
**ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)**

UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

**FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2014
AND FOR THE PERIOD FROM 3 JULY 2013 (INCEPTION DATE) TO 31 MARCH 2014**

**ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2014
AND FOR THE PERIOD FROM 3 JULY 2013 (INCEPTION DATE) TO 31 MARCH 2014**

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Al Bassam

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P. O. Box 55078
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License No. 46/11/323 Issued 11/3/1992

INDEPENDENT AUDITORS' REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS

THE SHAREHOLDERS
ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
KINGDOM OF SAUDIA ARABIA

Scope of Review

We have reviewed the accompanying interim statement of financial position of AlJazira Takaful Taawuni Company – a Saudi Joint Stock Company (the "Company") as at 31 March 2014, and related interim statements of Insurance Operations and accumulated surplus, Shareholders' Operations, Shareholders' comprehensive income for the three-month period ended 31 March 2014 and for the period from 3 July 2013 to 31 March 2014 and the related interim statements of changes in Shareholders' equity, Insurance Operations' cash flows and Shareholders' cash flows for the period from 3 July 2013 to 31 March 2014 and the related notes from 1 to 13 which form an integral part of these interim condensed financial statements. These interim condensed financial statements are the responsibility of the Company's management and have been prepared by them in accordance with the International Accounting Standard 34 ("IAS 34") and submitted to us together with all the information and explanations which we required.

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

Conclusion

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

Emphasis of Matters

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

Al Bassam
Certified Public Accountants & Consultants

Ibrahim A. Al Bassam
Certified Public Accountant
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for KPMG Al Fozan & Al Sadhan

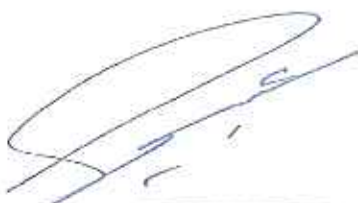
Ebrahim Oboud Baeshen
Certified Public Accountant
License No. 382

20 April 2014
20 Jumaad Al-Thani 1435H
Jeddah, Kingdom of Saudi Arabia

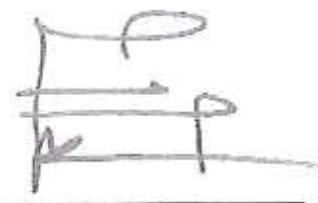


ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)
INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 31 MARCH 2014

	Notes	SR '000
INSURANCE OPERATIONS' ASSETS		
Cash and cash equivalents	3	850
Available-for-sale investments held to cover unit-linked liabilities	4	754
Contributions receivable		57
Reinsurance share of unearned contributions		25
Due from a related party	9(b)	259
Other receivables		6
Total Insurance Operations' assets		1,951
SHAREHOLDERS' ASSETS		
Cash and cash equivalents	3	314,886
Accrued profit		1,282
Due from Insurance Operations		239
Statutory deposit	5	35,000
Total shareholder's assets		351,407
TOTAL ASSETS		353,358



Chairman



Chief Executive Officer



Senior Finance Manager

The accompanying notes 1 to 13 form an integral part of these interim condensed financial statements.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED) continued
AS AT 31 MARCH 2014

	Notes	31 March 2014 SR '000
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS		
Insurance Operations' liabilities		
Reserve for Insurance activities	6	946
Unearned contributions		55
Incurred but not reported claim (IBNR & IBNER) – net		2
Advance contributions		365
Contributions deposit		220
Reinsurance balances payable		11
Accrued expenses and other liabilities		98
Due to Shareholders' Operations		239
Total Insurance Operations' liabilities		1,936
Insurance Operations' surplus		
Surplus from Insurance Operations		15
Total Insurance Operations' liabilities and surplus		1,951
SHAREHOLDERS' LIABILITIES AND EQUITY		
Shareholders' liabilities		
Accrued expenses and other liabilities		946
Accrued Zakat	10	3,000
Total Shareholders' liabilities		3,946
Shareholders' equity		
Share capital	7	350,000
Accumulated losses		(2,539)
Total Shareholders' equity		347,461
Total Shareholders' liabilities and equity		351,407
TOTAL INSURANCE OPERATIONS' LIABILITIES, SURPLUS, SHAREHOLDERS' LIABILITIES AND EQUITY		353,358

