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

**FINANCIAL STATEMENTS  
AND JOINTAUDITORS' REPORT  
31 DECEMBER 2011**

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

**FINANCIAL STATEMENTS**  
**31 DECEMBER 2011**

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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 2011 and the related statements of Participants' Takaful Operations and accumulated surplus, shareholders' operations, comprehensive income, changes in shareholders' equity, Participants' Takaful 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:

- i. present fairly, in all material respects, the financial position of the Company as at 31 December 2011 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards; and
- ii. 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 A. Reda  
Certified Public Accountant  
Licence No. 356



for KPMG Al Fozan & Al Sadhan

Ebrahim Oboud Baeshen  
Certified Public Accountant  
Licence No. 382



Jeddah, Kingdom of Saudi Arabia

28 Rabi Al Awwal 1433 H  
20 February 2012



# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	<u>2011</u> SR'000	<u>2010</u> SR'000
<b>TAKAFUL OPERATIONS' ASSETS</b>			
Cash at bank	4	28,580	10,518
Trading investments held to cover unit-linked liabilities	5, 17	344,972	228,049
Due from Shareholders' Operations		317	334
Gross contribution receivable from a related party	19	959	-
Allowances for doubtful receivables		(240)	-
Net contribution receivable		719	-
Retakaful share of unearned contribution		698	-
Retakaful share of outstanding benefits receivable		536	110
Total Takaful Operations' assets		375,822	239,011
<b>SHAREHOLDERS' ASSETS</b>			
Cash in hand and at banks	4	82,868	1,066
Trading investments	5	50,370	58,110
Due from a related party	19	200	-
Prepayments and other receivables	6	119	1,829
Furniture, fittings and office equipment	7	3,656	5,073
Statutory deposit	12	10,000	10,000
Total Shareholders' assets		147,213	76,078
<b>TOTAL ASSETS</b>		<b>523,035</b>	<b>315,089</b>



Director



Chief Financial Officer



Chief Executive Officer

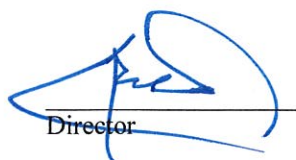
The accompanying notes 1 to 23 form part of these financial statements.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## STATEMENT OF FINANCIAL POSITION (continued)

At 31 December 2011

	<i>Notes</i>	<b><u>2011</u></b> <b><u>SR'000</u></b>	<b><u>2010</u></b> <b><u>SR'000</u></b>
<b>TAKAFUL OPERATIONS' LIABILITIES AND SURPLUS</b>			
<b>Takaful Operations' liabilities</b>			
Technical reserve for Takaful Operations	17	355,909	229,217
Unearned contribution - gross		780	-
Outstanding benefits - gross		596	122
Retakaful balances payable		9,858	4,134
Deferred commission revenue - group and credit life		179	-
Due to a related party	19	680	282
Contributions received in advance		1,548	1,947
Accruals and other payables	8	5,250	2,602
Total Takaful Operations' liabilities		<b>374,800</b>	<b>238,304</b>
<b>Takaful Operations' surplus</b>			
Surplus from Takaful Fund (Participant Takaful Solidarity Fund)		1,022	707
Total Takaful Operations' liabilities and surplus		<b>375,822</b>	<b>239,011</b>
<b>SHAREHOLDERS' LIABILITIES AND EQUITY</b>			
<b>Shareholders' liabilities</b>			
Accruals and other payables	8	6,672	5,154
Due to Takaful Operations		317	334
Accrued Zakat	9	4,008	3,126
Employees' end of service benefits		623	633
Total shareholders' liabilities		<b>11,620</b>	<b>9,247</b>
<b>Shareholders' equity</b>			
Share capital	10	100,000	100,000
Increase in share capital	10	66,667	-
Statutory reserve	10,11	7,874	-
Accumulated losses		(38,948)	(33,169)
Total shareholders' equity		<b>135,593</b>	<b>66,831</b>
Total shareholders' liabilities and equity		<b>147,213</b>	<b>76,078</b>
<b>TOTAL TAKAFUL OPERATIONS' LIABILITIES AND SURPLUS AND SHAREHOLDERS' LIABILITIES AND EQUITY</b>		<b>523,035</b>	<b>315,089</b>

  
Director

  
Chief Financial Officer

  
Chief Executive Officer

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



**ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY**  
**STATEMENT OF PARTICIPANTS' TAKAFUL OPERATIONS AND ACCUMULATED SURPLUS**

