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

**FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2008**

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

**FINANCIAL STATEMENTS
FOR THE PERIOD FROM 8 JULY 2007 TO 31 DECEMBER 2008**

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

We have audited the accompanying balance sheet of Al Ahli Takaful Company – A Saudi Joint Stock Company ('the Company') as at 31 December 2008, and the related statements of Takaful Operations and accumulated surplus, Shareholders' Operations, Takaful Operations' cash flows, Shareholders' cash flows and changes in Shareholders' equity for period from 8 July 2007 to 31 December 2008 and the notes 1 to 19 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 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. Except for the matter explained in the following paragraph, 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.

QUALIFICATION:

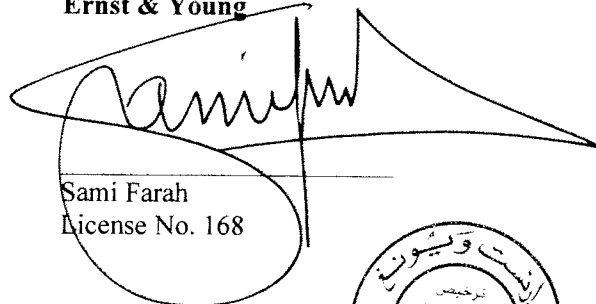
As described in note 2, management have prepared these financial statements in accordance with International Financial Reporting Standards and not in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. Based on evidence and information available to us, we have been unable to conclude whether the basis to be used in the preparation of these financial statements should be International Financial Reporting Standards or accounting standards generally accepted in the Kingdom of Saudi Arabia.

QUALIFIED OPINION:

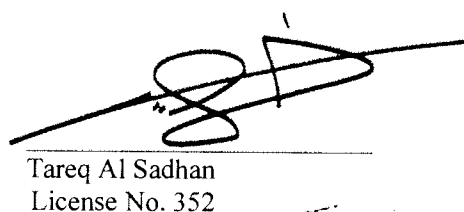
In our opinion, subject to the matter described above, the financial statements taken as a whole:

1. Present fairly, in all material respects, the financial position of the Company as of 31 December 2008 and the results of its operations and its cash flows for the period from 8 July 2007 to 31 December 2008 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.

Ernst & Young


Sami Farah
License No. 168

KPMG Al Fozan & Al Sadhan

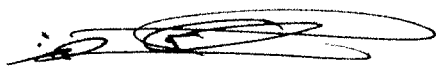

Tareq Al Sadhan
License No. 35224 Safar 1430 H
19 February 2009

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

BALANCE SHEET

As at 31 December 2008

	Note	2008 SR'000
TAKAFUL OPERATIONS' ASSETS		
Cash and cash equivalents	4	2,498
Trading investments held to cover unit-linked liabilities	5	1,849
Due from policyholders – Cooling off period		526
Total Takaful Operations' assets		4,873
SHAREHOLDERS' ASSETS		
Cash and cash equivalents	4	2,833
Trading investments	5	69,304
Prepayments	6	1,062
Due from Takaful Operations		821
Due from employees		11
Furniture, fittings and office equipment	7	5,926
Statutory deposit	12	10,000
Total Shareholders' assets		89,957
TOTAL ASSETS		94,830



Director



General Manager



Chief Financial Officer


The accompanying notes 1 to 19 form part of these financial statements.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