Chairman

Chief Executive Officer

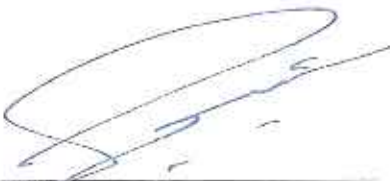
Senior Finance Manager

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**ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)**

INTERIM STATEMENT OF INSURANCE OPERATIONS AND ACCUMULATED SURPLUS (UNAUDITED)

		<i>For the three-month period ended 31 March 2014 SR '000</i>	<i>For the period from 3 July 2013 to 31 March 2014 SR '000</i>
	Notes		
INSURANCE REVENUE			
Gross written contributions		1,060	1,060
Investible contributions, net		(799)	(799)
Net Insurance contributions		261	261
Contributions ceded		(11)	(11)
Net written contributions		250	250
Unearned contributions – net		(30)	(30)
Net Insurance revenue		220	220
Reserve for Insurance activities	6	(141)	(141)
Incurred but not reported claim (IBNR & IBNER) – net		(2)	(2)
Policy acquisition cost		(62)	(62)
Supervision and inspection fee		(5)	(5)
Underwriting surplus for the period		10	10
General and administrative expenses		(990)	(990)
Portfolio management fee	9	1,134	1,134
Surplus for the period from Insurance Operations		154	154
Shareholders' share of surplus from Insurance Operations		(139)	(139)
Surplus for the period and accumulated surplus		15	15



Chairman



Chief Executive Officer



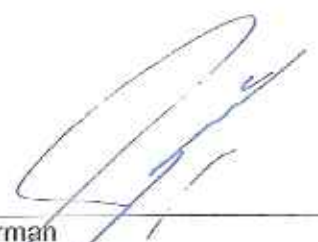
Senior Finance Manager

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ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM STATEMENT OF SHAREHOLDERS' OPERATION (UNAUDITED)

		<i>For the three- month period ended 31 March 2014</i>	<i>For the period from 3 July 2013 to 31 March 2014</i>
	Notes	SR '000	SR '000
REVENUE			
Shareholders' share of surplus from Insurance Operations		139	139
Profit on Murahaba deposits		1,299	3,375
Realised gain on investment		700	700
Pre-incorporation income, net	8	-	1,597
Total income		2,138	5,811
General and administrative expenses		(64)	(885)
NET INCOME FOR THE PERIOD BEFORE ZAKAT		2,074	4,926
Provision for Zakat	10	(3,000)	(3,000)
NET (LOSS) / INCOME FOR THE PERIOD		(926)	1,926
Weighted average number of ordinary shares outstanding (in thousands)	11	35,000	35,000
(Loss) / earnings per share for the period (SR)	11	(0.026)	0.055


Chairman


Chief Executive Officer

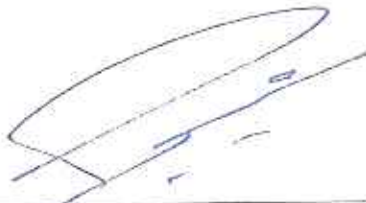

Senior Finance Manager

The accompanying notes 1 to 13 form an integral part of these interim condensed financial statements.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME (UNAUDITED)

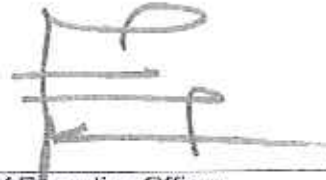
	<i>For the three-month period ended 31 March 2014</i>	<i>For the period from 3 July 2013 to 31 March 2014</i>
	SR '000	SR '000
NET (LOSS) / INCOME FOR THE PERIOD	(926)	1,926
Other comprehensive income	-	-
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE PERIOD	<u>(926)</u>	<u>1,926</u>



Chairman



Senior Finance Manager



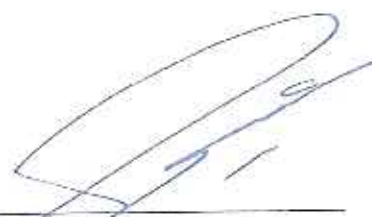
Chief Executive Officer


The accompanying notes 1 to 13 form an integral part of these interim condensed financial statements.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
FOR THE PERIOD FROM 3 JULY 2013 TO 31 March 2014

