METHAQ TAKAFUL
INSURANCE COMPANY P.S.C.

Reports and financial statements for the year ended 31 December 2011

METHAQ TAKAFUL INSURANCE COMPANY P.S.C.

Reports and financial statements
for the year ended 31 December 2011

METHAQ TAKAFUL INSURANCE COMPANY P.S.C.

BOARD OF DIRECTORS

Chairman	Mr. Khalifa Khouri
Vice Chairman	Mr. Abdullah Al Houti (appointed on 24 October 2011)
	Mr. Sultan Bin Thaaloub (resigned on 24 January 2011)
Directors	Mr. Fawaz Zakko (appointed on 5 June 2011)
	Mr. Saud Ali Al-Suwaidi (appointed on 5 June 2011)
	Mr. Hamid Alkirbi
	Mr. Bilal Tayara
	Mr. Obaid Al Suwaidi (appointed on 5 June 2011)
	Mr. Abdullah Al Maamari
	Mr. Yasser Jarallah (resigned on 5 June 2011)
	Mr. Nasser Al Shawaf (resigned on 5 June 2011)
Managing Director	Mr. Mohamed Al Dhaheri
Auditors	Deloitte & Touche (M.E.)

HEAD OFFICE

Al Nahyan Camp
Next to One to One Hotel
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DUBAI BRANCH

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THE BOARD OF DIRECTORS' ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

On behalf of the Board of Directors, We have the privilege to present the financial results of Methaq Takaful Insurance (P.S.C) for the year ended 31 December 2011.

Despite the global financial and economic meltdown and turmoil of the regional market which characterized the year 2011, we are pleased to report that the Company posted a strong asset position in 2011. This was highlighted by sound strategic and operational progress.

On the policyholders' side, the gross takaful contributions (premiums) grew by 31% in 2011 to AED 102,468,911 against AED 78,260,208 in 2010 and all Takaful lines of business have shown positive performance due to a prudent underwriting strategy adopted by top management. Nevertheless, the health takaful line results were less than expectation due to several external factors such as inflation and unexpected price increases from the medical service providers. On the other side, the Company's technical provisions have increased by 39%, reflecting its conservative provisioning policy.

The results are summarised as below:

Brief of the Balance Sheet:	**31 December 2011 AED**	**31 December 2010 AED**
Total Assets	227,018,045	222,795,784
Total Liabilities	135,120,007	82,834,548
Total Shareholders' Equity	91,898,038	139,961,236
Brief of the Income Statement:	**31 December 2011 AED**	**31 December 2010 AED**
Total Revenues (Gross Takaful Contributions)	102,468,910.78	78,260,207.66
Net Deficit From Takaful Operations	(28,259,947.98)	(2,799,395.45)
Loss for the Period	(51,093,197.56)	(15,619,804.33)
Loss Per share	(0.34)	(0.10)

Looking forward, Methaq is confident and prepared for facing the challenges in the year 2012 by setting ambitious strategic goals. This is a reflection of the continued confidence and support of its shareholders, customers along with Methaq's team that is comprised of professionals and technical experts. Our strategic direction focuses on the following key objectives to deliver enhanced sustainable returns for the Policyholders and the Shareholders:

- Targeted profitable growth;
- Enlarged market scope;
- Operational excellence;
- Sustainable earnings.

THE BOARD OF DIRECTORS' ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

Methaq has a very sound Corporate Governance in place and all the regulatory and legislative compliance is made timely, thereby reflecting a positive image of the Company and entrusting strong confidence amongst its customers, staff and all concerned entities.

On behalf of the Board of Directors, we reiterate our commitment to the growth and development of the UAE and particularly to the Abu Dhabi's 2030 vision under the leadership of His Highness Sheikh Khalifa bin Zayed Al Nahyan, the President of the UAE and the Ruler of Abu Dhabi and His Highness Sheikh Mohammed bin Rashid Al Maktoum, the Vice President, the Ruler of Dubai, and His Highness Sheikh Mohammed Bin Zayed Al Nahyan, the Crown Prince and all the Rulers of the UAE.

We also take this opportunity to thank and appreciate the staff and the management of Methaq Takaful Insurance Company for their continued efforts, hard work, and sincerity. We also express our sincere thanks to the Company's Shareholders, clients, and all those institutions and individuals with whom the Company deals in the UAE locally, in the region, and at the international level.

On Behalf of the Board of Directors

P.O.Box: 32774 Abu Dhabi U.A.E
Methaq Takaful Insurance-PSC

Mohammed Al Dhaheri
Managing Director

27 March 2012

Deloitte.

Deloitte & Touche (M.E.)
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Methaq Takaful Insurance Company P.S.C.
Abu Dhabi, UAE

Report on the financial statements

We have audited the accompanying financial statements of Methaq Takaful Insurance Company P.S.C. (the "Company"), which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT (Continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Methaq Takaful Insurance Company P.S.C. at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The financial statements of the Company for the year ended 31 December 2010 were audited by another auditor who expressed an unmodified opinion on those statements dated 28 March 2011.

Report on other legal and regulatory requirements

Also, in our opinion, proper books of account are maintained by the Company, and the financial information included in the Board of Directors' report is in agreement with the books of account. We have obtained all the information which we considered necessary for the purpose of our audit. According to the information available to us, there were no contraventions during the year of the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended), the UAE Federal Law No. (6) of 2007 concerning the formation of Insurance Authority of UAE or the Articles of Association of the Company which might have a material effect on the financial position of the Company or on the results of its financial performance for the year.

Deloitte & Touche (M.E.)

Saba Y. Sindaha
Registration Number 410
27 March 2012

METHAQ TAKAFUL INSURANCE COMPANY P.S.C.

Statement of financial position as at 31 December 2011

	Notes	2011 AED	2010 AED (restated)	2009 AED (restated)
ASSETS				
Property and equipment	5	**2,046,303**	2,873,337	2,719,339
Investment property	6	**19,300,000**	21,386,750	-
Available for sale investment	7	**-**	20,000,000	-
Investments at FVTOCI	7	**40,250,000**	-	-
Investments at FVTPL	7	**21,391,932**	-	-
Loan to policyholders, net	15	**8,259,948**	8,935,006	9,121,704
Takaful and other receivables	10	**68,154,150**	37,272,412	29,544,821
Retakaful contract assets	8	**15,944,044**	20,785,314	2,009,399
Deferred acquisition costs		**3,437,527**	3,758,835	5,547,633
Statutory deposit	11	**6,000,000**	6,000,000	6,000,000
Cash and bank balances	11	**42,234,141**	101,784,130	166,108,740
Total assets		**227,018,045**	222,795,784	221,051,636
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	12	**150,000,000**	150,000,000	150,000,000
Legal reserve	13	**1,700,807**	1,700,807	1,700,807
General reserve	14	**1,700,807**	1,700,807	1,700,807
Investment revaluation reserve		**3,030,000**	-	-
Accumulated losses		**(64,533,576)**	(13,440,378)	5,929,426
Net Shareholders' equity		**91,898,038**	139,961,236	159,331,040
Policyholders' fund				
Deficit in Policyholders' fund	15	**(40,181,047)**	(11,921,099)	(9,121,704)
Loan from Shareholders	15	**40,181,047**	11,921,099	9,121,704
Net Policyholders' fund		**-**	-	-
LIABILITIES				
Provision for employees' end of service benefits	16	**397,228**	452,125	430,274
Takaful contract liabilities	8	**79,571,143**	57,837,597	47,310,161
Unearned retakaful commission		**545,933**	249,930	217,296
Retakaful and other payables	17	**47,786,582**	12,860,589	5,237,219
Zakat payable	18	**-**	6,876,967	7,677,034
Retakaful deposits retained	19	**6,819,121**	4,557,340	848,612
Total liabilities		**135,120,007**	82,834,548	61,720,596
Total equity and liabilities		**227,018,045**	222,795,784	221,051,636

شركة ميثاق للتأمين التكافلي ش.م.ع
P.O.Box: 32774 Abu Dhabi U.A.E
Methaq Takaful Insurance PSC

Vice Chairman **Managing Director**

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

METHAQ TAKAFUL INSURANCE COMPANY P.S.C.

