

---

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

**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2017**

---

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

**FINANCIAL STATEMENTS TOGETHER WITH INDEPENDENT AUDITORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2017**

---

<b>INDEX</b>	<b>PAGE</b>
Independent Auditors' Report	1 – 4
Statement of Financial Position	5 – 6
Statement of Insurance Operations and Accumulated Surplus	7
Statement of Shareholders' Operations	8
Statement of Shareholders' Comprehensive Income	9
Statement of Changes in Shareholders' Equity	10
Statement of Insurance Operations' Cash flows	11
Statement of Shareholders' Cash flows	12
Notes to the financial statements	13 – 42



Ernst & Young & Co. (Public Accountants)  
 13<sup>th</sup> Floor – King's Road Tower  
 PO Box 1994  
 King Abdulaziz Road (Malek Road)  
 Jeddah 21441  
 Saudi Arabia  
 Registration Number: 45



**BAKER TILLY**  
**MKM & CO.** Certified Public Accountants  
 License 323/11/479  
 5<sup>th</sup> Floor, Wessal Tower 7575  
 P.O Box 100890  
 Azizia District, Madina Road, Jeddah 21311  
 Kingdom of Saudi Arabia

**Independent Auditors' Report  
 To the Shareholders of AlAhli Takaful Company (A Saudi Joint Stock Company)**

**Report on the Audit of the Financial Statements**

**Opinion**

We have audited the financial statements of AlAhli Takaful Company (the "Company"), which comprise the statement of financial position as at 31 December 2017, and the statements of insurance operations and accumulated surplus, shareholders' operations, shareholders' comprehensive income, statement of changes in shareholders' equity, insurance operations' cash flows and shareholders' cash flows for the year then ended, and the summary of significant accounting policies and other explanatory notes from 1 to 31.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2017 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as modified by Saudi Arabian Monetary Authority ("SAMA") for the accounting of zakat and income tax.

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context:

Title of risk	Key audit matter	How our audit addressed the key audit matter
<b>Technical Reserves for Insurance Operations</b>	<p><i>The Company's accounting policy related to technical reserve for insurance operations is described in note 3 to the financial statements.</i></p> <p>Technical Reserves for Insurance Operations represents the largest liability for the Company totaling SR 716,893 thousand as of 31 December 2017 and consist of the following:</p> <ul style="list-style-type: none"> <li>○ Technical reserves relating to the Participant Investment Strategies (unit liability)</li> </ul>	<p>We have performed test of key controls over the claims administration and the valuation of individual reported claims reserves to confirm the operating effectiveness of those key controls.</p> <p>We also tested the completeness and accuracy of the underlying data used in the actuarial calculations by performing reconciliations on the underlying data to the financial ledger and the actuarial data used by the Company's independent actuary while calculating the technical reserves for insurance operations.</p>

**Independent Auditors' Report  
To the Shareholders of AlAhli Takaful Company (A Saudi Joint Stock Company)**

**Key Audit Matters (continued)**

Title of risk	Key audit matter	How our audit addressed the key audit matter
<p><b>Technical Reserves for Insurance Operations</b></p>	<ul style="list-style-type: none"> <li>○ Allowance for retained risk</li> <li>○ Incurred but not reported (IBNR) claims, net</li> </ul> <p>A range of methods is used to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amounts and settlement patterns of claims. The Company also involves an independent actuary to calculate the technical reserves. The Company exercises significant judgments including a number of subjective assumptions when determining both the timing and the amounts of the technical reserves. Changes in the assumptions used to value the reserves can lead to material impact on the valuation of technical reserves. Because of the significance of the judgments involved and the magnitude of the balance, technical reserves have been considered as a key audit matter.</p>	<p>In addition, we have involved our actuarial specialist to:</p> <ul style="list-style-type: none"> <li>○ Assess the approach and methodology used by the management in calculating required technical reserve.</li> <li>○ Review key assumptions and judgments used by management in calculating technical reserve.</li> <li>○ Assess the compliance of actuarial report on technical reserves with the professional guidance available.</li> <li>○ Assess consistency in applying the reserving methodology across periods.</li> </ul> <p>We also assessed the financial statement disclosures in relation to technical reserve.</p>

**Other Information included in the Company's 2017 Annual Report**

The Board of Directors of the Company (the Directors) are responsible for the other information. The other information consists of the information included in the Company's 2017 annual report, other than the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

---

**Independent Auditors' Report**  
**To the Shareholders of AlAhli Takaful Company (A Saudi Joint Stock Company)**

**Responsibilities of the Directors and Those Charged with Governance for the Financial Statements**

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with the IFRS as modified by SAMA for the accounting of accounting of zakat and income tax, the applicable requirements of the Regulations for Companies, the Company's By-laws and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

**Independent Auditors' Report**  
**To the Shareholders of AlAhli Takaful Company (A Saudi Joint Stock Company)**

**Auditors' Responsibilities for the Audit of the Financial Statements (continued)**

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

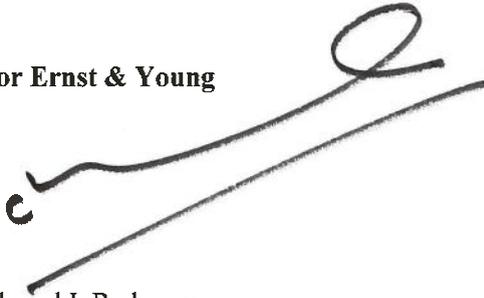
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore included in our report as key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on other legal and regulatory requirements**

Based on the information that has been made available to us, nothing has come to our attention that causes us to believe that the Company is not in compliance, in all material respects, with the applicable requirements of the Regulations for Companies, the Company's By-laws in so far as they affect the preparation and presentation of the financial statements.

**For Ernst & Young**



Ahmed I. Reda  
Certified Public Accountant  
Licence Number 356

**For Baker Tilly MKM & Co**



Ayad A. Al Seraihi  
Certified Public Accountant  
Licence Number 405



Jeddah, Kingdom of Saudi Arabia  
27 Jumada II 1439 H  
15 March 2018

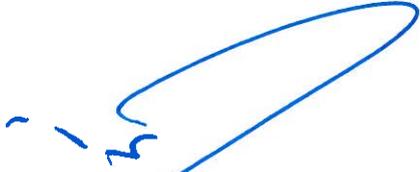


# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	<i>Notes</i>	<u>2017</u> <i>SR'000</i>	<u>2016</u> <i>SR'000</i>
<b>INSURANCE OPERATIONS' ASSETS</b>			
Cash and cash equivalents	4	26,314	18,907
Unit-linked investments	5	694,409	749,771
FVIS investments	6	76,942	122,156
Contributions receivable, net	8	5,964	1,489
Accrued income	20(b)	439	362
Reinsurance share of outstanding claims	16(b)	21,094	39,801
Reinsurance balances receivable, net		7,313	3,393
Reinsurance share of unearned contributions	16(a)	3,312	158
Prepayments and other receivables	9	1,409	732
Furniture, fittings and office equipment	10	5,809	6,782
<b>Total Insurance Operations' Assets</b>		<b>843,005</b>	<b>943,551</b>
<b>SHAREHOLDERS' ASSETS</b>			
Cash and cash equivalents	4	357	126
FVIS investments	6	244,128	172,146
Available-for-sale investments	7	-	10,149
Due from Insurance Operations		2,978	36,928
Due from a related party		109	-
Prepayments and other receivables	9	4,150	4,032
Return on statutory deposit		1,093	775
Statutory deposit	15	16,667	16,667
<b>Total Shareholders' Assets</b>		<b>269,482</b>	<b>240,823</b>
<b>TOTAL ASSETS</b>		<b>1,112,487</b>	<b>1,184,374</b>

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Chief Financial Officer

  
\_\_\_\_\_  
Chief Executive Officer

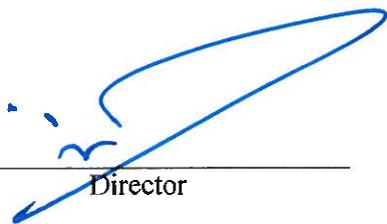
The accompanying notes 1 to 31 form an integral part of these financial statements.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2017

	Notes	<u>2017</u> SR'000	<u>2016</u> SR'000
<b>INSURANCE OPERATIONS' LIABILITIES AND SURPLUS</b>			
<b>Insurance Operations' Liabilities</b>			
Technical reserve for Insurance Operations	22	716,893	767,611
Unearned contributions – gross	16(a)	4,998	285
Outstanding claims – gross	16(b),23	23,700	44,968
Reinsurance balances payable		51,073	55,593
Due to related parties	20(b)	1,948	1,164
Due to Shareholders' Operations		2,978	36,928
Contributions received in advance		4,235	9,046
Accruals and other payables	11	17,724	12,976
Employees' end of service benefits		1,758	1,584
<b>Total Insurance Operations' Liabilities</b>		<u>825,307</u>	<u>930,155</u>
<b>Insurance Operations' Surplus</b>			
Surplus from Insurance Operations		17,698	13,396
<b>Total Insurance Operations' Liabilities and Surplus</b>		<u>843,005</u>	<u>943,551</u>
<b>SHAREHOLDERS' LIABILITIES AND EQUITY</b>			
<b>Shareholders' Liabilities</b>			
Accruals and other payables	11	4,868	4,271
Dividends payable		7	690
Accrued Zakat and income tax	12	22,422	19,380
Accrued return on statutory deposit		1,093	775
<b>Total Shareholders' Liabilities</b>		<u>28,390</u>	<u>25,116</u>
<b>Shareholders' Equity</b>			
Share capital	13	166,667	166,667
Statutory reserve	14	26,343	18,637
Retained earnings		48,082	29,248
Cumulative changes in fair value of available-for-sale investments		-	1,155
<b>Total Shareholders' Equity</b>		<u>241,092</u>	<u>215,707</u>
<b>Total Shareholders' Liabilities and Equity</b>		<u>269,482</u>	<u>240,823</u>
<b>TOTAL INSURANCE OPERATIONS' LIABILITIES AND SURPLUS AND SHAREHOLDERS' LIABILITIES AND EQUITY</b>		<u><u>1,112,487</u></u>	<u><u>1,184,374</u></u>