	Share capital	Accumulated losses	Total
	SR '000	SR '000	SR '000
Issuance of share capital (note 7)	350,000	-	350,000
Transaction costs relating to issuance of share capital (note 7)	-	(4,465)	(4,465)
Total comprehensive income for the period	-	1,926	1,926
Balance as at 31 March 2014	<u>350,000</u>	<u>(2,539)</u>	<u>347,461</u>


Chairman


Chief Executive Officer

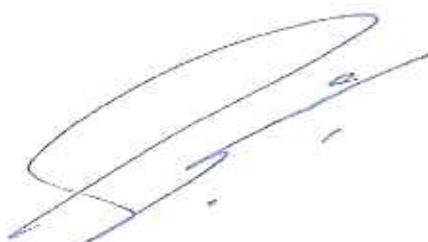

Senior Finance Manager

The accompanying notes 1 to 13 form an integral part of these interim condensed financial statements.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS (UNAUDITED)
FOR THE PERIOD FROM 3 JULY 2013 TO 31 March 2014

OPERATING ACTIVITIES	Note	SR '000
Surplus for the period		15
Adjustments for the period:		
Reinsurance share of unearned contributions		(25)
Unearned contributions		55
		45
<i>Change in operating assets and liabilities:</i>		
Available-for-sale investments held to cover unit-linked liabilities		(754)
Contributions receivable		(57)
Due from a related party		(259)
Other receivables		(6)
Reserve for Insurance activities		946
Incurred but not reported claim (IBNR & IBNER) – net		2
Advance contributions		365
Contributions deposit		220
Reinsurance balances payable		11
Accruals and other payables		98
Net cash flows from operating activities		611
FINANCING ACTIVITY		
Due to Shareholders' Operation		239
Cash and cash equivalents at end of the period	3	850



Chairman



Chief Executive Officer



Senior Finance Manager

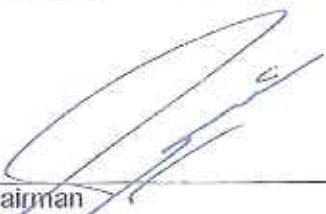
The accompanying notes 1 to 13 form an integral part of these interim condensed financial statements.

ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)

INTERIM STATEMENT OF SHAREHOLDERS' CASH FLOWS (UNAUDITED)

For the period from 3 July 2013 to 31 March 2014

	Note	SR' 000
OPERATING ACTIVITIES		
Net income for the period before Zakat		4,926
<i>Change in operating assets and liabilities</i>		
Statutory deposit	5	(35,000)
Accrued profit		(1,282)
Due from Insurance Operations		(239)
Accrued expenses		946
Net cash flows used in operating activities		(30,649)
FINANCING ACTIVITIES		
Issue of share capital	7	350,000
Transaction cost relating to issue of share capital	7	(4,465)
Net cash flows from financing activities		345,535
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	3	<u>314,886</u>


Chairman


Chief Executive Officer


Senior Finance Manager

The accompanying notes 1 to 13 form an integral part of these interim condensed financial statements.

**ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2014
AND FOR THE PERIOD FROM 3 JULY 2013 TO 31 MARCH 2014**

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

AlJazira Takaful Taawuni Company (the "Company"), is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia pursuant to the Council of Ministers' No. 137 dated 27 Rabi' Al-Thani 1431H (corresponding to 12 April 2010) and Royal Decree No. M/23 dated 28 Rabi' Al-Thani 1431H corresponding to 13 April 2010. The Company obtained its Commercial Registration 4030251980 on 2 Ramadan 1434H corresponding to 10 July 2013 and Ministry of Commerce and Industry's Resolution dated 24 Sha'baan 1434H corresponding to 3 July 2013. The registered office address of the Company is:

Al Musadla Plaza (3), Al Madinah Road,
P.O Box 6277, Jeddah 21442,
Kingdom of Saudi Arabia.