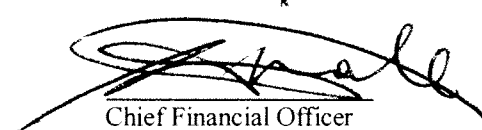
BALANCE SHEET

As at 31 December 2008

	Note	2008 SR'000
TAKAFUL OPERATIONS' LIABILITIES AND SURPLUS		
Takaful Operations' liabilities		
Reserve for Takaful Operations (Technical provision)	16	2,029
Retakaful balances payable		192
Due to a related party	17	798
Due to policyholders' – Cooling off period		1,123
Accruals and other payables	8	18
Due to Shareholders' Operations		821
Total Takaful Operations' liabilities		4,981
Takaful Operations' surplus/ (deficit)		
Deficit from Takaful Operations (Participant Takaful Solidarity Fund)		(108)
Total Takaful Operations' liabilities and deficit		4,873
SHAREHOLDERS' LIABILITIES AND EQUITY		
Shareholders' Liabilities		
Accruals and other payables	8	5,630
Accrued Zakat	9	1,055
Employees termination benefits		149
Total shareholders' liabilities		6,834
Shareholders equity		
Share capital	10	100,000
Accumulated losses		(16,877)
Total shareholders' equity		83,123
Total shareholders' liabilities and equity		89,957
TOTAL LIABILITIES, TAKAFUL OPERATIONS' DEFICIT AND SHAREHOLDERS' EQUITY		94,830



Director



Chief Financial Officer



General Manager


The accompanying notes 1 to 19 form part of these financial statements.

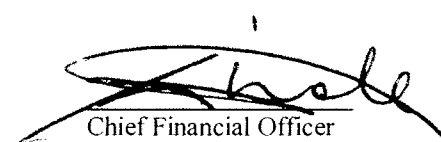
ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

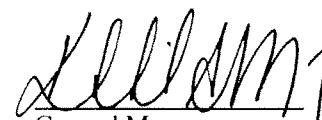
STATEMENT OF TAKAFUL OPERATIONS AND ACCUMULATED SURPLUS

For the period from 8 July 2007 to 31 December 2008

		<i>For the period from 8 July 2007 to 31 December 2008</i>
	<i>Note</i>	<i>SR'000</i>
REVENUE		
Gross takaful contributions		6,447
Less:		
Acquisition fee		(3,013)
Entrance fee		(905)
Administration fee		(244)
Investible contribution, net		(2,051)
Net takaful contributions received		234
Retakaful		(192)
Net takaful contributions retained		42
BENEFITS AND EXPENSES		
Benefits incurred		(5)
General and administrative expenses		(17)
Total benefits and expenses		(22)
Surplus from the Takaful Operations		20
Participants' unrealized loss from Al Murabaha Fund Investment	5	(128)
Net deficit for the period from the Takaful Operations		(108)
<u>ACCUMULATED SURPLUS/ (DEFICIT)</u>		
<u>(PARTICIPANT TAKAFUL SOLIDARITY FUND)</u>		
Surplus from the Takaful Operations		20
Participants' unrealized loss from Al Murabaha Fund Investment		(128)
BALANCE AT THE END OF THE PERIOD		(108)


Director


Chief Financial Officer


General Manager


The accompanying notes 1 to 19 form part of these financial statements.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY


STATEMENT OF SHAREHOLDERS' OPERATIONS

For the period from 8 July 2007 to 31 December 2008

		<i>For the period from 8 July 2007 to 31 December 2008 SR'000</i>
	<i>Note</i>	
INCOME FROM TAKAFUL OPERATIONS (WAKALA FEES):		
Acquisition fee		3,013
Entrance fee		905
Administration fee		244
Management fee		3
Investment fund fee		1
Total income		<u>4,166</u>
EXPENSES		
General and administrative expenses	13	(12,318)
Acquisition fee shared with the distributing shareholder		(2,260)
Entrance fee shared with the technical and distributing shareholders		(905)
Administration fee shared with the distributing shareholder		(180)
Pre-incorporation expenses written off	14	(2,610)
Total expenses		<u>(18,273)</u>
Net loss from Takaful Operations		(14,107)
Income from trading investments:		
Realized gain on trading investments	5	466
Unrealized gain from trading investments	5	1,627
Other income		12
NET LOSS FOR THE PERIOD		<u><u>(12,002)</u></u>
Weighted average number of ordinary shares outstanding (in thousands)	10	<u>10,000</u>
Net loss per share for the period (Saudi Riyals)		<u><u>(1.20)</u></u>


Director


General Manager


Chief Financial Officer

The accompanying notes 1 to 19 form part of these financial statements.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