For the year ended 31 December 2011

	<i>Notes</i>	<u>2011</u> <u>SR'000</u>	<u>2010</u> <u>SR'000</u>
<b>TAKAFUL CONTRIBUTIONS</b>			
Gross Takaful contributions earned		188,113	208,803
Acquisition fee		(11,215)	(21,790)
Entrance fee		(7,309)	(9,165)
Administration fee		(15,526)	(11,755)
Investible contribution, net		(142,925)	(156,503)
Supervision and inspection fee		(1,309)	(1,119)
Net takaful contributions received		9,829	8,471
Retakaful ceded		(8,429)	(7,054)
<b>Net takaful contributions retained</b>		<b>1,400</b>	<b>1,417</b>
<b>BENEFITS AND EXPENSES</b>			
Gross benefits paid		(2,423)	(1,891)
Retakaful		2,181	1,702
Net benefits paid		(242)	(189)
Movement in outstanding benefits provision	13	(109)	(107)
Benefits incurred, net		(351)	(296)
Underwriting expenses		(313)	(264)
Management fee - Wakala fee		(181)	(150)
Allowance for doubtful receivables		(240)	-
<b>Total benefits and expenses</b>		<b>(1,085)</b>	<b>(710)</b>
<b>Net surplus for the year</b>		<b>315</b>	<b>707</b>
Accumulated surplus at the beginning of the year		707	-
<b>ACCUMULATED SURPLUS AT THE END OF THE YEAR</b>		<b>1,022</b>	<b>707</b>

  
Director

  
Chief Financial Officer

  
Chief Executive Officer

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

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## STATEMENT OF SHAREHOLDERS' OPERATIONS

For the year ended 31 December 2011

	<i>Notes</i>	<u>2011</u> <u>SR'000</u>	<u>2010</u> <u>SR'000</u>
<b>WAKALA INCOME FROM TAKAFUL OPERATIONS:</b>			
Acquisition fee		11,215	21,790
Entrance fee		7,309	9,165
Administration fee		15,526	11,755
Management fee		181	150
Investment fund fee	19	2,170	991
<b>Total income</b>		<b>36,401</b>	<b>43,851</b>
<b>EXPENSES</b>			
Acquisition fee shared with the distributing shareholder		(8,408)	(16,348)
Entrance fee shared with the technical and distributing shareholders		(7,309)	(9,165)
Administration fee shared with the distributing shareholder		(10,827)	(8,061)
General and administrative expenses	14	(14,014)	(19,895)
<b>Total expenses</b>		<b>(40,558)</b>	<b>(53,469)</b>
<b>Net loss from Wakala Takaful Operations</b>		<b>(4,157)</b>	<b>(9,618)</b>
(Loss)/gain from trading investments:			
Realised (loss)/gain on trading investments		(44)	12
Unrealised (loss)/gain on trading investments		(696)	587
<b>NET LOSS FOR THE YEAR</b>		<b>(4,897)</b>	<b>(9,019)</b>
Weighted average number of ordinary shares outstanding		<b>10,000,000</b>	<b>10,000,000</b>
Net loss per share for the year (SR)	20	<b>(0.49)</b>	<b>(0.90)</b>

  
Director

  
Chief Financial Officer

  
Chief Executive Officer

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

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	<u>2011</u> <u>SR'000</u>	<u>2010</u> <u>SR'000</u>
Net loss for the year	(4,897)	(9,019)
Other comprehensive income (loss)	-	-
Total comprehensive loss for the year	<u>(4,897)</u>	<u>(9,019)</u>

  
Director

  
Chief Financial Officer

  
Chief Executive Officer

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



# AL AHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2011

	Share capital SR '000	Increase in share capital SR '000	Share premium SR '000	Statutory reserve SR '000	Accumulated losses SR '000	Total SR '000
Balance as at 31 December 2009	100,000	-	-	-	(23,098)	76,902
Net loss for the year	-	-	-	-	(9,019)	(9,019)
Other comprehensive income (loss)	-	-	-	-	-	-
Zakat for the year (note 9)	-	-	-	-	(1,052)	(1,052)
<b>Balance as at 31 December 2010</b>	<b>100,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(33,169)</b>	<b>66,831</b>
New shares (note 10.3)	-	66,667	13,333	-	-	80,000
Transaction costs (note 10.4)	-	-	(5,459)	-	-	(5,459)
Net loss for the year	-	-	-	-	(4,897)	(4,897)
Other comprehensive income (loss)	-	-	-	-	-	-
Zakat for the year (note 9)	-	-	-	-	(882)	(882)
Transfer of share premium to statutory reserve (note 10.4)	-	-	(7,874)	7,874	-	-
<b>Balance at 31 December 2011</b>	<b>100,000</b>	<b>66,667</b>	<b>-</b>	<b>7,874</b>	<b>(38,948)</b>	<b>135,593</b>

  
Director

  
Chief Financial Officer

  
Chief Executive Officer

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

**ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY**  
**STATEMENT OF PARTICIPANTS' TAKAFUL OPERATIONS' CASH FLOWS**  
For the year ended 31 December 2011

