
SABB TAKAFUL COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2013
TOGETHER WITH THE INDEPENDENT AUDITORS' REPORT



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

Scope of audit

We have audited the accompanying statement of financial position of SABB Takaful Company ('the Company') as at 31 December 2013 and related statement of income - takaful operations and statement of comprehensive income - shareholders' operations, statement of changes in shareholders' equity and cash flows of takaful and shareholders' operations for the year then ended and the notes 1 to 26 which form part of these financial statements. These financial statements are the responsibility of Company's management and have been prepared by them in accordance with International Financial Reporting Standards, provision of Article 123 of the Regulations for Companies and the Company's by-laws and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Unqualified opinion

In our opinion, the financial statements taken as a whole:

- present fairly, in all material respects, the financial position of the Company as at 31 December 2013 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards; and
- comply with the 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.

Emphasis of a matter

We draw attention to the fact that these financial statements are prepared in accordance with International Financial Reporting Standards and not in accordance with the Accounting Standards issued by the Saudi Organisation for Certified Public Accountants.

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Abdullah M. Al Basri
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Certified Public Accountant
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Date: 23 February, 2014
Corresponding to: 23 Rabiul Akhir, 1435H



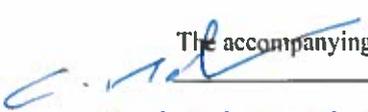
SABB Takaful Company (A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2013

	Notes	2013 SAR'000	2012 SAR'000
<u>TAKAFUL OPERATIONS' ASSETS</u>			
Available for sale investments	5	455,806	509,613
Contributions receivable, net	6	8,408	24,938
Retakaful share of outstanding claims	9(b)	46,826	46,536
Retakaful share of unearned contributions	11(b)	11,671	11,642
Deferred policy acquisition costs		1,293	1,444
Prepayments and other receivables	7	559	1,101
Due from shareholders		741	4,141
Cash and cash equivalents	8	49,954	21,507
TOTAL TAKAFUL OPERATIONS' ASSETS		575,258	620,922
<u>SHAREHOLDERS' ASSETS</u>			
Intangible assets		828	1,106
Motor vehicles		-	12
Held-to-maturity investments	5	206,513	194,513
Prepayments and other receivables	7	2,133	2,052
Statutory deposit	18	34,000	34,000
Cash and cash equivalents	8	111,664	115,222
TOTAL SHAREHOLDERS' ASSETS		355,138	346,905
TOTAL ASSETS		930,396	967,827

The accompanying notes 1 to 25 form part of these financial statements.


Aniselman Loganathan
Acting CFO


Adrian Flowers
Chief Executive Officer


Yousef Al Burshaid
Chairman

SABB Takaful Company (A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION (CONTINUED)

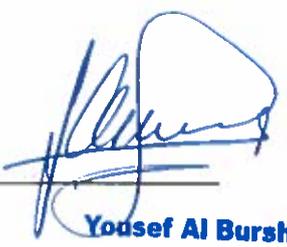
AT 31 DECEMBER 2013

	Notes	2013 SAR'000	2012 SAR'000
<u>TAKAFUL OPERATIONS' LIABILITIES</u>			
Reserve for takaful activities	11(a)	447,129	503,240
Surplus distribution payable		2,927	1,534
Unearned contributions	11(b)	20,928	21,448
Gross outstanding claims	9(b)	64,046	62,524
Provision for employees' end-of-service benefits	22	4,102	-
Unearned commission income		2,375	2,174
Retakaful balances payable, net		11,383	11,757
Payables, accruals and others	12	20,868	16,852
TOTAL TAKAFUL OPERATIONS' LIABILITIES		573,758	619,529
TAKAFUL OPERATIONS' SURPLUS		1,500	1,393
TOTAL TAKAFUL OPERATIONS' LIABILITIES AND SURPLUS		575,258	620,922
<u>SHAREHOLDERS' EQUITY AND LIABILITIES</u>			
SHAREHOLDERS' EQUITY			
Issued share capital	13	340,000	340,000
Legal reserve	14	8,075	4,800
Accumulated losses		(3,471)	(10,416)
TOTAL SHAREHOLDERS' EQUITY		344,604	334,384
SHAREHOLDERS' LIABILITIES			
Payables, accruals and others	12	3,837	3,233
Due to takaful operations		741	4,141
Provision for zakat and tax	17	5,956	5,147
TOTAL SHAREHOLDERS' LIABILITIES		10,534	12,521
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		355,138	346,905
TOTAL TAKAFUL OPERATIONS' LIABILITIES, SURPLUS, SHAREHOLDERS' EQUITY AND LIABILITIES		930,396	967,827

The accompanying notes 1 to 25 form part of these financial statements.


Meiselvan Loganathan
 Acting CFO


Adrian Flowers
 Chief Executive Officer


Yousef Al Burshaid
 Chairman

SABB Takaful Company (A Saudi Joint Stock Company)

STATEMENT OF INCOME - TAKAFUL OPERATIONS

For the year ended 31 December 2013

	Notes	2013 SAR'000	2012 SAR'000
Gross contributions written			
- Family Takaful		153,586	166,105
- General Takaful		29,498	35,268
		<u>183,084</u>	<u>201,373</u>
Family Takaful - Planholder charges		<u>24,098</u>	<u>21,237</u>
Gross contributions written and Planholder charges		<u>207,182</u>	<u>222,610</u>
Retakaful contribution ceded		(50,099)	(46,181)
Net written contribution		<u>157,083</u>	<u>176,429</u>
Changes in gross unearned contributions		520	273
Changes in retakaful share of unearned contributions		29	(472)
Changes in reserve for takaful activities		80,299	41,971
Net contributions earned	10	<u>237,931</u>	<u>218,201</u>
Fees and commission income		4,132	7,836
Underwriting revenue		<u>242,063</u>	<u>226,037</u>
Gross claims paid		(23,200)	(26,035)
Retakaful share of claims paid		15,870	17,429
Net claims paid		<u>(7,330)</u>	<u>(8,606)</u>
Changes in gross outstanding claims		(1,522)	(4,937)
Changes in retakaful share of outstanding claims		290	6,210
Net claims incurred	9(a)	<u>(8,562)</u>	<u>(7,333)</u>
Surrenders and maturities		(178,806)	(154,856)
Net claims incurred & surrenders and maturities		<u>(187,368)</u>	<u>(162,189)</u>
Policy acquisition costs		(11,011)	(13,970)
Total claims, surrenders, maturities and policy acquisition costs		<u>(198,379)</u>	<u>(176,159)</u>
Underwriting surplus for the year		<u>43,684</u>	<u>49,878</u>
Investment income		1,411	1,475
General and administrative expenses	15	(30,092)	(37,428)
Net surplus for the year from takaful operations		<u>15,003</u>	<u>13,925</u>
Transfer of net surplus for the year to shareholders' operations	2 (d)	(13,503)	(12,532)
Net surplus for the year		<u>1,500</u>	<u>1,393</u>

The accompanying notes 1 to 25 form part of these financial statements.