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Chief Financial Officer

  
\_\_\_\_\_  
Chief Executive Officer

The accompanying notes 1 to 31 form an integral part of these financial statements.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY  
 STATEMENT OF INSURANCE OPERATIONS AND ACCUMULATED SURPLUS  
 For the year ended 31 December 2017

	Notes	2017 SR'000	2016 SR'000
<b>INSURANCE REVENUE</b>			
Gross contributions	16 (a)	353,113	356,279
Investible contributions		(184,902)	(201,282)
Net insurance contributions		168,211	154,997
Reinsurance ceded	16 (a)	(91,277)	(74,627)
Net written contributions		76,934	80,370
Change in net unearned contributions		(1,559)	(53)
<b>Net insurance revenue</b>		<b>75,375</b>	<b>80,317</b>
<b>CLAIMS AND EXPENSES</b>			
Gross claims paid	16 (b)	(111,807)	(91,072)
Reinsurance share of claims paid	16 (b)	98,909	77,069
Net claims paid		(12,898)	(14,003)
Change in net outstanding claims and technical reserve	17	1,687	(5,056)
<b>Net claims incurred</b>		<b>(11,211)</b>	<b>(19,059)</b>
Policy related fees and other expenses		(8,908)	(7,872)
Supervision and inspection fee		(1,766)	(1,784)
<b>Total claims and expenses</b>		<b>(21,885)</b>	<b>(28,715)</b>
<b>Underwriting surplus for the year</b>		<b>53,490</b>	<b>51,602</b>
Investment fund fee	20(a)	5,469	5,007
General and administration expenses	19	(20,409)	(20,466)
Other income	18	4,466	4,772
<b>Surplus for the year from Insurance Operations</b>		<b>43,016</b>	<b>40,915</b>
Shareholders' share of surplus from Insurance Operations	2(b)	(38,714)	(36,824)
<b>Policyholders' share of surplus for the year</b>		<b>4,302</b>	<b>4,091</b>
Accumulated policyholders' surplus at the beginning of the year		13,396	9,305
<b>ACCUMULATED POLICYHOLDERS' SURPLUS AT THE END OF THE YEAR</b>		<b>17,698</b>	<b>13,396</b>

  
 \_\_\_\_\_  
 Director

  
 \_\_\_\_\_  
 Chief Financial Officer

  
 \_\_\_\_\_  
 Chief Executive Officer

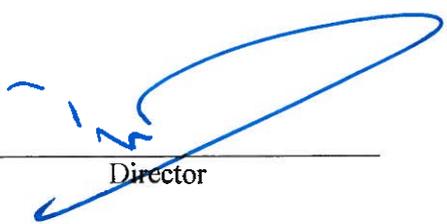
The accompanying notes 1 to 31 form an integral part of these financial statements.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## STATEMENT OF SHAREHOLDERS' OPERATIONS

For the year ended 31 December 2017

	<i>Notes</i>	<u>2017</u> <i>SR'000</i>	<u>2016</u> <i>SR'000</i>
Shareholders' share of surplus from Insurance Operations	2(b)	38,714	36,824
Unrealised gain on FVIS investments	6	5,698	3,790
Realised gain on FVIS investments		205	-
Realised gain on available-for-sale investments	7	727	146
Other income		267	967
<b>Total income</b>		<u>45,611</u>	<u>41,727</u>
General and administration expenses	19	(7,080)	(6,152)
Impairment loss on available-for-sale investments	7	-	(2,238)
<b>NET INCOME FOR THE YEAR</b>		<u>38,531</u>	<u>33,337</u>
Weighted average number of ordinary shares outstanding (in thousands)		<u>16,667</u>	<u>16,667</u>
Earnings per share for the year (SR)	27	<u>2.31</u>	<u>2.00</u>



\_\_\_\_\_  
Director



\_\_\_\_\_  
Chief Executive Officer



\_\_\_\_\_  
Chief Financial Officer

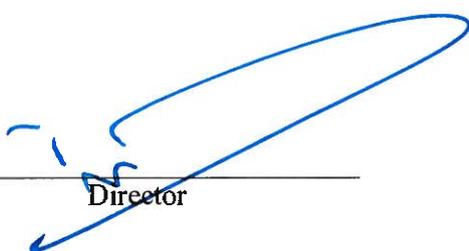
The accompanying notes 1 to 31 form an integral part of these financial statements.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

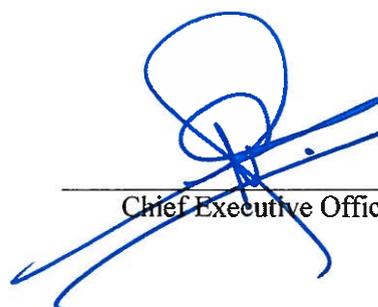
STATEMENT OF SHAREHOLDERS' COMPREHENSIVE INCOME

For the year ended 31 December 2017

	<u>2017</u> <i>SR'000</i>	<u>2016</u> <i>SR'000</i>
NET INCOME FOR THE YEAR	38,531	33,337
<b>Other comprehensive income:</b>		
<i>Items that may be reclassified to statement of Shareholders' Operations when conditions are met in the future</i>		
Transferred to statement of Shareholders' Operations on disposal/net change in fair value of available-for-sale investments (note 7)	(1,155)	2,011
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u><u>37,376</u></u>	<u><u>35,348</u></u>

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Chief Financial Officer

  
\_\_\_\_\_  
Chief Executive Officer

The accompanying notes 1 to 31 form an integral part of these financial statements.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2017

	<i>Share capital</i> SR'000	<i>Statutory reserve</i> SR'000	<i>Retained earnings</i> SR'000	<i>Cumulative changes in fair value of available- for-sale investments</i> SR'000	<i>Total</i> SR'000
Balance at 31 December 2015	166,667	11,970	16,384	(856)	194,165
Net income for the year	-	-	33,337	-	33,337
Dividend (note 29)	-	-	(8,333)	-	(8,333)
Zakat for the year (note 12)	-	-	(3,905)	-	(3,905)
Income tax for the year (note 12)	-	-	(1,568)	-	(1,568)
Transfer to statutory reserve (note 14)	-	6,667	(6,667)	-	-
<i>Other comprehensive income:</i>					
Net change in fair value of available-for-sale investments (note 7)	-	-	-	2,011	2,011
Balance as at 31 December 2016	166,667	18,637	29,248	1,155	215,707
Net income for the year	-	-	38,531	-	38,531
Dividend (note 29)	-	-	(8,333)	-	(8,333)
Zakat for the year (note 12)	-	-	(4,495)	-	(4,495)
Income tax for the year (note 12)	-	-	(653)	-	(653)
Income tax recovered from non-Saudi shareholders (note 29)	-	-	1,490	-	1,490
Transfer to statutory reserve (note 14)	-	7,706	(7,706)	-	-
<i>Other comprehensive loss:</i>					
Transferred to statement of shareholders' operations on disposal (note 7)	-	-	-	(1,155)	(1,155)
<b>Balance as at 31 December 2017</b>	<b>166,667</b>	<b>26,343</b>	<b>48,082</b>	<b>-</b>	<b>241,092</b>

\_\_\_\_\_  
Director

\_\_\_\_\_  
Chief Financial Officer

\_\_\_\_\_  
Chief Executive Officer

The accompanying notes 1 to 31 form an integral part of these financial statements.