	<u>2011</u> <u>SR'000</u>	<u>2010</u> <u>SR'000</u>
<b>Cash flows from operating activities:</b>		
Net surplus for the year from the Takaful Operations	315	707
Adjustment for the year:		
Unrealized loss/(gain) on trading investments held to cover unit-linked liabilities	16,154	(7,191)
Retakaful share of unearned contribution	(698)	-
Unearned contribution - gross	780	-
Deferred commission revenue - group and credit life	179	-
	<u>16,730</u>	<u>(6,484)</u>
Changes in operating assets and liabilities:		
Trading investments held to cover unit-linked liabilities	(133,077)	(156,991)
Due from Shareholders' Operations	17	(540)
Net contribution receivable	(719)	-
Retakaful share of outstanding benefits receivable	(426)	95
Technical reserve for Takaful Operations	126,692	164,951
Outstanding benefits - gross	474	(106)
Retakaful balances payable	5,724	510
Due to a related party	398	282
Contributions received in advance	(399)	959
Accruals and other payables	2,648	1,936
	<u>18,062</u>	<u>4,612</u>
Net cash from operating activities	18,062	4,612
<b>CASH AT BANK AT THE BEGINNING OF THE YEAR</b>	<u>10,518</u>	<u>5,906</u>
<b>CASH AT BANK AT THE END OF THE YEAR</b>	<u><u>28,580</u></u>	<u><u>10,518</u></u>

  
Director

  
Chief Financial Officer

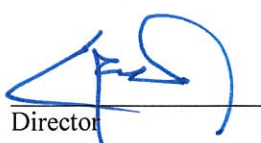
  
Chief Executive Officer

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## STATEMENT OF SHAREHOLDERS' CASH FLOWS

For the year ended 31 December 2011

	<i>Notes</i>	<i>2011</i> <i>SR'000</i>	<i>2010</i> <i>SR'000</i>
<b>OPERATING ACTIVITIES</b>			
Net loss for the year		(4,897)	(9,019)
Adjustments for the year:			
Depreciation	7	1,782	1,680
Employees' end of service benefits, net		(10)	295
Realised loss/(gain) on trading investments	5	44	(12)
Unrealised loss/(gain) on trading investments	5	696	(587)
		<u>(2,385)</u>	<u>(7,643)</u>
Changes in operating assets and liabilities:			
Due from a related party		(200)	-
Prepayments and other receivables		1,710	(1,032)
Due to Takaful Operations		(17)	540
Accruals and other payables		1,518	1,623
		<u>626</u>	<u>(6,512)</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of furniture, fittings and office equipment	7	(365)	(514)
Redemption of trading investments	5	7,000	7,000
		<u>6,635</u>	<u>6,486</u>
<b>FINANCING ACTIVITIES</b>			
Increase in share capital	10.3	66,667	-
Share premium	10.3	13,333	-
Transaction cost	10.4	(5,459)	-
		<u>74,541</u>	<u>-</u>
Net cash from financing activities			
<b>NET INCREASE/(DECREASE) IN CASH IN HAND AND AT BANKS</b>		<b>81,802</b>	<b>(26)</b>
<b>CASH IN HAND AND AT BANKS AT THE BEGINNING OF THE YEAR</b>		<b>1,066</b>	<b>1,092</b>
<b>CASH IN HAND AND AT BANKS AT THE END OF THE YEAR</b>		<b>82,868</b>	<b>1,066</b>

  
Director

  
Chief Financial Officer

  
Chief Executive Officer

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

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

At 31 DECEMBER 2011

### 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 registered office address of the Company is:

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 market 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*

Since incorporation, the Company has been selling its products under Takaful model. In a meeting held on 7 June, 2011, Saudi Arabian Monetary Agency (“SAMA”) has instructed the Company, to modify the products to be in line with the cooperative insurance model as per the Law on Supervision of Cooperative Insurance Companies and accordingly, to amend terms and conditions of the products, by 31 December 2011.

During the year ended 31 December 2011, the Company has submitted its revised terms and conditions and the accounting model that would be followed after the transition from Takaful model, to the cooperative insurance model to SAMA for approval. Subsequent to 31 December 2011, the Company has obtained SAMA approval for the same, and implemented the cooperative insurance model with effect from 1 January 2012. The Company does not expect any significant financial impact on its financial results from such transition.

### 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 Takaful Operations.

As required by the Saudi Arabian Insurance Regulations, the Company maintains separate books of accounts for the Participants’ Takaful Operations and Shareholders’ Operations. The physical custody of all assets related to the Takaful 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.

