
**ALAHLI TAKAFUL COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS
AND INDEPENDENT JOINT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014**

**ALAHLI TAKAFUL COMPANY
(A SAUDI JOINT STOCK COMPANY)**

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

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MOORE STEPHENS
EL SAYED EL AYOUTY & CO.
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INDEPENDENT JOINT AUDITORS' REPORT TO THE SHAREHOLDERS OF ALAHLI TAKAFUL COMPANY (A SAUDI JOINT STOCK COMPANY)

Scope of Audit

We have audited the accompanying statement of financial position of AlAhli Takaful Company – A Saudi Joint Stock Company ('the Company') as at 31 December 2014 and the related statements of insurance operations and accumulated surplus, shareholders' operations, shareholders' comprehensive income, changes in shareholders' equity, insurance operations' cash flows and shareholders' cash flows for the year then ended and the attached notes 1 to 24 which form an integral part of these financial statements. These financial statements are the responsibility of the Company's management and have been prepared by them in accordance with International Financial Reporting Standards, the provisions 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the financial statements.

Unqualified opinion


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

1. 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
2. comply with the requirements of the Regulations for Companies and the Company's By-laws with respect to the preparation and presentation of the financial statements.

Emphasis of 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 (SOCPA).

for KPMG Al Fozan & Al Sadhan



Ebrahim Oboud Baeshen
Certified Public Accountant
Registration No. 382

for El Sayed El Ayouty & Co.

han hest

Mohamed El Ayouty
Certified Public Accountant
Registration No. 211



Jeddah, Kingdom of Saudi Arabia
30 Rabi Al Thani 1436H
Corresponding to 19 February 2015

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	<u>2014</u> <u>SR'000</u>	<u>2013</u> <u>SR'000</u>
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	4	102,711	34,781
Trading investments held to cover unit-linked liabilities	5	703,574	609,459
Contribution receivable		2,759	463
Accrued income	15(b)	483	436
Prepayments and other receivables	6	422	178
Reinsurance share of outstanding claims		4,902	-
Reinsurance share of unearned contribution		25	465
Furniture, fittings and office equipment	7	1,028	859
Total Insurance Operations' assets		815,904	646,641
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	4	106	200
Trading investments	5	130,776	128,659
Due from Insurance Operations		29,787	4,640
Prepayments and other receivables	6	4,319	334
Statutory deposit	12	16,667	16,667
Total Shareholders' assets		181,655	150,500
TOTAL ASSETS		997,559	797,141

Director

Chief Financial Officer

Chief Executive Officer


The accompanying notes 1 to 24 form an integral part of these financial statements.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

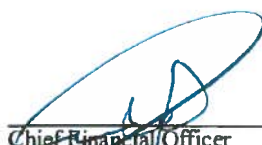
STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	<u>2014</u> <u>SR'000</u>	<u>2013</u> <u>SR'000</u>
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS			
Insurance Operations' liabilities			
Technical reserve for Insurance Operations	17	730,726	617,660
Unearned contribution – gross		33	853
Outstanding claims – gross	15(b)	6,148	324
Reinsurance balances payable		20,561	11,768
Due to related parties	15(b)	7,617	71
Due to Shareholders' Operations		29,787	4,640
Contributions received in advance		747	535
Accruals and other payables	8	14,356	9,150
Employees' end of service benefits		969	471
Total Insurance Operations' liabilities		810,944	645,472
Insurance Operations' surplus			
Surplus from Insurance Operations		4,960	1,169
Total Insurance Operations' liabilities and surplus		815,904	646,641
SHAREHOLDERS' LIABILITIES AND EQUITY			
Shareholders' liabilities			
Accruals and other payables	8	3,386	1,936
Accrued Zakat and tax	9	12,718	8,925
Total shareholders' liabilities		16,104	10,861
Shareholders' equity			
Share capital	10	166,667	166,667
Statutory reserve	11	7,874	7,874
Accumulated losses		(8,990)	(34,902)
Total shareholders' equity		165,551	139,639
Total shareholders' liabilities and equity		181,655	150,500
TOTAL INSURANCE OPERATIONS' LIABILITIES, SURPLUS, SHAREHOLDERS' LIABILITIES AND EQUITY		997,559	797,141



Director



Chief Financial Officer



Chief Executive Officer

The accompanying notes 1 to 24 form an integral part of these financial statements.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY
STATEMENT OF INSURANCE OPERATIONS AND ACCUMULATED SURPLUS
For the year ended 31 December 2014

	Notes	2014 SR'000	2013 SR'000
INSURANCE REVENUE			
Gross contributions		251,562	140,192
Investible contribution, net		(104,163)	(91,890)
Net insurance contributions		147,399	48,302
Reinsurance ceded		(69,135)	(16,731)
Net written contributions		78,264	31,571
Change in net unearned contribution		380	(388)
Net insurance revenue		78,644	31,183
CLAIMS AND EXPENSES			
Gross claims paid		(48,967)	(5,390)
Reinsurance share of claims paid		40,167	4,858
Net claims paid		(8,800)	(532)
Change in net outstanding claims provision	13	(5,976)	(299)
Net claims incurred		(14,776)	(831)
Acquisition fee paid to the Distributing shareholder	1 & 15	(6,069)	(1,714)
Entrance fee paid to the Technical and Distributing shareholders	1 & 15	(1,854)	(3,166)
Administration fee paid to the Technical and Distributing shareholders	1 & 15	(9,309)	(8,964)
Supervision and inspection fee		(1,452)	(1,154)
Other direct underwriting expenses		(427)	(298)
Service charges paid to Technical shareholder	1 & 15	(3,658)	-
Total claims and expenses		(37,545)	(16,127)
Underwriting surplus for the year		41,099	15,056
Investment fund fee	15	4,960	4,138
General and administration expenses	14	(10,139)	(12,851)
Other income		1,986	-
Surplus for the year from Insurance Operations		37,906	6,343
Shareholders' share of surplus from Insurance Operations	2(b)	(34,115)	(5,709)
Policyholders' share of surplus for the year		3,791	634
Accumulated policyholders' surplus at the beginning of the year		1,169	535
ACCUMULATED POLICYHOLDERS' SURPLUS AT THE END OF THE YEAR		4,960	1,169

