
SABB TAKAFUL COMPANY
(A SAUDI JOINT STOCK COMPANY)

**UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE MONTH AND SIX MONTH PERIODS
ENDED 30 JUNE 2014**



Aldar Audit Bureau

Abdullah AlBasri & Co.



Independent auditors' review report on interim condensed financial statements to the shareholders' of SABB Takaful Company (A Saudi Joint Stock Company)

Scope of review

We have reviewed the accompanying interim statement of financial position of SABB Takaful Company - a Saudi Joint Stock Company (the "Company") as at June 30, 2014 and the related interim statements of income - takaful operations and comprehensive income - shareholders' operations for the three month and six month periods ended June 30, 2014, and statements of changes in shareholders' equity and cash flows for takaful and shareholders' operations for the six month period then ended and the notes 1 to 14 which form part of these interim condensed financial statements. These interim condensed financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Accounting Standard 34 - "Interim Financial Reporting" (IAS 34) and submitted to us together with all the information and explanations which we required.

We conducted our limited review in accordance with the Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A review consists principally of applying analytical procedures to financial data and information and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the auditing standards generally accepted in the Kingdom of Saudi Arabia, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion

Based on our limited review, we are not aware of any material modifications that should be made to the accompanying interim condensed financial statements for them to be in conformity with IAS 34.

Emphasis of a matter

We draw attention to the fact that these interim condensed financial statements are prepared in accordance with IAS 34 and not in accordance with the Standard on Interim Financial Reporting issued by SOCPA.

Aldar Audit Bureau
Abdullah Al Basri & Co
P. O. Box 2195
Riyadh 11451
Kingdom of Saudi Arabia

Abdullah M. Al Basri
Certified Public Accountant
Registration No. 171

PricewaterhouseCoopers
P. O. Box 13933
Riyadh 11414
Kingdom of Saudi Arabia

Khalid Mahdhar
Certified Public Accountant
Registration No. 368



Date: July 20, 2014
Corresponding to: Ramadan 23, 1435H



SABB Takaful Company (A Saudi Joint Stock Company)

INTERIM STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	Notes	30 June 2014 (Unaudited) SAR'000	31 December 2013 (Audited) SAR'000
<u>TAKAFUL OPERATIONS' ASSETS</u>			
Available-for-sale investments	3	431,000	455,806
Contributions receivable, net	4	5,254	8,408
Retakaful share of outstanding claims	6	57,913	46,826
Retakaful share of unearned contributions	7 (b)	8,911	11,671
Deferred policy acquisition costs		1,654	1,293
Retakaful balances recoverable, net		156	-
Prepayments and other receivables		1,770	559
Due from shareholders		-	741
Cash and cash equivalents	5	39,185	49,954
TOTAL TAKAFUL OPERATIONS' ASSETS		545,843	575,258
<u>SHAREHOLDERS' ASSETS</u>			
Intangible assets		1,053	828
Held to maturity investments	3	206,513	206,513
Prepayments and other receivables		1,971	2,133
Statutory deposit		34,000	34,000
Due from takaful operations		2,191	-
Cash and cash equivalents	5	107,373	111,664
TOTAL SHAREHOLDERS' ASSETS		353,101	355,138
TOTAL ASSETS		898,944	930,396

The accompanying notes 1 to 14 form part of these interim condensed financial statements.



Saud Al Naimi
CFO



Adrian Flowers
Chief Executive Officer



Yousef Al Burshaid
Chairman

SABB Takaful Company (A Saudi Joint Stock Company)

INTERIM STATEMENT OF FINANCIAL POSITION (continued)