The objectives of the Company are to engage in providing insurance products including protection and saving insurance products and related services in accordance with its Articles of Association and applicable regulations in the Kingdom of Saudi Arabia. During the period, the Company has received licence number TMN/34/201312 dated 15 Safar 1435H (corresponding to 18 December 2013) from Saudi Arabian Monetary Agency (SAMA) to conduct insurance business.

The insurance portfolio and related assets and liabilities will be acquired from a founding shareholder by the Company on completion of valuation and approval by SAMA. Furthermore in accordance with the Transitional Agreement (the "Agreement") between the Company and a founding shareholder all the general and administrative cost up to transfer of insurance portfolio will be shared by the Company and the founding shareholder in the ratio of 17% and 83% respectively. Currently, the Company is using furniture and fixture of a founding shareholder. Moreover in accordance with the Agreement the Company will manage the insurance portfolio of the founding shareholder in consideration of receiving a management fee at the rate of 20% of total revenue of founding shareholder's portfolio.

As per the Company's by-laws and Article of Association, the Company's first fiscal year shall commence on the issuance date of Ministerial Resolution announcing the incorporation of the Company which was 24 Sha'baan 1434H corresponding to 3 July 2013 and will be ending on 31 December of the following year, being 31 December 2014.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These interim condensed financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34"). The accounting policies adopted by the Company for the preparation of these interim condensed financial statements are in accordance with International Financial Reporting Standards ("IFRS").

In the opinion of the management, the interim condensed financial statements reflect all adjustments (which include normal recurring adjustments) necessary to present fairly the results of operations for the interim period presented.

These unaudited interim condensed financial statements, cover the three-month period ended 31 March 2014 and for the period from 3 July 2013 to 31 March 2014. As these interim condensed financial statements are first financial statements of the Company, no comparative information is presented.

**ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2014
AND FOR THE PERIOD FROM 3 JULY 2013 TO 31 MARCH 2014**

**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
(continued)**

(a) Basis of preparation – (continued)

As required by the Saudi Arabian Insurance Regulations, the Company maintains separate accounts for Insurance Operations and Shareholders' Operations. Assets, liabilities, income and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses of joint operations is determined by the management and approved by the Board of Directors.

As per the by-laws of the Company and Saudi Arabian Insurance Regulations, surplus arising from the Insurance Operations is distributed as follows:

Transfer to Shareholders' Operations	90%
Transfer to Insurance Operations	10%
	<u>100%</u>

If the Insurance Operations results in a deficit, the entire deficit is borne by the Shareholders Operations.

The Company's Interim results may not be indicative of its annual results. The Company presents its interim statement of financial position broadly in order of liquidity.

The interim condensed financial statements are expressed in Saudi Riyals, being the functional currency of the Company and have been rounded off to the nearest thousand, unless otherwise specified.

(b) Use of estimates and judgements

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

(c) New IFRS, IFRIC and amendments thereof, issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The listing of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective.

<u>Standard/ Interpretation</u>	<u>Description</u>	<u>Effective date</u>
IFRS 9	Financial Instruments – Classification & Measurement	1 January 2018
IFRS 14	Regulatory Deferral Accounts	1 January 2016
IAS 19	Defined Benefit Plans – Employee Contributions	1 July 2014

**ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2014
AND FOR THE PERIOD FROM 3 JULY 2013 TO 31 MARCH 2014**

**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
(continued)**

(d) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in preparation of these interim condensed financial statements as a result of commencement of the Company are set out below:

Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances and Murabaha deposits that have original maturity period not exceeding three months.

Contributions receivable

Contributions receivable are stated at gross considerations from Insurance contract less an allowance for any uncollectible amounts (impairment). An allowance for impairment is made when collection of due amount is no longer probable. Bad debts are written off as incurred.

Available-for-sale investments held to cover unit-linked liabilities

The classification depends on the purpose for which the investments were acquired or originated. The Company's investments are classified as available-for-sale investments.

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

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

Reserve for Insurance activities

The provision for investment contract liabilities is calculated on the basis of an actuarial valuation method by independent appointed actuary through the use of the current unit fund price.

The actuarial valuation includes a provision for participation which is the amount the Company expects to pay investment contract holders.