Statement of comprehensive income
for the year ended 31 December 2011

	Notes	2011 AED	2010 AED
Attributable to Policyholders			
Gross takaful contributions revenue		**102,468,911**	78,260,208
Change in unearned contribution provision		**(10,354,333)**	(3,793,692)
Takaful contributions		**92,114,578**	74,466,516
Retakaful contributions ceded		**(20,100,872)**	(24,663,232)
Excess of loss contributions ceded		**(2,124,000)**	(2,454,000)
Change in retakaful unearned contribution provision		**(2,327,604)**	12,358,937
Retakaful contributions ceded		**(24,552,476)**	(14,758,295)
Net takaful contributions earned		**67,562,102**	59,708,221
Retakaful commission income		**802,239**	423,322
Total underwriting income		**68,364,341**	60,131,543
Gross claims incurred	**20**	**(96,826,189)**	(54,750,985)
Retakaful share of claims incurred	**20**	**25,804,318**	12,207,200
Net claims incurred	**20**	**(71,021,871)**	(42,543,785)
Expenses for acquisition of takaful contracts		**(8,259,767)**	(9,527,176)
Total underwriting expenses		**(79,281,638)**	(52,070,961)
Net underwriting (loss)/income		**(10,917,297)**	8,060,582
Allowance for doubtful takaful receivables		**(6,113,554)**	(3,770,283)
Wakala fees	**21**	**(11,237,390)**	(7,362,462)
Policyholders' investment income		**9,214**	303,076
Mudarib fees	**21**	**(921)**	(30,308)
Deficit of takaful results for the year		**(28,259,948)**	(2,799,395)

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

METHAQ TAKAFUL INSURANCE COMPANY P.S.C.

Statement of comprehensive income
for the year ended 31 December 2011 (continued)

	Notes	2011 AED	2010 AED (restated)
Attributable to Shareholders			
Shareholders' investment income		**2,375,305**	5,596,042
Wakala fees from Policyholders	21	**11,237,390**	7,362,462
Mudarib fees from Policyholders	21	**921**	30,308
Net rental income from investment property		**703,121**	324,101
Reversal of zakat payable and provision for litigation		**4,564,929**	-
Net investment (losses)/income	22	**(10,422,568)**	4,727
Decrease in fair value of investments at FVTPL	7.2	**(6,615,873)**	-
Allowance for loan to Policyholders		**(28,935,006)**	(2,986,093)
General and administrative expenses		**(24,001,417)**	(25,951,351)
Loss for the year	23	**(51,093,198)**	(15,619,804)
Other comprehensive income:			
Increase in fair value of investments at FVTOCI		**3,030,000**	-
Total comprehensive loss for the year		**(48,063,198)**	(15,619,804)
Basic and diluted losses per ordinary share	24	**(0.34)**	(0.10)

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

METHAQ TAKAFUL INSURANCE COMPANY P.S.C.

Statement of changes in equity
for the year ended 31 December 2011

	Share capital AED	Legal reserve AED	General reserve AED	Investment revaluation reserve AED	Retained earnings/ (accumulated losses) AED	Net shareholders' equity AED
Balance at 1 January 2010	150,000,000	1,700,807	1,700,807	-	5,929,426	159,331,040
Dividends paid	-	-	-	-	(3,750,000)	(3,750,000)
Total comprehensive loss for the year	-	-	-	-	(15,619,804)	(15,619,804)
Balance at 1 January 2011	150,000,000	1,700,807	1,700,807	-	(13,440,378)	139,961,236
Total comprehensive income/(loss) for the year	-	-	-	3,030,000	(51,093,198)	(48,063,198)
Balance at 31 December 2011	**150,000,000**	**1,700,807**	**1,700,807**	**3,030,000**	**(64,533,576)**	**91,898,038**

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

METHAQ TAKAFUL INSURANCE COMPANY P.S.C.

Statement of cash flows
for the year ended 31 December 2011

	2011 AED	2010 AED
Operating activities		
Deficit of takaful results for the year, attributable to the Policyholders	(28,259,948)	(2,799,395)
Loss for the year, attributable to the Shareholders	(51,093,198)	(15,619,804)
	(79,353,146)	(18,419,199)
Adjustments for:		
Depreciation of property and equipment	1,497,879	1,325,093
Depreciation of investment property	1,111,000	833,250
End of service benefit charge	234,577	134,444
Reversal of zakat payable	(3,064,929)	-
Income from investments deposits	(2,384,519)	(5,899,118)
Loss on sale of investments at FVTPL	9,952,081	-
Fair value changes on investments at FVTPL	6,615,873	-
Impairment loss on investment property	975,750	-
Allowance for doubtful takaful receivables	6,113,554	3,770,283
Allowance for doubtful balances due from related parties	1,551,122	665,284
Allowance for loan to Policyholders	28,935,006	2,986,093
(Reversal)/provision for litigation	(1,500,000)	1,500,000
Operating cash flows before changes in operating assets and liabilities	(29,315,752)	(13,103,870)
Decrease in deferred acquisition costs	321,308	1,788,798
Decrease/(increase) in retakaful contract assets	4,841,267	(18,775,915)
Increase in takaful and other receivables	(38,546,413)	(12,098,902)
Increase in takaful contract liabilities	20,233,546	10,527,436
Increase in retakaful and other payables	37,925,993	6,123,370
Increase in unearned retakaful commission	296,003	32,634
Increase in retakaful deposits retained	2,261,781	3,708,728
Cash used in operating activities	(1,982,267)	(21,797,721)
Employees' end of service benefit paid	(289,474)	(112,593)
Income from investment deposits	2,384,519	5,834,862
Zakat paid	(3,812,038)	(800,067)
Net cash used in operating activities	(3,699,260)	(16,875,519)
Investing activities		
Payments for purchase of investment property	-	(22,220,000)
Payments for purchase of property and equipment	(670,845)	(1,479,091)
Purchase of investments at FVTOCI	(17,220,000)	-
Purchase of investments at FVTPL	(328,017,456)	-
Proceeds from sale of investments at FVTPL	290,057,570	-
Purchase of available for sale investments	-	(20,000,000)
(Decrease)/increase in bank deposits with original maturity of greater than three months	(4,009,955)	10,700,000
Net cash used in investing activities	(59,860,686)	(32,999,091)
Financing activities		
Dividends paid	-	(3,750,000)
Net decrease in cash and cash equivalents	(63,559,946)	(53,624,610)
Cash and cash equivalents at the beginning of the year	72,484,130	126,108,740
Cash and cash equivalents at the end of the year (note 11)	8,924,186	72,484,130

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

Notes to the financial statements
for the year ended 31 December 2011

1 General information

Methaq Takaful Insurance Company P.S.C. (the "Company") is a public shareholding company registered with the Department of Planning and Economy, Abu Dhabi with a trade license number 1142419 in accordance with Federal Law number 8 of 1984 (as amended) relating to Commercial Companies in the UAE. The registered address of the Company is P.O. Box 32774, Abu Dhabi, United Arab Emirates.

The Company operates through the main office and has branches incorporated in Dubai and Al Ain under trade license number 617826.

The principal activities of the Company are to carry out general takaful and retakaful activities.

The Company is listed on the Abu Dhabi Stock Exchange.

2 Adoption of new and revised International Financial Reporting Standards (IFRSs)

2.1 New and revised IFRSs applied with no material effect on the financial statements

The following new and revised IFRSs have been adopted in these financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

New and revised IFRSs	Summary of requirement
Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters*	The amendments give first time adopters the same transition provisions that Amendments to IFRS 7 provides to current IFRS preparers.
Amendments to IFRS 3 *Business Combinations*	The amendments clarify the measurement choice regarding non-controlling interests at the date of acquisition and regarding the accounting for share-based payment awards held by acquiree's employees.
Amendments to IAS 1 *Presentation of Financial Statements*	The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements.
IAS 24 *Related Party Disclosures (as revised in 2009)*	IAS 24 (revised in 2009) has been revised on the following two aspects: definition of a related party and the introduction of a partial exemption from the disclosure requirements for government-related entities.