**2 BASIS OF PREPARATION (continued)**

**c) *Functional and presentation currency***

The financial statements are expressed 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***

*Estimation uncertainty*

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

*Provision for outstanding benefits*

Judgement by management is required in the estimation of amounts due to participants arising from claims made under takaful 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 takaful portfolio. Claims requiring court or arbitration decisions, if any, are estimated individually. Management reviews its provisions for benefits incurred, and benefits 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 participants' takaful operations and accumulated surplus for that year. The provision for outstanding benefits, 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.

**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.

<b><i>Standard/ Interpretation</i></b>	<b><i>Description</i></b>
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IAS 24	Related Party Transactions (Revised)
IAS 32	Amendments to IAS 32 Classification of Rights Issues
IFRIC 19	Extinguishing Financial Liabilities with Equity Instrument
IFRS 7	Amendment to IFRS 7 Financial Instruments: Disclosures (including disclosures for transfer of financial assets)
IAS 1	Presentation of Financial Statements



# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 DECEMBER 2011

### 2 BASIS OF PREPARATION (continued)

#### *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 9	Financial Instruments – Classification and Measurement	1 January 2015
IFRS 10	Consolidated financial statements	1 January 2013
IFRS 12	Disclosures of interests in other entities	1 January 2013
IFRS 13	Fair value measurement	1 January 2013
IAS 1	Amendments to IAS 1 Presentation of financial statements	1 July 2012
IAS 12	Amendments to Income taxes – Deferred taxes: Recovery of underlying assets	1 January 2012
IAS 19	Amendments to IAS 19 Employee benefits	1 January 2013

### 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 2010 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 takaful 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 realized and unrealized 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.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 DECEMBER 2011

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *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:

Furniture and fittings	5 to 10 years
Computer and office equipment	4 to 6.67 years

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 shareholders' operations on an actual basis. Similarly, impairment losses, if any, are recognised in the statement of shareholders' operations.

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

#### *Technical Reserve for Takaful operations*

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 modified quota-share Retakaful arrangement under Wakala model with an independent international reinsurance company (retakaful manager). 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' statement of financial position 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.

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.

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Liability adequacy test*

At each statement of financial position 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 benefits handling and administration expenses. Any deficiency in the carrying amounts is immediately charged to the statement of participants' 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 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.

#### *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 the costs to settle the obligation are both probable and may be measured reliably.

#### *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 shareholders' operations.

#### *Impairment and uncollectibility of financial assets*

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of participants' takaful 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 interest 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 participants' takaful 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 participants' takaful 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.

**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 in hand and at banks, contribution receivable, trading investments, outstanding benefits and other payables and certain other assets and liabilities.

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

***Takaful contracts***

Takaful contracts are defined as those containing significant takaful 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 takaful risk may be significant over time. The significance of takaful 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 a takaful contract, it remains a takaful contract for the remainder of lifetime term of the policies, even if the takaful risk reduced significantly during this period.

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

***Investment contracts***

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



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

***Benefits***

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

The Company does not discount its liability for unpaid benefits.

***Acquisition and administration fees***

Acquisition and administration fees income receivable from the contract holders are recognised as revenue in the statement of Participants' Takaful Operations and accumulated surplus as per the terms of the takaful contract.

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

***Entrance fee***

Entrance fee income receivable from the contract holders, are recognised as income and credited to statement of participants' 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 to expense as and when they are due, as per the terms of the takaful 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 Takaful 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 Shareholders' Operations on a straight-line basis over the lease term.

***Transaction costs***

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

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 DECEMBER 2011

### 4 CASH IN HAND AND AT BANKS

	<u>2011</u> <u>SR'000</u>	<u>2010</u> <u>SR'000</u>
<i><b>Takaful Operations</b></i>		
Cash at bank	28,580	10,518
<i><b>Shareholders' Operations</b></i>		
Cash in hand	5	5
Cash at banks (note 4.1)	82,863	1,061
	<u>82,868</u>	<u>1,066</u>

4.1 Cash at banks includes an amount of SR 79,922 thousands, which represents proceeds from rights issue (note 10.2), which is held by a bank in an escrow account, for and on behalf of the Company. The amount will be transferred to the Company's bank account on completion of the legal procedures, which is expected to be completed within three months from the year end.