Liability adequacy test

At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the insurance contracts liabilities. In performing these tests, management uses current best estimates of future contractual cash flows and claims handling and administration expenses. Any deficiency in the carrying amounts is immediately charged to the statement of insurance operations and accumulated surplus by establishing a provision for losses arising from liability adequacy tests (the un-expired risk provision).

Where the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

**ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2014
AND FOR THE PERIOD FROM 3 JULY 2013 TO 31 MARCH 2014**

**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
(continued)**

(d) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reinsurance

The Company cedes its Insurance risk in the normal course of business for all of its segments. Reinsurance contracts are contracts entered into by the Company under which the Company is compensated for losses on Insurance contracts issued. The Company only deals with reinsurers approved by the management, which are rated at least BBB or above by international rating agencies. Reinsurance arrangements do not relieve the Company from its obligations to policyholders.

The benefits to which the Company is entitled under its Reinsurance contracts held are recognised as Reinsurance assets. These assets consist of the Reinsurance share of settlement of claims and other receivables such as profit commissions and the Reinsurance share of outstanding claims that are dependent on the expected claims and benefits arising under the related Reinsurance contracts. Reinsurance liabilities represent balances due to Reinsurance companies.

Amounts recoverable from or due to Reinsurance companies are recognised consistently with the amounts associated with the underlying Insurance contracts and in accordance with the terms of each Reinsurance contract.

Accounts payable and accruals

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

Contribution deposit

Contribution deposit is taken from potential policy holders in respect of initial contribution. On completion of mandatory documentation and medical examination of potential policy holder, this deposit transfers to gross written contribution.

Provisions

Provisions are recognised 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.

Revenue Recognition

Contributions are taken into statement of Insurance Operations and accumulated surplus over the terms of the policies to which they relate on a pro-rata basis. Unearned contributions represent the portion of contributions written relating to the unexpired period of coverage at the reporting date. The change in the provision for unearned contributions is taken to the statement of insurance operations and accumulated surplus in order that revenue is recognised over the period of risk.

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.

Gain or loss on sale of investment is recognised as income or loss in the statement of shareholders' operations.

Portfolio management fee is calculated in accordance with the terms of agreement with the founding shareholder and is accounted for on accrual basis.

**ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2014
AND FOR THE PERIOD FROM 3 JULY 2013 TO 31 MARCH 2014**

**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
(continued)**

(d) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pre-incorporation expenses

Pre-incorporation expenses that are not of economic benefit beyond the current period are charged to the Statement of Shareholders' Operation.

Transaction cost

Transaction costs to raise share capital are incremental costs that are directly attributable to the issue of share capital are accounted for as a deduction from equity.

Zakat

The Company is subject to Zakat in accordance with the regulations of Department of Zakat and Income tax (DZIT). Zakat is accrued and charged to Statement of Shareholders' Operations. Additional amounts, if any, that may become due on finalisation of an assessment are recorded in the year in which the assessment is finalised.

Impairment of financial assets

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, impairment loss is recognised in the statement of shareholders' operations.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing a significant financial difficulty, default or delinquency in repayments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Impairment is determined as follows:

- (a) for assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
- (b) for assets carried at amortised cost, impairment is the difference between the carrying amount and the present value of future cash flows discounted at the original effective commission rate.

**ALJAZIRA TAKAFUL TAAWUNI COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2014
AND FOR THE PERIOD FROM 3 JULY 2013 TO 31 MARCH 2014**

**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
(continued)**

(d) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's, or cash-generating unit's (CGU), fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of three to five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of shareholders' operations in expense categories consistent with the function of the impaired asset, except for a property previously revalued and where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Shareholders' Operations unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

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**NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
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**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
(continued)**

(d) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

De-recognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the Statement of Shareholders' Operations unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

Foreign currencies

The accounting records of the Company are maintained in Saudi Arabian Riyals. Transactions in foreign currencies are recorded in Saudi Arabian Riyals at the approximate rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the Statement of Financial Position date.

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**2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –
(continued)**

(d) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values

Financial instruments include cash and cash equivalents, available-for-sale investments held to cover unit-linked liabilities, contribution receivable, accrued income, other receivables, Reinsurance share of outstanding claims, due from Insurance Operations, Reinsurance balances payable, due to related parties, due to Shareholders' Operations, gross outstanding claims, other payables and employees' end of service benefits.

