to-maturity investments	146,214	-	-	146,525	146,525
- Short term deposits	95,458	-	-	95,458	95,458
- Statutory deposit	34,000	-	-	34,000	34,000
- Cash and cash equivalents	55,695	-	-	55,695	55,695
	<b>331,367</b>	<b>-</b>	<b>-</b>	<b>331,678</b>	<b>331,678</b>
Financial liabilities measured at fair value through statement of income					
- Reserve for takaful activities	-	-	454,390	-	454,390
	<b>-</b>	<b>-</b>	<b>454,390</b>	<b>-</b>	<b>454,390</b>
<i>31 December 2020</i>		Fair value			
SAR'000	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value					
- Available for sale investments	413,621	6,985	406,636	-	413,621
Financial assets not measured at fair value					
- Held-to-maturity investments	146,339	-	-	146,650	146,650
- Short term deposits	120,345	-	-	120,345	120,345
- Statutory deposit	34,000	-	-	34,000	34,000
- Cash and cash equivalents	68,215	-	-	68,215	68,215
	<b>368,899</b>	<b>-</b>	<b>-</b>	<b>369,210</b>	<b>369,210</b>
Financial liabilities measured at fair value through statement of income					
- Reserve for takaful activities	-	-	406,636	-	406,636
	<b>-</b>	<b>-</b>	<b>406,636</b>	<b>-</b>	<b>406,636</b>

Certain prior year investment classified under level 1 were restated to level 2.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
For the three month and nine month periods ended 30 September 2021

#### 16. RESTATEMENT

The Company carried out an exercise to review the accrued and other liabilities and determined that there was an excess at 31 December 2019. Accordingly, the financial statement for the year ended 31 December 2020 have been restated. The following comparative amounts in these interim condensed statement of financial position as at 31 December 2020 and 1 January 2020 have been restated:

Financial statement account impacted	Before the restatement as at 1 January 2020	Effect of restatement	Restated as at 1 January 2020
- Accrued and other liabilities	43,282	(7,740)	35,542
- Accumulated losses	(33,264)	7,740	(25,524)
Financial statement account impacted	Before the restatement as at 31 December 2020	Effect of restatement	Restated as at 31 December 2020
- Accrued and other liabilities	49,435	(7,740)	41,695
- Accumulated losses	(64,566)	7,740	(56,826)

#### 17. APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

This interim condensed financial statements were approved by the Board of Directors on 27 Rabi Al Awal 1443H corresponding to 2 November 2021G.

11.2 Annex 2: The pro forma financial statements of Walaa Insurance Company during the fiscal year ended on December 31, 2020G for the purpose of the Merger Transaction.

شركة ولاء للتأمين التعاوني  
(شركة مساهمة سعودية)  
المعلومات المالية التصورية  
للسنة المنتهية في ٣١ ديسمبر ٢٠٢٠  
وتقرير تأكيد المحاسب القانوني المستقل

شركة ولاء للتأمين التعاوني  
(شركة مساهمة سعودية)  
المعلومات المالية التصورية  
للسنة المنتهية في ٣١ ديسمبر ٢٠٢٠

<u>صفحة</u>	<u>المحتويات</u>
٢ - ١	تقرير تأكيد المحاسب القانوني المستقل عن تجميع المعلومات المالية التصورية المضمنة في نشرة الاكتتاب
٤ - ٣	قائمة المركز المالي التصورية
٦ - ٥	قائمة الدخل التصورية
٧	قائمة الدخل الشامل التصورية
١٥ - ٨	إيضاحات حول المعلومات المالية التصورية



بيكر تيلي م ك م وشركاه  
محاسبون قانونيون  
ص.ب ٤٦٧، الرياض ١١٢٧٢  
المملكة العربية السعودية  
هاتف: ١٦٠٠ ١١ ٨٣٥ +٩٦٦  
فاكس: ١٦٠١ ١١ ٨٣٥ +٩٦٦

## تقرير تأكيد للمحاسب القانوني المستقل عن تجميع المعلومات المالية التصورية المُضمَّنة في نشرة الاكتتاب

إلى إدارة شركة ولاء للتأمين التعاوني

(شركة مساهمة سعودية)

### تقرير عن تجميع المعلومات المالية للتصورية المُضمَّنة في نشرة الاكتتاب

لقد انتهينا من ارتباط التأكيد لإعداد تقرير عن قيام الإدارة بتجميع المعلومات المالية التصورية لشركة ولاء للتأمين التعاوني (الشركة) أو ولاء "أو المستحوذ"، وتتكون المعلومات المالية التصورية من قائمة المركز المالي للتصورية كما في ٣١ ديسمبر ٢٠٢٠، وقائمة الدخل التصورية، وقائمة الدخل للشمل للتصورية لسنة المنتهية في ذلك التاريخ، والإيضاحات المتعلقة بها، إن الضوابط المنطقية التي قامت إدارة الشركة على أساسها بتجميع المعلومات المالية التصورية تم توضيحها في إيضاح ٢.

وقد تم تجميع المعلومات المالية التصورية من قبل إدارة الشركة لتوضيح تأثير الإندماج المقترح المبين في الإيضاح (٢) على المركز المالي للشركة كما في ٣١ ديسمبر ٢٠٢٠ وأدائها المالي لسنة المنتهية في ذلك التاريخ كما لو أن الإندماج المقترح كان قد وقع في ١ يناير ٢٠٢٠. وكجزء من هذه الألية، تم استخراج معلومات عن المركز المالي والأداء المالي للكيان العنصر من قبل الإدارة من واقع التوائم المالية المراجعة لشركة ولاء للتأمين التعاوني وشركة ساب للتكافل (ساب) لسنة المنتهية في ٣١ ديسمبر ٢٠٢٠، التي قد تم نشر تقارير المراجعة بشأنها من قبل مراجعون آخرون.

### مسؤوليات الإدارة عن تجميع المعلومات المالية التصورية

إن إدارة الشركة هي المسؤولة عن تجميع المعلومات المالية التصورية على أساس الضوابط المنطقية الموضحة في إيضاح (٢) حول هذه المعلومات المالية التصورية.

### الاستقلالية ومراقبة الجودة

لقد التزمنا بمخططات الاستقلال والمتطلبات الأخلاقية الأخرى الواردة في قواعد سلوك وأدب المهنة المعتمدة في المملكة العربية السعودية. يطبق المكتب معيار رقابة الجودة رقم (١) وبالتالي فإنه يحافظ على نظام شامل لرقابة الجودة يتضمن سياسات وإجراءات موثقة بشأن الالتزام بالمتطلبات الأخلاقية والمعايير المهنية والمتطلبات النظامية والتنظيمية المنطقية.

### مسؤولية المحاسب القانوني

إن مسؤوليتنا هي إبداء رأي حول ما إذا كانت المعلومات المالية التصورية قد تم تجميعها، من جميع الجوانب الجوهرية، من قبل إدارة الشركة على أساس الضوابط المنطقية الموضحة في إيضاح (٢).

لقد قمنا بأداء الارتباط وفقاً لمعيار ارتباطات التأكيد ٣٤٢٠، ارتباطات التأكيد لإعداد تقرير عن تجميع المعلومات المالية التصورية المُضمَّنة في نشرة الاكتتاب المعتمد في المملكة العربية السعودية. ويتطلب هذا المعيار من الالتزام بمتطلبات قواعد السلوك وأدب المهنة المعتمدة في المملكة العربية السعودية وتخطيط وتنفيذ إجراءات للوصول إلى تأكيد معقول بشأن ما إذا كانت إدارة الشركة قد قامت بتجميع المعلومات المالية التصورية، من جميع الجوانب الجوهرية، على أساس الضوابط المنطقية الموضحة في إيضاح (٢).

ولأغراض هذا الارتباط، لا نتحمل أي مسؤولية عن تحديث أو إعادة إصدار أية تقارير أو آراء عن أية معلومات مالية تاريخية مستخدمة في تجميع المعلومات المالية التصورية، كما لم ننفذ أثناء هذا الارتباط أية مراجعة أو فحص للمعلومات المالية المستخدمة في تجميع المعلومات المالية للتصورية.

-١-



تقرير تأكيد المحاسب القانوني المستقل عن تجميع المعلومات المالية التصورية المضمنة في نشرة الاكتتاب (تتمة)

إلى إدارة شركة ولاء للتأمين التعاوني  
(شركة مساهمة سعودية)

مسؤوليات المحاسب القانوني (تتمة)

ويتمثل الغرض من المعلومات المالية التصورية المضمنة في نشرات الاكتتاب فقط في توضيح أثر حدث أو معاملة مهمة على المعلومات المالية غير المعدلة للمنشأة، كما لو أن الحدث قد وقع أو أن المعاملة قد تمت في تاريخ سابق تم اختياره لأغراض التوضيح، ووفقاً لذلك، فإننا لا نقدم أي تأكيد بأن النتيجة الفعلية للحدث أو المعاملة في ٣١ ديسمبر ٢٠٢٠ كانت ستتحقق كما هي معروضة.

ويشتمل ارتباط التأكيد المعقول لإعداد تقرير عما إذا كانت المعلومات المالية التصورية قد تم تجميعها، من جميع الجوانب الجوهرية، على أساس الضوابط المنطقية، على تنفيذ إجراءات لتقييم ما إذا كانت الضوابط المنطقية المستخدمة من قبل إدارة الشركة في تجميع المعلومات المالية التصورية توفر أساساً معقولاً لعرض التأثيرات المهمة المنسوبة بشكل مباشر إلى الحدث أو المعاملة، والحصول على ما يكفي من الأدلة المناسبة بشأن ما يلي:

- ما إذا كانت التعديلات التصورية ذات الصلة تعطي تأثيراً مناسباً لتلك الضوابط ؛ و
- ما إذا كانت المعلومات المالية التصورية تعكس التطبيق السليم لتلك التعديلات على المعلومات المالية غير المعدلة.

وتعتمد الإجراءات المختارة على حكم المحاسب القانوني، مع مراعاة فهمه لطبيعة الشركة، والحدث أو المعاملة التي تم بشأنها تجميع المعلومات المالية التصورية، وظروف الارتباط الأخرى ذات الصلة.

وينطوي الارتباط أيضاً على تقويم العرض العام للمعلومات المالية التصورية. وفي اعتقادنا فإن الأدلة التي حصلنا عليها كافية ومناسبة لتوفير أساس لرأينا.

الرأي

في رأينا، فقد تم تجميع المعلومات المالية التصورية، من جميع الجوانب الجوهرية، على أساس الضوابط المنطقية الموضحة في إيضاح (٢) حول هذه المعلومات المالية التصورية.

بيكر تيلي م ك م وشركاه محاسبون قانونيون



ماجد منير النمر

(محاسب قانوني - ترخيص رقم ٣٨١)

الخبر في ٢٦ رجب ١٤٤٣ هـ

الموافق ٢٧ فبراير ٢٠٢٢ م



شركة ولاء للتأمين التعاوني  
(شركة مساهمة سعودية)  
قائمة المركز المالي التصورية (غير المراجعة)  
كما في ٣١ ديسمبر ٢٠٢٠

(بآلاف الريالات السعودية)	
(إيضاح ٣)	
	<b>الموجودات</b>
٧٦٩,٠٩٤	النقد وما في حكمه
٣٣٧,٦١٩	ودائع قصيرة الاجل
٣٧٨,٢٨٠	أقساط تأمين ودم معيدي التأمين مدينة - بالصافي
٣٨٩,٠١٧	حصة معيدي التأمين من الأقساط غير المكتسبة
٢٠٩,٦٤٨	حصة معيدي التأمين من المطالبات تحت التسوية
٨٤,٩٣٧	حصة معيدي التأمين من المطالبات المتكيدة غير المبلغ عنها
١٣٨,٩٥٩	حصة معيدي التأمين من الاحتياطيات الحسابية
٢٩,٣٠٢	تكاليف اكتاب واثاق تأمين مؤجلة
١,٠٧٥,٧٥٠	الاستثمارات
١١٧,٧٢٨	مستحق من عمليات التأمين
٩٤,٠٠٥	مصاريف مدفوعة مقدماً وموجودات أخرى
٥٠,٠٠٠	ودائع طويلة الاجل
٨١,٩٢٨	الشهرة
١٤,٢٤٨	ممتلكات ومعدات، بالصافي
٣٦,٧٤٩	موجودات غير ملموسة
٨٥,٠٥٨	وديعة نظامية
١٤,٧٢٦	إيرادات وديعة نظامية مستحقة
٣,٨٨٢	إيرادات عمولة مستحقة
<b>٣,٩١٠,٩٣٠</b>	<b>مجموع الموجودات</b>
	<b>مطلوبات</b>
٣٤,٧٩٤	مطالبات مستحقة الدفع لحملة واثاق التأمين
٢٠١,٦٢٥	مصاريف مستحقة ومطلوبات أخرى
٢٥٧,٨٢٨	أرصدة معيدي التأمين مستحقة الدفع
٨٢٤,٢٤٧	أقساط تأمين غير مكتسبة
٢٥,١٩٤	عمولات معيدي التأمين غير مكتسبة
٢٩٠,١٢٦	مطالبات تحت التسوية
٢٠٧,٣٦٠	المطالبات المتكيدة غير مبلغ عنها
١٣٨,٩٥٩	إجمالي الاحتياطيات الحسابية
١١٧,٧٢٨	مستحق إلى عمليات المساهمين
٢٨,٠٤٠	تعويض نهاية الخدمة
٣٣,٨٥٥	الزكاة وضريبة الدخل
١٤,٧٢٦	عائد إيرادات عمولة مستحقة إلى ساما
١٦,٣٦٧	فائض متراكم مستحق الدفع
٨,٨٣٦	احتياطي المخاطر المسارية
٧,٦٠٧	احتياطي لبنود غير مرتبطة بوحدها
٤٠٦,٦٣٦	احتياطي أنشطة تكافل
٢٦,٠١٠	احتياطي اقساط تأمين اضافية
٨,٦٤٢	احتياطيات فنية أخرى
<b>٢,٦٤٨,٥٨٠</b>	<b>مجموع المطلوبات</b>

تشكل الإيضاحات المرفقة جزءاً لا يتجزأ من هذه المعلومات المالية التصورية.

شركة ولاء للتأمين التعاوني  
( شركة مساهمة سعودية )  
قائمة المركز المالي التصورية (غير المراجعة) (تتمة)  
كما في ٣١ ديسمبر ٢٠٢٠

(بآلاف الريالات السعودية)	
(إيضاح ٣)	
	حقوق الملكية
٨٥٠,٥٨٣	رأس المال
٢٤٦,٢٠٧	علاوة إصدار
٦٣,٣٢٧	احتياطي نظامي
٨١,٣٠٤	أرباح منقاة
٢١,٩٨٩	احتياطي القيمة العادلة على الاستثمارات المتاحة للبيع
(١,٠٦٠)	احتياطي إعادة قياس المنافع المحددة لعمليات التأمين
١,٢٦٢,٣٥٠	مجموع حقوق الملكية
٣,٩١٠,٩٣٠	مجموع المطلوبات وحقوق الملكية

تشكل الإيضاحات المرفقة جزءاً لا يتجزأ من هذه المعلومات المالية التصورية.

شركة ولاء للتأمين التعاوني  
(شركة مساهمة سعودية)  
قائمة الدخل التصورية (غير المراجعة)  
للسنة المنتهية في ٣١ ديسمبر ٢٠٢٠

(بآلاف الريالات السعودية)	
(ببضاح ٣)	
الإيرادات	
إجمالي أقساط التأمين المكتتبه	١,٦٧٤,٣٨٤
أقساط إعادة تأمين المسندة	
- محلية	(٢٥,٧٩٩)
- أجنبية	(٦٧٣,٧٣٢)
تكاليف حاملي خطط التكافل	١٦,٧٩٦
مصاريف فائض الخسارة	٩٩١,٦٤٩
صافي أقساط التأمين المكتتبه	(١٤,٧٢٢)
التغيرات في أقساط غير مكتتبه	٩٧٦,٩٢٧
التغيرات في حصة معيدي التأمين من أقساط غير مكتتبه	(١٢٨,٤٣٤)
صافي أقساط التأمين المكتتبه	٧١,١١٢
عمولات إعادة تأمين	٩١٩,٦٠٥
إيرادات اكتتاب أخرى	٤٦,٣٩٩
إجمالي الإيرادات	١٣,٤٠٨
تكاليف ومصاريف الإكتتاب	٩٧٩,٤١٢
إجمالي المطالبات المدفوعة	٦٣٨,٥١٢
تصفيات واستحقاقات الوثائق	٨٣,٦٤٧
مصاريف متكبدة متعلقة بالمطالبات	٣٤,٥٨٠
حصة معيدي التأمين من المطالبات المدفوعة	(١٠٤,١٩٠)
صافي المطالبات والمنافع الأخرى المدفوعة	٦٥٢,٥٤٩
التغيرات في مطالبات تحت التسوية	٩٤,٨٨٩
التغيرات في حصة معيدي التأمين من مطالبات تحت التسوية	(٥٦,١٠٤)
التغيرات في مطالبات متكبدة غير مبلغ عنها	(٣٩,٠٥٩)
التغيرات في حصة مطالبات إعادة التأمين من مطالبات متكبدة غير مبلغ عنها	(١٤,٣٠٠)
صافي المطالبات والمنافع الأخرى المتكبدة	٦٣٧,٩٧٥
احتياطيات أقساط تأمين إضافية	٢١,٠٤٠
احتياطيات فنية أخرى	(٢٢,٤٦٧)
تكاليف اكتتاب وثائق تأمين	٦٣,٠٩٢
التغيرات في احتياطي أنشطة تكافل	١٦,٣٧٨
تغيرات في احتياطي لينود غير مرتبطة بوحدات	١,١٣٧
تغيرات في احتياطي المخاطر السارية	٢,٩٤٧
مصاريف اكتتاب أخرى	٣٢,٣٦٥
مجموع تكاليف ومصاريف الإكتتاب	٧٥٢,٤٦٧
صافي دخل الاكتتاب	٢٢٦,٩٤٥

تشكل الإيضاحات المرفقة جزءاً لا يتجزأ من هذه المعلومات المالية التصورية.

شركة ولاء للتأمين التعاوني  
(شركة مساهمة سعودية)  
قائمة الدخل التصورية (غير المرجعة) (تتمة)  
للسنة المنتهية في ٣١ ديسمبر ٢٠٢٠

(بالآلاف الريالات السعودية) (إيضاح ٣)	
٢٢٦,٩٤٥	صافي دخل الاكتتاب (تتمة)
(٩,٠٢١)	(مصاريف) / إيرادات تشغيلية أخرى
(١٩٠,٧١٨)	(مخصص) / عكس ذمم مدينة مشكوك في تحصيلها
١,٤٢٥	مصاريف عمومية وإدارية
١٢,٥٣٥	إيرادات عمولة من الإستثمارات
٩,٣٠٣	إيرادات من الودائع
٣,٢٤٤	إيرادات من الصكوك
(١٧٣,٢٣٢)	توزيعات أرباح محققة من إستثمارات
٥٣,٧١٣	مجموع المصروفات التشغيلية الأخرى
(٢٥,١٤٤)	صافي الدخل للسنة قبل الزكاة وضريبة الدخل واسناد الفائض
(١,١٢٢)	الزكاة
٢٧,٤٤٧	ضريبة الدخل
(٧,٦٢٦)	اجمالي الدخل للسنة
١٩,٨٢١	صافي الفائض العائد إلى عمليات التأمين
	صافي الدخل العائد إلى المساهمين
	<b>ربحية السهم</b>
٠.٢٤	ربحية السهم الأساسي والمخفض
٨٣,١١٨	المتوسط المرجح لعدد الأسهم العادية (بالآلاف)

تشكل الإيضاحات المرفقة جزءاً لا يتجزأ من هذه المعلومات المالية التصورية.

شركة ولاء للتأمين التعاوني  
(شركة مساهمة سعودية)  
قائمة الدخل الشامل التصورية (غير المراجعة)  
للسنة المنتهية في ٣١ ديسمبر ٢٠٢٠

(بآلاف الريالات السعودية)	
(إيضاح ٣)	
٢٧,٤٤٧	صافي الدخل للسنة
	الدخل الشامل الآخر
	البنود التي لن يُعاد تصنيفها إلى قائمة الدخل في السنوات اللاحقة
(٣٩)	الخسائر الاكتوارية لإلتزام المتأمنين المحددة
	البنود التي قد تم / قد يُعاد تصنيفها إلى قائمة الدخل في السنوات اللاحقة
	استثمارات المتاحة للبيع
٣,٧٨٩	- صافي التغير في القيمة العادلة
٥٠٠	- صافي المبالغ المحولة إلى قائمة الدخل
٣١,٦٩٧	مجموع الدخل الشامل للسنة
(٧,٩٨٢)	صافي الدخل الشامل العائد إلى عمليات التأمين
٢٣,٧١٥	صافي الدخل الشامل للسنة العائد إلى المساهمين

تشكل الإيضاحات المرفقة جزءاً لا يتجزأ من هذه المعلومات المالية التصورية.

## شركة ولاء للتأمين التعاوني

(شركة مساهمة سعودية)

إيضاحات حول المعلومات المالية التصورية

للسنة المنتهية في ٣١ ديسمبر ٢٠٢٠

### ١. معلومات عن الشركات

#### شركة ولاء للتأمين التعاوني

شركة ولاء للتأمين التعاوني ("الشركة" أو "ولاء" أو "المستحوذ") هي شركة مساهمة سعودية مسجلة في ١٩ جمادى الآخر ١٤٢٨ هـ (الموافق ٤ يوليو ٢٠٠٧ م) بموجب السجل التجاري رقم ٢٠٥١٠٣٤٩٨٢. ان عنوان الشركة المسجل هو ص. ب ٤٥١٣، الظهران، الخبر الجنوبية، المملكة العربية السعودية.

يتمثل نشاط الشركة الرئيسي في القيام بمزاولة أعمال التأمين التعاوني وكل ما يتعلق بهذه الأعمال بما في ذلك إعادة التأمين وأنشطة الوكالات. تتمثل قطاعات الأعمال الرئيسية للشركة في التأمين الطبي وتأمين المركبات والتأمين البحري وتأمين الحريق والتأمين الهندسي وتأمين الطاقة وتأمين الطيران والتأمينات العامة الأخرى.

خلال العام تم زيادة رأس مال الشركة من ٥٢٨ مليون ريال سعودي الى ٦٤٦.٤ مليون ريال سعودي وذلك من خلال إصدار ١١.٨ مليون سهم جديد للاستحواذ على شركة متلايف والمجموعة الأمريكية الدولية والبنك العربي الوطني للتأمين التعاوني.