At 30 June 2014

	Notes	30 June 2014 (Unaudited) SAR'000	31 December 2013 (Audited) SAR'000
<u>TAKAFUL OPERATIONS' LIABILITIES</u>			
Reserve for takaful activities	7 (a)	421,858	447,129
Surplus distribution payable		4,427	2,927
Unearned contributions	7 (b)	18,538	20,928
Gross outstanding claims	6	75,668	64,046
Provision for employees' end-of-service benefits		4,518	4,102
Unearned commission income		1,712	2,375
Retakaful balances payable, net		-	11,049
Payables, accruals and others		16,293	21,202
Due to shareholders		2,191	-
TOTAL TAKAFUL OPERATIONS' LIABILITIES		545,205	573,758
TAKAFUL OPERATIONS' SURPLUS		638	1,500
TOTAL TAKAFUL OPERATIONS' LIABILITIES AND SURPLUS		545,843	575,258
<u>SHAREHOLDERS' EQUITY AND LIABILITIES</u>			
SHAREHOLDERS' EQUITY			
Share capital		340,000	340,000
Legal reserve		8,075	8,075
Retained earnings/ (Accumulated losses)		1,241	(3,471)
TOTAL SHAREHOLDERS' EQUITY		349,316	344,604
SHAREHOLDERS' LIABILITIES			
Payables, accruals and others		940	3,837
Due to takaful operations		-	741
Provision for zakat and tax	12	2,845	5,956
		3,785	10,534
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		353,101	355,138
TOTAL TAKAFUL OPERATIONS' LIABILITIES AND SURPLUS, SHAREHOLDERS' EQUITY AND LIABILITIES		898,944	930,396

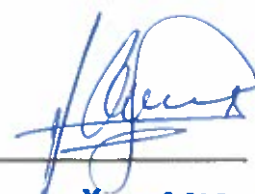
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SABB Takaful Company (A Saudi Joint Stock Company)

INTERIM STATEMENT OF INCOME - TAKAFUL OPERATIONS (UNAUDITED)

For the three and six months ended 30 June 2014

	<i>Three months ended 30 June 2014 SR'000</i>	<i>Three months ended 30 June 2013 SR'000</i>	<i>Six months ended 30 June 2014 SR'000</i>	<i>Six months ended 30 June 2013 SR'000</i>
Gross contributions written				
- Family Takaful	46,772	38,583	85,107	75,124
- General Takaful	6,407	6,784	10,599	11,855
	<u>53,179</u>	<u>45,367</u>	<u>95,706</u>	<u>86,979</u>
Family Takaful - Planholder charges	<u>6,577</u>	<u>6,124</u>	<u>13,257</u>	<u>11,433</u>
Gross contributions written and Planholder charges	<u>59,756</u>	<u>51,491</u>	<u>108,963</u>	<u>98,412</u>
Retakaful contribution ceded	(12,246)	(12,394)	(22,795)	(23,654)
Net written contribution	<u>47,510</u>	<u>39,097</u>	<u>86,168</u>	<u>74,758</u>
Changes in gross unearned contributions	(1,240)	928	2,390	3,345
Changes in retakaful share of unearned contributions	(226)	(1,644)	(2,760)	(3,745)
Changes in reserve for takaful activities	15,906	16,445	29,669	42,194
Net contributions earned	<u>61,950</u>	<u>54,826</u>	<u>115,467</u>	<u>116,552</u>
Fees and commission income	2,727	1,054	7,053	3,053
Underwriting revenue	<u>64,677</u>	<u>55,880</u>	<u>122,520</u>	<u>119,605</u>
Gross claims paid	(13,047)	(6,634)	(25,526)	(12,287)
Retakaful share of claims paid	8,941	4,678	18,584	8,642
Net claims paid	<u>(4,106)</u>	<u>(1,956)</u>	<u>(6,942)</u>	<u>(3,645)</u>
Changes in gross outstanding claims	5,268	562	(11,622)	(8,253)
Changes in retakaful share of outstanding claims	(2,308)	583	11,087	7,030
Net claims incurred	<u>(1,146)</u>	<u>(811)</u>	<u>(7,477)</u>	<u>(4,868)</u>
Surrenders and maturities	(47,333)	(41,527)	(85,468)	(89,152)
Net claims incurred, surrenders and maturities	<u>(48,479)</u>	<u>(42,338)</u>	<u>(92,945)</u>	<u>(94,020)</u>
Policy acquisition costs	(3,456)	(2,801)	(7,481)	(4,790)
Total claims, surrenders, maturities and policy acquisition costs	<u>(51,935)</u>	<u>(45,139)</u>	<u>(100,426)</u>	<u>(98,810)</u>
Underwriting surplus for the period	<u>12,742</u>	<u>10,741</u>	<u>22,094</u>	<u>20,795</u>
Investment income	372	355	711	717
General and administrative expenses	(9,009)	(6,235)	(16,426)	(14,044)
Net surplus for the period from takaful operations	<u>4,105</u>	<u>4,861</u>	<u>6,379</u>	<u>7,468</u>
Transfer of net surplus for the period to shareholders' operations	(3,694)	(4,375)	(5,741)	(6,721)
Net surplus for the period	<u>411</u>	<u>486</u>	<u>638</u>	<u>747</u>