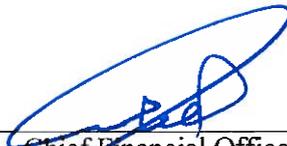
# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## STATEMENT OF INSURANCE OPERATIONS' CASH FLOWS

For the year ended 31 December 2017

	<i>Notes</i>	<u>2017</u> <i>SR'000</i>	<u>2016</u> <i>SR'000</i>
<b>OPERATING ACTIVITIES</b>			
Policyholders' share of surplus for the year		4,302	4,091
Adjustments for:			
Depreciation	10	2,321	2,134
Employees' end of service benefits, net		174	304
Reinsurance share of unearned contributions		(3,154)	(58)
Unearned contributions – gross		4,713	111
Allowance for doubtful receivables		322	361
Unrealised gains on re-measurement of FVIS investments	6	(1,349)	(2,122)
		<hr/>	<hr/>
Income before changes in operating assets and liabilities		7,329	4,821
Changes in operating assets and liabilities:			
Unit-linked investments		55,362	28,894
Contributions receivable, net		(4,797)	1,174
Reinsurance balances receivable		(3,920)	(3,217)
Accrued income		(77)	125
Prepayments and other receivables		(677)	(127)
Reinsurance share of outstanding claims		18,707	(27,681)
Technical reserve for Insurance Operations		(50,718)	(30,514)
Outstanding claims – gross		(21,268)	30,551
Reinsurance balances payable		(4,520)	560
Due to Shareholders' Operations		28,613	23,922
Due to related parties		784	(897)
Contributions received in advance		(4,811)	8,390
Accruals and other payables		4,748	(4,446)
		<hr/>	<hr/>
Net cash from operating activities		24,755	31,555
<b>INVESTING ACTIVITIES</b>			
Purchase of furniture, fittings and office equipment	10	(1,348)	(1,469)
Purchase of FVIS investments	6	(65,000)	(50,000)
Redemption of FVIS investments	6	49,000	-
		<hr/>	<hr/>
Net cash used in investing activities		(17,348)	(51,469)
		<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents		7,407	(19,914)
		<hr/>	<hr/>
Cash and cash equivalents at the beginning of the year		18,907	38,821
		<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	4	<u>26,314</u>	<u>18,907</u>

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Chief Financial Officer

  
\_\_\_\_\_  
Chief Executive Officer

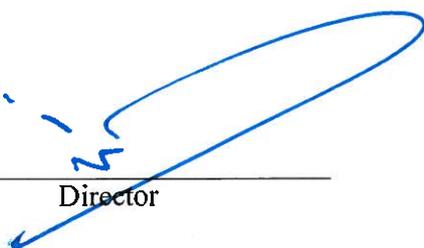
The accompanying notes 1 to 31 form an integral part of these financial statements.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## STATEMENT OF SHAREHOLDERS' CASH FLOWS

For the year ended 31 December 2017

	<i>Notes</i>	<u>2017</u> <u>SR'000</u>	<u>2016</u> <u>SR'000</u>
<b>OPERATING ACTIVITIES</b>			
Net income for the year		38,531	33,337
Adjustments for:			
Unrealised gains on re-measurement of FVIS investments	6	(5,698)	(3,790)
Gain on sale of available-for-sale investments	7	(727)	(146)
Impairment loss on available-for-sale investments	7	-	2,238
		<u>32,106</u>	<u>31,639</u>
Income before changes in operating assets and liabilities			
Changes in operating assets and liabilities:			
Due from a related party		(109)	-
Prepayments and other receivables		(118)	34
Return on statutory deposit		(318)	(364)
Due from Insurance Operations		(28,613)	(23,922)
Accruals and other payables		597	594
Accrued return on statutory deposit		318	364
Zakat and income tax paid	12	(2,106)	(1,892)
		<u>1,757</u>	<u>6,453</u>
Net cash from operating activities			
<b>INVESTING ACTIVITIES</b>			
Purchase of FVIS investments	6	(49,721)	(3,906)
Redemption of FVIS investments	6	46,000	-
Proceeds from disposal of available-for-sale investments	7	9,721	3,914
		<u>6,000</u>	<u>8</u>
Net cash from investing activities			
<b>FINANCING ACTIVITY</b>			
Dividends paid, net	29	(7,526)	(7,643)
		<u>231</u>	<u>(1,182)</u>
Net increase/(decrease) in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		126	1,308
		<u>357</u>	<u>126</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	4		
<b>Non-cash information</b>			
Income tax recovered from non-Saudi shareholders	29	1,490	-

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Chief Financial Officer

  
\_\_\_\_\_  
Chief Executive Officer

The accompanying notes 1 to 31 form an integral part of these financial statements.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2017

### 1 ORGANIZATION AND PRINCIPAL ACTIVITIES

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

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

The objective of the Company is to transact cooperative insurance operations and related activities in the Kingdom of Saudi Arabia. The Company commenced its commercial operations on 4 February 2008. The Company was listed on the Saudi Stock Exchange on 18 August 2007.

### 2 BASIS OF PREPARATION

#### a) *Basis of measurement*

The financial statements are prepared on the historical cost basis except for the measurement of Unit Linked Investments, Fair Value through Income Statement (FVIS) investments and Available-for-Sale (AFS) investments at their fair values.

#### b) *Statement of compliance*

During 2017 the Saudi Arabian Monetary Authority (“SAMA”) issued a Circular no. 381000074519 dated 11 April 2017 and subsequent amendments through certain clarifications relating to the accounting of zakat and income tax. The new guidance requires zakat and income tax to be accrued on a quarterly basis and recognized in the statement of shareholders’ equity with a corresponding liability recognized in the statement of financial position.

Applying the above framework, the financial statements of the Company for the year ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) as modified by SAMA for the accounting of zakat and income tax. As the Company’s accounting policy for zakat and income tax has always been consistent with the SAMA’s new guidance, the adoption of the guidance has not resulted in any changes in the accounting policies, accounting treatment or amounts reported in the current or prior years.

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

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2017

### 2 BASIS OF PREPARATION (continued)

#### b) *Statement of compliance (continued)*

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

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

If the Insurance Operations results in a deficit, the entire deficit is borne by the Shareholders' Operations.

In accordance with Article 70 of the Saudi Arabian Monetary Authority ("SAMA") Implementing Regulations, the Company must obtain SAMA approval before distribution of the policyholders surplus directly to policyholders at a time, and according to criteria, set by its board of directors, provided that the customer contract is active and paid up to date at the time of settlement of the cooperative distribution account.

The Company presents its statement of financial position in order of liquidity. Except for the statutory deposit, all other financial assets and liabilities are expected to be recovered and settled respectively, within twelve months after the reporting date.

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

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

#### d) *Use of estimates and judgements*

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

##### *Provision for outstanding claims*

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

##### *Premium deficiency reserve*

Estimation of the premium deficiency reserve is highly sensitive to a number of assumptions as to the future events and conditions. It is based on an expected loss ratio for the unexpired portion of the risk for written policies. To arrive at the estimate of the expected loss ratio, the actuary considers the claims and contribution relationship which are expected to apply in future.

##### *Allowance for doubtful receivables*

A provision for impairment of contributions receivable 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 contributions receivable are impaired.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2017

### 2 BASIS OF PREPARATION (continued)

#### d) Use of estimates and judgements (continued)

##### *Going concern*

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

##### *Fair values of financial instruments*

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

##### *Impairment losses on available-for-sale financial assets*

The Company determines that available-for-sale equity financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgment, the Company evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows.

##### *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 values and useful lives annually and the future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

### 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Company's financial statements for the year ended 31 December 2016 and adoption of the following new amendments, effective for annual period beginning on or after 1 January 2017, which had no financial impact on the financial statements of the Company.

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

The Company has adopted the following amendments to existing standards, which were issued by the International Accounting Standards Board (IASB):

##### Standard/

##### Amendments

##### Description

##### IAS 7

Amendments to IAS 7 – "Statement of Cash flows: Disclosure Initiative" The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods.

##### IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12 – "Disclosure of Interests in Other Entities", other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

The above standards did not have any impact on the financial statements' disclosures.

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

***Cash and cash equivalents***

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

***Contributions receivable***

Contributions receivable are recognised when due and measured on initial recognition at the fair value of the considerations received or receivable. The carrying value of contributions receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Any impairment loss is recorded in the statement of Insurance Operations and accumulated surplus. Contributions receivables are derecognised when the de recognition criteria for financial assets have been met.

***Financial instruments – recognition and measurement***

Financial assets consist of cash and cash equivalents, contributions receivable, reinsurance receivables, statutory deposit, unit linked investments, FVIS and AFS investments, due from Insurance Operations and other receivables. Financial liabilities consist of outstanding claims, reinsurance balances payable, amounts due to related parties, due to Shareholders' Operations and certain other liabilities.

***Date of recognition***

Regular way sale and purchases of financial instruments are recognised on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. Regular way purchases or sales are purchases or sales of financial instruments that require settlement of the instrument within the time frame generally established by regulation or convention in the market place.

***Recognition and measurement of financial instruments***

Financial instruments are recognized in the Company's financial statements when the Company becomes a party to the contractual provisions of the instrument. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through income statement, any directly attributable incremental costs of acquisition or issue. The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. Subsequent to initial measurement, financial instruments are carried at amortised cost except for unit linked investments, AFS investments and FVIS investments, which are carried at fair value.

***De-recognition***

***Financial assets***

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognised 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)**

***Financial instruments – de-recognition (continued)***

***Financial liabilities***

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires.

***Unit-linked investments***

Unit-linked investments held to cover unit-linked liabilities represent assets associated with certain contracts, for which the investment risk lies predominantly with the contract holder. These represent investments in short-term Murabaha funds, which are readily marketable, and are initially recognised at cost and subsequently remeasured at fair value. Unrealised gain on these investments is transferred to investment contract liabilities. The fair value is determined by reference to the net asset value quoted by the Fund Manager. Where partial holdings are sold, the cost of investments is calculated on a weighted average basis.

***Fair Value through Income Statement (FVIS) investments***

The FVIS investments represent investments in a discretionary portfolio by shareholder operations and investment by Insurance Operations in a mutual fund. FVIS Investments are marked-to-market using the fund's net asset value (NAV). The resultant realised and unrealised gains and losses are recognised in the statement of Shareholders' Operations or statement of Insurance Operations and accumulated surplus accordingly. Where partial holdings are sold, the cost of investments is calculated on a weighted average basis.

