Abu Dhabi National Takaful Company PSC

REPORT OF THE BOARD OF DIRECTORS'
AND FINANCIAL STATEMENTS

31 DECEMBER 2012

Abu Dhabi National Takaful Company PSC

REPORT OF THE BOARD OF DIRECTORS'

31 DECEMBER 2012

Board of Directors

Chairman	**H.E. Khadem A. Al Qubaisi**
Vice Chairman	**Mr. Khamis Buharoon**
Directors	**Mr. Khalifa A. Khamis Al Rumaithi**
	Mr. Khalid Deemas Al Suwaidi
	Mr. Khalid Al Mansouri
	Mr. Andrew Douglas Moir
	Mr. Dhafer Faroq Luqman
Chief Executive Officer	**Mr. Osama Abdeen**
Sharia'a Supervisory Board	**Dr. Abdul Sattar Abu Ghuddah**
	Sheikh Nizam Yaqubi
	Dr. Osaid Kailani
Auditors	**Ernst & Young**

THE ANNUAL REPORT OF THE BOARD OF DIRECTORS
Year ended 31 December 2012

Dear Shareholders

Peace be upon you……

It gives us pleasure to present to you the ninth annual report on the company activities and its audited financial statements for the year ended 31 December 2012, along with the Fatwa & Sharia'a Supervisory Board, Independent Auditor Report and a detailed corporate governance report complying with the corporate governance code of UAE Securities and Commodities Authority.

Company performance
The company continues its strategy by concentrating on risk assessment and accepting only the more profitable underwriting contracts while avoiding those prone to greater risks. This approach enables us to improve our technical results by 15% despite the current circumstances experienced by the insurance industry as a result of severe competition in the market.

The audited financial statements supported with notes demonstrate the development made by the company. The company recorded another year of growth with net profit of AED 27.1 million during the financial year ending 31 December 2012, achieving 11% increase comparing to prior year. The following highlights the company results in comparison with the same period last year:

- The total gross contributions reached AED 207.8 million as comparing AED 196.6 million for the period ending 31 December 2011, achieving 6% growth.

- Net claims incurred for year 2012 reached AED 20.6 million comparing to AED 32.4 million for year 2011. The net loss ratio reduced to 24.6% comparing to 35.9% for the prior year.

- Technical results reached AED 55.7 million as comparing AED 48.5 million for the prior year, achieving increase of 15%.

- Net investment income reached AED 4.8 million comparing to same amount for the prior year.

- Total assets size reached AED 462.0 million and has risen by about 13% comparing to the prior year.

- Total cash and bank balances reached AED 177.0 million comparing to AED 170.2 million at the end of prior year, all of which are deposited with UAE banks.

- Net profit for the year ending 31 December 2012 is AED 27.1 million comparing to AED 24.4 million for the prior year. Basic and diluted earning per share is AED 0.27 comparing to AED 0.24 for the prior year.

- Shareholder's equity at 31 December 2012 reached AED 165.5 million comparing to AED 146.1 million prior year.

Our existing portfolio consists of well balanced and diversified products which enable the company to explore many opportunities for profitable growth going forward. The company will continue its efforts to enhance products, customer services as well as widening of distribution channels to gain a competition advantage in the market place. This will lead to growth of takaful written contributions and achieve higher returns for our shareholders and policyholders.

Distribution of Profits
The net profits achieved by the company during the year ended 31 December 2012 amounted to AED 27,122,639. In accordance with article (58) of articles of association of the company, we propose to the general assembly to distribute AED 13,000,000 which represents 13% of the paid up capital as 13% cash dividend to shareholders.

Board of Directors Recommendations
The Board of Directors shall present the general assembly of **Abu Dhabi National Takaful Co. PSC** the recommendations below for approval:

1) The Annual Report of the Board of Directors, Fatwa & Sharia'a Supervisory Board report and the External Auditor's report for the year ending 31st December, 2012.

2) The statement of financial position and income statement for the year ending 31st December, 2012.

3) The profit appropriation for the year ended 31st December 2012 amounting to AED 31,578,239 (inclusive of the opening retained earnings of AED 4,455,600 after deducting 2011 profit distribution) is as follows:

	AED
Proposed cash dividend of 13% of the paid up capital	13,000,000
Transfer to legal reserve	2,712,264
Transfer to general reserve	9,341,282
Board of Directors remunerations	1,750,000
Retained earnings, carried forward (after deducting above profit appropriation)	4,774,693
	31,578,239

4) Release of the Directors, External Auditors and members of the Fatwa & Sharia'a Supervisory Board for their works during the year ending 31st of December, 2012.

5) Appoint or reappoint the External Auditors for the year ending 31st of December, 2013 and agree on the fees.

THE ANNUAL REPORT OF THE BOARD OF DIRECTORS continued
Year ended 31 December 2012

Valued Shareholders,
On this occasion, and on your behalf we extend profound gratitude and great appreciation to His Highness Sheikh Khalifa Bin Zayed Al Nahyan, President of UAE and His Highness Sheikh Mohammed Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi, the Deputy Supreme Commander of the UAE Armed Forces. May Allah, the Almighty preserve them for their kind patronage to the Islamic insurance industry.

We would like also to express our sincere thanks and appreciation to the Fatwa & Sharia'a Supervisory Board members for their guidance to ensure that we fully abide by the glorious principles of Islamic Sharia'a, Insurance Authority as well as other concerned parties for their support and cooperation provided to us.

We also seize this opportunity to laud the efforts made by company staff members for their dedication and commitment for the sake of the company success and servicing our policyholders.

Furthermore, we extend our heartfelt thanks to our valued shareholders and other stakeholders inside and outside the UAE for their unlimited support to **Abu Dhabi National Takaful Co. PSC**.

Finally, we ask the Almighty Allah, to bless our activities and guide us to the right path.

