
**AL AHLI TAKAFUL COMPANY
(A SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS
AND INDEPENDENT JOINT AUDITORS' REPORT
31 DECEMBER 2012**

AL AHLI TAKAFUL COMPANY
(A SAUDI JOINT STOCK COMPANY)

FINANCIAL STATEMENTS
31 DECEMBER 2012

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**INDEPENDENT JOINT AUDITORS' REPORT
TO THE SHAREHOLDERS OF AL AHLI TAKAFUL COMPANY
(A SAUDI JOINT STOCK COMPANY)****SCOPE OF AUDIT:**

We have audited the accompanying statement of financial position of Al Ahli Takaful Company – A Saudi Joint Stock Company ('the Company') as at 31 December 2012 and the related statements of insurance operations and accumulated surplus, shareholders' operations, shareholders' comprehensive income, statement of changes in shareholders' equity, insurance operations' cash flows and shareholders' cash flows for the year then ended and the attached notes 1 to 23 which form an integral part of the 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 and the provisions of Article 123 of the Regulations for Companies 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 2012 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-law with respect to the preparation and presentation of the financial statements.

EMPHASIS OF A MATTER:

We draw attention to the fact that these financial statements are prepared in accordance with International Financial Reporting Standards and not in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia.

for Ernst & Young

Ahmed I. Reda
Certified Public Accountant
Registration No. 356

for KPMG Al Fozan & Al Sadhan

Ebrahim Oboud Baeshen
Certified Public Accountant
Registration No. 3829 Rabi Thani 1434 H
19 February 2013

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 SR'000	2011 SR'000
INSURANCE OPERATIONS' ASSETS			
Cash and cash equivalents	4	19,817	28,580
Trading investments held to cover unit-linked liabilities	5	479,814	344,972
Due from Shareholders' Operations		-	317
Gross contribution receivable from a related party	19	184	959
Allowances for doubtful receivables		-	(240)
Net contribution receivable		184	719
Accrued income		326	-
Prepayments and other receivables	6	332	-
Reinsurance share of unearned contribution		-	698
Reinsurance share of outstanding claims		-	536
Furniture, fittings and office equipment	7	1,896	-
Total Insurance Operations' assets		502,369	375,822
SHAREHOLDERS' ASSETS			
Cash and cash equivalents	4	65	82,868
Trading investments	5	122,943	50,370
Due from a related party	19	-	200
Due from Insurance Operations		2,318	-
Prepayments and other receivables	6	217	119
Furniture, fittings and office equipment	7	-	3,656
Statutory deposit	12	16,667	10,000
Total Shareholders' assets		142,210	147,213
TOTAL ASSETS		644,579	523,035


Director


Chief Executive Officer


Chief Financial Officer

The accompanying notes 1 to 23 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 2012

	Notes	2012 SR'000	2011 SR'000
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS			
Insurance Operations' liabilities			
Technical reserve for Insurance Operations	17	485,169	355,909
Unearned contribution – gross		-	780
Outstanding claims – gross		-	596
Reinsurance balances payable		5,332	9,858
Deferred commission revenue – group and credit life		-	179
Due to related parties	19	1,879	680
Due to Shareholders' Operations		2,318	-
Contributions received in advance		570	1,548
Accruals and other payables	8	5,866	5,250
Employees' end of service benefits		700	-
Total Insurance Operations' liabilities		501,834	374,800
Insurance Operations' surplus			
Surplus from Insurance Operations		535	1,022
Total Insurance Operations' liabilities and surplus		502,369	375,822
SHAREHOLDERS' LIABILITIES AND EQUITY			
Shareholders' liabilities			
Accruals and other payables	8	1,578	6,672
Due to Insurance Operations		-	317
Accrued Zakat and tax	9	6,268	4,008
Employees' end of service benefits		-	623
Total shareholders' liabilities		7,846	11,620
Shareholders' equity			
Share capital	10	166,667	100,000
Increase in share capital	10	-	66,667
Statutory reserve	11	7,874	7,874
Accumulated losses		(40,177)	(38,948)
Total shareholders' equity		134,364	135,593
Total shareholders' liabilities and equity		142,210	147,213
TOTAL INSURANCE OPERATIONS' LIABILITIES, SURPLUS, SHAREHOLDERS' LIABILITIES AND EQUITY		644,579	523,035