STATEMENT OF TAKAFUL OPERATIONS' CASHFLOWS

For the period from 8 July 2007 to 31 December 2008

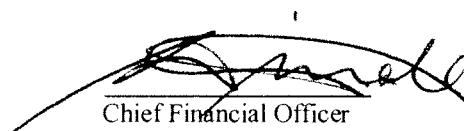
		<i>For the period from 8 July 2007 to 31 December 2008 SR'000</i>
	<i>Note</i>	
Cash flows from operating activities:		
Net deficit for the period from the Takaful Operations		(108)
Adjustment for:		
Participants' unrealized loss from Al Murabaha Fund Investment	5	128
		<u>20</u>
Changes in operating assets and liabilities:		
Trading investments held to cover unit-linked liabilities	5	(1,977)
Reserve for takaful activities		2,029
Retakaful balances payable		192
Due to a related party		798
Due to policy holders – cooling off period, net		597
Accrued expenses		18
Due to Shareholders' Operations		821
		<u>2,498</u>
Net cash from operating activities		<u>2,498</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS AND BALANCE AT THE END OF THE PERIOD	4	<u><u>2,498</u></u>



Director



General Manager



Chief Financial Officer

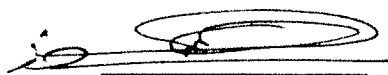
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ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

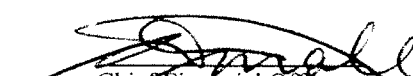
STATEMENT OF SHAREHOLDERS' CASH FLOWS

For the period from 8 July 2007 to 31 December 2008

	<i>For the period from 8 July 2007 to 31 December 2008</i>
	<i>Note</i>
	<i>SR'000</i>
OPERATING ACTIVITIES	
Net loss for the period	(12,002)
Adjustments for:	
Depreciation	355
Employees termination benefits, net	149
Unrealized gain on trading investments (pre-incorporation)	(475)
Unrealized gain on trading investments (post-incorporation)	(1,627)
Realized gain on trading investments	(466)
	<u>(14,066)</u>
Changes in operating assets and liabilities:	
Prepayments	(1,062)
Due from Takaful Operations	(821)
Due from employees	(11)
Accruals and other payables	5,630
	<u>(10,330)</u>
Cash used in operations	(10,330)
Zakat paid	(29)
	<u>(10,359)</u>
INVESTING ACTIVITIES	
Purchase of furniture, fittings and office equipment	(6,281)
Purchase of trading investments	(168,996)
Proceeds from sale of trading investments	102,260
Statutory deposit	(10,000)
	<u>(83,017)</u>
FINANCING ACTIVITIES	
Issue of capital	100,000
Transaction costs	(3,791)
	<u>96,209</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>2,833</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS AND BALANCE AT THE END OF THE PERIOD	<u>4</u> <u>2,833</u>


Director


General Manager


Chief Financial Officer


The accompanying notes 1 to 19 form part of these financial statements.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the period from 8 July 2007 to 31 December 2008

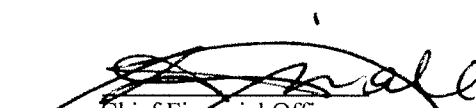
	<i>Note</i>	<i>Share capital SR'000</i>	<i>Accumulated losses SR'000</i>	<i>Total SR'000</i>
Issue of share capital		100,000	-	100,000
Transaction costs		-	(3,791)	(3,791)
Net loss for the period from 8 July 2007 to 31 December 2008		-	(12,002)	(12,002)
Zakat charge	9	-	(1,084)	(1,084)
Balance at 31 December 2008		100,000	(16,877)	83,123



Director



General Manager



Chief Financial Officer

The accompanying notes 1 to 19 form part of these financial statements.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS

31 December 2008

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 Registered Office address of the Company is Khalidiah Unit 1, P. O. Box 2840, Jeddah 23421, Kingdom of Saudi Arabia.

The object 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 market on 18 August 2007. The Company is owned 66.25% by Saudi and 33.75% by non-Saudi shareholders.

2 BASIS OF PREPARATION

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards.

These financial statements are prepared under the historical cost convention modified to include the measurement at fair value of trading investments.

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

As per the Company's by-laws and articles of association, the Company's first fiscal year commenced on the issuance date of the Ministerial Resolution declaring the incorporation of the Company, which was dated 23 Jumad Thani 1428 H (corresponding to 8 July 2007), and ended on 31 December of the following Gregorian year, being 31 December 2008. Accordingly, these financial statements, which are the first set of statutory financial statements of the Company, cover the period from 8 July 2007 to 31 December 2008. As these are the first set of statutory financial statements of the Company, there are no comparative figures in these financial statements.