### 5 TRADING INVESTMENTS

#### ***Takaful Operations***

Investments of Takaful 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>2011</u> <u>SR'000</u>	<u>2010</u> <u>SR'000</u>
Al Manarah Conservative Growth Strategy Fund	213,415	135,170
Al Manarah Medium Growth Strategy Fund	78,424	53,302
Al Manarah High Growth Strategy Fund	53,133	39,577
	<u>344,972</u>	<u>228,049</u>

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

	<u>2011</u> <u>SR'000</u>	<u>2010</u> <u>SR'000</u>
Balance at the beginning of the year	228,049	63,867
Purchased during the year	133,077	156,991
Unrealized (loss)/gain during the year	(16,154)	7,191
<b>Balance at the end of the year</b>	<u>344,972</u>	<u>228,049</u>

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 DECEMBER 2011

### 5 TRADING INVESTMENTS (continued)

#### *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 comprises:

	<u>2011</u> <u>SR'000</u>	<u>2010</u> <u>SR'000</u>
Al Ahli GCC Trading Equity Fund	-	1,223
Al Ahli Saudi Trading Equity Fund	566	2,464
Al Ahli Emerging Markets Trading Equity Fund	278	1,298
Al Ahli Small Cap Trading Equity Fund	-	2,324
Al Ahli Global Trading Equity Fund	2,464	1,285
Al Ahli Asia Pacific Trading Equity Fund	361	-
Al Ahli Healthcare Trading Equity Fund	590	-
Al Ahli US Trading Equity Fund	1,098	-
Al Ahli Saudi Riyals Trade Fund	2,010	-
Murabaha investments	36,525	33,518
Al Ahli Money Market Mutual Fund	-	13,383
Investments in Sukuk	6,319	2,615
Cash with Portfolio Manager	159	-
	<u>50,370</u>	<u>58,110</u>

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

	<u>2011</u> <u>SR'000</u>	<u>2010</u> <u>SR'000</u>
Balance at the beginning of the year	58,110	64,511
Redemptions during the year	(7,000)	(7,000)
Realized (loss)/gain on redemption	(44)	12
Unrealized (loss)/gain during the year	(696)	587
<b>Balance at the end of the year</b>	<u>50,370</u>	<u>58,110</u>

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 DECEMBER 2011

### 6 PREPAYMENTS AND OTHER RECEIVABLES

	<u>2011</u> <u>SR'000</u>	<u>2010</u> <u>SR'000</u>
<i>Shareholders' Operations</i>		
Prepaid rent	-	752
Prepaid expenses – rights issue	-	959
Advance to suppliers	100	-
Due from employees	3	118
Other receivables	16	-
	<u>119</u>	<u>1,829</u>

### 7 FURNITURE, FITTINGS AND OFFICE EQUIPMENT

#### *Shareholders' Operations*

	<i>Furniture and fittings</i> <i>SR'000</i>	<i>Computer and office equipment</i> <i>SR'000</i>	<i>Total</i> <i>SR'000</i>
<b>Cost:</b>			
At 1 January 2010	1,845	5,345	7,190
Additions	9	505	514
	<u>1,854</u>	<u>5,850</u>	<u>7,704</u>
At 31 December 2010	1,854	5,850	7,704
Additions	25	340	365
	<u>1,879</u>	<u>6,190</u>	<u>8,069</u>
<b>At 31 December 2011</b>			
<b>Accumulated depreciation:</b>			
At 1 January 2010	181	770	951
Charge for the year (note 14)	312	1,368	1,680
	<u>493</u>	<u>2,138</u>	<u>2,631</u>
At 31 December 2010	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>
<b>At 31 December 2011</b>			
<b>Carrying amount:</b>			
At 31 December 2010	1,361	3,712	5,073
	<u>1,069</u>	<u>2,587</u>	<u>3,656</u>
<b>At 31 December 2011</b>			

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 DECEMBER 2011

### 8 ACCRUALS AND OTHER PAYABLES

	<u>2011</u> <u>SR'000</u>	<u>2010</u> <u>SR'000</u>
<b><i>Takaful Operations</i></b>		
Underwriting expenses payable	581	286
Policies surrendered payable	3,967	1,970
Supervision and inspection fee payable	702	346
	<u>5,250</u>	<u>2,602</u>
	<u>2011</u> <u>SR'000</u>	<u>2010</u> <u>SR'000</u>
<b><i>Shareholders' Operations</i></b>		
Accrued expenses	3,345	2,368
Remuneration and other expenses payable to Board members (note 16)	1,164	1,013
Other payables	2,163	1,773
	<u>6,672</u>	<u>5,154</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>2011</u> <u>SR'000</u>	<u>2010</u> <u>SR'000</u>
Equity	66,831	76,902
Opening provisions and other adjustments	633	338
Book value of long term assets	(64,592)	(73,428)
	<u>2,872</u>	<u>3,812</u>
Adjusted loss for the year	(4,025)	(6,777)
	<u>(1,153)</u>	<u>(2,965)</u>
Zakat base		
Attributable to Saudi shareholders @ 66.25%	-	-

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



# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 DECEMBER 2011

### 9 ZAKAT AND INCOME TAX (continued)

The movement in zakat provision for the year is as follows:

	<u>2011</u> <u>SR'000</u>	<u>2010</u> <u>SR'000</u>
Balance at the beginning of the year	3,126	2,074
Charge for the year	882	1,052
Balance at the end of the year	<u>4,008</u>	<u>3,126</u>

### INCOME TAX

As the Company has incurred losses during the year ended 31 December 2011 (2010: loss), no income tax is payable by the Company.