Director


Chief Financial Officer


Chief Executive Officer

The accompanying notes 1 to 23 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 2012

	Notes	<u>2012</u> SR'000	<u>2011</u> SR'000
INSURANCE REVENUE			
Gross contributions		153,498	188,113
Investible contribution, net	17 (b)	(112,705)	(142,925)
Net insurance contributions		40,793	45,188
Reinsurance ceded		(12,049)	(8,429)
Net insurance revenue		28,744	36,759
CLAIMS AND EXPENSES			
Gross claims paid		(6,937)	(2,423)
Reinsurance share of claims paid		6,257	2,181
Net claims paid		(680)	(242)
Change in net outstanding claims provision	13	(104)	(109)
Net claims incurred		(784)	(351)
Acquisition fee paid to the Distributing Shareholder		(2,746)	(8,408)
Entrance fee paid to the Technical and Distributing Shareholders		(2,814)	(7,309)
Administration fee paid to the Distributing Shareholder		(9,932)	(10,827)
Acquisition and administration fee paid to shareholders' operations		-	(7,506)
Supervision and inspection fee		(1,200)	(1,309)
Other direct underwriting expenses		(286)	(313)
Management fee - Wakala fee		-	(181)
Total claims and expenses		(17,762)	(36,204)
Underwriting surplus for the year		10,982	555
Investment fund fee		3,229	-
General and administration expenses	14	(11,727)	(240)
Surplus for the year from Insurance Operations		2,484	315
Shareholders' share of surplus from Insurance Operations		(2,236)	-
Policyholders' share of surplus for the year		248	315
Accumulated policyholders' surplus at the beginning of the year		1,022	707
Policyholders' surplus distributed during the year		(735)	-
ACCUMULATED POLICYHOLDERS' SURPLUS AT THE END OF THE YEAR		535	1,022


Director


Chief Financial Officer


Chief Executive Officer

The accompanying notes 1 to 23 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 2012

	Notes	<u>2012</u> <u>SR'000</u>	<u>2011</u> <u>SR'000</u>
Shareholders' share of surplus from Insurance Operations		2,236	-
Share of acquisition and administration fee from Insurance Operations		-	7,506
Unrealised loss on investment	5	1,759	(696)
Realised gain/(loss) on investment	5	34	(44)
Investment fund fee		-	2,170
Management fee		-	181
Total income		4,029	9,117
General and administration expenses	14	(2,998)	(14,014)
NET INCOME/(LOSS) FOR THE YEAR		1,031	(4,897)
Weighted average number of ordinary shares outstanding (in thousands)		15,391	10,000
Net income/(loss) per share for the year (SR)	21	0.07	(0.49)


Director


Chief Financial Officer



Chief Executive Officer

The accompanying notes 1 to 23 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 2012

	<u>2012</u> <u>SR'000</u>	<u>2011</u> <u>SR'000</u>
NET INCOME / (LOSS) FOR THE YEAR	1,031	(4,897)
OTHER COMPREHENSIVE INCOME/(EXPENSE)	-	-
Zakat and income tax for the year (note 9)	(2,260)	(882)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>(1,229)</u>	<u>(5,779)</u>


Director
Chief Financial Officer
Chief Executive Officer

The accompanying notes 1 to 23 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 2012

	<u>Share capital</u> SR '000	<u>Increase in share capital</u> SR '000	<u>Share premium</u> SR '000	<u>Statutory reserve</u> SR '000	<u>Accumulated losses</u> SR '000	<u>Total</u> SR '000
Balance as at 31 December 2010	100,000	-	-	-	(33,169)	66,831
New shares (note 10.2)	-	66,667	13,333	-	-	80,000
Transaction costs (note 10.2)	-	-	(5,459)	-	-	(5,459)
Net loss for the year	-	-	-	-	(4,897)	(4,897)
Zakat for the year (note 9)	-	-	-	-	(882)	(882)
Transfer of share premium to statutory reserve (note 10.2)	-	-	(7,874)	7,874	-	-
Balance at 31 December 2011	100,000	66,667	-	7,874	(38,948)	135,593
Transfer to share capital (note 10.3)	66,667	(66,667)	-	-	-	-
Net income for the year	-	-	-	-	1,031	1,031
Zakat for the year (note 9)	-	-	-	-	(2,260)	(2,260)
Balance at 31 December 2012	166,667	-	-	7,874	(40,177)	134,364