Meiselvan Loganathan
Acting CFO

Adnan Flowers
Chief Executive Officer

Yousef Al Burshaid
Chairman

SABB Takaful Company (A Saudi Joint Stock Company)

STATEMENT OF COMPREHENSIVE INCOME - SHAREHOLDERS' OPERATIONS

For the year ended 31 December 2013

	<i>Notes</i>	<i>2013 SAR'000</i>	<i>2012 SAR'000</i>
Investment income on murabaha deposits		906	795
Income from sukuks		4,725	3,410
Realized gains on financial assets - available for sale investments		-	412
Total income		5,631	4,617
Transfer of net surplus for the year from takaful operations		13,503	12,532
General and administrative expenses	15	(2,760)	(3,364)
Net profit for the year		16,374	13,785
Other comprehensive income		-	-
Total comprehensive income for the year		16,374	13,785
Basic and diluted earnings per share (SAR)	20	0.48	0.41

The accompanying notes 1 to 25 form part of these financial statements.


Meiselvan Loganathan
Acting CFO


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Chief Executive Officer


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Chairman

SABB Takaful Company (A Saudi Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
 For the year ended 31 December 2013

	<i>Share capital</i>	<i>Legal reserve</i>	<i>Change in fair value of available for sale investments</i>	<i>Accumulated losses</i>	<i>Total</i>
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
Balance as at 1 January 2013	340,000	4,800	-	(10,416)	334,384
Net profit for the year	-	-	-	16,374	16,374
Provision for zakat and tax	-	-	-	(6,154)	(6,154)
Transfer to legal reserve	-	3,275	-	(3,275)	-
Balance as at 31 December 2013	340,000	8,075	-	(3,471)	344,604
Balance as at 1 January 2012	340,000	2,043	406	(16,246)	326,203
Net profit for the year	-	-	-	13,785	13,785
Realized gains on financial assets - available for sale investments	-	-	(406)	-	(406)
Provision for zakat and tax	-	-	-	(5,198)	(5,198)
Transfer to legal reserve	-	2,757	-	(2,757)	-
Balance as at 31 December 2012	340,000	4,800	-	(10,416)	334,384

The accompanying notes 1 to 25 form part of these financial statements.


Meiselvan Loganathan
 Acting CFO


Adrian Flowers
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Yousef Al Burshaid
 Chairman

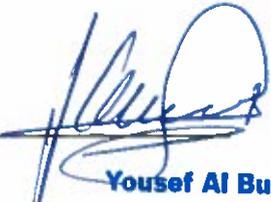
SABB Takaful Company (A Saudi Joint Stock Company)
STATEMENT OF CASH FLOWS - TAKAFUL OPERATIONS
For the year ended 31 December 2013

	<i>Notes</i>	<i>2013 SAR'000</i>	<i>2012 SAR'000</i>
OPERATING ACTIVITIES			
Surplus from takaful operations after shareholders' appropriation		1,500	1,393
Adjustment to reconcile surplus from takaful operations after shareholders' appropriation to net cash from operating activities:			
Shareholders' appropriation from surplus		13,503	12,532
(Reversal)/ Provision for impairment on contribution receivables		(1,419)	1,191
Provision for employees' end-of-service benefits		911	-
Operating surplus after shareholders' appropriations and non-cash items and before changes in operating assets and liabilities		<u>14,495</u>	<u>15,116</u>
Changes in operating assets and liabilities:			
Available-for-sale investments, net		53,807	33,033
Contributions receivables		17,949	(18,610)
Retakaful share of outstanding claims		(290)	(6,210)
Retakaful share of unearned contributions		(29)	472
Deferred policy acquisition costs		151	741
Prepayments and other receivables		542	(669)
Reserve for takaful activities		(56,111)	(31,736)
Unearned contributions		(520)	(273)
Gross outstanding claims		1,522	4,937
Provision for employees' end-of-service benefits, net		3,191	-
Unearned commission income		201	(81)
Retakaful balances payable, net		(374)	3,572
Payables, accruals and others		4,016	4,920
Net cash from operating activities		<u>38,550</u>	<u>5,212</u>
FINANCING ACTIVITY			
Due to shareholders, net		(10,103)	(28,945)
Net cash used in financing activity		<u>(10,103)</u>	<u>(28,945)</u>
INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		28,447	(23,733)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		<u>21,507</u>	<u>45,240</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	8	<u>49,954</u>	<u>21,507</u>
Non-cash supplemental information:			
Net change in the fair value of available for sale investments	5 (d)	<u>48,286</u>	<u>31,472</u>

The accompanying notes 1 to 25 form part of these financial statements.


Meiselvan Loganathan
Acting CFO


Adrian Flowers
Chief Executive Officer


Yousef Al Burshaid
Chairman

SABB Takaful Company (A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS - SHAREHOLDERS' OPERATIONS

For the year ended 31 December 2013

	<i>Notes</i>	<i>2013</i> <i>SAR'000</i>	<i>2012</i> <i>SAR'000</i>
OPERATING ACTIVITIES			
Net profit for the year		16,374	13,785
Adjustment to reconcile net profit to net cash from operating activities:			
Appropriation of surplus from takaful operations		(13,503)	(12,532)
Amortisation		278	1,312
Depreciation		12	55
Gain on disposal of motor vehicle		-	(23)
		<u>3,161</u>	<u>2,597</u>
Changes in operating assets and liabilities:			
Prepayments and other receivables		(81)	(599)
Payables, accruals and others		604	(1)
Due to takaful operations, net		10,103	28,945
Zakat and tax paid		(5,345)	(4,784)
		<u>8,442</u>	<u>26,158</u>
Net cash from operating activities		<u>8,442</u>	<u>26,158</u>
INVESTING ACTIVITIES			
Purchase of intangible assets		-	(1,423)
Disposal of motor vehicle		-	73
Purchase of held to maturity investments		(12,000)	(144,513)
Maturity of held to maturity investments		-	10,000
Proceeds from disposal of available for sale investments		-	50,000
		<u>(12,000)</u>	<u>(85,863)</u>
Net cash used in investing activities		<u>(12,000)</u>	<u>(85,863)</u>
DECREASE IN CASH AND CASH EQUIVALENTS		(3,558)	(59,705)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		115,222	174,927
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	8	<u>111,664</u>	<u>115,222</u>

The accompanying notes 1 to 25 form part of these financial statements.

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Acting CFO

Adrian Flowers
Chief Executive Officer

Yousef Al Burshaid
Chairman

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2013

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 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, Group Family and General Takaful products. The Company operates only in the Kingdom of Saudi Arabia.

2 BASIS OF PREPARATION AND SURPLUS DISTRIBUTION

a) Basis of measurement

The financial statements have been prepared on a historic cost basis except for the measurement at fair value of available-for-sale investments.

b) Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS).

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. 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.

c) Functional and presentational currency

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

d) 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 Agency ("SAMA").

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the financial statements are consistent with those of the previous financial year except for the adoption of the following new standards and other 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 year or prior years and are expected to have a insignificant effect in future periods:

New standards

IFRS 13 Fair value measurements: Replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 had no impact on the measurement of Company's assets and liabilities.

Amendments to existing standards

- Amendments to IAS 1 Presentation of financial statements: amends IAS 1 to revise the way other comprehensive income is presented.

- Amendments to IFRS 7 Financial Instruments: Disclosure: Amends the disclosure requirements in IFRS 7 to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 and also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and agreements even if they are not set off under IAS 32.

