Dar Al Takaful PJSC

FINANCIAL STATEMENTS

31 DECEMBER 2012

ERNST & YOUNG

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DAR AL TAKAFUL PJSC

Report on the Financial Statements

We have audited the accompanying financial statements of Dar Al Takaful PJSC (the "Company"), which comprise the statement of financial position as at 31 December 2012 and the statement of income, statement of comprehensive income, statement of changes in equity and the 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, the UAE Commercial Companies Law of 1984 (as amended) and the UAE Federal Law No. (6) of 2007, and for such internal control as the 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 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 auditor's 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 for 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DAR AL TAKAFUL PJSC (continued)

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), the 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 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), of the UAE Federal Law No. (6) of 2007, or of the articles of association of the Dar Al Takafuf PJSC have occurred during the year which would have had a material effect on the business of the Dar Al Takafuf PJSC or on its financial position.

Ernst + Young

Signed by:
Anthony O'Sullivan
Partner
Registration No. 687

Dubai, United Arab Emirates

6 March 2013

STATEMENT OF INCOME

For the year ended 31 December 2012

	Notes	2012 AED	2011 AED
ATTRIBUTABLE TO PARTICIPANTS			
Gross contributions written	4	**87,170,344**	35,883,610
Movement in unearned contributions	4	**(33,198,782)**	4,742,164
Takaful Contributions revenue	4	**53,971,562**	40,625,774
Retakaful share of contributions	4	**(12,678,049)**	(8,252,741)
Movement in retakaful share of unearned contributions	4	**1,518,072**	1,309,622
Net retakaful share of contributions		**(11,159,977)**	(6,943,119)
Net takaful revenue	4	**42,811,585**	33,682,655
Policy and other fees		**422,101**	265,211
Other income		**-**	1,026,841
Provisions written back	14	**-**	29,200,000
Discount received on retakaful contributions	18	**1,445,011**	1,221,252
Total underwriting income		**44,678,697**	65,395,959
UNDERWRITING EXPENSES			
Claims incurred	5	**(37,732,529)**	(30,807,130)
Retakaful share of claims incurred	5	**6,912,604**	9,167,956
Net claims incurred	5	**(30,819,925)**	(21,639,174)
Policy acquisition cost	16	**(4,773,360)**	(4,296,022)
Excess of loss retakaful		**(1,916,326)**	(1,331,310)
Other underwriting expenses		**(424,970)**	(395,862)
NET UNDERWRITING INCOME		**6,744,116**	37,733,591
Wakala fees	6	**(24,065,376)**	(9,492,169)
Expenses allocated to participants	7	**(2,171,219)**	(2,128,495)
NET (DEFICIT) / SURPLUS FROM TAKAFUL OPERATIONS		**(19,492,479)**	26,112,927
Investment gain / (loss)	8	**18,754**	(3,209)
Mudarib's fee	6	**-**	(6,385)
(DEFICIT) / SURPLUS FOR THE YEAR ATTRIBUTABLE TO PARTICIPANTS BEFORE QARD HASSAN		**(19,473,725)**	26,103,333
Recovery of Qard Hassan	21	**-**	(26,103,333)
DEFICIT AFTER RECOVERY OF QARD HASSAN		**(19,473,725)**	-

The attached notes 1 to 30 form part of these financial statements.

STATEMENT OF INCOME (continued)

For the year ended 31 December 2012

	Notes	*2012* *AED*	*2011* *AED*
ATTRIBUTABLE TO SHAREHOLDERS			
INCOME			
Wakala fees from participants	6	**24,065,376**	9,492,169
Mudarib's fee	6	**-**	6,385
Investment income / (loss)	8	**2,609,738**	(1,481,724)
		26,675,114	8,016,830
EXPENSES			
General and administrative expenses	7	**(19,962,422)**	(20,050,498)
PROFIT / (LOSS) FOR THE YEAR BEFORE QARD HASSAN		**6,712,692**	(12,033,668)
(Provision booked) / Reversal of excess Provision against Qard Hassan to participants	21	**(19,473,725)**	7,564,441
LOSS FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS		**(12,761,033)**	(4,469,227)
Basic and diluted loss per share	9	**(0.128)**	(0.044)