Director

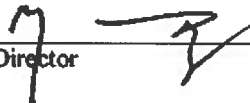

Chief Executive Officer



Chief Financial Officer

The accompanying notes 1 to 23 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 2012

	Notes	2012 SR'000	2011 SR'000
OPERATING ACTIVITIES			
Policyholders' share of surplus for the year		248	315
Adjustment for the year:			
Depreciation	7	1,812	-
Employees' end of service benefits, net		77	-
Unrealised (gain)/loss on trading investments held to cover unit-linked liabilities	5	(10,941)	16,154
Reinsurance share of unearned contribution		698	(698)
Unearned contribution – gross		(780)	780
Deferred commission revenue – group and credit life		(179)	179
		<u>(9,065)</u>	<u>16,730</u>
Changes in operating assets and liabilities:			
Trading investments held to cover unit-linked liabilities	5	(123,901)	(133,077)
Due to/from Shareholders' Operations		1,541	17
Net contribution receivable		535	(719)
Accrued income		(126)	-
Prepayments and other receivables		(229)	-
Reinsurance share of outstanding claims		536	(426)
Technical reserve for Insurance Operations		129,260	126,692
Outstanding claims – gross		(596)	474
Reinsurance balances payable		(4,526)	5,724
Due to related parties		1,186	398
Contributions received in advance		(978)	(399)
Accruals and other payables		(1,613)	2,648
		<u>(7,976)</u>	<u>18,062</u>
Net cash (used in)/from operating activities			
INVESTING ACTIVITY			
Purchase of furniture, fittings and office equipment	7	(52)	-
FINANCING ACTIVITY			
Surplus distributed		(735)	-
Net (decrease)/increase in cash and cash equivalents		<u>(8,763)</u>	<u>18,062</u>
Cash and cash equivalents at the beginning of the year		28,580	10,518
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4	<u><u>19,817</u></u>	<u><u>28,580</u></u>


Director


Chief Financial Officer


Chief Executive Officer

The accompanying notes 1 to 23 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 2012

	Notes	<u>2012</u> SR'000	<u>2011</u> SR'000
OPERATING ACTIVITIES			
Net income/(loss) for the year		1,031	(4,897)
Adjustments for the year:			
Depreciation	7	-	1,782
Employees' end of service benefits, net		-	(10)
Realised (gain)/loss on trading investments	5	(34)	44
Unrealised (gain)/loss on trading investments	5	(1,759)	696
		(762)	(2,385)
Changes in operating assets and liabilities:			
Due from a related party		-	(200)
Prepayments and other receivables		(201)	1,710
Due from/to Insurance Operations		(1,541)	(17)
Accruals and other payables		(2,852)	1,518
Net cash (used in)/from operating activities		(5,356)	626
INVESTING ACTIVITIES			
Purchase of furniture, fittings and office equipment	7	-	(365)
Purchase of trading investments	5	(77,447)	-
Redemption of trading investments	5	6,667	7,000
Increase in statutory deposit	12	(6,667)	-
Net cash (used in)/from investing activities		(77,447)	6,635
FINANCING ACTIVITIES			
Increase in share capital	10.2	-	66,667
Share premium	10.2	-	13,333
Transaction cost	10.2	-	(5,459)
Net cash from financing activities		-	74,541
Net (decrease)/increase in cash and cash equivalents		(82,803)	81,802
Cash and cash equivalents at the beginning of the year		82,868	1,066
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4	<u>65</u>	<u>82,868</u>


Director


Chief Executive Officer


Chief Financial Officer

The accompanying notes 1 to 23 form an integral part of these financial statements.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS

31 December 2012

1 ORGANIZATION AND PRINCIPAL ACTIVITIES

- 1.1** Al Ahli 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.

1.2 *Modification of products terms and conditions*

Prior to 1 January 2012, the Company had been conducting its business under Takaful model. The Company has implemented the cooperative insurance model with effect from 1 January 2012 based on the instructions received from the Saudi Arabian Monetary Agency (“SAMA”).

Consequently, the Company has discontinued paying acquisition, management and administration fee to the shareholders’ operations. Furthermore, the general and administration expenses, which were earlier accounted by shareholders’ operation are now accounted by the insurance operations.

