
SABB TAKAFUL COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2014
TOGETHER WITH THE INDEPENDENT AUDITORS' REPORT



Aldar Audit Bureau

Abdullah AlBasri & Co



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 2014 and related statement of income - takaful operations and statement of comprehensive income - shareholders' operations, statements 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 2014 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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Date: 24 February, 2015
Corresponding to: 5 Jumada Al-Awwal, 1436 AH



SABB Takaful Company (A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2014

	Notes	2014 SAR'000	2013 SAR'000
<u>TAKAFUL OPERATIONS' ASSETS</u>			
Available-for-sale investments	5	398,747	455,806
Contributions receivable, net	6	11,833	8,408
Retakaful share of outstanding claims	12(b)	54,656	46,826
Retakaful share of unearned contributions	10(b)	12,848	11,671
Deferred policy acquisition costs		1,411	1,293
Prepayments and other receivables	7	945	559
Due from shareholders		3,246	741
Cash and cash equivalents	8	40,028	49,954
TOTAL TAKAFUL OPERATIONS' ASSETS		523,714	575,258
<u>SHAREHOLDERS' ASSETS</u>			
Intangible assets		1,194	828
Motor vehicles		65	-
Held-to-maturity investments	5	187,000	206,513
Statutory deposit	9	34,000	34,000
Prepayments and other receivables	7	1,105	2,133
Cash and cash equivalents	8	143,426	111,664
TOTAL SHAREHOLDERS' ASSETS		366,790	355,138
TOTAL ASSETS		890,504	930,396


Saud Al Naimi
CFO


Adrian Flowers
Chief Executive Officer


Majed Najm
Board Member

The accompanying notes 1 to 26 form part of these financial statements.

SABB Takaful Company (A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION (CONTINUED)

AT 31 DECEMBER 2014

	Notes	2014 SAR'000	2013 SAR'000
<u>TAKAFUL OPERATIONS' LIABILITIES</u>			
Reserve for takaful activities	10(a)	389,166	447,129
Provision for employees' end-of-service benefits	11	5,056	4,102
Surplus distribution payable		4,427	2,927
Gross unearned contributions	10(b)	20,310	20,928
Unearned commission income		2,263	2,375
Gross outstanding claims	12(b)	70,186	64,046
Retakaful balances payable, net		3,460	11,049
Payables, accruals and others	13	27,255	21,202
TOTAL TAKAFUL OPERATIONS' LIABILITIES		522,123	573,758
TAKAFUL OPERATIONS' SURPLUS		1,591	1,500
TOTAL TAKAFUL OPERATIONS' LIABILITIES AND SURPLUS		523,714	575,258
<u>SHAREHOLDERS' EQUITY AND LIABILITIES</u>			
SHAREHOLDERS' EQUITY			
Share capital	14	340,000	340,000
Legal reserve	15	11,478	8,075
Retained earnings/ (Accumulated losses)		4,247	(3,471)
TOTAL SHAREHOLDERS' EQUITY		355,725	344,604
SHAREHOLDERS' LIABILITIES			
Payables, accruals and others	13	1,948	3,837
Due to takaful operations		3,246	741
Provision for zakat and income tax	16(c),(d)	5,871	5,956
TOTAL SHAREHOLDERS' LIABILITIES		11,065	10,534
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		366,790	355,138
TOTAL TAKAFUL OPERATIONS' LIABILITIES, SURPLUS, SHAREHOLDERS' EQUITY AND LIABILITIES		890,504	930,396



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SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

	Notes	2014 SAR'000	2013 SAR'000
Gross contributions written			
- Family Takaful		165,500	153,586
- General Takaful		27,581	29,498
		<u>193,081</u>	<u>183,084</u>
Family Takaful - Planholder charges		25,022	24,098
		<u>218,103</u>	<u>207,182</u>
Gross contributions written and Planholder charges			
Retakaful contribution ceded		(53,249)	(50,099)
		<u>164,854</u>	<u>157,083</u>
Net written contribution and Planholder charges			
Changes in gross unearned contributions		618	520
Changes in retakaful share of unearned contributions		1,177	29
Changes in reserve for takaful activities	10(a)	59,781	80,299
		<u>226,430</u>	<u>237,931</u>
Net contributions earned and Planholder charges	17		
Fees and commission income		13,896	4,960
		<u>240,326</u>	<u>242,891</u>
Underwriting revenue			
Gross claims paid		(48,523)	(23,200)
Retakaful share of claims paid		34,230	15,870
		<u>(14,293)</u>	<u>(7,330)</u>
Net claims paid			
Changes in gross outstanding claims		(6,140)	(1,522)
Changes in retakaful share of outstanding claims		7,830	290
		<u>(12,603)</u>	<u>(8,562)</u>
Net claims incurred	12(a)		
Surrenders and maturities	18	(168,291)	(178,806)
		<u>(180,894)</u>	<u>(187,368)</u>
Net claims incurred & surrenders and maturities			
Policy acquisition and other related costs		(12,323)	(11,011)
		<u>(193,217)</u>	<u>(198,379)</u>
Total claims, surrenders, maturities and policy acquisition costs			
Underwriting surplus for the year		47,109	44,512
Investment income		1,443	1,411
General and administrative expenses	19	(32,640)	(30,920)
		<u>15,912</u>	<u>15,003</u>
Net surplus for the year from takaful operations			
Transfer of net surplus for the year to shareholders' operations		(14,321)	(13,503)
		<u>1,591</u>	<u>1,500</u>
Net surplus for the year			