The attached notes 1 to 30 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012 *AED*	*2011* *AED*
ATTRIBUTABLE TO PARTICIPANTS		
Loss for the year	**(19,473,725)**	-
Other comprehensive loss		
Unrealised gain / (loss) on available-for-sale-investments	**5,720**	(36,660)
Other comprehensive loss for the year	**5,720**	(36,660)
Total comprehensive loss for the year attributable to participants	**(19,468,005)**	(36,660)
ATTRIBUTABLE TO SHAREHOLDERS		
Loss for the year	**(12,761,033)**	(4,469,227)
Other comprehensive loss		
Unrealised gain / (loss) on available-for-sale-investments	**158,032**	(109,080)
Impairment of available for sale investments recognised in income statement	-	415,946
Other comprehensive income for the year	**158,032**	306,866
Total comprehensive loss for the year attributable to shareholders	**(12,603,001)**	(4,162,361)

The attached notes 1 to 30 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	*2012* *AED*	*2011* *AED*
TAKAFUL OPERATIONS' ASSETS			
Investment securities	12	**235,460**	211,880
Deferred policy cost	16	**5,099,687**	460,011
Retakaful assets	19	**11,770,227**	7,223,650
Takaful receivables	14	**36,786,632**	52,339,619
Cash and cash equivalents	17	**5,405,264**	1,314,523
TOTAL TAKAFUL OPERATIONS' ASSETS		**59,297,270**	61,549,683
SHAREHOLDERS' ASSETS			
Property and equipment	10	**11,987,352**	12,141,123
Intangible assets	11	**-**	324,529
Investment securities	12	**5,214,725**	3,628,466
Reisticted deposits	13	**6,000,000**	6,000,000
Wakala deposits	13	**33,000,000**	8,500,000
Due from participants		**1,391,404**	35,355,415
Prepayments and other receivables	15	**1,697,122**	2,355,065
Cash and cash equivalents	17	**31,108,620**	16,671,107
TOTAL SHAREHOLDERS' ASSETS		**90,399,223**	84,975,705
TOTAL ASSETS		**149,696,493**	146,525,388
TAKAFUL OPERATIONS' LIABILITIES AND DEFICIT			
Takaful operations' liabilities			
Deferred discount	18	**795,005**	186,058
Takaful contract liabilities	19	**79,083,535**	32,366,690
Takaful payables	20	**12,928,386**	9,699,004
Due to shareholders		**1,391,404**	35,355,415
Total takaful operations' liabilities		**94,198,330**	77,607,167
Takaful operations' deficit			
Qard Hassan against deficit in participants' fund	21	**(34,636,050)**	(15,162,325)
Less: Provision against Qard Hassan to participants' fund	21	**34,636,050**	15,162,325
		-	-
Fair value reserve		**(265,006)**	(270,726)
Total deficit from takaful operations		**(265,006)**	(270,726)
TOTAL TAKAFUL OPERATIONS' LIABILITIES AND DEFICIT		**93,933,324**	77,336,441
Shareholder's liabilities			
Other liabilities	22	**2,910,687**	3,733,464
Total shareholder's liabilities		**2,910,687**	3,733,464

The attached notes 1 to 30 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2012

	Notes	2012 AED	2011 AED
Shareholders' equity			
Share capital	24	**100,000,000**	100,000,000
Accumulated losses		**(47,341,878)**	(34,580,845)
Fair value reserve	25	**194,360**	36,328
Total shareholders' equity		**52,852,482**	65,455,483
TOTAL SHAREHOLDERS LIABILITIES AND EQUITY		**55,763,169**	69,188,947
TOTAL TALKAFUL OPERATIONS' LIABILITUES AND DEFICIT, SHAREHOLDERS LIABILITIES AND EQUITY		**149,696,493**	146,525,388

The financial statements were authorised for issue by the directors on 6 March 2013.