IAS 19 Employee Benefits - Amendments: The amendments to IAS 19 remove the option to defer the recognition of actuarial gains and losses, i.e., the corridor mechanism. All changes in the value of defined benefit plans will be recognised in profit or loss and other comprehensive income.

The IASB has published Annual Improvements to IFRSs: 2009-2011 cycle of improvements that contain amendments to the following standards with consequential amendments to other standards:

- IAS 1 - Presentation of financial statements: Comparative information beyond minimum requirements and presentation of the opening statement of financial position and related notes.
- IAS 16 - Property, plant and equipment: Classification of servicing equipment.
- IAS 34 - Interim Financial Reporting: Segment assets and liabilities.

The Company has not early adopted any other standards, interpretations or amendments which have been issued for early adoption but is not yet effective.

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

Product classification

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

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Claims

Claims consist of amounts payable to plan holders and third parties and related loss adjustment expenses, net of salvage and other recoveries and are charged to statement of income - takaful operations in the period in which they are incurred.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the reporting date, whether reported or not. Provisions for reported claims not paid as at the reporting date, are made on the basis of individual case estimates. In addition, a provision based on the Company's prior experience is maintained for the cost of settling claims incurred but not reported at the reporting date.

Any difference between the provisions at the reporting date and settlements and provisions in the following year is charged to statement of income - takaful operations.

The Company does not discount its liabilities for unpaid claims as substantially all claims are expected to be paid within one year of the date of statement of financial position.

Reserve for takaful activities

This reserves pertains to contracts which insure human life events such as death etc. over a long period of time. However, 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.

The reserve for takaful activities is calculated on the basis of actuarial valuation certified by the external independent appointed actuary.

Fair value gain/ losses are reported as a separate component and included under reserves for takaful activities.

Liability adequacy test

At each reporting date, a liability adequacy test is performed to ensure the adequacy of the takaful contract liabilities, net of related deferred policy acquisition costs. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to the statement of income - takaful operations initially by writing off related deferred acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests.

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. Retakaful liabilities represent balances due to retakaful companies.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. Income and expense will not be offset in the statement of income - takaful operations or statement of comprehensive income - shareholders' operations unless required or permitted by an accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

Deferred policy acquisition costs (DPAC)

Those direct and indirect costs incurred during the financial period arising from the writing or renewing of takaful contracts are deferred to the extent that these costs are recoverable out of future contributions. All other acquisition costs are recognised as an expense when incurred.

Subsequent to initial recognition, these costs are amortised on a straight-line basis based on the term of expected future contributions. Amortization is recorded in the statement of income - takaful operations.

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 impairment review is performed at each reporting date or more frequently when an indication of impairment arises. If the assumptions relating to future profitability of these policies are not realised, the amortization of these costs could be accelerated and this may also require additional impairment write-offs in the statement of income - takaful operations. DPAC is also considered in the liability adequacy test for each reporting period.

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 non-derivative financial assets that are designated as available-for-sale under IAS 39. These investments are initially recorded at fair value. After initial measurement available-for-sale investments are measured at fair value.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

Financial assets held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold until maturity. These investments are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial recognition, held-to-maturity investments are measured at amortized cost, using the effective interest method. Gains and losses are recognized in the statement of income - shareholders' operations when the investments are derecognized or impaired, as well as through the amortization process.

Derecognition of financial instruments

Derecognition of a financial asset occurs only when the seller has transferred the asset's risks and rewards (either substantially or partially) or control of the contractual rights have been transferred from the seller to the buyer.

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 timeframe generally established by regulation or convention in the market place.

Fair values

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 in the principal, or in its absence, the most advantageous market to which the Company has access at that date. Consequently, differences can arise between the carrying values and fair value estimates.

Impairment and uncollectibility of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset or a group of financial assets (including retakaful receivables) may be impaired. If such evidence exists, an impairment loss is recognized in the statement of income - takaful operations or the statement of comprehensive income - shareholders' operations, except for available for sale financial assets held to cover unit linked liabilities where all the risks are borne by the contract holders.

Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the statement of income - takaful operations or the statement of comprehensive income - shareholders' operations;
- For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment and uncollectibility of financial assets (continued)

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:

- 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.

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 - shareholders' operations in the expense category consistent with the function of the intangible asset.

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 - shareholders' operations when the asset is derecognized.

Motor vehicles

Motor vehicles are initially recorded at cost and are stated at cost less accumulated depreciation and any impairment in value. The cost less estimated residual value of vehicles is depreciated on a straight line basis over the estimated useful life of 4 years.

Gains or losses arising from disposal of a motor vehicle are measured as the difference between the net disposal proceeds and the carrying amount of the motor vehicle and are recognized in the statement of income - shareholders' operations when the asset is disposed.

The carrying values of motor vehicles are reviewed for impairment when events 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions receivable

Takaful receivables are recognized when due and are measured on initial recognition at the fair value of the consideration received or receivable and subsequently measured at amortized cost using the effective interest method, less provision for impairment. The carrying value of takaful receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income - takaful operations. Takaful receivables are derecognized when the derecognition criteria for financial assets have been met.

Payables and accruals

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

Provisions

Provisions are recognized when the Company has an obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses.

Provision for employees' end-of-service benefits

The Company provides end of service benefits to its employees. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should the employee leave at the statement of financial position date. End-of-service payments are based on employees' final salaries and allowances and their accumulated years of service as defined by the applicable Saudi Arabian labour law. The expense for the period is charged to the statement of income - takaful operations.

Revenue recognition

Contributions are taken into statement of income - takaful operations over the terms of the policies to which they relate on a pro-rata basis. 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 takaful contract.

The underwriting surplus represents contributions earned and fee and commission income less claims paid, other underwriting expenses and anticipated claims payable in respect of the year, net of amounts subject to retakaful, less provision for any anticipated future losses on continuing policies.

Commissions receivable on retakaful contracts are deferred and amortised on a straight-line basis over the term of the retakaful contracts.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Zakat and income taxes

Zakat is computed on the Saudi shareholders' share of zakat base or net adjusted 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 taxes are not charged to the statement of income - shareholders' operations as they are the liabilities of the shareholders and are therefore charged to shareholders' equity.

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 original acquisition.

Foreign currencies

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange ruling at the reporting date. 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. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the statement of income - takaful operations, except when they relate to items where gains or losses are recognized directly in equity and the gain or loss is recognized net of the exchange component in equity.

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.

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.

Segmental reporting

An operating segment is a component of the Company that is engaged in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other segments, whose operating results 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's 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Segmental reporting (continued)

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 investments and murabaha deposits is the only revenue generating activity. Certain direct operating expenses and other overhead expenses are allocated to this segment on an appropriate basis. The deficit or 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.

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.

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 - takaful operations in the year 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.

4 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the foreseeable future are discussed below.

4 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONTINUED)

The ultimate liability arising from claims made under general takaful contracts

There are several sources of uncertainty that need to be considered in estimating the liability that the Company will ultimately pay for such claims. The provision for claims incurred but not reported (IBNR) is an estimation of claims, which are expected to be reported subsequent to the reporting date, for which the insured event has occurred prior to the reporting date. 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.

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred and IBNR claims on a quarterly basis.

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.

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 external actuary.

Impairment losses on receivables

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.