#### شركة ساب تكافل

شركة ساب تكافل ("ساب" أو "المستحوذ عليها") هي شركة مساهمة سعودية مسجلة في المملكة العربية السعودية بموجب السجل التجاري رقم ١٠١٠٢٣٤٠٣٢ بتاريخ ٢٠ جمادى الأولى ١٤٢٨ هـ (الموافق ٦ يونيو ٢٠٠٧ م). ساب مسجلة بالسوق المالي السعودي "تداول". عنوان المكتب المسجل لساب هو ص. ب ٩٠٨٦، الرياض ١١٤١٣، المملكة العربية السعودية.

تتمثل الأنشطة الرئيسية لساب في مزاولة عمليات التكافل وكافة الأنشطة ذات العلاقة. تشمل خطوط أعمالها الرئيسية الأسرة الفردية (الحماية والادخار - الأفراد)، المجموعة العائلية (الحماية والادخار - المجموعة) وخدمات تكافل العامة. يعمل ساب فقط في المملكة العربية السعودية.

يبلغ رأس مال ساب ٣٤٠ مليون ريال سعودي كما في ٣١ ديسمبر ٢٠٢٠ يتكون من ٣٤ مليون سهم بقيمة ١٠ ريالات سعودية لكل سهم.

#### الاندماج المحتمل بين ولاء وساب

في ٤ ذو الحجة ١٤٤٢ هـ (١٤ يوليو ٢٠٢١ م)، وقعت ولاء وساب مذكرة تفاهم غير ملزمة ("مذكرة التفاهم") لتقييم الاندماج المحتمل بين الشركتين تتضمن عملية مبادلة أسهم.

تنتهي مذكرة التفاهم بتوقيع اتفاقية الاندماج أو عند انقضاء فترة الحصرية المحددة في مذكرة التفاهم التي تبدأ من تاريخ توقيع مذكرة التفاهم وحتى انقضاء ١٨٠ يوماً على تاريخ توقيع مذكرة التفاهم أيهما أسبق، حيث تم تمديده لاحقاً حتى ٢٤ فبراير ٢٠٢٢ كما في المذكرة الإلحاقية مذكرة التفاهم بتاريخ ٩ يناير ٢٠٢٢. للأطراف الحق في إنهاء مذكرة التفاهم قبل فترة الحصرية بناءً على اتفاق متبادل بين الطرفين. في ٢٧ فبراير ٢٠٢٢، أعلنت ولاء عن توقيع اتفاقية اندماج ملزمة ("اتفاقية الاندماج") مع ساب في ٢٤ فبراير ٢٠٢٢ والتي اتفقت بموجبها الشركتان على الاندماج من خلال عملية تبادل أسهم، حيث ستصدر ولاء ٢٠,٤١٨,٦١٩ سهم عادي لمساهمي ساب المؤهلين.

### ٢. أساس إعداد وعرض المعلومات المالية التصورية

توضح هذه المعلومات المالية التصورية والإيضاحات المرفقة التأثيرات على قائمة المركز المالي وقائمة الدخل وقائمة الدخل الشامل الآخر الناتجة عن عملية الاندماج المحتملة على ساب ("الاندماج") من قبل ولاء كما لو كانت قد حدثت في ١ يناير ٢٠٢٠. في حين، ولغايات احتساب قيمة العوض مقابل الاستحواذ، على أساس سعر الإغلاق لسهم ولاء بتاريخ ٢٤ فبراير ٢٠٢٢، وهو تاريخ توقيع اتفاقية الاندماج.

تستند المعلومات المالية التصورية إلى القوائم المالية التاريخية المراجعة لولاء وساب كما في ٣١ ديسمبر ٢٠٢٠ (يشار إليهما معاً باسم "كيان مندمج") كما تم تعديلها لعكس أثر الاندماج.

شركة ولاء للتأمين التعاوني

(شركة مساهمة سعودية)

إيضاحات حول المعلومات المالية التصورية (تتمة)

للسنة المنتهية في ٣١ ديسمبر ٢٠٢٠

٢. أساس إعداد وعرض المعلومات المالية التصورية (تتمة)

يتم الاندماج عن طريق إصدار ٢٠,٤١٨,٦١٩ سهم بقيمة ١٠ ريال سعودي من قبل ولاء لمساهمي ساب، في عملية مبادلة أسهم بمعدل ٠.٦٠٠٥٤٧٦١٧٦٤٧٠٦ سهم في ساب لكل سهم في ولاء (إيضاح ٣).

بعد الاندماج، سيكون رأس مال الشركة المندمجة ٨٥٠.٥٦ مليون ريال سعودي يتكون من ٨٥ مليون سهم بقيمة ١٠ ريالات سعودية لكل سهم.

يستند عرض المعلومات المالية التصورية للكيان المندمج على افتراضات تصورية معينة وتم إعدادها لأغراض التوضيح فقط، وبسبب طبيعتها، فإن قائمة المركز المالي التصورية وقائمة الدخل التصورية تعالجان حالة افتراضية ولذلك، لا تمثلان ولا تعطيان صورة حقيقية للمركز المالي والأداء المالي عند إتمام صفقة الاندماج. علاوة على ذلك، فإن المعلومات المالية التصورية لا تكون ذات معنى إلا بالاقتران مع القوائم المالية التاريخية لشركة ولاء وساب للسنة المالية المنتهية في ٣١ ديسمبر ٢٠٢٠. لا تأخذ المعلومات المالية التصورية في الاعتبار التأثير الإيجابي للتعاقد المتوقع نتيجة عملية الاندماج أو التكاليف المتكبدة لتحقيق الاندماج.

تم إعداد المعلومات المالية التصورية وعرضها على أساس السياسات المحاسبية لشركة ولاء كما هو موضح في قوائمها المالية المراجعة للسنة المنتهية في ٣١ ديسمبر ٢٠٢٠. إن السياسات المحاسبية المستخدمة من قبل شركة ولاء كما هو موضح في قوائمها المالية المراجعة للسنة المنتهية في ٣١ ديسمبر ٢٠٢٠ لا تختلف بشكل جوهري عن تلك المستخدمة من قبل ساب.

تم إجراء تعديلات العرض التالية لضمان اتساق العرض لقائمة المركز المالي ما بين شركة ولاء وساب:

(أ) حيث أن شركة ولاء ملزمة بالاحتفاظ بوديعة نظامية لا تقل عن ١٠٪ من رأس المال، فإن الهيكل الجديد سيؤدي إلى تغير في الوديعة النظامية. وعليه، تم احتساب الوديعة النظامية الجديدة بناء على رأس المال الناتج بعد الاندماج بما يتوافق مع المتطلبات النظامية لشركة ولاء. تم احتساب مبلغ ١٣,٥٨ مليون ريال سعودي كتعديل تصوري بتحويل المبلغ إلى النقد وما في حكمه بعد اتمام صفقة الاندماج.

(ب) تم إجراء بعض عمليات إعادة التصنيف لحسابات الشركات لتتوافق مع عرض الشركة المندمجة بطريقة متوافقة.

(ج) كما ورد في الإيضاح ١ خلال سنة ٢٠٢٠، تم زيادة رأس مال شركة ولاء من ٥٢٨ مليون ريال سعودي إلى ٦٤٦,٤ مليون ريال سعودي من خلال إصدار ١١,٨ مليون سهم جديد للاستحواذ على شركة متلايف والمجموعة الأمريكية الدولية والبنك العربي الوطني للتأمين التعاوني مما نتج عنه متوسط مرجح لعدد الأسهم القائمة كما في ٣١ ديسمبر ٢٠٢٠ بلغ ٦٢.٦٩٩ مليون سهم. لغرض تجميع هذه القوائم المالية التصورية، سيتم احتساب عدد الأسهم التي ستصدرها شركة ولاء لمساهمي ساب والبالغة ٢٠,٤١٨,٦١٩ سهم كما لو كانت قد صدرت في ١ يناير ٢٠٢٠. وقد تم احتساب المتوسط المرجح لعدد أسهم القائمة في ولاء كما يلي:

(بآلاف الريالات السعودية)

٦٢,٦٩٩	المتوسط المرجح لعدد الأسهم القائمة في ولاء قبل الاندماج مع ساب
٢٠,٤١٩	عدد الأسهم التي ستصدرها ولاء (إيضاح ٣-أ)
٨٣,١١٨	المتوسط المرجح لعدد الأسهم القائمة في ولاء بعد الاندماج مع ساب

**شركة ولاء للتأمين التعاوني**

(شركة مساهمة سعودية)

إيضاحات حول المعلومات المالية التصورية (تتمة)

للسنة المنتهية في ٣١ ديسمبر ٢٠٢٠

٣. تعديلات تصورية	
تعتمد التعديلات التصورية على تقديرات أولية وافتراسات قابلة للتغيير .	
فيما يلي التعديلات التصورية المضمنة في المعلومات المالية التصورية:	
(أ)	لتسجيل إصدار أسهم شركة ولاء للتأمين إلى مساهمي شركة ساب:
لأغراض المعلومات المالية التصورية، تم احتساب عدد الأسهم الجديدة والصادرة مقابل الاندماج على أساس معامل مبادلة الأسهم بمعزل	
٠.٦٠٠٥٤٧٦١٧٦٤٧٠٦ سهم في ساب لكل سهم في ولاء كما هو موضح أدناه:	
٣٤,٠٠٠,٠٠٠	العدد القائم لأسهم ساب
٠.٦٠٠٥٤٧٦١٧٦٤٧٠٦	معامل المبادلة (إيضاح ٣ د)
<b>٢٠,٤١٨,٦١٩</b>	<b>عدد الأسهم التي ستصدر في ولاء</b>
<b>( بالريالات السعودية )</b>	
٢٠٤,١٨٦,١٩٠	القيمة الاسمية للأسهم المصدرة من قبل ولاء لمساهمي ساب (١٠ ريال سعودي للسهم)
٦٤٦,٣٩٧,٠٦٠	رأس المال القائم لولاء
<b>٨٥٠,٥٨٣,٢٥٠</b>	<b>مجموع رأس المال ولاء بعد الاندماج</b>
(ب) لتسجيل علاوة إصدار لأسهم ولاء عند الاندماج:	
يتم احتساب عوض الشراء على أساس سعر اغلاق ولاء في اليوم السابق للتوقيع على الاتفاقية شراء السهم، أي سعر الاغلاق في	
٢٤ فبراير ٢٠٢٢ حيث كان سعر الاغلاق ١٧ ريال سعودي لكل سهم في السوق المالية السعودية (تداول). يعتمد مقابل الشراء على	
السعر الإرشادي للسهم.	
<b>( بالريالات السعودية )</b>	
٣٤٧,١١٦,٥٢٣	إجمالي العوض (٢٠,٤١٨,٦١٩ سهم بقيمة ١٧ ريال سعودي للسهم)
(٢٠٤,١٨٦,١٩٠)	يطرح: القيمة الاسمية للأسهم المصدرة من ولاء إلى مساهمي ساب
<b>١٤٢,٩٣٠,٣٣٣</b>	<b>علاوة الإصدار</b>
(ج) لتسجيل الشهرة التي تمثل الزيادة في مجموع العوض على صافي أصول ساب كما في ٣١ ديسمبر ٢٠٢٠:	
<b>( بالريالات السعودية )</b>	
٢٨٩,٦٠٣,٣٣٣	صافي أصول ساب كما في ٣١ ديسمبر ٢٠٢٠ (ج١)
٣٤٧,١١٦,٥٢٣	يطرح: إجمالي العوض المدفوع مقابل حقوق مساهمي ساب (ج٢)
<b>٥٧,٥١٣,١٩٠</b>	<b>الشهرة (ج٢-ج١)</b>
(د) لتسجيل معامل المبادلة وفقاً لاتفاقية الاندماج:	
<b>ساب</b>	<b>ولاء</b>
٣٠٠,١٠٦	٨٦٩,٥٣٨
(٢٢,٧١١)	٨,٦١٨
٢٧٧,٣٩٥	٨٧٨,١٥٦
٣٤,٠٠٠,٠٠٠	٦٤,٦٣٩,٧٠٦
٨,١٦	١٣,٥٩
<b>٠.٦٠٠٥٤٧٦١٧٦٤٧٠٦</b>	
مجموع حقوق الملكية العائدة للمساهمين كما في ٣٠ سبتمبر ٢٠٢١ (بالآلاف)	
الريالات السعودية - غير مدققة)	
التعديلات المتفق عليها	
مجموع حقوق الملكية المعدلة العائدة للمساهمين (بالآلاف الريالات السعودية - غير	
مدققة) (د١)	
عدد الأسهم القائمة (سهم) (د٢)	
القيمة الدفترية المعدلة لكل سهم (ريال سعودي) (د١ / د٢)	
معدل المبادلة (عدد الحصص العادية في ولاء لكل سهم عادي في ساب) (د٣)	



شركة ولاء للتأمين التعاوني  
(شركة مساهمة سعودية)  
إيضاحات حول المعلومات المالية التصورية (تتمة)  
للسنة المنتهية في ٣١ ديسمبر ٢٠٢٠

٣. تعديلات تصورية (تتمة)  
هـ) قائمة المركز المالي التصورية (غير مراجعة)

التصورية (غير مراجعة)	تعديلات تصورية	ساب (المستحوز عليه) (مراجعة)	ولاء (المستحوز) (مراجعة)	إيضاح	الموجودات
(بالآلاف الريالات السعودية)					
٧٦٩,٠٩٤	١٣,٥٨٢	٦٨,٢١٥	٦٨٧,٢٩٧	أ ٢	التقذ وما في حكمه
٣٣٧,٦١٩	-	١٢٠,٣٤٥	٢١٧,٢٧٤		ودائع قصيرة الاجل
٣٧٨,٢٨٠	-	٤٥,٢٦٠	٣٣٣,٠٢٠		أقساط تأمين ونعم معيدي التأمين مدينة - بالصافي
٣٨٩,٠١٧	-	٢٥,٥٢٧	٣٦٣,٤٩٠		حصة معيدي التأمين من الأقساط غير المكتسبة
٢٠٩,٦٤٨	-	٤٦,٧٥٧	١٦٢,٨٩١		حصة معيدي التأمين من المطالبات تحت التسوية
٨٤,٩٣٧	-	٢٧,٢٣٧	٥٧,٧٠٠		حصة معيدي التأمين من المطالبات المتكيدة غير المبلغ عنها
١٣٨,٩٥٩	-	-	١٣٨,٩٥٩		حصة معيدي التأمين من الاحتياطات الحسابية
٢٩,٣٠٢	-	٣,٩٤٧	٢٥,٣٥٥		تكاليف اكتتاب وثائق تأمين مؤجلة
١,٠٧٥,٧٥٠	-	٥٥٩,٩٦٠	٥١٥,٧٩٠		الاستثمارات
١١٧,٧٢٨	-	٣١,٦٥٦	٨٦,٠٧٢		مستحق من عمليات التأمين
٩٤,٠٠٥	-	٣,٧٦٢	٩٠,٢٤٣		مصاريف مدفوعة مقدماً وموجودات أخرى
٥٠,٠٠٠	-	-	٥٠,٠٠٠		ودائع طويلة الاجل
٨١,٩٢٨	٥٧,٥١٣	-	٢٤,٤١٥	ج ٣	الشهرة
١٤,٢٤٨	-	٨	١٤,٢٤٠		ممتلكات ومعدات، بالصافي
٣٦,٧٤٩	-	٢,٠٢٩	٣٤,٧٢٠		موجودات غير ملموسة
٨٥,٠٥٨	(١٣,٥٨٢)	٣٤,٠٠٠	٦٤,٦٤٠	د ٢	وديعة نظامية
١٤,٧٢٦	-	٤,٦١٢	١٠,١١٤		إيرادات وديعة نظامية مستحقة
٣,٨٨٢	-	-	٣,٨٨٢		إيرادات عمولة مستحقة
<b>٣,٩١٠,٩٣٠</b>	<b>٥٧,٥١٣</b>	<b>٩٧٣,٣١٥</b>	<b>٢,٨٨٠,١٠٢</b>		<b>مجموع الموجودات</b>

## شركة ولاء للتأمين التعاوني

(شركة مساهمة سعودية)

إيضاحات حول المعلومات المالية التصورية (تتمة)

للسنة المنتهية في ٣١ ديسمبر ٢٠٢٠

٣. تعديلات تصورية (تتمة)

(هـ) قائمة المركز المالي التصورية (غير مراجعة) (تتمة)

التصورية (غير مراجعة)	تعديلات تصورية	ساب	ولاء	إيضاح
		(المستحوز عليه) (مراجعة)	(المستحوز) (مراجعة)	
				<b>مطلوبات</b>
٣٤,٧٩٤	-	-	٣٤,٧٩٤	مطالبات مستحقة الدفع لحملة وثائق التأمين
٢٠١,٦٢٥	-	٤٩,٤٣٥	١٥٢,١٩٠	مصاريق مستحقة ومطلوبات أخرى
٢٥٧,٨٢٨	-	٢٥,٠١٤	٢٣٢,٨١٤	أرصدة معيدي التأمين مستحقة الدفع
٨٢٤,٢٤٧	-	٣٤,٢٨٣	٧٨٩,٩٦٤	أقساط تأمين غير مكتسبة
٢٥,١٩٤	-	٤,٧٢٢	٢٠,٤٧٢	عمولات معيدي التأمين غير مكتسبة
٢٩٠,١٢٦	-	٥٦,٦٢٨	٢٣٣,٤٩٨	مطالبات تحت التسوية
٢٠٧,٣٦٠	-	٣٦,٣٨٣	١٧٠,٩٧٧	المطالبات المتكبدة غير مبلغ عنها
١٣٨,٩٥٩	-	-	١٣٨,٩٥٩	إجمالي الإحتياطيات الحسابية
١١٧,٧٢٨	-	٣١,٦٥٦	٨٦,٠٧٢	مستحق إلى عمليات المساهمين
٢٨,٠٤٠	-	٦,٣١٦	٢١,٧٢٤	تعويض نهاية الخدمة
٣٣,٨٥٥	-	٤,٩٩١	٢٨,٨٦٤	الزكاة وضريبة الدخل
١٤,٧٢٦	-	٤,٦١٢	١٠,١١٤	عائد إيرادات عمولة مستحقة إلى ساما
١٦,٣٦٧	-	٦,٥٩٣	٩,٧٧٤	فائض متراكم مستحق الدفع
٨,٨٣٦	-	٨,٨٣٦	-	احتياطي المخاطر السارية
٧,٦٠٧	-	٧,٦٠٧	-	احتياطي لينود غير مرتبطة بوحدات
٤٠٦,٦٣٦	-	٤٠٦,٦٣٦	-	احتياطي أنشطة تكافل
٢٦,٠١٠	-	-	٢٦,٠١٠	احتياطي اقساط تأمين اضافية
٨,٦٤٢	-	-	٨,٦٤٢	احتياطيات فنية أخرى
٢,٦٤٨,٥٨٠	-	٦٨٣,٧١٢	١,٩٦٤,٨٦٨	<b>مجموع المطلوبات</b>
				<b>حقوق الملكية</b>
٨٥٠,٥٨٣	(١٣٥,٨١٤)	٣٤٠,٠٠٠	٦٤٦,٣٩٧	أ ٣ رأس المال
٢٤٦,٢٠٧	١٤٢,٩٣٠	-	١٠٣,٢٧٧	ب ٣ علاوة إصدار
٦٣,٣٢٧	(١٤,٧٨٨)	١٤,٧٨٨	٦٣,٣٢٧	احتياطي نظامي
٨١,٣٠٤	٦٤,٥٦٦	(٦٤,٥٦٦)	٨١,٣٠٤	أرباح مبقاة
٢١,٩٨٩	(٥٩٩)	٥٩٩	٢١,٩٨٩	احتياطي القيمة العادلة على الاستثمارات المتاحة للبيع
				احتياطي إعادة قياس المنافع المحددة لعمليات التأمين
(١,٠٦٠)	١,٢١٨	(١,٢١٨)	(١,٠٦٠)	
١,٢٦٢,٣٥٠	٥٧,٥١٣	٢٨٩,٦٠٣	٩١٥,٢٣٤	<b>مجموع حقوق الملكية</b>
٣,٩١٠,٩٣٠	٥٧,٥١٣	٩٧٣,٣١٥	٢,٨٨٠,١٠٢	<b>مجموع المطلوبات وحقوق الملكية</b>

شركة ولاء للتأمين التعاوني  
(شركة مساهمة سعودية)  
إيضاحات حول المعلومات المالية التصورية (تتمة)  
للسنة المنتهية في ٣١ ديسمبر ٢٠٢٠

٣. تعديلات تصورية (تتمة)  
(ح) قائمة الدخل التصورية (غير مراجعة)