Except for the fair value of available-for-sale investments which are based on unit prices quoted by the Fund Manager, the fair values of all other financial instruments are estimated using prevailing valuation methods.

Claims

Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, are charged to Statement of Insurance Operations and Accumulated Surplus as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Company and those not reported at the statement of financial position date.

The Company generally estimates its claims based on actuarial input. This includes a provision based on management's judgement and the cost of settling claims incurred but not reported at the statement of financial position date.

The Company does not discount its liability for unpaid claims.

3. CASH AND CASH EQUIVALENTS

	31 March 2014 (Unaudited) SR '000
<i>Insurance Operations</i>	
Cash at bank	<u>850</u>
<i>Shareholder's Operations</i>	
Cash at bank	14,886
Murabaha deposits	<u>300,000</u>
	<u>314,886</u>

Cash at bank is held with a founding shareholder.

Murabaha deposits, amounted to SR 300 million, are held with a founding shareholder. These deposits carry profit rate ranging from 1.10% to 1.7% per annum. The carrying amounts disclosed above reasonably approximate fair value at the interim statement of financial position date.

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4. AVAILABLE-FOR-SALE INVESTMENTS HELD TO COVER UNIT LINK LIABILITIES

	<i>Initial value</i>	<i>Change in fair value</i>	<i>31 March 2014 (Unaudited)</i>
	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>
Insurance Operations			
Al Jazira Diversified Aggressive Fund	633	5	638
Al Jazira Diversified Balanced Fund	95	1	96
Al Jazira Diversified Conservative Fund	20	-	20
	<u>748</u>	<u>6</u>	<u>754</u>

Investment of Insurance operation comprises units of mutual funds dominated in Saudi Riyal managed by a founding shareholder.

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

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

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

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

The Company's available-for-sale investments are classified under Level 1 hierarchy.

5. STATUTORY DEPOSIT

As required by Saudi Arabian Insurance Regulations, the Company deposited 10% of its paid up capital, amounting to SR 35 million in a bank designated by the Saudi Arabian Monetary Agency (SAMA). The Company cannot withdraw this deposit without SAMA's approval.

6. RESERVE FOR INSURANCE ACTIVITIES

Reserve for Insurance activities is created, as per the report received from the Actuary, as detailed below:

	<i>31 March 2014 SR '000 (Unaudited)</i>
Investible contributions	799
Technical reserve for Insurance activities	72
Mathematical reserve – net	69
Change in fair value of available-for-sale investments (note 4)	6
	<u>946</u>

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**NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
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7. SHARE CAPITAL

The authorized, issued and paid up share capital of the Company is SR 350 million at period end consisting of 35 million shares of SR 10 each and subscribed by the following:

	31 March 2014	
	% holding	SR '000 (Unaudited)
Founding Shareholders	70	245,000
General public	30	105,000
	100	350,000

The Company incurred a sum of SR 4.465 million as transaction costs to raise capital of SR 105 million through an Initial Public Offer (IPO) and has deducted from equity. Moreover, pre-incorporation expenses amounting to SR 3.008 million have been paid by a founding shareholder (note 9).

8. PRE-INCORPORATION INCOME, NET

Profit on Murabaha deposits from the date of Ministerial Decree No. 137 dated 27 Rabi' Al-Thani 1431H (corresponding to 12 April 2010) up to the date of Ministerial Resolution dated 24 Sha'baan 1434H corresponding to 3 July 2013, has been recorded as pre-incorporation income of the Company.

Pre-incorporation income, net for the period from 3 July 2013 to 31 March 2014 comprise of as follows:

	For the period from 3 July 2013 to 31 March 2014 SR '000 (Unaudited)
Profit on Murabaha deposits	2,259
Loss: <i>pre-incorporation expenses</i>	
License fee	100
Legal and Professional fees	110
Product development fees	400
Advertisement	42
Others	10
	662
	1,597

Pre-incorporation expenses include SR 411 thousand, cost incurred by a founding shareholder on behalf of the Company, and subsequently recharged to the Company, for the period up to 3 July 2013 being the date of issuance of Ministerial Resolution declaring the incorporation of the Company (note 9).