***Available-for-sale investments***

Investments which are classified as "available-for-sale" are subsequently measured at fair value. Available-for-sale investments are those investments that are not held to maturity nor held for trading. For an available-for-sale investment, any unrealised gain or loss arising from a change in its fair value is recognised directly under shareholders' comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss previously recognised under the shareholders' comprehensive income is included in the statement of Shareholders' Operations for the year. Available-for-sale investments whose fair value cannot be reliably measured are carried at cost less impairment provision.

***Impairment of financial assets***

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, any impairment loss is recognised in the statement of Insurance Operations and accumulated surplus or the statement of Shareholders' Operations. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of Insurance Operations and accumulated surplus or the statement of Shareholders' Operations.
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
- (c) For assets carried at amortized cost, impairment is the difference between the carrying amount and the present value of future cash flows discounted at the original effective commission rate.

***Fair values***

The fair value of financial assets that are actively traded in organised financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the financial reporting date. If quoted market prices are not available, reference is made to broker or dealer price quotations.

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

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

***Prepayments***

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to statements of Insurance Operations and accumulated surplus and Shareholders' Operations as they are consumed or expire with the passage of time.

***Furniture, fittings and office equipment***

Furniture, fittings and office equipment is 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. Work in progress is not depreciated and is carried at cost. The estimated useful lives of the assets for calculation of depreciation are as follows:

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

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 year is recognised in the statement of Insurance Operations and accumulated surplus. Similarly, impairment losses, if any, are recognised in the statement of Insurance Operations and accumulated surplus.

Expenditure for repairs and maintenance is charged to the statement of Insurance Operations and accumulated surplus. Improvements are capitalised only when it's probable that future economic benefits associated with the expenditure will flow to the Company.

***Impairment of non-financial assets***

The Company assesses at each reporting date whether there is any indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a 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 calculations on detailed budgets and forecast calculations, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of Insurance Operations and accumulated surplus and statement of Shareholders' Operations in expense categories consistent with the function of the impaired asset.

For assets, an assessment is made at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of Insurance Operations and accumulated surplus and statement of Shareholders' Operations unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

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

***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 retained earnings under the statement of changes in shareholders' equity. Accordingly, amounts reimbursed by the shareholders of such Zakat and income tax are credited to retained earnings.

As all Zakat and income tax charges will be recovered from the shareholders, no adjustments are made in the financial statements to account for the effects of deferred income taxes. The Company withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

***Accruals and other payables***

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

***Provisions***

Provisions are recognised when the Company has an obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

***Employees' end of service benefits***

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

***Foreign currencies***

The accounting records of the Company are maintained in Saudi Arabian Riyals. Transactions in foreign currencies are recorded at the exchange rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the statements of Insurance Operations and accumulated surplus or statement of Shareholders' Operations. As the Company's foreign currency transactions are primarily in US dollars, to which the Saudi Arabian Riyal is pegged, 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. Contributions relating to the insurance component are accounted for through the statement of Insurance Operations and accumulated surplus and the remaining element is accounted through the Insurance Operations' statement of financial position.

***Insurance contracts***

Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by assessing whether an insured event could cause the Company to pay significant additional benefits. The significance of insurance risk is dependent on both the probability of an insurance event and the magnitude of its potential effect.

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

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

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

***Investment contracts***

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

***Technical reserve for Insurance Operations***

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

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

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

***Reinsurance***

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

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

***Liability adequacy test***

At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the insurance contracts liabilities. In performing these tests, management uses current best estimates of future contractual cash flows and claims handling and administration expenses. Any deficiency in the carrying amounts is immediately charged to the statement of Insurance Operations and accumulated surplus by establishing a provision for losses arising from liability adequacy tests (the un-expired risk provision).

Where the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

***Claims***

Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, are charged to the statement of Insurance Operations and accumulated surplus as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Company and those not reported at the statement of financial position date.

The Company generally estimates its claims based on actuarial inputs. This includes a provision based on management's judgement and the cost of settling claims incurred but not reported at the statement of financial position date. The ultimate liability may be in excess of, or less than, the amount provided.

The Company does not discount its liability for unpaid claims.

***Acquisition fees***

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

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

***Entrance and administration fees***

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

***Commissions***

Commissions are paid to AlAhli Insurance Marketing Services Company Limited, sales staff, call centre staff, and are charged to expense as and when they are due.

***Offsetting***

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the assets and settle the liabilities simultaneously. Income and expenses are not offset in the statement of Insurance Operations and accumulated surplus or in the statement of Shareholders' Operations unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

***Segment reporting***

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

***Leases***

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

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2017

### 4 CASH AND CASH EQUIVALENTS

	<u>2017</u> <u>SR'000</u>	<u>2016</u> <u>SR'000</u>
<i>Insurance Operations</i>		
Cash in hand	9	4
Cash at bank (note (a) below)	26,305	18,903
	<u>26,314</u>	<u>18,907</u>
<i>Shareholders' Operations</i>		
Cash at bank (note (a) below)	357	126
	<u>357</u>	<u>126</u>

a) Cash at bank is held in bank accounts maintained with a shareholder (National Commercial Bank) (note 20).

### 5 UNIT-LINKED INVESTMENTS

#### *Insurance Operations*

Unit-linked investments comprise units of fund of funds, denominated in United States Dollars, which are managed by a subsidiary of the Company's major shareholder and are based in the Kingdom of Saudi Arabia.

	<u>2017</u> <u>SR'000</u>	<u>2016</u> <u>SR'000</u>
<i>Investments held to cover unit-linked liabilities:</i>		
AlAhli Multi-Asset Conservative Fund	381,095	435,117
AlAhli Multi-Asset Moderate Fund	176,647	182,760
AlAhli Multi-Asset Growth Fund	136,667	131,894
	<u>694,409</u>	<u>749,771</u>

The movement in unit-linked investments during the year is as follows:

	<u>2017</u> <u>SR'000</u>	<u>2016</u> <u>SR'000</u>
<i>Insurance Operations</i>		
Balance at the beginning of the year	749,771	778,665
Redemption during the year, net	(116,057)	(39,500)
Unrealised gains during the year (note 22b)	60,695	10,606
	<u>694,409</u>	<u>749,771</u>

### 6 FVIS INVESTMENTS

#### *Insurance Operations*

FVIS investments of Insurance Operations represent investments in AlAhli Diversified Saudi Riyal Trade Fund (a quoted income fund), managed by a subsidiary of the Company's major shareholder and is based in the Kingdom of Saudi Arabia. This investment is designated as FVIS investment upon initial recognition because it is managed on the fair value basis and its performance is actively monitored.

	<u>2017</u> <u>SR'000</u>	<u>2016</u> <u>SR'000</u>
AlAhli Diversified Saudi Riyal Trade fund	76,942	122,156
	<u>76,942</u>	<u>122,156</u>

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2017

**6 FVIS INVESTMENTS (continued)**

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

	<u>2017</u> <i>SR'000</i>	<u>2016</u> <i>SR'000</i>
<b><i>Insurance Operations</i></b>		
Balance at the beginning of the year	122,156	70,034
Purchases	65,000	50,000
Redemption	(49,000)	-
Transferred to Shareholders' Operations (see note (a) below)	(62,563)	-
Unrealised gain	1,349	2,122
	<u>76,942</u>	<u>122,156</u>
<b><i>Shareholders' Operations</i></b>		
	<u>2017</u> <i>SR'000</i>	<u>2016</u> <i>SR'000</i>
AlAhli Takaful discretionary portfolio	215,876	161,151
Investment in a real estate fund	6,997	7,079
AlAhli Diversified Saudi Riyal Trade Fund	21,255	3,916
	<u>244,128</u>	<u>172,146</u>

AlAhli Takaful discretionary portfolio and AlAhli Diversified Saudi Riyal Trade Fund are managed by a subsidiary of the Company's major shareholder. At the end of the year, AlAhli Takaful discretionary portfolio had investments in the following securities, which are denominated in Saudi Arabian Riyals and US Dollars:

	<u>2017</u> <i>SR'000</i>	<u>2016</u> <i>SR'000</i>
<b><i>Shareholders' Operations</i></b>		
Mutual funds	44,551	43,664
Murabaha deposits	97,045	65,667
Equity investments	4,392	-
Investments in sukuk	68,840	50,931
Other liquid assets	1,048	889
	<u>215,876</u>	<u>161,151</u>

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

	<u>2017</u> <i>SR'000</i>	<u>2016</u> <i>SR'000</i>
<b><i>Shareholders' Operations</i></b>		
Balance at the beginning of the year	172,146	164,450
Purchases	49,721	3,906
Redemption	(46,000)	-
Transferred from Insurance Operations (see note (a) below)	62,563	-
Unrealized gain	5,698	3,790
	<u>244,128</u>	<u>172,146</u>

- a) Amounts payable or receivable between Insurance Operations and Shareholders' Operations are settled by transfer of FVIS investments of equivalent value.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2017

7 AVAILABLE-FOR-SALE INVESTMENTS

	<u>2017</u> SR'000	<u>2016</u> SR'000
<i>Shareholders' Operations</i>		
Balance at the beginning of the year	10,149	14,144
Disposal	(9,721)	(3,914)
Impairment loss	-	(2,238)
Unrealised gain	-	2,011
Transferred to statement of Shareholders' Operations on disposal	(1,155)	-
Realised gain on sale	727	146
	<u>          </u>	<u>          </u>
<b>Balance at the end of the year</b>	<u>          </u> -	<u>          </u> 10,149

Available-for-sale investments comprised of investments in shares of certain companies listed in the Kingdom of Saudi Arabia. The investments have been disposed off in full during the year.