Deferred policy acquisition costs

Acquisition costs related to writing or renewal of policies are recorded as deferred policy acquisition costs (DPAC) and are amortised in the statement of income - takaful operations over the related period of policy coverage. If the assumptions relating to future profitability of these policies are not realised, the amortization of these costs could be accelerated and this may also require additional impairment write-offs in the statement of income - takaful operations.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

5 INVESTMENTS

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

	<i>31 December 2013</i> <i>SAR'000</i>	
	<i>Takaful Operations</i>	<i>Shareholders</i>
<i>Available for sale investments – quoted</i>		
Investment in Amanah Mutual Funds	455,806	-
<i>Held to maturity investments</i>		
Saudi Electricity Company Sukuk (SEC-III) – quoted	-	25,000
Saudi Hollandi Bank Sukuk (SHB-I) - unquoted	-	5,000
Bank Al Jazira Sukuk - unquoted	-	20,000
General Authority of Civil Aviation Sukuk (GACA - I) - unquoted	-	50,000
The National Industrialization Company Sukuk (TASNEE - I) - unquoted	-	50,000
Olayan Real Estate Company Sukuk (ORECO - I) – unquoted	-	10,000
Saudi Binladin Group Limited Sukuk (SBG - III) – unquoted	-	19,513
Saudi Hollandi Bank Sukuk (SHB-II) - quoted	-	15,000
The Power and Water Utility Company for Jubail and Yanbu Sukuk (MARAFIQ) - unquoted	-	12,000
	-	206,513
Total investments	455,806	206,513

	<i>31 December 2012</i> <i>SAR'000</i>	
	<i>Takaful Operations</i>	<i>Shareholders</i>
<i>Available for sale investments – quoted</i>		
Investment in Amanah Mutual Funds	509,613	-
<i>Held to maturity investments</i>		
Saudi Electricity Company Sukuk (SEC-III) – quoted	-	25,000
Saudi Hollandi Bank Sukuk (SHB-I) - unquoted	-	5,000
Bank Al Jazira Sukuk - unquoted	-	20,000
General Authority of Civil Aviation Sukuk (GACA - I) – unquoted	-	50,000
The National Industrialization Company Sukuk (TASNEE - I) - unquoted	-	50,000
Olayan Real Estate Company Sukuk (ORECO - I) - unquoted	-	10,000
Saudi Binladin Group Limited Sukuk (SBG - III) - unquoted	-	19,513
Saudi Hollandi Bank Sukuk (SHB-II) – quoted	-	15,000
	-	194,513
Total investments	509,613	194,513

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 SEC-III Sukuk will mature on 30 May 2030, with a 'put option' available to the Company to seek redemption of the instrument on 10 May 2017. In accordance with the decisions and investment strategy of the Company, the said options will be exercised on the respective option dates. Accordingly, they are classified as held to maturity to their respective 'put option' dates.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

5 INVESTMENTS (CONTINUED)

The SHB-I Sukuk, Bank Al Jazira Sukuk, GACA - I Sukuk, TASNEE – I Sukuk, ORECO - I Sukuk, SBG - III Sukuk, SHB-II Sukuk and MARAFIQ Sukuk will mature on 29 December 2019, 28 March 2021, 18 January 2022, 21 May 2019, 25 June 2017, 24 July 2014, 26 November 2019 and 27 May 2018 respectively.

The average commission rate on sukuks at 31 December 2013 is 1.18 % per annum (2012: 1.34% per annum).

b) The fair value of held-to-maturity investments as at 31 December 2013 is SAR 207.25 million (31 December 2012: SAR 196.10 million).

c) Credit quality of investments

	<i>2013</i> <i>SAR'000</i>	<i>2012</i> <i>SAR'000</i>
Investment grade	520,806	574,613
Non Investment grade	141,513	129,513
Total	<u>662,319</u>	<u>704,126</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 GACA – I, TASNEE – I, ORECO – I, SBG – III and MARAFIQ Sukuks.

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

	<i>2013</i> <i>SAR'000</i>	<i>2012</i> <i>SAR'000</i>
Opening balance	509,613	542,646
Purchased during the year	94,237	52,544
Sold during the year	(196,330)	(117,049)
	407,520	478,141
Net change in fair values of investments	48,286	31,472
Closing balance	<u>455,806</u>	<u>509,613</u>

The Company uses the following hierarchy methods for determining and disclosing the fair value of available for sale 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 investments are classified under Level 2 hierarchy.

e) The movement in available-for-sale investments for shareholders were as follows:

	<i>2013</i> <i>SAR'000</i>	<i>2012</i> <i>SAR'000</i>
Opening balance	-	50,406
Disposal during the year	-	(50,406)
Closing balance	<u>-</u>	<u>-</u>

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

6 CONTRIBUTIONS RECEIVABLE, NET

	<i>2013</i> <i>SAR'000</i>	<i>2012</i> <i>SAR'000</i>
Due from planholders	3,468	9,805
Due from a shareholder	5,941	17,553
	9,409	27,358
Provision for impairment	(1,001)	(2,420)
	8,408	24,938

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

	<i>2013</i> <i>SAR'000</i>	<i>2012</i> <i>SAR'000</i>
At the beginning of the year	2,420	1,229
(Reversal)/ Charge during the year	(1,419)	1,191
At the end of the year	1,001	2,420

(b) As at 31 December, the ageing of unimpaired net contributions 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 2013	8,408	7,151	934	50	273
31 December 2012	24,938	19,290	3,191	2,069	388

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 - takaful operations. It is not the practice of the Company to obtain collateral over receivables. Balances, which are neither past due nor impaired are mainly from the Saudi British Bank, a shareholder of the Company, which has an investment grade credit rating of A+ issued by external rating agencies.

7 PREPAYMENTS AND OTHER RECEIVABLES

	<i>Note</i>	<i>2013</i> <i>SAR'000</i>	
		<i>Takaful</i> <i>Operations</i>	<i>Shareholders</i>
Due from related parties	21(b)	110	368
Accrued investment income		-	1,386
Prepayments and others		449	379
		559	2,133
		559	2,133
	<i>Note</i>	<i>2012</i> <i>SAR'000</i>	
		<i>Takaful</i> <i>Operations</i>	<i>Shareholders</i>
Due from related parties	21(b)	580	368
Accrued investment income		-	1,312
Prepayments and others		521	372
		1,101	2,052
		1,101	2,052

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

8 CASH AND CASH EQUIVALENTS

	<i>2013</i> <i>SAR'000</i>	
	<i>Takaful Operations</i>	<i>Shareholders</i>
Bank balances	49,954	9,468
Murabaha deposits	-	102,196
	<u>49,954</u>	<u>111,664</u>
	<i>2012</i> <i>SAR'000</i>	
	<i>Takaful Operations</i>	<i>Shareholders</i>
Bank balances	21,507	3,594
Murabaha deposits	-	111,628
	<u>21,507</u>	<u>115,222</u>

Bank balances are maintained with the Saudi British Bank, a shareholder of the Company.

Both bank balances and murabaha deposits are placed with counterparties who have investment grade credit ratings equivalent to A+ to A- 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 2013 is 0.85 % per annum (2012: 0.55% per annum).