Abdul Aziz Al Bannai
Chairman

Saleh Al Hashimi
Managing Director

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

	Share capital AED	*Accumulated losses AED*	*fair value reserve AED*	*Total AED*
Balance at 1 January 2012	100,000,000	(34,580,845)	36,328	65,455,483
Loss for the year	-	(12,761,033)	-	(12,761,033)
Other comprehensive income for the year	-	-	158,032	158,032
Total comprehensive loss for the year	-	(12,761,033)	158,032	(12,603,001)
Balance at 31 December 2012	**100,000,000**	**(47,341,878)**	**194,360**	**52,852,482**

	Share capital AED	*Accumulated losses AED*	*fair value reserve AED*	*Total AED*
Balance at 1 January 2011	100,000,000	(30,111,618)	(270,538)	69,617,844
Loss for the year	-	(4,469,227)	-	(4,469,227)
Other comprehensive income for the year	-	-	306,866	306,866
Total comprehensive loss for the year	-	(4,469,227)	306,866	(4,162,361)
Balance at 31 December 2011	100,000,000	(34,580,845)	36,328	65,455,483

The attached notes 1 to 30 form part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2012

	Notes	2012 AED	2011 AED
OPERATING ACTIVITIES			
Loss for the year		(12,761,033)	(4,469,227)
Adjustments for:			
Depreciation	10	1,579,288	1,540,983
Amortisation	11	344,769	566,512
Provision written back		-	(29,200,000)
Provision for doubtful receivables	14	1,300,320	909,178
Provisions written off	14	(4,831)	-
Changes in the fair value of financial assets at fair value through profit or loss	8	(694,659)	2,044,390
Impairment on available-for-sale financial assets	8	-	415,947
Realised (gain) / loss on sale of trading securities	8	(488,781)	82,855
Income from Wakala deposits	8	(1,350,636)	(935,352)
Income from debt securities		(43,472)	-
Dividend income on securities	8	(49,752)	(120,000)
Provision against Qard Hassan to Participants' fund	21	19,473,725	-
Reversal of excess provision for Qard Hassan	21	-	(7,564,441)
Provision for end of service benefits	23	307,635	267,366
		7,612,573	(36,461,789)
Changes in operating assets and liabilities:			
Takaful receivables		14,257,498	(5,640,874)
Prepayments and other receivables		756,737	193,021
Deferred policy costs		(4,639,676)	194,350
Retakaful asset		(4,546,577)	(2,466,223)
Deferred discount received		608,947	(28,641)
Takaful contract liabilities		46,716,845	(211,995)
Takaful payables		3,229,382	2,798,624
Qard Hassan to participants' fund	21	(19,473,725)	-
Recovery against Qard Hassan to participants	21	-	26,103,333
Other liabilities		(1,027,570)	534,963
End of service benefits paid	23	(102,842)	(166,371)
Cash from / (used in) operating activities		43,391,592	(15,151,602)
Income received on Wakala deposits		1,262,964	1,394,650
Income received from debt securities		32,350	-
Dividend income received	8	49,752	120,000
Net cash from / (used) in operating activities		44,736,658	(13,636,952)
INVESTING ACTIVITIES			
Purchase of property and equipment	10	(1,425,517)	(1,360,619)
Acquisition of intangible assets	11	(20,240)	(18,365)
Purchase of financial assets at fair value through profit or loss	12	(2,001,100)	(1,803,576)
Proceeds from sale of trading securities		1,738,453	1,159,608
Wakala deposits (made) encashed during the year - net		(24,500,000)	31,043,403
Net cash from / (used in) investing activities		(26,208,404)	29,020,451
Net increase in cash and cash equivalents		18,528,254	15,383,499
Cash and cash equivalents at 1 January	17	17,985,630	2,602,131
CASH AND CASH EQUIVALENTSAT THE END OF THE YEAR	17	36,513,884	17,985,630

The attached notes 1 to 30 form part of these financial statements.

1 CORPORATE INFORMATION

Dar Al Takaful PJSC (the "Company") is incorporated as a public joint stock company in accordance with UAE Federal Law No. 8 of 1984 (as amended). The Company carries out general takaful (Insurance) retakaful (reinsurance) and investments in accordance with the teachings of Islamic Shari'a and within the provisions of UAE Federal Law no. 6 of 2007 relating to takaful companies and takaful agents and the Memorandum and Articles of Association of the Company. The address of the Company is PO Box 235353, Dubai, United Arab Emirates.