8 CONTRIBUTION RECEIVABLE, NET

	<u>2017</u> SR'000	<u>2016</u> SR'000
<i>Insurance Operations</i>		
Gross contributions receivable	5,964	1,620
Allowance for doubtful receivables	-	(131)
	<u>          </u>	<u>          </u>
Contributions receivable, net	<u>          </u> 5,964	<u>          </u> 1,489

As at 31 December, the ageing of unimpaired contributions receivable is as follows:

	<i>Total</i> SR'000	<i>Less</i> <i>than 90 days</i> SR'000	<i>91 to 180 days</i> SR'000	<i>181 to 365 days</i> SR'000	<i>Above 365 days</i> SR'000
2017	<u>          </u> 5,964	<u>          </u> 5,964	<u>          </u> -	<u>          </u> -	<u>          </u> -
2016	<u>          </u> 1,489	<u>          </u> 1,096	<u>          </u> -	<u>          </u> 393	<u>          </u> -

The Company classifies client balances as past due and impaired on a case by case basis. Impairment, if any, is recorded in the statement of insurance operations and accumulated surplus. It is not the practice of Company to obtain collateral over receivables and they are, therefore unsecured.

9 PREPAYMENTS AND OTHER RECEIVABLES

	<u>2017</u> SR'000	<u>2016</u> SR'000
<i>Insurance Operations</i>		
Prepaid rent	65	65
Advances to suppliers	764	238
Due from employees	563	429
Deposits against bank guarantee	17	-
	<u>          </u>	<u>          </u>
	<u>          </u> 1,409	<u>          </u> 732
	<u>          </u>	<u>          </u>
	<u>          </u> 2017 SR'000	<u>          </u> 2016 SR'000
<i>Shareholders' Operations</i>		
Deposits against bank guarantee (note 12)	3,997	3,997
Advances to suppliers	153	35
	<u>          </u>	<u>          </u>
	<u>          </u> 4,150	<u>          </u> 4,032

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2017

10 FURNITURE, FITTINGS AND OFFICE EQUIPMENT

*Insurance Operations*

	<u>Furniture and fittings</u> SR '000	<u>Computer and office equipment</u> SR '000	<u>Total 2017</u> SR '000	<u>Total 2016</u> SR '000
<b>Cost:</b>				
At 1 January 2017	2,015	15,109	17,124	15,655
Additions	-	1,348	1,348	1,469
<b>At 31 December 2017</b>	<b>2,015</b>	<b>16,457</b>	<b>18,472</b>	17,124
<b>Accumulated depreciation:</b>				
At 1 January 2017	1,469	8,873	10,342	8,208
Charge for the year (note 19)	72	2,249	2,321	2,134
<b>At 31 December 2017</b>	<b>1,541</b>	<b>11,122</b>	<b>12,663</b>	10,342
<b>Carrying amount:</b>				
<b>At 31 December 2017</b>	<b>474</b>	<b>5,335</b>	<b>5,809</b>	
At 31 December 2016	546	6,236		6,782

11 ACCRUALS AND OTHER PAYABLES

	<u>2017</u> SR '000	<u>2016</u> SR '000
<i>Insurance Operations</i>		
Underwriting expenses payable	7,588	4,384
Policies surrendered payable	2,458	1,534
Accrued expenses and other payables	7,678	7,058
	<b>17,724</b>	12,976
<i>Shareholders' Operations</i>		
Accrued expenses	491	414
Remuneration and other expenses payable to the Board and other committee members (note 21)	3,153	2,607
Other payables	1,224	1,250
	<b>4,868</b>	4,271

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2017

### 12 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>2017</u> <u>SR'000</u>	<u>2016</u> <u>SR'000</u>
Equity	206,406	194,165
Provisions and other adjustments	1,396	1,665
Book value of long-term assets	(22,529)	(7,239)
Adjusted income for the year	43,035	34,450
	<u>228,308</u>	<u>223,041</u>
Zakat base attributable to Saudi shareholders	<u>179,793</u>	<u>156,200</u>
Adjusted income attributable to Saudi shareholders	<u>33,890</u>	<u>23,495</u>

The differences between the financial and Zakatable results are mainly due to certain adjustments in accordance with the relevant fiscal regulations. Zakat is calculated at 2.5% of the higher of the Zakat base and adjusted income attributable to the Saudi shareholders.

#### Income tax

Income tax relating to the non-Saudi shareholders amounting to SR 653 thousand (2016: SR 1,568 thousand) consists of the current year charge, which has been provided for based on the estimated taxable profit using a tax rate of 20% (2016: 20%).

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

	<u>Zakat</u> <u>2017</u> <u>SR'000</u>	<u>Tax</u> <u>2017</u> <u>SR'000</u>	<u>Total</u> <u>2017</u> <u>SR'000</u>	<u>Total</u> <u>2016</u> <u>SR'000</u>
Balance at the beginning of the year	17,812	1,568	19,380	15,799
Charge for the year	4,495	653	5,148	5,473
Zakat and income tax paid	(614)	(1,492)	(2,106)	(1,892)
Balance at the end of the year	<u>21,693</u>	<u>729</u>	<u>22,422</u>	<u>19,380</u>

#### Status of assessments

Zakat and income tax returns have been submitted to the General Authority of Zakat and Tax (GAZT) for the period ended 31 December 2007 and for the years ended 31 December 2008 through 31 December 2016.

The GAZT raised an assessment for the period ended 31 December 2007 and for the years ended 31 December 2008 and 31 December 2009 demanding an additional Zakat and withholding tax liability of SR 3,997 thousand. The Company filed an appeal against additional Zakat of SR 3,921 thousand and paid additional withholding tax of SR 76 thousand and a delay penalty of SR 26 thousand under protest. The Preliminary Appeal Committee [PAC] issued their decision upholding the GAZT's treatment. The Company has filed an appeal against the PAC decision with the Higher Appeal Committee [HAC] and submitted a bank guarantee for the amount under dispute (see note 9). The HAC rendered its decision in favour of the Company on certain items. The Company has filed an appeal against the HAC decision with the Board of Grievances [BOG]. The management is confident of a favourable outcome from BOG.

GAZT has issued initial assessments for the years 2010 through 2014, disallowing investments from the Zakat base with additional Zakat liability of SR 9,571 thousand. The Company has filed an appeal against these initial assessments and is confident of a favourable outcome.

The GAZT has not yet raised any assessment for 2015 and 2016.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2017

### 13 SHARE CAPITAL

The authorised and issued share capital of the Company is SR 166.7 million divided into 16.67 million ordinary shares of SR 10 each. The founding shareholders of the Company have subscribed and paid for 9.81 million shares with a nominal value of SR 10 each, which represents 58.85% of the shares of the Company's capital and the remaining 6.86 million shares with a nominal value of SR 10 each have been subscribed for by the public.

### 14 STATUTORY RESERVE

As required by Saudi Arabian Insurance Regulations, 20% of the net income before Zakat and income tax shall be set aside as a statutory reserve until this reserve amounts to 100% of the paid up capital of the Company. Accordingly, SR 7,706 thousand (31 December 2016: SR 6,667 thousand) has been transferred from net income. The statutory reserve is not currently available for distribution.

### 15 STATUTORY DEPOSIT

	<u>2017</u> <u>SR'000</u>	<u>2016</u> <u>SR'000</u>
<i>Shareholders' Operations</i>		
Statutory deposit	<b>16,667</b>	16,667

As required by Saudi Arabian Insurance Regulations, the Company deposited 10% of its paid up share capital, amounting to SR 16,667 thousand (31 December 2016: SR 16,667 thousand) in the Al Ahli Diversified Saudi Riyal Trade Fund, denominated in Saudi Arabian Riyal, which is managed by a subsidiary of the Company's major shareholder and is based in the Kingdom of Saudi Arabia. The statutory deposit was invested in the above fund after obtaining written approval from SAMA. Commission accruing on this deposit is payable to SAMA and this deposit cannot be withdrawn without the approval from SAMA.