The accompanying notes 1 to 14 form part of these interim condensed financial statements.


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SABB Takaful Company (A Saudi Joint Stock Company)

**INTERIM STATEMENT OF COMPREHENSIVE INCOME - SHAREHOLDERS' OPERATIONS
(UNAUDITED)**

For the three and six months ended 30 June 2014

	<i>Note</i>	<i>Three months ended 30 June 2014 SR'000</i>	<i>Three months ended 30 June 2013 SR'000</i>	<i>Six months ended 30 June 2014 SR'000</i>	<i>Six months ended 30 June 2013 SR'000</i>
Investment income on murabaha deposits		209	199	441	435
Income from sukuks		1,192	1,160	2,372	2,292
Total income		1,401	1,359	2,813	2,727
Transfer of net surplus for the period from takaful operations		3,694	4,375	5,741	6,721
General and administrative expenses		(286)	(555)	(975)	(1,579)
Net profit for the period		4,809	5,179	7,579	7,869
Other comprehensive income		-	-	-	-
Total comprehensive income for the period		4,809	5,179	7,579	7,869
Basic and diluted earnings per share (SAR)	9	0.14	0.15	0.22	0.23

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SABB Takaful Company (A Saudi Joint Stock Company)

INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(UNAUDITED)

For the six months ended 30 June 2014

	<i>Share capital</i>	<i>Legal reserve</i>	<i>Retained earnings/ (Accumulated losses)</i>	<i>Total</i>
	SAR'000	SAR'000	SAR'000	SAR'000
Balance as at 1 January 2014	340,000	8,075	(3,471)	344,604
Net profit for the period	-	-	7,579	7,579
Provision for zakat and tax	-	-	(2,867)	(2,867)
Balance as at 30 June 2014	<u>340,000</u>	<u>8,075</u>	<u>1,241</u>	<u>349,316</u>
Balance as at 1 January 2013	340,000	4,800	(10,416)	334,384
Net profit for the period	-	-	7,869	7,869
Provision for zakat and tax	-	-	(3,308)	(3,308)
Balance as at 30 June 2013	<u>340,000</u>	<u>4,800</u>	<u>(5,855)</u>	<u>338,945</u>

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SABB Takaful Company (A Saudi Joint Stock Company)

INTERIM STATEMENT OF CASH FLOWS - TAKAFUL OPERATIONS

(UNAUDITED)