Director


Chief Financial Officer

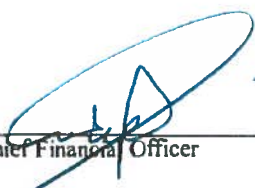
Chief Executive Officer

The accompanying notes 1 to 24 form an integral part of these financial statements.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY
STATEMENT OF SHAREHOLDERS' OPERATIONS
For the year ended 31 December 2014

	<i>Notes</i>	<u>2014</u> <u>SR'000</u>	<u>2013</u> <u>SR'000</u>
Shareholders' share of surplus from Insurance Operations	2(b)	34,115	5,709
Unrealised gain on investment	5	2,117	5,716
Total income		36,232	11,425
General and administration expenses	14	(5,985)	(3,380)
NET INCOME FOR THE YEAR		30,247	8,045
Weighted average number of ordinary shares outstanding (in thousand)		16,667	16,667
Earnings per share for the year (SR)	21	1.81	0.48


Director



Chief Financial Officer


Chief Executive Officer

The accompanying notes 1 to 24 form an integral part of these financial statements.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY
STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME
For the year ended 31 December 2014

	<u>2014</u> <u>SR'000</u>	<u>2013</u> <u>SR'000</u>
NET INCOME FOR THE YEAR	30,247	8,045
Zakat and income tax for the year (note 9)	(4,335)	(2,770)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>25,912</u>	<u>5,275</u>



Director

Chief Financial Officer

Chief Executive Officer

The accompanying notes 1 to 24 form an integral part of these financial statements.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2014

	<i>Share capital SR '000</i>	<i>Statutory reserve SR '000</i>	<i>Accumulated losses SR '000</i>	<i>Total SR '000</i>
Balance as at 31 December 2012	166,667	7,874	(40,177)	134,364
Net income for the year	-	-	8,045	8,045
Zakat and income tax for the year (note 9)	-	-	(2,770)	(2,770)
Balance at 31 December 2013	166,667	7,874	(34,902)	139,639
Net income for the year	-	-	30,247	30,247
Zakat and income tax for the year (note 9)	-	-	(4,335)	(4,335)
Balance as at 31 December 2014	166,667	7,874	(8,990)	165,551

Director

Chief Executive Officer

Chief Financial Officer

The accompanying notes 1 to 24 form an integral part of these financial statements.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS

For the year ended 31 December 2014

	Notes	<u>2014</u> <u>SR'000</u>	<u>2013</u> <u>SR'000</u>
OPERATING ACTIVITIES			
Policyholders' share of surplus for the year		3,791	634
Adjustments for:			
Depreciation	7	412	1,230
Employees' end of service benefits, net		498	(229)
Reinsurance share of unearned contribution		440	(465)
Unearned contribution – gross		(820)	853
		<u>4,321</u>	<u>2,023</u>
Changes in:			
Trading investments held to cover unit-linked liabilities		(89,800)	(88,899)
Contribution receivable		(2,296)	(279)
Accrued income		(47)	(110)
Prepayments and other receivables		(244)	154
Reinsurance share of outstanding claims		(4,902)	-
Technical reserve for Insurance Operations		108,751	91,745
Outstanding claims – gross		5,824	324
Reinsurance balances payable		8,793	6,436
Due to Shareholders' Operations		25,147	2,322
Due to related parties		7,546	(1,808)
Contributions received in advance		212	(35)
Accruals and other payables		5,206	3,284
		<u>68,511</u>	<u>15,157</u>
INVESTING ACTIVITY			
Purchase of furniture, fittings and office equipment	7	(581)	(193)
		<u>67,930</u>	<u>14,964</u>
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		34,781	19,817
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4	<u>102,711</u>	<u>34,781</u>

Director

Chief Financial Officer

Chief Executive Officer

The accompanying notes 1 to 24 form an integral part of these financial statements.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY
STATEMENT OF SHAREHOLDERS' CASH FLOWS
For the year ended 31 December 2014

	Notes	<u>2014</u> SR'000	<u>2013</u> SR'000
OPERATING ACTIVITIES			
Net income for the year		30,247	8,045
Adjustments for:			
Unrealised gain on trading investments	5	(2,117)	(5,716)
		<u>28,130</u>	<u>2,329</u>
Changes in:			
Prepayments and other receivables		(3,985)	(117)
Due from Insurance Operations		(25,147)	(2,322)
Accruals and other payables		1,450	358
Zakat and income tax paid	9	(542)	(113)
		<u>(94)</u>	<u>135</u>
Net (decrease) / increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		200	65
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4	<u><u>106</u></u>	<u><u>200</u></u>


Director


Chief Financial Officer


Chief Executive Officer

The accompanying notes 1 to 24 form an integral part of these financial statements.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS

31 December 2014

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

AlAhli Takaful Company (the "Company") is a Saudi Joint Stock Company registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030171573 dated 21 Rajab 1428H, corresponding to 4 August 2007. The following is the address of the Company's registered office:

P. O. Box 48510,
Al Khalidiyah Business Center,
Prince Sultan Street,
Jeddah 21582,
Kingdom of Saudi Arabia.

The objective of the Company is to transact cooperative insurance operations and related activities in the Kingdom of Saudi Arabia. The Company commenced its commercial operations on 4 February 2008. The Company was listed on the Saudi Stock Exchange on 18 August 2007. As at the date of incorporation, the Company is owned 71.15% by Saudi founding shareholders and general public, and 28.85% by non-Saudi shareholders.

On 10 February 2014, the Board of the Directors of the Company terminated the Cooperation Agreement ("the Agreement") with FWU AG (FWU), a shareholder, for provision and servicing of Company's products, and terminated the Distribution Agreement as exclusively related to FWU providing the appointed distributor with access to the Sales and Insurance System, effective from 31 December 2013 (the "Termination Date"). After termination of the Agreement, 50% of the income relating to the entrance fee and administration fee attributable to FWU from existing insurance policies as at 31 December 2013 are payable to FWU on monthly basis until such time as those policies are either surrendered, matured, lapsed, cancelled, terminated or settled as part of a claim. Furthermore, the Company and FWU have agreed into a contract under which FWU will continue to provide its services for a minimum of eighteen months and up to a maximum of thirty months from the Termination Date to assist the Company in completing the implementation of a new system, at a monthly service charge of SR 300 thousand. This arrangement has been approved by the shareholders of the Company in the General Assembly Meeting held on 8 April 2014.