Additionally, the Company has transferred furniture, fittings and office equipment and employees’ end of service benefits, effective 1 January 2012, from shareholders’ operations to insurance operations.

Had the Company continued with the Takaful model, insurance operations’ surplus and shareholders’ equity as at 31 December 2012 would have been lower and shareholders’ comprehensive loss would have been higher by SR 672 thousands.

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, and technical reserve for Insurance Operations.

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.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2012

2 BASIS OF PREPARATION (continued)

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.

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.

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

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price. Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2012

2 BASIS OF PREPARATION (continued)

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

e) *New IFRS, IFRIC and amendments thereof, adopted by the Company*

The Company has adopted the following amendments and revisions to existing standards, which has had no financial impact on the financial statements of the Company.

<i>Standard/ Interpretation</i>	<i>Description</i>
IFRS 1	First-time adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosure for First-time Adopters.
IFRS 1	First-time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters.
IFRS 7	Amendments to IFRS 7 Financial Instruments: Disclosures
IFRIC 14	Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
IAS 1	Amendments to IAS 1 Presentation of items of Other Comprehensive Income
IAS 12	Amendments to Income taxes – Deferred taxes: Recovery of underlying assets
IAS 24	Revision to IAS 24 Related Party Disclosures

f) *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.

<i>Standard/ Interpretation</i>	<i>Description</i>	<i>Effective from periods beginning on or after the following date</i>
IFRS 1	Amendment to IFRS 1 Government Loans	1 January 2013
IFRS 7	Amendment to IFRS 7 Disclosure – Offsetting financial assets and financial liabilities	1 January 2013
IFRS 9	Financial Instruments – Classification & Measurement	1 January 2015
IFRS 10	Consolidated financial statements	1 January 2013
IFRS 11	Joint arrangements: Investments in Associates & Joint ventures	1 January 2013
IFRS 12	Disclosures of interests in other entities	1 January 2013
IFRS 13	Fair value measurement	1 January 2013
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine.	1 January 2013
IAS 19	Revision to IAS 19 Employee benefits	1 January 2013
IAS 27	Separate financial statements	1 January 2013
IAS 28	Investment in associates and joint ventures	1 January 2013
IAS 32	Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities	1 January 2014

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2012

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 2011 are set out below:

Cash and cash equivalents

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

Contributions receivable

Contributions receivable are stated at gross contributions from insurance contract less an allowance for any uncollectible amounts. 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. 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 invested as per the Saudi Arabian Monetary Agency's guidelines. Investments are priced using mark-to-market method where the portfolio reflects its net asset value (NAV) rather than its book value. This is done on a daily basis at the market close. 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 on an actual basis. 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.

An asset or liability 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.
- (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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

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

The Company bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of 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.

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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of lifetime 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.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2012

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Acquisition and administration fees

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

Entrance fee

Entrance fee 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 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.

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.

4 CASH AND CASH EQUIVALENTS

	<u>2012</u> <u>SR'000</u>	<u>2011</u> <u>SR'000</u>
<i>Insurance Operations</i>		
Cash in hand	5	-
Cash at bank	19,812	28,580
	<u>19,817</u>	<u>28,580</u>
<i>Shareholders' Operations</i>		
Cash in hand	-	5
Cash at banks (Note 4.1)	65	82,863
	<u>65</u>	<u>82,868</u>

- 4.1 Cash at banks as at 31 December 2011 included an amount of SR 79,922 thousands, which represented proceeds from rights issue (note 10.2), which were held by a bank in an escrow account, for and on behalf of the Company. The amount has been credited to the Company's bank account on completion of the legal procedures to reflect the increase in share capital, during the year ended 31 December 2012.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2012

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>2012</u> SR'000	<u>2011</u> SR'000
Al Manarah Conservative Growth Strategy	293,389	213,415
Al Manarah Medium Growth Strategy	110,493	78,424
Al Manarah High Growth Strategy	75,932	53,133
	<u>479,814</u>	<u>344,972</u>

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

	<u>2012</u> SR'000	<u>2011</u> SR'000
Balance at the beginning of the year	344,972	228,049
Purchased during the year	123,901	133,077
Unrealized gain/(loss) during the year	10,941	(16,154)
Balance at the end of the year	<u>479,814</u>	<u>344,972</u>

Shareholders' Operations

Trading investments of Shareholders' Operations represent investments in a discretionary portfolio, invested as per the Saudi Arabian Monetary Agency's guidelines managed by a subsidiary of the Company's major shareholder.