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SABB Takaful Company (A Saudi Joint Stock Company)

STATEMENT OF COMPREHENSIVE INCOME - SHAREHOLDERS' OPERATIONS

For the year ended 31 December 2014

	<i>Notes</i>	2014 SAR'000	2013 SAR'000
Transfer of net surplus for the year from takaful operations		14,321	13,503
Income from murabaha deposits		851	906
Income from sukuks		4,515	4,725
Total income		19,687	19,134
General and administrative expenses	19	(2,673)	(2,760)
Net profit for the year		17,014	16,374
Other comprehensive income		-	-
Total comprehensive income for the year		17,014	16,374
Basic and diluted earnings per share (SAR)	20	0.50	0.48


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SABB Takaful Company (A Saudi Joint Stock Company)
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 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
Total comprehensive income for the year	-	-	17,014	17,014
Provision for zakat and income tax (Note 16)	-	-	(5,893)	(5,893)
Transfer to legal reserve (Note 15)	-	3,403	(3,403)	-
Balance as at 31 December 2014	<u>340,000</u>	<u>11,478</u>	<u>4,247</u>	<u>355,725</u>
Balance as at 1 January 2013	340,000	4,800	(10,416)	334,384
Total comprehensive income for the year	-	-	16,374	16,374
Provision for zakat and income tax (Note 16)	-	-	(6,154)	(6,154)
Transfer to legal reserve (Note 15)	-	3,275	(3,275)	-
Balance as at 31 December 2013	<u>340,000</u>	<u>8,075</u>	<u>(3,471)</u>	<u>344,604</u>


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SABB Takaful Company (A Saudi Joint Stock Company)
STATEMENT OF CASH FLOWS - TAKAFUL OPERATIONS
For the year ended 31 December 2014

	Notes	2014 SAR'000	2013 SAR'000
OPERATING ACTIVITIES			
Surplus from takaful operations after shareholders' appropriation		1,591	1,500
Adjustment to reconcile surplus from takaful operations after shareholders' appropriation to net cash from operating activities:			
Shareholders' appropriation from surplus		14,321	13,503
Reversal of impairment on contribution receivables	6(a)	(178)	(1,419)
Provision for employees' end-of-service benefits	11	1,084	911
Operating surplus after shareholders' appropriations and non-cash items and before changes in operating assets and liabilities		16,818	14,495
Changes in operating assets and liabilities:			
Available-for-sale investments, net		57,059	53,807
Contributions receivables, net		(3,247)	17,949
Retakaful share of outstanding claims		(7,830)	(290)
Retakaful share of unearned contributions		(1,177)	(29)
Deferred policy acquisition costs		(118)	151
Prepayments and other receivables		(386)	542
Reserve for takaful activities		(57,963)	(56,111)
Provision for employees' end-of-service benefits, net		(130)	3,191
Gross unearned contributions		(618)	(520)
Unearned commission income		(112)	201
Gross outstanding claims		6,140	1,522
Retakaful balances payable, net		(7,589)	(708)
Payables, accruals and others		6,053	4,350
Net cash from operating activities		6,900	38,550
FINANCING ACTIVITY			
Due to shareholders, net		(16,826)	(10,103)
Net cash used in financing activity		(16,826)	(10,103)
(DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(9,926)	28,447
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		49,954	21,507
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	8	40,028	49,954
Non-cash supplemental information:			
Net change in the fair value of available-for-sale investments	5(d)	26,840	48,286


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SABB Takaful Company (A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS - SHAREHOLDERS' OPERATIONS

For the year ended 31 December 2014

	<i>Notes</i>	<i>2014 SAR'000</i>	<i>2013 SAR'000</i>
OPERATING ACTIVITIES			
Net profit for the year		17,014	16,374
Adjustment to reconcile net profit to net cash used in operating activities:			
Appropriation of surplus from takaful operations		(14,321)	(13,503)
Amortisation		345	278
Depreciation		4	12
		<u>3,042</u>	<u>3,161</u>
Changes in operating assets and liabilities:			
Prepayments and other receivables		1,028	(81)
Payables, accruals and others		(1,889)	604
		<u>2,181</u>	<u>3,684</u>
Cash used in operating activities		<u>(5,978)</u>	<u>(5,345)</u>
Net cash used in operating activities		<u>(3,797)</u>	<u>(1,661)</u>
INVESTING ACTIVITIES			
Purchase of intangible assets		(711)	-
Purchase of motor vehicle		(69)	-
Purchase of held-to-maturity investments		-	(12,000)
Maturity of held-to-maturity investments		19,513	-
Due from takaful operations, net		16,826	10,103
		<u>35,559</u>	<u>(1,897)</u>
Net cash from/ (used in) investing activities		<u>35,559</u>	<u>(1,897)</u>
INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		<u>31,762</u>	<u>(3,558)</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		<u>111,664</u>	<u>115,222</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	8	<u><u>143,426</u></u>	<u><u>111,664</u></u>