For the six months ended 30 June 2014

	<i>Six months ended 30 June 2014 SR'000</i>	<i>Six months ended 31 June 2013 SR'000</i>
<i>Notes</i>		
OPERATING ACTIVITIES		
Surplus from takaful operations after shareholders' appropriation	638	747
Adjustment to reconcile surplus from takaful operations after shareholders' appropriation to net cash (used in)/ from operating activities:		
Shareholders' appropriation from surplus	5,741	6,721
Reversal for impairment on contribution receivables	(165)	(455)
Provision for employees' end-of-service benefits	430	325
Operating surplus before shareholders' appropriations and before changes in operating assets and liabilities	6,644	7,338
Changes in operating assets and liabilities:		
Available for sale investments, net	24,806	33,294
Contributions receivable, net	3,319	5,664
Retakaful share of outstanding claims	(11,087)	(7,030)
Retakaful share of unearned contributions	2,760	3,745
Deferred policy acquisition costs	(361)	(265)
Retakaful balances recoverable, net	(156)	-
Prepayments and other receivables	(1,211)	(653)
Reserve for takaful activities	(25,271)	(33,779)
Unearned contributions	(2,390)	(3,345)
Gross outstanding claims	11,622	8,253
Unearned commission income	(663)	(563)
Retakaful balances payable, net	(11,049)	2,768
Payables, accruals and others	(4,909)	2,899
Provision for employees' end-of-service benefits, net	(14)	3,574
Net cash (used in)/ from operating activities	(7,960)	21,900
FINANCING ACTIVITY		
Due from shareholders, net	(2,809)	(1,836)
(DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS	(10,769)	20,064
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	49,954	21,507
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	5 39,185	41,571
Non-cash supplemental information:		
Net change in fair value of available-for-sale investments	3 (c) 17,655	19,518

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SABB Takaful Company (A Saudi Joint Stock Company)

INTERIM STATEMENT OF CASH FLOWS - SHAREHOLDERS' OPERATIONS
(UNAUDITED)

For the six months ended 30 June 2014

	<i>Six months ended 30 June 2014 SR'000</i>	<i>Six months ended 30 June 2013 SR'000</i>
<i>Note</i>		
OPERATING ACTIVITIES		
Net profit for the period	7,579	7,869
Adjustment to reconcile net profit to net cash used in operating activities:		
Appropriation of surplus from takaful operations	(5,741)	(6,721)
Amortisation	156	139
Depreciation	-	12
	<u>1,994</u>	<u>1,299</u>
Changes in operating assets and liabilities:		
Prepayments and other receivables	162	(388)
Payables, accruals and others	(2,897)	236
Zakat and tax paid	(5,978)	(5,345)
	<u>(6,719)</u>	<u>(4,198)</u>
Net cash used in operating activities	(6,719)	(4,198)
INVESTING ACTIVITIES		
Purchase of held to maturity investments	-	(12,000)
Purchase of intangibles	(381)	-
Due to takaful operations, net	2,809	1,836
	<u>2,428</u>	<u>(10,164)</u>
Net cash from/ (used in) investing activities	2,428	(10,164)
DECREASE IN CASH AND CASH EQUIVALENTS	(4,291)	(14,362)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	111,664	115,222
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	5 107,373	100,860

The accompanying notes 1 to 14 form part of these interim condensed financial statements.


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CFO


Adrian Flowers
Chief Executive Officer


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SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2014

1. ORGANISATION AND PRINCIPAL ACTIVITIES

SABB Takaful Company (the Company) is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under commercial registration No. 1010234032 dated 20 Jumad Awal 1428H (corresponding to 6 June 2007). The registered address 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, BASIS OF PRESENTATION, SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS AND RISK MANAGEMENT POLICIES

a) Basis of preparation

These interim condensed financial statements for the three and six months ended 30 June 2014 have been prepared in accordance with IAS 34 - Interim Financial Reporting.

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

These interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's audited financial statements for the year ended 31 December 2013.

In management's opinion, these interim condensed financial statements reflect all adjustments (which include normal recurring adjustments) necessary to present fairly the results of operations for the interim periods presented. The Company's interim results may not be indicative of its annual results.

b) Basis of presentation

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) Significant accounting policies, significant accounting estimates and assumptions and risk management policies

The significant accounting policies, significant accounting estimates and assumptions and risk management policies adopted in the preparation of these interim condensed financial statements are consistent with the Company's audited financial statements for the year ended 31 December 2013, except for the adoption of the following amendments to existing standards mentioned below which have had either insignificant effect or no financial impact on the condensed interim financial statements of the Company on the current period or prior periods and are expected to have a insignificant effect in future periods:

Amendments to existing standards

Amendments to IFRS 10, IFRS 12 and IAS 27 that provides consolidation relief for investments funds applicable from 1 January 2014. This mandatory consolidation relief provides that a qualifying investment entity is required to account for investments in controlled entities as well as investments in associates and joint ventures at fair value through profit or loss provided it fulfils certain conditions with an exception being that subsidiaries that are considered an extension of the investment entity's investing activities.