Khadem A. Al Qubaisi
Chairman of Board of Directors

Abu Dhabi National Takaful Company PSC

FINANCIAL STATEMENTS

31 DECEMBER 2012

ERNST & YOUNG

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

ABU DHABI NATIONAL TAKAFUL COMPANY PSC

Report on the Financial Statements

We have audited the accompanying financial statements of Abu Dhabi National Takaful Company PSC (the "Company"), which comprise the statement of financial position as at 31 December 2012, statement of income, 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 the applicable provisions of the articles of association of the Company and the UAE Commercial Companies Law of 1984 (as amended), and for such internal control as management determines is necessary to enable preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 about 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 auditors' judgement, 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.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

We also confirm that, in our opinion, the financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended), UAE Federal law No. (6) of 2007 and the articles of association of the Company; proper books of account have been kept by the Company; and the contents of the report of the Board of Directors relating to these financial statements are consistent with the books of account. We further report that we have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Law of 1984 (as amended), UAE Federal law No. (6) of 2007 or of the articles of association of the Company have occurred during the year which would have had a material effect on the business of the Company or on its financial position.

Ernst & Young

Signed by
Andre Kasparian
Partner
Ernst & Young
Registration No. 365

28 February 2013
Abu Dhabi

STATEMENT OF FINANCIAL POSITION
As at 31 December 2012

	Notes	2012 AED	2011 AED
ASSETS			
Cash and bank balances	5	**177,023,841**	170,242,682
Statutory deposit	6	**10,000,000**	10,000,000
Investments at fair value through other comprehensive income	7	**69,604,153**	50,175,548
Retakaful contract assets	8	**165,759,968**	123,612,845
Takaful and other receivables	10	**25,547,496**	37,737,192
Advances and other assets	28	**12,911,766**	16,316,911
Furniture and equipment	11	**1,201,408**	1,125,147
TOTAL ASSETS		**462,048,632**	409,210,325
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	12	**100,000,000**	90,750,000
Legal reserve	13	**12,957,496**	10,245,232
General reserve	14	**35,000,000**	25,658,718
Investment revaluation reserve		**(251,578)**	(5,599,847)
Retained earnings		**17,774,693**	25,049,350
Total shareholders' equity		**165,480,611**	146,103,453
Policyholders' fund			
Deficit of policyholders' fund	16	**(3,880,722)**	(81,189)
Loan from shareholders	16	**3,880,722**	81,189
Total policyholders' fund		**-**	-
Liabilities			
Provision for end of service benefits	17	**3,589,950**	2,792,887
Takaful contract liabilities	8	**224,706,894**	182,307,175
Retakaful and other liabilities	18	**49,325,466**	62,973,785
Retakaful deposits retained		**18,945,711**	15,033,025
Total liabilities		**296,568,021**	263,106,872
TOTAL EQUITY, POLICYHOLDERS' FUND AND LIABILITIES		**462,048,632**	409,210,325

H E Khadem A. Al Qubaisi
Chairman of the Board of Directors

Osama Abdeen
Chief Executive Officer

The attached notes 1 to 29 form part of these financial statements.

STATEMENT OF INCOME
For the year ended 31 December 2012

	Notes	*2012* *AED*	*2011* *AED*
Attributable to policyholders			
Gross takaful contributions revenue	19	**195,228,497**	190,124,951
Retakaful contributions	19	**(111,474,593)**	(99,899,143)
Net earned contributions	19	**83,753,904**	90,225,808
Gross claims incurred		**(101,491,908)**	(112,113,506)
Retakaful share of claims incurred		**80,893,773**	79,752,187
Net claims incurred		**(20,598,135)**	(32,361,319)
Takaful income		**63,155,769**	57,864,489
Takaful expenses		**(23,522,139)**	(21,243,551)
Retakaful and other income		**16,051,234**	11,895,615
Takaful operating profit		**55,684,864**	48,516,553
Policyholders' investment income	20	**1,875,633**	2,039,363
Mudareb share	21	**(562,690)**	(611,809)
Wakalah fees	21	**(60,797,340)**	(39,768,624)
(Deficit) surplus of takaful result for the year		**(3,799,533)**	10,175,483
Attributable to shareholders			
Shareholders' investment and other income, net	22	**2,892,687**	2,721,365
Mudareb share from policyholders	21	**562,690**	611,809
Wakalah fees from policyholders	21	**60,797,340**	39,768,624
General and administrative expenses	23	**(29,130,545)**	(26,744,266)
Provision for impairment of advances	28	**(4,200,000)**	(2,100,000)
(Increase) decrease in provision of loan to policyholders' fund	16	**(3,799,533)**	10,175,483
Net profit for the year		**27,122,639**	24,433,015
Basic and diluted earnings per share	24	**0.27**	0.24

The attached notes 1 to 29 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2012

	Notes	2012 AED	2011 AED
Net profit for the year		**27,122,639**	24,433,015
Other comprehensive income (loss)			
Increase (decrease) in fair value of investments at fair value through other comprehensive income, net		**5,348,269**	(1,409,204)
Directors' remuneration 2010	9	-	(1,500,000)
Directors' remuneration 2011	9	-	(1,700,000)
Directors' remuneration 2012	9	**(1,750,000)**	-
Other comprehensive income (loss) for the year		**3,598,269**	(4,609,204)
Total comprehensive income for the year		**30,720,908**	19,823,811

The attached notes 1 to 29 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2012

	Share capital AED	*Legal reserve AED*	*General reserve AED*	*Investment revaluation reserve AED*	*Retained earnings AED*	*Total AED*
Balance at 1 January 2011	72,600,000	7,801,930	25,658,718	(4,190,643)	24,409,637	126,279,642
Net profit for the year	-	-	-	-	24,433,015	24,433,015
Other comprehensive loss	-	-	-	(1,409,204)	(3,200,000)	(4,609,204)
Total comprehensive income for the year	-	-	-	(1,409,204)	21,233,015	19,823,811
Transfer to legal reserve	-	2,443,302	-	-	(2,443,302)	-
Bonus shares issued for the year 2010	18,150,000	-	-	-	(18,150,000)	-
Balance at 31 December 2011	90,750,000	10,245,232	25,658,718	(5,599,847)	25,049,350	146,103,453
Balance at 1 January 2012	90,750,000	10,245,232	25,658,718	(5,599,847)	25,049,350	146,103,453
Net profit for the year	-	-	-	-	27,122,639	27,122,639
Other comprehensive income	-	-	-	5,348,269	(1,750,000)	3,598,269
Total comprehensive income for the year	-	-	-	5,348,269	25,372,639	30,720,908
Transfer to legal reserve	-	2,712,264	-	-	(2,712,264)	-
Transfer to general reserve	-	-	9,341,282	-	(9,341,282)	-
Bonus shares issued for the year 2011 (note 15)	9,250,000	-	-	-	(9,250,000)	-
Dividends paid (note 15)	-	-	-	-	(11,343,750)	(11,343,750)
Balance at 31 December 2012	100,000,000	12,957,496	35,000,000	(251,578)	17,774,693	165,480,611

The attached notes 1 to 29 form part of these financial statements.