2 BASIS OF PREPARATION

a) *Statement of compliance*

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

b) *Basis of preparation*

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of trading investments and trading investments held to cover unit-linked liabilities.

As required by the Saudi Arabian Insurance Regulations, the Company maintains separate books of accounts for the Insurance Operations and Shareholders' Operations. The physical custody of all assets related to the Insurance Operations and Shareholders' Operations are held by the Company. Revenues and expenses clearly attributable to either activity are recorded in the respective books of accounts. The basis of allocation of expenses from joint operations is determined by the management and Board of Directors.

As per the By-laws of the Company, the surplus arising from the Insurance Operations is distributed as follows:

Shareholders	90%
Policyholders	10%
	<hr/>
	100%
	<hr/>

The Company presents its statement of financial position in order of liquidity. If the insurance operations results in a deficit, the entire deficit is borne by the shareholders' operations.

c) *Functional and presentation currency*

The financial statements are presented in Saudi Arabian Riyals (SR), which is the functional currency of the Company. All financial information presented in SR has been rounded off to the nearest thousand, unless otherwise indicated.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

2 BASIS OF PREPARATION (continued)

d) *Use of estimates and judgements*

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures. Actual results may differ from these estimates. Estimates, assumptions and judgements are reviewed on ongoing basis. Revisions to estimates are recognised prospectively. Information about judgments, assumptions and estimation uncertainties that have most significant effect on amounts recognised in these financial statements are given below.

Provision for outstanding claims

Judgement by management is required in the estimation of amounts due to participants arising from claims made under insurance contracts. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. The Company estimates its claims based on its previous experience of its insurance portfolio. Claims requiring court or arbitration decisions, if any, are estimated individually. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a quarterly basis. Any difference between the provisions at the statement of financial position date and settlements and provisions in the following year is included in the statement of insurance operations and accumulated surplus for that year. The provision for outstanding claims, as at 31 December, is also verified and certified by the Company's Actuary.

Allowance for doubtful receivables

A provision for impairment of contributions receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor and default or delinquency in payments are considered indicators that the contribution receivable is impaired.

Useful lives of furniture, fittings and office equipment

The Company's management determines the estimated useful lives of its furniture, fittings and office equipment for calculating depreciation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Fair values of financial instruments

For financial assets where there is not an active market, the fair value is determined by using valuation techniques. Such techniques include using recent arm's length transactions, reference to current market value of another instrument, which is substantially the same and/or discounted cash flow analysis. For discounted cash flow techniques, estimated future cash flows are based on management's best estimate and discount rate used in a market related rate for similar assets.

If the fair value cannot be measured reliably, these financial assets are measured at cost, being the fair value of the consideration paid for acquisition of the asset. All transaction costs directly attributable to the acquisition are also included in the cost of the asset.

Going concern

The Company's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies adopted in the preparation of the financial statements are consistent with those used in the preparation of the Company's financial statements for the year ended 31 December 2013 except for the adoption of the following amendments to the existing standards mentioned below which had no financial impact on the financial statements of the Company:

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

<u>Standard</u>	<u>Description</u>
IFRS 10, IFRS 12 and IAS 27	Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities
IAS 32	Amendment to IAS 32 – Offsetting Financial Assets and Financial Liabilities
IAS 36	Amendment to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets
IAS 39	Amendment to IAS 39 – Novation for Derivatives and Continuation of Hedge Accounting
IFRIC 21	Levies
IAS 19	Amendment to IAS 19 – Defined Benefit Plans: Employee Contribution

The Company has not early adopted any other standard, interpretation or amendment that has been issued for early adoption but is not yet effective.

The significant accounting policies used in the preparation of these financial statements are set out below:

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and balance with banks.

Contributions receivable

Contributions receivable are stated at gross contributions from insurance contract less an allowance for any uncollectible amounts (impairment). Bad debts are written off as incurred.

Trading investments held to cover unit-linked liabilities

Investments 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 short-term Murabaha funds, which are readily marketable, and are initially recognised at cost and subsequently remeasured at fair value. Unrealised gain on these investments is transferred to investment contract liabilities. The fair value is determined by reference to the net asset value quoted by the Fund Manager. Where partial holdings are sold, the cost of investments is calculated on a weighted average basis.

Trading investments

The trading investments represent investments in a discretionary portfolio. Investments are marked-to-market method using net asset value (NAV). The resultant realised and unrealised gains and losses are recognised in the statement of shareholders' operations. Where partial holdings are sold, the cost of investments is calculated on a weighted average basis.

Furniture, fittings and office equipment

Furniture, fittings and office equipment are measured at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight line basis over the estimated useful lives of the assets. The estimated useful lives of the assets for calculation of depreciation are as follows:

	<u>Years</u>
Furniture and fittings	5 to 10
Computer and office equipment	4 to 6.67

Residual values, useful lives and the method of the depreciation are reviewed and adjusted if appropriate at each financial year end. Impairment reviews take place when events or changes in circumstances indicate that the carrying value may not be recoverable. The depreciation charge for the period is recognised in the statement of insurance operations and accumulated surplus. Similarly, impairment losses, if any, are recognised in the statement of insurance operations and accumulated surplus.

Expenditure for repair and maintenance is charged to the statement of insurance operations and accumulated surplus. Improvements that increase the value or materially extend the life of the related assets are capitalised.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Technical reserve for Insurance Operations

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

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

Technical reserve is determined by actuarial valuation of future policy claims. Actuarial assumptions include a margin for adverse deviation and generally take account of the type of policy, year of issue and policy duration. Mortality and withdrawal rate assumptions are based on experience.

Reinsurance

The Company has modified quota-share reinsurance arrangement with independent reinsurance Companies. The Company only deals with reinsurers approved by the management, which are rated at least BBB or above by international rating agencies.

A liability or asset is recorded in the Insurance Operations' statement of financial position representing contributions due to or payments due from Reinsurer. Amounts receivable from Reinsurer is estimated in a manner consistent with the claim liability associated with the insured parties. Receivable arising from reinsurance contracts are reviewed for impairment as part of the impairment review of receivables.

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.

Zakat and income tax

Zakat and income tax are provided for in accordance with Saudi Arabian fiscal Regulations. Zakat and income tax, which are the liabilities of the shareholders, are accrued and debited to the accumulated losses under statement of changes in shareholders' equity. Accordingly, amounts reimbursable by the shareholders of such Zakat and income tax are credited to accumulated losses.