9 OUTSTANDING CLAIMS

a) Incurred claims

	<i>For the year ended 31 December 2013</i>		
	<i>SAR'000</i> <i>Family Takaful</i>	<i>SAR'000</i> <i>General Takaful</i>	<i>SAR'000</i> <i>Total</i>
Claims paid	20,430	2,770	23,200
Re-takaful share of claims paid	(14,805)	(1,065)	(15,870)
Net claims paid	5,625	1,705	7,330
Changes in outstanding claims, IBNR and other reserves	7,986	(6,464)	1,522
Changes in re-takaful share of outstanding claims, IBNR and other reserves	(6,922)	6,632	(290)
Total incurred claims	<u>6,689</u>	<u>1,873</u>	<u>8,562</u>
	<i>For the year ended 31 December 2012</i>		
	<i>SAR'000</i> <i>Family Takaful</i>	<i>SAR'000</i> <i>General Takaful</i>	<i>SAR'000</i> <i>Total</i>
Claims paid	17,635	8,400	26,035
Re-takaful share of claims paid	(11,493)	(5,936)	(17,429)
Net claims paid	6,142	2,464	8,606
Changes in outstanding claims, IBNR and other reserves	4,473	464	4,937
Changes in re-takaful share of outstanding claims, IBNR and other reserves	(2,697)	(3,513)	(6,210)
Total incurred claims	<u>7,918</u>	<u>(585)</u>	<u>7,333</u>

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

9 OUTSTANDING CLAIMS (CONTINUED)

b) Outstanding claims

	<i>2013</i>		
	<i>Gross SAR'000</i>	<i>Retakaful share SAR'000</i>	<i>Net SAR'000</i>
Family Takaful outstanding claims			
- Outstanding claim reserves	14,068	(10,539)	3,529
- Incurred but not reported reserve and other reserves	11,623	(7,942)	3,681
General Takaful outstanding claims			
- Outstanding claim reserves	29,731	(27,513)	2,218
- Incurred but not reported reserve and other reserves	8,624	(832)	7,792
Total outstanding claims	<u>64,046</u>	<u>(46,826)</u>	<u>17,220</u>
	<i>2012</i>		
	<i>Gross SAR'000</i>	<i>Retakaful share SAR'000</i>	<i>Net SAR'000</i>
Family Takaful outstanding claims			
- Outstanding claim reserves	10,283	(6,967)	3,316
- Incurred but not reported reserve and other reserves	7,422	(4,592)	2,830
General Takaful outstanding claims			
- Outstanding claim reserves	34,665	(33,268)	1,397
- Incurred but not reported reserve and other reserves	10,154	(1,709)	8,445
Total outstanding claims	<u>62,524</u>	<u>(46,536)</u>	<u>15,988</u>

10 NET CONTRIBUTION EARNED

	<i>For the year ended 31 December 2013</i>		
	<i>Family Takaful SAR'000</i>	<i>General Takaful SAR'000</i>	<i>Total SAR'000</i>
Gross written contribution	153,586	29,498	183,084
Planholder charges	24,098	-	24,098
Re-takaful contribution ceded	(32,237)	(17,862)	(50,099)
Changes in gross unearned contribution	(915)	1,435	520
Changes in retakaful share of unearned contribution	422	(393)	29
Changes in reserve for takaful activities	80,299	-	80,299
Net contribution earned	<u>225,253</u>	<u>12,678</u>	<u>237,931</u>
	<i>For the year ended 31 December 2012</i>		
	<i>Family Takaful SAR'000</i>	<i>General Takaful SAR'000</i>	<i>Total SAR'000</i>
Gross written contribution	166,105	35,268	201,373
Planholder charges	21,237	-	21,237
Re-takaful contribution ceded	(25,289)	(20,892)	(46,181)
Changes in gross unearned contribution	(277)	550	273
Changes in retakaful share of unearned contribution	(388)	(84)	(472)
Changes in reserve for takaful activities	41,971	-	41,971
Net contribution earned	<u>203,359</u>	<u>14,842</u>	<u>218,201</u>

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

11 MOVEMENT IN RESERVE FOR TAKAFUL ACTIVITIES AND UNEARNED CONTRIBUTION INCOME

a) Movement in reserve for takaful activities

	<i>2013</i> <i>SAR'000</i>	<i>2012</i> <i>SAR'000</i>
Balance as at the beginning of the year	503,240	534,976
Changes in reserve during the year	(80,299)	(41,971)
Planholder charges	(24,098)	(21,237)
Net change in fair value of investments	48,286	31,472
Balance as at the end of the year	447,129	503,240

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

b) Movement in unearned contribution income

	<i>2013</i>		
	<i>Gross</i> <i>SAR'000</i>	<i>Retakaful</i> <i>share</i> <i>SAR'000</i>	<i>Net</i> <i>SAR'000</i>
Balance as at the beginning of the year	21,448	(11,642)	9,806
Contribution written during the year	82,273	(48,774)	33,499
Contribution earned during the year	(82,793)	48,745	(34,048)
Balance as at the end of the year	20,928	(11,671)	9,257

	<i>2012</i>		
	<i>Gross</i> <i>SAR'000</i>	<i>Retakaful</i> <i>share</i> <i>SAR'000</i>	<i>Net</i> <i>SAR'000</i>
Balance as at the beginning of the year	21,721	(12,114)	9,607
Contribution written during the year	89,784	(44,972)	44,812
Contribution earned during the year	(90,057)	45,444	(44,613)
Balance as at the end of the year	21,448	(11,642)	9,806

12 PAYABLES, ACCRUALS AND OTHERS

	<i>Note</i>	<i>2013</i> <i>SAR'000</i>	
		<i>Takaful Operations</i>	<i>Shareholders</i>
Accounts payable and accruals		19,453	3,837
Payable to agents		1,270	-
Due to related parties	21(b)	145	-
		20,868	3,837

	<i>Note</i>	<i>2012</i> <i>SAR'000</i>	
		<i>Takaful Operations</i>	<i>Shareholders</i>
Accounts payable and accruals		14,272	3,198
Payable to agents		2,449	-
Due to related parties	21(b)	131	35
		16,852	3,233

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

13 SHARE CAPITAL

The initial authorized, issued and fully paid up share capital of the Company consisted of 34 million ordinary shares of SAR 10 each.

14 LEGAL 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 legal 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.

15 GENERAL AND ADMINISTRATIVE EXPENSES

	2013	
	SAR'000	
	<i>Takaful Operations</i>	<i>Shareholders</i>
Employee costs	22,368	-
IT maintenance costs	3,422	-
Legal and professional charges	1,484	1,802
Travel expenses	542	-
Amortization and depreciation	-	290
Rent expenses	920	-
Others	1,356	668
	<u>30,092</u>	<u>2,760</u>

	2012	
	SAR'000	
	<i>Takaful Operations</i>	<i>Shareholders</i>
Employee costs	25,262	-
IT maintenance costs	6,961	-
Legal and professional charges	1,788	1,297
Travel expenses	475	70
Amortization and depreciation	-	1,367
Rent expenses	1,100	-
Others	1,842	630
	<u>37,428</u>	<u>3,364</u>

16 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, net contributions earned, fees and commission income, net claims incurred, surrenders and maturities, policy acquisition costs, underwriting surplus, investment income, general and administrative expenses, net surplus, surplus transferred to shareholders operations, net profit, 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, unearned contributions, gross outstanding claims, unearned commission income, and total liabilities, by business segment, are stated below.