The Company maintains separate books of account for the Takaful Operations and Shareholders' Operations. Revenues and expenses clearly attributable to either activity are recorded in the respective accounts. The basis of allocation of expenses from joint operations is determined by the management and Board of Directors.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are as follows:

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks including Murabaha deposits with less than three months maturity from the date of original acquisition.

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. The resultant realised and unrealised gains and losses are recognised in the statement of takaful operations and accumulated surplus together with the changes in the provision for unit-linked liabilities. 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 and takaful 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. Depreciation is charged to the statement of shareholders' operations on a straight line basis over the estimated useful lives of the assets.

The carrying values of furniture, fittings and office equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Reserve for Takaful operations (Technical provision)

The provision for investment contract liabilities is calculated on the basis of a prudent 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.

Retakaful

The Company has a modified quota-share Retakaful arrangement under Wakalah model with an independent international reinsurance company based in Germany. The Company only deals with retakaful managers approved by the management, which are rated at least BBB or above by international rating agencies.

An asset or liability is recorded in the Takaful Operations' balance sheet representing contributions due to or payments due from Retakaful Wakeel. Amounts receivable from Retakaful Wakeel is estimated in a manner consistent with the claim liability associated with the insured parties.

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 benefits ('the Takaful Benefits') in the event of death of a participant before the contract maturity date.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Participant Takaful Solidarity Fund (continued)

This mathematical reserve is determined by actuarial valuation of future policy benefits. 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.

In case, the takaful benefits exceed the Takaful Fund at any time, the Company ('the Wakeel') will make a commission free loan (Qard – Hasan) to the Takaful Fund. This commission free loan will be refunded to the Wakeel from the Takaful Fund whenever the Takaful Fund is in a surplus situation.

In situations where Takaful donations paid in to the Takaful Fund exceed Takaful benefit payments, the Wakeel will establish a surplus (profit). This surplus will be used to repay any outstanding amount of the Qard-Hasan to the Wakeel and 100% of the balance of the emerging surplus in the Takaful Fund will be distributed back to participating members, in proportion to their donations in the Takaful Fund.

Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the takaful 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 takaful operations 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 taxes

Zakat is computed on the Saudi shareholders' share of equity or net income using the basis defined under the Zakat regulations. Income taxes are computed on the foreign shareholders' share of net income for the year.

Zakat and income taxes are accrued and charged to the accumulated losses under statement of shareholders equity. Accordingly, amounts reimbursable by the shareholders of such zakat and income tax are credited to accumulated losses.

Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and may be measured reliably. Provisions are not recognised for future operating losses.

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

Fair values of trading investments are based on unit prices quoted by the Fund Manager.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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 balance sheet date. All differences are taken to the statements of takaful operations or shareholders' operations. As the Company's foreign currency transactions are primarily in US dollars, foreign exchange gains and losses are not significant and have not been disclosed separately.

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 takaful operations and accumulated surplus and the remaining element is accounted through the takaful operations' balance sheet as explained below:

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 dependant 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 revenues over the contribution paying period of the related policies.

Investment contracts

Any contracts 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 takaful operations and accumulated surplus, and the investible portion of the contribution collected is shown as a deduction from the surplus for the period from Takaful operations, and transferred to investment contract liabilities (unit linked contracts).

Benefits

Benefits, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, are charged to statement of takaful operations and accumulated surplus as incurred. Benefits comprise the estimated amounts payable, in respect of claims reported to the Company and those not reported at the balance sheet date.

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

The Company does not discount its liability for unpaid benefits.

Acquisition fee and administration fee

Acquisition fee and administrative fee income receivable from the contract holders are recognised as income in the statement of takaful operations and accumulated surplus as per the terms of the takaful contract.