IAS 32 amendment applicable from 1 January 2014 clarifies that a) an entity currently has a legally enforceable right to off-set if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties; and b) gross settlement is equivalent to net settlement if and only if the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk and processes receivables and payables in a single settlement process or cycle.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2014

2. BASIS OF PREPARATION, BASIS OF PRESENTATION, SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS AND RISK MANAGEMENT POLICIES (continued)

c) Significant accounting policies, significant accounting estimates and assumptions and risk management policies (continued)

IAS 36 amendment applicable retrospectively from 1 January 2014 addresses the disclosure of information about the recoverable amount of impaired assets under the amendments, recoverable amount of every cash generating unit to which goodwill or indefinite-lived intangible assets have been allocated is required to be disclosed only when an impairment loss has been recognised or reversed.

IAS 39 amendment applicable from 1 January 2014 added a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specified criteria.

d) Functional and presentation 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.

3. INVESTMENTS

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

	<i>30 June 2014 (Unaudited)</i> <i>SAR'000</i>	
	<i>Takaful</i> <i>Operations</i>	<i>Shareholders</i>
<i>Available for sale investments – quoted</i>		
Investment in Amanah Mutual Funds	431,000	-
<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	431,000	206,513

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2014

3. INVESTMENTS (continued)

	<i>31 December 2013 (Audited)</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

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.

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.

- b) The fair value of held-to-maturity investments as at 30 June 2014 is SAR 207.25 million (31 December 2013: SAR 207.25 million).
- c) The movement in the available for sale investments held to cover unit-linked liabilities was as follows:

	<i>30 June 2014 (Unaudited) SAR'000</i>	<i>31 December 2013 (Audited) SAR'000</i>
Opening balance	455,806	509,613
Purchased during the period/ year	54,509	94,237
Sold during the period/ year	(61,660)	(196,330)
	448,655	407,520
Net change in fair values of investments	(17,655)	48,286
Closing balance	431,000	455,806

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2014

3. INVESTMENTS (continued)

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.

4. CONTRIBUTIONS RECEIVABLE, NET

	<i>30 June 2014 (Unaudited) SAR'000</i>	<i>31 December 2013 (Audited) SAR'000</i>
Due from planholders	2,648	3,468
Due from related parties	3,442	5,941
	<u>6,090</u>	<u>9,409</u>
Provision for impairment	(836)	(1,001)
	<u>5,254</u>	<u>8,408</u>

5. CASH AND CASH EQUIVALENTS

	<i>30 June 2014 (Unaudited) SAR'000</i>	
	<i>Takaful Operations</i>	<i>Shareholders</i>
Bank balances	24,185	4,690
Murabaha deposits	15,000	102,683
	<u>39,185</u>	<u>107,373</u>

	<i>31 December 2013 (Audited) 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>

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

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

30 June 2014

6. OUTSTANDING CLAIMS

	<i>30 June 2014 (Unaudited)</i>		
	<i>Gross</i>	<i>Retakaful</i>	<i>Net</i>
	<i>SAR'000</i>	<i>share</i>	<i>SAR'000</i>
		<i>SAR'000</i>	<i>SAR'000</i>
Family Takaful outstanding claims			
- Outstanding claim reserves	12,216	(8,740)	3,476
- Incurred but not reported reserve and other reserves	13,298	(9,599)	3,699
General Takaful outstanding claims			
- Outstanding claim reserves	39,383	(37,919)	1,464
- Incurred but not reported reserve and other reserves	10,771	(1,655)	9,116
Total outstanding claims	75,668	(57,913)	17,755