2 Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.1 New and revised IFRSs applied with no material effect on the financial statements (continued)

New and revised IFRSs	Summary of requirement
Amendment to IAS 32 *Classification of Rights Issues*	The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments.
Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*	The amendments address when refunds or reductions in future contributions should be regarded as available; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of a prepaid minimum funding contribution.
Amendment to IFRS 7 *Financial Instruments: Disclosures relating to transition to IFRS 9 (or otherwise when IFRS 9 is first applied)*	This has been early adopted with no impact as the Company has adopted IFRS 9 during the year.
IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*	The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments.
Improvements to *IFRSs* issued in 2010	The application of *Improvements to IFRSs* issued in 2010 which amended IFRS1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13.

Notes to the financial statements
for the year ended 31 December 2011 (continued)

2 Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2 New and revised IFRSs in issue but not yet effective

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
Amendment to IFRS 7 *Financial Instruments: Disclosures,* relating to Disclosures on Transfers of Financial Assets	1 July 2011
Amendment to IFRS 1 *Removal of Fixed Dates for First-time Adopters*	1 July 2011
Amendment to IFRS 1 *Severe Hyperinflation*	1 July 2011
Amendment to IAS 12 *Income Taxes* relating to Deferred Tax – Recovery of Underlying Assets	1 January 2012
Amendment to IAS 1 *Presentation of Financial Statements* relating to presentation of items of other comprehensive income	1 July 2012
IAS 19 *Employee Benefits* (as revised in 2011)	1 January 2013
IAS 27 *Separate Financial Statements* (as revised in 2011)	1 January 2013
IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011)	1 January 2013
IFRS 10 *Consolidated Financial Statements*	1 January 2013
IFRS 11 *Joint Arrangements*	1 January 2013
IFRS 12 *Disclosure of Interests in Other Entities*	1 January 2013
IFRS 13 *Fair Value Measurement*	1 January 2013
Amendment to IFRS 7 *Financial Instruments: Disclosures* relating to offsetting of financial assets and financial liabilities	1 January 2013
IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*	1 January 2013
Amendment to IAS 32 *Financial Instruments: Presentation* relating to offsetting of financial assets and financial liabilities	1 January 2014

Management anticipates that these amendments will be adopted in the financial statements for the initial period when they become effective. Management has not yet had the opportunity to consider the potential impact of the adoption of these amendments.

3 Summary of significant accounting policies

3.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates (UAE) Federal Law No. 8 of 1984 (as amended) and Federal Law No. 6 of 2007, concerning the formation of Insurance Authority of UAE.

3.2 Basis of preparation

The financial statements have been prepared on the historical cost basis except for the revaluation of investment properties and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies applied in the preparation of these financial statements are set out below:

3.3 Change in accounting policy

The Company adopted IFRS 9 *Financial Instruments* (IFRS 9) in 2011 in advance of its effective date. The Company has chosen 30 June 2011 as its date of initial application (i.e. the date on which the Company has assessed its existing financial assets).

IFRS 9 specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are now measured either at amortised cost or fair value.

Debt instruments are measured at amortised cost only if (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. If either of the two criteria is not met the financial instrument is classified as at fair value through profit or loss (FVTPL). Additionally, even if the asset meets the amortised cost criteria the Company may choose at initial recognition to designate the financial asset as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. In the current period, the Company has not elected to designate any debt instruments meeting the amortised cost criteria as at FVTPL.

Only financial assets that are classified as measured at amortised cost are tested for impairment.

Investments in equity instruments are classified and measured as at FVTPL except if the equity investment is not held for trading and is designated by the Company as at fair value through other comprehensive income (FVTOCI). If the equity investment is designated as at FVTOCI, all gains and losses, except for dividend income recognised in accordance with IAS 18 *Revenue*, are recognised in other comprehensive income and are not subsequently reclassified to profit or loss.

In 2011, the Board of Directors have reviewed and assessed all of the Company's existing financial assets as at the date of initial application of IFRS 9. As a result, the Company's equity instruments which are not held for trading purposes have been designated as at FVTOCI.

3 Summary of significant accounting policies (continued)

3.3 Change in accounting policy (continued)

The reclassification of financial assets on initial application of IFRS 9 has resulted in the designation of equity instruments previously classified as financial assets at available-for-sale as at FVTOCI. There were no other investments held by the Company as at 30 June 2011.

For more information and detail on the new classification, see note 7.

The impact of adopting IFRS 9 has been effected in 2011 without prior period restatement.

3.4 Takaful contracts

Definition

The Company issues contracts that transfer takaful risk. Takaful contracts are those contracts that transfer significant takaful risk. As a general guideline, the Company defines significant takaful risk as the possibility of having to pay benefits on the occurrance of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Recognition and measurement

General takaful contracts protect the Company's customers for damage suffered to their assets as well as against the risk of causing harm to third parties as a result of their legitimate activities. General takaful contracts also protect the Company's cutomers from the consequences of events such as illness and disability.

For all these contracts, contributions are recognised as revenue proportionally over the period of coverage. The portion of contributions received on in-force contracts that relates to unexpired risks at the reporting date is reported as the unearned contributions liability. Contributions are shown before deduction of commission.

Claims and loss adjustment expenses are charged to profit or loss as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the reporting date even if they have not yet been reported to the Company.

The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

Notes to the financial statements
for the year ended 31 December 2011 (continued)

3 Summary of significant accounting policies (continued)

3.4 Takaful contracts (continued)

Retakaful contract assets

Contracts entered into by the Company for retakaful under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements of takaful contracts are classified as retakaful contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

Takaful contracts entered into by the Company under which the contract holder is involved in takaful activities are included with takaful contracts. The benefits to which the Company is entitled under its retakaful contracts held are recognised as retakaful contract assets. The Company assesses its retakaful contract assets for impairment on a regular basis. If there is objective evidence that the retakaful contract asset is impaired, the Company reduces the carrying amount of the retakaful contract assets to its recoverable amount and recognises that impairment loss in the income statement. Amounts recoverable from or due to retakaful holders are measured consistently with the amounts associated with the retakaful contracts and in accordance with the terms of each retakaful contract.

Takaful contract liabilities

Takaful contract liabilities towards outstanding claims are made for all claims intimated to the Company and still unpaid at the end of the reporting period, in addition to claims incurred but not reported. The unearned contributions considered in the takaful contract liabilities comprise the estimated proportion of the gross contributions written which relates to the periods of takaful subsequent to the end of the reporting period. This provision is made based on the higher of the amount required on the basis of time apportionment and the minimum rates prescribed by the UAE Insurance Companies Law which are 25% of the net contribution written on marine and 40% of the net contribution written on all other classes of general takaful.

The retakaful portion towards the above outstanding claims, claims incurred but not reported and unearned contributions is classified as retakaful contract assets in the financial statements.

Salvage and subrogation reimbursements

Some takaful contracts permit the Company to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Company may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the takaful liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are considered as an allowance in the measurement of the takaful liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liabile thir party.

3 Summary of significant accounting policies (continued)

3.4 Takaful contracts (continued)

Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the takaful contract liabilities net of related deferred policy acquisition costs. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the income statement initially establishing a provision for losses arising from liability adequacy tests.

Receivables and payables related to takaful contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and takaful contract holders.

If there is objective evidence that the takaful receivable is impaired, the Company reduces the carrying amount of the takaful receivable accordingly and recognises that impairment loss in the income statement.

The Company gathers the objective evidence that a takaful receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial statements.

3.5 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable in the normal course of business.

Takaful contract income

Revenue from takaful contracts is measured under revenue recognition criteria stated under takaful contracts in these financial statements (see above 3.4).

Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Rental income

Rental income from investment properties is recognised on a straight-line basis over the term of the relevant lease and is stated net of related property expenses.

3 Summary of significant accounting policies (continued)

3.5 Revenue recognition (continued)

Other income

Other income is accrued on a time basis, by reference to the principal outstanding and at the effective rate of return applicable.

Retakaful income and expenses

Retakaful income is recognised when retakaful is entered into and retakaful expenses are recognised when the policies are issued based on the terms and percentages agreed with other insurance companies and/or brokers.