Acquisition fee and Administrative fee are shared with the distributing and technical shareholders and are charged off to expense as and when they are due, as per the terms of the takaful contract.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS

31 December 2008

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Entrance fee

Entrance fee income receivable from the contract holders, are recognised as income and credited to statement of takaful operations and accumulated surplus as and when they are due, as per the terms of the takaful contract. Entrance fee payable by the Company, which are costs directly incurred in securing contributions on takaful certificates, are recognised as incurred and charged off to expense as and when they are due, as per the terms of the takaful contract.

Offsetting

Assets and liabilities are offset and the net amount is reported in the financial statements only when there is legally enforceable right to set-off the recognized amount and the Company intends either to settle on a net basis or realize the assets and settle the liabilities simultaneously.

4 CASH AND CASH EQUIVALENTS

	2008 SR'000
<i>Takaful Operations</i>	
Cash in hand and at banks	2,498
<i>Shareholders' Operations</i>	
Cash in hand and at banks	833
Murabaha Deposits	2,000
	2,833

5 TRADING INVESTMENTS

	2008 SR'000
<i>Takaful Operations</i>	
Al Manarah Conservative Gross Strategy	572
Al Manarah Medium Gross Strategy	592
Al Manarah High Gross Strategy	685
	1,849

Investments comprise of units of a short term Murabaha Funds, denominated in Saudi Riyals, which are managed by a subsidiary of the Company's majority shareholder.

The movement in the trading investments during the period ended 31 December 2008 is as follows:

<i>Takaful Operations</i>	2008 SR'000
Purchased during the period	1,977
Unrealised loss during the period	(128)
Balance at end of the period	1,849

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY**NOTES TO THE FINANCIAL STATEMENTS**

31 December 2008

5 TRADING INVESTMENTS (continued)

<i>Shareholders' Operations</i>	<i>2008 SR'000</i>
Al Ahli Takaful Discretionary Portfolio	<u><u>69,304</u></u>
Purchased during the period	168,996
Redemption during the period	(102,260)
Realised gain on redemption	466
Unrealised gain (pre-incorporation) (see note 14)	475
Unrealised gain during the period	<u>1,627</u>
Balance at end of the period	<u><u>69,304</u></u>

Trading investments relating to shareholders' operations, as at 31 December 2008, represent investments in a discretionary portfolio, managed by a subsidiary of the Company's majority shareholder. The discretionary portfolio comprises:

	<i>2008 SR'000</i>
Al Ahli GCC Trading Equity Fund	603
Al Ahli Emerging Markets Trading Equity Fund	1,012
Al Ahli Global Equity Fund	<u>832</u>
<i>Investments in mutual fund</i>	<u>2,447</u>
Saudi Riyal Murahaba	46,461
Saudi Riyal Long Term Murahaba	19,703
Cash	<u>693</u>
	<u><u>69,304</u></u>

6 PREPAYMENTS

<i>Shareholders' Operations</i>	<i>2008 SR'000</i>
Prepaid rent	868
Prepaid CMA Fees	<u>194</u>
	<u><u>1,062</u></u>

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS

31 December 2008

7 FURNITURE, FITTINGS AND OFFICE EQUIPMENT

Shareholders' Operations

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Furniture and fittings	5-10 years
Computer and office equipment	4- 7 years

	<i>Furniture and fittings SR'000</i>	<i>Computer and office equipment SR'000</i>	<i>Capital work in progress SR'000</i>	<i>Total 2008 SR'000</i>
Cost:				
Additions during the period and balance at the end of the period	454	456	5,371	6,281
Depreciation:				
Charge for the period and balance at end of the period	205	150	-	355
Net book value:				
At 31 December 2008	249	306	5,371	5,926

Capital work in progress represents fixtures and fittings under installation at a new head office building.

8 ACCRUALS AND OTHER PAYABLES

Takaful Operations

**2008
SR'000**

Medical expenses and other accruals	18
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Shareholders' Operations

**2008
SR'000**

Accrued expenses	3,620
Remuneration and other expenses payable to Board members	1,083
Other payables	927
	5,630

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS

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9 ZAKAT AND INCOME TAX

ZAKAT

Charge for the period

The zakat charge consists of:

	<i>2008</i> <i>SR'000</i>
Charge for the period ended 31 December 2007	58
Charge for the year from 1 January 2008 to 31 December 2008	1,026
	<u>1,084</u>