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

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

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

16 SEGMENTAL INFORMATION (CONTINUED)

	<i>Shareholders' Fund SAR'000</i>	<i>Individual Family SAR'000</i>	<i>Group Family SAR'000</i>	<i>General Takaful SAR'000</i>	<i>Total SAR'000</i>
For the year ended 31 December 2013					
Gross written contribution	-	100,811	52,775	29,498	183,084
Net written contribution	-	123,584	21,863	11,636	157,083
Net contributions earned	-	203,883	21,370	12,678	237,931
Fees and commission income	-	520	(621)	4,233	4,132
Net claims incurred	-	(474)	(6,215)	(1,873)	(8,562)
Surrenders and maturities	-	(178,806)	-	-	(178,806)
Policy acquisition costs	-	(5,817)	(1,881)	(3,313)	(11,011)
Underwriting surplus for the year	-	19,306	12,653	11,725	43,684
Investment income	5,631	1,411	-	-	7,042
General and administrative expenses	(2,760)	(11,158)	(7,788)	(11,146)	(32,852)
Net surplus for the year	2,871	9,559	4,865	579	17,874
Surplus from takaful operations after shareholders' appropriation					(1,500)
Net profit for the year					16,374
Amortisation	278	-	-	-	278
Depreciation	12	-	-	-	12

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

16 SEGMENTAL INFORMATION (CONTINUED)

	<i>Shareholders' Fund SAR'000</i>	<i>Individual Family SAR'000</i>	<i>Group Family SAR'000</i>	<i>General Takaful SAR'000</i>	<i>Total SAR'000</i>
31 December 2013					
Intangible assets	828	-	-	-	828
Takaful operations' assets					
Available for sale investments	-	455,806	-	-	455,806
Contribution receivables, net	-	-	1,089	7,319	8,408
Retakaful share of outstanding claims	-	613	17,868	28,345	46,826
Retakaful share of unearned contributions	-	-	1,750	9,921	11,671
Deferred policy acquisition costs	-	-	375	918	1,293
Unallocated assets	-	-	-	-	51,254
Total takaful operations' assets					575,258
Total shareholders' assets	355,138	-	-	-	355,138
Total assets					930,396
Takaful operations' liabilities					
Reserve for takaful activities	-	447,129	-	-	447,129
Unearned contributions	-	-	5,101	15,827	20,928
Gross outstanding claims	-	1,292	24,399	38,355	64,046
Unearned commission income	-	-	-	2,375	2,375
Unallocated liabilities	-	-	-	-	39,280
Total takaful operations' liabilities					573,758
Total shareholders' liabilities	10,534	-	-	-	10,534
Total liabilities					584,292
For the year ended 31 December 2012					
Gross written contribution	-	111,589	54,516	35,268	201,373
Net written contribution	-	131,617	30,436	14,376	176,429
Net contributions earned	-	173,587	29,772	14,842	218,201
Fees and commission income	-	(71)	3,472	4,435	7,836
Net claims incurred	-	(681)	(7,237)	585	(7,333)
Surrenders and maturities	-	(154,856)	-	-	(154,856)
Policy acquisition costs	-	(7,920)	(2,763)	(3,287)	(13,970)
Underwriting surplus for the year	-	10,059	23,244	16,575	49,878
Investment income	4,617	1,399	48	28	6,092
General and administrative expenses	(3,364)	(10,866)	(10,736)	(15,826)	(40,792)
Net surplus for the year	1,253	592	12,556	777	15,178
Surplus from takaful operations after shareholders' appropriation					(1,393)
Net profit for the year					13,785
Purchase of intangible assets	(1,423)	-	-	-	(1,423)
Amortisation	1,312	-	-	-	1,312
Depreciation	55	-	-	-	55

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

16 SEGMENTAL INFORMATION (CONTINUED)

	<i>Shareholders' Fund SAR'000</i>	<i>Individual Family SAR'000</i>	<i>Group Family SAR'000</i>	<i>General Takaful SAR'000</i>	<i>Total SAR'000</i>
31 December 2012					
Intangible assets	1,106	-	-	-	1,106
Motor vehicles	12	-	-	-	12
Takaful operations' assets					
Available for sale investments	-	509,613	-	-	509,613
Contribution receivables, net	-	-	11,818	13,120	24,938
Retakaful share of outstanding claims	-	186	11,373	34,977	46,536
Retakaful share of unearned contributions	-	-	1,328	10,314	11,642
Deferred policy acquisition costs	-	-	296	1,148	1,444
Unallocated assets	-	-	-	-	26,749
Total takaful operations' assets					620,922
Total shareholders' assets	346,905	-	-	-	346,905
Total assets					967,827
Takaful operations' liabilities					
Reserve for takaful activities	-	503,240	-	-	503,240
Unearned contributions	-	-	4,186	17,262	21,448
Gross outstanding claims	-	861	16,844	44,819	62,524
Unearned commission income	-	-	-	2,174	2,174
Unallocated liabilities	-	-	-	-	30,143
Total takaful operations' liabilities					619,529
Total shareholders' liabilities	12,521	-	-	-	12,521
Total liabilities					632,050

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 FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

17 ZAKAT AND INCOME TAX

a) Zakat and income tax charge for the year

	<i>2013</i> <i>SAR'000</i>	<i>2012</i> <i>SAR'000</i>
Provision for zakat	4,367	4,067
Provision for tax	1,787	1,131
	<u>6,154</u>	<u>5,198</u>

b) Zakat charge for the year

The provision for zakat of SAR 4,367 thousand (2012: SAR 4,067 thousand) has been made for the year ended 31 December 2013. The provision for zakat charge relating to Saudi shareholders is based on the following:

	<i>2013</i> <i>SAR'000</i>	<i>2012</i> <i>SAR'000</i>
Equity	329,584	323,754
Opening allowances and other adjustments	512	761
Book value of long term assets	(32,486)	(42,571)
	<u>297,610</u>	<u>281,944</u>
Adjusted profit for the year	22,904	16,571
Zakat base	<u>320,514</u>	<u>298,515</u>
Saudi Shareholders' share of zakat base @ 54.5%	<u>174,680</u>	<u>162,691</u>
Zakat charge for the year @ 2.5%	<u>4,367</u>	<u>4,067</u>

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

c) Movements in zakat provision

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

	<i>2013</i> <i>SAR'000</i>	<i>2012</i> <i>SAR'000</i>
At the beginning of the year	4,067	3,966
Charge during the year	4,367	4,067
Payments during the year	(4,153)	(3,966)
At the end of the year	<u>4,281</u>	<u>4,067</u>

d) Income tax

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

	<i>2013</i> <i>SAR'000</i>	<i>2012</i> <i>SAR'000</i>
At the beginning of the year	1,080	767
Charge during the year	1,787	1,131
Payments during the year	(1,192)	(818)
At the end of the year	<u>1,675</u>	<u>1,080</u>

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

17 ZAKAT AND INCOME TAX (CONTINUED)

e) Status of assessments

During the quarter ended 31 March 2013, the Department of Zakat and Income Tax (DZIT) issued the final tax/ zakat assessments for the years ended 31 December 2008, 2009, and 2010. However, DZIT has not yet issued the final tax/ zakat assessments for the years ended 31 December 2011 and 2012. During the quarter ended 30 June 2013, the Company filed an appeal against the final tax/ zakat assessments for the years from 2008 to 2010. During the quarter ended 30 September 2013, hearing was held for the said appeal in Preliminary Zakat and Tax Appeal Committee (PAC III). During the quarter ended 31 December 2013, Preliminary Zakat and Tax Appeal Committee (PAC III) has decided in favor of the Company in all the matters contested in appeal. However, the DZIT has not yet issued the revised assessment considering the decision of the PAC III committee.