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SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2014

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

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

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

2 BASIS OF PREPARATION

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are consistent with those used in the previous year except for the adoption of the following new standards and other amendments to existing standards and a new interpretation mentioned below which has had no material impact on these financial statements on the current year or prior years and is expected to have an insignificant effect in future years:

Amendments to existing standards

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.

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.

Prospective changes in International Financial Reporting Framework

The Company has chosen not to early adopt the following amendments to existing standards and newly issued standards but not yet effective for the Company's accounting years beginning on or after 1 January 2015 and is currently assessing their impact.

Following is a brief on the new IFRS and amendments to IFRS effective for annual periods beginning on or after 1 January 2015.

<u>IFRS</u>	<u>Description</u>	<u>Effective for annual periods beginning on or after</u>
- IFRS 9	Financial instruments	1 January 2018
- Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortization	1 January 2016

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

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. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

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 comprehensive 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.

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.

Deferred policy acquisition costs (DPAC)

Direct 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 including share of profit commission payable to plan holder, if any, 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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 comprehensive 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 comprehensive income - shareholders' operations when the asset is derecognized.

Motor vehicles

Motor vehicles are initially recorded at cost and are subsequently 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 comprehensive 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.

Reserve for takaful activities

This reserves pertains to contracts which insure human life events such as death over a long period of time. Insurance premiums are recognised directly as liabilities. These liabilities are increased/ decreased by change in the unit prices as in the case of unit-linked contracts and are decreased by planholder charges and surrenders and maturities.

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.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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").

Claims

Claims consist of amounts payable to policyholders 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 and other factors, is maintained for the claims incurred but not reported at the reporting date.

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.

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.

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.

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.

Legal reserve

In accordance with the bye-laws, the Company shall allocate 20% of its net income each year to the legal reserve until it has built up a reserve equal to the issued share capital.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

Product classification

Takaful contracts are those contracts where the Company (the insurer) has accepted significant takaful risk from another party (the plan/ policy holders) by agreeing to compensate the 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.

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

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.

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 and murabaha deposits are accounted for on an effective interest basis. Investment income includes 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.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 period in which they are notified. Maturities refers to the amount given to the insured towards the end of the maturity period of the individual family takaful contract.

Surrenders and maturities are calculated based on the terms and conditions of the respective takaful contracts.

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.

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.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

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

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

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

For financial reporting purposes, Individual Family Takaful and Group Family Takaful segments are reported together as "Family Takaful".

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

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 surrenderrates 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 2014

5 INVESTMENTS

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

	31 December 2014 SAR'000	
	<i>Takaful Operations</i>	<i>Shareholders</i>
<i>Available-for-sale investments – Quoted</i>		
Investment in Amanah Mutual Funds	398,747	-
<i>Held-to-maturity investments – Quoted</i>		
Saudi Electricity Company Sukuk (SEC-III)	-	25,000
Saudi Hollandi Bank Sukuk (SHB-II)	-	15,000
<i>Held-to-maturity investments – Unquoted</i>		
Saudi Hollandi Bank Sukuk (SHB-I)	-	5,000
Bank Al Jazira Sukuk	-	20,000
General Authority of Civil Aviation Sukuk (GACA - I)	-	50,000
The National Industrialization Company Sukuk (TASNEE - I)	-	50,000
Olayan Real Estate Company Sukuk (ORECO - I)	-	10,000
The Power and Water Utility Company for Jubail and Yanbu Sukuk (MARAFIQ)	-	12,000
	-	187,000
Total investments	398,747	187,000

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

Quoted held-to-maturity investments represent sukuks which are listed on Tadawul.

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

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

5 INVESTMENTS (CONTINUED)

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

<i>Maturity profile - Held-to-maturity investments</i>	<i>Maturity date</i>
- Saudi Electricity Company Sukuk (SEC-III)	10 May 2017
- Saudi Hollandi Bank Sukuk (SHB-II)	26 November 2019
- Saudi Hollandi Bank Sukuk (SHB-I)	29 December 2019
- Bank Al Jazira Sukuk	28 March 2021
- General Authority of Civil Aviation Sukuk (GACA - I)	18 January 2022
- The National Industrialization Company Sukuk (TASNEE - I)	21 May 2019
- Olayan Real Estate Company Sukuk (ORECO - I)	25 June 2017
- The Power and Water Utility Company for Jubail and Yanbu Sukuk (MARAFIQ)	27 May 2018