### 16 CHANGE IN UNEARNED CONTRIBUTIONS AND OUTSTANDING CLAIMS

#### a) Unearned contributions – net

	<u>2017</u>			<u>2016</u>		
	<i>Gross</i> <i>SR'000</i>	<i>Reinsurance</i> <i>share</i> <i>SR'000</i>	<i>Net</i> <i>SR'000</i>	<i>Gross</i> <i>SR'000</i>	<i>Reinsurance</i> <i>share</i> <i>SR'000</i>	<i>Net</i> <i>SR'000</i>
Unearned contributions at beginning of the year	285	(158)	127	174	(100)	74
Gross contributions (written)/ceded during the Year	<b>(353,113)</b>	<b>91,277</b>	<b>(261,836)</b>	(356,279)	74,627	(281,652)
Investible contributions and contributions earned during the year	<b>357,826</b>	<b>(94,431)</b>	<b>263,395</b>	356,390	(74,685)	281,705
Unearned contributions at end of the year	<b>4,998</b>	<b>(3,312)</b>	<b>1,686</b>	285	(158)	127

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2017

**16 CHANGE IN UNEARNED CONTRIBUTIONS AND OUTSTANDING CLAIMS (continued)**

b) *Outstanding claims – net*

	<u>2017</u>			<u>2016</u>		
	<i>Gross SR'000</i>	<i>Reinsurance share SR'000</i>	<i>Net SR'000</i>	<i>Gross SR'000</i>	<i>Reinsurance share SR'000</i>	<i>Net SR'000</i>
Outstanding at beginning of the year	44,968	(39,801)	5,167	14,417	(12,120)	2,297
Claims (paid)/recovered during the year	(111,807)	98,909	(12,898)	(91,072)	77,069	(14,003)
Incurred during the year	90,539	(80,202)	10,337	121,623	(104,750)	16,873
Outstanding at end of the year	<u>23,700</u>	<u>(21,094)</u>	<u>2,606</u>	<u>44,968</u>	<u>(39,801)</u>	<u>5,167</u>

**17 CHANGE IN NET OUTSTANDING CLAIMS AND TECHNICAL RESERVE**

	<u>2017 SR'000</u>	<u>2016 SR'000</u>
Change in outstanding claims – Gross	(21,268)	30,551
Change in outstanding claims – Reinsurance	18,707	(27,681)
Change in Incurred But Not Reported claims (IBNR) (note 22(b))	963	342
Change in allowance for the retained risk (note 22(b))	(89)	1,844
Change in net outstanding claims and technical reserve	<u>(1,687)</u>	<u>5,056</u>

**18 OTHER INCOME**

	<u>2017 SR'000</u>	<u>2016 SR'000</u>
Surplus from reinsurance	2,750	2,435
Unrealised gain on FVIS Investment	1,349	2,123
Realised gain on FVIS Investment	367	214
	<u>4,466</u>	<u>4,772</u>

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2017

19 GENERAL AND ADMINISTRATION EXPENSES

	<u>2017</u> <u>SR'000</u>	<u>2016</u> <u>SR'000</u>
<b><i>Insurance Operations</i></b>		
Employee costs	12,430	11,766
Information technology expenses	2,666	3,623
Depreciation (note 10)	2,321	2,134
Office rent	714	714
Repairs and maintenance	345	373
Allowance for doubtful receivables	322	361
Communication expenses	375	353
Professional and consultancy services	28	326
Others	1,208	816
	<u>20,409</u>	<u>20,466</u>
	<u>2017</u> <u>SR'000</u>	<u>2016</u> <u>SR'000</u>
<b><i>Shareholders' Operations</i></b>		
Board and other committee related expenses (note 21)	3,000	2,838
Legal and professional fees	3,103	2,789
Regulatory fees	335	260
Other	642	265
	<u>7,080</u>	<u>6,152</u>

20 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent major shareholders, directors and key management personnel of the Company and entities controlled, jointly controlled or significantly influenced by such parties. All transactions with such related parties are conducted on normal terms and conditions, which are approved by the management.

- a) Following are the details of related party transactions during the years ended 31 December 2017 and 2016:

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>	
			<u>2017</u> <u>SR'000</u>	<u>2016</u> <u>SR'000</u>
<b><i>Insurance Operations</i></b>				
National Commercial Bank	Shareholder	Gross group insurance contributions	122,043	109,611
		Gross claims paid	110,406	89,572
AlAhli Insurance Marketing Services Company Limited	Subsidiary of a Shareholder	Agency commissions and others	2,519	3,116
FWU	Shareholder	Administration fee	2,358	2,927
		Service charges	-	1,200
NCB Capital	Subsidiary of a Shareholder	Investment fund fee	5,469	5,007
Key management personnel		Short term benefits	3,611	3,522
		End of service benefits	161	157

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2017

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

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

	<u>2017</u> SR'000	<u>2016</u> SR'000
Due from National Commercial Bank - a shareholder – net of provision of doubtful receivable of nil (2016: SR 131 thousand) (included in contribution receivable, net)	822	1,489
Accrued investment fund fee receivable from subsidiary of a Shareholder	439	362
Due from NCB capital – Subsidiary of a shareholder	109	-
Due to FWU – a shareholder	(173)	(227)
Due to ALAHLI Insurance Marketing Services Company Limited - subsidiary of a shareholder	(1,775)	(937)
Due to related parties	(1,948)	(1,164)
Outstanding claims due to National Commercial Bank - a shareholder - gross	(18,244)	(41,166)

- c) In addition to the disclosures set out in notes 4, 5, 6, 11, 15 and 21 relating to related parties, amounts due from and due to related parties are shown in the Statement of Financial Position.

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

- a) Following are the details of Board of Directors and members of other committees' remuneration and related expenses during the years ended 31 December 2017 and 31 December 2016:

	<u>2017</u> SR'000	<u>2016</u> SR'000
<b>Shareholders' Operations</b>		
Board and other committees' remuneration	2,184	2,122
Board and other committees' attendance fees	470	276
Board accommodation and travel	346	440
Total (note 19)	3,000	2,838

- b) Payable to Board of Directors and members of other committees

	<u>2017</u> SR'000	<u>2016</u> SR'000
Remuneration and other expenses payable to Board and other committees	(3,153)	(2,607)

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 2016 (see above) were paid during 2017 after obtaining the approval in the Annual General Meeting held in May 2017.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2017

### 22 TECHNICAL RESERVE FOR INSURANCE OPERATIONS

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

	<u>2017</u> SR'000	<u>2016</u> SR'000
Technical reserve relating to the Participant Investment Strategies (unit liability)	703,335	754,927
Allowance for the retained risk	7,290	7,379
Incurred But Not Reported (IBNR) reserves, net	6,268	5,305
	<u>716,893</u>	<u>767,611</u>

- b) Movement in the technical reserve for Insurance Operations is as follows:

	<u>2017</u> SR'000	<u>2016</u> SR'000
Balance as at the beginning of the year	767,611	798,125
Change in Incurred But Not Reported Claims (IBNR) reserves (note 17)	963	342
Change in allowance for the retained risk (note 17)	(89)	1,844
Unrealised gains on unit-linked investments (note 5)	60,695	10,606
Investible contributions	184,902	201,282
Surrenders and maturities	(297,189)	(244,588)
	<u>716,893</u>	<u>767,611</u>
Balance at the end of the year	<u>716,893</u>	<u>767,611</u>

### 23 CLAIMS DEVELOPMENT TABLE

The Company aims to maintain adequate reserves in respect of its takaful business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences will be eliminated which result in the release of reserves from earlier accident years. In order to maintain adequate reserves, the Company will transfer much of this release to the current accident year reserves when the development of claim is less mature and there is much greater uncertainty attached to the ultimate cost of claims.

Claims triangulation analysis by accident year spanning a number of financial years is as follows:

<u>2017 - Gross</u> <i>Accident year</i>	<u>2013 and</u> <i>prior</i>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
At end of accident year	19,286	48,216	45,977	61,761	82,266	
One year later	24,520	75,290	76,783	90,983	-	
Two years later	24,625	77,927	78,883	-	-	
Three years later	25,126	80,998	-	-	-	
Four years later	26,522	-	-	-	-	
Current estimate of cumulative claims incurred	26,522	80,998	78,883	90,983	82,266	359,652
Cumulative payments to date	(23,769)	(75,818)	(75,995)	(89,653)	(70,717)	(335,952)
<b>Total gross insurance outstanding claims per the statement of financial position</b>	<u>2,753</u>	<u>5,180</u>	<u>2,888</u>	<u>1,330</u>	<u>11,549</u>	<u>23,700</u>

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2017

23 CLAIMS DEVELOPMENT TABLE (continued)

<i>2017 - Net Accident year</i>	<i>2013 and prior</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>Total</i>
	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>	<i>SR'000</i>
At end of accident year	1,890	9,067	5,520	9,746	7,910	
One year later	2,413	14,025	8,663	14,271	-	
Two years later	2,424	14,551	8,931	-	-	
Three years later	2,474	14,860	-	-	-	
Four years later	2,613	-	-	-	-	
Current estimate of cumulative claims incurred	2,613	14,860	8,931	14,271	7,910	48,585
Cumulative payments to date	(2,338)	(14,287)	(8,609)	(14,047)	(6,698)	(45,979)
<b>Total net insurance outstanding claims per the statement of financial position</b>	<b>275</b>	<b>573</b>	<b>322</b>	<b>224</b>	<b>1,212</b>	<b>2,606</b>

24 OPERATING SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer who makes strategic decisions. For management purposes, the activities of Insurance Operations, which are all in the Kingdom of Saudi Arabia, are reported under three business units, as detailed below:

- Insurance – individual segment offers life insurance products on an individual basis including unit linked investment oriented products.
- Insurance – group life segment offers life protection programmes to the members of organizations on a group basis.
- Insurance – group credit segment offers protection benefits in respect of personal loan given by financing organisation. This segment also include protection benefits in respect of various credit facilities other than personal loans extended by the financing organisations to the customers.

Operating segments do not include Shareholders' Operations of the Company.