الإيضاح	ولاء (المستحوز) (مراجعة)	سابق (المستحوز عليه) (مراجعة)	تعديلات تصورية (غير مراجعة)	التصورية (غير مراجعة)
(بالآلاف الريالات السعودية)				
<b>الإيرادات</b>				
إجمالي أقساط التأمين المكتتبة	١,٤٧٢,٧٠٣	٢٠١,٦٨١	-	١,٦٧٤,٣٨٤
أقساط إعادة تأمين المسندة	(١١,٨٦٦)	(١٣,٩٣٣)	-	(٢٥,٧٩٩)
- محلية	(٥٩٧,١٥٤)	(٧٦,٥٧٨)	-	(٦٧٣,٧٣٢)
- أجنبية	-	١٦,٧٩٦	-	١٦,٧٩٦
تكاليف حاملي خطط التكافل	(٦٠٩,٠٢٠)	(٧٣,٧١٥)	-	(٦٨٢,٧٣٥)
مصاريف فائض الخسارة	(١٣,٧٤٧)	(٩٧٥)	-	(١٤,٧٢٢)
<b>صافي أقساط التأمين المكتتبة</b>	٨٤٩,٩٣٦	١٢٦,٩٩١	-	٩٧٦,٩٢٧
التغيرات في الأقساط غير المكتسبة	(١٠٩,٨٥٤)	(١٨,٥٨٠)	-	(١٢٨,٤٣٤)
التغيرات في حصة معيدي التأمين من أقساط غير مكتسبة	٥٦,٥٣٠	١٤,٥٨٢	-	٧١,١١٢
<b>صافي أقساط التأمين المكتسبة</b>	٧٩٦,٦١٢	١٢٢,٩٩٣	-	٩١٩,٦٠٥
عمولات إعادة تأمين	٤١,٠٤٧	٥,٣٥٢	-	٤٦,٣٩٩
إيرادات اكتتاب أخرى	١١,٢١٨	٢,١٩٠	-	١٣,٤٠٨
<b>إجمالي الإيرادات</b>	٨٤٨,٨٧٧	١٣٠,٥٣٥	-	٩٧٩,٤١٢
<b>تكاليف ومصاريف الإكتتاب</b>				
إجمالي المطالبات المدفوعة	٥٩٢,٤٣٧	٤٦,٠٧٥	-	٦٣٨,٥١٢
تصفيات واستحقاقات الوثائق	١٦,٥٠٧	٦٧,١٤٠	-	٨٣,٦٤٧
مصاريف متكبدة متعلقة بالمطالبات	٣٣,٦٠٢	٩٧٨	-	٣٤,٥٨٠
حصة معيدي التأمين من مطالبات المدفوعة	(٦٦,١٨٠)	(٣٨,٠١٠)	-	(١٠٤,١٩٠)
<b>صافي المطالبات والمنافع الأخرى المدفوعة</b>	٥٧٦,٣٦٦	٧٦,١٨٣	-	٦٥٢,٥٤٩
التغيرات في مطالبات تحت التسوية	٧٢,٦٥٣	٢٢,٢٣٦	-	٩٤,٨٨٩
التغيرات في حصة معيدي التأمين من مطالبات تحت التسوية	(٤٧,٨٠٦)	(٨,٢٩٨)	-	(٥٦,١٠٤)
التغيرات في مطالبات متكبدة غير مبلغ عنها	(٤٧,٨٠٧)	٨,٧٤٨	-	(٣٩,٠٥٩)
التغيرات في حصة مطالبات إعادة التأمين من مطالبات متكبدة غير مبلغ عنها	٤,٠١٢	(١٨,٣١٢)	-	(١٤,٣٠٠)
<b>صافي المطالبات والمنافع الأخرى المتكبدة</b>	٥٥٧,٤١٨	٨٠,٥٥٧	-	٦٣٧,٩٧٥

شركة ولاء للتأمين التعاوني  
(شركة مساهمة سعودية)  
إيضاحات حول المعلومات المالية التصورية (تتمة)  
للسنة المنتهية في ٣١ ديسمبر ٢٠٢٠

٣. تعديلات تصورية (تتمة)  
ج) قائمة الدخل التصورية التصورية (غير مراجعة) (تتمة)

التصورية (غير مراجعة)	تعديلات تصورية	ساب (المستحوز عليه) (مراجعة)	ولاء (المستحوز) (مراجعة)	إيضاح
(بالآلاف الريالات السعودية)				
٢١,٠٤٠	-	-	٢١,٠٤٠	تكاليف ومصاريف الإكتتاب (تتمة)
(٢٢,٤٦٧)	-	-	(٢٢,٤٦٧)	احتياطيات أقساط تأمين إضافية
٦٣,٠٩٢	-	١٤,٨٦٣	٤٨,٢٢٩	احتياطيات فنية أخرى
١٦,٣٧٨	-	١٦,٣٧٨	-	تكاليف اكتتاب وثائق تأمين
١,١٣٧	-	١,١٣٧	-	التغيرات في احتياطي أنشطة تكافل
٢,٩٤٧	-	٢,٩٤٧	-	تغيرات في احتياطي لبنود غير مرتبطة بوحدة
٣٢,٣٦٥	-	-	٣٢,٣٦٥	تغيرات في احتياطي المخاطر السارية
٧٥٢,٤٦٧	-	١١٥,٨٨٢	٦٣٦,٥٨٥	مصاريف اكتتاب أخرى
٢٢٦,٩٤٥	-	١٤,٦٥٣	٢١٢,٢٩٢	مجموع تكاليف ومصاريف الإكتتاب
				صافي دخل الإكتتاب
				(مصاريف) / إيرادات تشغيلية أخرى
(٩,٠٢١)	-	(٨٦٦)	(٨,١٥٥)	(مخصص) / عكس نم مدينة مشكوك في
(١٩٠,٧١٨)	-	(٤٨,٨٦٩)	(١٤١,٨٤٩)	تحصيلها
١,٤٢٥	-	١,٤٢٥	-	مصاريف عمومية وإدارية
١٢,٥٣٥	-	٢,٩١١	٩,٦٢٤	إيرادات عمولة من الإستثمارات
٩,٣٠٣	-	٣,٩٨٣	٥,٣٢٠	إيرادات من الودائع
٣,٢٤٤	-	٢٢٥	٣,٠١٩	إيرادات من الصكوك
(١٧٣,٢٣٢)	-	(٤١,١٩١)	(١٣٢,٠٤١)	توزيعات أرباح محققة من استثمارات
				مجموع المصروفات التشغيلية الأخرى
٥٣,٧١٣	-	(٢٦,٥٣٨)	٨٠,٢٥١	صافي الدخل للسنة قبل الزكاة وضريبة الدخل
(٢٥,١٤٤)	-	(٤,٧٦٤)	(٢٠,٣٨٠)	وإسناد الفائض
(١,١٢٢)	-	-	(١,١٢٢)	الزكاة
٢٧,٤٤٧	-	(٣١,٣٠٢)	٥٨,٧٤٩	ضريبة الدخل
(٧,٦٢٦)	-	-	(٧,٦٢٦)	اجمالي الدخل للسنة
١٩,٨٢١	-	(٣١,٣٠٢)	٥١,١٢٣	صافي الفائض العائد إلى عمليات التأمين
				صافي الدخل العائد إلى المساهمين
٠.٢٤		(٠.٩٢)	٠.٨٢	ربحية السهم
٨٣,١١٨		٣٤,٠٠٠	٦٢,٦٩٩	ربحية السهم الأساسي والمخفض
				المتوسط المرجح لعدد الأسهم العادية (بالآلاف)

شركة ولاء للتأمين التعاوني  
(شركة مساهمة سعودية)  
إيضاحات حول المعلومات المالية التصورية (تتمة)  
للسنة المنتهية في ٣١ ديسمبر ٢٠٢٠  
٣. تعديلات تصورية (تتمة)  
ح) قائمة الدخل الشامل التصورية (غير مراجعة)

التصورية (غير مراجعة)	تعديلات تصورية	ساب (المستحوز عليه) (مراجعة)	ولاء (المستحوز) (مراجعة)	إيضاح
(بآلاف الريالات السعودية)				
٢٧,٤٤٧	-	(٣١,٣٠٢)	٥٨,٧٤٩	صافي الدخل للسنة
الدخل الشامل الآخر				
البنود التي لن يُعاد تصنيفها إلى قائمة				
الدخل في السنوات اللاحقة				
(٣٩)	-	(٣٩٥)	٣٥٦	الخسائر الاكتوارية لإلتزام المنافع المحددة البنود التي قد تم/ قد يُعاد تصنيفها إلى قائمة الدخل في السنوات اللاحقة
استثمارات المتاحة للبيع				
٣,٧٨٩	-	(٥٠)	٣,٨٣٩	- صافي التغير في القيمة العادلة
٥٠٠	-	-	٥٠٠	- صافي المبالغ المحولة إلى قائمة الدخل
٣١,٦٩٧	-	(٣١,٧٤٧)	٦٣,٤٤٤	مجموع الدخل الشامل للسنة
صافي الدخل الشامل العائد إلى عمليات				
(٧,٩٨٢)	-	-	(٧,٩٨٢)	التأمين
صافي الدخل الشامل للسنة العائد إلى				
٢٣,٧١٥	-	(٣١,٧٤٧)	٥٥,٤٦٢	المساهمين

## 11.3 Annex 3: Opinion provided by the financial advisor



التاريخ: 1443/08/14هـ

الموافق: 2022/03/17م

مجلس إدارة شركة ولاء للتأمين التعاوني

المكتب الرئيسي

الخير، ميث عادل خاشقي شارع خادم الحرمين الشريفين، ص.ب. 31616 الخبر 31952 المملكة العربية السعودية

**رأي المستشار المالي حيال معامل المبادلة**

أعضاء مجلس إدارة شركة ولاء للتأمين التعاوني المحترمين:

عطفًا على دراسة شركة ولاء للتأمين التعاوني ("المصدر" أو "شركة ولاء") للاندماج مع شركة ساب للتكافل ("شركة ساب للتكافل") عن طريق نقل أصول والتزامات شركة ساب للتكافل إلى شركة ولاء وذلك من خلال عرض مبادلة أوراق مالية ("الصفقة") وفقًا لقواعد وأنظمة هيئة السوق المالية ("الهيئة") وقواعد الإدراج لدى شركة السوق المالية ونظام الشركات ونظام المنافسة ولائحته التنفيذية الصادرة بقرار مجلس إدارة الهيئة العامة للمنافسة وبالإشارة إلى طلبكم منا بتزويد شركة ولاء برأي شركة الجزيرة للأسواق المالية ("الجزيرة كابيتال") بصفتنا مستشاراً مالياً للشركة ولاء فيما يخص الصفقة وطبقاً للمادة (18) من لائحة الاندماج والاستحواذ ("لائحة") فإننا هنا نخطاب تقدم لكم رأينا فيما يخص عدالة معامل المبادلة المشار إليه والمستند عليه في اتفاقية الاندماج والمذكور في الملحق (1) من هذا الرأي. حيث يستند عرض شركة ولاء على الاندماج مع شركة ساب للتكافل لتنتقل كامل أصول والتزامات شركة ساب للتكافل إلى شركة ولاء عند إتمام الصفقة، وفقاً لشروط الصفقة، سوف تُصدر شركة ولاء (0.6005476176470590) سهم عادي جديد لكل سهم واحد مملوك في شركة ساب للتكافل ("معامل المبادلة") لصالح المساهمين المستحقين في شركة ساب للتكافل (أي المساهمين المالكين للأسهم المصدرة في شركة ساب للتكافل بتاريخ نفاذ صفقة الاندماج مع الأخذ بعين الاعتبار إجراءات التسمية (T+2) بنهاية ثاني يوم تداول الذي يلي اليوم الأخير لنفاذ صفقة الاندماج، وبالتالي إصدار سهم عادي جديد لمساهمي شركة ساب للتكافل ("الأسهم الجديدة").

**نطاق المراجعة والافتراضات التي قامت بها الجزيرة كابيتال فيما يتعلق بتقييم هذا الرأي – على سبيل المثال لا الحصر:**

1. الاطلاع على البيانات المالية الموحدة المدققة لشركة ولاء وشركة ساب للتكافل للسنوات المالية المنتهية في 31 ديسمبر 2018م و31 ديسمبر 2019م و31 ديسمبر 2020م والبيانات المالية غير المدققة لفترة الثلاثة والتسعة أشهر المنتهية في 30 سبتمبر 2021م.
2. الاطلاع على البيانات المالية لشركة نيم لخدمات التأمين لفترة التسعة أشهر المنتهية في 30 سبتمبر 2021م.
3. مراجعة تقارير العناية الالهية الواجبة المالية والضريبية والفانونية والاقتصادية المدة من قبل مستشارين مستقلين آخرين.
4. مراجعة تقارير تقييم عقاري لشركة ولاء والمدع من قبل منشآت مرخصة في مزاولة مهنة التقييم العقاري.
5. مراجعة اتفاقية الاندماج وهافرة شروط العرض مع شروط بعض عمليات الاندماج المعاملة التي اعتبرناها ذات صلة وذلك إلى الحد المتاح للجمهور.
6. مراجعة الشروط المالية للعرض.
7. استعراض بعض البيانات المالية المتاحة للجمهور التي اعتبرها الجزيرة كابيتال أنها ذات علاقة.
8. تنفيذ جملة من المتطلبات الأخرى ومراجعة معلومات أخرى والأخذ في الاعتبار مجموعة من الحقائق والاعتبارات الأخرى التي رأها الجزيرة كابيتال مناسبة.

لقد افترضت الجزيرة كابيتال على دقة واكتمال البيانات والمواد المقدمة لها أو المناقشة معها أو المتاحة للعموم، دون التحقق منها بصورة مستقلة، ولا تتحمل الجزيرة كابيتال أي مسؤولية فيما يتعلق بمثل هذه البيانات والمعلومات والمواد، ولا فيما يتعلق بصحتها. علاوة على ذلك، فقد افترضت الجزيرة كابيتال واعتمدت على أنه لم يطرأ أي تغيير جوهري على الأصول والخصوم والوضع المالي ونتائج العمليات والأعمال والتوقعات لكل من شركة ولاء وشركة ساب للتكافل منذ تاريخ آخر بيانات مالية نُشرت وعُرضت على الجمهور. وتقتضى الجزيرة كابيتال أنه لا توجد أي معلومات أو وقائع من شأنها أن تجعل أي من المعلومات المراجعة من قبيلنا ناقصة أو مضللة. فضلاً عن ذلك، افترضت الجزيرة كابيتال أيضاً أنه سيتم الحصول على جميع

# الجزيرة كابيتال

ALJAZIRA CAPITAL الجزيرة للأسواق المالية



الموافقات الحكومية والنظامية وغيرها من الموافقات اللازمة لإتمام الصفقة، دون أن يترتب على ذلك أي أثر سلبي على شركة ولاء وشركة ساب للتكافل أو على الفوائد المرجوة من هذه الصفقة. علاوة على ذلك، لم تقدم الجزيرة كابيتال رأي فيما يتعلق بقيمة تصفية أي كيان أو منشأة هنا ويقوم هذا الرأي بالضرورة على أساس الشروط المالية والاقتصادية والمرفقة وغيرها من الشروط الحالية والمعلومات المتاحة للجمهور وفقاً لما هي عليه وحسبما يتم الكشف عنها في تاريخ هذا الخطاب. كما أن الجزيرة كابيتال لم تقدم أي رأي فيما يتعلق بالشروط الأخرى المشمولة في الصفقة على وجه التحديد أو قرار شركة ولاء بإجراء الصفقة أو تأثير هذه الصفقة أو الصفقات ذات الصلة على شركة ولاء وشركة ساب للتكافل، ولم تُعبر الجزيرة كابيتال عن أي رأي فيما يتعلق بصحة أو عدالة الهيكل القانوني أو المالي الذي تنطوي عليه الصفقة. ولم تلتم الجزيرة كابيتال بتحديث أو تنقيح أو إعادة تأكيد أو سحب هذا الرأي أو بالتعليق على أو النظر في الأحداث التي قد تطرأ بعد تاريخ هذا الخطاب أو بالنظر فيها. وقد اعتمدت الجزيرة كابيتال دون التحقق بصورة مستقلة على تقييم أجراه فريق شركة ولاء المسؤول عن الصفقة بخصوص الأساس الاستراتيجي للصفقة بما في ذلك المعلومات المتعلقة ببعض الفوائد الاستراتيجية والمالية والقشغلية المتوقعة من الصفقة والبنى التحتية والخدمات ونماذج الأعمال فضلاً عن المخاطر المصاحبة لهذه العمليات. وقد اعتمدت الجزيرة كابيتال على تقييم شركة ولاء وشركة ساب للتكافل بشأن قدرتهما على الاحتفاظ بوظيفتهما الرئيسيتين بعد اكتمال الصفقة، دون أن تتحقق من هذه القنطرة بصورة مستقلة.

تعمل الجزيرة كابيتال بصفتها المستشار المالي لشركة ولاء فيما يتعلق بالصفقة. وسوف تتقاضى رسوماً من شركة ولاء لغناء الخدمات التي تقدمها الجزيرة كابيتال والمشروطة بتقديم هذا الرأي وإتمام الصفقة. يُقدم هذا الرأي لغرض استخدامه من قبل مجلس إدارة شركة ولاء حصراً في إطار دراسته للصفقة وسيتم تضمين هذا الرأي ضمن تعميم المساهمين. وليس المقصود منه تقديم أي حقوق أو تعويضات لأي شخص آخر، وليس المقصود منه استخدامه ولا يجوز استخدامه لأي غرض آخر، كما ولا يجوز الاعتماد عليه أو استخدامه من قبل أي شخص آخر دون موافقة خطية مسبقة من الجزيرة كابيتال. كما أن هذا الرأي لا يُقصد ولا يشكل أي توصية لأي حامل لأوراق مالية أو لأي شخص آخر عن كيفية التعامل مع الصفقة أو التصويت عليها. كما يجدر بالذكر بأنه يجوز للجزيرة كابيتال - في إطار نشاطها الاعتيادي - وبالأخذ بالأنظمة والقوانين والإفصاحات المطلوبة ذات العلاقة بالتداول بفعالية في الأوراق المالية لشركة ولاء، وأو شركة ساب للتكافل لحسابها الخاص أو لحسابات العملاء الحاليين بموجب الشروط التجارية المعتادة في تعاملاتنا معهم وفقاً لما هو منصوص عليه في لائحة الأشخاص المرخص لهم، فقد تكون الجزيرة كابيتال حائزة على مراكز شراء طويلة أو مراكز بيع على المكشوف في الأوراق المالية لشركة ولاء، وأو شركة ساب للتكافل في أي وقت وذلك بما لا يتعارض مع الأنظمة والقوانين ذات العلاقة. لا يشمل رأينا القرار الذي اتخذته شركة ولاء بخصوص الدخول في الصفقة أو المزايا النسبية لها مقارنة بأي بدائل استراتيجيية قد تكون متاحة لشركة ولاء؛ كما لا يتناول أي أمور نظامية أو تنظيمية أو هيكلية أو محاسبية. يتناول هذا الرأي فقط عدالة معامل المبادلة من وجهة نظر مالية بالنسبة لشركة ولاء بموجب الاتفاقية كما في التاريخ المبين في هذا الخطاب.

وبناء على ما تقدم ووفقاً لشروطه، بما في ذلك مختلف الافتراضات والقيود المنصوص عليها أعلاه، وبناء على اعتمادنا عليها ترى الجزيرة كابيتال أن معامل المبادلة في هذه الصفقة عادل من وجهة نظر مالية.

وتقبلوا خالص التحية والتقدير،

الرئيس التنفيذي والعضو المنتدب:

دايف بن مسند المصطفى



شركة الجزيرة للأسواق المالية (الجزيرة كابيتال)

مدير المصروفية الاستثمارية:

عاصم معنار

شركة الجزيرة للأسواق المالية (الجزيرة كابيتال)

# الجزيرة كابيتال

ALJAZIRA CAPITAL الجزيرة للأسواق المالية

## ملحق (1) جدول التقييم ومعامل المبادلة

64,639,706	عدد الأسهم القائمة في شركة ولاء	سهم عادي
646,397,050	رأس المال في شركة ولاء (قبل الزيادة)	ريال سعودي
20,418,619	عدد الأسهم الجديدة في شركة ولاء والمزوع إصدارها كأسهم عوض للانضمام	سهم عادي
204,186,190	القيمة الاسمية لأسهم العوض	ريال سعودي
85,058,325	إجمالي عدد الأسهم في شركة ولاء (بعد زيادة رأس المال)	سهم عادي
850,583,250	رأس المال في شركة ولاء (بعد زيادة رأس المال)	ريال سعودي
31.59%	نسبة الزيادة في رأس المال في شركة ولاء (قبل زيادة رأس المال)	
24.01%	نسبة الزيادة في رأس المال في شركة ولاء (بعد زيادة رأس المال)	
0.6005476176470590	معامل المبادلة لكل سهم مملوك في شركة سائب للتكافل	



## 11.4 Annex 4: SABB Takaful's bylaws and its articles of association, including all amendments.

PART I INCORPORATION	الباب الأول تأسيس الشركة						
<p><b>Article (1) - Incorporation</b></p> <p>The Company shall be established in accordance with the Cooperative Insurance Companies Control Act, the Companies Regulations, the Capital Market Law and its implementing regulations and SABB's TAKAFUL By-Laws as a Saudi joint stock company between the shareholders pursuant to the provisions set forth hereunder.</p>	<p><b>المادة الأولى: التأسيس:</b></p> <p>تؤسس وفقاً لأحكام نظام مراقبة شركات التأمين التعاوني، ونظام الشركات، ونظام السوق المالية ولوائح التنفيذ، والنظام الأساسي للشركة، وتكون شركة مساهمة سعودية بين مالكي الأسهم المبينة أحكامها أدناه.</p>						
<p><b>Article (2) – Name of the Company</b></p> <p>"SABB TAKAFUL COMPANY, a Saudi Joint Stock Company" (hereinafter referred to as the "Company").</p>	<p><b>المادة الثانية: اسم الشركة:</b></p> <p>شركة ساب للتكافل. وهي شركة مساهمة سعودية (ويشار لها فيما بعد بالشركة).</p>						
<p><b>Article (3) – Objectives of the Company</b></p> <p>Transact cooperative insurance operations in General Insurance, Saving and Protection Insurance products and the company has to transact all related activities to achieve this purpose in accordance with the provisions of the Cooperative Insurance Companies Control Act and its implementing regulations as well as SAMA's provisions and other applicable laws and regulations in the Kingdom of Saudi Arabia, provided that all the required licenses (if any) have been obtained from the concerned authorities.</p>	<p><b>المادة الثالثة: أغراض الشركة:</b></p> <p>مزاولة أعمال التأمين التعاوني في فرع التأمين العام وتأمين الحماية والادخار وللشركة أن تباشر جميع الأعمال التي يلزم القيام بها لتحقيق أغراضها وتمارس الشركة أنشطتها وفقاً لنظام مراقبة شركات التأمين التعاوني ولانتهه التنفيذية والأحكام الصادرة من المؤسسة والأنظمة والقواعد السارية في المملكة العربية السعودية وبعد الحصول على التراخيص اللازمة من الجهات المختصة إن وجدت.</p>						
<p><b>Article (4) – Participation &amp; Acquisition of Companies</b></p> <p>The Company shall establish companies with limited liability or sole individual. The company may also acquire shares or stocks in, merge with or participate with others to establish joint stock companies or companies with limited liability that perform activities similar to those it undertakes or which may help it to realize its objectives to carry out all the activities stated</p>	<p><b>المادة الرابعة: المشاركة والتملك في الشركات:</b></p> <p>يجوز للشركة إنشاء شركات ذات مسؤولية محدودة، أو مساهمة من شخص واحد كما يجوز لها أن تمتلك الأسهم والحصص في شركات أخرى قائمة أو تندمج معها ولها حق الاشتراك مع الغير في تأسيس الشركات المساهمة أو ذات المسؤولية المحدودة -على أن تكون الشركات التي تنشأها الشركة أو تشارك فيها أو تندمج معها</p>						
	<table border="1"> <thead> <tr> <th>النظام الأساسي</th> <th>اسم الشركة شركة ساب للتكافل</th> </tr> </thead> <tbody> <tr> <td>التاريخ 1442/01/19 هـ الموافق 2020/09/07 م</td> <td>سجل تجاري</td> </tr> <tr> <td>صفحة 1 من 29</td> <td>رقم السجل 1010234032</td> </tr> </tbody> </table>	النظام الأساسي	اسم الشركة شركة ساب للتكافل	التاريخ 1442/01/19 هـ الموافق 2020/09/07 م	سجل تجاري	صفحة 1 من 29	رقم السجل 1010234032
النظام الأساسي	اسم الشركة شركة ساب للتكافل						
التاريخ 1442/01/19 هـ الموافق 2020/09/07 م	سجل تجاري						
صفحة 1 من 29	رقم السجل 1010234032						
*تم الشطب* تم إصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 2020-06-29م							

under this Article upon meeting all the requirements of the applicable regulations and instructions, and obtaining all the required approvals from the Saudi Arabian Monetary Agency ("SAMA").

