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

**FINANCIAL STATEMENTS
AND INDEPENDENT JOINT AUDITORS' REPORT
31 DECEMBER 2013**

ALAHLI TAKAFUL COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS
31 DECEMBER 2013

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Al Fozan & Al Sadhan

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License No.46/11/323 issued 11/3/1992

EL SAYED EL AYOUTY & CO.
CERTIFIED PUBLIC ACCOUNTANTS

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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 2013 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 2013 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 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.

Mohamed El Ayouty
Certified Public Accountant
Registration No. 211



20 Rabi Thani 1435H
20 February 2014



ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

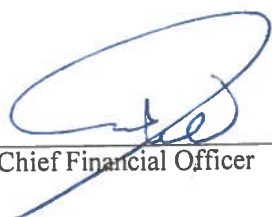
STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	<u>2013</u> SR'000	<u>2012</u> SR'000
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	4	34,781	19,817
Trading investments held to cover unit-linked liabilities	5	609,459	479,814
Contribution receivable from a related party	15(b)	463	184
Accrued income	15(b)	436	326
Prepayments and other receivables	6	178	332
Reinsurance share of unearned contribution		465	-
Furniture, fittings and office equipment	7	859	1,896
Total Insurance Operations' assets		<u>646,641</u>	<u>502,369</u>
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	4	200	65
Trading investments	5	128,659	122,943
Due from Insurance Operations		4,640	2,318
Prepayments and other receivables	6	334	217
Statutory deposit	12	16,667	16,667
Total Shareholders' assets		<u>150,500</u>	<u>142,210</u>
TOTAL ASSETS		<u><u>797,141</u></u>	<u><u>644,579</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

STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2013

	Notes	<u>2013</u> SR'000	<u>2012</u> SR'000
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS			
Insurance Operations' liabilities			
Technical reserve for Insurance Operations	17	617,660	485,169
Unearned contribution – gross		853	-
Outstanding claims – gross		324	-
Reinsurance balances payable		11,768	5,332
Due to related parties	15(b)	71	1,879
Due to Shareholders' Operations		4,640	2,318
Contributions received in advance		535	570
Accruals and other payables	8	9,150	5,866
Employees' end of service benefits		471	700
Total Insurance Operations' liabilities		<u>645,472</u>	<u>501,834</u>
Insurance Operations' surplus			
Surplus from Insurance Operations		<u>1,169</u>	<u>535</u>
Total Insurance Operations' liabilities and surplus		<u>646,641</u>	<u>502,369</u>
SHAREHOLDERS' LIABILITIES AND EQUITY			
Shareholders' liabilities			
Accruals and other payables	8	1,936	1,578
Accrued Zakat and tax	9	8,925	6,268
Total shareholders' liabilities		<u>10,861</u>	<u>7,846</u>
Shareholders' equity			
Share capital	10	166,667	166,667
Statutory reserve	11	7,874	7,874
Accumulated losses		(34,902)	(40,177)
Total shareholders' equity		<u>139,639</u>	<u>134,364</u>
Total shareholders' liabilities and equity		<u>150,500</u>	<u>142,210</u>
TOTAL INSURANCE OPERATIONS' LIABILITIES, SURPLUS, SHAREHOLDERS' LIABILITIES AND EQUITY		<u>797,141</u>	<u>644,579</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 INSURANCE OPERATIONS AND ACCUMULATED SURPLUS
For the year ended 31 December 2013