At the end of the year, trading investments comprise:

	<u>2012</u> SR'000	<u>2011</u> SR'000
Al Ahli International Trade fund	5,966	-
Al Ahli Saudi Trading Equity Fund	1,169	566
Al Ahli Emerging Markets Trading Equity Fund	638	278
Al Ahli Global Trading Equity Fund	2,520	2,464
Al Ahli Asia Pacific Trading Equity Fund	658	361
Al Ahli Healthcare Trading Equity Fund	1,242	590
Al Ahli US Trading Equity Fund	1,277	1,098
Al Ahli Saudi Riyals Trade Fund	11,094	2,010
Murabaha investments	82,856	36,525
Saudi Airlines Catering Company	964	-
Investments in Sukuk	14,335	6,319
Cash with Portfolio Manager	224	159
	<u>122,943</u>	<u>50,370</u>

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

	<u>2012</u> SR'000	<u>2011</u> SR'000
Balance at the beginning of the year	50,370	58,110
Purchased during the year	77,447	-
Redemptions during the year	(6,667)	(7,000)
Realized gain/(loss) on redemption	34	(44)
Unrealized gain/(loss) during the year	1,759	(696)
Balance at the end of the year	<u>122,943</u>	<u>50,370</u>

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2012

6 PREPAYMENTS AND OTHER RECEIVABLES

	<u>2012</u> SR'000	<u>2011</u> SR'000
<i>Insurance Operations</i>		
Prepaid rent	66	-
Advance to suppliers	260	-
Due from employees	6	-
	<u>332</u>	<u>-</u>

	<u>2012</u> SR'000	<u>2011</u> SR'000
<i>Shareholders' Operations</i>		
Advance to suppliers	112	100
Due from employees	-	3
Other receivables	105	16
	<u>217</u>	<u>119</u>

7 FURNITURE, FITTINGS AND OFFICE EQUIPMENT

Insurance Operations

	<i>Furniture and fittings</i> SR'000	<i>Computer and office equipment</i> SR'000	<i>Total</i> SR'000
Cost:			
At 1 January 2011	1,854	5,850	7,704
Additions	25	340	365
	<u>1,879</u>	<u>6,190</u>	<u>8,069</u>
At 31 December 2011	1,879	6,190	8,069
Additions	-	52	52
	<u>1,879</u>	<u>6,242</u>	<u>8,121</u>
At 31 December 2012			
Accumulated depreciation:			
At 1 January 2011	493	2,138	2,631
Charge for the year (note 14)	317	1,465	1,782
	<u>810</u>	<u>3,603</u>	<u>4,413</u>
At 31 December 2011	810	3,603	4,413
Charge for the year (note 14)	19	1,793	1,812
	<u>829</u>	<u>5,396</u>	<u>6,225</u>
At 31 December 2012			
Carrying amount:			
At 31 December 2012	<u>1,050</u>	<u>846</u>	<u>1,896</u>
At 31 December 2011 (Shareholders' Operations. See note 1.2)	<u>1,069</u>	<u>2,587</u>	<u>3,656</u>

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2012

8 ACCRUALS AND OTHER PAYABLES

	<u>2012</u> <u>SR'000</u>	<u>2011</u> <u>SR'000</u>
<i>Insurance Operations</i>		
Underwriting expenses payable	278	581
Policies surrendered payable	3,080	3,967
Supervision and inspection fee payable	1,029	702
Accrued expenses and other payables	1,479	-
	<u>5,866</u>	<u>5,250</u>
<i>Shareholders' Operations</i>		
Accrued expenses	234	3,345
Remuneration and other expenses payable to Board members (note 16)	872	1,164
Other payables	472	2,163
	<u>1,578</u>	<u>6,672</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>2012</u> <u>SR'000</u>	<u>2011</u> <u>SR'000</u>
Equity	127,719	66,831
Opening provisions and other adjustments	862	633
Book value of long term assets	(142,326)	(64,592)
	<u>(13,745)</u>	<u>2,872</u>
Zakatable profit / (loss) for the year	<u>1,931</u>	<u>(4,025)</u>
Attributable to Saudi shareholders @ 66.25%	<u>1,279</u>	<u>(2,667)</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 provision for the year is as follows:

	<u>2012</u> <u>SR'000</u>	<u>2011</u> <u>SR'000</u>
Balance at the beginning of the year	4,008	3,126
Charge for the year	2,260	882
Balance at the end of the year	<u>6,268</u>	<u>4,008</u>

INCOME TAX

As the Company has incurred taxable losses during the year ended 31 December 2012 (2011: loss), no income tax is payable by the Company.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2012

9 ZAKAT AND INCOME TAX (continued)

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 2011.

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 3,997,397. The Company filed an appeal against additional Zakat of SR 3,920,831 and paid additional Withholding tax of SR 76,566 and a delay penalty of SR 26,093 under protest, and is confident of a favourable outcome.

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 and 31 December 2011 disallowing investments from the Zakat base with additional Zakat liability of SR 1,050,759 and SR 999,879 respectively. The Company filed an appeal against the initial assessments and is confident of a favourable outcome.

10 SHARE CAPITAL

10.1 The initial authorised and issued share capital of the Company is SR 100 million divided into 10 million ordinary shares of SR 10 each. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

10.2 On 15 February 2011, the Board of Directors of the Company recommended a rights issue of SR 80 million to increase the share capital, which was approved by Saudi Arabian Monetary Agency (SAMA) on 21 May 2011 and by Capital Market Authority on 14 August 2011.

In the extra-ordinary general meeting held on 19 November 2011, the shareholders approved rights issue of SR 80 million. As approved by the regulators, 6,666,667 ordinary shares were offered at an exercise price of SR 12 (SR 10 par value plus SR 2 premium), the subscription period for which started on 26 November 2011 and ended on 4 December 2011. As the legal formalities to increase the share capital of the Company were not completed by 31 December 2011, the proceeds from rights issue were classified as increase in share capital and share premium, amounting to SR 66,667 thousands and SR 13,333 thousands respectively. Subsequently, after adjusting the cost to raise equity of SR 5,459 thousands, the net balance in the share premium account, amounting to SR 7,874 thousands, was transferred to statutory reserve as required by Article 98 of Regulations for Companies.

10.3 As the legal formalities have been completed during the year ended 31 December 2012, the increase in share capital amounting to SR 66,667 thousands has been classified as share capital.

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. However, as required by Article 98 of the Regulations for Companies, balance in the share premium account, amounting to SR 7,874 thousands as at 31 December 2011, was transferred to statutory reserve (see notes 10.2).

12 STATUTORY DEPOSIT

	<u>2012</u> SR'000	<u>2011</u> SR'000
<i>Shareholders' Operations</i>		
Statutory deposit	<u>16,667</u>	<u>10,000</u>

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 2011: SR 10,000 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.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2012

13 CHANGE IN NET OUTSTANDING CLAIMS PROVISION

	<u>2012</u> <u>SR'000</u>	<u>2011</u> <u>SR'000</u>
Change in outstanding claims – Gross	(596)	474
Change in outstanding claims – Reinsurance	536	(426)
Change in Incurred But Not Reported claims (IBNR)	164	61
	<u>104</u>	<u>109</u>

14 GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2012</u> <u>SR'000</u>	<u>2011</u> <u>SR'000</u>
<i>Insurance Operations (see note 1.2)</i>		
Employee costs	8,244	-
Office rent	706	-
Repairs and maintenance	212	-
Depreciation (note 7)	1,812	-
Information Technology expenses	662	-
Communication expense	136	-
Reversal of (addition to) allowance for doubtful receivables	(240)	240
Others	195	-
	<u>11,727</u>	<u>240</u>
<i>Shareholders' Operations</i>		
Employee costs	-	7,576
Regulatory fees	387	295
Legal and professional fees	1,654	1,129
Office rent	-	791
Board expenses (see note 16)	894	1,279
Depreciation (note 7)	-	1,782
Information Technology expenses	-	395
Others	63	767
	<u>2,998</u>	<u>14,014</u>

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2012

15 FAIR VALUES OF FINANCIAL INSTRUMENTS

- a) Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction.