The provision for the period from 1 January 2008 to 31 December 2008 is based on the following:

	<i>2008</i> <i>SR'000</i>
Equity	94,247
Book value of long term assets	(16,660)
	<u>77,587</u>
Adjusted loss for the period	(9,916)
	<u>67,671</u>
Zakat base	67,671
Attributable to Saudi shareholders @ 66.25%	<u>44,833</u>

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

The movement in the zakat provision for the period was as follows:

	<i>For the period</i> <i>from 8 July</i> <i>2007 to 31</i> <i>December 2008</i>
Provided during the period	1,084
Zakat paid	(29)
	<u>1,055</u>

INCOME TAX

As the Company has incurred a loss during the period from 8 July 2007 to 31 December 2007 and for the year ended 31 December 2008, no income tax is payable by the Company.

Status of assessments

Zakat and tax returns have been submitted to Department of Zakat and Income Tax (DZIT) for the period ended 31 December 2007 and the certificate has been received from DZIT. However, the final assessment for the period ended 31 December 2007 has not yet been raised.

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10 SHARE CAPITAL

The share capital of the Company is SR 100 million divided into 10 million shares of SR 10 each. The founding shareholders of the Company have subscribed and paid for seven million three hundred and fifty five thousand (7,355 million) shares with a nominal value of SR 10 each, which represents 73.55% of the shares of the Company and the remaining two million six hundred and forty five thousand (2,645 million) shares with a nominal value of SR 10 each, which represents 26.45% of the shares of the Company, have been subscribed by the public.

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. The reserve is not available for distribution.

As the Company has incurred a loss during the period from 8 July 2007 to 31 December 2008, no transfer to statutory reserve has been made.

12 STATUTORY DEPOSIT

2008
SR'000

Shareholders' Operations

Statutory deposit

10,000

As required by Saudi Arabian Insurance Regulations, the Company deposited 10% of its paid up capital, amounting to SR 10 million in a bank designated by the Saudi Arabian Monetary Agency (SAMA). The deposit has been made with a bank which is also the major shareholder of the Company (see note 17).

13 GENERAL AND ADMINISTRATION EXPENSES

For the period
from 8 July
2007 to 31
December 2008
SR'000

Shareholders' Operations

Employee costs	10,822
Statutory expenses	251
Legal and professional fees	1,144
Office rent	540
Board expenses (see note 15)	1,328
Other	1,230
	15,315
Less: Employee costs absorbed by a founding shareholder (see note 17)	(2,997)
	12,318

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY**NOTES TO THE FINANCIAL STATEMENTS**

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14 PRE-INCORPORATION EXPENSES WRITTEN OFF

<i>Shareholders' Operations</i>	<i>SR'000</i>
Legal and professional fees	1,627
Office rent	551
Statutory expenses	386
Other	521
Total expenses incurred	3,085
Less:	
Income earned from investment in short term Murabaha Fund up to the date of Ministerial resolution (8 July 2007)	(475)
Net pre-incorporation expenses written off	2,610

Pre-incorporation expenses represent costs incurred by a founding shareholder on behalf of the Company, and subsequently recharged to the Company, for the period up to 8 July 2007, being the date of the issuance of the Ministerial Resolution declaring the incorporation of the Company (see note 17).

15 BOARD OF DIRECTORS' REMUNERATION AND RELATED EXPENSES

<i>Shareholders' Operations</i>	<i>For the period from 8 July 2007 to 31 December 2008 SR'000</i>
Board remuneration	1,157
Board attendance fees	117
Board accommodation and travel	54
Total (see note 13)	1,328

Board of Directors' remuneration and related expenses represent remuneration payable to the Chairman and members of the Board and its sub-committees.

16 RESERVE FOR TAKAFUL OPERATIONS

A reserve for Takaful Operations is created, as per the report received from the actuary. The movement in the reserve for Takaful Operations, during the period from 8 July 2007 to 31 December 2008, is as follows:

	<i>For the period from 8 July 2007 to 31 December 2008 SR'000</i>
Provided during the period and balance at the end of the period	2,029

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY**NOTES TO THE FINANCIAL STATEMENTS**

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17 RELATED PARTY TRANSACTIONS AND BALANCES

The following are the details of major related party transactions during the period from 8 July 2007 to 31 December 2008 and the related balances at the end of the period.