	<i>Notes</i>	<u>2013</u> <u>SR'000</u>	<u>2012</u> <u>SR'000</u>
INSURANCE REVENUE			
Gross contributions		140,192	153,498
Investible contribution, net		(92,119)	(112,705)
Net insurance contributions		48,073	40,793
Reinsurance ceded		(16,731)	(12,049)
Net written contributions		31,342	28,744
Change in net unearned contribution		(388)	-
Net insurance revenue		30,954	28,744
CLAIMS AND EXPENSES			
Gross claims paid		(5,390)	(6,937)
Reinsurance share of claims paid		4,858	6,257
Net claims paid		(532)	(680)
Change in net outstanding claims provision	13	(70)	(104)
Net claims incurred		(602)	(784)
Acquisition fee paid to the Distributing Shareholder	15	(1,714)	(2,746)
Entrance fee paid to the Technical and Distributing Shareholders	15	(3,166)	(2,814)
Administration fee paid to the Technical and Distributing Shareholders	15	(8,964)	(9,932)
Supervision and inspection fee		(1,154)	(1,200)
Other direct underwriting expenses		(298)	(286)
Total claims and expenses		(15,898)	(17,762)
Underwriting surplus for the year		15,056	10,982
Investment fund fee	15	4,138	3,229
General and administration expenses	14	(12,851)	(11,727)
Surplus for the year from Insurance Operations		6,343	2,484
Shareholders' share of surplus from Insurance Operations	2(b)	(5,709)	(2,236)
Policyholders' share of surplus for the year		634	248
Accumulated policyholders' surplus at the beginning of the year		535	1,022
Policyholders' surplus distributed during the year	17.1	-	(735)
ACCUMULATED POLICYHOLDERS' SURPLUS AT THE END OF THE YEAR		1,169	535

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 2013

		<u>2013</u>	<u>2012</u>
	<i>Notes</i>	<i>SR'000</i>	<i>SR'000</i>
Shareholders' share of surplus from Insurance Operations	2(b)	5,709	2,236
Unrealised gain on investment	5	5,716	1,759
Realised gain on investment	5	-	34
		<hr/>	<hr/>
Total income		11,425	4,029
General and administration expenses	14	(3,380)	(2,998)
		<hr/>	<hr/>
NET INCOME FOR THE YEAR		8,045	1,031
		<hr/>	<hr/>
Weighted average number of ordinary shares outstanding (in thousand)		16,667	15,391
		<hr/>	<hr/>
Earnings per share for the year (SR)	21	0.48	0.07
		<hr/>	<hr/>

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 2013

	<u>2013</u> <u>SR'000</u>	<u>2012</u> <u>SR'000</u>
NET INCOME FOR THE YEAR	8,045	1,031
Zakat and income tax for the year (note 9)	(2,770)	(2,260)
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR	<u>5,275</u>	<u>(1,229)</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 2013

	<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 2011	166,667	7,874	(38,948)	135,593
Net income for the year	-	-	1,031	1,031
Zakat and income tax for the year (note 9)	-	-	(2,260)	(2,260)
Balance 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 as at 31 December 2013	166,667	7,874	(34,902)	139,639

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' CASH FLOWS

For the year ended 31 December 2013

	Notes	2013 SR'000	2012 SR'000
OPERATING ACTIVITIES			
Policyholders' share of surplus for the year		634	248
Adjustments to reconcile Policyholders' share of the surplus for the year to net cash from operating activities:			
Depreciation	7	1,230	1,812
Employees' end of service benefits, net		(229)	77
Reinsurance share of unearned contribution		(465)	698
Unearned contribution – gross		853	(780)
Deferred commission revenue – group and credit life		-	(179)
		<u>2,023</u>	<u>1,876</u>
Changes in operating assets and liabilities:			
Trading investments held to cover unit-linked liabilities		(129,645)	(134,842)
Due to Shareholders' Operations		2,322	1,541
Net contribution receivable		(279)	535
Accrued income		(110)	(126)
Prepayments and other receivables		154	(229)
Reinsurance share of outstanding claims		-	536
Technical reserve for Insurance Operations		132,491	129,260
Outstanding claims – gross		324	(596)
Reinsurance balances payable		6,436	(4,526)
Due to related parties		(1,808)	1,186
Contributions received in advance		(35)	(978)
Accruals and other payables		3,284	(1,613)
		<u>15,157</u>	<u>(7,976)</u>
Net cash from /(used in) operating activities			
INVESTING ACTIVITY			
Purchase of furniture, fittings and office equipment	7	(193)	(52)
FINANCING ACTIVITY			
Surplus distributed	17.1	-	(735)
Net increase / (decrease) in cash and cash equivalents		<u>14,964</u>	<u>(8,763)</u>
Cash and cash equivalents at the beginning of the year		<u>19,817</u>	<u>28,580</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4	<u>34,781</u>	<u>19,817</u>