3.6 Foreign currencies

For the purpose of these financial statements, the UAE Dirhams (AED) is the functional and the presentation currency of the Company.

Transactions in currencies other than AED (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

3.7 Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and any impairment losses, if any. The cost of property and equipment is their purchase cost, together with any incidental expenses of acquisition.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated so as to write off the cost of property and equipment on a straight-line basis over their expected useful economic lives.

The principal annual rates used for this purpose are:	%
Furniture, fixtures and office equipment	20
Computer equipment and accessories	33.33

3 Summary of significant accounting policies (continued)

3.7 Property and equipment (continued)

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

3.8 Investment property

Investment property which is property held to earn rentals and/or for capital appreciation, is stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated so as to write off the cost of the investment property on a straight line basis over its expected useful economic life of 20 years.

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3.9 Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3 Summary of significant accounting policies (continued)

3.10 Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

3.11 Employee benefits

An accrual is made for estimated liability for employees' entitlement to annual leave and leave passage as a result of services rendered by eligible employees up to the end of the reporting period.

Provision is also made for the full amount of end of service benefits due to non-UAE national employees in accordance with the Company's policy, which is at least equal to the benefits payable in accordance with UAE Labour Law, for their period of service up to the end of the reporting period. The accrual relating to annual leave and leave passage is disclosed as a current liability, while the provision relating to end of service benefits is disclosed as a non-current liability.

Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (2), 2000 for Pension and Social Security. Such contributions are charged to the profit or loss during the employees' period of service.

3.12 Financial assets

All financial assets are recognised and derecognised on trade date when the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss (FVTPL), which are initially measured at fair value.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value.

3.12.1 Classification of financial assets

The Company had the following financial assets as at 31 December 2011: 'cash and cash equivalents', 'takaful and other receivables', 'financial assets at fair value through profit or loss (FVTPL)', and 'financial assets at fair value through other comprehensive income (FVTOCI)'.

3 Summary of significant accounting policies (continued)

3.12 Financial assets (continued)

3.12.2 Financial assets at amortised cost and the effective rate of return method

Cash and cash equivalents

Cash and cash equivalents which include cash on hand and deposits held at call with banks with original maturities of three months or less, are classified as financial assets at amortised cost.

Takaful and other receivables

Takaful and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Takaful and other receivables are measured at amortised cost using the effective rate of return method, less any impairment. Return income is recognised by applying the effective rate of return, except for short term receivables when the recognition of return income would be immaterial.

3.12.3 Financial assets at FVTPL

Investments in equity instruments are mandatorily classified as at FVTPL, unless the Company designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) at initial recognition as described in note 3.12.4 below.

Financial assets at FVTPL are measured at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss is included in the 'net investment and other income' line item in the profit and loss. Fair value is determined with reference to quoted prices.

3.12.4 Financial assets at FVTOCI

At initial recognition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is reclassified to retained earnings.

Notes to the financial statements
for the year ended 31 December 2011 (continued)

3 Summary of significant accounting policies (continued)

3.12 Financial assets (continued)

3.12.4 Financial assets at FVTOCI (continued)

Dividends on these investments in equity instruments are recognised in profit or loss when the Company's right to receive the dividends is established in accordance with IAS 18 *Revenue*, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends earned are recognised in profit or loss and are included in the 'net investment and other income' line item in the profit and loss.

3.12.5 Impairment of financial assets at amortised cost

Financial assets that are measured at amortised cost are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as takaful receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, reflecting the impact of collateral and guarantees, discounted at the financial asset's original effective rate of return rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of takaful receivables, where the carrying amount is reduced through the use of an allowance account. When a takaful receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

3.12.6 Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset.

3 Summary of significant accounting policies (continued)

3.13 Financial liabilities and equity instruments issued by the Company

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

3.13.1 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

3.13.2 Financial liabilities

Financial liabilities comprise retakaful payables and other liabilities, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with profit recognised on an effective yield basis, except for short-term liabilities when the recognition of profit would be immaterial.

The effective rate of return is a method of calculating the amortised cost of a financial liability and of allocating the expense over the relevant period. The effective rate of return is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

3.13.3 Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

3.14 Qard Hassan and deficit in policyholders' fund

Deficit in the policyholders' fund is financed by the Shareholders through a Qard Hassan loan. This loan is tested quarterly for impairment. In the event that it is judged by management that any or the entire deficit in the policyholders' fund is not recovereable from the future surpluses, the amount considered impaired is charged to the shareholders' statement of comprehensive income.

3.15 Dividends distribution

Dividends distribution to the Company's Shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's Shareholders.

4 Critical accounting judgments and key sources of estimation of uncertainty

While applying the accounting policies as stated in Note 3, management of the Company has made certain judgments, estimates and assumptions that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period of the revision in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The significant judgments and estimate made by management, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

4.1 Classification of investments

Management designates at the time of acquisition of securities whether these should be classified as at FVTOCI, FVTPL or amortised cost. In judging whether investments in securities are as at FVTOCI, FVTPL or amortised cost, Management has considered the detailed criteria for determination of such classification as set out IFRS 9 *Financial Instruments*. Management is satisfied that its investments in securities are appropriately classified.

4.2 Fair value of unquoted financial instruments

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counter party), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

4.3 Impairment of takaful and other receivables

An estimate of the collectible amount of takaful and other receivables is made when collection of the full amount is no longer probable. This determination of whether the takaful and other receivables are impaired entails Management's evaluation of the specific credit and liquidity position of the policyholders and their historical recovery rates including detailed investigations carried out during 2011 and feedback received from the legal department. The impairment of takaful and other receivables as at 31 December 2011 is AED 12,100,243 (2010: AED 4,435,567). Further, Management has specifically estimated the allowances for doubtful receivables on the balance receivable from FSU amounting to AED 7,568,634 and has determined that no allowance for doubtful receivables is required on these receivables at 31 December 2011.

Management regularly reviews the collectability of amounts due from takaful and retakaful companies. The majority of these receivables are due from reputable local and international takaful and retakaful companies. Such balances are regularly reconciled by both parties and are settled by on account payments on a regular basis.

4 Critical accounting judgments and key sources of estimation of uncertainty (continued)

4.4 Estimate of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Company determined the amount within a range of reasonable fair value estimates. In making its judgment, the Company considered recent prices of similar properties in the same location and similar conditions, which adjustments to reflect any changes in the nature, location or economic conditions since the date of the transactions that occurred at those prices. Such estimation is based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. Impairment on investment properties amounted to AED 975,750 at 31 December 2011 (2010: AED nil).

4.5 The ultimate liability arising from claims made under takaful contracts

The estimation of ultimate liability arising from the claims made under takaful contracts is the Company's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Company will eventually pay for such claims. Estimates have to be made both for the expected ultimate cost of claims reported at the end of the reporting period and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the end of the reporting period. Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Company and management estimates based on past claims settlement trends for the claims incurred but not reported. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

4.6 Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of takaful contract liabilities. The Company makes use of the best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities in evaluating the adequacy of the liability. Any deficiency is immediately charged to the profit or loss.

4.7 Useful lives and residual values of property and equipment

Management reviews the residual values and estimated useful lives of property and equipment at the end of each annual reporting period in accordance with IAS 16 *Property, Plant and Equipment*. Management determined that current year expectations do not differ from previous estimates based on its review.