STATEMENT OF CASH FLOWS
Year ended 31 December 2012

	Notes	2012 AED	2011 AED
OPERATING ACTIVITIES			
Net profit for the year		**27,122,639**	24,433,015
Adjustments for:			
Depreciation of furniture and equipment	11	**872,836**	917,461
Movement of unearned contributions		**5,119,100**	(7,766,866)
Fixed deposits and dividend income		**(4,691,342)**	(4,753,486)
Net movement in provision for end of service benefits		**797,063**	459,339
Movement in provision for doubtful debts		**3,370,000**	189,004
Provision for impairment of advances	28	**4,200,000**	2,100,000
Loss (gain) on disposal of furniture and equipment		**6,487**	(5,831)
Operating profit before movements in working capital:		**36,796,783**	15,572,636
Takaful and other receivables		**8,819,696**	(4,985,896)
Advances and other assets		**(794,855)**	(567,316)
Movement of outstanding claims		**(4,866,504)**	(211,208)
Retakaful and other liabilities		**(13,698,319)**	12,162,779
Retakaful deposits retained		**3,912,686**	348,125
Cash from operations		**30,169,487**	22,319,120
Directors' remuneration paid		**(1,700,000)**	(1,500,000)
Net cash from operating activities		**28,469,487**	20,819,120
INVESTING ACTIVITIES			
Movement in investments at fair value through other comprehensive income		**(14,080,336)**	(14,106,509)
Purchase of furniture and equipment	11	**(955,584)**	(206,115)
Proceeds from disposal of furniture and equipment		**-**	8,850
Fixed deposits and dividend income received		**4,691,342**	4,753,486
Movement in term deposits		**23,782,148**	(64,067,402)
Net cash from (used in) investing activities		**13,437,570**	(73,617,690)
FINANCING ACTIVITIES			
Dividends paid		**(11,343,750)**	-
Net cash used in financing activities		**(11,343,750)**	-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**30,563,307**	(52,798,570)
Cash and cash equivalents at 1 January	5	**24,467,405**	77,265,975
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	5	**55,030,712**	24,467,405
Significant non-cash transaction:			
Proposed directors' remuneration		**1,750,000**	1,700,000

The attached notes 1 to 29 form part of these financial statements.

1 CORPORATE INFORMATION

Abu Dhabi National Takaful Company PSC (the "Company") is a public shareholding company which was incorporated in Abu Dhabi, United Arab Emirates ("UAE") on 16 November 2003. The Company is registered in accordance with the UAE Federal Law No. (8) of 1984 (as amended).

The Company carries out takaful and retakaful activities of all classes in accordance with the provisions of the UAE Federal Law No. (6) of 2007 regarding the Establishment of the Insurance Authority and Insurance Operations. The Company is domiciled and operates in the UAE and its registered address is P.O. Box 35335, Abu Dhabi, UAE.

The financial statements of Abu Dhabi National Takaful Company PSC for the year ended 31 December 2012 have been authorised for issue in accordance with a resolution of the Board of Directors on 28 February 2013.

2.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with the International Financial Reporting Standards and applicable requirements of UAE Commercial Companies Law (as amended).

The financial statements are prepared under the historical cost convention as modified for re-measurement of investment securities at fair value.

The financial statements are presented in United Arab Emirates Dirhams (AED) being the functional and presentation currency of the Company.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2012:

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets
- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters
- IFRS 7 Financial Instruments : Disclosures – Enhanced Derecognition Disclosure Requirements.

The adoption of the standards or interpretations is described below:

IAS 12 Income Taxes (Amendment) - Deferred Taxes: Recovery of Underlying Assets
The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and has no effect on the Company's financial position, performance or its disclosures.

IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters
The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact to the Company.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES continued

IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Company does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of the issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become applicable.

- IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1
- IAS 19 Employee Benefits (Revised)
- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
- IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32
- IFRS 1 Government Loans – Amendments to IFRS 1
- IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7
- IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

Annual Improvements May 2012
These improvements include:
- IFRS 1 First-time Adoption of International Financial Reporting Standards
- IAS 1 Presentation of Financial Statements
- IAS 16 Property Plant and Equipment
- IAS 32 Financial Instruments, Presentation
- IAS 34 Interim Financial Reporting

The Company expects no impact from the adoption of the amendments on its financial position or performance.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Takaful contracts
Definition
Takaful contracts are those contracts when the Company (the operator) has accepted takaful risk on behalf of takaful funds from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Takaful contracts continued
Recognition and measurement
Takaful contracts are classified into two main categories, depending on the duration of risk and whether or not the terms and conditions are fixed.

These contracts are casualty and property takaful contracts.

Casualty takaful contracts protect the policyholders against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers liability) and for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

Property takaful contracts mainly compensate the policyholders for damage suffered to their properties or for the value of property lost. Policyholders who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

For all these takaful contracts, contributions are recognised as revenue (earned contributions) proportionally over the period of coverage. The portion of contributions received on in-force contracts that relates to unexpired risks at the end of the reporting period date is reported as the unearned contribution liability.

Claims and loss adjustment expenses are charged to the statement of income (attributable to the policyholders) as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders.

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 statement of income. 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 based on 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 contribution 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 contracts assets in the financial statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Takaful contracts continued

Salvage and subrogation reimbursements

Estimates of salvage and subrogation reimbursements are considered as an allowance in the measurements of the takaful liability for claims.