As all Zakat and income tax charges will be recovered from the shareholders, no adjustments are made in the financial statements to account for the effects of deferred income taxes.

Accruals and other payables

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

Provisions

Provisions are 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 embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Employees' end of service benefits

The Company provides end of service benefits to its employees. The entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. Provision is made for amounts payable under the Saudi Arabian labour law applicable to employees' accumulated periods of service at the statement of financial position date. The expense for the period is charged to the statement of insurance operations.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, any impairment loss is recognised in the statement of insurance operations and accumulated surplus or the statement of shareholders' operations. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of insurance operations and accumulated surplus or the statement of shareholders' operations.
- (b) 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.
- (c) 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.

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 units (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 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 insurance operations and accumulated surplus and statement of shareholders' operations in expense categories consistent with the function of the impaired asset, except for a property previously revalued and 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.

For assets, 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 insurance operations and accumulated surplus and statement of shareholders' operations unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition

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.

Financial liability

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

Trade date accounting

All regular way purchases and sales of financial assets are recognized/ derecognized on the trade date (i.e. the date that the Company commits to purchase or sell the assets). Regular way purchases or sales are purchases or sales of financial assets that require settlement of assets within the time frame generally established by regulation or convention in the market place.

Fair values

Financial instruments include cash and cash equivalents, trading investments held to cover unit-linked liabilities, contribution receivable, accrued income, other receivables, reinsurance share of outstanding claims, trading investments, 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 trading investments which are based on unit prices quoted by the Fund Manager, the fair values of all other financial instruments are estimated using methods such as net present values of future cash flows.

Foreign currencies

The accounting records of the Company are maintained in Saudi Arabian Riyals. Transactions in foreign currencies are recorded at the exchange rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the statements of insurance operations and accumulated surplus or statement of shareholders' operations. As the Company's foreign currency transactions are primarily in US dollars, which is pegged to Saudi Arabian Riyal, foreign exchange gains and losses are not significant and have not been disclosed separately.

Product classification

The Company issues life insurance contracts which are linked to investment contracts. Where contracts contain both an investment component and an insurance component and the cash flows from the two components are distinct, the underlying amounts are unbundled. Any contributions relating to the insurance component are accounted for through the statement of insurance operations and accumulated surplus and the remaining element is accounted through the insurance operations' statement of financial position.

Insurance contracts

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant over time. The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of term of the policies, even if the insurance risk reduced significantly during this period.

Contributions, in respect of insurance contracts, are recognized as revenue over the contribution paying period of the related policies.

Investment contracts

Any contracts with customers not considered insurance contracts under International Financial Reporting Standards are classified as investment contracts. Amounts collected under investment contracts are accounted for through the statement of insurance operations and accumulated surplus, and the investible portion of the contribution collected is shown as a deduction from the gross contributions for the year from insurance operations, and transferred to investment contract liabilities (unit linked contracts).

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.

Acquisition fee

Acquisition fee are paid to distributing shareholder and are charged to expense as and when they are due, as per the terms of the insurance contract.

Entrance and administration fees

Entrance and administration fees payable, to the technical and distributing shareholders, by the Company, which are costs directly, incurred in securing contributions on insurance certificates, are recognised as incurred and charged to expense as and when they are due, as per the terms of the insurance contract.

Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the assets and settle the liabilities simultaneously. Income and expenses are not offset in the statement of insurance operations and accumulated surplus or 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.

Segment reporting

A segment is a distinguishable component of the Company's portfolio that is engaged in providing products or services (a business segment), which is subject to risks and rewards that are different from those of other segments and whose operating results are reviewed regularly by chief operating decision maker to allocate resources to each segment and assess their performance.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of insurance operations' and accumulated surplus on a straight-line basis over the lease term.

Transaction costs

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

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

4 CASH AND CASH EQUIVALENTS

	<u>2014</u> <u>SR'000</u>	<u>2013</u> <u>SR'000</u>
<i>Insurance Operations</i>		
Cash in hand	4	4
Cash at bank (note 4.1)	102,707	34,777
	<u>102,711</u>	<u>34,781</u>
<i>Shareholders' Operations</i>		
Cash at bank (note 4.1)	106	200
	<u>106</u>	<u>200</u>

4.1 Cash in bank is held in bank accounts maintained with a related party.

5 TRADING INVESTMENTS

Insurance Operations

Investments of Insurance Operations comprise units of fund of funds, denominated in United States Dollars, which are managed by a subsidiary of the Company's major shareholder.

	<u>2014</u> <u>SR'000</u>	<u>2013</u> <u>SR'000</u>
Al Manarah Conservative Growth Strategy	419,522	362,675
Al Manarah Medium Growth Strategy	163,788	142,662
Al Manarah High Growth Strategy	120,264	104,122
	<u>703,574</u>	<u>609,459</u>

The movement in trading investments during the year is as follows:

	<u>2014</u> <u>SR'000</u>	<u>2013</u> <u>SR'000</u>
Balance at the beginning of the year	609,459	479,814
Purchased during the year	89,800	88,899
Unrealized gain during the year (note 17b)	4,315	40,746
Balance at the end of the year	<u>703,574</u>	<u>609,459</u>

Shareholders' Operations

Trading investments of Shareholders' Operations represent investments in a discretionary portfolio, managed by a subsidiary of the Company's major shareholder.