Director

Chief Financial Officer

Chief Executive Officer

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

ALAHIL TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

STATEMENT OF SHAREHOLDERS' CASH FLOWS

For the year ended 31 December 2013

	Notes	<u>2013</u> <u>SR'000</u>	<u>2012</u> <u>SR'000</u>
OPERATING ACTIVITIES			
Net income for the year		8,045	1,031
Adjustments to reconcile net income for the year to net cash from / (used in) operating activities:			
Realised gain on trading investments	5	-	(34)
Unrealised gain on trading investments	5	(5,716)	(1,759)
		<u>2,329</u>	<u>(762)</u>
Changes in operating assets and liabilities:			
Prepayments and other receivables		(117)	(201)
Due from Insurance Operations		(2,322)	(1,541)
Accruals and other payables		358	(2,852)
Zakat and income tax paid	9	(113)	-
		<u>135</u>	<u>(5,356)</u>
Net cash from /(used in) operating activities			
INVESTING ACTIVITIES			
Purchase of trading investments	5	-	(77,447)
Redemption of trading investments	5	-	6,667
Increase in statutory deposit	12	-	(6,667)
		<u>-</u>	<u>(77,447)</u>
Net cash used in investing activities			
Net increase/(decrease) in cash and cash equivalents		135	(82,803)
Cash and cash equivalents at the beginning of the year		65	82,868
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4	200	65

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 2013

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 66.25% by Saudi founding shareholders and general public, and 33.75% by non-Saudi shareholders.

Subsequent to the year-end, on 10 February 2014, the Board of the Directors of the Company decided to terminate the Cooperation Agreement (“the Agreement”) with FWU AG (FWU), a shareholder, for provision and servicing of Company’s products, and terminate 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 will be paid 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 mutually agreed that 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 ATC in completing the implementation of a new system, at a monthly service charge of SR 300 thousand. This arrangement is subject to the approval of the shareholders of the Company in the General Assembly Meeting.

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.

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. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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 monthly 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

The 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 2012 except for the adoption of the following new standards and amendments to the existing standards mentioned below which had no financial impact on the financial statements of the Company:

New standards

IFRS 13 Fair value measurement: Replaces the guidance on the fair value measurement in existing IFRS accounting literature with a single standard. The IFRS defines fair values, provides guidance on how to determine fair values and requires disclosure about fair value measurements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amendments to existing standards

- Amendments to IAS 1 Presentation of the Financial Statements: amends IAS 1 to revise the way other comprehensive income is presented.
- Amendments to IFRS 7 Financial Instruments: Disclosure: Amends the disclosure requirements in IFRS-7 to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of the IAS 32 and also requires disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and agreements even if they are not set off under IAS 32.
- IAS 19 Employee Benefits – Amendments: The amendments to IAS 19 remove the option to defer the recognition of actuarial gains and losses, i.e. the corridor mechanism. All changes in the value of the defined benefit plans will be recognised in the profit or loss and other comprehensive income.
- The IASB has published Annual Improvements to IFRSs: 2009-2011 cycle of improvements that contain amendments to the following standards with consequential amendments to other standards:
 - IAS 1 – Presentation of financial statements: Comparative information beyond minimum requirements and presentation of the opening statement of financial position and related notes
 - IAS 16 – property, plant and equipments: classification of servicing equipment:
 - IAS 34 – Interim Financial Reporting: Segment assets and liabilities

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 priced using mark-to-market method where the portfolio reflects its net asset value (NAV) rather than its book value. 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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 discounted cash flow techniques or 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.

Reinsurance

The Company has modified quota-share reinsurance arrangement with an independent international reinsurance Company. 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.

Participant Takaful Solidarity Fund

The Company maintains Participant Takaful Solidarity Fund ('the Takaful Fund'), which is made up of Solidarity donations pooled and paid by the participants. The Fund will be used to pay death claims in the event of death of a participant before the contract maturity date.

This mathematical 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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***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.

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 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 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.

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.