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 statement of income initially by writing off the deferred policy acquisition costs and by subsequently 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 statement of income.

Revenue recognition

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

Dividend income

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

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 retakful expenses are recognised when the policies are issued.

Foreign currencies

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 retransferred 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 the statement of income in the period in which they arise.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Furniture and equipment
Furniture and equipment are recorded at cost less accumulated depreciation and impairment losses, if any. The cost of furniture 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 statement of income during the financial period in which they are incurred.

Depreciation is calculated so as to write off the cost of furniture 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	25 - 33.33%
Vehicles	25%

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 statement of income.

Impairment of tangible 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 (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of income, 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 (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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the statement of income, 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

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.

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 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.

Pension contributions are made in respect of UAE national employees to the Abu Dhabi Pension Authority, calculated in accordance with Government regulations. Such contributions are charged to the statement of income during the employees' period of service.

Financial assets
The Company has the following financial assets: cash and cash equivalents, takaful and other receivables, and fair value through other comprehensive income. The classification depends on the nature of the financial asset and is determined at the time of initial recognition.

Cash and cash equivalents
Cash and cash equivalent include cash on hand and deposits held at call with banks with original maturities of three months or less.

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. Loans and receivables are measured at amortised cost using the effective rate or 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.

Investment at fair value through other comprehensive income
Investments at fair value through other comprehensive income are initially recorded at cost and subsequently measured at fair value. Subsequent changes in fair value and gains or losses arising on disposal are recognised in other comprehensive income and dividend income is credited to statement of income when the right to receive the dividend is established.

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

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

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 recorded at the proceeds received, net of direct issue costs.

Trade payables and accruals
Trade payables and accruals are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective rate of return, with the expense recognised on an effective yield basis.

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.

Derecognition of financial liabilities
The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired.

Deficit in policyholders' fund
Deficit in the policyholders' fund is financed by the shareholders through a profit free loan "Qard – Hasan". The Company maintains a full provision against such loans.

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 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

While applying the accounting policies as stated in Note 3, management of the Company has made certain judgements, 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 judgements and estimates made by management, that have a significant risk of causing a material adjustments to the carrying amounts of assets and liabilities within the next financial year are:

Classification of investments
Management decides on acquisition of an equity investment whether it should be classified as carried at fair value through profit or loss or through other comprehensive income.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

Valuation of unquoted equity investments
Valuation of unquoted equity investments is normally based on recent market transactions on an arm's length basis, fair value of another instrument that is substantially the same, expected cash flows discounted at current rates for similar instruments, net asset base of investee or other valuation models.

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 the Company in evaluating the credit and liquidity position of the policyholders and the takaful companies, historical recovery rates including detailed investigations carried out and feedback received from the legal department. Impairment of takaful and other receivables as at 31 December 2012 amounted to AED 4,120,000 (2011: AED 750,000).

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. Provision for IBNR as at 31 December 2012 amounted to AED 13,280,050 (2011: AED 14,230,458) as detailed in note 8.

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 statement of income.

5 CASH AND CASH EQUIVALENTS

	2012 *AED*	*2011* *AED*
Cash and bank accounts	**25,810,603**	5,400,527
Term deposits (note 9)	**151,213,238**	164,842,155
Cash and bank balances	**177,023,841**	170,242,682
Less: term deposits with original maturity of more than three months	**(121,993,129)**	(145,775,277)
Cash and cash equivalents	**55,030,712**	24,467,405

Term deposits represent deposits held with financial institutions in UAE, are denominated in UAE Dirhams and carry profit at the prevailing market rates ranging from 0.5% to 3.35% per annum (2011: 0.6% to 4.0%).

6 STATUTORY DEPOSIT

In accordance with the requirements of UAE Federal Law No. (6) of 2007 regarding the Establishment of the Insurance Authority and Insurance Operations, the Company maintains a bank deposit of AED 10,000,000 which cannot be utilised without the consent of the UAE Insurance Authority. The statutory deposit is held with a commercial bank in UAE, a related party (note 9).

7 INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2012 *AED*	*2011* *AED*
Quoted securities	**59,402,813**	40,664,750
Unquoted securities	**10,201,340**	9,510,798
	69,604,153	50,175,548

The geographical concentration of investments is as follows:

Within UAE	**34,670,118**	27,279,004
Outside UAE	**34,934,035**	22,896,544
	69,604,153	50,175,548

Unquoted equity securities are valued primarily based on net assets of the investees where there are no recent transactions that could provide evidence of the current fair value.

8 RETAKAFUL CONTRACT ASSETS AND TAKAFUL CONTRACT LIABILITIES

	2012 *AED*	*2011* *AED*
Gross		
Takaful contract liabilities		
Reported claims	**121,030,407**	90,247,645
Claims incurred but not reported	**13,280,050**	14,230,458
Unearned contributions	**90,396,437**	77,829,072
	224,706,894	182,307,175
Recoverable from retakaful		
Reported claims	**100,586,335**	66,373,875
Claims incurred but not reported	**8,177,251**	7,690,853
Unearned contributions	**56,996,382**	49,548,117
	165,759,968	123,612,845
Takaful liabilities - net		
Reported claims	**20,444,072**	23,873,770
Claims incurred but not reported	**5,102,799**	6,539,605
Unearned contributions	**33,400,055**	28,280,955
	58,946,926	58,694,330