	<u>2014</u> <u>SR'000</u>	<u>2013</u> <u>SR'000</u>
Al Ahli Takaful discretionary portfolio	130,776	128,659
	<u>130,776</u>	<u>128,659</u>

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

5 TRADING INVESTMENTS (continued)

Shareholders' Operations (continued)

The movement in the trading investments during the year is as follows:

	<u>2014</u> <u>SR'000</u>	<u>2013</u> <u>SR'000</u>
Balance at the beginning of the year	128,659	122,943
Unrealized gain during the year	2,117	5,716
Balance at the end of the year	130,776	128,659

6 PREPAYMENTS AND OTHER RECEIVABLES

	<u>2014</u> <u>SR'000</u>	<u>2013</u> <u>SR'000</u>
<i>Insurance Operations</i>		
Prepaid rent	76	65
Advance to suppliers	321	107
Due from employees	25	6
	<u>422</u>	<u>178</u>

	<u>2014</u> <u>SR'000</u>	<u>2013</u> <u>SR'000</u>
<i>Shareholders' Operations</i>		
Deposit against bank guarantee (note 9)	3,997	-
Advance to suppliers	9	112
Other receivables	313	222
	<u>4,319</u>	<u>334</u>

7 FURNITURE, FITTINGS AND OFFICE EQUIPMENT

Insurance Operations

	<i>Furniture and fittings</i> <i>SR'000</i>	<i>Computer and office equipment</i> <i>SR'000</i>	<i>Work in progress</i> <i>SR'000</i>	<i>Total</i> <i>SR'000</i>
Cost:				
At 1 January 2014	1,886	6,428	-	8,314
Additions	23	255	303	581
At 31 December 2014	<u>1,909</u>	<u>6,683</u>	<u>303</u>	<u>8,895</u>
Accumulated depreciation:				
At 1 January 2014	1,148	6,307	-	7,455
Charge for the year	172	240	-	412
At 31 December 2014	<u>1,320</u>	<u>6,547</u>	<u>-</u>	<u>7,867</u>
Carrying amount:				
At 31 December 2014	<u>589</u>	<u>136</u>	<u>303</u>	<u>1,028</u>
At 31 December 2013	<u>738</u>	<u>121</u>	<u>-</u>	<u>859</u>

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

8 ACCRUALS AND OTHER PAYABLES

	<u>2014</u> SR'000	<u>2013</u> SR'000
<i>Insurance Operations</i>		
Underwriting expenses payable	834	503
Policies surrendered payable	8,056	2,423
Supervision and inspection fee payable	2,016	1,486
Accrued expenses and other payables	3,450	4,738
	<u>14,356</u>	<u>9,150</u>
<i>Shareholders' Operations</i>		
Accrued expenses	1,272	254
Remuneration and other expenses payable to Board members (note 16)	1,571	596
Other payables	543	1,086
	<u>3,386</u>	<u>1,936</u>

9 ZAKAT AND INCOME TAX

Zakat

The Zakat payable by the Company has been calculated in accordance with Zakat regulations in Saudi Arabia.

The Zakat provision for the year is based on the following:

	<u>2014</u> SR'000	<u>2013</u> SR'000
Equity	139,639	134,363
Provisions and other adjustments	873	700
Book value of long-term assets	(761)	(1,289)
	<u>139,751</u>	<u>133,774</u>
Zakatable profit for the year	<u>30,315</u>	<u>8,247</u>
Attributable to Saudi shareholders	<u>21,569</u>	<u>5,695</u>

The differences between the financial and Zakatable results are mainly due to certain adjustments in accordance with the relevant fiscal regulations.

The movement in Zakat and income tax provision for the year is as follows:

	<u>2014</u> SR'000	<u>2013</u> SR'000
Balance at the beginning of the year	8,925	6,268
Charge for the year	4,335	2,770
Zakat and income tax paid	(542)	(113)
Balance at the end of the year	<u>12,718</u>	<u>8,925</u>

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

9 ZAKAT AND INCOME TAX (continued)

INCOME TAX

Income tax relating to the non-Saudi shareholders amounting to SR 1,312 thousand (2013: SR 383 thousand) consists of the current year charge, which has been provided for based on the estimated taxable profit using tax rate of 20% (2013: 20%).

Status of assessments

Zakat and income tax returns have been submitted to Department of Zakat and Income Tax (DZIT) for the period ended 31 December 2007 and for the years ended 31 December 2008 through 2013.

The DZIT raised assessment for the period ended 31 December 2007 and for the years ended 31 December 2008 and 2009 demanding additional Zakat and Withholding tax liability of SR 3,997 thousand. The Company filed an appeal against additional Zakat of SR 3,921 thousand and paid additional Withholding tax of SR 76 thousand and a delay penalty of SR 26 thousand under protest, and is confident of a favourable outcome. The Preliminary Appeal Committee [PAC] issued their decision upholding DZIT's treatment. The Company has filed an appeal against the PAC decision with the Higher Appeal Committee [HAC] and submitted bank guarantee for the amount under dispute.

Assessments for the years 2010 to 2013 have not yet been raised by the DZIT. However the DZIT issued initial assessments for the years ended 31 December 2010 through 31 December 2013, disallowing investments from the Zakat base with additional Zakat liability of SR 1,051 thousand, SR 1,000 thousand, SR 2,312 thousand and SR 2,585 thousand respectively. The Company filed an appeal against the initial assessments and is confident of a favourable outcome.

10 SHARE CAPITAL

The authorised and issued share capital of the Company is SR 166.7 million divided into 16.7 million ordinary shares of SR 10 each. Ordinary shares are classified as equity.

11 STATUTORY RESERVE

As required by Saudi Arabian Insurance Regulations, 20% of the net shareholders' income shall be set aside as a statutory reserve until this reserve amounts to 100% of paid capital. As the Company has accumulated losses since inception, no transfer to statutory reserve has been made.

12 STATUTORY DEPOSIT

	<u>2014</u> SR'000	<u>2013</u> SR'000
<i>Shareholders' Operations</i>		
Statutory deposit	16,667	16,667

As required by Saudi Arabian Insurance Regulations, the Company deposited 10% of its paid up share capital, amounting to SR 16,667 thousand (31 December 2013: SR 16,667 thousand) in Al Ahli Diversified Saudi Riyal Trade Fund, denominated in Saudi Arabian Riyal, which is managed by a subsidiary of the Company's major shareholder. The statutory deposit was invested in the above fund after obtaining written approval from SAMA. Commission accruing on this deposit is payable to SAMA and this deposit cannot be withdrawn without the approval from SAMA.