### 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, 2009 and 2010 and the final certificates have been received from DZIT for the period ended 31 December 2007 and for the years ended 31 December 2008 and 2009. However, the final assessments for the period ended 31 December 2007 and for the years ended 31 December 2008 and 2009 have not yet been raised.

During the year ended 31 December 2011, DZIT has raised an assessment for the year ended 31 December 2010 demanding additional Zakat liability of SR 1,050,759. The Company has filed an appeal against the assessment 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 has recommended a rights issue of SR 80 million to increase the share capital, which was approved by 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 have been 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.

**10.3** The legal formalities to increase the share capital of the Company including obtaining the new Commercial Registration have not been completed by 31 December 2011; hence the proceeds from rights issue has been classified as increase in share capital and share premium, amounting to SR 66,667 thousands and SR 13,333 thousands respectively.

**10.4** The cost to raise equity of SR 5,459 thousands has been adjusted against share premium account, and the net balance was transferred to statutory reserve as required by Article 98 of Regulations for Companies.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 DECEMBER 2011

### 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 been incurring 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, has been transferred to statutory reserve (see notes 10.3 and 10.4).

### 12 STATUTORY DEPOSIT

	<u>2011</u> <u>SR'000</u>	<u>2010</u> <u>SR'000</u>
<i>Shareholders' Operations</i>		
Statutory deposit	<u>10,000</u>	<u>10,000</u>

As required by Saudi Arabian Insurance Regulations, the Company deposited 10% of its paid up capital, amounting to SR 10 million in AlAhli 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.

### 13 MOVEMENT IN OUTSTANDING BENEFITS PROVISION

	<u>2011</u> <u>SR'000</u>	<u>2010</u> <u>SR'000</u>
Change in outstanding benefits - Gross	474	122
Change in outstanding benefits - Retakaful	(426)	(110)
Change in Incurred But Not Reported benefits (IBNR)	<u>61</u>	<u>95</u>
<b>Movement in outstanding benefits provision</b>	<u>109</u>	<u>107</u>

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 DECEMBER 2011

### 14 GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2011</u> <u>SR'000</u>	<u>2010</u> <u>SR'000</u>
<b><i>Shareholders' Operations</i></b>		
Employee costs	7,576	12,706
Regulatory fees	295	291
Legal and professional fees	1,129	1,379
Office rent	791	788
Board expenses (see note 16)	1,279	1,286
Depreciation (note 7)	1,782	1,680
IT expenses	395	185
Other	767	1,580
	<u>14,014</u>	<u>19,895</u>

### 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 benefits, 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. As at 31 December 2011, 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 (2010: nil)

- 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 2011 and 2010, all financial instruments which are fair valued are Level 1 instruments.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 DECEMBER 2011

### 16 BOARD OF DIRECTORS' REMUNERATION AND RELATED EXPENSES

	<u>2011</u> <u>SR'000</u>	<u>2010</u> <u>SR'000</u>
<i>Shareholders' Operations</i>		
Board remuneration	1,185	1,038
Board attendance fees	90	156
Board accommodation and travel	4	92
	<hr/>	<hr/>
Total (note 14)	<u>1,279</u>	<u>1,286</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 2010 (see note 8) were paid during 2011 after obtaining the approval in the Annual General Meeting held on 19 April 2011.

### 17 TECHNICAL RESERVE FOR TAKAFUL OPERATIONS

- a) A technical reserve for Takaful Operations is created, as per the report received from the Actuary, dated 6 February 2012, as detailed below:

	<u>2011</u> <u>SR'000</u>	<u>2010</u> <u>SR'000</u>
Technical reserve relating to the Participant Investment Strategies (unit liability)	354,585	228,490
Allowance for the retained risk	1,143	558
Incurred But Not Reported (IBNR) reserves	181	169
	<hr/>	<hr/>
	<u>355,909</u>	<u>229,217</u>

- b) Reconciliation of technical reserves to trading investments held to cover unit linked liabilities:

	<u>2011</u> <u>SR'000</u>	<u>2010</u> <u>SR'000</u>
Technical reserve for Takaful Operations ((a) above)	355,909	229,217
Surplus from Takaful Fund	1,022	707
Deficit from Takaful Fund of previous year	(336)	(336)
Allowance for doubtful receivables	240	-
Provisions for retained risk for Group Takaful Programme	(119)	(89)
IBNR for Group Takaful Programme	(61)	(51)
Provisions for retained risk for Takaful & Savings programme	(1,024)	(468)
IBNR for Takaful & Saving programme	(118)	(118)
Funds in transit - Investment current account	(10,541)	(813)
	<hr/>	<hr/>
Trading investments held to cover unit-linked liabilities	<u>344,972</u>	<u>228,049</u>