The Company obtained its commercial license on 23 July 2008 and commenced operations on 1 September 2008.

By a resolution of its Extraordinary General Meeting held on 8 April 2011, the shareholders of the Company resolved to change the English name of the Company from Takaful House PJSC to Dar Al Takaful PJSC.

The Company mainly issues short term takaful contracts in connection with non-life takaful such as motor, marine, fire, engineering, medical and general accident risks (collectively known as general takaful). The Company also invests its funds in investment securities.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

Accounting convention
The financial statements are prepared under the historical cost convention except for the measurement at fair value of financial assets carried at fair value. The financial statements have been presented in UAE Dirhams.

The Company presents its statement of financial position broadly in order of liquidity, with a distinction based on expectations regarding recovery or settlement within twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current), presented in the notes.

Statement of compliance
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), applicable requirements of UAE Companies Law of 1984 (as amended) and UAE Federal law no 6 of 2007 related to Takaful companies.

The articles of association of the Company require that separate accounts be maintained for takaful operations on behalf of the policyholders. Accordingly, the directors have resolved to present the financial statements on that basis and comply with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) to the extent that these are compatible with International Financial Reporting Standards.

Presentation
The statements of income and comprehensive income of the Company present separately the profit and loss, and the comprehensive income attributable to the participants and to shareholders.

The statement of financial position presents separately participants' fund and shareholders' fund assets and liabilities.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

New and amended standards and interpretations
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 AssetsIFRS 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 (Amendments)
- IFRS 7 Financial Instruments : Disclosures – Enhanced Derecognition Disclosure Requirements

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

New and amended standards and interpretations (continued)

The adoption of the above standards 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 been no effect on the Company's financial position, performance or its disclosures.

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.

IASB Standards and Interpretations issued at 31 December 2012 but not effective
Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards when they become effective.

IAS 1 *Presentation of Items of Other Comprehensive Income – Amendments to IAS 1*
The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings) would be presented separately from items that will never be reclassified (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets). The amendment affects presentation only and has no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012,

IAS 19 *Employee Benefits* (Revised)
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amended standard will impact the net benefit expense as the expected return on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. This amendment is not expected to impact the Company's financial position or performance and becomes effective for annual periods beginningon or after 1 January 2013.

IAS 32 *Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32*
These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Company's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

IASB Standards and Interpretations issued at 31 December 2012 but not effective (continued)

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Company's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but *Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements
IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 *Consolidation — Special Purpose Entities.*

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. IFRS 10 will not impact the Company's financial position or performance.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements
IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 will not impact the Company's financial position or performance.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard has no impact on Company's financial position or performance and this standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

IASB Standards and Interpretations issued at 31 December 2012 but not effective (continued)

Annual Improvments 2012 to IFRSs
These improvements will not have any impact on the Company, but include:

IFRS 1 First-time Adoption of International Financial Reporting Standards
This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements
This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment
This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation
This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes.*

IAS 34 Interim Financial Reporting
The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revnue recognition

Gross Contributions
Gross takaful written contributions comprise the total contributions receivable for the whole year of cover provided by contracts entered into during the accounting year and are recognised on the incorporation date on the policy. Contributions include any adjustments arising in the accounting year for contributions receivable in respect of business written in prior accounting year. Contributions collected by intermediaries but not yet received, are assessed based on estimates from underwriting or past experience and are included in contributions written.

Unearned contributions are those proportions of contributions written in a year that relate to period of risk after the reporting date. Unearned contribution is calculated as the higher of the amount determined on a daily prorate basis or "1/365" method and the requirements of UAE regulations on insurance companies as stated in the policy for takaful contract liabilities. The proportion attributable to subsequent year is deferred as a provision for unearned contributions.