13 CHANGE IN NET OUTSTANDING CLAIMS PROVISION

	<u>2014</u> SR'000	<u>2013</u> SR'000
Change in outstanding claims – Gross	5,824	324
Change in outstanding claims – Reinsurance	(4,902)	(303)
Change in Incurred But Not Reported claims (IBNR)	2,180	49
Change in allowance for the retained risk	2,874	229
Change in net outstanding claims provision	5,976	299

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

14 GENERAL AND ADMINISTRATION EXPENSES

	<u>2014</u> <u>SR'000</u>	<u>2013</u> <u>SR'000</u>
<i>Insurance Operations</i>		
Employee costs	7,846	9,350
Office rent	714	802
Repairs and maintenance	275	250
Depreciation (note 7)	412	1,230
Information technology expenses	278	590
Communication expense	172	97
Others	442	532
	<u>10,139</u>	<u>12,851</u>
<i>Shareholders' Operations</i>		
Regulatory fees	334	325
Legal and professional fees	3,657	1,984
Board expenses (note 16)	1,902	1,026
Others	92	45
	<u>5,985</u>	<u>3,380</u>

15 RELATED PARTY TRANSACTIONS AND BALANCES

- a) The following are the details of major related party transactions during the years ended 31 December 2014 and 2013:

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>2014</u> <u>SR'000</u>	<u>2013</u> <u>SR'000</u>
<i>Insurance Operations</i>				
National Commercial Bank	Shareholder	Gross Group Insurance contribution	102,365	17,815
		Acquisition fee paid for distributing the products (see note 15(d))	6,069	1,714
		Entrance fee (see note 15(d))	1,416	361
		Administration fee (see note 15(d))	5,596	2,208
FWU	Shareholder	Entrance fee	438	2,805
		Administration fee	3,713	6,756
		Service charges (note 1)	3,658	-
NCB Capital	Subsidiary of a shareholder	Investment fund fee	4,960	4,138
Key management personnel		Short term benefits	2,959	2,715
		End of service benefits	149	142

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

15 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

- b) Receivable from/(payable to) related parties as at 31 December not disclosed elsewhere in the financial statements are as follows

	<u>2014</u> <u>SR'000</u>	<u>2013</u> <u>SR'000</u>
Gross contribution receivable from a related party - shareholder	745	463
Payable to Technical shareholder	(288)	(71)
Payable to Distributing shareholder	(7,329)	-
Accrued investment fund fee receivable from subsidiary of a shareholder	483	436
Outstanding claims - gross	(6,148)	(324)

- c) In addition to the disclosures set out in note 1, 4, 5, 8, 12, 14 and 16 relating to related parties, amount due from and due to related parties are shown in the Statement of Financial Position.
- d) Based on an arrangement between the Company and founding shareholder, the acquisition, entrance and administration fees of one of the founding shareholders was mutually waived for the period from 1 January to 30 June 2013.

16 BOARD OF DIRECTORS' REMUNERATION AND RELATED EXPENSES

	<u>2014</u> <u>SR'000</u>	<u>2013</u> <u>SR'000</u>
<i>Shareholders' Operations</i>		
Board remuneration	1,795	872
Board attendance fees	107	46
Board accommodation and travel	-	108
	<u>1,902</u>	<u>1,026</u>

Board remuneration and related expenses represent remuneration and expenses payable to the Chairman and members of the Board and its sub-committees. The remuneration and related expenses payable as at 31 December 2013 (see note 8) were paid during 2014 after obtaining the approval in the Annual General Meeting held on 4 April 2014.

17 TECHNICAL RESERVE FOR INSURANCE OPERATIONS

- a) A technical reserve for Insurance Operations is created, as per the report received from the Actuary, as detailed below:

	<u>2014</u> <u>SR'000</u>	<u>2013</u> <u>SR'000</u>
Technical reserve relating to the Participant Investment Strategies (unit liability)	724,096	616,084
Allowance for the retained risk	4,056	1,182
Incurred But Not Reported (IBNR) reserves	2,574	394
	<u>730,726</u>	<u>617,660</u>

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

17 TECHNICAL RESERVE FOR INSURANCE OPERATIONS (continued)

b) Movement in technical reserve for insurance operations is as follows:

	<u>2014</u> <u>SR'000</u>	<u>2013</u> <u>SR'000</u>
Balance as at the beginning of the year	617,660	485,169
Change in reserve	2,180	49
Change in retained risk	2,874	229
Unrealized gain on investment (note 5)	4,315	40,746
Investible contribution, net	104,163	91,890
Other	(466)	(423)
Balance at the end of the year	<u>730,726</u>	<u>617,660</u>

18 OPERATING SEGMENT INFORMATION

Operating segments are reported in 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 Chief Executive Officer that makes strategic decisions.

For management purposes, the activities of Insurance Operations, which are all in the Kingdom of Saudi Arabia, are reported under three 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 programmes to the members of organizations on a group basis.

Insurance – group credit segment offers protection benefits in respect of personal loan given by financing organisation started during the quarter ended 31 March 2014. This segment also include protection benefits in respect of various credit facilities other than personal loans extended by the financing organisation to its customers.

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

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

18 OPERATING SEGMENT INFORMATION (continued)

	31 December 2014			
	<i>Insurance - individual SR '000</i>	<i>Insurance- group life SR '000</i>	<i>Insurance- group credit protection SR '000</i>	<i>Total SR '000</i>
INSURANCE REVENUE				
Gross contributions	144,186	4,654	102,722	251,562
Investible contribution, net	(104,163)	-	-	(104,163)
Net Insurance contributions	40,023	4,654	102,722	147,399
Reinsurance ceded	(5,379)	(1,813)	(61,943)	(69,135)
Net written contributions	34,644	2,841	40,779	78,264
Change in net unearned contribution	-	(8)	388	380
Net insurance revenue	34,644	2,833	41,167	78,644
CLAIMS AND EXPENSES				
Gross claims paid	(816)	(950)	(47,201)	(48,967)
Reinsurance share of claims paid	735	760	38,672	40,167
Net claims paid	(81)	(190)	(8,529)	(8,800)
Change in net outstanding claims provision	(241)	(234)	(5,501)	(5,976)
Net claims incurred	(322)	(424)	(14,030)	(14,776)
Acquisition fee paid to the Distributing shareholder	(6,069)	-	-	(6,069)
Entrance fee paid to the Technical and Distributing shareholders	(1,854)	-	-	(1,854)
Administration fee paid to Technical and Distributing shareholders	(9,309)	-	-	(9,309)
Supervision and inspection fee	(1,040)	(23)	(389)	(1,452)
Other direct underwriting expenses	(331)	-	(96)	(427)
Service charges paid to Distributing shareholder	(3,658)	-	-	(3,658)
Total claims and expenses	(22,583)	(447)	(14,515)	(37,545)
Underwriting surplus for the year	12,061	2,386	26,652	41,099
Unallocated amounts:				
- Investment fund fee				4,960
- General and administration expenses				(10,139)
- Other income				1,986
Surplus for the year from Insurance Operations				37,906