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 2013

4 CASH AND CASH EQUIVALENTS

	<u>2013</u> SR'000	<u>2012</u> SR'000
<i>Insurance Operations</i>		
Cash in hand	4	5
Cash at bank (note 4.1)	34,777	19,812
	<u>34,781</u>	<u>19,817</u>
<i>Shareholders' Operations</i>		
Cash at bank (note 4.1)	200	65
	<u>200</u>	<u>65</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 short-term Murabaha Funds, denominated in United States Dollars, which are managed by a subsidiary of the Company's major shareholder.

	<u>2013</u> SR'000	<u>2012</u> SR'000
Al Manarah Conservative Growth Strategy	362,675	293,389
Al Manarah Medium Growth Strategy	142,662	110,493
Al Manarah High Growth Strategy	104,122	75,932
	<u>609,459</u>	<u>479,814</u>

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

	<u>2013</u> SR'000	<u>2012</u> SR'000
Balance at the beginning of the year	479,814	344,972
Purchased during the year	88,899	123,901
Unrealized gain during the year (note 17b)	40,746	10,941
	<u>609,459</u>	<u>479,814</u>

Shareholders' Operations

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

At the end of the year, discretionary portfolio had investment in the following:

	<u>2013</u> SR'000	<u>2012</u> SR'000
Mutual funds	24,554	24,564
Murabaha deposits	74,230	82,856
Equity investments	1,971	964
Investments in Sukuk	26,508	14,335
Cash with Portfolio Manager	1,396	224
	<u>128,659</u>	<u>122,943</u>

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2013

5 TRADING INVESTMENTS (continued)

Shareholders' Operations (continued)

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

	<u>2013</u> <u>SR'000</u>	<u>2012</u> <u>SR'000</u>
Balance at the beginning of the year	122,943	50,370
Purchased during the year	-	77,447
Redemptions during the year	-	(6,667)
Realized gain on redemption	-	34
Unrealized gain during the year	5,716	1,759
Balance at the end of the year	128,659	122,943

6 PREPAYMENTS AND OTHER RECEIVABLES

Insurance Operations

	<u>2013</u> <u>SR'000</u>	<u>2012</u> <u>SR'000</u>
Prepaid rent	65	66
Advance to suppliers	107	260
Due from employees	6	6
	<u>178</u>	<u>332</u>

Shareholders' Operations

	<u>2013</u> <u>SR'000</u>	<u>2012</u> <u>SR'000</u>
Advance to suppliers	112	112
Other receivables	222	105
	<u>334</u>	<u>217</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>Total</i> <i>SR'000</i>
Cost:			
At 1 January 2013	1,879	6,242	8,121
Additions	7	186	193
At 31 December 2013	<u>1,886</u>	<u>6,428</u>	<u>8,314</u>
Accumulated depreciation:			
At 1 January 2013	829	5,396	6,225
Charge for the year	319	911	1,230
At 31 December 2013	<u>1,148</u>	<u>6,307</u>	<u>7,455</u>
Carrying amount:			
At 31 December 2013	<u>738</u>	<u>121</u>	<u>859</u>
At 31 December 2012	<u>1,050</u>	<u>846</u>	<u>1,896</u>

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2013

8 ACCRUALS AND OTHER PAYABLES

	<u>2013</u> <u>SR'000</u>	<u>2012</u> <u>SR'000</u>
<i>Insurance Operations</i>		
Underwriting expenses payable	503	278
Policies surrendered payable	2,423	3,080
Supervision and inspection fee payable	1,486	1,029
Accrued expenses and other payables	4,738	1,479
	<u>9,150</u>	<u>5,866</u>
<i>Shareholders' Operations</i>		
Accrued expenses	254	234
Remuneration and other expenses payable to Board members (note 16)	596	872
Other payables	1,086	472
	<u>1,936</u>	<u>1,578</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>2013</u> <u>SR'000</u>	<u>2012</u> <u>SR'000</u>
Equity	134,363	127,719
Opening provisions and other adjustments	700	862
Book value of long term assets	(1,289)	(142,326)
	<u>133,774</u>	<u>(13,745)</u>
Zakatable profit for the year	<u>8,247</u>	<u>1,931</u>
Attributable to Saudi shareholders	<u>5,695</u>	<u>1,279</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>2013</u> <u>SR'000</u>	<u>2012</u> <u>SR'000</u>
Balance at the beginning of the year	6,268	4,008
Charge for the year	2,770	2,260
Zakat and income tax paid	(113)	-
Balance at the end of the year	<u>8,925</u>	<u>6,268</u>