Retakaful contribution
Gross retakaful contribution written comprise the total contribution payable for the whole cover provided by contracts entered into during the period and are recognised on the inception date of the policy. Contributions include any adjustments arising in the accounting period in respect of retakaful contracts incepting in prior accounting periods. Unearned retakaful contributions are those proportions of contribution written in a year that relate to periods of risk after the reporting date. Unearned retakaful contributions are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the retakaful contract for losses occurring contracts.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revnue recognition (continued)

Retakaful contribution (continued)
Gross retakaful contribution on life are recognised as an expense on the earlier of the date when contribution are payable or when the policy becomes effective.

Discounts earned
Discounts earned are recognised at the time policies are written. Discount earned on outwards retakaful contracts are deferred and amortised on a straight line basis over the term of the expected premiums payable.

Wakala fee
The Company manages the takaful operations on behalf of the participants for a wakala fee which is recognised on an accrual basis. A similar amount is shown as expense statement of income attributable to participants.

Investment income
(i) Income from investment and wakala deposits is recognised on a time proportion basis.
(ii) Dividend income is accounted for when the right-to-receive payment is established.

Claims incurred
Claims consist of amounts paid and payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries and are charged to income as incurred. Provision for incurred but not reported claims is included within the outstanding claims.

The Company generally estimates its claims based on previous experience. Independent loss adjusters normally estimate property claims. Any difference between the provisions at the reporting date and settlements and provisions in the following year is included in the underwriting account for that year.

Retakaful share of claims incurred
Retakaful share of claims are recognised when the related gross claim is recognised according to the terms of the relevant contract.

Policy acquisition costs
Commissions and other costs directly related to the acquisition and renewal of takaful contracts are charged to the statement of income when incurred.

Subsequent to initial recognition, these costs are amortised on a straight-line basis based on the term of expected future takaful contributions. Amortisation is recorded in the income statement.

Realised gains and losses
Realised gains and losses recorded in the statement of income on investments include gains and losses on financial assets. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the carrying amount and are recorded on occurrence of the sale transaction.

General and administration expenses
Administration expenses are charged to the statement of income of shareholders's fund. Expenses related to participants are allocated to Income statement of Participant's fund on the basis of guidelines issued by the Sharia and Supervisory board.

Liability adequacy test
At each reporting date the Company assesses whether its recognised takaful contract liabilities are adequate using current estimates of future cash flows under its takaful contracts. If that assessment shows that the carrying amount of its takaful contract liabilities is inadequate in light of estimated future cash flows, the entire deficiency is immediately recognised in the statement of income and an unexpired risk provision is created and reflected under Takaful contract liabilities.

The Company does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the reporting date.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases
The Company has no finance leases. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of income on a straight-line basis over the lease term.

Segment reporting
For management purposes, the Company is organised into business units based on their products and services and has identified two reportable operating segments as follows:

a. The non-life insurance segment comprises both general insurance and health insurance to individuals and businesses. General insurance products offered include motor, marine, fire, engineering, general accident and medical. These products offer protection of participant's assets and indemnification of other parties that have suffered damage as a result of particpant's accident, e.g., employee liability claims and asbestos. Non-life healthcare contracts provide medical cover to policyholders. Revenue in this segment is derived primarily from insurance premiums, investment income and fair value gains and losses on investments.
b. The investment segment includes investment in equity, fixed income securities such as bonds and fixed deposits and net rental income from investment properties.

No operating segments have been aggregated to form the above reportable operating segments. Segment performance is evaluated based on profit or loss which, in certain respects, is measured differently from profit or loss in the financial statements. Unallocated administrative expenses are managed on a group basis and are not allocated to individual operating segments.

There are no inter-segment transactions occurred in 2012 and 2011. If any transaction were to occur, transfer prices between operating segments would be set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expenses and results will include those transfers between business segments which will then be eliminated on consolidation.

Product classification
Takaful contracts are those contracts where a group of participants (the policyholders) mutually guarantee one another against prescribed uncertain future events of loss or damage, where the Company acts as a Wakil (agent) on their behalf in managing the Islamic insurance operations in consideration for a Wakala fee. The contribution amounts (premiums) paid net of the Wakala fee are considered as funds available for Mudarba, where the Company acts as Mudarib, investing some of these funds in consideration of a pre-agreed share of the realised profit or loss, (Mudarib fee) if any. The participants further donate their contribution to those other participants who suffer a prescribed event of loss or damage, payable per the policies of the Company, in its capacity as an agent. As a general guideline, the Company determines whether there is significant takaful risk, by comparing benefits paid with benefits payable if the insured event did not occur.