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 DECEMBER 2011

### 18 OPERATING SEGMENT INFORMATION

For management purposes, the activities of Takaful Operations, which are all in the Kingdom of Saudi Arabia, are reported under three operating segments, as detailed below. Operating segments do not include shareholders' operations of the Company. Consistent with the Company's internal reporting process, operating segments have been approved by the management in respect of the Company's activities, assets and liabilities as stated below:

	<i>31 December 2011</i>			
	<i>Takaful - individual SR '000</i>	<i>Takaful- group SR '000</i>	<i>Takaful- credit life SR '000</i>	<i>Total SR '000</i>
<b>Takaful contributions</b>				
Gross Takaful contributions earned	183,482	3,672	959	188,113
Share of fees and investible contribution, net	(175,944)	(801)	(230)	(176,975)
Supervision and inspection fee	(1,285)	(18)	(6)	(1,309)
Retakaful ceded	(5,102)	(2,629)	(698)	(8,429)
<b>Net Takaful contribution retained</b>	<b>1,151</b>	<b>224</b>	<b>25</b>	<b>1,400</b>
<b>Benefits and expenses</b>				
Benefits incurred, net	(158)	(180)	(13)	(351)
Expenses	(438)	(44)	(12)	(494)
Allowance for doubtful receivables	-	-	(240)	(240)
<b>Surplus from the Takaful operations</b>	<b>555</b>	<b>-</b>	<b>(240)</b>	<b>315</b>

During the year ended 31 December 2011, the Company introduced Takaful credit life product.

	<i>31 December 2010</i>			
	<i>Takaful - individual SR '000</i>	<i>Takaful- group SR '000</i>	<i>Takaful- credit life SR '000</i>	<i>Total SR '000</i>
<b>Takaful contributions</b>				
Gross Takaful contributions	204,881	3,922	-	208,803
Share of fees and investible contribution, net	(198,252)	(961)	-	(199,213)
Supervision and inspection fee	(1,101)	(18)	-	(1,119)
Retakaful	(4,328)	(2,726)	-	(7,054)
<b>Net takaful contribution retained</b>	<b>1,200</b>	<b>217</b>	<b>-</b>	<b>1,417</b>
<b>Benefits and expenses</b>				
Benefits incurred, net	(127)	(169)	-	(296)
Expenses	(366)	(48)	-	(414)
<b>Surplus from the Takaful operations</b>	<b>707</b>	<b>-</b>	<b>-</b>	<b>707</b>



# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 DECEMBER 2011

### 18 OPERATING SEGMENT INFORMATION (continued)

	<i>As at 31 December 2011</i>			
	<i><u>Takaful - individual</u></i>	<i><u>Takaful- group</u></i>	<i><u>Takaful- credit life</u></i>	<i><u>Total</u></i>
	<i><u>SR '000</u></i>	<i><u>SR '000</u></i>	<i><u>SR '000</u></i>	<i><u>SR '000</u></i>
<b>Takaful Operations' assets</b>				
Cash at bank	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
Retakaful share of unearned contribution	-	-	698	698
Retakaful share of outstanding benefits receivable	536	-	-	536
	<u>371,321</u>	<u>2,397</u>	<u>2,104</u>	<u>375,822</u>
<b>Takaful Operations' liabilities</b>				
Technical reserve for Takaful Operations	355,727	116	66	355,909
Unearned contribution - gross	-	-	780	780
Outstanding benefits - gross	596	-	-	596
Retakaful balances payable	6,399	2,140	1,319	9,858
Deferred commission revenue - group and credit life	-	-	179	179
Due to a related party	540	140	-	680
Contributions received in advance	1,548	-	-	1,548
Accruals and other payables	5,249	1	-	5,250
Surplus from Takaful Fund (Participant Takaful Solidarity Fund)	1,262	-	(240)	1,022
	<u>371,321</u>	<u>2,397</u>	<u>2,104</u>	<u>375,822</u>