9 ZAKAT AND INCOME TAX (continued)

INCOME TAX

Income tax relating to the non-Saudi shareholders amounting to SR 383 thousand (2012: SR Nil) consists of the current year charge, which has been provided for based on the estimated taxable profit using tax rate of 20% (2012: Nil).

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 2012.

During 2012, 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 3,998 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. Recently the Preliminary Appeal Committee [PAC] has heard the case and their decision is awaited.

Assessments for the years 2010 and 2011 have not yet been raised by the DZIT. However the DZIT issued initial assessments for the years ended 31 December 2010 through 31 December 2012 disallowing investments from the Zakat base with additional Zakat liability of SR 1,051 thousand, SR 1,000 thousand and SR 2,312 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 retained losses since inception, no transfer to statutory reserve has been made.

12 STATUTORY DEPOSIT

	<u>2013</u> SR'000	<u>2012</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 2012: 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>2013</u> SR'000	<u>2012</u> SR'000
Change in outstanding claims – Gross	324	(596)
Change in outstanding claims – Reinsurance	(303)	536
Change in Incurred But Not Reported claims (IBNR)	49	164
Change in net outstanding claims provision	70	104

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2013

14 GENERAL AND ADMINISTRATION EXPENSES

	<u>2013</u> <u>SR'000</u>	<u>2012</u> <u>SR'000</u>
<i>Insurance Operations</i>		
Employee costs	9,350	8,244
Office rent	802	706
Repairs and maintenance	250	212
Depreciation (note 7)	1,230	1,812
Information technology expenses	590	662
Communication expense	97	136
(Reversal) of allowance for doubtful receivables	-	(240)
Others	532	195
	<u>12,851</u>	<u>11,727</u>
<i>Shareholders' Operations</i>		
Regulatory fees	325	387
Legal and professional fees	1,984	1,654
Board expenses (see note 16)	1,026	894
Others	45	63
	<u>3,380</u>	<u>2,998</u>

15 RELATED PARTY TRANSACTIONS AND BALANCES

- a) The following are the details of major related party transactions during the years ended 31 December 2013 and 2012:

<i>Related party</i>	<i>Nature of transactions</i>	<i>Amount of transactions</i> <u>2013</u> <u>SR'000</u>	<u>2012</u> <u>SR'000</u>
<i>Insurance Operations</i>			
Shareholder and subsidiary of Shareholder	Gross Group contribution	17,815	14,139
Shareholder	Acquisition fee paid for distributing the products (see note 15(d))	1,714	2,746
Shareholders	Entrance fee (see note 15(d))	3,166	2,814
Shareholders	Administration fee (see note 15(d))	8,964	9,932
Subsidiary of Shareholder	Investment fund fee	4,138	3,229
Key management personnel	Short term benefits	2,715	4,259
Key management personnel	End of service benefits	142	864

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2013

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>2013</u> <u>SR'000</u>	<u>2012</u> <u>SR'000</u>
Gross contribution receivable from a related party - Shareholder	463	184
Payable to Technical Shareholder	(71)	(562)
Payable to Distributing Shareholder	-	(1,317)
Accrued investment fund fee receivable from subsidiary of a Shareholder	436	326

- 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 amounting to SR 4.7 Million were mutually waived for the period from 1 January to 30 June, 2013.

16 BOARD OF DIRECTORS' REMUNERATION AND RELATED EXPENSES

	<u>2013</u> <u>SR'000</u>	<u>2012</u> <u>SR'000</u>
<i>Shareholders' Operations</i>		
Board remuneration	872	797
Board attendance fees	46	74
Board accommodation and travel	108	23
	<u>1,026</u>	<u>894</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 2012 (see note 8) were paid during 2013 after obtaining the approval in the Annual General Meeting held on 25 June 2013.