The average commission rate on held-to-maturity investments at 31 December 2014 is 2.29 % per annum (2013: 2.36 % per annum).

b) The fair value of held-to-maturity investments as at 31 December 2014 is SAR 187.33 million (31 December 2013: SAR 207.25 million).

c) Credit quality of total investments

	<i>2014 SAR'000</i>	<i>2013 SAR'000</i>
Investment grade	463,747	520,806
Non Investment grade	122,000	141,513
Total	585,747	662,319

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>2014 SAR'000</i>	<i>2013 SAR'000</i>
Balance as at the beginning of the year	455,806	509,613
Purchased during the year	102,884	94,237
Sold during the year	(186,783)	(196,330)
Net change in fair values of investments	371,907	407,520
Balance as at the end of the year	26,840	48,286
	398,747	455,806

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

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

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

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

The Company's available-for-sale and held to maturity investments are classified under Level 2 hierarchy.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

6 CONTRIBUTIONS RECEIVABLE, NET

	2014 SAR'000	2013 SAR'000
Due from policy holders	6,402	3,468
Due from a shareholder (The Saudi British Bank)	6,254	5,941
	<u>12,656</u>	<u>9,409</u>
Provision for impairment	(823)	(1,001)
	<u>11,833</u>	<u>8,408</u>

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

	2014 SAR'000	2013 SAR'000
At the beginning of the year	1,001	2,420
Reversal during the year	(178)	(1,419)
At the end of the year	<u>823</u>	<u>1,001</u>

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

			Past due but not impaired		
	Total SAR'000	Neither past due nor impaired SAR'000	91 to 180 days SAR'000	181 to 365 days SAR'000	More than 365 days SAR'000
31 December 2014	11,833	9,423	2,109	169	132
31 December 2013	8,408	7,151	934	50	273

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

	Note	2014 SAR'000	
		Takaful Operations	Shareholders
Due from related parties	23(b)	330	-
Accrued investment income		19	1,102
Prepayments and others		596	3
		<u>945</u>	<u>1,105</u>
		<u>945</u>	<u>1,105</u>
	Note	2013 SAR'000	
		Takaful Operations	Shareholders
Due from related parties	23(b)	110	368
Accrued investment income		-	1,386
Prepayments and others		449	379
		<u>559</u>	<u>2,133</u>
		<u>559</u>	<u>2,133</u>

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

8 CASH AND CASH EQUIVALENTS

	2014	
	SAR'000	
	Takaful Operations	Shareholders
Bank balances	25,009	5,371
Murabaha deposits	15,019	138,055
	<u>40,028</u>	<u>143,426</u>
	2013	
	SAR'000	
	Takaful Operations	Shareholders
Bank balances	49,954	9,468
Murabaha deposits	-	102,196
	<u>49,954</u>	<u>111,664</u>

Bank balances are maintained only 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 2014 is 0.72 % per annum (2013: 0.85 % per annum).

9 STATUTORY DEPOSIT

In accordance with Article 58 of the Insurance Implementing Regulations of SAMA, the Company has deposited 10 percent of its share capital, amounting to SR 34 million (2013: 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.

10 MOVEMENT IN RESERVE FOR TAKAFUL ACTIVITIES AND NET UNEARNED CONTRIBUTION

a) Movement in reserve for takaful activities

	2014	2013
	SAR'000	SAR'000
Balance as at the beginning of the year	447,129	503,240
Changes in reserve during the year	(59,781)	(80,299)
Planholder charges	(25,022)	(24,098)
Net change in fair value of investments	<u>26,840</u>	<u>48,286</u>
Balance as at the end of the year	<u>389,166</u>	<u>447,129</u>

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

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

10 MOVEMENT IN RESERVE FOR TAKAFUL ACTIVITIES AND NET UNEARNED CONTRIBUTION

b) Movement in net unearned contribution

	2014		
	<i>Gross SAR'000</i>	<i>Retakaful share SAR'000</i>	<i>Net SAR'000</i>
Balance as at the beginning of the year	20,928	(11,671)	9,257
Contribution written during the year	83,667	(51,917)	31,750
Contribution earned during the year	(84,285)	50,740	(33,545)
Balance as at the end of the year	<u>20,310</u>	<u>(12,848)</u>	<u>7,462</u>

	2013		
	<i>Gross SAR'000</i>	<i>Retakaful share SAR'000</i>	<i>Net 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	<u>20,928</u>	<u>(11,671)</u>	<u>9,257</u>

11 PROVISION FOR EMPLOYEES' END-OF-SERVICE BENEFITS

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

	2014 SAR'000	2013 SAR'000
Opening balance	4,102	4,119
Charge during the year	1,084	911
Payments during the year	(130)	(928)
Closing balance	<u>5,056</u>	<u>4,102</u>