	<i>31 December 2013 (Audited)</i>		
	<i>Gross</i>	<i>Retakaful</i>	<i>Net</i>
	<i>SAR'000</i>	<i>share</i>	<i>SAR'000</i>
		<i>SAR'000</i>	<i>SAR'000</i>
Family Takaful outstanding claims			
- Outstanding claim reserves	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	64,046	(46,826)	17,220

7. MOVEMENT IN RESERVE FOR TAKAFUL ACTIVITIES AND UNEARNED CONTRIBUTION INCOME

a) Movement in reserve for takaful activities

	<i>Six months ended</i>	<i>Year ended</i>
	<i>30 June</i>	<i>31 December</i>
	<i>2014</i>	<i>2013</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
	<i>SAR'000</i>	<i>SAR'000</i>
Balance as at the beginning of the period/ year	447,129	503,240
Changes in reserve during the period/ year	(29,669)	(80,299)
Planholder charges	(13,257)	(24,098)
Net change in fair value of investments	17,655	48,286
Balance as at the end of the period/ year	421,858	447,129

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

b) Movement in unearned contribution

	<i>Six months ended 30 June 2014 (Unaudited)</i>		
	<i>Gross</i>	<i>Retakaful</i>	<i>Net</i>
	<i>SAR'000</i>	<i>share</i>	<i>SAR'000</i>
		<i>SAR'000</i>	<i>SAR'000</i>
Balance as at the beginning of the period	20,928	(11,671)	9,257
Contribution written during the period	39,442	(22,080)	17,362
Contribution earned during the period	(41,832)	24,840	(16,992)
Balance as at the end of the period	18,538	(8,911)	9,627

SABB Takaful Company (A Saudi Joint Stock Company)

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7. MOVEMENT IN RESERVE FOR TAKAFUL ACTIVITIES AND UNEARNED CONTRIBUTION INCOME (continued)

b) Movement in unearned contribution (continued)

	Year ended 31 December 2013 (Audited)		
	Gross SAR'000	Retakaful share SAR'000	Net SAR'000
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	<u>20,928</u>	<u>(11,671)</u>	<u>9,257</u>

8. SEGMENTAL INFORMATION

Consistent with the Company's internal reporting process, business segments have been approved by management in respect of the Company's activities. The Company's gross written contribution, net written contribution, 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/ (deficit), surplus from takaful operations after shareholders' appropriation, net profit, amortisation, depreciation, purchase of intangible assets, 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, cash and cash equivalents and due from shareholders. Accordingly they are included in unallocated assets.

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

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

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8. 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 three months ended					
30 June 2014 (Unaudited)					
Gross written contribution	-	31,542	15,230	6,407	53,179
Net written contribution	-	37,762	6,655	3,093	47,510
Net contributions earned	-	53,668	5,944	2,338	61,950
Fees and commission income	-	471	1,168	1,088	2,727
Net claims incurred	-	(81)	(2,557)	1,492	(1,146)
Surrenders and maturities	-	(47,333)	-	-	(47,333)
Policy acquisition costs	-	(1,121)	(1,794)	(541)	(3,456)
Underwriting surplus for the period	-	5,604	2,761	4,377	12,742
Investment income	1,401	362	-	10	1,773
General and administrative expenses	(286)	(3,159)	(2,599)	(3,251)	(9,295)
Net surplus for the period	1,115	2,807	162	1,136	5,220
Surplus from takaful operations after shareholders' appropriation					(411)
Net profit for the period					4,809
Amortisation	82	-	-	-	82
For the six months ended					
30 June 2014 (Unaudited)					
Gross written contribution	-	56,264	28,843	10,599	95,706
Net written contribution	-	68,806	12,041	5,321	86,168
Net contributions earned	-	98,475	11,031	5,961	115,467
Fees and commission income	-	471	3,624	2,958	7,053
Net claims incurred	-	(572)	(5,881)	(1,024)	(7,477)
Surrenders and maturities	-	(85,468)	-	-	(85,468)
Policy acquisition costs	-	(2,093)	(4,128)	(1,260)	(7,481)
Underwriting surplus for the period	-	10,813	4,646	6,635	22,094
Investment income	2,813	701	-	10	3,524
General and administrative expenses	(975)	(5,113)	(5,023)	(6,290)	(17,401)
Net surplus/ (deficit) for the period	1,838	6,401	(377)	355	8,217
Surplus from takaful operations after shareholders' appropriation					(638)
Net profit for the period					7,579
Purchase of intangible assets	381	-	-	-	381
Amortisation	156	-	-	-	156