تزاوّل أعمالاً شبيهة بأعمالها أو الأعمال المالية أو التي تعاونها على تحقيق غرضها. وذلك بعد استيفاء ما تتطلبه الأنظمة والتعليمات المتبعة في هذا الشأن، وبعد الحصول على موافقة مؤسسة النقد العربي السعودي.

#### Article (5) – Head Office

#### المادة الخامسة: المركز الرئيس للشركة:

The Company's head office shall be in the city of Riyadh, KSA. The head office may, with the approval of Extra Ordinary Gneral Assembly Meeting resolution to transfer to any other city in the Kingdom of Saudi Arabia after getting SAMA approval. The Company may establish branches, offices or agencies for the Company within or outside the Kingdom of Saudi Arabia after obtaining the approval of SAMA.

يكون مقر المركز الرئيس للشركة في مدينة الرياض في المملكة العربية السعودية، ويجوز بقرار من الجمعية العامة غير العادية نقل المركز الرئيس إلى أي مدينة أخرى في المملكة العربية السعودية بموافقة مؤسسة النقد العربي السعودي وللشركة أن تنشئ لها فروعاً أو مكاتب أو توكيلات داخل المملكة العربية السعودية أو خارجها بعد موافقة مؤسسة النقد العربي السعودي.

#### Article (6) – Duration of the Company

#### المادة السادسة: مدة الشركة:

The duration of the Company shall be ninety-nine (99) Gregorian years commencing on the date of its entry into the Commercial Register. The duration of the Company may be extended by resolution of the Extraordinary General Assembly taken at least one year prior to the expiration of the this term.

مدة الشركة (99) تسع وتسعون سنة ميلادية تبدأ من تاريخ قيدها في السجل التجاري، وتجوز إطالة مدة الشركة بقرار تصدره الجمعية العامة غير العادية قبل انتهاء هذه المدة بسنة على الأقل.

## PART II PRINCIPLES TO BE FOLLOWED BY THE COMPANY IN ITS OPERATIONS AND THE ATTAINMENT OF ITS OBJECTIVES


## الباب الثاني القواعد التي تلتزم بها الشركة في مياشرتها للأعمال والأغراض المحددة لها

#### Article (7) – Investments of the Company

#### المادة السابعة: استثمارات الشركة:

the Company shall invest the funds collected from the Policyholders and the Shareholders in accordance with the rules set by the Board of Directors without prejudice to the Cooperative Insurance Companies Control Act and its implementing regulations and all relevant rules

تستثمر الشركة ما يتجمع لديها من أموال المؤمن لهم والمساهمين في الشركة وفقاً للقواعد التي يضعها مجلس الإدارة وبما لا يتعارض مع نظام مراقبة شركات التأمين التعاوني ولائحته التنفيذية واللوائح والأحكام الصادرة عن مؤسسة النقد العربي السعودي أو أي جهة أخرى ذات علاقة.

	<b>النظام الأساسي</b>	<b>اسم الشركة</b> شركة ساب للتكافل
	<b>التاريخ</b> 1442/01/19 هـ <b>الموافق</b> 2020/09/07 م <b>صفحة</b> 2 من 29	<b>سجل تجاري</b>  <b>رقم الصفحة</b> 1010234032

\*تم الشهر \* تم إصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 2020-06-29م

and instructions issued by SAMA or any other concerned authority.

### PART III Capital & Shares

### الباب الثالث رأس المال والاسهم:

#### Article (8) – Capital of the Company

#### المادة الثامنة: رأس المال:

The share capital of the Company shall be three hundred and forty million Saudi Riyals (SR 340,000,000) divided into thirty four million (34,000,000) equal registered shares with nominal value of ten Saudi Riyals (SR10) each and it is a normal shares.

رأس مال الشركة هو (340) ثلاثمائة وأربعون مليون ريال سعودي، مقسم إلى (34) أربعة وثلاثون مليون سهم متساوية القيمة بقيمة اسمية (10) عشرة ريالاً سعودية للسهم الواحد وجميعها أسهم عادية نقدية.

#### Article (9) – Subscription of the Capital

#### المادة التاسعة: الاكتتاب في الأسهم:

The Shareholders have subscribed in the Company's share capital in full, and the subscription amount has been fully paid.

اكتتب المساهمون بكامل رأس مال الشركة، وتم دفع القيمة كاملة.

#### Article (10) – Shares Register

#### المادة العاشرة: سجل المساهمين:

Trading in the Company's shares shall be in accordance with the Capital Market Law and its implementing regulations.


تداول أسهم الشركة وفقاً لأحكام نظام السوق المالية ولوائحه التنفيذية.

#### Article (11) – Issue of Shares

#### المادة الحادية عشرة: إصدار الاسهم:

All the shares of the company are nominal and they may not be issued at less than their nominal value. However, the shares may be issued at a value higher than their nominal value, in which case the difference in value shall be added to the Shareholders' equity and may not be distributed as profits among the Shareholders. A share shall be indivisible vis-à-vis the Company. In the event that a share is owned by several persons, they shall select one person from amongst them to exercise, on their behalf, the rights pertaining to the share, and they shall be jointly responsible for the obligations arising from the ownership of the share.

تكون أسهم الشركة اسمية ولا يجوز أن تصدر بأقل من قيمتها الاسمية وإنما يجوز أن تصدر بأعلى من هذه القيمة، وفي هذه الحالة الأخيرة يضاف فرق القيمة في بند مستقل ضمن حقوق المساهمين. ولا يجوز توزيعها كأرباح على المساهمين، والسهم غير قابل للتجزئة في مواجهة الشركة، فإذا ملك السهم أشخاص متعددون وجب عليهم ان يختاروا أحدهم لينوب عنهم في استعمال الحقوق المتعلقة به، ويكون هؤلاء الأشخاص مسؤولين بالتضامن عن الالتزامات الناشئة من ملكية السهم.

 <p>وزارة التجارة إمارة حوكمة الشركات</p>	النظام الأساسي	اسم الشركة شركة ساب للتكافل
	<p>التاريخ: 1442/01/19 هـ الموافق: 2020/09/07 م</p> <p>صفحة 3 من 29</p>	سجل تجاري رقم الصفحة 1010234032

\*تم الشهر \* تم إصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 29-06-2020م

## Article (12) – Transfer of Shares

## المادة الثانية عشرة: تداول الأسهم:

- 1- The shares subscribed for by the Founders shall not be transferable before publishing the financial statements for two full fiscal years, each consisting of twelve (12) months from the date of incorporation of the Company and after obtaining SAMA approval. A notation shall be made on the respective share certificates, indicating their class, the date of incorporation of the Company and the lock-up period.
  - 2- However, the title to the shares may still be transferred during the lock-up period in accordance with the legal provisions for the sale of rights from one Founder to another or from the heirs of a deceased Founder to a third party or in the case of execution on the insolvent or bankrupt Founder, provided that the other Founders shall have the right of first refusal.
  - 3- This Article provisions shall apply to shares subscribed for by the Founders in case of increasing the capital before the expiry of the lock-up period.
- 1- لا يجوز تداول الأسهم التي يكتسب بها المؤسسون إلا بعد نشر القوائم المالية عن سنتين ماليتين لا تقل كل منهما عن (12) اثني عشر شهراً من تاريخ تأسيس الشركة، وبعد الحصول على موافقة المؤسسة. ويؤشر على صكوك هذه الأسهم بما يدل على نوعها وتاريخ تأسيس الشركة والمدة التي يمنع فيها تداولها.
  - 2- يجوز خلال فترة الحظر نقل ملكية الأسهم وفقاً لأحكام بيع الحقوق من أحد المؤسسين إلى مؤسس آخر أو من ورثة أحد المؤسسين في حالة وفاته إلى الغير أو في حالة التنفيذ على أموال المؤسس المعسر أو المفلس، على أن تكون أولوية امتلاك تلك الأسهم للمؤسسين الآخرين.
  - 3- تسري أحكام هذه المادة على ما يكتسب به المؤسسون في حالة زيادة رأس المال قبل انقضاء مدة الحظر.

## Article (13) – Increase of Capital

## المادة الثالثة عشرة: زيادة رأس المال:

<p>وزارة التجارة إدارة حوكمة الشركات</p>	النظام الأساسي	اسم الشركة شركة ساب للتكافل
	<p>التاريخ: 1442/01/19 هـ الموافق: 2020/09/07 م</p> <p>صفحة 4 من 29</p>	سجل تجاري 1010234032


\*تم الشهر \* تم إصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 2020-06-29م

- 1- The Extraordinary General Assembly may adopt a resolution to increase the Company's capital and the approval of the concerned authorities SAMA and CMA has been obtained and provided that the original capital shall have been paid in full. Its not condition of paying full capital if unpaid capital protions derived to issued shares against transfer of debt and financial deeds to shares and not completed after the notified period to be transferred to shares.
- 2- The Extraordinary General Assembly in all cases has the right to separate portion of issued shares while increasing capital or part of it to the company's employees and affiliated companies. Shareholder not permitted to practise periority right while the company issuing its employees shares.
- 3- Any person, who holds Shares in the Company at the time of the issuance of General Assembly resolution, shall have pre-emptive rights to subscribe for the new cash shares. The Shareholders shall be notified of the pre-emptive rights, if any, vested in them by notice to be published in a daily newspaper addressing the capital increase resolution, the conditions, duration, commencement and closing dates of subscription, or by written notice to the Shareholder by registered mail.
- 4- The Extraordinary General Assembly shall be entitled to suspend such pre-emption rights in a cash capital increase or grant them to others when deemed to be in the Company's best interest.
- 5- A Shareholder may sell or assign its pre-emption right during the period from the date of the General Assembly resolution approving the capital increase until the subscription closing date, in accordance with the guidelines set by the concerned authorities CMA.
- 1- للجمعية العامة غير العادية أن تقرر زيادة رأس مال الشركة بعد موافقة المؤسسة وهيئة السوق المالية، وبشرط أن يكون رأس المال قد دفع كاملاً. ولا يشترط أن يكون رأس المال قد دفع كاملاً إذا كان الجزء غير المدفوع من رأس المال يعود إلى أسهم صدرت مقابل تحويل أدوات دين أو صكوك تمويلية إلى أسهم ولم تنته بعد المدة المقررة لتحويلها إلى أسهم.
- 2- للجمعية العامة غير العادية في جميع الأحوال أن تخصص الأسهم المصدرة عند زيادة رأس المال أو جزءاً منها للعاملين في الشركة والشركات التابعة أو بعضها، أو أي من ذلك. ولا يجوز للمساهمين ممارسة حق الأولوية عند إصدار الشركة للأسهم المخصصة للعاملين.
- 3- للمساهم المالك للسهم - وقت صدور قرار الجمعية العامة بالموافقة على زيادة رأس المال - الأولوية في الاكتتاب بالأسهم الجديدة التي تصدر مقابل حصص نقدية، ويبلغ هؤلاء بأولويتهم - إن وجدت - بالنشر في صحيفة يومية أو بإبلاغهم بواسطة البريد المسجل عن قرار زيادة رأس المال وشروط الاكتتاب ومدته وتاريخ بدايته وانتهائه.
- 4- يحق للجمعية العامة غير العادية وقف العمل بحق الأولوية للمساهمين في الاكتتاب بزيادة رأس المال مقابل حصص نقدية أو إعطاء الأولوية لغير المساهمين في الحالات التي تراها مناسبة لمصلحة الشركة.
- 5- يحق للمساهم بيع حق الأولوية أو التنازل عنه خلال المدة من وقت صدور قرار الجمعية العامة بالموافقة على زيادة رأس المال إلى آخر يوم للاكتتاب في الأسهم الجديدة المرتبطة بهذه الحقوق، وفقاً للضوابط التي تضعها هيئة السوق المالية.

## Article (14) – Decrease of Capital

## المادة الرابعة عشرة: تخفيض رأس المال:

- 1- The Extraordinary General Assembly may adopt a resolution to reduce the Company's capital if it
- 1- للجمعية العامة غير العادية أن تقرر تخفيض رأس المال إذا زاد على حاجة الشركة أو إذا

 <p>وزارة التجارة إدارة حوكمة الشركات، مجلس إدارته وزارة التجارة والتعاون Ministry of Commerce and Co-operation إدارة حوكمة الشركات</p>	النظام الأساسي	اسم الشركة شركة ساب للتكافل
	التاريخ 1442/01/19 هـ الموافق 2020/09/07 م صفحة 5 من 29	سجل تجاري رقم الصفحة 1010234032

\*تم الشهر \* تم إصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 2020-06-29م

proves to be in excess of the Company's needs or if the Company sustains losses subject to the approval of the concerned authorities, SAMA and CMA, provided that the capital paid to the insurance company not less than SR100 million after capital reduction and the capital paid to reinsurance company or insurance company operating in reinsurance at the same time not less than SAR 200 millions . Such resolution shall be issued only after reading the auditor's report on the reasons calling for such reduction, the obligations to be fulfilled by the Company and the effect of the reduction on such obligations.

- 2- If the reduction of the capital is due to its being in excess of the Company's needs, then the Company's creditors must be invited to express their objection thereto within sixty (60) days from the date of publication of the reduction resolution in a daily newspaper published in the city where the Company's head office is located. Should any creditor object and present to the Company evidentiary documents of such debt within the time limit set above, then the Company shall pay such debt, if already due, or present an adequate guarantee of payment if the debt is due on a later date.

منيت بخسائر بعد موافقة المؤسسة وهيئة السوق المالية على أن لا يقل رأس المال المدفوع لشركة التأمين بعد تخفيض رأس المال عن (100) مئة مليون ريال كما لا يقل رأس المال المدفوع لشركة إعادة التأمين أو شركة التأمين التي تزاول في الوقت نفسه أعمال إعادة التأمين عن (200) مئتي مليون ريال. ولا يصدر قرار التخفيض إلا بعد تلاوة تقرير خاص يعده مراجع الحسابات عن الأسباب الموجبة له وعن الالتزامات التي على الشركة وعن أثر التخفيض في هذه الالتزامات.

2- إذا كان تخفيض رأس المال نتيجة زيادته على حاجة الشركة، وجبت دعوة الدائنين إلى إبداء اعتراضاتهم خلال (60) سبتين يوماً من تاريخ نشر قرار التخفيض في صحيفة يومية توزع في المنطقة التي فيها مركز الشركة الرئيس. فإن اعترض أحد الدائنين وقدم إلى الشركة مستنداته في الميعاد المذكور، وجب على الشركة أن تؤدي إليه دينه إذا كان حالاً أو أن تقدم له ضماناً كافياً للوفاء به إذا كان أجلاً.

## PART IV Board of Directors

## الباب الرابع مجلس الإدارة

### Article (15) – Management of the Company

### المادة الخامسة عشرة: إدارة الشركة:

The company shall be managed by a board of directors composed of (8) members to be elected by Ordinary General Assembly for a term not exceeding 3 years. The Board composition shall reflect sufficient representation of independent members, and in all cases, independent members shall not be less than two (2), or a third of the Board, whichever is greater. As an exception to the foregoing, the constituent assembly has appointed the Company's first Board of Directors for a term not exceeding (3) years commencing from the date of publication of the Ministry of Commerce & Investment's resolution to incorporate the Company.

يتولى إدارة الشركة مجلس إدارة مكون من (8) ثمانية أعضاء تنتخبهم الجمعية العامة العادية لمدة لا تزيد على ثلاث سنوات - ويجب أن تعكس تركيبة مجلس الإدارة تمثيلاً مناسباً من الأعضاء المستقلين. وفي جميع الأحوال لا يجوز أن يقل عدد أعضاء المجلس المستقلين عن عضوين أو ثلث أعضاء المجلس أيهما أكثر. واستثناءً من ذلك تعين الجمعية التأسيسية أعضاء أول مجلس إدارة لمدة لا تتجاوز (3) ثلاث سنوات تبدأ من تاريخ شهر قرار وزارة التجارة والاستثمار بتأسيس الشركة.

<p>وزارة التجارة (إدارة حوكمة الشركات)</p>	النظام الأساسي	اسم الشركة شركة ساب للتكافل
	<p>التاريخ: 1442/01/19 هـ الموافق: 2020/09/07 م</p> <p>رقم الصفحة: 6 من 29</p>	سجل تجاري 1010234032

\*تم إصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 2020-06-29م



The Saudi British Bank shall be entitled to appoint five (5) members on the Board. SABB shall be entitled to replace all or any of its representatives. Such appointment or replacement may be made by a decision issued by The Saudi British Bank and communicated by a letter addressed to the company's board of directors. However, all members may be reappointed.

ويحق للبنك السعودي البريطاني تعيين (5) أعضاء في المجلس. ويحق له تبديل ممثليه جميعاً أو أيًا منهم ويتم هذا التعيين أو التبديل بقرار يصدره البنك السعودي البريطاني. ويتولى إبلاغه بكتاب يوجه إلى مجلس إدارة الشركة ويجوز إعادة تعيين جميع الأعضاء.

## Article (16) – Termination of Membership

## المادة السادسة عشرة: انتهاء عضوية المجلس:

- 1- Membership of the Board of Directors shall be terminated upon the expiration of the period of appointment or upon his resignation or death or absence for 3 meetings during one year without any reasons being justified; or if it is established to the Board that the board member has violated his duties in a way that harms the interest the Company, provided that this shall be effected with the approval of the Ordinary General Assembly; or upon the cessation of his membership in accordance with any law or directives in force in the Kingdom of Saudi Arabia; or if he is adjudged bankrupt or insolvent or makes any arrangement with his creditors or he ceases to pay his debts; or if he is found to be of unsound mind or sustains a mental decease or body injury which may lead to the member's inability to perform his duties; or if it is established that he has committed an offence involving dishonesty, fraud or forgery.
- 2- However, the Ordinary General Assembly shall, at any time, remove all or any of the Board members without prejudice to the right of the removed member to claim compensation from the Company if the dismissal was for unjustifiable reasons or at unsuitable time. The Board member may resign at any time, provided that such resignation is at appropriate time to the Board, otherwise the member shall be liable towards the Company for any damage arising from its resignation.
- 3- If any of Board members resigned, and found he has remarks about the company performance, he shall write a clear statement to Chairman of the Board and all Board members shall be notified.
- 4- SAMA shall be notified at time of any Board member resignation or ceases to his membership for any

- 1- تنتهي عضوية مجلس الإدارة بانتهاء دورة المجلس أو الاستقالة أو الوفاة أو التغيب عن ثلاث اجتماعات خلال سنة واحدة دون عذر مشروع ومقبول، أو إذا ثبت لمجلس الإدارة أن العضو قد أخل بواجباته بطريقة تضر بمصلحة الشركة بشرط أن يقتصر ذلك بموافقة الجمعية العامة العادية، أو بانتهاء عضويته وفقاً لأي نظام أو تعليمات سارية في المملكة العربية السعودية، أو إذا حكم بشهر إفلاسه أو إعساره أو قدم طلباً للتسوية مع دائنيه، أو توقف عن دفع ديونه، أو أصيب بمرض عقلي أو إعاقة جسدية قد تؤدي إلى عدم قدرة العضو على القيام بدوره على أكمل وجه، أو ثبت ارتكابه عملاً مخالفاً بالأمانة والأخلاق أو أدين بالتزوير بموجب حكم نهائي.
- 2- يجوز للجمعية العامة العادية في كل وقت عزل جميع أعضاء مجلس الإدارة أو بعضهم وذلك دون إخلال بحق العضو المعزول تجاه الشركة بالمطالبة بالتعويض إذا وقع العزل لسبب غير مقبول أو في وقت غير مناسب ولعضو مجلس الإدارة أن يعتزل بشرط أن يكون ذلك في وقت مناسب وإلا كان مسؤولاً قبل الشركة عما يترتب على الاعتزال من أضرار.
- 3- إذا استقال عضو مجلس الإدارة، وكانت لديه ملحوظات على أداء الشركة، فعليه تقديم بيان مكتوب بها إلى رئيس مجلس الإدارة، ويجب عرض هذا البيان على أعضاء مجلس الإدارة.

<p>وزارة التجارة إدارة حوكمة الشركات</p>	النظام الأساسي	اسم الشركة شركة ساب للتكافل
	<p>التاريخ: 1442/01/19 هـ الموافق: 2020/09/07 م</p> <p>صفحة 7 من 29</p>	<p>سجل تجاري</p> <p>رقم السطة</p> <p>1010234032</p>

\*تم الشطب \* تم إصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 29-06-2020م

reason except expiration of Baord period during (5) working days from the date member leave work and to consider disclosure reqirments.

4- يجب إبلاغ مؤسسة النقد العربي السعودي عند استقالة أي عضو في المجلس أو إنهاء عضويته لأي سبب عدا انتهاء دورة المجلس وذلك خلال (5) خمسة أيام عمل من تاريخ ترك العمل ومراعاة متطلبات الإفصاح ذات العلاقة.

### Article (17) – Vacancies

If the office of a Board member becomes vacant, the Board may appoint a member in the vacant position temporarily regardless of the order of the number of obtained votes and subject to such member having the experience and efficiency and a "No Objection" letter is obtained from SAMA. Such appointment shall be notified to Ministry of Commerce and Investment and Capital Market Authority ("CMA") within five (5) business days from the date of appointment, and presented before the first meeting of the Ordinary General Assembly. The term of office of the new member designated to fill a vacancy shall only extend to the term of office of his predecessor.