8 RETAKAFUL CONTRACT ASSETS AND TAKAFUL CONTRACT LIABILITIES continued

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

	Year ended 31 December 2012			*Year ended 31 December 2011*		
	Gross AED	***Retakaful AED***	***Net AED***	*Gross AED*	*Retakaful AED*	*Net AED*
CLAIMS						
Reported claims	**90,247,645**	**66,373,875**	**23,873,770**	65,051,196	41,186,417	23,864,779
Incurred but not reported	**14,230,458**	**7,690,853**	**6,539,605**	13,885,363	7,125,559	6,759,804
Total at 1 January	**104,478,103**	**74,064,728**	**30,413,375**	78,936,559	48,311,976	30,624,583
Claims settled	**(71,659,554)**	**(46,194,915)**	**(25,464,639)**	(86,571,962)	(53,999,435)	(32,572,527)
Increase in liabilities	**101,491,908**	**80,893,773**	**20,598,135**	112,113,506	79,752,187	32,361,319
Total at 31 December	**134,310,457**	**108,763,586**	**25,546,871**	104,478,103	74,064,728	30,413,375
Reported claims	**121,030,407**	**100,586,335**	**20,444,072**	90,247,645	66,373,875	23,873,770
Incurred but not reported	**13,280,050**	**8,177,251**	**5,102,799**	14,230,458	7,690,853	6,539,605
Total at 31 December	**134,310,457**	**108,763,586**	**25,546,871**	104,478,103	74,064,728	30,413,375
UNEARNED CONTRIBUTION						
Total at 1 January	**77,829,072**	**49,548,117**	**28,280,955**	71,399,197	35,351,376	36,047,821
Increase during the year	**90,396,437**	**56,996,382**	**33,400,055**	77,829,072	49,548,117	28,280,955
Release during the year	**(77,829,072)**	**(49,548,117)**	**(28,280,955)**	(71,399,197)	(35,351,376)	(36,047,821)
Net increase (decrease) during the year	**12,567,365**	**7,448,265**	**5,119,100**	6,429,875	14,196,741	(7,766,866)
Total at 31 December	**90,396,437**	**56,996,382**	**33,400,055**	77,829,072	49,548,117	28,280,955

9 RELATED PARTIES

Related parties comprise the shareholders, Directors and key management personnel of the Company and those entities in which they have a significant interest and the ability to control or exercise significant influence in financial and operational decisions. Details of significant transactions with a related party (major shareholder) in the normal course of business are as follows:

	2012 AED	*2011 AED*
Gross contributions written	**42,361,144**	40,978,566
Takaful expenses	**9,484,197**	5,176,097
Profit on term deposits	**171,643**	448,464
Term deposits at 31 December	**8,277,295**	19,066,878

The term deposits are held with a related party, a commercial bank in UAE, are denominated in AED, with original maturity of 30 days (2011: 32 to 38 days) and carry profit at 0.5% per annum (2011: 0.6% to 0.75%).

Information on the statutory deposit is disclosed in note 6.

9 RELATED PARTIES continued

The remuneration of key management personnel during the year was as follows:

	2012 *AED*	*2011* *AED*
Short-term benefits	**2,680,216**	2,662,546
Long-term benefits	**71,653**	78,939

The remuneration of Directors is accrued and paid as an appropriation out of the net profits for the year in accordance with the Federal Law No. (8) of 1984 (as amended) 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.

Directors' remuneration in relation to the year ended 31 December 2012 of AED 1,750,000 which is subject to the approval of the shareholders at the forthcoming Annual General Meeting, was proposed and reflected in other comprehensive income in the statement of comprehensive income.

Directors' remuneration for the year ended 31 December 2011 amounted to AED 1,700,000 and was reflected in the annual financial statements for the year ended 31 December 2011. This remuneration was approved by the shareholders at the Annual General Meeting held on 26 March 2012 and was paid later in March 2012.

Additionally, during the year ended 31 December 2011, directors' remuneration of AED 1,500,000 relating to the year ended 31 December 2010 was proposed and reflected in other comprehensive income in the statement of comprehensive income. It was paid in April 2011.

10 TAKAFUL AND OTHER RECEIVABLES

	2012 *AED*	*2011* *AED*
Due from policyholders, net of provision	**13,447,998**	14,492,962
Due from insurance and reinsurance companies	**6,434,800**	17,744,721
Notes receivable - post dated cheques	**1,572,230**	505,849
Accrued income	**785,777**	1,466,985
Other receivables	**3,306,691**	3,526,675
	25,547,496	37,737,192

Amounts due from policyholders and insurance and reinsurance companies balances consist of a large number of policyholders and insurance and reinsurance companies. The Company's terms of business require amounts to be paid in accordance with arrangements reached with the policyholders and insurance and reinsurance companies and no interest is charged on takaful and other receivables.

Before accepting any new customer, the Company assesses the potential customer's credit quality and defines credit limits by customer. In determining the recoverability of a takaful receivable, the Company considers any change in the credit quality of the takaful receivable from the date credit was initially granted up to the reporting date.

As at 31 December 2012, balances due from policyholders, insurance and reinsurance companies at a nominal value of AED 4,120,000 (2011: AED 750,000) were impaired and fully provided for.

10 TAKAFUL AND OTHER RECEIVABLES continued

Movement in provisions for doubtful debts is as follows:

	2012 AED	*2011 AED*
At 1 January	**750,000**	560,996
Additions	**3,728,847**	189,004
Reversals	**(358,847)**	-
At 31 December	**4,120,000**	750,000

As at 31 December, the ageing of unimpaired takaful receivables is as follows:

		Past due but not impaired			
	Not past due AED	*91 - 180 days AED*	*181 - 360 days AED*	*More than 360 days AED*	*Total AED*
2012	**12,173,498**	**2,537,447**	**4,553,154**	**618,699**	**19,882,798**
2011	17,134,754	9,175,808	3,917,389	2,009,732	32,237,683

11 FURNITURE AND EQUIPMENT

	Furniture, fixtures and office equipment AED	*Computer equipment and accessories AED*	*Vehicles AED*	*Total AED*
2012				
Cost:				
At 1 January 2012	4,314,174	2,328,874	576,675	7,219,723
Additions	882,102	73,482	-	955,584
Disposals	(195,210)	(124,585)	-	(319,795)
At 31 December 2012	**5,001,066**	**2,277,771**	**576,675**	**7,855,512**
Depreciation:				
At 1 January 2012	3,658,453	2,140,646	295,477	6,094,576
Charge for the year	599,895	141,003	131,938	872,836
Relating to disposals	(188,781)	(124,527)	-	(313,308)
At 31 December 2012	**4,069,567**	**2,157,122**	**427,415**	**6,654,104**
Net carrying amount 31 December 2012	**931,499**	**120,649**	**149,260**	**1,201,408**
2011				
Cost:				
At 1 January 2011	4,326,850	2,240,585	576,675	7,144,110
Additions	117,826	88,289	-	206,115
Disposals	(130,502)	-	-	(130,502)
At 31 December 2011	4,314,174	2,328,874	576,675	7,219,723
Depreciation:				
At 1 January 2011	3,180,203	1,960,497	163,898	5,304,598
Charge for the year	605,733	180,149	131,579	917,461
Relating to disposals	(127,483)	-	-	(127,483)
At 31 December 2011	3,658,453	2,140,646	295,477	6,094,576
Net carrying amount 31 December 2011	655,721	188,228	281,198	1,125,147