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8. 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>
30 June 2014 (Unaudited)					
Intangible assets	1,053	-	-	-	1,053
Takaful operations' assets					
Available for sale investments	-	431,000	-	-	431,000
Contribution receivables, net	-	-	2,760	2,494	5,254
Retakaful share of outstanding claims	-	585	17,754	39,574	57,913
Retakaful share of unearned contributions	-	-	2,130	6,781	8,911
Deferred policy acquisition costs	-	-	486	1,168	1,654
Unallocated assets	-	-	-	-	41,111
Total takaful operations' assets					545,843
Total shareholders' assets		-	-	-	353,101
Total assets					898,944
Takaful operations' liabilities					
Reserve for takaful activities	-	421,858	-	-	421,858
Unearned contributions	-	-	6,492	12,046	18,538
Gross outstanding claims	-	1,235	24,278	50,155	75,668
Unearned commission income	-	-	-	1,712	1,712
Unallocated liabilities	-	-	-	-	27,429
Total takaful operations' liabilities					545,205
Total shareholders' liabilities		-	-	-	3,785
Total liabilities					548,990
For the three months ended					
30 June 2013 (Unaudited)					
Gross written contribution	-	25,460	13,123	6,784	45,367
Net written contribution	-	31,251	3,467	4,379	39,097
Net contributions earned	-	47,695	3,616	3,515	54,826
Fees and commission income	-	185	69	800	1,054
Net claims incurred	-	392	(716)	(487)	(811)
Surrenders and maturities	-	(41,527)	-	-	(41,527)
Policy acquisition costs, net	-	(1,498)	(114)	(1,189)	(2,801)
Underwriting surplus for the period	-	5,247	2,855	2,639	10,741
Investment income	1,359	355	-	-	1,714
General and administrative expenses	(555)	(1,892)	(1,874)	(2,469)	(6,790)
Net surplus for the period	804	3,710	981	170	5,665
Surplus from takaful operations after shareholders' appropriation					(486)
Net profit for the period					5,179
Amortisation	70	-	-	-	70
Depreciation	3	-	-	-	3

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8. 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 six months ended					
30 June 2013 (Unaudited)					
Gross written contribution	-	47,444	27,680	11,855	86,979
Net written contribution	-	58,213	10,651	5,894	74,758
Net contributions earned	-	100,407	10,470	5,675	116,552
Fees and commission income	-	185	386	2,482	3,053
Net claims incurred	-	360	(4,844)	(384)	(4,868)
Surrenders and maturities	-	(89,152)	-	-	(89,152)
Policy acquisition costs, net	-	(2,658)	(968)	(1,164)	(4,790)
	<u>-</u>	<u>9,142</u>	<u>5,044</u>	<u>6,609</u>	<u>20,795</u>
Underwriting surplus for the period	-	9,142	5,044	6,609	20,795
Investment income	2,727	717	-	-	3,444
General and administrative expenses	(1,579)	(3,571)	(4,619)	(5,854)	(15,623)
	<u>1,148</u>	<u>6,288</u>	<u>425</u>	<u>755</u>	<u>8,616</u>
Net surplus for the period	<u>1,148</u>	<u>6,288</u>	<u>425</u>	<u>755</u>	<u>8,616</u>
Surplus from takaful operations after shareholders' appropriation					(747)
Net profit for the period					<u>7,869</u>
Amortisation	139	-	-	-	139
Depreciation	12	-	-	-	12
	<u>151</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>151</u>
31 December 2013 (Audited)					
Intangible assets	828	-	-	-	828
	<u>828</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>828</u>
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
	<u>-</u>	<u>456,419</u>	<u>19,992</u>	<u>28,183</u>	<u>504,694</u>
Total takaful operations' assets					<u>575,258</u>
Total shareholders' assets	355,138	-	-	-	355,138
	<u>355,138</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>355,138</u>
Total assets					<u>930,396</u>
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
	<u>-</u>	<u>448,421</u>	<u>29,500</u>	<u>54,557</u>	<u>532,478</u>
Total takaful operations' liabilities					<u>573,758</u>
Total shareholders' liabilities	10,534	-	-	-	10,534
	<u>10,534</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,534</u>
Total liabilities					<u>584,292</u>