Notes to the financial statements
for the year ended 31 December 2011 (continued)

5 Property and equipment

	Furniture, fixtures and office equipment AED	Computer equipment and accessories AED	Total AED
Cost			
At 1 January 2010	1,041,285	2,583,641	3,624,926
Additions	1,060,994	418,097	1,479,091
At 1 January 2011	2,102,279	3,001,738	5,104,017
Additions	500,607	170,238	670,845
At 31 December 2011	**2,602,886**	**3,171,976**	**5,774,862**
Accumulated depreciation			
At 1 January 2010	179,687	725,900	905,587
Charge for the year	400,457	924,636	1,325,093
At 1 January 2011	580,144	1,650,536	2,230,680
Charge for the year	470,657	1,027,222	1,497,879
At 31 December 2011	**1,050,801**	**2,677,758**	**3,728,559**
Carrying amount			
31 December 2011	**1,552,085**	**494,218**	**2,046,303**
31 December 2010	1,522,135	1,351,202	2,873,337

Notes to the financial statements
for the year ended 31 December 2011 (continued)

6 Investment property

	2011 AED	2010 AED
Cost		
At 1 January	**22,220,000**	-
Additions	-	22,220,000
At 31 December	**22,220,000**	22,220,000
Accumulated depreciation and impairment		
At 1 January	**833,250**	-
Charge for the year	**1,111,000**	833,250
Impairment loss for the year	**975,750**	-
At 31 December	**2,920,000**	833,250
Carrying amount		
At 31 December	**19,300,000**	21,386,750

Investment property comprises of a building, located in Abu Dhabi, purchased in the prior year and held for long term rental yields. As at year end, the investment property was registered and held in trust in the name of another party, for and on behalf of the Company and was not yet transferred to the Company. Management is still in the process of formalising the necessary registration procedures to transfer the title to the Company's name at year end.

The property was valued by an independent valuer at 31 December 2011, on the basis of determining its open market value, using recent market prices. The fair value of the investment property was determined to be AED 19,300,000.

The rental income for the year amounted to AED 1,888,306 (2010: AED 1,279,363) and building expenses amounted to AED 1,185,185 (2010: AED 955,262).

Notes to the financial statements
for the year ended 31 December 2011 (continued)

7 Investments

7.1 Reclassification of investments at the date of initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets under IFRS 9 and IAS 39 at the date of initial application on 30 June 2011.

Type of investment	Original measurement category (IAS 39)	New measurement category (IFRS 9)
Equity securities	Available-for-sale (AFS) investments	Investments in equity instruments designated at fair value through other comprehensive income (FVTOCI)

Investments in equity instruments are by default classified as at FVTPL. The Company has chosen to designate the investment in quoted and unquoted UAE shares at FVTOCI as it intends to hold the investment for the medium to long-term as a strategic investment. The Company believes therefore that designating as at FVTOCI will provide a more meaningful presentation of its medium to long-term interest in its investment than fair valuing the interest through profit or loss.

7.2 Composition of investments

	2011 AED	2010 AED
Investments at FVTOCI		
Unquoted UAE equity securities	**40,250,000**	-
Investments at FVTPL		
Quoted UAE equity securities	**21,391,932**	-
Available for sale investment		
Unquoted UAE equity securities	-	20,000,000

The unquoted equity securities represent the following:

- The Company has 20% participation of AED 20,000,000 in the development of a real estate project (Saraya) in Abu Dhabi. The investment is based on a Memorandum of Understanding (MoU) with the developer and no share certificates have been issued for this project. This investment is stated at cost in the absence of active markets or other means of reliably measuring the fair value.
- The Company also has a participation in the private placement of Aqua Orbis UAE (caviar farm) for 15,000,000 shares for a fair value of AED 20,250,000 (AED 1.35 per share).

The geographical distribution of investments is as follows:

	2011 AED	2010 AED
Within UAE	**61,641,932**	20,000,000
Outside UAE	-	-
	61,641,932	20,000,000

Notes to the financial statements
for the year ended 31 December 2011 (continued)

7 Investments (continued)

7.3 Movement in investments

	2011 AED	2010 AED
Investments at FVTOCI		
Fair value at beginning of year	-	-
Reclassification adjustment upon initial application of IFRS 9 (see below)	20,000,000	-
Purchases during the year	17,220,000	-
Fair value gain during the year	3,030,000	
Fair value at end of year	40,250,000	-
Investments at FVTPL		
Fair value at beginning of year	-	-
Purchases during the year	328,017,456	-
Sales during the year	(300,009,651)	-
Decrease in fair value to profit and loss	(6,615,873)	-
Fair value at end of year	21,391,932	-
Available for sale investments		
Fair value at beginning of year	20,000,000	-
Additions	-	20,000,000
Reclassification adjustment upon initial application of IFRS 9 (see above)	(20,000,000)	-
Fair value at end of year	-	20,000,000

Notes to the financial statements
for the year ended 31 December 2011 (continued)

8 Takaful contract liabilities and retakaful contract assets

	2011 AED	2010 AED
Gross takaful contract liabilities		
Reported claims	**21,514,132**	12,646,539
Claims incurred but not reported	**6,182,620**	3,671,000
Unearned premiums	**51,874,391**	41,520,058
	79,571,143	57,837,597
Recoverable from retakaful		
Reported claims	**2,610,488**	5,592,678
Claims incurred but not reported	**1,342,826**	874,300
Unearned premiums	**11,990,730**	14,318,336
	15,944,044	20,785,314
Takaful liabilities – Net		
Reported claims	**18,903,644**	7,053,861
Claims incurred but not reported	**4,839,794**	2,796,700
Unearned premiums	**39,883,661**	27,201,722
	63,627,099	37,052,283

Notes to the financial statements
for the year ended 31 December 2011 (continued)

8 Takaful contract liabilities and retakaful contract assets (continued)

Movement in the takaful contract liabilities and retakaful contract assets during the year is as follows:

	Year ended 31 December 2011			Year ended 31 December 2010		
	Gross	Retakaful	Net	Gross	Retakaful	Net
	AED	AED	AED	AED	AED	AED
CLAIMS						
Notified claims	12,646,539	5,592,678	7,053,861	6,383,795	50,000	6,333,795
Incurred but not reported	3,671,000	874,300	2,796,700	3,200,000	-	3,200,000
Total at 1 January	16,317,539	6,466,978	9,850,561	9,583,795	50,000	9,533,795
Claims settled in the year	(84,107,556)	(28,317,982)	(55,789,574)	(52,437,094)	(5,790,222)	(46,646,872)
Increase in liabilities	95,486,769	25,804,318	69,682,451	59,170,838	12,207,200	46,963,638
Total at 31 December	27,696,752	3,953,314	23,743,438	16,317,539	6,466,978	9,850,561
Notified claims	21,514,132	2,610,488	18,903,644	12,646,539	5,592,678	7,053,861
Incurred but not reported	6,182,620	1,342,826	4,839,794	3,671,000	874,300	2,796,700
Total at 31 December	27,696,752	3,953,314	23,743,438	16,317,539	6,466,978	9,850,561
UNEARNED CONTRIBUTION						
Total at 1 January	41,520,058	14,318,336	27,201,722	37,726,366	1,959,399	35,766,967
Increase during the year	51,874,391	11,990,730	39,883,661	41,520,058	14,318,336	27,201,722
Released during the year	(41,520,058)	(14,318,336)	(27,201,722)	(37,726,366)	(1,959,399)	(35,766,967)
Net increase during the year	10,354,333	(2,327,606)	12,681,939	3,793,692	12,358,937	(8,565,245)
Total at 31 December	51,874,391	11,990,730	39,883,661	41,520,058	14,318,336	27,201,722

Notes to the financial statements
for the year ended 31 December 2011 (continued)

9 Related parties

Related parties comprise the shareholders, directors and key management personnel and business controlled by the shareholders and directors over which they have the ability to control or exercise significant influence in financial and operational decisions. The Company maintains significant balances with these related parties as follows:

Due from related parties (note 10)	2011 AED	2010 AED
Takaful receivables due from related parties	**891,322**	628,164
Other receivables due from Shareholders	**1,826,083**	1,712,194
Less: allowance for doubtful balances due from related parties	**(1,551,122)**	-
	274,961	1,712,194

During the year, the Company entered into the following significant transactions with related parties in the ordinary course of business at terms and conditions agreed upon between the parties.

Related party transactions	2011 AED	2010 AED
Gross takaful contributions	**1,481,796**	488,892
Claims paid	**1,227,368**	207,750
Directors' remuneration	-	-
Directors' fees	**177,000**	-
Key management remuneration	**5,052,277**	3,613,965

The remuneration of Directors is accrued and paid as an appropriation out of the profits of the year in accordance with the Federal Law No. 8 applicable to Commercial Companies operating in UAE.

The remuneration of key management personnel is based on the remuneration agreed in their employment contracts as approved by the Board of Directors.