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

18 OPERATING SEGMENT INFORMATION (continued)

	31 December 2013			
	<i>Insurance - individual SR '000</i>	<i>Insurance- group life SR '000</i>	<i>Insurance- group credit protection SR '000</i>	<i>Total SR '000</i>
INSURANCE REVENUE				
Gross contributions	122,377	4,341	13,474	140,192
Investible contribution, net	(91,890)	-	-	(91,890)
Net Insurance contributions	30,487	4,341	13,474	48,302
Reinsurance ceded	(4,837)	(3,528)	(8,366)	(16,731)
Net written contributions	25,650	813	5,108	31,571
Change in net unearned contribution	-	-	(388)	(388)
Net insurance revenue	25,650	813	4,720	31,183
CLAIMS AND EXPENSES				
Gross claims paid	(844)	(2,360)	(2,186)	(5,390)
Reinsurance share of claims paid	767	2,124	1,967	4,858
Net claims paid	(77)	(236)	(219)	(532)
Change in net outstanding claims provision	(195)	(45)	(59)	(299)
Net claims incurred	(272)	(281)	(278)	(831)
Acquisition fee paid to the Distributing Shareholders	(1,714)	-	-	(1,714)
Entrance fee paid to the Technical and Distributing Shareholders	(3,166)	-	-	(3,166)
Administration fee paid to Technical and Distributing Shareholders	(8,964)	-	-	(8,964)
Supervision and inspection fee	(1,065)	(22)	(67)	(1,154)
Other direct underwriting expenses	(298)	-	-	(298)
Total claims and expenses	(15,479)	(303)	(345)	(16,127)
Underwriting surplus for the year	10,171	510	4,375	15,056
Unallocated amounts:				
- Investment fund fee				4,138
- General and administration expenses				(12,851)
Surplus for the year from Insurance Operations				6,343

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

18 OPERATING SEGMENT INFORMATION (continued)

	<i>As at 31 December 2014</i>			
	<i>Insurance - individual SR '000</i>	<i>Insurance- group SR '000</i>	<i>Insurance- group credit protection SR '000</i>	<i>Total SR '000</i>
INSURANCE OPERATIONS' ASSETS				
Cash and cash equivalents	84,808	1,082	16,821	102,711
Trading investments held to cover unit-linked liabilities	703,574	-	-	703,574
Contribution receivable	-	4	2,755	2,759
Accrued income	483	-	-	483
Reinsurance share of outstanding claim	-	-	4,902	4,902
Reinsurance share of unearned contribution	-	25	-	25
	788,865	1,111	24,478	814,454
Unallocated amounts:				
- Prepayments and other receivables				422
- Furniture, fittings and office equipment				1,028
Total Insurance Operations' assets				815,904
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS				
Insurance Operations' liabilities				
Technical reserve for Insurance Operations	725,550	336	4,840	730,726
Unearned contribution – gross	-	33	-	33
Outstanding claims – gross	324	-	5,824	6,148
Reinsurance balances payable	6,992	747	12,822	20,561
Due to related parties	7,617	-	-	7,617
Contributions received in advance	747	-	-	747
Accruals and other payables	12,365	-	1,991	14,356
	753,595	1,116	25,477	780,188
Unallocated amounts:				
- Due to Shareholders Operations				29,787
- Employees' end of service benefits				969
Total Insurance Operations' liabilities				810,944
Surplus from Insurance Operations				4,960
Total Insurance Operations' liabilities and surplus				815,904

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

18 OPERATING SEGMENT INFORMATION (continued)

	<i>As at 31 December 2014</i>			
	<i>Insurance - individual SR '000</i>	<i>Insurance- group SR '000</i>	<i>Insurance- group credit protection SR '000</i>	<i>Total SR '000</i>
INSURANCE OPERATIONS' ASSETS				
Cash and cash equivalents	26,783	694	7,304	34,781
Trading investments held to cover unit-linked liabilities	609,459	-	-	609,459
Contribution receivable	-	-	463	463
Accrued income	436	-	-	436
Reinsurance share of unearned contribution	-	-	465	465
	<u>636,678</u>	<u>694</u>	<u>8,232</u>	<u>645,604</u>
Unallocated amounts:				
- Prepayments and other receivables				178
- Furniture, fittings and office equipment				859
Total Insurance Operations' assets				<u>646,641</u>
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS				
Insurance Operations' liabilities				
Technical reserve for Insurance Operations	617,296	103	261	617,660
Unearned contribution – gross	-	-	853	853
Outstanding claims – gross	324	-	-	324
Reinsurance balances payable	4,513	605	6,650	11,768
Due to related parties	71	-	-	71
Contributions received in advance	535	-	-	535
Accruals and other payables	6,393	1	2,756	9,150
	<u>629,132</u>	<u>709</u>	<u>10,520</u>	<u>640,361</u>
Unallocated amounts:				
Due to Shareholders Operations				4,640
Employees' end of service benefits				471
Total Insurance Operations' liabilities				<u>645,472</u>
Surplus from Insurance Operations				1,169
Total Insurance Operations' liabilities and surplus				<u>646,641</u>

19 FAIR VALUES OF FINANCIAL INSTRUMENTS

- a) Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company's financial assets consist of cash in hand and at banks, trading investments, contribution receivable, other receivables, due from insurance operations and its financial liabilities consist of outstanding claims, reinsurance balances payable, amount due to related parties, due to shareholder operations and other payables. The fair values of financial instruments are not materially different from their carrying values. As at 31 December 2014, apart from the investments which are carried at fair value (note 5), there were no other financial instruments held by the Company that were measured at fair value.

- b) The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for the same instrument (i.e. without modification or repackaging);

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

19 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data; and

Level 3: valuation techniques for which any significant input is not based on observable market data.

As at 31 December 2014 and 2013, all financial instruments which are fair valued are Level 2 instruments. The Company determines Level 2 fair values for trading investments based on the net assets value of the respective funds as at the end of the reporting period.

20 RISK MANAGEMENT

Risk is inherent in the Company's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company's policy is to monitor business risks through strategic planning process.