The Company's financial assets consist of cash in hand and at banks, trading investments and contribution receivable and its financial liabilities consist of outstanding claims, reinsurance balances payable, amount due to a related party and other payables. The fair values of financial instruments are not materially different from their carrying values. As at 31 December 2012, 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 2012 and 2011, all financial instruments which are fair valued are Level 2 instruments.

16 BOARD OF DIRECTORS' REMUNERATION AND RELATED EXPENSES

	<u>2012</u> SR'000	<u>2011</u> SR'000
<i>Shareholders' Operations</i>		
Board remuneration	797	1,185
Board attendance fees	74	90
Board accommodation and travel	23	4
	<u>894</u>	<u>1,279</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 2011 (see note 8) were paid during 2012 after obtaining the approval in the Annual General Meeting held on 21 April 2012.

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>2012</u> SR'000	<u>2011</u> SR'000
Technical reserve relating to the Participant Investment Strategies (unit liability)	483,871	354,585
Allowance for the retained risk	953	1,143
Incurred But Not Reported (IBNR) reserves	345	181
	<u>485,169</u>	<u>355,909</u>

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2012

17 TECHNICAL RESERVE FOR INSURANCE OPERATIONS (continued)

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

	<u>2012</u> <u>SR'000</u>	<u>2011</u> <u>SR'000</u>
Balance as at the beginning of the year	355,909	229,217
Change in reserve	164	182
Unrealized gain/(loss) on investment	10,941	(16,154)
Change in net investible contribution	112,705	142,804
Surplus distribution (Note 17.1)	5,566	-
Surplus payable for prior year	(116)	(140)
	<hr/>	<hr/>
Balance as at the end of the year	485,169	355,909
	<hr/>	<hr/>

17.1 The amount mainly represents distribution of profit share received from the reinsurers for the year ended 31 December 2010 and 31 December 2011. The Company has obtained approval from SAMA during 2012 and distributed this amount to the policyholders in the form of additional units in the trading investments held to cover unit-linked liabilities.

18 OPERATING SEGMENT INFORMATION

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 2012

18 OPERATING SEGMENT INFORMATION (continued)

	<i>31 December 2012</i>			
	<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	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 Distributing Shareholder	(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				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 2012

18 OPERATING SEGMENT INFORMATION (continued)

	<i>31 December 2011</i>			
	<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	183,482	3,672	959	188,113
Investible contribution, net	(142,804)	(121)	-	(142,925)
Net insurance contributions	40,678	3,551	959	45,188
Reinsurance ceded	(5,102)	(2,629)	(698)	(8,429)
Net insurance revenue	35,576	922	261	36,759
CLAIMS AND EXPENSES				
Gross claims paid	(1,103)	(1,320)	-	(2,423)
Reinsurance share of claims paid	993	1,188	-	2,181
Net claims paid	(110)	(132)	-	(242)
Change in net outstanding claims provision	(109)	-	-	(109)
Net claims incurred	(219)	(132)	-	(351)
Acquisition fee paid to the distributing shareholders	(8,408)	-	-	(8,408)
Entrance fee paid to the technical and distributing shareholders	(7,309)	-	-	(7,309)
Administration fee paid to the distributing shareholder	(10,827)	-	-	(10,827)
Acquisition and administration fee paid to shareholders' operations	(7,506)	-	-	(7,506)
Supervision and inspection fee	(1,309)	-	-	(1,309)
Other direct underwriting expenses	(313)	-	-	(313)
Management fee - Wakala fee	(181)	-	-	(181)
Total claims and expenses	(36,072)	(132)	-	(36,204)
Underwriting surplus for the year				555
General and administration expenses				(240)
Surplus for the year from Insurance Operations				315

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2012

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
Gross contribution receivable from related party	184	-	-	184
Allowances for doubtful receivables	-	-	-	-
Net contribution receivable	184	-	-	184
Accrued income	326	-	-	326
Prepayments and other receivables	-	-	332	332
Reinsurance share of unearned contribution	-	-	-	-
Reinsurance share of outstanding claims	-	-	-	-
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