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)

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9. BASIC AND DILUTED EARNINGS PER SHARE

Earnings per share amounts are calculated by dividing the net profit for the period attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding at the reporting date as follows:

	<i>Three months ended 30 June 2014 SAR'000 (Unaudited)</i>	<i>Three months ended 30 June 2013 SAR'000 (Unaudited)</i>	<i>Six months ended 30 June 2014 SAR'000 (Unaudited)</i>	<i>Six months ended 30 June 2013 SAR'000 (Unaudited)</i>
Net profit for the period (SAR'000)	4,809	5,179	7,579	7,869
Weighted average number of ordinary share (Number in thousands)	34,000	34,000	34,000	34,000
Profit per share (SAR)	0.14	0.15	0.22	0.23

10. RELATED PARTY TRANSACTIONS

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

a) Transactions with related parties

The summary of major related party transactions is as follows:

	<i>Three months ended 30 June 2014 SAR'000 (Unaudited)</i>	<i>Three months ended 30 June 2013 SAR'000 (Unaudited)</i>	<i>Six months ended 30 June 2014 SAR'000 (Unaudited)</i>	<i>Six months ended 30 June 2013 SAR'000 (Unaudited)</i>
The Saudi British Bank <i>(a shareholder of the Company)</i>				
Contributions	12,687	11,597	22,729	21,358
Claims paid	7,490	4,703	18,161	9,016
Other expenses				
- IT maintenance cost and related expenses	1,564	1,728	3,143	3,513
- Overheads	43	100	85	161
Amlak International Real Estate and Development <i>(Managing director of Amlak being a board member of the Company)</i>				
Contributions	17	44	99	347
Claims paid	-	-	14	-
Other entities controlled, jointly controlled or significantly influenced by related parties				
Policy acquisition costs	3,456	2,662	7,481	4,460
Rebate on unit-linked investments	341	355	680	717

'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.

SABB Takaful Company (A Saudi Joint Stock Company)

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10. RELATED PARTY TRANSACTIONS (continued)

b) Compensation of key management personnel

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

	<i>Three months period ended 30 June 2014 SAR'000 (Unaudited)</i>		<i>Three months period ended 30 June 2013 SAR'000 (Unaudited)</i>	
	<i>Takaful Operations</i>	<i>Shareholders</i>	<i>Takaful Operations</i>	<i>Shareholders</i>
Salaries and other benefits	952	-	972	-
End-of-service benefits	70	-	30	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<i>Six months period ended 30 June 2014 SAR'000 (Unaudited)</i>		<i>Six months period ended 30 June 2013 SAR'000 (Unaudited)</i>	
	<i>Takaful Operations</i>	<i>Shareholders</i>	<i>Takaful Operations</i>	<i>Shareholders</i>
Salaries and other benefits	1,772	-	1,871	-
End-of-service benefits	94	-	58	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

11. CONTINGENCIES

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 30 June 2014, 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.

12. ZAKAT AND TAX

Status of Assessment

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. During the quarter ended 30 June 2014, DZIT has issued the revised assessment after giving effect to PAC III ruling. However, as at 30 June 2014, DZIT has not yet issued the final tax certificates for the said years.

13. RECLASSIFICATION OF COMPARATIVE FIGURES

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

14. APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

These interim condensed financial statements have been approved by the Board of Directors on 18 Ramadan 1435H corresponding to 15 July 2014.