12 CLAIMS

a) Net claims incurred

	For the year ended 31 December 2014		
	<i>SAR'000 Family Takaful</i>	<i>SAR'000 General Takaful</i>	<i>SAR'000 Total</i>
Claims paid	42,396	6,127	48,523
Re-takaful share of claims paid	(30,641)	(3,589)	(34,230)
Net claims paid	11,755	2,538	14,293
Changes in outstanding claims, IBNR and other reserves	(4,675)	10,815	6,140
Changes in re-takaful share of outstanding claims, IBNR and other reserves	3,764	(11,594)	(7,830)
Net claims incurred	<u>10,844</u>	<u>1,759</u>	<u>12,603</u>

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

12 CLAIMS (CONTINUED)

a) Net claims incurred (continued)

	<i>For the year ended 31 December 2013</i>		
	<i>SAR'000</i>	<i>SAR'000</i>	<i>SAR'000</i>
	<i>Family</i>	<i>General</i>	
	<i>Takaful</i>	<i>Takaful</i>	<i>Total</i>
Claims paid	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)
Net claims incurred	<u>6,689</u>	<u>1,873</u>	<u>8,562</u>

b) Outstanding claims

	<i>2014</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	6,661	(4,615)	2,046
- Incurred but not reported reserve and other reserves	14,353	(10,102)	4,251
General Takaful outstanding claims			
- Outstanding claim reserves	37,225	(36,415)	810
- Incurred but not reported reserve and other reserves	11,947	(3,524)	8,423
Total outstanding claims	<u>70,186</u>	<u>(54,656)</u>	<u>15,530</u>

	<i>2013</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	<u>64,046</u>	<u>(46,826)</u>	<u>17,220</u>

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

13 PAYABLES, ACCRUALS AND OTHERS

	Note	2014 SAR'000	
		Takaful Operations	Shareholders
Accounts payable and accruals		20,301	1,948
Payable to agents		1,457	-
Due to related parties	23(b)	5,497	-
		<u>27,255</u>	<u>1,948</u>
	Note	2013 SAR'000	
		Takaful Operations	Shareholders
Accounts payable and accruals		19,787	3,837
Payable to agents		1,270	-
Due to related parties	23(b)	145	-
		<u>21,202</u>	<u>3,837</u>

14 SHARE CAPITAL

The authorized, issued and fully paid up share capital of the Company consists of 34 million ordinary shares of SAR 10 each. Shareholding structure of the Company as at 31 December 2014 and 2013 is as follows:

Shareholders	Shareholding	SAR'000
The Saudi British Bank	32.50%	110,500
HSBC Asia Holdings B.V	31.00%	105,400
Others	36.50%	124,100
	<u>100.00%</u>	<u>340,000</u>

15 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.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

16 PROVISION FOR ZAKAT AND INCOME TAX

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

	2014 SAR'000	2013 SAR'000
Provision for zakat	4,608	4,367
Provision for tax	1,285	1,787
	<u>5,893</u>	<u>6,154</u>

b) Zakat charge for the year

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

	2014 SAR'000	2013 SAR'000
Equity	336,529	329,584
Opening allowances and other adjustments	5,150	512
Book value of long term assets	(29,820)	(32,486)
	<u>311,859</u>	<u>297,610</u>
Adjusted profit for the year	19,807	22,904
Zakat base	<u>331,666</u>	<u>320,514</u>
Saudi Shareholders' share of zakat base @ 54.5%	<u>180,758</u>	<u>174,680</u>
Zakat charge for the year @ 2.5%	<u>4,519</u>	<u>4,367</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:

	2014 SAR'000	2013 SAR'000
At the beginning of the year	4,281	4,067
Charge during the year	4,519	4,367
Prior year adjustment	89	-
Payments during the year	(4,370)	(4,153)
At the end of the year	<u>4,519</u>	<u>4,281</u>

d) Income tax charge for the year

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

	2014 SAR'000	2013 SAR'000
At the beginning of the year	1,675	1,080
Charge during the year	1,285	1,787
Payments during the year	(1,608)	(1,192)
At the end of the year	<u>1,352</u>	<u>1,675</u>

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

16 PROVISION FOR 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. 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, 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 31 December 2014, DZIT is in the process of issuance of the final tax certificates for the said years. Further, DZIT has yet to commence its review for the years ended 31 December 2011, 2012 and 2013.

17 NET CONTRIBUTION EARNED AND PLANHOLDER CHARGES

	<i>For the year ended 31 December 2014</i>		
	<i>Family Takaful SAR'000</i>	<i>General Takaful SAR'000</i>	<i>Total SAR'000</i>
Gross written contribution	165,500	27,581	193,081
Planholder charges	25,022	-	25,022
Re-takaful contribution ceded	(34,253)	(18,996)	(53,249)
Changes in gross unearned contribution	(271)	889	618
Changes in retakaful share of unearned contribution	176	1001	1,177
Changes in reserve for takaful activities	59,781	-	59,781
Net contribution earned and planholder charges	<u>215,955</u>	<u>10,475</u>	<u>226,430</u>

	<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 and planholder charges	<u>225,253</u>	<u>12,678</u>	<u>237,931</u>