<i>Related party</i>	<i>Nature of transaction</i>	<i>Amount of transaction SR'000</i>
<i>Takaful Operations</i>		
Shareholder	Acquisition fee charged for distributing the products	2,260
Shareholder	Entrance fee charged	905
Shareholders	Administration fee charged	180
<i>Shareholders Operations</i>		
Shareholder	Transaction costs paid on behalf of the Company (IPO) and recharged to the Company	2,855
	Pre-incorporation expenses (note 14) and some of general and administrative expenses paid on behalf of the Company and recharged to the Company	7,770
	Furniture, fittings and office equipment acquired on behalf of the Company and recharged to the Company	1,160
	General and administrative expenses paid on behalf of the Company and absorbed by the founding shareholder (note 13)	2,997
	Receiving Bank fees (for IPO related services) paid by the Company	800
	Statutory deposit placed (see note 12)	10,000
	End of service benefits transferred	625

Amount due to the technical shareholder, amounting to SR 798 thousands, is shown in the balance sheet. Amount due to the distributing shareholder, amounting to SR 106 thousands, is included under 'Other payable' (note 8).

18 RISK MANAGEMENT

The risks faced by the Company and the way these risks are mitigated by management are summarised below.

Takaful risk

Takaful is a form of Islamic insurance, which is based on the Islamic profit sharing principles and conforms to Shariah principles and ethics. It is a self-sustaining operation run for the benefit of its members which is based on mutual assistance.

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

Retakaful risk

In common with other takaful companies, in order to minimise financial exposure arising from increase in number of benefits paid, the Takaful Operations, in the normal course of business, enters into contracts with other parties for retakaful purposes.

To minimise its exposure to significant losses from retakaful managers' insolvencies, the Takaful Operations evaluates the financial condition of its retakaful managers. The Takaful Operations have a modified quota-share Retakaful arrangement under Wakalah model with an international reinsurance company based in Germany, Hannover Re (Retakaful Wakeel), with Standard & Poors "AA-" and AM Best "A" ratings. This Retakaful arrangement covers all individual contracts issued by the Takaful Operations in the Kingdom of Saudi Arabia. Under the arrangement, the Takaful Operations retains 10% of the Takaful cover per life up to a maximum of SR 18,750. Any surplus made in the Retakaful Fund on the Takaful risk (mortality risk) is paid into the Al Ahli Takaful Fund by the Retakaful Wakeel to be distributed amongst the participants.

Financial risk

The main risks arising from the financial instruments of Takaful Operations and Shareholders' Operations are market price risk, 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 Takaful 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 dependant on the movements in the market prices of these commodities. The fund manager limits market risk by entering back to back purchase and sale contracts and by continuously 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 Takaful Operations and Shareholders' Operations by SR 92 thousands and SR 122 thousands respectively.

18 RISK MANAGEMENT (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Management believes that there is minimal risk of losses due to exchange rate fluctuations as the Takaful 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.

The Shareholders' Operations are subject to commission risk on their commission bearing financial assets, with an effective commission rate at the year end of 2.5%. A change in commission rate by 100 base points will impact the Shareholders' Operations by SR 682 thousands. The Takaful Operations are not subject to any 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 Takaful Operations, the maximum credit risk exposure is the carrying value as disclosed in the financial statements at the balance sheet date. The policies and procedures of Takaful 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 Takaful Operations' credit risk relating to customers is concentrated in Saudi Arabia. At 31 December 2008, the Takaful Operations and Shareholders' Operations are not exposed to any significant credit risk.

Liquidity risk

Liquidity risk is the risk that Shareholders' Operations and Takaful 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.

The Takaful Operations' financial liabilities consist of Retakaful balances payable, amount due to a related party and other payables, and the Shareholders' Operations financial liabilities represent other payables. All financial liabilities, which are non-interest bearing, are expected to be settled within 12 months from the date of the balance sheet.

19 FAIR VALUES OF FINANCIAL INSTRUMENTS

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 and cash equivalents, trading investments and its financial liabilities consist of Retakaful 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.