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2012

18 OPERATING SEGMENT INFORMATION (continued)

	<i>As at 31 December 2011</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	25,478	2,409	693	28,580
Trading investments held to cover unit-linked liabilities	344,972	-	-	344,972
Due from shareholders' operations	335	(12)	(6)	317
Gross contribution receivable from a related party	-	-	959	959
Allowance for doubtful receivables	-	-	(240)	(240)
Net Contribution receivable	-	-	719	719
Reinsurance share of unearned contribution	-	-	698	698
Reinsurance share of outstanding claims	536	-	-	536
Total Insurance Operations' assets	371,321	2,397	2,104	375,822
INSURANCE OPERATIONS' LIABILITIES AND SURPLUS				
Technical reserve for Insurance Operations	355,727	116	66	355,909
Unearned contribution – gross	-	-	780	780
Outstanding claims – gross	596	-	-	596
Reinsurance balances payable	6,399	2,140	1,319	9,858
Deferred commission revenue – group and credit life	-	-	179	179
Due to related parties	540	140	-	680
Contributions received in advance	1,548	-	-	1,548
Accruals and other payables	5,249	1	-	5,250
Total Insurance Operations' liabilities				374,800
Surplus from Insurance Fund				1,022
Total Insurance Operations' liabilities and surplus				375,822

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2012

19 RELATED PARTY TRANSACTIONS AND BALANCES

The following are the details of major related party transactions during the years ended 31 December 2012 and 2011:

Related party	Nature of transactions	Amount of transactions	
		<u>2012</u> SR'000	<u>2011</u> SR'000
Insurance Operations			
Shareholder	Gross Group contribution	14,139	5,590
Shareholder	Acquisition fee paid for distributing the products	2,746	8,408
Shareholders	Entrance fee	2,814	7,309
Shareholders	Administration fee	9,932	10,827
Shareholder	Investment fund fee	3,229	-
Key management personnel	Short term benefits	4,259	3,695
	End of service benefits	864	145
Shareholders' Operations			
Shareholder	Investment fund fee	-	2,170

Gross contribution receivable from a related party and amount due from and due to related parties are shown in the Statement of Financial Position.

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 thereof 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.

20 RISK MANAGEMENT (continued)

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.

Geographical concentration of risks

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

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.

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.

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.

In order for the Company to be in compliance with SAMA imposed capital requirements, the Company increased its share capital through rights issue during the previous year 2011 (see note 10).

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, other payables and employees' end of service benefits.

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:

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 December 2012

20 RISK MANAGEMENT (continued)

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 commodities purchased in the international markets and unit price of the fund is dependent on the movements in the market prices of these commodities. The fund manager limits market risk by monitoring the developments in the international commodity markets.

A 5% change in the net asset value of the funds, with all other variables held constant, would impact the Insurance Operations and Shareholders' Operations by SR 23,991 thousands (2011: SR 17,249 thousands) and SR 6,147 thousands (2011: SR 3,019 thousands) 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.

For all classes of financial instruments held by the Shareholders' Operations and Insurance Operations, the maximum credit risk exposure is the carrying value as disclosed in the statement of financial position. The Company's credit risk exposure relating to customers and deposits is concentrated in Saudi Arabia. The policies and procedures of Insurance Operations and Shareholders' Operations maintain the exposures within limits. These limits have been set on the basis of the types of exposures and the credit rating of the counter party. The Company seeks to limit its credit risk with respect to other counterparties by placing deposits with reputable bank. The Company enters into Reinsurance contracts with recognised, creditworthy parties (rated at least BBB or above).

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

	<u>2012</u> <u>SR'000</u>	<u>2011</u> <u>SR'000</u>
<i>Insurance Operations</i>		
Cash at bank	19,817	28,580
Net contribution receivable	184	719
Reinsurance companies' share of outstanding claims	-	536
Accrued income	326	-
	<u>20,327</u>	<u>29,835</u>
<i>Shareholders' Operations</i>		
Cash in hand and at banks	65	82,868
Due from insurance operations	2,318	-
Due from a related party	-	200
	<u>2,383</u>	<u>83,068</u>

20 RISK MANAGEMENT (continued)

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 NET INCOME/(LOSS) PER SHARE

Net income/(loss) per share for the year ended 31 December 2012 (2011: net loss per share) has been calculated by dividing the net income/(loss) 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 COMPARATIVE FIGURES

Certain of the prior year amounts have been reclassified to conform with presentation in the current year.

23 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved by the Board of Directors on 19 February 2013, corresponding to 9 Rabi al thani 1434 H.