18 SURRENDERS AND MATURITIES

	<i>SAR'000</i>	
	<i>2014</i>	<i>2013</i>
Surrenders	68,858	82,824
Maturities	99,433	95,982
	<u>168,291</u>	<u>178,806</u>

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

19 GENERAL AND ADMINISTRATIVE EXPENSES

	2014 SAR'000	
	<i>Takaful Operations</i>	<i>Shareholders</i>
Employee costs	23,288	-
IT maintenance costs	4,899	-
Legal and professional charges	1,367	-
Rent expenses	627	-
Travel expenses	492	-
Amortization and depreciation	349	-
Others	1,618	2,673
	<u>32,640</u>	<u>2,673</u>

	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	-
Rent expenses	920	-
Travel expenses	542	-
Amortization and depreciation	-	290
Others	2,184	2,470
	<u>30,920</u>	<u>2,760</u>

20 BASIC AND DILUTED EARNINGS PER SHARE

	2014	2013
The basic and diluted earnings per share are calculated as follows:		
Net profit for the year (SAR'000)	<u>17,014</u>	<u>16,374</u>
Weighted average number of ordinary shares (Number in thousands)	<u>34,000</u>	<u>34,000</u>
Earnings per share (SAR)	<u>0.50</u>	<u>0.48</u>

21 CONTINGENCIES AND COMMITMENTS

The Company is subject to litigation in the normal course of its business. During the 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 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. The hearing process for the said claim is in progress with SAMA Committee for Resolution of Insurance Disputes and Violations.

During the quarter ended 31 December 2014, a significant claim amounting to SAR 92 million with 100% re-insurance protection, has been intimated to the Company by a related party. The claimant is in the process of gathering sufficient details to support the validity of its claim. The Company has not yet received such details and consequently, no liability and related re-insurance asset have been recorded for the said claim till satisfactory information is available in this regard.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

22 SEGMENTAL INFORMATION

Consistent with the Company's internal reporting process, business segments have been approved by management in respect of the Company's activities. The Company's gross written contribution, net written contribution and planholder charges, net contributions earned and planholder charges, fees and commission income, net claims incurred, surrenders and maturities, policy acquisition and other related costs, underwriting surplus, investment income, general and administrative expenses, net surplus, surplus transferred to shareholders operations, net profit, purchase of intangibles and motor vehicle, amortisation, depreciation, intangible assets, available for sale investments, contribution receivables - net, retakaful share of outstanding claims and unearned contributions, deferred policy acquisition costs, total assets, reserve for takaful activities, unearned contributions and commission income, gross outstanding claims 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 surplus distribution payable, retakaful balances payable - net and payables, accruals and others and provision for employees' end-of-service benefits. Accordingly they are included in unallocated liabilities.

	<i>Shareholders' Fund</i> <i>SAR'000</i>	<i>Individual Family</i> <i>SAR'000</i>	<i>Group Family</i> <i>SAR'000</i>	<i>General Takaful</i> <i>SAR'000</i>	<i>Total</i> <i>SAR'000</i>
For the year ended 31 December 2014					
Gross written contribution	-	109,414	56,086	27,581	193,081
Net written contribution and Planholder charges	-	133,104	23,166	8,584	164,854
Net contributions earned and Planholder charges	-	192,885	23,070	10,475	226,430
Fees and commission income	-	471	7,575	5,850	13,896
Net claims incurred	-	(1,081)	(9,763)	(1,759)	(12,603)
Surrenders and maturities	-	(168,291)	-	-	(168,291)
Policy acquisition and other related costs	-	(3,910)	(5,947)	(2,466)	(12,323)
Underwriting surplus for the year	-	20,074	14,935	12,100	47,109
Investment income	5,366	1,411	-	32	6,809
General and administrative expenses	(2,673)	(11,857)	(10,557)	(10,226)	(35,313)
Net surplus for the year	2,693	9,628	4,378	1,906	18,605
Surplus from takaful operations after shareholders' appropriation					(1,591)
Net profit for the year					17,014
Purchase of intangible assets	711	-	-	-	711
Purchase of motor vehicle	69	-	-	-	69
Amortisation	345	-	-	-	345
Depreciation	4	-	-	-	4