18 STATUTORY DEPOSIT

In compliance with Article 58 of the Insurance Implementing Regulations of SAMA, the Company has deposited 10 percent of its share capital, amounting to SR 34 million (2010: SR 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.

19 CONTINGENCIES AND COMMITMENTS

Legal proceedings

The Company is subject to litigation in the normal course of its business. During quarter ended 30 June 2012, a legal case amounting to SR 65.88 million, which significantly exceeds the claim amount, was filed against the Company by a policyholder disputing the claim amount under a policy. Based on an independent legal advice, the Company does not believe that policyholder has a valid claim and as a result, as at 31 December 2013, has not made any further provision in excess of the amount deemed appropriate under the said policy. Based on the legal advice, out of SAR 65.88 million, the Company has recorded a provision amounting to SAR 22.92 million for the said claim.

20 BASIC AND DILUTED EARNINGS PER SHARE

a) The weighted average number of shares are as follows:

	<u>2013</u>	<u>2012</u>
	<i>Numbers in thousand</i>	
Weighted average number of ordinary shares	<u>34,000</u>	<u>34,000</u>

b) The basic and diluted earnings per share are calculated as follows:

	<u>2013</u>	<u>2012</u>
Net profit for the year (SAR'000)	<u>16,374</u>	<u>13,785</u>
Weighted average number of ordinary shares (Number in thousands)	<u>34,000</u>	<u>34,000</u>
Earnings per share (SAR)	<u>0.48</u>	<u>0.41</u>

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

21 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:

	2013 SAR'000	2012 SAR'000
The Saudi British Bank (a shareholder of the Company)		
Contributions	50,330	49,982
Claims paid	16,258	13,442
Other expenses		
- IT maintenance cost and related expenses	7,284	5,670
- Overheads	407	730
Amlak International Real Estate and Development (Managing director of Amlak being a board member of the Company)		
Contributions	347	991
Other entities controlled, jointly controlled or significantly influenced by related parties		
Policy acquisition costs	11,011	13,970
Rebate on unit-linked investments	1,411	1,389

'Other expenses' include costs for various services under a management agreement between Saudi British Bank (SABB) and the Company. As per the agreement, SABB will provide operational services to the Company including use of fixed assets and use of IT infrastructure etc. 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:

	2013 SAR'000		2012 SAR'000	
	Takaful Operations	Shareholders	Takaful Operations	Shareholders
Due from related parties				
Shareholders, directors and key management personnel	-	-	470	-
Entities controlled, jointly controlled or significantly influenced by related parties	<u>110</u>	<u>368</u>	<u>110</u>	<u>368</u>
Due to related parties				
Shareholders, directors and key management personnel	<u>145</u>	-	<u>131</u>	<u>35</u>

Gross outstanding claims include claim reserves amounting to SAR 15.22 million (2012: SAR 16.02 million) pertaining to takaful contracts issued to SABB.

Outstanding balances at the reporting date are unsecured and commission free. Settlement will take place in cash. No 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 party and the market in which the related party operates.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

21 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.

	2013 SAR'000		2012 SAR'000	
	Takaful Operations	Shareholders	Takaful Operations	Shareholders
Salaries and other benefits	3,715	-	3,571	-
End-of-service benefits	282	-	148	-

d) Available for sale investments pertaining to unit-linked policies

Available for sale investments pertaining to unit-linked policies as at 31 December 2013 amounting to SAR 455.81 million (2012: SAR 509.61 million) comprise of investments in units of a mutual fund managed by HSBC Saudi Arabia Limited, being a related party of the Company.

22 EMPLOYEES' END-OF-SERVICE BENEFITS

Prior to the quarter ended 31 March 2013, the Company's provision for end-of-service benefits was presented in the books of The Saudi British Bank – SABB (a shareholder of the Company). The monthly provision was being settled by the Company on a monthly basis with the corresponding charge being booked in the Company's statement of income - takaful operations. However, during quarter ended 30 June 2013, the entire accumulated provision for end-of-service benefits (in the books of SABB) was transferred into the Company's bank account. As a result, the related liability for employees' end-of-service benefits is appearing in statement of financial position under takaful operation liabilities.

The movement in the provision for end-of-service benefits for the period was as follows:

	2013 SAR'000	2012 SAR'000
Balanced transferred from SABB	4,119	-
Charge during the period	911	-
Payments during the period	(928)	-
Closing balance	4,102	-

23 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. The Company is exposed to takaful, retakaful, commission rate, market and asset liability management, credit, liquidity, currency and operational risks.

Risk management structure

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

Board of Directors

The apex of risk governance is the centralized oversight of the Board of Directors providing direction and the necessary approvals of strategies and policies in order to achieve defined corporate goals.

Senior management

Senior management is responsible for the day-to-day operations towards achieving the strategic goals within the Company's pre-defined risk appetite.

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

23 RISK MANAGEMENT (CONTINUED)

a) Takaful risk

Takaful risk is the risk that actual claims payable to contract holders in respect of takaful events exceed expectations. This could occur because the frequency or amounts of claims are more than expected. Takaful risk is monitored regularly by the Company to make sure that levels are within the projected frequency bands. The Company underwrites mainly property all risk, fire, personal accident and marine risks.

The variability of risks is improved by diversification of risk of loss to a large portfolio of insurance contracts as a more diversified portfolio is less likely to be affected across the board by change in any subset of the portfolio, as well as unexpected outcomes. The variability of risks is also improved by careful selection and implementation of underwriting strategy and guidelines as well as the use of retakaful arrangements.

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 ceded, to the extent that the reinsurer is unable to meet its obligations assumed under such retakaful arrangements.

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 re-takaful programs.

The risks arising from takaful contracts are mainly concentrated in the Kingdom of Saudi Arabia.

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 in accordance with Hongkong and Shanghai Banking Corporation (HSBC) group standards. This protects the Company from adverse mortality/morbidity experience. There is a maximum retention per life under the re-takaful arrangement which protects the Company from single large losses. Multiple claims and concentration of risk is also covered under the arrangement.

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.

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.

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.

23 RISK MANAGEMENT (CONTINUED)

a) Takaful risk (continued)

General takaful (continued)

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 conservative underwriting strategies and effective use of retakaful arrangements.

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.

Sources of uncertainty in estimation of future claim payments

The key source of estimation uncertainty at the reporting date relates to valuation of outstanding claims, whether reported or not, and includes expected claims settlement costs. 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.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not reported (IBNR) at the reporting date.

Sensitivity of claims

The takaful claim liabilities are sensitive to the various assumptions mentioned in note 4. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

A hypothetical 10% change in the claims ratio would impact income by approximately SAR 856 thousand (2012: SAR 734 thousand) annually in aggregate.