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>2013</u> <u>SR'000</u>	<u>2012</u> <u>SR'000</u>
Technical reserve relating to the Participant Investment Strategies (unit liability)	616,084	483,871
Allowance for the retained risk	1,182	953
Incurred But Not Reported (IBNR) reserves	394	345
	<u>617,660</u>	<u>485,169</u>

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2013

17 TECHNICAL RESERVE FOR INSURANCE OPERATIONS (continued)

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

	<u>2013</u> <u>SR'000</u>	<u>2012</u> <u>SR'000</u>
Balance as at the beginning of the year	485,169	355,909
Change in reserve	49	164
Unrealized gain on investment (note 5)	40,746	10,941
Investible contribution, net	92,119	112,705
Surplus distribution (note 17.1)	-	5,566
Other	(423)	(116)
	<u>617,660</u>	<u>485,169</u>
Balance at the end of the year	<u>617,660</u>	<u>485,169</u>

17.1 This comprise distribution of profit share received from the reinsurers amounting to SR 4,831 and distribution of surplus from insurance operations amounting to SR 735 thousand for the year ended 31 December 2010 and 31 December 2011. The Company has obtained approval from SAMA during 2012 and distributed the amount to the policyholders in the form of additional units in the trading investments held to cover unit-linked liabilities.

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.

Other segment – offers protection benefits in respect of various credit facilities extended by the financing organizations to its customers.

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

Segment results do not include investment fund fee and general and administration expenses.

Segment liabilities do not include surplus from insurance operations.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2013

18 OPERATING SEGMENT INFORMATION (continued)

	31 December 2013			
	<i>Insurance - individual SR '000</i>	<i>Insurance- group life SR '000</i>	<i>Other SR '000</i>	<i>Total SR '000</i>
INSURANCE REVENUE				
Gross contributions	122,377	4,341	13,474	140,192
Investible contribution, net	(92,064)	(43)	(12)	(92,119)
Net Insurance contributions	30,313	4,298	13,462	48,073
Reinsurance ceded	(4,837)	(3,528)	(8,366)	(16,731)
Net written contributions	25,476	770	5,096	31,342
Change in net unearned contribution	-	-	(388)	(388)
Net insurance revenue	25,476	770	4,708	30,954
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	(21)	(2)	(47)	(70)
Net claims incurred	(98)	(238)	(266)	(602)
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	(15,305)	(260)	(333)	(15,898)
Underwriting surplus for the year	10,171	510	4,375	15,056
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 2013

18 OPERATING SEGMENT INFORMATION (continued)

	31 December 2012			
	<i>Insurance - individual</i>	<i>Insurance- group life</i>	<i>Other</i>	<i>Total</i>
	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>	<i>SR '000</i>
INSURANCE REVENUE				
Gross contributions	139,359	3,859	10,280	153,498
Investible contribution, net	(112,564)	(14)	(127)	(112,705)
Net Insurance contributions	26,795	3,845	10,153	40,793
Reinsurance ceded	(4,647)	(2,898)	(4,504)	(12,049)
Net insurance revenue	22,148	947	5,649	28,744
CLAIMS AND EXPENSES				
Gross claims paid	(1,961)	(2,780)	(2,196)	(6,937)
Reinsurance share of claims paid	1,778	2,502	1,977	6,257
Net claims paid	(183)	(278)	(219)	(680)
Change in net outstanding claims provision	47	(52)	(99)	(104)
Net claims incurred	(136)	(330)	(318)	(784)
Acquisition fee paid to the Distributing Shareholders	(2,746)	-	-	(2,746)
Entrance fee paid to the Technical and Distributing Shareholders	(2,814)	-	-	(2,814)
Administration fee paid to the Technical and Distributing Shareholders	(9,932)	-	-	(9,932)
Supervision and inspection fee	(1,130)	(18)	(52)	(1,200)
Other direct underwriting expenses	(286)	-	-	(286)
Total claims and expenses	(17,044)	(348)	(370)	(17,762)
Underwriting surplus for the year	5,104	599	5,279	10,982
Investment fund fee				3,229
General and administration expenses				(11,727)
Surplus for the year from Insurance Operations				2,484