12 SHARE CAPITAL

	2012 AED	2011 AED
Authorized, issued and fully paid		
100,000,000 shares of AED 1 each (31 December 2011: 90,750,000)	**100,000,000**	90,750,000

A bonus share dividend of AED 9,250,000 in relation to the year ended 31 December 2011 was approved by the shareholders in their Annual General Meeting held on 26 March 2012 and the Company has completed the registration formalities with the concerned authorities.

At 31 December 2012, 39,646,537 shares or 39.65% of total share capital (2011: 35,979,245 shares or 39.65% of total share capital) were held by Abu Dhabi Islamic Bank PJSC and 60,353,463 shares or 60.35% of total share capital (2011: 54,770,755 shares or 60.35% of total share capital) were held by UAE nationals and other institutions.

13 LEGAL RESERVE

In accordance with the provisions of the UAE Federal Commercial Companies Law No. (8) of 1984, (as amended), and the Company's articles of association, the Company is required to transfer annually to a legal reserve account an amount equivalent to 10% of its annual net profit, until such reserve reaches 50% of the paid up capital of the Company. This reserve is not available for distribution.

14 GENERAL RESERVE

Transfers to and from the general reserve are made at the discretion of the Board of Directors and are subject to the shareholders approval. This reserve may be used for such purposes as they deem fit.

15 DIVIDENDS

For the year ended 31 December 2012, the Board of Directors proposed a cash dividend of AED 13,000,000 (2011: AED 11,343,750) at a rate of AED 0.13 per share (2011: AED 0.125). There is no bonus share dividend proposed for the year ended 31 December 2012 (2011: AED 9,250,000 at the rate of 10.19% of the company's paid up capital). The 2012 proposed cash dividend is subject to approval of the shareholders at the forthcoming Annual General Meeting.

16 POLICYHOLDERS' FUND

	2012 AED	2011 AED
At 1 January	**(81,189)**	(10,256,672)
Net (deficit) surplus for the year	**(3,799,533)**	10,175,483
At 31 December	**(3,880,722)**	(81,189)

17 PROVISION FOR END OF SERVICE BENEFITS

	2012 *AED*	*2011* *AED*
At 1 January	**2,792,887**	2,333,548
Charged during the year	**931,397**	933,189
Paid during the year	**(134,334)**	(473,850)
At 31 December	**3,589,950**	2,792,887

18 RETAKAFUL AND OTHER LIABILITIES

	2012 *AED*	*2011* *AED*
Due to policy holders	**1,566,901**	4,510,403
Due to takaful companies	**4,759,657**	5,163,357
Due to retakaful companies	**27,297,890**	30,981,749
Accrued liabilities	**4,249,409**	5,501,337
Other payables	**11,451,609**	16,816,939
	49,325,466	62,973,785

The average credit period is 60 to 90 days terms. The Company has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

19 NET EARNED CONTRIBUTIONS

	2012 *AED*	*2011* *AED*
Gross takaful contributions revenue		
Gross contributions written	**207,795,862**	196,554,826
Change in unearned contributions provision	**(12,567,365)**	(6,429,875)
	195,228,497	190,124,951
Retakaful contributions		
Retakaful contributions	**118,922,858**	114,095,884
Change in unearned contributions provision	**(7,448,265)**	(14,196,741)
	111,474,593	99,899,143
Net earned contributions	**83,753,904**	90,225,808

20 POLICYHOLDERS' INVESTMENT INCOME

	2012 *AED*	*2011* *AED*
Income from short-term deposits	**1,875,633**	2,039,363

21 MUDAREB SHARE AND WAKALAH FEES

The shareholders manage the policyholder's investment fund and charge 30% (2011: 30%) of investment income earned by policyholders' investment fund as mudareb share.

The shareholders manage the takaful operations for the policyholders and charge 30% (2011: 20%) of gross takaful contributions as wakalah fees.

22 SHAREHOLDERS' INVESTMENT AND OTHER INCOME, NET

	2012 AED	*2011 AED*
Return on short-term investment accounts and deposits	**2,219,412**	1,526,133
Dividend income from investments at fair value through other comprehensive income	**596,297**	1,187,990
(Loss) gain on disposal of furniture and equipment	**(6,487)**	5,831
Others	**83,465**	1,411
	2,892,687	2,721,365

23 GENERAL AND ADMINISTRATIVE EXPENSES

	2012 AED	*2011 AED*
Staff costs	**22,053,809**	19,455,562
Rental expenses	**2,900,060**	2,856,952
Depreciation of furniture and equipment	**872,837**	917,461
Other expenses	**3,303,839**	3,514,291
	29,130,545	26,744,266

24 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year as follows:

	2012 AED	*2011 AED*
Net profit for year (AED)	**27,122,639**	24,433,015
Ordinary shares in issue	**100,000,000**	100,000,000
Basic and diluted earnings per share (AED)	**0.27**	0.24

The earnings per share for the year ended 31 December 2011 were adjusted for the bonus shares issued during 2012 as detailed in note 12. The Company has not issued any instruments which would have a dilutive impact on earnings per share when exercised.

25 SEGMENT INFORMATION

Primary segment information

The Company has adopted IFRS 8 Operating Segments with effect from 1 January 2009 ("IFRS 8"). IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and reward approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. This has not resulted in any significant change to the reportable segments presented by the Company as the segments reported by the Company were consistent with the internal reports provided to the chief operating decision maker.