A key feature of the liability adequacy testing is that the effects of changes in the assumptions on the measurement of the liabilities and related assets are not symmetrical. Any improvements in estimates have no impact on the value of the liabilities and related assets until the liabilities are derecognised, while significant enough deterioration in estimates is immediately recognised to make the liabilities adequate.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

23 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

Amounts in '000

Accident year	<u>2008</u> <u>&</u> <u>earlier</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Total</u>
Estimate of ultimate claim loss							
- At end of accident year	10,884	34,513	33,617	49,887	30,433	34,616	34,616
- One year later	12,296	28,163	26,906	46,783	25,060	-	25,060
- Two years later	12,291	26,200	32,638	46,507	-	-	46,507
- Three years later	11,823	23,520	26,637	-	-	-	26,637
- Four years later	11,823	22,605	-	-	-	-	22,605
- Five years later	11,823	-	-	-	-	-	11,823
Current estimate of cumulative claims	11,823	22,605	26,637	46,507	25,060	34,616	167,248
Cumulative payments to date	11,823	22,605	26,187	22,377	22,828	17,629	123,449
Outstanding claims	-	-	450	24,130	2,232	16,987	43,799
Add: Incurred but not reported (IBNR) and other reserves							20,247
Liability recognized in the statement of financial position							64,046

2012

Accident year	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
Estimate of ultimate claim loss						
- At end of accident year	10,884	34,513	33,617	49,887	30,433	30,433
- One year later	12,296	28,163	26,906	46,783	-	46,783
- Two years later	12,291	26,200	32,638	-	-	32,638
- Three years later	11,823	23,520	-	-	-	23,520
- Four years later	11,823	-	-	-	-	11,823
Current estimate of cumulative claims	11,823	23,520	32,638	46,783	30,433	145,197
Cumulative payments to date	11,823	22,605	26,169	22,247	17,405	100,249
Outstanding claims	-	915	6,469	24,536	13,028	44,948
Add: Incurred but not reported (IBNR) and other reserves						17,576
Liability recognized in the statement of financial position						62,524

23 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.

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

c) 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 2013. A hypothetical 30 basis points change in the weighted average commission rate of the floating rate financial assets balances at 31 December 2013 would impact commission income by approximately SAR 776 thousand (2012: SAR 768 thousand) annually in aggregate.

Commission bearing investments of the Company comprise of murabaha deposits and sukuks. Murabaha deposits are short term in nature which will be matured within a year and the maturity profile of sukuks is disclosed in note 5.

d) Market risk and asset liability management

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused either by factors specific to the individual security, the issuer of the security, or factors affecting all securities in the market.

The Company is exposed to market risk with respect to its available for sale and held to maturity investments. These investments are sensitive to the various factors that affect market movements. As part of Company's investment strategy and to reduce market risk, the Company maintains diversified portfolio and performs regular monitoring of developments in related markets.

In addition, the key factors that affect market movements are monitored, including analysis of the operational and financial performance of investees.

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

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

23 RISK MANAGEMENT (CONTINUED)

e) 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.
- 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.

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

	<i>2013</i> <i>SAR'000</i>	
	<i>Takaful</i> <i>Operations</i>	<i>Shareholders</i>
Cash and cash equivalents	49,954	111,664
Held-to-maturity investments	-	206,513
Contributions receivable, net	8,408	-
Retakaful share of outstanding claims	46,826	-
Other receivables	110	1,754
	<u>105,298</u>	<u>319,931</u>

	<i>2012</i> <i>SAR'000</i>	
	<i>Takaful</i> <i>Operations</i>	<i>Shareholders</i>
Cash and cash equivalents	21,507	115,222
Held-to-maturity investments	-	194,513
Contributions receivable, net	24,938	-
Retakaful share of outstanding claims	46,536	-
Other receivables	580	1,676
	<u>93,561</u>	<u>311,411</u>

Cash and cash equivalents and contribution receivables mainly pertain to SABB (a shareholder of the Company) for which there is a minimal exposure of credit risk considering its sound credit rating.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

23 RISK MANAGEMENT (CONTINUED)

f) 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 out-flow 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.

	----- 2013 -----					
	<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
ASSETS						
Available-for-sale investments	455,806	-	455,806	-	-	-
Held-to-maturity investments	-	-	-	-	206,513	206,513
Contributions receivable, net	8,408	-	8,408	-	-	-
Retakaful share of outstanding claims	46,826	-	46,826	-	-	-
Cash and cash equivalents	49,954	-	49,954	111,664	-	111,664
	<u>560,994</u>	<u>-</u>	<u>560,994</u>	<u>111,664</u>	<u>206,513</u>	<u>318,177</u>
LIABILITIES						
Reserve for takaful activities	447,129	-	447,129	-	-	-
Gross outstanding claims	64,046	-	64,046	-	-	-
Retakaful balances payable, net	11,383	-	11,383	-	-	-
Payables, accruals and others	20,868	-	20,868	3,837	-	3,837
	<u>543,426</u>	<u>-</u>	<u>543,426</u>	<u>3,837</u>	<u>-</u>	<u>3,837</u>

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

23 RISK MANAGEMENT (CONTINUED)

f) Liquidity risk (continued)

	----- 2012 -----					
	<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
ASSETS						
Available-for-sale investments	509,613	-	509,613	-	-	-
Held-to-maturity investments	-	-	-	-	194,513	194,513
Contributions receivable, net	24,938	-	24,938	-	-	-
Retakaful share of outstanding claims	46,536	-	46,536	-	-	-
Cash and cash equivalents	21,507	-	21,507	115,222	-	115,222
	<u>602,594</u>	<u>-</u>	<u>602,594</u>	<u>115,222</u>	<u>194,513</u>	<u>309,735</u>

	<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
	LIABILITIES					
Reserve for takaful activities	503,240	-	503,240	-	-	-
Gross outstanding claims	62,524	-	62,524	-	-	-
Retakaful balances payable, net	11,757	-	11,757	-	-	-
Payables, accruals and others	16,852	-	16,852	3,233	-	3,233
	<u>594,373</u>	<u>-</u>	<u>594,373</u>	<u>3,233</u>	<u>-</u>	<u>3,233</u>

g) Currency risk

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

Management believes that there is minimal risk of significant losses due to exchange rate fluctuation as the majority of monetary assets and liabilities are in currencies linked to the Saudi Riyal.

h) 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.

23 RISK MANAGEMENT (CONTINUED)

h) Operational risk

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;
- ethical and business standards;
- risk mitigation, including insurance where this is effective.

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

i) 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.

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

j) Fair values of financial instruments

The fair value of financial assets that are traded in active market are based on quoted market prices or dealer price quotations. For all other financial instruments, the fair value is based on other valuation techniques. The fair values of financial assets and financial liabilities are not materially different from their carrying values at the reporting date.

k) Regulatory framework risk

The operations of the Company are subject to local regulatory requirements within the jurisdiction where it is incorporated. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions e.g. capital adequacy to minimize the risk of default and insolvency on the part of the takaful companies and to enable them to meet unforeseen liabilities as these arise. To mitigate such risk, the Company has implemented policies and procedures which are effectively designed taken into consideration the applicable local regulations.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2013

24 SURRENDERS AND MATURITIES

	<i>SAR'000</i>	
	<i>2013</i>	<i>2012</i>
Surrenders	82,824	119,354
Maturities	95,982	35,502
	178,806	154,856

25 RECLASSIFICATION OF COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to confirm 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.

26 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 16 Rabi'II 1435H, corresponding to 16 February 2014.