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

22 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 and Planholder charges	-	123,584	21,863	11,636	157,083
Net contributions earned and Planholder charges	-	203,883	21,370	12,678	237,931
Fees and commission income	-	571	156	4,233	4,960
Net claims incurred	-	(474)	(6,215)	(1,873)	(8,562)
Surrenders and maturities	-	(178,806)	-	-	(178,806)
Policy acquisition and other related costs	-	(5,817)	(1,881)	(3,313)	(11,011)
Underwriting surplus for the year	-	19,357	13,430	11,725	44,512
Investment income	5,631	1,411	-	-	7,042
General and administrative expenses	(2,760)	(11,209)	(8,565)	(11,146)	(33,680)
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
31 December 2014					
Intangible assets	1,194	-	-	-	1,194
Motor vehicle	65	-	-	-	65
Takaful operations' assets					
Available-for-sale investments	-	398,747	-	-	398,747
Contribution receivables, net	-	-	2,417	9,416	11,833
Retakaful share of outstanding claims	-	512	14,204	39,940	54,656
Retakaful share of unearned contributions	-	-	1,926	10,922	12,848
Deferred policy acquisition costs	-	-	439	972	1,411
Unallocated assets	-	-	-	-	44,219
Total takaful operations' assets					523,714
Total shareholders' assets	366,790	-	-	-	366,790
Total assets					890,504
Takaful operations' liabilities					
Reserve for takaful activities	-	389,166	-	-	389,166
Gross unearned contributions	-	-	5,373	14,937	20,310
Unearned commission income	-	-	-	2,263	2,263
Gross outstanding claims	-	1,599	19,415	49,172	70,186
Unallocated liabilities	-	-	-	-	40,198
Total takaful operations' liabilities					522,123
Total shareholders' liabilities	11,065	-	-	-	11,065
Total liabilities					533,188

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

22 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
Gross unearned contributions	-	-	5,101	15,827	20,928
Unearned commission income	-	-	-	2,375	2,375
Gross outstanding claims	-	1,292	24,399	38,355	64,046
Unallocated liabilities	-	-	-	-	39,280
Total takaful operations' liabilities					573,758
Total shareholders' liabilities	10,534	-	-	-	10,534
Total liabilities					584,292

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 2014

23 RELATED PARTY TRANSACTIONS AND BALANCES

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

a) Transactions with related parties

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

	2014 SAR'000	2013 SAR'000
The Saudi British Bank (a shareholder of the Company)		
Contributions	53,056	50,330
Claims paid	31,146	16,258
Other expenses		
- IT maintenance cost and related expenses	5,611	7,284
- Overheads	171	407
Investment in murabaha deposits	35,000	-
Profit commission payable	4,686	-
Amlak International Real Estate and Development (Managing director of Amlak was a board member of the Company)		
Contributions	69	347
Claims paid	14	-
Other entities controlled, jointly controlled or significantly influenced by related parties		
Policy acquisition costs paid	6,397	7,827
Rebate on unit-linked investments	1,373	1,411

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

b) Balances with related parties

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

	2014 SAR'000		2013 SAR'000	
	<i>Takaful Operations</i>	<i>Shareholders</i>	<i>Takaful Operations</i>	<i>Shareholders</i>
Due from related parties				
Entities controlled, jointly controlled or significantly influenced by related parties	<u>330</u>	<u>-</u>	<u>110</u>	<u>368</u>
Due to related parties				
Shareholders, directors and key management personnel	<u>5,497</u>	<u>-</u>	145	-

Gross outstanding claims include claim reserves amounting to SAR 15.90 million (2013: SAR 15.22 million) pertaining to takaful contracts issued to The Saudi British Bank. Further, refer notes 6, 8, 9 and 21 for other balances with related parties.

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

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

23 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

c) *Compensation of key management personnel*

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

	2014 SAR'000		2013 SAR'000	
	<i>Takaful Operations</i>	<i>Shareholders</i>	<i>Takaful Operations</i>	<i>Shareholders</i>
Salaries and other benefits	3,672	-	3,715	-
End-of-service benefits	152	-	282	-

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

Available-for-sale investments pertaining to unit-linked policies as at 31 December 2014 amounting to SAR 398.75 million (2013: SAR 455.81million) comprise of investments in units of mutual funds managed by HSBC Saudi Arabia Limited, being a related party of the Company.

24 RISK MANAGEMENT

Risk governance

The Company's risk governance is manifested in a set of established policies, procedures and controls which uses the existing organizational structure to meet strategic targets. The Company's philosophy revolves on willing and knowledgeable risk acceptance commensurate with the risk appetite and a strategic plan approved by the Board of Directors. The Company is exposed to takaful, retakaful, commission rate, market and asset liability management, credit, liquidity, currency and operational risks.

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:

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 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.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

24 RISK MANAGEMENT (CONTINUED)

a) Takaful risk (continued)

Family takaful

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

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

The individual family and group takaful portfolios are protected through an efficient re-takaful arrangement in accordance with Hongkong and Shanghai Banking Corporation (HSBC) group standards. This protects the Company from adverse mortality/morbidity experience.

General takaful

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

Property all risk, fire, personal accident products

For property takaful contracts, the main risks are fire and business interruption. The Company has only underwritten policies for properties containing fire detection equipments and other safety measures.

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Company has retakaful cover for such damage to limit losses for any individual claim.

For personal accident takaful contracts, the main risks are personal accidents that could happen to the takaful product holders. The Company has retakaful cover under excess of loss treaty for such damage to limit losses for any individual claim.

Marine cargo product

For marine takaful the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.