For operating purposes, the Company is organised into two main business segments:

- Underwriting of takaful business incorporating all classes of takaful including fire, marine, motor, general accident, engineering, energy and family takaful. This business is conducted fully within the UAE.
- Investments incorporating investments in UAE marketable equity securities, short-term investments with banks and other securities.

Information regarding the Company's reportable segments is presented below:

Segment revenue and results

	2012			2011		
	Underwriting AED	***Investments AED***	***Total AED***	*Underwriting AED*	*Investments AED*	*Total AED*
Direct revenue	**211,279,731**	**4,768,320**	**216,048,051**	202,020,566	4,760,728	206,781,294
Direct costs	**(132,072,728)**	**-**	**(132,072,728)**	(132,260,462)	-	(132,260,462)
Takaful expenses	**(23,522,139)**	**-**	**(23,522,139)**	(21,243,551)	-	(21,243,551)
Segment results	**55,684,864**	**4,768,320**	**60,453,184**	48,516,553	4,760,728	53,277,281
Unallocated costs			**(33,330,545)**			(28,844,266)
Net profit for the year			**27,122,639**			24,433,015

Revenue reported above represents revenue generated from external customers and third parties. There were no inter-segment revenues in the year (2011: AED nil).

The accounting policies of the reportable segments are the same as the Company's accounting policies described in note 3.

Segment assets and liabilities

	2012			2011		
	Underwriting AED	***Investments AED***	***Total AED***	*Underwriting AED*	*Investments AED*	*Total AED*
Segment assets	**292,689,240**	**167,752,798**	**460,442,038**	261,846,330	144,502,496	406,348,826
Unallocated assets			**1,606,594**			2,861,499
Total assets			**462,048,632**			409,210,325
Segment liabilities	**281,705,724**		**281,705,724**	249,654,651	37,891	249,692,542
Unallocated liabilities			**14,862,297**			13,414,330
Total liabilities			**296,568,021**			263,106,872
Capital expenditure		**955,584**	**955,584**		206,115	206,115

25 SEGMENT INFORMATION continued

Gross takaful contributions revenue from underwriting departments
The following is an analysis of the Company's revenues classified by major underwriting departments.

	2012 *AED*	*2011* *AED*
Motor	**24,712,423**	35,484,877
Medical	**50,982,015**	53,897,847
Energy	**22,039,086**	3,364,743
Workmen's compensation and miscellaneous accidents	**33,530,868**	44,117,108
Fire	**20,164,677**	16,549,508
Engineering	**7,734,279**	10,149,567
Marine and aviation	**3,885,184**	2,876,233
Family takaful	**32,179,965**	23,685,068
	195,228,497	190,124,951

26 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 one of the territories in which the Company operates, and there is a balance between commercial and personal properties in the overall portfolio of insured properties.

26 TAKAFUL RISK continued

Frequency and severity of claims 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 250,000 in any one motor policy and AED 1,500,000 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 settlement 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 an element of the claims provision includes incurred but not reported claims. 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 projection 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.

26 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.

The choice of selected results for each accident year of each class of business depends on an assessment of the techniques that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combinations of techniques have been selected for individual accident years or groups of accident years within the same class of business.

Claims development process
The following schedules reflect the actual claims (based on year end estimates including IBNR) compared to the previous estimates for the last four years on an accident year basis for motor and an underwriting year basis for non motor:

Motor - Gross
Accident year

	2008 and earlier AED'000	*2009 AED'000*	*2010 AED'000*	*2011 AED'000*	***2012 AED'000***	*Total AED'000*
At the end of the accident year	55,901	52,880	28,855	17,581	17,341	
One year later	55,772	52,201	28,024	16,487	-	
Two years later	54,954	51,776	27,796	-	-	
Three years later	54,102	50,866	-	-	-	
Four years later	53,073	-	-	-	-	
Current estimate of cumulative claims	55,901	52,880	28,855	17,581	17,341	172,558
Cumulative payments to date	(55,771)	(51,776)	(27,441)	(15,684)	(9,220)	(159,892)
Liability recognised in the statement of financial position	130	1,104	1,414	1,897	8,121	12,666

Non Motor - Gross
Underwriting year

	2008 and earlier AED'000	*2009 AED'000*	*2010 AED'000*	*2011 AED'000*	***2012 AED'000***	*Total AED'000*
At the end of the underwriting year	41,322	44,195	42,301	91,126	118,567	
One year later	38,415	38,834	38,340	73,756	-	
Two years later	38,224	37,707	37,801	-	-	
Three years later	38,193	37,520	-	-	-	
Four years later	33,941	-	-	-	-	
Current estimate of cumulative claims	41,322	44,195	42,301	91,126	118,567	337,511
Cumulative payments to date	(38,415)	(37,707)	(37,521)	(68,724)	(33,500)	(215,867)
Liability recognised in the statement of financial position	2,907	6,488	4,780	22,402	85,067	121,644

26 TAKAFUL RISK continued

Concentration of takaful risk
Substantially all of the Company's underwriting activities are carried out in the UAE.

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 concentration of credit risk arising from similar geographic regions, activities or economic characteristics of the retakaful companies. 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.

Sensitivity of underwriting profit and losses
The contribution by the takaful operations to the profit of the Company for the year ended 31 December 2012 amounts to AED 22.4 million (2011: AED 19.7 million). The Company does not foresee any adverse change in the contribution of takaful profit due to the following reasons:

The Company has an overall risk retention level of 42.8% (2011: 42%) and the same is mainly contributed by one class of business i.e., Motor wherein the retention level is 78%. However, in this line the liabilities are adequately covered by excess of loss retakaful program to guard against major financial impact.

The Company has net commission earning of 28.8% (2011: 24.5%) of the takaful operating profit predominantly from retakaful placement which remains as a comfortable source of income.

Because of low risk retention of 42.8% (2011: 42%) volume of the business and limited exposure in high retention areas like Motor, the Company is comfortable to maintain a net loss ratio in the region of 45% to 75% and does not foresee any serious financial impact in the takaful net profit.

27 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.