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 DECEMBER 2011

### 18 OPERATING SEGMENT INFORMATION (continued)

	<i>As at 31 December 2010</i>			
	<i>Takaful - individual SR '000</i>	<i>Takaful- group SR '000</i>	<i>Takaful- credit life SR '000</i>	<i>Total SR '000</i>
<b>Takaful Operations' assets</b>				
Cash at bank	9,026	1,492	-	10,518
Trading investments held to cover unit-linked liabilities	228,049	-	-	228,049
Due from shareholders' operations	334	-	-	334
Retakaful share of outstanding benefits receivable	110	-	-	110
	<u>237,519</u>	<u>1,492</u>	<u>-</u>	<u>239,011</u>
<b>Takaful Operations' liabilities</b>				
Technical reserve for Takaful Operations	229,077	140	-	229,217
Outstanding benefits – gross	122	-	-	122
Retakaful balances payable	3,064	1,070	-	4,134
Due to a related party	-	282	-	282
Contributions received in advance	1,947	-	-	1,947
Accruals and other payables	2,602	-	-	2,602
Surplus from Takaful Fund (Participant Takaful Solidarity Fund)	707	-	-	707
	<u>237,519</u>	<u>1,492</u>	<u>-</u>	<u>239,011</u>

### 19 RELATED PARTY TRANSACTIONS AND BALANCES

The following are the details of major related party transactions during the years ended 31 December 2011 and 2010:

<i><u>Related party</u></i>	<i><u>Nature of transaction</u></i>	<i><u>Amount of transaction</u></i>	
		<i><u>2011</u></i> <i><u>SR'000</u></i>	<i><u>2010</u></i> <i><u>SR'000</u></i>
<b><i>Takaful Operations</i></b>			
Major Shareholder	Gross Group Life Takaful contribution	3,672	3,922
Major Shareholder	Gross Group Credit Life contribution	1,918	-
Major Shareholder	Acquisition fee paid for distributing the products	8,408	16,348
Shareholders	Entrance fee	7,309	9,165
Shareholders	Administration fee	10,827	8,061

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 DECEMBER 2011

### 19 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

<u>Related party</u>	<u>Nature of transaction</u>	<u>Amount of transaction</u>	
		<u>2011</u>	<u>2010</u>
		SR'000	SR'000
<b>Shareholders' Operations</b>			
Major Shareholder	General and administrative expenses paid on behalf of the Company and recharged to the Company	-	578
Major Shareholder	Fee from Investment Fund Manager	2,170	991
Key management personnel	Short term benefits	3,695	4,685
	Terminal benefits	145	249

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

### 20 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 benefits. 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 to restrict 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 Participants' Takaful Operations evaluates the financial condition of its retakaful managers. The Participants' Takaful Operations has a modified quota-share Retakaful arrangement under Wakala 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 and group contracts issued by the Participants' Takaful Operations in the Kingdom of Saudi Arabia. Under the arrangement, the Participants' 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 Al Ahli Takaful Fund by the Retakaful Wakeel to be distributed amongst the participants.

#### **Regulatory framework risk**

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

## 20 RISK MANAGEMENT (continued)

### *Capital management (solvency) risk*

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

The Company manages its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in market conditions and risk characteristics of the Company's activities.

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 year (see note 10).

### *Financial risk*

The Company's principal financial instruments are contribution receivable, due from related party, statutory deposit, trading investments, cash in hand and at banks, outstanding benefits and certain other assets and liabilities.

The Company does not enter into derivative transactions.

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

#### *Market price risk*

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

The Participants' 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 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 Takaful Operations and Shareholders' Operations by SR 17,249 thousands (2010: SR 11,402 thousands) and SR 3,019 thousands (2010: SR 3,406 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 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. As the Company does not have any commission bearing assets, the Company is not exposed to commission rate risk.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

At 31 DECEMBER 2011

### 20 RISK MANAGEMENT (continued)

#### *Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

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 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 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 Company seeks to limit its credit risk with respect to other counterparties by placing deposits with reputable bank. The Company enters into Retakaful 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>2011</u> <u>SR'000</u>	<u>2010</u> <u>SR'000</u>
<b><i>Insurance' Operations</i></b>		
Cash at bank	28,580	10,518
Trading investments held to cover unit-linked liabilities	344,972	228,049
Net contribution receivable	719	-
Reinsurance companies' share of outstanding claims	536	110
	<u>374,807</u>	<u>238,677</u>
<b><i>Shareholders' Operations</i></b>		
Cash in hand and at banks	82,868	1,066
Trading investments	50,370	58,110
Due from a related party	200	-
	<u>133,438</u>	<u>59,176</u>

#### *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. All assets of Takaful Operations and Shareholders' Operations are current, except for furniture, fittings and office equipment, and statutory deposit, which are non-current in nature.

The Takaful Operations' financial liabilities consist of outstanding benefits, Retakaful 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 LOSS PER SHARE**

Net loss per share for the year ended 31 December 2011 (2010: net loss per share) has been calculated by dividing the net 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 for the year ended 31 December 2011 (2010: not applicable).

**22 COMPARATIVE FIGURES**

Certain of the prior period 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 20 February 2012, corresponding to 28 Rabi Al Awwal 1433 H.