Notes to the financial statements
for the year ended 31 December 2011 (continued)

10 Takaful and other receivables

	2011 AED	2010 AED
Receivables from takaful and retakaful contracts		
Due from takaful policyholders	**22,199,839**	12,392,066
Due from agents, brokers and intermediaries	**37,038,605**	18,105,707
Due from related parties (note 9)	**891,322**	628,164
Less: allowance for doubtful receivables	**(9,883,837)**	(3,770,283)
	50,245,929	27,355,654
Other receivables		
Due from related parties (note 9)	**1,826,083**	1,712,194
Less: allowance for doubtful balances due from related parties (note 9)	**(1,551,122)**	-
Advances towards formation of companies	**823,388**	822,178
Less: allowance for advances towards formation of companies	**(665,284)**	(665,284)
Due from other insurance/takaful companies	**8,789,978**	5,601,714
Prepaid expenses	**560,337**	566,171
Accrued profit from investment deposits	**1,460,048**	820,523
Refundable deposits	**6,180,154**	543,478
Other receivables	**484,639**	515,784
	17,908,221	9,916,758
	68,154,150	37,272,412

The average credit period on due from policy holders is 90 days. No profit is charged and no collateral is taken on takaful and other receivables.

The Company has adopted a policy of only dealing with creditworthy counterparties. Adequate credit assessment is made before accepting an insurance contract from any counterparty. At the end of year, AED 20,185,432 (2010: AED 15,758,700) is due from the Company's largest policy holders. The Company considers these customers to be reputable and creditworthy.

Included in the Company's total due from customers are balances amounting to AED 32,107,516 (2010: AED 7,763,595) which are past due at the reporting date for which no allowance has been made, as there was no significant change in credit quality of these contract holders and the amounts are still considered recoverable.

10 Takaful and other receivables (continued)

Ageing of takaful receivables

	2011 AED	2010 AED
Not past due	**18,138,415**	19,592,059
Past due but not impaired		
91 to 180 days	**21,483,473**	6,715,611
More than 181 days	**10,624,043**	1,047,984
	32,107,516	7,763,595
Past due and impaired	**9,883,837**	3,770,283
Total due from takaful and retakaful policyholders	**60,129,768**	31,125,937

Movement in the allowance for doubtful receivables:

At 1 January	**3,770,283**	-
Charge for the year	**6,113,554**	3,770,283
At 31 December	**9,883,837**	3,770,283

The Company has provided for certain receivables above 181 days based on estimated irrecoverable amounts, determined after review of specific credit quality of customers and past default experience. In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the customer from the date credit was initially granted up to the reporting date. Accordingly, management believes that there is no further provision required in excess of the allowance for doubtful debts.

In the prior year, the Company recognised an allowance for advances towards formation of companies of AED 665,284 and in the current year, an allowance for doubtful receivables of AED 1,551,122 (2010: AED Nil) and AED 9,883,837 (2010: AED 3,770,283) were recognised on balances due from related parties and takaful receivables resepctively.

11 Cash and cash equivalents

	2011 AED	2010 AED (restated)
Cash on hand	**29,000**	29,000
Current bank accounts	**8,895,186**	30,455,130
Bank deposits	**33,309,955**	71,300,000
Cash and bank balances	**42,234,141**	101,784,130
Less: deposits with original maturities of greater than three months	**(33,309,955)**	(29,300,000)
Cash and cash equivalents	**8,924,186**	72,484,130

The interest rate on fixed deposits and call accounts with banks ranges between 2% and 4.5% (2010: 2% and 4.5%) per annum. All cash and cash equivalents are held in local banks in the United Arab Emirates.

Statutory deposit

In accordance with the requirements of Federal Law No.6/2007, covering insurance companies and agencies, the Company maintains a bank deposit of AED 6,000,000 (31 December 2010: AED 6,000,000) which cannot be utilised without the consent of the U.A.E. Insurance Authority.

12 Share capital

	2011 AED	2010 AED
Authorised, issued and fully paid:		
150,000,000 ordinary shares of AED 1 each	**150,000,000**	150,000,000

13 Legal reserve

In accordance with the UAE Federal Law number (8) of 1984 (as amended) concerning Commercial Companies and the Company's Articles of Association, 10% of the Company's annual profit is to be transferred to a non-distributable legal reserve until the balance of the legal reserve equals 50% of the Company's paid up share capital. No transfer was made during the year as the Company has incurred a loss.

14 General reserve

In accordance with Article 64 of the Company's Articles of Association, 10% of the Company's profit for the year is to be transferred to a general reserve. No transfer was made during the year as the Company has incurred a loss.

15 Policyholders' fund

	2011 AED	2010 AED
Policyholders' fund		
At 1 January	**(11,921,099)**	(9,121,704)
Deficit for the year	**(28,259,948)**	(2,799,395)
At 31 December	**(40,181,047)**	(11,921,099)
Loan from Shareholders/to Policyholders		
At 1 January	**11,921,099**	9,121,704
Net movement during the year	**28,259,948**	2,799,395
Loan from Shareholders	**40,181,047**	11,921,099
Less: Allowance for loan to Policyholders	**(31,921,099)**	(2,986,093)
Loan to Policyholders, net	**8,259,948**	8,935,006

The Shareholders have funded the deficit in the policyholders' fund in accordance with the Company's policy (note 3.14) through a Qard Hassan (free of finance charge) of AED 40,181,047 as of 31 December 2011 (2010: AED 11,921,099) with no repayment terms. As at 31 December 2011, Qard Hassan with a nominal value of AED 31,921,099 (2010: AED 2,986,093) was impaired and charged to the statement of comprehensive income attributable to Shareholders.

Management expects to recover the remaining balance from future surpluses on takaful results attributable to policyholders.

16 Provision for employees' end of service benefits

	2011 AED	2010 AED
At 1 January	**452,125**	430,274
Charge for the year	**234,577**	134,444
Paid during the year	**(289,474)**	(112,593)
At 31 December	**397,228**	452,125

17 Retakaful and other payables

	2011 AED	2010 AED (restated)
Due to retakaful companies/garages/suppliers/providers	**31,443,521**	7,708,383
Payable to a stockbroker	**11,977,886**	-
Accrued expenses	**3,302,384**	2,487,394
Provision for litigation	-	1,500,000
Rent received in advance	**782,416**	945,637
Other payables	**280,375**	219,175
	47,786,582	12,860,589

The provision for litigation of AED 1,500,000 was in respect to a court case by the Company's landlord for its previous office premises in Dubai, concerning early termination of the rental contract. The court ruling was in favour of the Company and accordingly, the provision for litigation was reversed to profit or loss during the year.

The average credit period is 60 days. The Company has financial risk management policies in place to ensure that all payables are paid within credit time frame. No profit is charged on the takaful and other payable balances.

18 Zakat payable

	2011 AED	2010 AED
At 1 January	**6,876,967**	7,677,034
Paid during the year	**(3,812,038)**	(800,067)
Reversed during the year	**(3,064,929)**	-
At 31 December	-	6,876,967

At the Annual General Meeting held on 26 April 2011, the Shareholders approved the Board of Directors' resolution to amend Article 68 of the Company's Articles of Association to preclude the Company from being liable for zakat payable by its Shareholders on the value of their investment in the Company, as calculated on the Company's asset base.

19 Retakaful deposits retained

	2011 AED	2010 AED
At 1 January	**4,557,340**	848,612
Retained during the year	**6,350,584**	4,446,744
Released during the year	**(4,088,803)**	(738,016)
At 31 December	**6,819,121**	4,557,340

Notes to the financial statements
for the year ended 31 December 2011 (continued)

20 Net claims incurred

	2011 AED	2010 AED
Gross claims paid, net of recoveries	**84,107,556**	52,437,094
TPA fees and roadside assistance	**4,527,684**	1,181,861
Change in provision for outstanding claims	**8,867,592**	6,262,744
Change in outstanding claims recoveries	**(3,188,264)**	(5,601,714)
Change in claims incurred but not reported	**2,511,621**	471,000
Gross claims incurred	**96,826,189**	54,750,985
Recovered claims from retakaful contracts	**(28,317,982)**	(5,790,222)
Change in retakaful share of outstanding claims	**2,982,190**	(5,542,678)
Change in retakaful share of claims incurred but not reported	**(468,526)**	(874,300)
Retakaful share of claims incurred	**(25,804,318)**	(12,207,200)
Net claims incurred	**71,021,871**	42,543,785

21 Wakala and Mudarib fees

The Shareholders manage the takaful operations for the policyholders and charge the following range of percentages of gross takaful contributions as Wakala fees:

Motor	12.5 %
Medical	0 – 10 %
Others	0 – 17.5 %

The Shareholders manage the policyholders' investment fund and charge 10% of the investment income earned by policyholders' investment fund as Mudarib fees.