Fair value of financial instruments
Management considers that the carrying amounts of financial assets and financial liabilities recognised 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 and 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 input).

27 FINANCIAL INSTRUMENTS continued

Fair value of financial instruments continued

	Level 1 *AED*	*Level 2* *AED*	*Level 3* *AED*	*Total* *AED*
Investments at fair value through other comprehensive income				
31 December 2012				
Equities	**30,211,310**	-	**10,201,340**	**40,412,650**
Investment in sukuk	-	**29,191,503**	-	**29,191,503**
Total	**30,211,310**	**29,191,503**	**10,201,340**	**69,604,153**
31 December 2011				
Equities	31,267,223	-	9,510,798	40,778,021
Investment in sukuk	-	9,397,527	-	9,397,527
Total	31,267,223	9,397,527	9,510,798	50,175,548

There were no transfers between levels 1, 2 and 3 in 2012 and 2011.

Capital risk management

The Company has established the following capital management objectives, policies and approach to manage the risks that affect its capital position.

The Company's objectives when managing capital are:

- to comply with the capital requirements required by the UAE Federal Law No. (6) of 2007 regarding the Establishment of the Insurance Authority and Insurance Operations. The Company manages its capital on a basis of 135% - 150% of its minimum regulatory capital position presented below. Management considers the quantitative threshold of 35% - 60% sufficient to maximise shareholders' return and to support the capital required;

- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

- to provide an adequate return to shareholders by pricing takaful contracts commensurately with the level of risk.

In UAE, the local takaful regulator specifies the minimum amount and type of capital that must be held by the Company in addition to its takaful liabilities. The minimum required capital (presented below) must be maintained at all times throughout the year. The Company is subject to local takaful solvency regulations with which it has complied during the year. The Company has incorporated in its policies and procedures the necessary tests to ensure continuous and full compliance with such regulations.

The below summarises the minimum regulatory capital of the Company and the total capital held.

	2012 ***AED***	*2011* *AED*
Capital	**165,480,611**	146,103,453

Capital comprises share capital, legal reserve, general reserve, investment revaluation reserve, retained earnings and proposed dividends.

27 FINANCIAL INSTRUMENTS continued

Capital risk management continued
The UAE Insurance Authority has issued resolution No. 42 for 2009 setting the minimum subscribed or paid-up capital of AED 100 million for establishing an insurance firm and AED 250 million for a reinsurance firm. The resolution also stipulates that at least 75 percent of the capital of the insurance companies established in the UAE should be owned by UAE or Gulf Cooperation Council national individuals or corporate bodies. The Company is complying with the above requirements.

Significant accounting policies
Details of the significant policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

Categories of financial instruments

	2012 *AED*	*2011* *AED*
Financial assets		
Statutory deposit	**10,000,000**	10,000,000
Investments at fair value through other comprehensive income	**69,604,153**	50,175,548
Retakaful contract assets	**165,759,968**	123,612,845
Takaful and other receivables	**25,547,496**	37,737,192
Cash and bank balances	**177,023,841**	170,242,682
Total	**447,935,458**	391,768,267
Takaful		
Takaful contract liabilities	**224,706,894**	182,307,175
Retakaful and other liabilities	**49,325,466**	62,973,785
Retakaful deposits retained	**18,945,711**	15,033,025
Total	**292,978,071**	260,313,985

Profit return rate risk management
The Company is not exposed to significant profit return rate risks as its profit return-sensitivity 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.

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

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.

27 FINANCIAL INSTRUMENTS continued

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 retakaful in respects 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 management annually.

Retakaful is used to manage takaful risk. This does not, however, discharge the Company's liability as primary insurer. If retakaful company fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of a retakaful company 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 retakaful 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 policy holders.

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 2012, all of the deposits were placed with 6 banks (2011: 5 banks). Management is confident that this concentration at year end does not result in any credit risk to the Company as these banks 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 receivable and liquid funds.

27 FINANCIAL INSTRUMENTS continued

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 retakaful, are the major sources of funding for the Company and the liquidity risk for the Company is assessed to be low.

The table below summarises the maturity profile of the Company's financial liabilities with maturities determined on the basis of the remaining period from the end of the reporting period to the contractual maturity / repayment date.

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

	Carrying amount AED	*0 - 180 days AED*	*181 - 365 days AED*
Financial liabilities at 31 December 2012			
Takaful contract liabilities	**224,706,894**	**-**	**224,706,894**
Retakaful and other liabilities	**49,325,466**	**38,397,314**	**10,928,152**
Retakaful deposits retained	**18,945,711**	**-**	**18,945,711**
Total	**292,978,071**	**38,397,314**	**254,580,757**
Financial liabilities at 31 December 2011			
Takaful contract liabilities	182,307,175	-	182,307,175
Retakaful and other liabilities	62,973,785	45,660,857	17,312,928
Retakaful deposits retained	15,033,025	-	15,033,025
Total	260,313,985	45,660,857	214,653,128

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.

28 CONTINGENT LIABILITIES AND COMMITMENTS

	2012 AED	*2011 AED*
Bank guarantees	**353,077**	797,560
Commitments	**4,296,343**	4,296,343

Bank guarantees were issued in the normal course of business.

The commitments are in respect of the acquisition of investment properties. Advance payments amounting to AED 16,680,559 made in 2008 are presented under advances and other assets in the statement of financial position. The outstanding commitment is scheduled for payment on handover date which is expected to be during the first six months of 2013. The Company made a provision of AED 6,300,000 for impairment of these advance payments at 31 December 2012 (31 December 2011: AED 2,100,000) with AED 4,200,000 provided during 2012 and AED 2,100,000 in 2011.

29 COMPARATIVE FIGURES

Certain comparative figures were reclassified to conform to the current year presentation as detailed below. Such reclassifications had no effect on the profit or the equity of the Company.

- Deferred takaful policy acquisition costs of AED 3,269,305 were reclassified from takaful contract liabilities to takaful and other receivables in the statement of financial position and the related reclassifications were made in the statement of cash flows.

- Deferred takaful policy acquisition costs of AED 2,538,600 were reclassified from gross takaful contributions revenue to takaful expenses in the statement of income.