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

Frequency and severity of claims

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

24 RISK MANAGEMENT (CONTINUED)

a) Takaful risk (continued)

Concentration of takaful risk

The Company monitors concentration of takaful risks primarily by class of business. For fire and property risk a particular building and neighboring buildings, which could be affected by a single claim incident, are considered as a single location. Similarly, for marine risk, multiple risks covered in a single vessel voyage are considered as a single risk while assessing concentration of risk. The Company evaluates the concentration of exposures to individual and cumulative insurance risks and establishes its reinsurance policy to reduce such exposures to levels acceptable to the Company. As at 31 December 2014 and 2013, the Company does not have any significant concentration of takaful risk.

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 takaful contracts.

Such estimates are necessarily based on assumptions about several factors involving varying and possibly significant degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. Qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example one off occurrence, changes in market factors such as public attitude to claiming and economic conditions. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

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 net claims ratio, with other variables held constant, would impact income by approximately SAR 1,260 thousand (2013: SAR 856 thousand) annually in aggregate.

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

24 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

	<u>2009</u> <u>&</u> <u>earlier</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
Accident year							
Estimate of ultimate claim loss							
- At end of accident year	45,397	33,617	49,887	30,433	34,616	45,350	45,350
- One year later	40,459	26,906	46,783	25,059	38,856	-	38,856
- Two years later	38,491	32,638	46,507	23,867	-	-	23,867
- Three years later	35,343	26,637	46,572	-	-	-	46,572
- Four years later	34,428	26,774	-	-	-	-	26,774
- Five years later	34,439	-	-	-	-	-	34,439
Current estimate of cumulative claims	34,439	26,774	46,572	23,867	38,856	45,350	215,858
Cumulative payments to date	34,439	26,324	23,102	23,748	24,842	39,517	171,972
Outstanding claims	-	450	23,470	119	14,014	5,833	43,886
Add: Incurred but not reported (IBNR) and other reserves							26,300
Liability recognized in the statement of financial position							70,186
	<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>
Accident year							
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

24 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 2014. A hypothetical 30 basis points change in the weighted average commission rate of the floating rate financial assets balances at 31 December 2014 would impact commission income by approximately SAR 870 thousand (2013: SAR 776 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 2014

24 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.
- Considering the nature of held-to-maturity investments, there is a minimal credit risk. Cash and cash equivalents are maintained with local banks approved by management. Accordingly, as a pre-requisite, the banks with whom cash and cash equivalents are maintained are required to have a minimum acceptable security rating level affirming their financial strength.

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

	2014 SAR'000	
	<i>Takaful Operations</i>	<i>Shareholders</i>
Retakaful share of outstanding claims	54,656	-
Contributions receivable, net	11,833	-
Held-to-maturity investments	-	187,000
Cash and cash equivalents	40,028	143,426
Other receivables	349	1,102
	<u>106,866</u>	<u>331,528</u>
	2013 SAR'000	
	<i>Takaful Operations</i>	<i>Shareholders</i>
Retakaful share of outstanding claims	46,826	-
Contributions receivable, net	8,408	-
Held-to-maturity investments	-	206,513
Cash and cash equivalents	49,954	111,664
Other receivables	110	1,754
	<u>105,298</u>	<u>319,931</u>

Cash and cash equivalents and certain contribution receivables pertain to The Saudi British Bank (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 2014

24 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 out flows 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.

	2014					
	Takaful Operations			Shareholders		
	Up to one year SAR'000	More than one year SAR'000	Total SAR'000	Up to one year SAR'000	More than one year SAR'000	Total SAR'000
ASSETS						
Available-for-sale investments	398,747	-	398,747	-	-	-
Held-to-maturity investments	-	-	-	-	187,000	187,000
Contributions receivable, net	11,833	-	11,833	-	-	-
Retakaful share of outstanding claims	54,656	-	54,656	-	-	-
Cash and cash equivalents	40,028	-	40,028	143,426	-	143,426
	<u>505,264</u>	<u>-</u>	<u>505,264</u>	<u>143,426</u>	<u>187,000</u>	<u>330,426</u>
LIABILITIES						
Reserve for takaful activities	389,166	-	389,166	-	-	-
Gross outstanding claims	70,186	-	70,186	-	-	-
Retakaful balances payable, net	3,460	-	3,460	-	-	-
Payables, accruals and others	27,255	-	27,255	1,948	-	1,948
	<u>490,067</u>	<u>-</u>	<u>490,067</u>	<u>1,948</u>	<u>-</u>	<u>1,948</u>

SABB Takaful Company (A Saudi Joint Stock Company)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

24 RISK MANAGEMENT (CONTINUED)

f) Liquidity risk (continued)

	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	11,049	-	11,049	-	-	-
Payables, accruals and others	21,202	-	21,202	3,837	-	3,837
	<u>543,426</u>	<u>-</u>	<u>543,426</u>	<u>3,837</u>	<u>-</u>	<u>3,837</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.

24 RISK MANAGEMENT (CONTINUED)

h) Operational risk (continued)

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.

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 28 Raby' al-thaany 1436H, corresponding to 17 February 2015.