### المادة السابعة عشرة: المركز الشاغر في المجلس:

في حال شغل مركز أحد أعضاء مجلس الإدارة، كان للمجلس أن يعين مؤقتاً عضواً في المركز الشاغر ممن يتوافر فيهم الخبرة الكافية وبعد الحصول على عدم ممانعة مؤسسة النقد العربي السعودي ودون النظر للترتيب في الحصول على الأصوات في الجمعية العامة التي تم انتخاب مجلس الإدارة من خلالها، ويجب أن تبلغ وزارة التجارة والاستثمار، وكذلك هيئة السوق المالية خلال خمسة (5) خمسة أيام عمل من تاريخ التعيين وأن يعرض هذا التعيين على الجمعية العامة العادية في أول اجتماع لها، ويكمل العضو الجديد مدة سلفه فقط.

### Article (18) – Authority of the Board of Directors

As the athourity powers reserved for the General Assembly, the Board of Directors shall have the broadest authority in managing the affairs and the business of the Company and may, within the limits of its jurisdiction, authorize and delegate one or more of its members or a third party to undertake a specific function or functions to the extent permitted by the relevant laws and regulations. The Board of Directors shall be authorized to do all the things required for achieving the objects of the Company, including without limitation, to represent the Company in its relations with third parties, the Government and private entities, the police stations, the chambers of commerce and industry, all companies and establishments, commercial banks and finance houses, all government funds and financing institutions and other lenders of all

### المادة الثامنة عشرة: صلاحيات المجلس:

1- مع مراعاة الاختصاصات المقررة للجمعية العامة، يكون لمجلس الإدارة أوسع السلطات في إدارة الشركة بما يحقق أغراضها، وذلك فيما عدا ما استثني بنص خاص في نظام الشركات أو هذا النظام من أعمال أو تصرفات تدخل في اختصاص الجمعية العامة، ولمجلس الإدارة، على سبيل المثال لا الحصر، تمثيل الشركة في علاقاتها مع الغير والجهات الحكومية والخاصة وأقسام الشرطة والغرف التجارية والصناعية وكافة الشركات والمؤسسات والبنوك والمصارف التجارية وبيوت المال وكافة صناديق ومؤسسات التمويل الحكومي بمختلف

	<b>الاسم الشركة</b> شركة ساب للتكافل	<b>النظام الأساسي</b>
	<b>رقم الصفحة</b>	<b>تاريخ التأسيس</b> 1442/01/19 هـ الموافق 2020/09/07 م صفحة 8 من 29
<b>سجل تجاري</b> 1010234032	<b>وزارة التجارة</b> إدارة حوكمة الشركات مملكة البحرين Ministry of Commerce and Investment Kingdom of Bahrain	

\*تم الشهر \* تم إصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 2020-06-29م



types; discharge debtors from obligations, participate in tenders, sell and pledge properties, to sign on behalf of the Company and enter into all agreements, contracts and documents including, without limitation, articles of association of companies in which the Company shall participate, and any amendment or restatement of the same; to sign other contracts and deeds before notaries public and official authorities; to sign loan agreements, guarantees and deeds for the sale and purchase of properties; to issue powers of attorney on behalf of the Company; to sell and purchase real properties, lands, share in other companies and other movable and immovable properties and convey by deeds, receive, deliver, lease and let; to open bank accounts; to apply for credit facilities; to withdraw and deposit money with banks; to issue guarantees to government banks, funds and financing institutions; to execute all papers, documents, payment orders, instruments, cheques and all banks' transaction. The Board shall as authority limit delegate one or more of the Board members or others to conduct a tak or certain business without conflict with related rules and regulations.


مسمياتها واختصاصاتها وغيرهم ممن المقرضين وللمجلس وقبض ما يحصل من التنفيذ وإبراء ذمة مدبني الشركة من التزاماتهم والدخول في المناقصات وبيع وشراء ورهن العقارات. كما للمجلس حق التعاقد والتوقيع باسم الشركة ونياية عنها على كافة أنواع العقود والوثائق والمستندات بما في ذلك دون حصر عقود تأسيس الشركات التي تشترك فيها الشركة مع كافة تعديلاتها وملاحقتها وقرارات التعديل والتوقيع على الاتفاقيات والصكوك أمام كاتب العدل والجهات الرسمية، وكذلك اتفاقيات القروض والضمانات والكفالات والصكوك لبيع وشراء العقارات وإصدار الوكالات الشرعية نيابة عن الشركة، والبيع والشراء والإفراغ وقبوله والاستلام والتسليم والاستئجار والتأجير والقبض والسدق وفتح الحسابات والاعتمادات والسحب والإيداع لدى البنوك وإصدار الضمانات للبنوك والصناديق ومؤسسات التمويل الحكومي والتوقيع على كافة الأوراق وسندات الأمر والشيكات وكافة الأوراق التجارية والمستندات وكافة المعاملات المصرفية ويكون للمجلس أيضاً - في حدود اختصاصه - أن يفوض واحداً أو أكثر من أعضائه أو من الغير في مباشرة عمل أو أعمال معينة بما لا يتعارض مع الأنظمة واللوائح ذات العلاقة.

2- The Board of Directors shall lend any time kind of loans, or sale and mortgage the company assets, sale or mortgage the commercial location of the company, or release the company debtors from liability, if this action not been included in By- Law or resolve by General Assembly which my restrict the Board of Directors authorities herein.

2- يجوز لمجلس الإدارة عقد القروض أياً كانت مديتها، أو بيع أصول الشركة أو رهنها، أو بيع محل الشركة التجاري أو رهنه، أو إبراء ذمة مدبني الشركة من التزاماتهم، ما لم يتضمن هذا النظام أو يصدر من الجمعية العامة العادية ما يقيّد صلاحيات مجلس الإدارة في ذلك.

## Article (19) – Remuneration of Board of Directors, Chairman and Managing Director

المادة التاسعة عشرة: مكافأة أعضاء المجلس، والمكافأة الخاصة برئيس مجلس الإدارة والعضو المنتدب:

 <p>وزارة التجارة إدارة حوكمة الشركات</p>	النظام الأساسي	اسم الشركة شركة ساب للتكافل
	<p>التاريخ: 1442/01/19 هـ الموافق: 2020/09/07 م</p> <p>رقم الصفحة</p>	<p>سجل تجاري</p> <p>1010234032</p>

\*تم الشهر \* تم إصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 2020-06-29

- 1- The remuneration of the members of the Board of Directors will be a specific amount or attendance allowance for participating in meetings or benefits and specific percentage from net profit, and shall be combinations or more of benefits .
- 2- In case the Company attains profits, it may distribute 10% of the net profit after deducting the reserves determined by the General Assembly in accordance with the Cooperative Insurance Companies Control Act and distributing at least 5% of the Company's paid-up share capital among the Shareholders. Entitlement to such distribution shall be proportional to the number of meetings attended by the member.
- 3- In all cases, a Board member's total remuneration must not exceed five hundred thousand Saudi Riyals (SR500,000) per year (Excluding Audit Committee members), as per Capital Market Authority Regulations.
- 4- The report submitted by the Board of Directors to the Ordinary General Assembly shall contain a statement of all remuneration made to the members of the Board, attendance allowance and other expenses paid to the members of the Board of Directors within the fiscal year. The report shall also include a statement of the payments received by the members of the Board in their capacity as employees or administrators, or what they received in return for technical, administrative or consultation services, as well as a statement of the number of meetings attended by each member as from the date of the last meeting of the General Assembly.
- 1- تكون مكافأة أعضاء مجلس الإدارة مبلغاً معيناً أو بدل حضور عن الجلسات أو مزايا عينية أو نسبة معينة من صافي الأرباح، ويجوز الجمع بين اثنتين أو أكثر من هذه المزايا.
- 2- إذا كانت المكافأة نسبة معينة من أرباح الشركة، فلا يجوز أن تزيد هذه النسبة على (10%) من صافي الأرباح، وذلك بعد خصم الاحتياطات التي قررتها الجمعية العامة تطبيقاً لأحكام نظام مراقبة شركات التأمين التعاوني ونظام الشركات وهذا النظام، وبعد توزيع ربح علي المساهمين لا يقل عن (5%) من رأس مال الشركة المدفوع، على أن يكون استحقاق هذه المكافأة متناسباً مع عدد الجلسات التي حضرها العضو، وكل تقدير يخالف ذلك يكون باطلاً.
- 3- في جميع الأحوال؛ لا يتجاوز مجموع ما يحصل عليه عضو مجلس الإدارة من مكافآت ومزايا مالية أو عينية مبلغ خمسمائة ألف ريال سنوياً (ويستثنى من ذلك أعضاء لجنة المراجعة)، وفق الضوابط التي تضعها هيئة السوق المالية.
- 4- يجب أن يشتمل تقرير مجلس الإدارة إلى الجمعية العامة العادية على بيان شامل لكل ما حصل عليه أعضاء مجلس الإدارة خلال السنة المالية من مكافآت وبدل مصروفات وغير ذلك من المزايا. وأن يشتمل كذلك على بيان ما قبضه أعضاء المجلس بوصفهم عاملين أو إداريين أو ما قبضوه نظير أعمال فنية أو إدارية أو استشارات. وأن يشتمل أيضاً على بيان بعدد جلسات المجلس وعدد الجلسات التي حضرها كل عضو من تاريخ آخر اجتماع للجمعية العامة.

#### Article (20) – Chairman, Vice-Chairman, Managing Director and Secretary

المادة العشرون: صلاحيات رئيس مجلس الإدارة ومدة عضويته، وعضوية كل من النائب والعضو المنتدب وأمين السر:

<p>وزارة التجارة إدارة حوكمة الشركات</p>	النظام الأساسي		اسم الشركة شركة ساب للتكافل
	التاريخ: 1442/01/19 هـ الموافق: 2020/09/07 م	رقم الصفحة	سجل تجاري 1010234032
محل النشر	صفحة 10 من 29		

\*تم النشر \* تم اصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 2020-06-29م

The Board of Directors shall appoint from amongst its members a Chairman, Vice Chairman. The Board appoint a CEO and may also appoint a Managing Director. The Chairman may not also hold any executive position in the Company. The Chairman shall be authorised to sign for the Company and enforce the resolutions of the Board.

Subject to the powers reserved for the General Assembly, the Chairman shall be authorised to represent the Company before all courts, including administrative, commercial and general courts, commissions and committees of all levels, courts of appeal including administrative, commercial and general courts, arbitration bodies and other bodies that fall under the judicial authority, to proceed with lodging cases, pleading and defending, hearing of lawsuits and response thereto, acknowledgment, settlement, acquittal, calling witnesses and submitting evidences and challenging them, challenge of forgery, denial of handwritings stamps and signatures, appointment of experts and arbitrators, challenge experts' and arbitrators' to attend suez meetings in all courts in order to receive judgment decision and to ask for judge withdrwal and communicate with courts incudding the commercial, administrative and public courts. The Board Chairman shall delegate his authority or part of authority to other Board members or other parties herein.

The Board shall specify the salaries, remuneration and allowances for the Chairman and the Managing Director in accordance with Article (19) of these By-laws.

The Board shall also appoint a secretary.

The Board may also appoint one or more advisors to provide advice in running the various affairs of the Company and the Board shall determine their remuneration.


يعين مجلس الإدارة من بين أعضائه رئيساً ونائباً للرئيس. ويعين رئيساً تنفيذياً، ويجوز أن يعين عضواً منتدباً، ولا يجوز الجمع بين منصب رئيس مجلس الإدارة وأي منصب تنفيذي بالشركة، ويحق لرئيس مجلس الإدارة التوقيع عن الشركة وتنفيذ قرارات المجلس.

مع مراعاة الاختصاصات المقررة للجمعية العامة، يكون لرئيس مجلس الإدارة صلاحيات تمثيل الشركة أمام جميع المحاكم بما فيها المحاكم الإدارية والتجارية والعامة والهيئات واللجان بجميع درجاتها ومحاكم الاستئناف بما فيها الإدارية والتجارية والعامة، وهيئات التحكيم وغيرها من الجهات التي تندرج تحت السلك القضائي وذلك في المطالبة وإقامة الدعاوى والمرافعة والمدافعة وسماع الدعاوى والرد عليها والإقرار والصلح والإبراء وإحضار الشهود والبيانات والطعن فيها والطعن بالتزوير وإنكار الخطوط والأختام والتوقيع وتعيين الخبراء والمحكمين والطعن بتقارير الخبراء والمحكمين وردهم واستبدالهم والمطالبة بتنفيذ الأحكام وقبول الأحكام ونفيها والاعتراض على الأحكام وطلب الاستئناف والتماس إعادة النظر وإنهاء ما يلزم حضور الجلسات في جميع الدعاوى لدى جميع المحاكم واستلام صكوك الأحكام وطلب تحي القاضي وطلب الإدخال والتدخل لدى المحاكم بما فيها الإدارية والتجارية والعامة. ولرئيس مجلس الإدارة أن يوكل الغير من أعضاء المجلس أو من الغير في كل أو جزء من صلاحياته.

ويحدد مجلس الإدارة الرواتب والبدلات والمكافآت لكل من رئيس المجلس والعضو المنتدب وفقاً لما هو مقرر في المادة (19) من هذا النظام.

ويجب على مجلس الإدارة أن يعين أميناً لسر المجلس.

كما يجوز للمجلس أن يعين مستشاراً له أو أكثر في مختلف شؤون الشركة ويحدد المجلس مكافآتهم.

 <p>وزارة التجارة إدارة حوكمة الشركات</p>	النظام الأساسي		اسم الشركة شركة ساب للتكافل
	<p>التاريخ: 1442/01/19 هـ الموافق: 2020/09/07 م</p> <p>رقم الصفحة</p>		<p>سجل تجاري</p> <p>1010234032</p>

\*تم الشهر \* تم إصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 2020-06-29م

The term of the office of the Chairman, Vice Chairman, the Managing Director and the Secretary – if the Secretary is a Board member – shall not exceed their respective term of service as Directors, and may be renewed. The Board may dismiss all or any of them without prejudice to their right in compensation if the dismissal was for illegitimate reasons or occurred in inappropriate time.

### Article (21) – Board Meetings

The Board shall meet at the head office of the Company upon a call by the Chairman, if so requested by any two (2) Board members. Such call shall be in the form chosen by the Board. The Board shall hold meeting on a regular basis and whenever need arises, but in all cases the Board is required to hold at least four (4) meetings in a year, and at least a meeting every quarter.

### Article (22) – Quorum

- 1- A Board meeting shall not be valid unless attended by two-thirds of the members in person or by proxy, provided that the number of members present in person shall not be less than four (3) members.
- 2- If the above condition not applied to held Board meeting because of less members than stated minimum number in this By-Law , the remaining members shall invite for Ordinary General Assembly Meeting to be held within (60) days to vote and elect enough members.
- 3- By Capital Market Authority resolution the Ordinary General Assembly Meeting shall be invited to be held in case Board members less than minimum.
- 4- No any one shall act as proxy to Board member in meeting and exeptional for Board members to attend as proxy instead of other member.
- 5- Resolutions of the Board shall be adopted by the majority votes of the members attending or represented in the meeting. In case of a tie, the Chairman shall have the casting vote.


ولا تزيد مدة رئيس المجلس ونائيه والعضو المنتدب وأمين السر عضو مجلس الإدارة على مدة عضوية كل منهم في المجلس، ويجوز إعادة انتخابهم للمجلس في أي وقت أن يعزلهم أو أيا منهم دون أخلال بحق من عزل في التعويض إذا وقع العزل لسبب غير مشروع أو في وقت غير مناسب.

### المادة الحادية والعشرون: اجتماعات المجلس:

يجتمع المجلس بدعوة من رئيسه ويجب على رئيس المجلس أن يدعو إلى الاجتماع متى طلب إليه ذلك اثنان من الأعضاء ويجب أن تكون الدعوة موثقة بالطريقة التي يراها المجلس. وتُعقد اجتماعات المجلس بصفة دورية وكما دعت الحاجة، على ألا يقل عدد اجتماعات المجلس السنوية عن (4) اجتماعات بحيث يكون هناك اجتماع واحد على الأقل كل ثلاثة أشهر.

### المادة الثانية والعشرون: نصاب اجتماع المجلس:

- 1- لا يكون اجتماع المجلس صحيحاً إلا إذا حضره نصف الاعضاء على الأقل، بشرط الأقل عدد الحاضرين عن ثلاثة على الأقل.
- 2- إذا لم تتوافر الشروط اللازمة لانعقاد مجلس الإدارة بسبب نقص عدد أعضائه عن الحد الأدنى المنصوص عليه في هذا النظام، وجب على بقية الأعضاء دعوة الجمعية العامة العادية للانعقاد خلال ستين يوماً لانتخاب العدد اللازم من الأعضاء.
- 3- ويجوز بقرار من هيئة السوق المالية دعوة الجمعية العامة العادية للانعقاد في حال نقص عدد أعضاء مجلس الإدارة عن الحد الأدنى لصحة انعقاده.
- 4- لا يجوز لعضو مجلس الإدارة أن ينيب عنه غيره في حضور الاجتماع. واستثناء من ذلك، يجوز لعضو مجلس الإدارة أن ينيب عنه غيره من الأعضاء.
- 5- تصدر قرارات المجلس بأغلبية آراء الأعضاء الحاضرين أو الممثلين فيه، وعند

 <p>وزارة التجارة إدارة حوكمة الشركات</p>	النظام الأساسي		اسم الشركة شركة ساب للتكافل
	<p>التاريخ: 1442/01/19 هـ الموافق: 2020/09/07 م</p> <p>رقم الصفحة: 12 من 29</p>		سجل تجاري 1010234032

\*تم الشهر \* تم اصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 2020-06-29م

6- In urgent cases, the Board may adopt resolutions by circulation unless one Board member requests a meeting for deliberations on such a resolution, in which case such resolutions shall be laid before the Board in its first following meeting.

تساوي الآراء يرجح الجانب الذي صوت معه رئيس الجلسة.

6- لمجلس الإدارة أن يصدر القرارات في الأمور العاجلة بعرضها على الأعضاء متفرقين ما لم يطلب أحد الأعضاء كتابةً اجتماع المجلس للمداولة فيها، وفي هذه الحالة تعرض هذه القرارات على المجلس في أول اجتماع تالي له.

### Article (23) – Minutes of Meetings

Deliberations and resolutions of the Board shall be recorded in the form of minutes to be signed by the Chairman, Board members in attendance and the Secretary. The minutes shall be entered in a special register to be signed by the Chairman and the Secretary.

### المادة الثالثة والعشرون: مداولات المجلس:

تثبت مداولات المجلس وقراراته في محاضر يوقعها رئيس الجلسة وأعضاء مجلس الإدارة الحاضرون وأمين السر. وتدون هذه المحاضر في سجل خاص يوقعه رئيس مجلس الإدارة وأمين السر.

### Article (24) – Agreements & Contracts, Conflict of Interest and Competition.

- 1- Subject to obtaining a NOC letter from SAMA, the Company may, enter into technical services contracts with one or more companies duly qualified in insurance business.
- 2- Members of the Board of Directors must not have direct or indirect interest in the company businesses of contracts unless after approval from Ordinary General Assembly and the Board member to inform the Board what he has as regard to direct or indirect interest in the company business and shall be recorded and written in minutes of meetings.
- 3- Board member may not participate in voting on the resolution to be adopted in this respect in any Board meeting or shareholders General Assembly.
- 4- The Chairman shall notify the Ordinary General Assembly, when convened, of the transactions and contracts wherein a Board member may have a direct or indirect, and shall attach to such notification

### المادة الرابعة والعشرون: الاتفاقيات والعقود وتعارض المصالح ومنافسة الشركة:

- 1- يحق للشركة - بعد الحصول على عدم ممانعة مؤسسة النقد العربي السعودي - أن تعقد اتفاقية لإدارة الخدمات الفنية مع شركة أو أكثر من الشركات المؤهلة في مجال التأمين.
- 2- لا يجوز أن يكون لعضو مجلس الإدارة أي مصلحة مباشرة أو غير مباشرة في الأعمال والعقود التي تتم لحساب الشركة إلا بترخيص من الجمعية العامة العادية، وعلى عضو مجلس الإدارة أن يبلغ المجلس بما له من مصلحة مباشرة أو غير مباشرة في الأعمال والعقود التي تتم لحساب الشركة، ويثبت هذا التبليغ في محضر الاجتماع.
- 3- لا يجوز لهذا العضو الاشتراك في التصويت على القرار الذي يصدر في هذا الشأن في مجلس الإدارة وجمعيات المساهمين.
- 4- يبلغ رئيس مجلس الإدارة الجمعية العامة العادية عند انعقادها عن الأعمال والعقود التي يكون لأحد أعضاء المجلس مصلحة مباشرة أو غير مباشرة فيها، ويرافق التبليغ

<p>وزارة التجارة إدارة حوكمة الشركات</p>	النظام الأساسي		اسم الشركة شركة ساب للتكافل
	<p>الرقم 1442/01/19 هـ الموافق 2020/09/07 م</p>	رقم الصفحة 29 من 13	سجل تجاري 1010234032

\*تم الشهر\* تم اصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 29-06-2020م

a special report prepared by the Company's external auditors.

- 5- If the Board member fails to make the aforesaid disclosure, the Company or any interested person may apply to the competent court to nullify the contract or to order the relevant member to return any profit or benefit he obtained from such contract(s).
- 6- The responsibility of raised damage from businesses and contracts mentioned in article (1)

of this item on a member who has interest on the business or contract, also the Board members shall if thses business and contracts been done breach article provision or if unfair, or seem conflict with interests and case damage to sharholders.

- 7- Board members whom has objection on the resolution will be dispensed from responsibility when prove their objection in minutes of meetings, absence of meeting when resolution issued as case of ending of responsibility unless a prove that absent member not aware of the resolution or not be able to reject after his awareness.

- 8- The Board member shall not participate in any business which may rise competition to the company, or compete the company in one of its activity, unless otherwise the company will sue for compensation in jurisdiction authorities, unless has got adequate license or approval from the Ordinary General Assembly – renewed annually to perform the business.

تقرير خاص من مراجع حسابات الشركة الخارجي.

- 5- إذا تخلف عضو المجلس عن الإفصاح عن مصالحته، جاز للشركة أو لكل ذي مصلحة المطالبة أمام الجهة القضائية المختصة بإبطال العقد أو إلزام العضو بأداء أي ربح أو منفعة تحققت له من ذلك.