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2013

18 OPERATING SEGMENT INFORMATION (continued)

	<i>As at 31 December 2013</i>			
	<i>Insurance - individual SR '000</i>	<i>Insurance- group SR '000</i>	<i>Other 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 from a related party	-	-	463	463
Accrued income	436	-	-	436
Prepayments and other receivables	-	-	178	178
Reinsurance share of unearned contribution	-	-	465	465
Furniture, fittings and office equipment	-	-	859	859
Total Insurance Operations' assets				646,641
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
Due to Shareholders Operations	-	-	4,640	4,640
Contributions received in advance	535	-	-	535
Accruals and other payables	6,393	1	2,756	9,150
Employees' end of service benefits	-	-	471	471
Total Insurance Operations' liabilities				645,472
Surplus from Insurance Operations				1,169
Total Insurance Operations' liabilities and surplus				646,641

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2013

18 OPERATING SEGMENT INFORMATION (continued)

	<i>As at 31 December 2012</i>			
	<i>Insurance - individual SR '000</i>	<i>Insurance- group SR '000</i>	<i>Other SR '000</i>	<i>Total SR '000</i>
INSURANCE OPERATIONS' ASSETS				
Cash and cash equivalents	16,255	834	2,728	19,817
Trading investments held to cover unit-linked liabilities	479,814	-	-	479,814
Contribution receivable from a related party	184	-	-	184
Accrued income	326	-	-	326
Prepayments and other receivables	-	-	332	332
Furniture, fittings and office equipment	-	-	1,896	1,896
Total Insurance Operations' assets				502,369
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS				
Insurance Operations' liabilities				
Technical reserve for Insurance Operations	484,823	55	291	485,169
Reinsurance balances payable	3,309	(88)	2,111	5,332
Due to related parties	562	1,317	-	1,879
Due to Shareholders Operations	-	-	2,318	2,318
Contributions received in advance	570	-	-	570
Accruals and other payables	4,377	-	1,489	5,866
Employees' end of service benefits	-	-	700	700
Total Insurance Operations' liabilities				501,834
Surplus from Insurance Operations				535
Total Insurance Operations' liabilities and surplus				502,369

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 2013, 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);

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 2013 and 2012, 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 modified quota-share Reinsurance arrangement with an international reinsurance company based in Germany, Hannover Re (Reinsurance Wakeel), with Standard & Poors "AA-" and AM Best "A+" ratings. This Reinsurance arrangement covers all individual and group contracts issued by the Insurance Operations in the Kingdom of Saudi Arabia. Under the arrangement, the Insurance Operations retains 10% of the Insurance cover per life up to a maximum of SR 18,750. 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.

20 RISK MANAGEMENT (continued)

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 30,473 thousands (2012: SR 23,991 thousand) and SR 6,433 thousand (2012: SR 6,147 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.

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:

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NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2013

20 RISK MANAGEMENT (continued)

Financial risk (continued)

	<u>2013</u> <u>SR'000</u>	<u>2012</u> <u>SR'000</u>
Insurance Operations		
Cash at bank	34,781	19,817
Contribution receivable from a related party	463	184
Due from employees	6	6
Accrued income	436	326
	<u>35,686</u>	<u>20,333</u>
Shareholders' Operations		
Cash in hand and at banks	200	65
Other receivables	222	105
	<u>422</u>	<u>170</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 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.

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	To be announced
IFRS 10	Amendment to IFRS 10 - Consolidated Financial Statements – Investment entities	1 January 2014
IFRS 12	Amendment to IFRS 12 - Disclosure of Interest in Other Parties – Investment entities	1 January 2014
IAS 27	Amendment to IAS 27 - Separate Financial Statements – Investment entities	1 January 2014
IAS 32	Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities	1 January 2014
IAS 36	Amendment to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014

23 RECLASSIFICATION

Comparative figures for certain account heads 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 20 February 2014, corresponding to 20 Rabi Al-Thani 1435H.