22 Net investment (losses)/income

	2011 AED	2010 AED
Loss on sale of investments at FVTPL	**(9,952,081)**	-
Investment expenses	**(496,507)**	-
Miscellaneous income	**26,020**	4,727
	(10,422,568)	4,727

Notes to the financial statements
for the year ended 31 December 2011 (continued)

23 Loss for the year

Loss for the year is stated after charging:

	2011 AED	2010 AED
Staff costs	**15,195,521**	16,702,142
Depreciation of property and equipment	**1,497,879**	1,325,093
Depreciation of investment property	**1,111,000**	833,250
Impairment of investment property	**975,750**	-

24 Earnings/(losses) per ordinary share

Basic earnings/(losses) per ordinary share are calculated by dividing profit attributable to Shareholders for the year by the weighted average number of ordinary shares in issue during the period.

	2011	2010
Loss for the year (AED)	**51,093,198**	15,619,804
Ordinary shares in issue throughout the year	**150,000,000**	150,000,000
Basic losses per share (AED)	**(0.34)**	(0.10)

As of 31 December 2011 and 2010, the Company has not issued any instruments that have an impact on earnings per share when exercised.

25 Segment information

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. All operating segments used by management meet the definition of a reportable segment under IFRS 8.

The Company is organised into two business segments, shareholders and policyholders. Shareholders' segment comprises investment and cash management for the Company's own account in addition to management of the policyholders' fund. The policyholders segment comprises the takaful business undertaken by the Company. These segments are the basis on which the Company reports its primary segment information (Note 25.1).

The Company's underwriting business is based entirely within the United Arab Emirates. Retakaful treaties are arranged with companies based primarily in the GCC or in Europe and USA. The investments of the Company are held in the United Arab Emirates.

Notes to the financial statements
for the year ended 31 December 2011 (continued)

25 Segment information (continued)

The policyholders' segment is further organised into three main product lines consistent with the reports used by the Board. These include:

- Motor: Covers damage to motor cars and related propery and injuries or deaths of persons
- Medical: Covers groups of individuals for medical treatment
- Others: Covers insurance of engineering, property, marine and personal, general and third party accidents

Details of the three takaful product lines of the policyholders' segment are shown in Note 25.2:

Notes to the financial statements
for the year ended 31 December 2011 (continued)

25 Segment information (continued)

25.1 Business segments

	2011			2010		
	Policyholders AED	Shareholders AED	Total AED	Policyholders AED	Shareholders AED	Total AED
Net underwriting (loss)/income	(10,917,297)	-	**(10,917,297)**	8,060,582	-	8,060,582
Allowance for doubtful takaful receivables	(6,113,554)	-	**(6,113,554)**	(3,770,283)	-	(3,770,283)
Wakala fees	(11,237,390)	11,237,390	-	(7,362,462)	7,362,462	-
	(28,268,241)	11,237,390	**(17,030,851)**	(3,072,163)	7,362,462	4,290,299
Investment income	9,214	2,375,305	**2,384,519**	303,076	5,596,042	5,899,118
Mudarib fees	(921)	921	-	(30,308)	30,308	-
Net rental income from investment property	-	703,121	**703,121**	-	324,101	324,101
Net investment (losses)/income	-	(10,422,568)	**(10,422,568)**	-	4,727	4,727
Reversal of zakat payable and provision for litigation	-	4,564,929	**4,564,929**	-	-	-
Decrease in fair value of investments at FVTPL	-	(6,615,873)	**(6,615,873)**	-	-	-
Impairment provision against loan to policyholders	-	(28,935,006)	**(28,935,006)**	-	(2,986,093)	(2,986,093)
General and administrative expenses	-	(24,001,417)	**(24,001,417)**	-	(25,951,351)	(25,951,351)
Loss for the year	**(28,259,948)**	**(51,093,198)**	**(79,353,146)**	(2,799,395)	(15,619,804)	(18,419,199)
At 31 December						
Total assets	**87,199,718**	**139,818,327**	**227,018,045**	61,243,927	161,551,857	222,795,784

Revenue reported above represents revenue generated from external customers and third parties. There were no inter-segment revenues in the year (2010: AED nil).
The accounting policies of the reportable segments are the same as the Company's accounting policies described in note 3.

Notes to the financial statements
for the year ended 31 December 2011 (continued)

25 Segment information (continued)

25.2 Product lines

	Year ended 31 December 2011				Year ended 31 December 2010			
	Motor AED	Medical AED	Others AED	Total AED	Motor AED	Medical AED	Others AED	Total AED
Takaful contributions	43,061,050	40,918,788	8,134,740	92,114,578	56,721,167	12,028,264	5,717,085	74,466,516
Retakaful contributions ceded	(1,657,931)	(15,802,655)	(7,091,890)	(24,552,476)	(1,590,443)	(7,935,836)	(5,232,016)	(14,758,295)
Net takaful contributions earned	41,403,119	25,116,133	1,042,850	67,562,102	55,130,724	4,092,428	485,069	59,708,221
Retakaful commission income	19,343	22,728	760,168	802,239	-	23,855	399,467	423,322
Total underwriting income	41,422,462	25,138,861	1,803,018	68,364,341	55,130,724	4,116,283	884,536	60,131,543
Gross claims incurred	(35,238,729)	(61,540,732)	(46,728)	(96,826,189)	(37,839,607)	(12,631,176)	(4,280,202)	(54,750,985)
Retakaful share of claims incurred	66,698	26,288,891	(551,271)	25,804,318	-	9,354,680	2,852,520	12,207,200
Net claims incurred	(35,172,031)	(35,251,841)	(597,999)	(71,021,871)	(37,839,607)	(3,276,496)	(1,427,682)	(42,543,785)
Expenses for acquisition of takaful contracts	(5,613,482)	(2,138,008)	(508,277)	(8,259,767)	(8,346,190)	(653,667)	(527,319)	(9,527,176)
Total underwriting expenses	(40,785,513)	(37,389,849)	(1,106,276)	(79,281,638)	(46,185,797)	(3,930,163)	(1,955,001)	(52,070,961)
Net underwriting profit/(loss) for the year	636,949	(12,250,988)	696,742	(10,917,297)	8,944,927	186,120	(1,070,465)	8,060,582

26 Contingent liabilities and commitments

	2011 **AED**	2010 AED
Letters of guarantee	**8,300,100**	9,700,100

The above guarantees were issued in the normal course of business.

27 Takaful risk

The risk under any one takaful contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the nature of a takaful contract, this risk is random and therefore unpredictable.

For a portfolio of takaful contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its takaful contracts is that the actual claims and benefit payments exceed the estimated amount of the takaful liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Takaful events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar takaful contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its takaful underwriting strategy to diversify the type of takaful risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The Company manages risks through its underwriting strategy, adequate retakaful arrangements and proactive claims handling. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography. Underwriting limits are in place to enforce appropriate risk selection criteria.

Frequency and severity of claims

The Company has the right not to renew individual policies, re-price the risk, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Takaful contracts also entitle the Company to pursue third parties for payment of some or all costs (for example, subrogation).

Property takaful contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claim payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies. Property takaful contracts are subdivided into four risk categories: fire, business interruption, weather damage and theft. The takaful risk arising from these contracts is not concentrated in any of the territories in which the Company operates, and there is a balance between commercial and personal properties in the overall portfolio of insured buildings.