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9. TRANSACTIONS WITH RELATED PARTIES

- a) Following are the details of major related party transactions during the period from 3 July 2013 to 31 March 2014:

<u>Related party</u>	<u>Nature of transaction</u>	<i>Amount of transaction for the period from 3 July 2013 to 31 March 2014 (Unaudited) SR '000</i>
Shareholders' Operations		
Bank AlJazira (founding shareholder)	Transaction costs paid on behalf of the Company and recharged to the Company	3,008
	Pre-incorporation expenses paid on behalf of the Company and recharged to the Company	411
	Profit earned from Murabaha deposits (pre-incorporation) (Note 8)	2,259
	Profit earned from Murabaha deposits	3,375
Insurance Operations		
Bank AlJazira (founding shareholder)	Portfolio management fee	1,134

- b) Amount due from a related party represents receivable from Bank AlJazira (founding shareholder).

10. ZAKAT

As the Company has not completed one Hijri year, the Company is not subject to Zakat as at 31 March 2014 and accordingly is not also required to file the related return. However, the Company made a provision for zakat for the period from 3 July 2013 to 31 March 2014 amounting to SR 3 million.

11. EARNINGS PER SHARE

Earnings per share for the period have been calculated by dividing the net income for the period by thirty five million, the weighted average number of issued and outstanding shares for the period. Diluted earnings per share are not applicable to the Company.

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**NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS (continued)
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12. SEGMENT 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 contributions, net written contributions, net contributions earned, fees and commission income, net claims; incurred, surrenders and maturities, policy acquisition costs - net, underwriting surplus, investment income, general and administrative expenses, net surplus / (deficit), surplus from Insurance Operations, available-for-sale investments, contributions receivables, and unearned contributions, total assets, reserve for Insurance activities, unearned contributions, gross outstanding claims, unearned commission income, and total liabilities, by business segment, are stated below.

The activities of Insurance Operations, which are all in the Kingdom of Saudi Arabia, are reported under two business units, as detailed below:

Insurance - individual segment offers life Insurance products on an individual basis including unit linked investment oriented products.

Insurance - group life segment offers life protection programs to the members of organizations on a group basis.

Operating segments do not include shareholders' operations of the Company.

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12. SEGMENT INFORMATION – (continued)

	Individual SAR'000	Group life SAR'000	Total SAR'000
For three-month period ended 31 March 2014 – unaudited			
Gross Written contributions	999	61	1,060
Investable contributions	(799)	-	(799)
Net Insurance contributions	200	61	261
Contributions ceded	(9)	(2)	(11)
Net written contribution	191	59	250
Change in unearned contributions – net	-	(30)	(30)
Net Insurance revenue	191	29	220
Change in reserve for Insurance activities	(141)	-	(141)
Incurred but not reported claim (IBNR & IBNER) – net	-	(2)	(2)
Policy acquisition cost	(62)	-	(62)
Supervision and inspection fee	(5)	-	(5)
Underwriting surplus for the period	(17)	27	10
General and administrative expenses			(990)
Portfolio management fee			1,134
Surplus for the period from Insurance Operations			154
As at 31 March 2014 – unaudited			
INSURANCE OPERATIONS' ASSETS			
Available-for-sale investments held to cover unit link liabilities	754	-	754
Contributions receivable	57	-	57
Reinsurance share of unearned contributions	-	25	25
Unallocated assets			1,115
TOTAL INSURANCE OPERATIONS' ASSETS	811	25	1,951
INSURANCE OPERATIONS' LIABILITIES			
Reserves for Insurance activities	946	-	946
Unearned contributions	-	55	55
Incurred but not reported claim (IBNR & IBNER) – net	-	2	2
Advance contributions	365	-	365
Contributions deposit	220	-	220
Reinsurance balances payable	11	-	11
Unallocated liabilities			352
TOTAL INSURANCE OPERATIONS' LIABILITIES	1,542	57	1,951

13. APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

These interim condensed financial statements have been approved by the Board of Directors on 20 April 2014 corresponding to 20 Jumada Al Thani 1435H.