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2017

24 OPERATING SEGMENT INFORMATION (continued)

	2017			
	<i>Insurance- individual SR '000</i>	<i>Insurance- group life SR '000</i>	<i>Insurance- group credit protection SR '000</i>	<i>Total SR '000</i>
<b>INSURANCE REVENUE</b>				
Gross contributions	224,401	13,329	115,383	353,113
Investible contributions	(184,902)	-	-	(184,902)
Net insurance contributions	39,499	13,329	115,383	168,211
Reinsurance ceded	(3,761)	(8,065)	(79,451)	(91,277)
Net written contributions	35,738	5,264	35,932	76,934
Change in net unearned contributions	-	(1,559)	-	(1,559)
<b>Net insurance revenue</b>	<b>35,738</b>	<b>3,705</b>	<b>35,932</b>	<b>75,375</b>
<b>CLAIMS AND EXPENSES</b>				
Gross claims paid	(1,136)	(8,565)	(102,106)	(111,807)
Reinsurance share of claims paid	906	7,924	90,079	98,909
Net claims paid	(230)	(641)	(12,027)	(12,898)
Change in net outstanding claims and technical reserve	(1,145)	(322)	3,154	1,687
<b>Net claims incurred</b>	<b>(1,375)</b>	<b>(963)</b>	<b>(8,873)</b>	<b>(11,211)</b>
Policy related fees and other expenses	(5,596)	(56)	(3,256)	(8,908)
Supervision and inspection fee	(1,122)	(67)	(577)	(1,766)
<b>Total claims and expenses</b>	<b>(8,093)</b>	<b>(1,086)</b>	<b>(12,706)</b>	<b>(21,885)</b>
<b>Underwriting surplus for the year</b>	<b>27,645</b>	<b>2,619</b>	<b>23,226</b>	<b>53,490</b>
Investment fund fee	5,469	-	-	5,469
	33,114	2,619	23,226	58,959
Unallocated amounts:				
- General and administration expenses				(20,409)
- Other income				4,466
<b>Surplus for the year from Insurance Operations</b>				<b>43,016</b>

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2017

24 OPERATING SEGMENT INFORMATION (continued)

	2016			<i>Total</i> SR'000
	<i>Insurance- individual</i> SR'000	<i>Insurance- group life</i> SR'000	<i>Insurance- group credit protection</i> SR'000	
<b>INSURANCE REVENUE</b>				
Gross contributions	246,164	7,232	102,883	356,279
Investible contributions	(201,282)	-	-	(201,282)
Net insurance contributions	44,882	7,232	102,883	154,997
Reinsurance ceded	(4,110)	(4,087)	(66,430)	(74,627)
Net written contributions	40,772	3,145	36,453	80,370
Change in net unearned contributions	-	(53)	-	(53)
<b>Net insurance revenue</b>	<b>40,772</b>	<b>3,092</b>	<b>36,453</b>	<b>80,317</b>
<b>CLAIMS AND EXPENSES</b>				
Gross claims paid	(1,221)	(5,129)	(84,722)	(91,072)
Reinsurance share of claims paid	1,012	3,248	72,809	77,069
Net claims paid	(209)	(1,881)	(11,913)	(14,003)
Change in net outstanding claims and technical reserve	(328)	302	(5,030)	(5,056)
<b>Net claims incurred</b>	<b>(537)</b>	<b>(1,579)</b>	<b>(16,943)</b>	<b>(19,059)</b>
Policy related fees and other expenses	(7,872)	-	-	(7,872)
Supervision and inspection fee	(1,235)	(35)	(514)	(1,784)
<b>Total claims and expenses</b>	<b>(9,644)</b>	<b>(1,614)</b>	<b>(17,457)</b>	<b>(28,715)</b>
<b>Underwriting surplus for the year</b>	<b>31,128</b>	<b>1,478</b>	<b>18,996</b>	<b>51,602</b>
Investment fund fee	5,007	-	-	5,007
	36,135	1,478	18,996	56,609
Unallocated amounts:				
- General and administration expenses				(20,466)
- Other income				4,772
<b>Surplus for the year from Insurance Operations</b>				<b>40,915</b>

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2017

24 OPERATING SEGMENT INFORMATION (continued)

	<i>As at 31 December 2017</i>			
	<u>Insurance- individual</u> SR'000	<u>Insurance- group life</u> SR'000	<u>Insurance- group credit protection</u> SR'000	<u>Total</u> SR'000
<b>INSURANCE OPERATIONS' ASSETS</b>				
Cash and cash equivalents	23,943	1,052	1,319	26,314
Unit-linked investments	694,409	-	-	694,409
FVIS investments	31,356	-	45,586	76,942
Contributions receivable, net	-	5,312	652	5,964
Accrued income	439	-	-	439
Reinsurance share of outstanding claims	1,433	2,587	17,074	21,094
Reinsurance balances receivable	-	677	6,636	7,313
Reinsurance share of unearned contributions	-	3,312	-	3,312
	<u>751,580</u>	<u>12,940</u>	<u>71,267</u>	<u>835,787</u>
Unallocated amounts:				
- Prepayments and other receivables				1,409
- Furniture, fittings and office equipment				5,809
<b>Total Insurance Operations' Assets</b>				<u><u>843,005</u></u>
<b>INSURANCE OPERATIONS' LIABILITIES AND SURPLUS</b>				
<b>Insurance Operations' Liabilities</b>				
Technical reserve for Insurance Operations	706,512	632	9,749	716,893
Unearned contributions – gross	-	4,998	-	4,998
Outstanding claims – gross	1,727	2,908	19,065	23,700
Reinsurance balances payable	10,485	1,402	39,186	51,073
Due to related parties	1,948	-	-	1,948
Contributions received in advance	4,235	-	-	4,235
Accruals and other payables	7,522	30	3,268	10,820
	<u>732,429</u>	<u>9,970</u>	<u>71,268</u>	<u>813,667</u>
Unallocated amounts:				
- Accruals and other payables				6,904
- Due to Shareholders' Operations				2,978
- Employees' end of service benefits				1,758
<b>Total Insurance Operations' Liabilities</b>				<u>825,307</u>
Surplus from Insurance Operations				17,698
<b>Total Insurance Operations' Liabilities and surplus</b>				<u><u>843,005</u></u>

ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2017

24 OPERATING SEGMENT INFORMATION (continued)

	<i>As at 31 December 2016</i>			
	<i>Insurance- individual SR '000</i>	<i>Insurance- group life SR '000</i>	<i>Insurance- group credit protection SR '000</i>	<i>Total SR '000</i>
<b>INSURANCE OPERATIONS' ASSETS</b>				
Cash and cash equivalents	15,704	623	2,580	18,907
Unit-linked investments	749,771	-	-	749,771
FVIS investments	70,603	-	51,553	122,156
Contributions receivable, net	-	400	1,089	1,489
Accrued income	362	-	-	362
Reinsurance share of outstanding claim	697	1,171	37,933	39,801
Reinsurance balances receivable	-	996	2,397	3,393
Reinsurance share of unearned contributions	-	158	-	158
	<u>837,137</u>	<u>3,348</u>	<u>95,552</u>	<u>936,037</u>
Unallocated amounts:				
- Prepayments and other receivables				732
- Furniture, fittings and office equipment				6,782
<b>Total Insurance Operations' Assets</b>				<u><u>943,551</u></u>
<b>INSURANCE OPERATIONS' LIABILITIES AND SURPLUS</b>				
<b>Insurance Operations' Liabilities</b>				
Technical reserve for Insurance Operations	757,151	445	10,015	767,611
Unearned contributions – gross	-	285	-	285
Outstanding claims – gross	797	1,358	42,813	44,968
Reinsurance balances payable	11,615	1,260	42,718	55,593
Due to related parties	1,164	-	-	1,164
Contributions received in advance	9,046	-	-	9,046
	<u>4,313</u>	<u>-</u>	<u>6</u>	<u>4,319</u>
Unallocated amounts:	784,086	3,348	95,552	882,986
- Accruals and other payables				
- Due to Shareholders' Operations				8,657
- Employees' end of service benefits				36,928
				1,584
<b>Total Insurance Operations' Liabilities</b>				<u>930,155</u>
Surplus from Insurance Operations				13,396
<b>Total Insurance Operations' Liabilities and surplus</b>				<u><u>943,551</u></u>

As at 31 December 2017 contribution receivable from a shareholder accounts for 13.78% (2016: 100%) of total contributions receivable. Gross contribution written from a major customer accounts for 35% (2016: 31%) of gross contributions of the Company.

**25 FAIR VALUES OF FINANCIAL INSTRUMENTS**

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

The Company's financial assets consist of cash and cash equivalents, unit-linked investments, FVIS investments, available-for-sale investments, net contributions receivable, other receivables and due from Insurance Operations, and its financial liabilities consist of outstanding claims, reinsurance balances payable, amount due to related parties, due to Shareholder Operations and other payables. The fair values of financial instruments are not materially different from their carrying values. As at 31 December 2017, apart from the investments which are carried at fair value (note 5, 6 and 7), there were no other financial instruments held by the Company that were measured at fair value.

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

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

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

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

As at 31 December 2017 and 31 December 2016, all financial instruments which are fair valued are Level 1 instruments except for investment in real estate fund and AlAhli Takaful discretionary portfolio which were Level 2 investments. The Company determines Level 2 fair values for these investments based on the net assets value of the respective funds as at the end of the reporting period. There are no transfers between Level 1, Level 2 and Level 3 during the year.

- c) Refer to note 5 for the fair value measurement of unit-linked investments, note 6 for details of the fair value measurements of FVIS investments and note 7 for fair value investments of available-for-sale investments.

**26 RISK MANAGEMENT**

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

*Risk management structure*

A cohesive organisational structure is established within the Company in order to identify, assess, monitor and control risks.

*Board of Directors*

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

*Senior management*

Senior management is responsible for the day to day operations towards achieving the strategic goals within the Company's Board authorised risk appetite parameters.