- 6- تقع المسؤولية عن الأضرار الناتجة من الأعمال والعقود المشار إليها في الفقرة (1) من هذه المادة على العضو صاحب المصلحة من العمل أو العقد، وكذلك على أعضاء مجلس الإدارة، إذا تمت تلك الأعمال والعقود بالمخالفة لأحكام تلك الفقرة أو إذا ثبت أنها غير عادلة، أو تتطوي على تعارض مصالح وتلحق الضرر بالمساهمين.

- 7- يعفى أعضاء مجلس الإدارة المعارضون للقرار من المسؤولية متى أثبتوا اعتراضهم صراحة في محضر الاجتماع، ولا يعد الغياب عن حضور الاجتماع الذي يصدر فيه القرار سبباً للإعفاء من المسؤولية إلا إذا ثبت أن العضو الغائب لم يعلم بالقرار أو لم يتمكن من الاعتراض عليه بعد علمه به.

- 8- لا يجوز لعضو مجلس الإدارة أن يشترك في أي عمل من شأنه منافسة الشركة، أو أن ينافس الشركة في أحد فروع النشاط الذي تزاوله؛ وإلا كان للشركة أن تطالبه أمام الجهة القضائية المختصة بالتعويض المناسب، ما لم يكن حاصلأ على ترخيص سابق من الجمعية العامة العادية – يحدد كل سنة – يسمح له القيام بذلك.

## PART V SHAREHOLDERS ASSEMBLIES

## الباب الخامس جمعيات المساهمين:

### Article (25) – General Assembly

### المادة الخامسة والعشرون: حضور الجمعيات:

<p>وزارة التجارة إدارة حوكمة الشركات</p>	النظام الأساسي		اسم الشركة شركة ساب للتكافل
	<p>الرقم 1442/01/19 هـ الموافق 2020/09/07 م</p>	رقم الصفحة	سجل تجاري 1010234032
	صفحة 14 من 29		

\*تم الشهر\* تم اصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 29-06-2020م



- 1- The duly constituted General Assembly represents all Shareholders, and shall be held in the city where the head office of the Company is located.
- 2- Each Shareholder shall have the right to attend a General Meeting irrespective of the number of the Shares owned by that Shareholder. Each Shareholder may appoint any person, other than the members of the Board or employees of the Company, to attend the General Assembly on its behalf. A Shareholder may participate in the General Assembly's deliberations and vote on its resolutions via modern technology in accordance with the controls set out by the concerned authorities.

- 1- الجمعية العامة المكونة تكويناً صحيحاً تمثل جميع المساهمين، وتتعدّد في المدينة التي يقع فيها المركز الرئيس للشركة.
- 2- لكل مساهم أيضاً كان عدد أسهمه حق حضور الجمعيات العامة للمساهمين وله في ذلك أن يوكل عنه شخصاً آخر من غير أعضاء مجلس الإدارة أو عمالي الشركة في حضور الجمعية العامة، ويجوز عقد اجتماعات الجمعيات العامة للمساهمين واشتراك المساهم في مداواتها والتصويت على قراراتها بواسطة وسائل التقنية الحديثة بحسب الضوابط التي تضعها هيئة السوق المالية.

### Article (26) – Constituent General Assembly

### المادة السادسة والعشرون: الجمعية التأسيسية:

- 1- Founders shall call for a Constituent General Assembly within forty five (45) days from the subscription closing date, and each Shareholder shall have the right to attend the Constituent General Assembly irrespective of the number of the Shares owned by it.
- 2- The meeting of the Constituent General Assembly shall be valid only if attended by Shareholders representing at least fifty percent (50%) of the Company's capital. If such quorum cannot be attained at the first meeting, a second meeting shall be called for within fifteen (15) days from the date of invitation thereto. However, the second meeting may, if so stated in the original invitation, be held after the lapse of one hour from the time fixed for the first meeting. In all cases the second meeting shall be deemed quorate regardless of the number of the Shareholders represented therein.

- 1- يدعو المؤسسون جميع المكتتبين إلى عقد جمعية تأسيسية خلال (45) خمسة وأربعين يوماً من تاريخ قفل الاكتتاب في الأسهم، على الأقل المدة بين تاريخ الدعوة وتاريخ الانعقاد عن عشرة أيام.
- 2- لكل مكتتب - أيضاً كان عدد أسهمه - حق حضور الجمعية التأسيسية. ويشترط لصحة الاجتماع حضور عدد من المكتتبين يمثل (نصف) رأس المال على الأقل. فإذا لم يتوافر هذا النصاب، وجهت دعوة إلى اجتماع ثانٍ يعقد بعد (15) خمسة عشر يوماً على الأقل من توجيه الدعوة إليه. ومع ذلك، يجوز أن يعقد الاجتماع الثاني بعد ساعة من انتهاء المدة المحددة لانعقاد الاجتماع الأول، ويجب أن تتضمن الدعوة لعقد الاجتماع الأول ما يفيد الإعلان عن إمكانية عقد هذا الاجتماع. وفي جميع الأحوال، يكون الاجتماع الثاني صحيحاً أيضاً كان عدد المكتتبين الممثلين فيه.

### Article (27) – Powers of the Constituent General Assembly

### المادة السابعة والعشرون: اختصاصات الجمعية التأسيسية:

The Constituent General Assembly shall be competent to address the following matters:

تختص الجمعية التأسيسية بالأمر الآتية:

- A. Ascertain that the capital of the Company has been fully subscribed for and the minimum

أ. التحقق من الاكتتاب بكل أسهم الشركة ومن الوفاء بالحد الأدنى من رأس المال وبالقدر

اسم الشركة شركة ساب للتكافل	النظام الأساسي	وزارة التجارة (إدارة حوكمة الشركات)
سجل تجاري 1010234032	التاريخ: 1442/01/19 هـ الموافق: 2020/09/07 م رقم الصفحة: 15 من 29	مجلس تجاري وزارة التجارة والتعاون Ministry of Commerce and Co-operation إدارة حوكمة الشركات

\*تم الشهر \* تم إصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 2020-06-29م

capital requirement has been met as per authorized regulation;

B. Discussion on benefits share assessment Report.

C. Adopt the final text of the Company's By-laws. However, the Assembly may not make any material changes to the By-laws without the consent of all subscribers represented thereat.

D. Appoint the members of the Company's first Board of Directors for a term of not more than three (3) years, unless they have been appointed in the company's contract or By-laws.

E. Discussion on the Founders' report on the formalities and expenses incurred for the incorporation of the Company. Minister of Commerce and Investment and CMA shall delegate a representative (or more) as auditor to attend Constituent General Assembly meeting to verify regulation being applied therefor.

المستحق من قيمة الأسهم وفقاً لأحكام النظام.

ب. المداولة في تقرير تقويم الحصص العينية.

ج. إقرار النصوص النهائية لنظام الشركة الأساس، على ألا تُدخل تعديلات جوهرية على النظام المعروض عليها إلا بموافقة جميع الممثلين الممثلين فيها.

د. تعيين أعضاء أول مجلس إدارة للشركة لمدة لا تتجاوز خمس سنوات إذا لم يكونوا قد عُينوا في عقد تأسيس الشركة أو في نظامها الأساس.

هـ. المداولة في تقارير المؤسسين عن الأعمال والنقبات التي اقتضاها تأسيس الشركة، وإقراره. ويجوز لوزارة التجارة والاستثمار، وكذلك لهيئة السوق المالية أن توفد مندوباً (أو أكثر) بوصفه مراقباً لحضور الجمعية التأسيسية للشركة؛ للتأكد من تطبيق أحكام النظام.

## Article (28) – Ordinary General Assembly

Except for the matters reserved for the Extraordinary General Assembly, the Ordinary General Assembly shall be in charge of all matters concerning the Company. The Ordinary General Assembly shall be convened at least once a year within the six (6) months following the end of the Company's fiscal year. Additional Ordinary General Assembly meetings may be convened whenever needed.

## Article (29) – Extraordinary General Assembly

The Extraordinary General Assembly shall have the power to amend the Company's By-Laws, except for such provisions as may be impermissible to be amended under the law. Furthermore, the Extraordinary General Assembly may pass resolutions on matters falling within the competence of the Ordinary General Assembly under the same conditions applicable to the latter.

## المادة الثامنة والعشرون: اختصاصات الجمعية العامة العادية:

فيما عدا الأمور التي تختص بها الجمعية العامة غير العادية، تختص الجمعية العامة العادية بجميع الأمور المتعلقة بالشركة وتتعقد مره على الأقل في السنة خلال الستة أشهر التالية لانتهاى السنة المالية للشركة، ويجوز الدعوة لجمعية عامة عادية أخرى للاجتماع كلما دعت الحاجة إلى ذلك.

## المادة التاسعة والعشرون: اختصاصات الجمعية العامة غير العادية:

تختص الجمعية العامة غير العادية بتعديل نظام الشركة الأساس، باستثناء الأحكام المحظور عليها تعديلها نظاماً، ولها أن تصدر قرارات في الأمور الداخلة في اختصاصات الجمعية العامة العادية وذلك بنفس الشروط والأوضاع المقررة للجمعية العامة العادية.

<p>وزارة التجارة إمارة دولة الإمارات العربية المتحدة مجلس الشركات وزارة التجارة والاستثمار Ministry of Commerce and Investment إمارة دولة الإمارات العربية المتحدة</p>	النظام الأساسي	اسم الشركة شركة ساب للتكافل
	<p>التاريخ: 1442/01/19 هـ الموافق: 2020/09/07 م</p> <p>رقم الصفحة: 16 من 29</p>	<p>سجل تجاري</p> <p>1010234032</p>

\*تم الشهر \* تم اصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 2020-06-29م



## Article (30) – Invitations to General Assemblies

## المادة الثلاثون: دعوة الجمعيات:

- 1- The Board of Directors shall call for a General Assembly if requested by the auditor, audit committee or a number of Shareholders holding or representing at least five per cent (5%) of the share capital. The auditor may call for the General Assembly in case the Board fails to do so within thirty (30) days from the auditor's request.
- 2- The Ordinary General Assembly will be held when invited by Capital Market Authority resolution in the following cases :
  - A- If the period to held a meeting ended (during the following six months to the company fiscal year) without holding any meetings.
  - B. If the Board members are less than the minimum to held any meeting.
  - C. If appear there are violation to regulatory provision or the company By-Law or there is failure in the company's management.
  - D. If the Board don't invite for holding Gneral Assembly Meeting during (15) days from the Auditors and Audit Committee request or at least shareholder number represent (5%) of capital.
- 3- Some of sharholder shall at least represent (2%) of capital request Capital Market Authority to invite Ordinary General Assmby meeting to be held, if there are any of the mentioned cases in article (2) of this item. Capital Market Auhtoitly shall invite for a meeting during (30) days from the shareholder rquest date, and must include General Assembly agenda and items to be agreed and approved by shareholders.
- 4- The invitation for the Assembly shall be published in a daily newspaper circulated in the city where the head office of the Company is located, at least twenty one (21) days prior to the date set for Assembly. A copy of the invitation shall be sent to Ministry of Commerce and Investment, CMA. Also it shall be sufficient to send a notice to each

- 1- تتعقد الجمعيات العامة أو الخاصة للمساهمين بدعوة من مجلس الإدارة، وعلى مجلس الإدارة أن يدعو الجمعية العامة العادية للانعقاد إذا طلب ذلك مراجع الحسابات أو لجنة المراجعة أو عدد من المساهمين يمثل (5%) من رأس المال على الأقل. ويجوز لمراجع الحسابات دعوة الجمعية للانعقاد إذا لم يتم المجلس بدعوة الجمعية خلال (30) ثلاثين يوماً من تاريخ طلب مراجع الحسابات.
- 2- يجوز بقرار من هيئة السوق المالية دعوة الجمعية العامة العادية للانعقاد في الحالات الآتية:
  - أ. إذا انقضت المدة المحددة للانعقاد خلال الأشهر الست التالية لانتهاؤ السنة المالية للشركة) دون انعقادها.
  - ب. إذا نقص عدد أعضاء مجلس الإدارة عن الحد الأدنى لصحة انعقاده.
  - ج. إذا تبين وجود مخالفات لأحكام النظام أو نظام الشركة الأساس، أو وقوع خلل في إدارة الشركة.
  - د. إذا لم يوجه المجلس الدعوة لانعقاد الجمعية العامة خلال خمس عشرة يوماً من تاريخ طلب مراجع الحسابات أو لجنة المراجعة أو عدد من المساهمين يمثل (5%) من رأس المال على الأقل.
- 3- يجوز لعدد من المساهمين يمثل (2%) من رأس المال على الأقل تقديم طلب إلى هيئة السوق المالية لدعوة الجمعية العامة العادية للانعقاد، إذا توافر أي من الحالات المنصوص عليها في الفقرة (2) من هذه المادة. وعلى هيئة السوق المالية توجيه الدعوة للانعقاد خلال ثلاثين يوماً من تاريخ تقديم طلب المساهمين، على أن تتضمن الدعوة جدولاً بأعمال الجمعية والبنود المطلوب أن يوافق عليها المساهمون.
- 4- تنشر هذه الدعوة وجدول الأعمال في صحيفة يومية توزع في المنطقة التي فيها مركز الشركة الرئيس قبل الميعاد المحدد لانعقاد (21) واحد وعشرين يوم على الأقل وترسل صورة من الدعوة وجدول الأعمال إلى وزارة التجارة والاستثمار،

	<b>الوزارة التجارية</b> (إدارة حوكمة الشركات)	<b>النظام الأساسي</b>	<b>اسم الشركة</b> شركة ساب للتكافل
	1442/01/19 هـ الموافق 2020/09/07 م	رقم الصفحة صفحة 17 من 29	<b>سجل تجاري</b> 1010234032

\*تم الشهر\* تم اصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 2020-06-29 م

Shareholder by registered mail during the period specified in this paragraph. A copy of the notice and the agenda shall be sent to the CMA within the period specified for publication.

وكذلك صورة إلى هيئة السوق المالية. ومع ذلك يجوز الاكتفاء بتوجيه الدعوة في الميعاد المذكور إلى جميع المساهمين بخطابات مسجلة. وترسل صورة من الدعوة وجدول الأعمال إلى هيئة السوق المالية وذلك خلال المدة المحددة للنشر.

### Article (31) – Register of Attendance

### المادة الحادية والثلاثون: سجل حضور الجمعيات:

A Shareholder wishing to attend a general or special assembly shall register its name in the register maintained in the Company's head office before the time fixed for the meeting.

يسجل المساهمون الذين يرغبون في حضور الجمعية العامة أو الخاصة أسمائهم في مركز الشركة الرئيسي قبل الوقت المحدد لانعقاد الجمعية.

### Article (32) – Quorum for the Ordinary General Assembly

### المادة الثانية والثلاثون: نصاب اجتماع الجمعية العامة العادية:

- 1- A meeting of the Ordinary General Assembly shall be valid only if attended by Shareholders representing at least (50%) of the Company's capital.
- 2- If such quorum cannot be attained at the Ordinary General Assembly, a second meeting shall be convened within the following thirty (30) days. Invitation for the meeting shall be published in the manner stipulated by Article (30) of the Company's By-Laws. However, the second meeting may, if so stated in the original invitation, be held after the lapse of one hour from the time fixed for the first meeting, in all cases the second meeting is correct if there are any of representing share.

- 1- لا يكون انعقاد الجمعية العامة العادية صحيحاً إلا إذا حضر مساهمون يمثلون نصف رأس مال الشركة على الأقل.
- 2- إذا لم يتوفر النصاب اللازم لعقد اجتماع الجمعية العامة العادية وفق الفقرة (1) من هذه المادة، وجهت الدعوة إلى اجتماع ثان يعقد خلال الثلاثين يوماً التالية للاجتماع السابق. وتنتشر هذه الدعوة بالطريقة المنصوص عليها في المادة (30) من هذا النظام ومع ذلك يجوز أن يُعقد الاجتماع الثاني بعد ساعة من انتهاء المدة المحددة لانعقاد الاجتماع الأول بشرط أن تتضمن الدعوة لعقد الاجتماع الأول ما يُفيد الإعلان عن إمكانية عقد هذا الاجتماع، وفي جميع الأحوال يكون الاجتماع الثاني صحيحاً أيضاً كان عدد الأسهم الممثلة فيه.

### Article (33) – Quorum for the Extraordinary General Assembly

### المادة الثالثة والثلاثون: نصاب اجتماع الجمعية العامة غير العادية:

- 1- A meeting of the Extraordinary General Assembly shall be valid only if attended by Shareholders representing at least 65% of the Company's capital.
- 2- If such quorum cannot be attained at the Extraordinary General Assembly, a second meeting shall be convened in the same manner set out in Article

- 1- لا يكون انعقاد الجمعية العامة غير العادية صحيحاً إلا إذا حضره مساهمون يمثلون (65%) خمسة وستون في المائة من رأس مال الشركة على الأقل.
- 2- إذا لم يتوفر النصاب لعقد اجتماع الجمعية العامة غير العادية وفق الفقرة (1) من هذه

<p>وزارة التجارة إدارة حوكمة الشركات</p>	النظام الأساسي		اسم الشركة شركة ساب للتكافل
	التاريخ: 1442/01/19 هـ الموافق: 2020/09/07 م	رقم الصفحة	سجل تجاري 1010234032
محل النشر	صفحة 18 من 29		

\*تم النشر \* تم إصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 2020-06-29م

(30) of the Company's By-laws. However, the second meeting may, if so stated in the original invitation, be held after the lapse of one hour from the time fixed for the first meeting. In all cases the second meeting shall be deemed quorate if attended by Shareholders representing at least twenty five per cent (25%) of the Company's capital.

3- If such quorum cannot be attained at the second meeting, a third meeting shall be convened in the same manner set out in Article (30) of the Company's By-laws. In all cases the third meeting shall be deemed quorate regardless of the number of the Shareholders represented therein, subject to approval of the Capital Market Authority.

### Article (34) – Voting Rights

Votes at the meetings of Constituent, Ordinary and Extraordinary General Assemblies shall be counted on (one share-one vote) basis. Members of the Board of Directors shall be appointed by the way of cumulative voting, where only one vote can be used per each share. A Board member may not participate in any vote regarding its release from the responsibility for the management of the Company, or regarding any of its direct or indirect interest(s).

### Article (35) – Shareholders Assemblies' Resolutions

Resolutions of the Constituent General Assembly and Ordinary General Assembly shall be adopted by an absolute majority vote of the shares represented thereat. However, if a resolution relates to granting special benefits, a majority of the subscribers of cash shares is needed such that they represent at least two thirds ( $\frac{2}{3}$ ) of the mentioned shares after discounting the special benefits subscribed for. Resolutions of the Extraordinary General Assembly shall be adopted by a majority vote of two thirds of the shares represented at the meeting. However, if the resolution to be adopted is related to increasing or reducing the capital, extending the Company's period, dissolving the

المادة. وجهت الدعوة إلى اجتماع ثان، بنفس الأوضاع المنصوص عليها في المادة (30) من هذا النظام. ويجوز أن يُعقد الاجتماع الثاني بعد ساعة من انتهاء المدة المحددة لانعقاد الاجتماع الأول بشرط أن تتضمن الدعوة لعقد الاجتماع الأول ما يُفيد الإعلان عن إمكانية عقد هذا الاجتماع، وفي جميع الأحوال يكون الاجتماع الثاني صحيحاً إذا حضره عدد من المساهمين يمثلون (ربع) رأس المال على الأقل.


3- إذا لم يتوافر النصاب اللازم في الاجتماع الثاني، وجهت دعوة إلى اجتماع ثالث يُعقد بالأوضاع نفسها المنصوص عليها في المادة (30) من هذا النظام، ويكون الاجتماع الثالث صحيحاً أيضاً كان عدد الأسهم الممثلة فيه، بعد موافقة هيئة السوق المالية.

### المادة الرابعة والثلاثون: التصويت في الجمعيات:

تحسب الأصوات في الجمعية التأسيسية والجمعيات العامة العادية وغير العادية على أساس صوت لكل سهم. ويجب استخدام التصويت التراكمي في انتخاب مجلس الإدارة، بحيث لا يجوز استخدام حق التصويت للسهم أكثر من مرة واحدة. ولا يجوز لأعضاء مجلس الإدارة الاشتراك في التصويت على قرارات الجمعية التي تتعلق بإبراء ذمتهم من المسؤولية عن إدارة الشركة أو التي تتعلق بمصلحة مباشرة أو غير مباشرة لهم.

### المادة الخامسة والثلاثون: قرارات الجمعيات:

تصدر القرارات في الجمعية التأسيسية بالأغلبية المطلقة للأسهم الممثلة فيها، وتصدر قرارات الجمعية العامة العادية بالأغلبية المطلقة للأسهم الممثلة في الاجتماع ومع ذلك فإنه إذا تعلقت هذه القرارات بتقييم مزايا خاصة لزمّت موافقة أغلبية الممثلين بالأسهم التي تمثل (ثلثي) الأسهم المذكورة بعد استبعاد ما اكتتب به المستفيدون من المزايا الخاصة، وتصدر القرارات في الجمعية العامة غير العادية بأغلبية ثلثي الأسهم الممثلة في الاجتماع إلا إذا كان القرار متعلقاً بزيادة أو تخفيض رأس المال

 <p>وزارة التجارة إدارة حوكمة الشركات</p>	النظام الأساسي	اسم الشركة شركة ساب للتكافل
	<p>التاريخ: 1442/01/19 هـ الموافق: 2020/09/07 م</p> <p>صفحة 19 من 29</p>	سجل تجاري 1010234032

\*تم الشطب \* تم إصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 2020-06-29

Company prior to the expiry of the period specified therefor under these By-laws or merging the Company with another company or establishment, then such resolution shall be valid only if adopted by a majority of three-quarters (3/4) of the shares represented at the meeting.

### Article (36) – Deliberations

Each shareholder shall have the right to discuss the items listed in the General Assembly's agenda and to direct questions in respect thereof to the members of the Board and the auditors in this respect. Any provision in the Company's By-laws denying such right shall be null and void. The members of the Board or the auditors shall answer the Shareholders' questions to the extent that does not expose the Company's interest to any damage. If the Shareholder deems the answer to the question unsatisfactory, then he/it may refer the issue to the General Assembly and its decision in this regard shall be final and binding.

### Article (37) – Proceedings of the General Assembly & Minutes of Meetings

- 1- The General Assembly shall be presided over by the Chairman or, in his absence, the Vice Chairman or, in his absence, any Director designated by the Board.
- 2- Minutes shall be written for the meeting showing the names of the Shareholders present in person or represented by proxy, the number of the shares held or represented by each, the number of votes attached to such shares, the resolutions adopted at the meeting, the number of votes assenting or dissenting to such resolutions and a comprehensive summary of the discussions that took place at the meeting. Such minutes shall be regularly recorded after each meeting in a special register to be signed by the Chairman of the Assembly, the secretary and the rapporteur.