27 Takaful risk (continued)

The retakaful arrangements include excess and catastrophe coverage. The effect of such retakaful arrangements is that the Company should not suffer net takaful losses of a set limit of AED 500,000 in any one motor policy and AED 500,000 for any one non-motor policy. The Company has survey units dealing with the mitigation of risks surrounding claims. This unit investigates and recommends ways to improve risk claims. The risks are reviewed individually at least once in 3 years and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Company actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

Sources of uncertainty in the estimation of future claim payments

Claims on takaful contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and element of the claims provision includes incurred but not reported claims (IBNR). The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims. For some takaful contracts, the IBNR proportion of the total liability is high and will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities.

In estimating the liability for the cost of reported claims not yet paid, the Company considers information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The amount of takaful claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. Takaful contracts are also subject to the emergence of new types of latent claims, but no allowance is included for this at the end of the reporting period.

Where possible, the Company adopts multiple techniques to estimate the required level of provisions. This provides a greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

In calculating the estimated cost of unpaid claims (both reported and not), the Company's estimation techniques are a combination of loss-ratio-based estimates and an estimate based upon actual claims experience using predetermined formulae where greater weight is given to actual claims experience as time passes. The initial loss-ratio estimate is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claims inflation.

27 Takaful risk (continued)

Process used to decide on assumptions

The risks associated with the takaful contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. Internal data is derived mostly from the Company's quarterly claims reports and screening of the actual takaful contracts carried out at the end of the reporting period to derive data for the contracts held. The Company has reviewed the individual contracts and in particular the industries in which the insured companies operate and the actual exposure years of claims. This information is used to develop scenarios related to the latency of claims that are used for the projections of the ultimate number of claims.

Claims development process

The following schedule reflect the actual claims (based on year end estimates including IBNR) compared to the previous estimates for the last two years on an underwriting year basis:

Underwriting year	**2009 AED**	**2010 AED**	**2011 AED**	**Total AED**
Gross:				
At the end of the underwriting year	86,212	46,109,203	53,927,139	100,122,554
One year later	14,972,895	46,494,747	-	61,467,642
Two years later	7,074,377	-	-	7,074,377
Current estimate of cumulative claims	22,133,484	92,603,950	53,927,139	168,664,573
Cumulative payments to date	(20,503,010)	(91,526,104)	(37,728,685)	(149,757,799)
Liability recognised in the statement of financial position	**1,630,474**	**1,077,846**	**16,198,454**	**18,906,774**

Concentration of takaful risk

Substantially all of the Company's underwriting activities are carried out in the United Arab Emirates.

In common with other takaful companies, in order to minimise financial exposure arising from large takaful claims, the Company, in the normal course of business, enters into arrangement with other parties for retakaful purposes.

To minimise its exposure to significant losses from retakaful insolvencies, the Company evaluates the financial condition of its retakaful and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the retakafuls. Retakaful ceded contracts do not relieve the Company from its obligations to policyholders. The Company remains liable to its policyholders for the portion covered by retakaful to the extent that any retakaful does not meet the obligations assumed under the retakaful agreements.

28 Financial instruments

The Company is exposed to a range of financial risks through its financial assets, financial liabilities, retakaful assets and takaful liabilities. In particular, the key financial risk is that in the long-term, its investment proceeds are not sufficient to fund the obligations arising from its takaful and investment contracts. The risks that the Company primarily faces due to the nature of its investments and underwriting business are market price risk, credit risk and liquidity risk.

28.1 Fair value of financial instruments

Management considers that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value into Levels 1 to 3 based on the degree to which the fair value is observable.

- **Level 1** – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- **Level 2** – fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

- **Level 3** – fair value measurement are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
2011				
Financial assets				
Equities (quoted)	21,391,932	-	-	21,391,932
Unquoted securities	-	20,250,000	-	20,250,000
Total	21,391,932	20,250,000	-	41,641,932

There were no transfers between Level 1 and 2 in the period.

28 Financial instruments (continued)

28.2 Capital risk management

Notes to the financial statements
for the year ended 31 December 2011 (continued)

28 Financial instruments (continued)

28.4 Categories of financial instruments

	2011 AED	2010 AED
Investments at FVOCI	40,250,000	-
Investments at FVTPL	21,391,932	-
Financial assets		
Available for sale investments	-	20,000,000
Retakaful contract assets	15,944,044	20,785,314
Takaful and other receivables	68,154,150	37,272,412
Cash and bank balances	42,234,141	101,784,130
Statutory deposit	6,000,000	6,000,000
Total	193,974,267	185,841,856
Financial liabilities		
Takaful contract liabilities	79,571,143	57,837,597
Retakaful and other payables	47,786,582	12,860,589
Retakaful deposits retained	6,819,121	4,557,340
Total	134,176,846	75,255,526

28.5 Profit return rate risk management

The Company is not exposed to significant profit return rate risk as its profit return-sensitive assets are repriced frequently.

The Company's rate of return risk is mainly attributable to its bank deposits.

The Company generally tries to minimise the rate of return risk by closely monitoring the market rates and investing in those financial assets in which such risk is expected to be minimal.

28.6 Foreign currency risk

The Company is not exposed to significant foreign currency risk as substantially all financial assets and financial liabilities are denominated in Arab Emirates Dirhams (AED) or US Dollars to which the AED is pegged.

Notes to the financial statements
for the year ended 31 December 2011 (continued)

28 Financial instruments (continued)

28.7 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, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Company is exposed to market price risk with respect to its quoted investments. The Company limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in the market. In addition, the Company actively monitors the key factors that affect stock and market movements, including analysis of the operational and financial performance of investees.

28.8 Credit risk management

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Company.

Key areas where the Company is exposed to credit risk are:

- retakafuls' share of takaful liabilities;
- amounts due from retakafuls in respect of claims already paid;
- amounts due from takaful contract holders;
- amounts due from takaful intermediaries; and
- amounts due from banks for its bank balances and fixed deposits.

The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management annually.

Retakaful is used to manage takaful risk. This does not, however, discharge the Company's liability as primary insurer. If a retakaful fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of retakafuls is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

The Company maintains records of the payment history for significant contract holders with whom it conducts regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Company.

Management information reported to the Company includes details of provisions for impairment on takaful receivables and subsequent write-offs. Exposures to individual policyholders and groups of policyholders are mitigated by ongoing credit evaluation of their financial condition. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for retakafuls is carried out by the Company. Details on concentration of amounts due from policyholders is disclosed in Note 10. Management believes that the concentration of credit risk is mitigated by high credit rating and financial stability of its policyholders.

28 Financial instruments (continued)

28.8 Credit risk management (continued)

The credit risk on liquid funds maintained with banks is limited because the counterparties are reputable local banks closely monitored by the regulatory body.

At 31 December 2011, all of the deposits were placed with 2 banks (2010: 3 banks). Management is confident that this concentration at year end does not result in any credit risk to the Company as these bank are major banks operating in the UAE and are highly regulated by the Central Bank.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk for such receivables and liquid funds.

28.9 Liquidity risk management

Liquidity risk is the risk that the Company will be unable to meet its funding requirements. Bank facilities, the policy holders and the retakafuls, are the major sources of funding for the Company and the liquidity risk for the Company is assessed to be low.

The maturity profile of the Company's financial liabilities are within one year form the end of the reporting period.

The maturity profile is monitored by Management to ensure adequate liquidity is maintained.

28.10 Fair value of financial assets and liabilities

Management considers that the fair values of financial assets and financial liabilities in the financial statements approximate their carrying amounts.

29 Comparative information

The comparative amounts for the year ended 31 December 2010 have been reclassified as follows:

Statement of financial position	"Statutory deposits" combined with "Cash and bank balances" have been presented as a one line in the statement of financial position.
	"Provision for other liabilities and charges" has been reclassified under "Retakaful and other payables".
Statement of comprehensive income, attributable to Shareholders	Depreciation on investment properties has been reclassified from "General and adminstrative expenses" to "Net rental income from investment property".

Notes to the financial statements
for the year ended 31 December 2011 (continued)

30 Dividends

In the prior year, the Shareholders of the Company approved dividend payment of 2.5% of share capital for the period ended 31 December 2009 amounting to AED 3.75 million.

31 Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors in their meeting of 27 March 2012.