*Audit Committee*

The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and risk management, the audit there-of and the soundness of the internal controls of the Company.

*Internal audit*

All key operational, financial and risk management processes are audited by Internal Audit. Internal Audit examines the adequacy of the relevant policies and procedures, the Company's compliance with internal policies and regulatory guidelines. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.

**26 RISK MANAGEMENT (continued)**

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

**i) Insurance risk**

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

*Concentration of insurance risk*

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

*Key assumptions*

The frequency and severity of claims can be affected by several factors like natural disasters, flood, environmental and economical, atmospheric disturbances, concentration of risk, civil riots, etc. The Company manages these risks through conservative underwriting strategies and effective use of reinsurance arrangements.

*Frequency and amount of claims*

For individual life business, the main risk is the mortality and morbidity (permanent or temporary disability) of the insured. This is managed through an effective and clearly defined underwriting strategy. There are various levels of understanding carried out, including declaration of good health, medical questionnaire, reports from specialist/consultants and comprehensive medical tests. The Company also assesses financial, lifestyle and occupational information to ascertain the degree of risk carried by the insured and to determine whether or not it could be classified as a standard life.

For group life and group credit protection, the main risks are mortality and morbidity (permanent or temporary disability) of the insured. The mortality risk is compounded due to the concentration of lives, e.g. employees in the same workplace. The Company has a clearly defined underwriting strategy. There are various levels of understanding carried out, including declaration of good health, medical questionnaire, reports from specialist/consultants and comprehensive medical tests. The Company also looks at the nature of activity carried out by the group, group size, mix of lives by geographical regions, cultural background and manual/non-manual worker split.

The individual life business and group credit protection portfolios are protected through an efficient reinsurance arrangement. This protects the Company from adverse mortality/morbidity experience.

*Sensitivity of claims*

Insurance claim liabilities are sensitive to the various assumptions mentioned above. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process. A hypothetical 5% change in the net claims ratio, with other variables held constant, would impact income for the year by approximately SR 3,769 thousand (2016: SR 4,016 thousand) in aggregate.

**ii) Reinsurance risk**

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

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

The exception to this rule is in respect of local companies which do not carry any such credit rating. This, however, is limited to those companies registered and approved by the Local Insurance Regulators. Furthermore, the financial strength and managerial and technical expertise as well as historical performance, wherever applicable, are reviewed by the Company and matched against a list of requirements pre-set by the Company's management before approving them for exchange of reinsurance business.

**26 RISK MANAGEMENT (continued)**

**ii) Reinsurance risk (continued)**

Under the arrangements, the Insurance Operations retains 30% (2016: 30%) of the insurance cover in case of individual life insurance business (up to a maximum of SR 56,520 (2016: SR 56,250) per life) and 10% to 20% of the insurance cover is retained in respect of Group care and Group credit protection business. Any surplus made in the Reinsurance Fund on the Insurance risk (mortality risk) is paid into AlAhli Takaful Fund by the Reinsurers to be distributed amongst the policyholders.

**iii) Regulatory framework risk**

The operations of the Company are 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. The Company complied with the relevant regulations.

**iv) Capital management (solvency) risk**

Objectives are set by the Company to maintain healthy capital ratios in order to support its business objectives and maximise shareholders' value.

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 to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue new shares.

As per guidelines laid out by SAMA in Article 67 of the Implementing Insurance Regulations, the Company is required to maintain a solvency margin equivalent to an aggregate of the minimum Capital requirement, 0.3% and 0.1% of capital at risk for individual life and group life policies respectively after certain deductions and subject to a cap of 50% of total Capital at risk. The Company complied with the relevant regulations.

**v) Financial risk**

The Company's principal financial instruments are cash and cash equivalents, unit-linked investments, FVIS investments, available-for-sale investments, contributions receivable, gross outstanding claims, reinsurance share of outstanding claims, accrued income, other receivables, due from Insurance Operations, reinsurance balances payable/receivable, due to related parties, due to Shareholders' Operations and other payables. The Company does not enter into derivative transactions.

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

**Market price risk**

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

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

Investments in listed equity shares classified as available-for-sale investments are also exposed to risk of change in market prices.

A 5% increase/decrease in the value of FVIS investments of Insurance Operations, with all other variables held constant, would increase/decrease the statement of Insurance Operations and accumulated surplus by SR 3,847 thousand (2016: SR 6,108 thousand).

A 5% increase/decrease in the value of FVIS of Shareholders' Operations, with all other variables held constant, would increase/decrease the statement of Shareholders' Operations by SR 12,206 thousand (2016: SR 8,607 thousand).

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2017

### 26 RISK MANAGEMENT (continued)

#### v) Financial risk (continued)

##### *Foreign currency risk*

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management believes that there is minimal risk of losses due to exchange rate fluctuations as the Insurance Operations and Shareholders' Operations primarily deal in Saudi Riyals and in US Dollars. The Saudi Riyal is pegged to the US Dollar so balances in US Dollar do not carry any significant foreign currency risk.

##### *Commission rate risk*

Commission rate risk arises from the possibility that changes in commission rates will affect future profitability or the fair values of financial instruments. As the Company does not have any commission bearing assets or liabilities, the Company is not exposed to commission rate risk.

##### *Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company manages credit risk by setting credit limits and monitoring outstanding receivables.

The Company issues unit linked policies. In unit linked business, the plan holder bears the investment risk on the assets held in the unit linked funds as the policy benefits are directly linked to the value of the assets in the fund. Therefore the Company has no material credit risk on the unit linked investments. The table below shows the maximum exposure to credit risk for the components of the statement of financial position:

	<u>2017</u> <u>SR'000</u>	<u>2016</u> <u>SR'000</u>
<b><i>Insurance Operations</i></b>		
Cash at bank	26,305	18,903
Reinsurance share of outstanding claims	21,094	39,801
Contributions receivable, net	5,964	1,489
Due from employees	563	429
Accrued income	439	362
Reinsurance balances receivable, net	7,313	3,393
Other receivables	17	-
	<u>61,695</u>	<u>64,377</u>
<b><i>Shareholders' Operations</i></b>		
Cash at bank	357	126
Other receivables	5,090	4,772
	<u>5,447</u>	<u>4,898</u>

##### *Concentration of credit risk*

Concentration of credit risk exists when changes in economic or industry factors similarly affect groups of the counterparties whose aggregate credit exposure is significant in relation to the Company's total exposure.

Currently credit risk of bank balance, contributions receivable concentrated in a major shareholder of a Company (National Commercial Bank) and its subsidiary.

##### *Credit quality*

Bank balances and contribution receivable are with major shareholder of the Company (National Commercial Bank) with an A+ credit rating assigned by an international credit rating agency. Unit-linked and FVIS investments are not rated.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2017

### 26 RISK MANAGEMENT (continued)

#### v) Financial risk (continued)

##### *Liquidity risk*

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

The Insurance Operations' financial liabilities consist of outstanding claims, reinsurance balances payable, amount due to related parties 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.

### 27 EARNINGS PER SHARE

Earnings per share for the years ended 31 December 2017 and 31 December 2016 have been calculated by dividing the net income for the year by the ordinary issued and outstanding shares at the Statement of Financial Position date. Diluted earnings per share is not applicable for the Company.

### 28 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's financial statements are listed below. The listing is of standards and interpretations issued, which the Company reasonably expects to be applicable to it at a future date and therefore excludes those not expected to be applicable. The Company intends to adopt these standards when they are effective.

<u>Standard/ Interpretation</u>	<u>Description</u>	<u>Effective from periods beginning on or after the following date</u>
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
IFRS 9	Financial Instruments	Refer below*

\* IFRS 17 also introduces a temporary exemption for the implementation of IFRS 9 for reporting entities whose activities predominantly relate to insurance. The Company is currently assessing the implications and application date and expects that it will be eligible for this temporary exemption. If management decides to defer the implementation of IFRS 9 until a later date, it will be no later than 1 January 2021.

The management is currently assessing the implications of adopting the above mentioned standards, amendments and interpretations on the Company's financial statements.

# ALAHLI TAKAFUL COMPANY – A SAUDI JOINT STOCK COMPANY

---

## NOTES TO THE FINANCIAL STATEMENTS (continued)

As at 31 December 2017

### **29 DIVIDEND**

On 7 Jumada Al-Alkhirah 1438H (corresponding to 6 March 2017), the Company's Board of Directors (BoD) proposed to pay a dividend, for the year ended 31 December 2016, of SR 0.5 per share totalling SR 8.33 million to its shareholders (31 December 2016: SR 8.33 million). This dividend proposal was approved by the shareholders in the Ordinary General Assembly Meeting held on 11 Sha'ban 1438H (corresponding to 7 May 2017). Accordingly, the dividend payment was made on 25 Shab'an 1438H (corresponding to 21 May 2017). On 22 Dhul Qadah 1438H (corresponding to 14 August 2017), the BoD approved to pay dividend to non-Saudi shareholders after deducting income tax amounting to SR 1,490 thousand (2016: SR nil).

### **30 COMPARATIVE FIGURES**

Certain of the comparative figures have been reclassified where necessary to conform to the presentation in the current year.

### **31 APPROVAL OF FINANCIAL STATEMENTS**

These financial statements have been approved by the Board of Directors on 15 March 2018, corresponding to 27 Jumada II 1439H.