أو بإطالة مدة الشركة أو بحل الشركة قبل المدة المحددة في نظامها أو بإدماجها في شركة أو في مؤسسة أخرى فلا يكون القرار صحيحاً إلا إذا صدر بأغلبية ثلاثة أرباع الأسهم الممثلة في الاجتماع.

### المادة السادسة والثلاثون: المناقشة في الجمعيات:

لكل مساهم حق مناقشة الموضوعات المدرجة في جدول أعمال الجمعية وتوجيه الأسئلة في شأنها إلى أعضاء مجلس الإدارة ومراجع الحسابات. وكل نص في هذا النظام يحرم المساهم من هذا الحق، يكون باطلاً. ويجب على مجلس الإدارة أو مراجع الحسابات عن أسئلة المساهمين بالقدر الذي لا يعرض مصلحة الشركة للضرر. وإذا رأى المساهم أن الرد على سؤاله غير مقنع، احتكم إلى الجمعية، وكان قرارها في هذا الشأن نافذاً.

### المادة السابعة والثلاثون: رئاسة الجمعيات وإعداد المحاضر:

- 1- يرأس الجمعية العامة رئيس مجلس الإدارة أو نائبه عند غيابه أو من ينتدبه مجلس الإدارة من بين أعضائه لذلك في حال غياب رئيس مجلس الإدارة ونائبه.
- 2- يحرر باجتماع الجمعية العامة محضر يتضمن عدد المساهمين الحاضرين أو الممثلين وعدد الأسهم التي في حيازتهم بالأصالة أو الوكالة وعدد الأصوات المقررة لها والقرارات التي اتخذت وعدد الأصوات التي وافقت عليها أو خالفتها وخلصها وافية للمناقشة التي دارت في الاجتماع، وتدوين المحاضر بصفة منتظمة عقب كل اجتماع في سجل خاص يوقعه رئيس الجمعية وأمين سرها وجامع الأصوات.

## PART VI

## الباب السادس

	النظام الأساسي	اسم الشركة شركة ساب للتكافل
	التاريخ 1442/01/19 هـ الموافق 2020/09/07 م	سجل تجاري 1010234032
صفحة 20 من 29	رقم الصفحة	

\*تم الشهر \* تم إصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 2020-06-29م

## BOARD COMMITTEES

## اللجان المنبثقة من مجلس الإدارة:

### Article (38) – Board Committees

### المادة الثامنة والثلاثون: لجان مجلس الإدارة:

Board Committees shall be constituted in accordance with the applicable rules and regulations.

تُشكل لجان مجلس الإدارة وفقاً للأنظمة واللوائح ذات العلاقة.

## PART VII AUDITORS

## الباب السابع مراجع الحسابات:

### Article (39) – Appointment of Auditors

### المادة التاسعة والثلاثون: تعيين مراجع الحسابات:

The Company shall have two (or more) auditors to be selected from among the auditors licensed to work in the Kingdom of Saudi Arabia. The auditor(s) remuneration and term of office shall be fixed by the General Assembly and not exceeding (5) years and any one complete his term can reappointed again after (2) years from completion period . The General Assembly may reappoint the same auditor, and may also dismiss them at any time, without prejudice to their right in compensation if the dismissal was for illegitimate reasons or occurred in inappropriate time.

يجب أن تعين الجمعية العامة مراجعي حسابات (أو أكثر) من بين مراجعي الحسابات المرخص لهم بالعمل في المملكة، وتحدد مكافأتهم ومدة عملهم، ويجوز لها إعادة تعيينهم، على ألا يتجاوز مجموع مدة تعيينه خمس سنوات متصلة، ويجوز لمن استنفذ هذه المدة أن يعاد تعيينه بعد مضي سنتين من تاريخ انتهائها، ويجوز للجمعية العامة أيضاً وفي كل وقت تغييرهم مع عدم الإخلال بحقوقهم في التعويض إذا وقع التغيير في وقت غير مناسب أو لسبب غير مشروع.

### Article (40) – Powers of the Auditor


### المادة الأربعون: صلاحيات مراجع الحسابات:

The auditor shall have access at all times to the Company's books, records and any other documents, and may request information and clarification as it deems necessary. It may further check the company's assets and liabilities any anything that falls in the ambit of its competencies. The Chairman shall enable the auditor to perform its duties, failing which the auditor may state this in writing in a report to be submitted to the Board of Directors. In case the Board of Directors fails to assist the Auditor in the performance of his duties, the Auditor shall then be entitled to request the Board to call for the Ordinary General Assembly to convene to look into the situation.

لمراجع الحسابات - في أي وقت - حق الاطلاع على دفاتر الشركة وسجلاتها وغير ذلك من الوثائق وله أن يطلب البيانات والإيضاحات التي يرى ضرورة الحصول عليها وله أيضاً أن يتحقق من موجودات الشركة والتزاماتها. وغير ذلك مما يدخل في نطاق عمله. وعلى رئيس مجلس الإدارة أن يمكنه من أداء واجبه، وإذا صادف مراجع الحسابات صعوبة في هذا الشأن أثبت ذلك في تقرير يقدم إلى مجلس الإدارة. فإذا لم ييسر المجلس عمل مراجع الحسابات، وجب عليه أن يطلب من مجلس الإدارة دعوة الجمعية العامة العادية للنظر في الأمر.

### Article (41) – Auditor's Obligations

### المادة الحادية والأربعون: التزامات مراجع الحسابات:

 <p>وزارة التجارة إدارة حوكمة الشركات مجلس تدقيق</p>	النظام الأساسي	اسم الشركة شركة ساب للتكافل
	التاريخ 1442/01/19 هـ الموافق 2020/09/07 م صفحة 21 من 29	سجل تجاري رقم الصفحة 1010234032

\*تم الشهر\* تم إصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 2020-06-29م

The auditor shall submit to the annual General Assembly a report prepared in accordance with the recognized auditing standards showing how far the Company has enabled it to obtain the information and clarifications it has requested and what it has discovered of violations to the Cooperative Insurance Companies Control Act and its implementing regulations and any other applicable bylaws and regulations, and its opinion as to whether or not the Company's accounts conform to the facts. The General Assembly shall review the auditor's report, and if the Assembly decides to ratify the Board's report and the financial statements without hearing the auditor's report, its decision shall be void.

على مراجع الحسابات أن يقدم إلى الجمعية العامة السنوية تقريراً يعيد وفقاً لمعايير المراجعة المتعارف عليها يضمه موقف إدارة الشركة من تمكنه من الحصول على البيانات والإيضاحات التي طلبها وما يكون قد كشفه من مخالفة لأحكام نظام مراقبة شركات التأمين التعاوني ولائحته التنفيذية والأنظمة واللوائح والتعليمات الأخرى ذات العلاقة ونظام الشركة الأساس ورأيه في مدى عدالة القوائم المالية للشركة. ويتلو مراجع الحسابات تقريره في الجمعية العامة. وإذا قررت الجمعية التصديق على تقرير مجلس الإدارة والقوائم المالية دون الاستماع إلى تقرير مراجع الحسابات، كان قرارها باطلاً.

## PART VIII THE COMPANY'S ACCOUNTS AND DISTRIBUTION OF PROFITS

## الباب الثامن حسابات الشركة وتوزيع الأرباح

### Article (42) – Financial Year

### المادة الثانية والأربعون: السنة المالية:

The Company's financial year shall commence on the 1<sup>st</sup> of January and end on the 31<sup>st</sup> of December of each Gregorian year. However, the Company's first financial year shall commence on the date of the Ministerial Resolution announcing the incorporation of the Company and end on the 31<sup>st</sup> of December of the following year.

تبدأ سنة الشركة المالية من الأول من (يناير) وتنتهي بنهاية (ديسمبر) في السنة نفسها على أن تبدأ السنة المالية الأولى من تاريخ القرار الوزاري الصادر بإعلان تأسيس الشركة وتنتهي في (31) ديسمبر من العام التالي.

### Article (43) – Financial Statements

### المادة الثالثة والأربعون: الوثائق المالية:

1. The Board of Directors shall prepare at the end of each financial year the Company's financial statements (being statement of financial position for insurance operations and shareholders, a statement of surplus (deficit) of insurance operations, a statement of shareholders' income, a statement of shareholders equity, a statement of cash flow of insurance operations and a statement of cash flow of shareholders) and a report on the Company's activities and financial position for the preceding year. The report shall include the method proposed by the Board for the distribution of net profits for that financial year. The Board

- 1- يجب على مجلس الإدارة في نهاية كل سنة مالية أن يعدد القوائم المالية (وتتكون القوائم المالية من: قائمة المركز المالي لعمليات التأمين والمساهمين، قائمة فائض (عجز) عمليات التأمين، قائمة دخل المساهمين، قائمة حقوق المساهمين، قائمة التدفقات النقدية لعمليات التأمين وقائمة التدفقات النقدية للمساهمين). وتقريراً عن نشاط الشركة ومركزها المالي عن السنة المالية المنقضية ويتضمن هذا التقرير الطريقة التي يقترحها

	النظام الأساسي	اسم الشركة شركة ساب للتكافل
	التاريخ: 1442/01/19 هـ الموافق: 2020/09/07 م صفحة 22 من 29	سجل تجاري 1010234032

\*تم الشهر \* تم إصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 2020-06-29م



shall place such documents at the disposal of the Auditors at least forty-five (45) days prior to the date set for convening the General Assembly.

لتوزيع الأرباح ويضع المجلس هذه الوثائق تحت تصرف مراجع الحسابات، قبل الموعد المحدد لانعقاد الجمعية العامة بـ(45) خمسة وأربعين يوماً على الأقل.

2. The Chairman of the Board of Directors, the CEO and the financial manager shall sign the aforesaid documents as stated in article (1) deposit a copy thereof in the Company's head office to be at the disposal of the Shareholder at least ten (21) days prior to the date set for convening the General Assembly.

2- يجب أن يوقع رئيس مجلس الإدارة ورئيسها التنفيذي ومديرها المالي على الوثائق المذكورة في الفقرة (1)، وتودع نسخ منها في المركز الرئيسي للشركة تحت تصرف المساهمين، قبل الموعد المحدد لانعقاد الجمعية العامة بـ(21) واحد وعشرين يوماً على الأقل.

3. The Chairman of the Board of Directors shall provide the Shareholders with a copy of the Company's financial statements, Board of Directors' report and the Auditors' Report, unless he has previously published the said documents in a newspaper circulated in the city where the head office of the Company is located. The Chairman shall send copies of such documents to Ministry of Commerce and Investment, CMA at least fifteen (15) days prior to the date set for convening the Ordinary General Assembly.

3- على رئيس مجلس الإدارة أن يزود المساهمين بالقوائم المالية للشركة وتقرير مجلس الإدارة وتقرير مراجع الحسابات مالم تنشر في صحيفة يومية توزع في المركز الرئيسي للشركة، على أن يرسل صورة من هذه الوثائق إلى وزارة التجارة والاستثمار وهيئة السوق المالية وذلك قبل تاريخ انعقاد الجمعية العامة العادية بـ(15) خمسة عشر يوماً على الأقل.

#### Article (44) – Insurance Accounts

#### المادة الرابعة والأربعون: حسابات عمليات التأمين:

The insurance operations accounts shall be kept separate from the Shareholders' income statement, according to the following details:


تكون حسابات عملية التأمين مستقلة عن قائمة دخل المساهمين، وذلك على التفصيل التالي:

##### First: Insurance Operations Accounts

##### أولاً: حسابات عمليات التأمين:

1. An independent account shall be dedicated to earned premiums, reinsurance commissions and other commissions;
2. An independent account shall be dedicated to compensation incurred by the Company;
3. There shall be determined at the end of every year the total surplus which represents the total premiums and compensation less marketing and administrative, and operational expenses and the necessary technical provisions in accordance with the directives in this regard;

- 1- يفرّد حساب للأقساط المكتسبة وعمولات إعادة التأمين والعمولات الأخرى.
- 2- يفرّد حساب للتعويضات المتكبدة من الشركة.
- 3- يحدّد في نهاية كل عام الفائض الإجمالي الذي يمثّل الفرق بين مجموع الأقساط والتعويضات محسوماً منه المصاريف التسويقية والإدارية والتشغيلية والمخصصات الفنية اللازمة حسب التعليمات المنظمة لذلك.

	النظام الأساسي	اسم الشركة شركة ساب للتكافل
	التاريخ: 1442/01/19 هـ الموافق: 2020/09/07 م صفحة 23 من 29	سجل تجاري 1010234032

\*تم الشهر \* تم إصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 29-06-2020م

4- Net surplus shall be determined by: يكون تحديد الفائض الصافي على النحو التالي:

adding to, or subtracting from, the total surplus referred to in sub-Article (3) above, the policyholders' investment return share after calculating the policyholders' earnings and deducting what they owe in expenses realized; and

يضاف للفائض الإجمالي الوارد في الفقرة (3) أعلاه أو يخصم منه ما يخص المؤمن لهم من عائد الاستثمار بعد احتساب ما لهم من عوائد وخصم ما عليهم من مصاريف محققة.

5. Net surplus shall be distributed either by distributing ten per cent (10%) directly to the Policyholders or by reducing their premiums for the next year, and ninety per cent (90%) of the balance shall be carried over to the Shareholders' income statement.

5- توزيع الفائض الصافي، ويتم إما بتوزيع نسبة (10%) عشيرة بالمائة للمؤمن لهم مباشرة، أو بتخفيض أقساطهم للسنة التالية، ويرحل ما نسبته (90%) تسعون بالمائة إلى حسابات دخل المساهمين.

**Second: Shareholders' Income Statement:**

**ثانياً: قائمة دخل المساهمين:**

1. The Shareholders' profits from the investment of their funds shall be in accordance with the rules set by the Board of Directors.

1- تكون أرباح المساهمين من عائد استثمار أموال المساهمين وفقاً للقواعد التي يضعها مجلس الإدارة.

2. The share of the Shareholders in the net surplus shall be as set forth in paragraph (5) of this Article.

2- تكون حصة المساهمين من الفائض الصافي حسب ما ورد في الفقرة الخامسة من البند أولاً من هذه المادة.

**Article (45) – Zakat & Reserves**


**المادة الخامسة والأربعون: الزكاة والاحتياطي:**

The Company shall:

يجب على الشركة:

- withhold *Zakat* and the prescribed income tax;
- Set aside twenty per cent (20%) of the net profits shall be set aside to form a statutory reserve. Such setting aside may be discontinued by the Ordinary General Assembly when said reserve totals one hundred per cent (100%) of the Company's paid-up capital.
- The Ordinary General Assembly may set aside a percentage of the annual net profits to form an additional reserve(s) to the extent required to achieve the Company's interests or to distribute fixed profits, as far as possible, to Shareholders.
- The Company's annual Net Profit will be distributed after deducting all general expenses and other cots, and the reserves will be set to

- تجنّب الزكاة وضريبة الدخل المقررة.
- تجنّب (20%) من الأرباح الصافية لتكوين احتياطي نظامي، ويجوز للجمعية العامة العادية وقف هذا التجنّب متى بلغ إجمالي الاحتياطي (100%) من رأس المال المدفوع.
- للجمعية العامة العادية عند تحديد نصيب الأسهم في صافي الأرباح أن تقرر تكوين احتياطات أخرى، وذلك بالقدر الذي يحقق مصلحة الشركة أو يكفل توزيع أرباح ثابتة قدر الإمكان على المساهمين.
- توزع أرباح الشركة السنوية الصافية التي تحددها بعد خصم جميع المصروفات العامة

 <p>وزارة التجارة إمارة دولة قطر Ministry of Commerce and Industry Emirate of Qatar</p>	<p>النظام الأساسي</p>	<p>اسم الشركة شركة ساب للتكافل</p>
	<p>التاريخ: 1442/01/19 هـ الموافق: 2020/09/07 م</p> <p>صفحة 24 من 29</p>	<p>سجل تجاري 1010234032</p>

\*تم الشهر \* تم إصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 29-06-2020م



encounter any bad debts or investment losses or emergency obligations which the Board will consider necessary according to the company By-Law and Cooperative Insurance Companies Control Law and SAMA rules and regulations, and the balance of profit after deducting reserved as per related regulation not less than (5 %) for Zakat and for paid-up capital to be distrusted to shareholders as per Board of Directors proposal and the General Assembly will decide if the remaining profit percentage for shareholders not enough to pay this percent although shareholders will have no right to claim paying in the year or coming years, and the General Assembly will not decide to distribute profit percent more than proposed by Board of Directors.

والتكاليف الأخرى، وتكوين الاحتياطات اللازمة لمواجهة الديون المشكوك فيها وخسائر الاستثمارات والالتزامات الطارئة التي يرى مجلس الإدارة ضرورتها بما يتفق مع أحكام نظام مراقبة شركات التأمين التعاوني والأحكام الصادرة عن مؤسسة النقد العربي السعودي، ويخصص من الباقي من الأرباح بعد خصم الاحتياطات المقررة بموجب الأنظمة ذات العلاقة والزكاة نسبة لا تقل عن (5%) من رأس المال المدفوع للتوزيع على المساهمين طبقاً لما يقترحه مجلس الإدارة وتقرره الجمعية العامة، وإذا كانت النسبة المتبقية من الأرباح المستحقة للمساهمين لا تكفي لدفع هذه النسبة فلا يجوز للمساهمين المطالبة بدفعها في السنة أو السنوات التالية، ولا يجوز للجمعية العامة أن تقرر توزيع نسبة من الأرباح عما اقترحه مجلس الإدارة.

#### Article (46) – Entitlement to Profits

A Shareholder's entitlement to an annual and/or Interim dividend shall be specified in a decision from the General Assembly. The decision shall specify the maturity and distribution dates. Entitlement to profits of the Shareholders registered in the Shareholders Register shall fall due at end-of-day of the maturity date. The Company shall, without undue delay, notify CMA of any actual or proposed distribution of profits. The profits to be distributed among the Shareholders shall be paid at such place and times as determined by the Board of Directors, in accordance with the instructions issued by the concerned authority and subject to SAMA's prior written consent.

#### المادة السادسة والأربعون: استحقاق الأرباح:

يستحق المساهم حصته في الأرباح وفقاً لقرار الجمعية العامة الصادر في هذا الشأن، ويبين القرار تاريخ الاستحقاق وتاريخ التوزيع. وتكون أحقية الأرباح لمالك الأسهم المسجلين في سجلات المساهمين في نهاية اليوم المحدد للاستحقاق. وتبلغ الشركة هيئة السوق المالية دون تأخير بأي قرارات لتوزيع الأرباح أو التوصية بذلك وتدفع الأرباح المقرر توزيعها على المساهمين في المكان والمواعيد التي يحددها مجلس الإدارة، وفقاً للتعليمات التي تصدرها الجهة المختصة مع مراعاة الموافقة الكتابية المسبقة لمؤسسة النقد العربي السعودي.

#### Article (47) – Company Losses

If the Company's losses reaches, at any time of the financial year, 50% of its capital, the auditor or any officer of the Company shall notify the Chairman as soon as it becomes aware of such losses. The Chairman shall, in turn, notify the Board of Directors, which shall, within 15 days of notification, call the Extraordinary General Assembly to convene within 45 days from the date of notification to consider whether to increase or decrease the share capital in accordance with the Companies Regulation to the extent required to reduce the losses to less than 50%

#### المادة السابعة والأربعون: خسائر الشركة:

إذا بلغت خسائر الشركة نصف رأس المال المدفوع في أي وقت خلال السنة المالية، وجب على أي مسؤول في الشركة أو مراجع الحسابات فور علمه بذلك إبلاغ رئيس مجلس الإدارة، وعلى رئيس مجلس الإدارة إبلاغ أعضاء المجلس بذلك، وعلى مجلس الإدارة خلال (15) خمسة عشر يوماً من علمه بذلك دعوة الجمعية العامة غير العادية للاجتماع خلال (45) خمسة وأربعين يوماً من تاريخ علمه بالخسائر لتقرر إما زيادة رأس مال الشركة أو تخفيضه- وفقاً لأحكام نظام الشركات-

اسم الشركة شركة ساب للتكافل	النظام الأساسي	وزارة التجارة إدارة حوكمة الشركات
سجل تجاري	التاريخ 1442/01/19 هـ الموافق 2020/09/07 م	مجلس تجاري
رقم الصفحة 1010234032	صفحة 25 من 29	إدارة حوكمة الشركات

\*تم الشهر \* تم إصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 2020-06-29

of the Share capital, or whether to dissolve the Company prior to the expiry of its term specified in the Company's By-laws. In all cases the Assembly's resolution shall be posted on the website of the Ministry of Commerce and Investment. The Company shall be considered as dissolved by operation of law if the Extraordinary General Assembly fails to convene within the above stated period, or if it convenes on time but fails to make a decision on the situation, or if it decides to increase the share capital but the increase amount has not been subscribed for in full within 90 days from the decision to increase the share capital.

وذلك إلى الحد الذي تنخفض معه نسبة الخسائر إلى ما دون (نصف) رأس المال المدفوع، أو حل الشركة قبل الأجل المحدد في نظامها الأساس. وينشر قرار الجمعية في جميع الأحوال في الموقع الإلكتروني لوزارة التجارة والاستثمار. وتعد الشركة منفضية بقوة النظام إذا لم تجتمع الجمعية العامة غير العادية خلال المدة المحددة أعلاه، أو إذا اجتمعت وتعذر عليها إصدار قرار في الموضوع، أو إذا قررت زيادة رأس المال وفق الأوضاع المقررة في هذه المادة ولم يتم الاكتتاب في كل زيادة رأس المال خلال (90) تسعين يوماً من صدور قرار الجمعية بالزيادة.

## PART IX DISPUTES

## الباب التاسع المنازعات:

### Article (48) - Company's Liabilities

### المادة الثامنة والأربعون: مسؤولية الشركة:

The Company shall be bound vis-à-vis third parties with respect to the acts or transactions of the Board of Directors even if such acts or transactions do not fall within the Board's powers, unless the third party was acting in bad faith or was aware of the fact that such acts or transactions exceed the powers granted to the Board.

تلتزم الشركة بجميع الأعمال والتصرفات التي يجريها مجلس الإدارة ولو كانت خارج اختصاصاته، ما لم يكن صاحب المصلحة سيء النية أو يعلم أن تلك الأعمال خارج اختصاصات المجلس.