Risk management structure

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

Audit committee

The Audit Committee is appointed by the Board of Directors. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and risk management, the audit there of and the soundness of the internal controls of the Company. The risks faced by the Company and the way these risks are mitigated by management are summarised below.

Insurance risk

Insurance risk is the risk that actual claims payable to policyholders exceed the carrying amount of reserve for insurance activities. This is influenced by the frequency of claims paid and subsequent development of long term claims. Therefore, the objective of the Insurance Operations is to ensure that sufficient reserves are available to cover these liabilities. The Insurance Operations manages this risk by ensuring that adequate reinsurance cover is taken to restrict the maximum loss payable for any individual claim.

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

Geographical concentration of risks

The Company's insurance risk exposure relating to contract holders is concentrated in Kingdom of Saudi Arabia.

Sensitivities

The impact of reasonably possible changes in ultimate loss ratios on net results, net liabilities and equity of the Company is not expected to be material.

Reinsurance risk

In common with other insurance companies, in order to minimise financial exposure arising from increase in number of claims paid, the Insurance Operations, in the normal course of business, enters into contracts with other parties for reinsurance purposes. Reinsurance ceded contracts do not relieve the Company from its obligations to policy holders and as a result the Company remains liable for the portion of outstanding claim reinsured.

To minimise its exposure to significant losses from reinsurance managers' insolvencies, the Insurance Operations evaluates the financial condition of its reinsurance managers. The Insurance Operations has a quota-share Reinsurance arrangement with reinsurance companies based in Germany, USA and Saudi Arabia having credit rating of "AA-" or above. These Reinsurance arrangements covers individual and group contracts issued by the Insurance Operations in the Kingdom of Saudi Arabia.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

20 RISK MANAGEMENT (continued)

Reinsurance risk (continued)

Under the arrangement, the Insurance Operations retains 10% of the Insurance cover in case of individual life insurance business (up to a maximum of SR 18,750 per life) and Group credit mortgage business. 20% of the insurance cover is retained in respect of Group care and Group credit protection business. Any surplus made in the Reinsurance Fund on the Insurance risk (mortality risk) is paid into Al Ahli Takaful Fund by the Reinsurers to be distributed amongst the policyholders.

Regulatory framework risk

The operations of the Company are also subject to regulatory requirements in the Kingdom of Saudi Arabia. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as they arise.

Capital management (solvency) risk

Capital requirements are set and regulated by SAMA. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximise shareholders' values.

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.

Financial risk

The Company's principal financial instruments are cash and cash equivalent, trading investments held to cover unit-linked liabilities, contribution receivable, reinsurance share of outstanding claims, accrued income, reinsurers share of claims, other receivables, trading investments, due from insurance operations, reinsurance balances payable, due to related parties, due to Shareholders' operations and other payables. The Company does not enter into derivative transactions.

The main risks arising from the financial instruments of Insurance Operations and Shareholders' Operations are market price risk, foreign currency risk, commission rate risk, credit risk and liquidity risk. The management reviews and agrees policies for managing each of these risks and they are summarised below:

Market price risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

The Insurance Operations and Shareholders' Operations are exposed to market risk with respect to their trading investments in units of open-ended mutual funds. The underlying investments of the mutual funds are in equities, Sukuks and Murabaha purchased in the local and international markets and unit price of the fund is dependent on the movements in the market prices of these instruments. The fund manager limits market risk by monitoring the developments in the relevant markets for these instruments.

A 5% change in the net asset value of the funds, with all other variables held constant, would impact the Technical reserves and net income of Shareholders' Operations by SR 35,179 thousands (2013: SR 30,473 thousand) and SR 6,539 thousand (2013: SR 6,433 thousand) respectively.

Foreign currency risk

Foreign 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 losses due to exchange rate fluctuations as the Insurance Operations and Shareholders' Operations primarily deal in Saudi Riyals and in US Dollar which is pegged to the Saudi Riyal.

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. As the Company does not have any commission bearing assets or liabilities, the Company is not exposed to significant commission rate risk.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

20 RISK MANAGEMENT (continued)

Financial risk (continued)

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.

The Company issues unit linked investment policies. In 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 credit risk on the unit linked financial assets. The table below shows the maximum exposure to credit risk for the components of the statement of financial position:

	<u>2014</u> SR'000	<u>2013</u> SR'000
<i>Insurance Operations</i>		
Cash at bank	102,711	34,781
Contribution receivable	2,759	463
Due from employees	25	6
Accrued income	483	436
	<u>105,978</u>	<u>35,686</u>
<i>Shareholders' Operations</i>		
Cash in hand and at banks	106	200
Other receivables	4,310	222
	<u>4,416</u>	<u>422</u>

Liquidity risk

Liquidity risk is the risk that Shareholders' Operations and Insurance Operations will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity requirements are monitored on monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise. All assets of the Insurance Operations and Shareholders' Operations are current, except for furniture, fittings and office equipment and statutory deposit, which are non-current in nature.

The Insurance Operations' financial liabilities consist of outstanding claims, Reinsurance balances payable, amount due to a related party and other payables, and the Shareholders' Operations financial liabilities consist of other payables. All financial liabilities are non-interest bearing and are expected to be settled within 12 months from the date of statement of financial position.

21 EARNINGS PER SHARE

Earnings per share for the year ended 31 December 2014 and 2013 has been calculated by dividing the net income for the year by the ordinary issued and outstanding shares at the Statement of Financial Position date. Diluted earnings per share is not applicable for the Company.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2014

22 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 financial statements are listed below. The listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

<u>Standard/ Interpretation</u>	<u>Description</u>	<u>Effective from periods beginning on or after the following date</u>
IFRS 9	Financial Instruments – Classification & Measurement	1 January 2018
IFRS 11	Amendment to IFRS 11 – Accounting for Acquisition of Interests in Joint Operations	1 January 2016
IFRS 14	Regulatory Deferral Accounts	1 January 2016
IFRS 15	Revenue from Contracts with Customers	1 January 2017
IAS 16 and IAS 38	Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
IAS 27	Amendment to IAS 27 – Equity method in Separate Financial Statements	1 January 2016

23 RECLASSIFICATION

Certain comparative figures have been re-classified to conform to current year presentation.

24 APPROVAL OF FINANCIAL STATEMENTS

These financial statements have been approved by the Board of Directors on 19 February 2015, corresponding to 30 Rabi Al Thani 1436H.