### Article (49) - Liabilities of the Board of Directors

### المادة التاسعة والأربعون: مسؤولية أعضاء مجلس الإدارة:

1- Directors shall be jointly liable to the company, shareholders or third parties for any loss arising from mismanagement of the Company or violation of the Cooperative Insurance Companies Control Act and its implementing regulations and any other applicable bylaws and regulations, and any provision to the contrary shall be considered void *ab initio*. All directors shall be liable if the loss results from a Board decision taken unanimously. If a decision is taken by majority vote, dissenting directors shall not be liable if their opinion is reflected in the board minutes. The absence of a Director from the meeting in which the decision was adopted shall not absolve the Director from liability unless it is proven that he was not aware of the

1- ويكون أعضاء مجلس الإدارة مسؤولين بالتضامن عن تعويض الشركة أو المساهمين أو الغير عن الضرر الذي ينشأ عن إساءتهم تدبير شؤون الشركة أو مخالفتهم أحكام نظام مراقبة شركات التأمين التعاوني ولائحته التنفيذية والأنظمة واللوائح والتعليمات الأخرى ذات العلاقة وهذا النظام، وكل شرط يقضي بغير ذلك يعد كأن لم يكن. وتقع المسؤولية على جميع أعضاء مجلس الإدارة إذا نشأ الخطأ من قرار صدر باجماعهم. أما القرارات التي تصدر بأغلبية الأراء، فلا يسأل عنها الأعضاء

	النظام الأساسي		اسم الشركة شركة ساب للتكافل
	التاريخ 1442/01/19 هـ الموافق 2020/09/07 م	رقم الصفحة	سجل تجاري 1010234032
مجلس القابض	صفحة 26 من 29		


\*تم الشهر \* تم إصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 2020-06-29

resolution or that he was aware of it but was unable to object to it.

- 2- Any resolution adopted by the Ordinary General Assembly to release the directors from liability shall not result in the abatement of the liability action against them.
- 3- Any liability action shall be time barred on the lapse of three (3) years from the date of discovering the act giving rise to liability. With the exception of the cases of fraud and forgery, a liability action shall, in all cases, be barred after the lapse of five (5) years from the expiry of the financial year during which the wrongful act was discovered, or after the lapse of three (3) years from the expiry of membership of the relevant Director, whichever occurs later.
- 4- Each Shareholder shall have the right to file a liability action, vested in the Company, against the members of the Board of Directors if they have committed a fault which has caused particular damage to such Shareholder, provided that the Company's right to file such action shall still be valid. The Shareholder shall notify the Company of his/its intention to file such action and confirm that its claim shall be limited to the particular damage sustained by it.
- 5- The Company shall be liable for all the expenses which been charged by shareholders to present his sue if any whichever result as per following conditions :
  - A. If shareholder sue with good faith.
  - B. If he approach to the company with the case why he sue the case and no reply within 30 days.
  - C. If the Company's interest to sue case as per item (79) provision of the Bomapny By-Law.
  - D. If the sue case is correct and real.

المعارضون متى أثبتوا اعتراضهم صراحة في محضر الاجتماع. ولا يعد الغياب عن حضور الاجتماع الذي يصدر فيه القرار سبباً للإعفاء من المسؤولية إلا إذا ثبت عدم علم العضو الغائب بالقرار أو عدم تمكنه من الاعتراض عليه بعد علمه به.

- 2- لا تحول دون إقامة دعوى المسؤولية موافقة الجمعية العامة العادية على إبراء ذمة أعضاء مجلس الإدارة.
- 3- لا تسمع دعوى المسؤولية بعد انقضاء (3) ثلاث سنوات من تاريخ اكتشاف الفعل الضار. - وفيما عدا حالاتي الغش والتزوير، لا تسمع دعوى المسؤولية في جميع الأحوال بعد مرور (5) خمس سنوات من تاريخ انتهاء السنة المالية التي وقع فيها الفعل الضار أو (3) ثلاث سنوات من انتهاء عضوية عضو مجلس الإدارة المعني أيهما أبعد.
- 4- ولكل مساهم الحق في رفع دعوى المسؤولية المقررة للشركة على أعضاء مجلس الإدارة إذا كان من شأن الخطأ الذي صدر منهم إلحاق ضرر خاص به. ولا يجوز للمساهم رفع الدعوى المذكورة إلا إذا كان حق الشركة في رفعها لا يزال قائماً. ويجب على المساهم أن يبلغ الشركة بعزمه على رفع الدعوى، مع قصر حقه على المطالبة بالتعويض عن الضرر الخاص الذي لحق به.
- 5- يجوز تحميل الشركة النفقات الآتية التي تكلفها المساهم لإقامة دعوى أيأ كانت نيتها بالشروط الآتية:
  - أ- إذا أقام الدعوى بحسن نية.
  - ب- إذا تقدم إلى الشركة بالسبب الذي من أجله أقام الدعوى ولم يحصل على رد خلال ثلاثين يوماً.
  - ج- إذا كان من مصلحة الشركة إقامة هذه الدعوى بناءً على حكم المادة (التاسعة والسبعين) من نظام الشركات.
  - د- أن تكون الدعوى قائمة على أساس صحيح.

 <p>وزارة التجارة إدارة حوكمة الشركات</p>	النظام الأساسي	اسم الشركة شركة ساب للتكافل
	<p>التاريخ: 1442/01/19 هـ الموافق: 2020/09/07 م</p> <p>صفحة 27 من 29</p>	<p>سجل تجاري</p> <p>رقم الصفحة</p> <p>1010234032</p>


\*تم الشهر \* تم إصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 2020-06-29

## PART X LIQUIDATION OF THE COMPANY

### Article (50) – Dissolution of the Company

### المادة الخمسون: انقضاء الشركة:

- 1- Upon the expiry of the period specified for it, the Company shall be considered under liquidation. The legal personality of the Company shall continue until the completion of the liquidation.
- 2- The decision for optional liquidation shall be issued by Sharholders or General Assembly.
- 3- The decision shall appoint the liquidator and determine its fees and the restrictions on its powers and the duration of the liquidation. In all cases, the duration of the voluntary liquidation may not exceed five (5) years and can only be extended by a court order.
- 4- The powers of the Board of Directors shall cease upon the Company's dissolution. However, the Board of Directors shall remain responsible for the management of the Company and shall act vis-à-vis third parties as liquidators until the Company's liquidators are appointed. The Company's administrative departments shall maintain their powers to the extent that they do not interfere with the powers of the liquidators. Any surplus remains after liquidation from insurance operations or the reserves formed in accordance with Articles (44) and (45) of these By-laws shall be reserved for the Shareholders.
- 1- تدخل الشركة بمجرد انقضائها دور التصفية وتحفظ بالشخصية الاعتبارية اللازمة بالقدر اللازم للتصفية.
- 2- يصدر قرار التصفية الاختيارية من الشركاء أو الجمعية العامة.
- 3- يجب أن يشتمل قرار التصفية على تعيين المُصفي وتحديد سلطاته وأعبائه والقيود المفروضة على سلطاته والمدة الزمنية اللازمة للتصفية ويجب أن لا تتجاوز مدة التصفية الاختيارية (5) خمس سنوات، ولا يجوز تمديدتها لأكثر من ذلك إلا بأمر قضائي.
- 4- تنتهي سلطة مجلس إدارة الشركة بحلها ومع ذلك يظل أعضاء المجلس قائمين على إدارة الشركة ويعدون بالنسبة للغير في حكم المصفيين إلى أن يُعين المُصفي وتبقى لأجهزة الشركة خلال مدة التصفية اختصاصاتها التي لا تتعارض مع اختصاصات المُصفي، ويراعي في التصفية حفظ حق المشتركين في فائض عمليات التأمين والاحتياطات المكونة حسب المنصوص عليه في المادتين (44) و(45) من هذا النظام.

	النظام الأساسي		اسم الشركة شركة ساب للتكافل
	رقم الشركة 1010234032	التاريخ 1442/01/19 هـ الموافق 2020/09/07 م	سجل تجاري

\*تم الشهر\* تم اصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 29-06-2020م

## PART XI

### FINAL PROVISIONS

#### Article (51) – The Company's By-laws

The Cooperative Insurance Company Control Law and its implementing regulations, the Companies Regulations, and all other applicable rules and regulations shall apply to all other matters not specifically provided for herein.

#### المادة الحادية والخمسون: نظام الشركة


تطبق أحكام نظام مراقبة شركات التأمين التعاوني ولائحته التنفيذية ونظام الشركات ولوائحه والأنظمة واللوائح والتعليمات الأخرى ذات العلاقة على كل ما لم يرد ذكره في هذا النظام الأساسي.

#### Article (52) – Publication

These By-Laws shall be filed and published in accordance with the Companies Regulations.

#### المادة الثانية والخمسون: النشر

يسودع هذا النظام وينشر طبقاً لنظام الشركات ولوائحه.

 <p>وزارة التجارة إدارة حوكمة الشركات</p>	النظام الأساسي		اسم الشركة شركة ساب للتكافل
	<p>التاريخ 1442/01/19 هـ الموافق 2020/09/07 م</p> <p>صفحة 29 من 29</p>		سجل تجاري 1010234032

\*تم النشر \*\* تم إصدار نسخة النظام بناء على قرار الجمعية العامة غير العادية بتاريخ 2020-06-29 م



عقد تأسيس  
شركة  
شركة مساهمة سعودية

أبرم بين كل من :

١- البنك السعودي البريطاني، وهي شركة مساهمة سعودية، بسجل تجاري رقم ١٠١٠٠٢٥٧٧٩ صادر من الرياض وتاريخ ١١/٢٢/١٣٩٩هـ، ويقع مكتبها الرئيسي في طريق الأمير عبد العزيز بن مساعد بن جلوي، ص.ب ٩٠٨٤، الرياض ١١٤١٣، المملكة العربية السعودية.

٢- إتش إس بي سي آسيا هولدينجز بي. في، وهي شركة قائمة ومؤسسة وفقاً لقوانين هولندا ولها سجل تجاري برقم ٦٠٧١٧٠ ويقع عنوانها في كارسلندرييف ٦ أتش، ١١٠١ سي جي، أمستردام زد او، هولندا.

٣- كندا سكوير نوميبيز (يوكيه) ليمتد، وهي شركة قائمة ومؤسسة وفقاً لقوانين إنجلترا وويلز ولها سجل تجاري برقم ١١٤٣٨٢١ ويقع عنوانها في ٨ كندا سكوير، لندن، إي ١٤ ٥ أتش كيو، المملكة المتحدة.

٤- كندا ووتر نوميبيز (يوكيه) ليمتد، وهي شركة قائمة ومؤسسة وفقاً لقوانين إنجلترا ولها سجل تجاري برقم ١٢٤٩٩٠١ ويقع عنوانها في ٨ كندا سكوير، لندن، إي ١٤ ٥ أتش كيو، المملكة المتحدة.

٥- كندا كريسكت نوميبيز (يوكيه) ليمتد، وهي شركة قائمة ومؤسسة وفقاً لقوانين إنجلترا ولها سجل تجاري برقم ٩٧٠١٩٨ ويقع عنوانها في ٨ كندا سكوير، لندن، إي ١٤ ٥ أتش كيو، المملكة المتحدة.

وأتفق الموقعون على هذا العقد (ويشار لهم فيما بعد بـ "المؤسسون") وهم جميعاً بكامل الأهلية المعتبرة شرعاً ونظماً على إنشاء شركة مساهمة سعودية بموجب نظام مراقبة شركات التأمين التعاوني الصادر بالمرسوم الملكي رقم م/٣٢ وتاريخ ١٤٢٤/٦/٢هـ ونظام الشركات الصادر بالمرسوم الملكي رقم م/٦ وتاريخ ١٣٨٥/٣/٢٢هـ وتعديلاته ووفقاً للأحكام والشروط التالية:

مادة (١) - اسم الشركة:

اسم الشركة هو "شركة ساب للتكافل"، وهي شركة مساهمة سعودية (ويشار لها فيما بعد بـ "الشركة"). يجب تغيير اسم الشركة بحذف كلمة "ساب" إذا لم يعد البنك السعودي البريطاني مساهماً.



#### مادة (٢) - مركز الشركة:

يقع مركز الشركة الرئيسي في مدينة الرياض ويجوز بقرار من الجمعية العامة غير العادية نقل المركز الرئيسي إلى أي مدينة أخرى في المملكة العربية السعودية بموافقة مؤسسة النقد العربي السعودي ولمجلس الإدارة أن يفتح للشركة فروعاً أو مكاتب أو توكيلات داخل المملكة العربية السعودية أو خارجها بعد موافقة مؤسسة النقد.

#### مادة (٣) - أغراض الشركة:

غرض الشركة هو القيام وفقاً لأحكام نظام مراقبة شركات التأمين التعاوني ولائحته التنفيذية والأنظمة والقواعد السارية في المملكة العربية السعودية بمزاولة أعمال التأمين التعاوني وكل ما يتعلق بهذه الأعمال من إعادة تأمين أو توكيلات أو تمثيل أو مراسلة وللشركة أن تقوم بجميع الأعمال التي يلزم القيام بها لتحقيق أغراضها سواء في مجال التأمين أو استثمار أموالها وذلك بإستثناء النشاط المالي وأعمال البنوك وتوظيف أموال الغير وأن تقوم بتملك و تحريك الأموال الثابتة والتقديرة أو بيعها أو استبدالها أو تأجيرها بواسطة مباشرة أو بواسطة شركات تؤسسها أو تشتريها أو بالاشتراك مع جهات أخرى.

ويجوز للشركة أن تمتلك أو أن تكون لها مصلحة أو تشترك بأي وجه من الوجوه مع الهيئات التي تزاول أعمالاً شبيهة بأعمالها أو الأعمال المالية أو التي تعاونها على تحقيق غرضها أو أن تدمجها فيها أو تشتريها ، وتباشر الشركة جميع الأعمال المذكورة في هذه المادة سواء داخل المملكة أو خارجها. ←

#### مادة (٤) - مدة الشركة:

مدة الشركة (٩٩) تمعة وتسعون سنة ميلادية ابتداءً من تاريخ صدور قرار وزير التجارة والصناعة بإعلان تأسيسها ، ويجوز إطالة مدة الشركة بقرار تصدره الجمعية العامة غير العادية قبل انتهاء أجلها بسنة واحدة على الأقل.

#### مادة (٥) - رأسمال الشركة:

حدد رأسمال الشركة بمبلغ مائة مليون (١٠٠,٠٠٠,٠٠٠) ريال سعودي مقسم إلى مليونين (٢,٠٠٠,٠٠٠) سهم متساوية القيمة قيمة كل منها خمسون (٥٠) ريال سعودي.

#### مادة (٦) - المساهمة في رأس المال:

اكتتب المؤسسون بما مجموعه مليون وثلاثمائة ألف ١,٣٠٠,٠٠٠ سهماً بقيمة خمسة وستون مليون (٦٥,٠٠٠,٠٠٠) ريال سعودي وسددوا قيمتها نقداً وهي تمثل خمسة وستون (٦٥%) في المائة من كامل أسهم رأس المال للشركة، وي طرح عدد سبعمائة ألف (٧٠٠,٠٠٠) سهم بقيمة







خمسة وثلاثون مليون (٣٥,٠٠٠,٠٠٠) ريال سعودي للإكتتاب العام خلال شهر من تاريخ نشر المرسوم الملكي المرخص بتأسيس الشركة. وبعد الإكتتاب مباشرة سوف تكتمل أسهم الشركة لتصبح مليونين (٢,٠٠٠,٠٠٠) سهماً، وقد اكتتب المؤسسون على النحو التالي:

إسم المؤسس	عدد الأسهم	القيمة الإسمية	قيمة الأسهم	النسبة المئوية
البنك السعودي البريطاني	٦٥٠,٠٠٠	٥٠	٣٢,٥٠٠,٠٠٠	٢٢,٥%
إتش إس بي سي آسيا هولدينجز بي. في.	٦٢٠,٠٠٠	٥٠	٣١,٠٠٠,٠٠٠	٢١%
كندا سكوير نوميبيز (بوكيه) ليمتد	١٠,٠٠٠	٥٠	٥٠٠,٠٠٠	١,٥%
كندا ووتر نوميبيز (بوكيه) ليمتد	١٠,٠٠٠	٥٠	٥٠٠,٠٠٠	١,٥%
كندا كريسكنت نوميبيز (بوكيه) ليمتد	١٠,٠٠٠	٥٠	٥٠٠,٠٠٠	١,٥%
المجموع	١,٣٠٠,٠٠٠	٥٠	٦٥,٠١١,٠٠٠	٦٥%

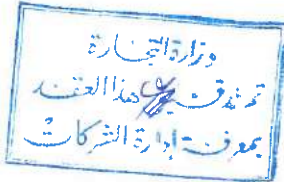
وقد أودع هذا المبلغ في البنك السعودي البريطاني.

#### مادة (٧) - تشكيل مجلس الإدارة:

يقولى إدارة الشركة مجلس إدارة مؤلف من عشرة (١٠) أعضاء يتم تعيينهم لمدة لا تزيد على ثلاث سنوات، ولا يخل ذلك التحيين بحق الشخص المعنوي في استبدال من يمثله في المجلس.

ويعين البنك السعودي البريطاني ثلاثة (٣) أعضاء في المجلس وله إستبدالهم جميعاً أو أي منهم في أي وقت وذلك طالما ظلت نسبة ملكيته أو ملكية أي من شركائه التابعة لا تقل عن ثلاثون في المائة (٣٠%) من الأسهم العادية للشركة. ويعين كلٌ من إتش إس بي سي آسيا هولدينجز بي. في. وكندا سكوير نوميبيز (بوكيه) ليمتد وكندا ووتر نوميبيز (بوكيه) ليمتد وكندا كريسكنت نوميبيز (بوكيه) ليمتد (ويشار لهم فيما بعد مجتمعين بـ"المؤسسين الآخرين") بموافقتهم الإجماعية ثلاثة (٣) أعضاء في المجلس ولهم إستبدالهم جميعاً أو أي منهم في أي وقت وذلك طالما ظلت نسبة ملكيتهم لا تقل عن ثلاثون في المائة (٣٠%) من الأسهم العادية للشركة. ويعين البنك السعودي البريطاني والمؤسسون الآخريين مجتمعين عضو واحد في المجلس ولهم إستبداله في أي وقت. ويعين بقية الأعضاء من قبل الجمعية العامة وتستبعد أصوات من يحق لهم تعيين ممثلين.

واستثناءً من ذلك عين المؤسسون أول مجلس إدارة لفترة ثلاث (٣) سنوات تبدأ من تاريخ صدور القرار الوزاري الصادر بإعلان تأسيس الشركة على أن يمتلك عضو مجلس الإدارة من غير المؤسسين عدد (٢٠٠) مائتين سهم على الأقل بعد طرح أسهم الشركة للإكتتاب، وذلك على النحو التالي:







م	الإسم	معين من قبل
١	فؤاد عبد الوهاب بحراوي	البنك السعودي البريطاني
٢	منصور عبد العزيز البصيلي	البنك السعودي البريطاني
٣	سليمان عبد الله الحمدان	البنك السعودي البريطاني
٤	ديفيد روبرت هنت	المؤسسين الآخرين
٥	ستيف تروب	المؤسسين الآخرين
٦	أجمل بهاتي	المؤسسين الآخرين
٧	جون إدورد كفرنول	البنك السعودي البريطاني والمؤسسين الآخرين
٨	الدكتور/ عبد الرحمن بن أحمد الجعفري	الجمهور
٩	موسى عمران الصمران	الجمهور
١٠	الدكتور/ يزيد بن عبد الرحمن الموهلي	الجمهور

**مادة (٨) - السنة المالية:**

تبدأ السنة المالية للشركة من أول يناير وتنتهي في ٣١ ديسمبر من كل سنة ميلادية على أن تبدأ السنة المالية الأولى من تاريخ القرار الوزاري الصادر بإعلان تأسيس الشركة وتنتهي في ٣١ ديسمبر من العام التالي.

**مادة (٩) - الأحكام العامة:**

تسري أحكام نظام مراقبة شركات التأمين التعاوني ولائحته التنفيذية ونظام الشركات وأحكام مواد النظام الأساسي للشركة على كل ما لم يرد به نص في هذا العقد.

**مادة (١٠) - استكمال إجراءات التأسيس:**

يتعهد الموقعون على عقد التأسيس هذا بالسير في الإجراءات المؤدية لإصدار المرسوم الملكي بتأسيس الشركة وكذلك القرار الوزاري بإعلان تأسيسها وقد فوضوا عنهم في القيام بهذه الإجراءات الدكتور/ نصر باقر الفرج، سعودي الجنسية بموجب سجل مدني رقم ١٠٩١٦٠٠٤٥٠ صادرة من القطيف بتاريخ ٢٠/٢/١٤٢٤هـ، من مكتب تركي بن عبد الله الشبيكي للإستشارات القانونية.

حذر هذا العقد من عدة نسخ بيد كل مؤسس نسخة واحتفظ بالنسخ الباقية لاستخدامها في إكمال إجراءات التأسيس.





م	الإسم	التوقيع
١-	البنك السعودي البريطاني	
٢-	إتش إس بي سي آسيا هولدينجز بي. في.	
٣-	كندا سكوير نوميبيز (يوكيه) ليمتد	
٤-	كندا ووتر نوميبيز (يوكيه) ليمتد	
٥-	كندا كريسكت نوميبيز (يوكيه) ليمتد	



## 11.5 Annex 5: Proposed amendments to the bylaws of Walaa Insurance Company according to the Merger Transaction

Article before the amendment	Article after the amendment
<p><b>Article Eight: Share Capital:</b></p> <p>The capital of the Company is set at SR 646,397,060 (Six hundred forty-six million three hundred ninety-seven thousand sixty Saudi Riyals) divided into 64,639,706 (sixty-four million six hundred thirty-nine thousand seven hundred six) shares having an equal nominal value of SR 10 (Ten Saudi Riyals) each, all being ordinary cash shares.</p>	<p><b>Article Eight: Share Capital:</b></p> <p>The capital of the Company is set at SR 850,583,250 (Eight hundred fifty million five hundred eighty-three thousand two hundred fifty Saudi Riyals) divided into 85,058,325 (Eighty-five million fifty-eight thousand three hundred twenty-five) shares having an equal nominal value of SR 10 (Ten Saudi Riyals) each, all being ordinary cash shares.</p>