In case of deficit in participants operation, such deficit is funded by the shareholders as a Quard Hassan loan.

The Company does not have any investment contracts or any takaful contracts with Discretionary Participation Features (DPF).

Property and equipment
Property and equipment, including owner-occupied property, is stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment losses. Capital work-in-progress (CWIP) is not depreciated.

Depreciation is provided on a straight line basis over the useful lives of the following classes of assets:

• Building:	40 years
• Furniture and fixtures	4 years
• Office equipment	3 years

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively if appropriate at each financial year end.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

An item of property and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognised.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other replacement or major inspection costs are capitalised when incurred and if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. All other expenditure is recognised in the statement of income as the expense is incurred.

Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are amortised over the useful economic life of three years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation expense on intangible assets with finite lives is recognised in the income statement.

Amortisation is calculated on a straight line basis over the estimated useful lives of the assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of income when the asset is derecognised.

Impairment of non-financial assets
The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax profit rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded investment securities or other available fair value indicators.

Fair value of financial instruments
The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the reporting date without any deduction for transaction costs.For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

a) Using recent arm's length market transactions
b) Reference to the current fair value of another instrument that is substantially the same
c) A discounted cash flow analysis or other valuation models

The fair value of Wakala deposits earning a profit rate which is determined on monthly basis is its carrying value. The carrying value is the cost of the deposit and earned profit. The fair value of fixed/capped profit rate Wakala deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at current profit rates used in the market for similar instruments at the reporting date.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Assets
Initial recognition and subsequent measurement
Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date the Company commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of the assets within the time frame generally established by regulation or convention in the market place.

The classification depends on the purpose for which the investments were acquired or originated. Financial assets are classified as at fair value through profit or loss where the Company documented investment strategy is to manage financial investments on a fair value basis, because the related liabilities are also managed on this basis. The available-for-sale and held-to-maturity categories are used when the relevant liability (including shareholders' funds) is passively managed and/or carried at amortised cost.

The Company's financial assets include investment securities, wakala deposits, takaful receivables, other receivables, due from participants and bank balances.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held-for-trading and those designated at fair value through profit or loss at inception. Investments typically bought with the intention to sell in the near future are classified as held-for-trading. For investments designated as at fair value through profit or loss, the following criteria must be met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value adjustments and realised gain and loss are recognised in the statement of income.

Available-for-sale financial assets
Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

These investments are initially recorded at fair value. After initial measurement, available-for-sale financial assets are measured at fair value. Fair value gains and losses are reported as a separate component in the statement of comprehensive income until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative fair value gains and losses previously reported in the statement of comprehensive income are transferred to the statement of income.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectibility of financial assets
An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, any impairment losses are recognised in the statement of income. Impairment is determined as follows:

a) for assets carried at fair value, impairment is the difference between cost and the fair value;
b) for assets carried at cost, impairment is the difference between cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
c) for assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective profit rate.

Derecognition of financial instruments
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

a) The rights to receive cash flows from the asset have expired; and
b) The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Retakaful contracts held
The Company cedes takaful risk in the normal course of business for all of its businesses. Retakaful assets represent balances due from retakaful companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the retakaful contracts.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of income.

Ceded retakaful arrangements do not relieve the Company from its obligations to partcipants

The Company also assumes reinsurance risk in the normal course of business for insurance contracts where applicable.Contributions and claims on assumed retakaful are recognised as income and expenses in the same manner as they would be if the retakaful were considered direct business, taking into account the product classification of the reinsured business. Retakaful liabilities represent balances due to retakaful companies. Amounts payable are estimated in a manner consistent with the associated retakaful contract.

Contributions and claims are presented on a gross basis for both ceded and assumed retakaful.
Retakaful assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Retakaful contracts that do not transfer significant takaful risk are accounted for directly through the statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified contribution or fees to be retained.

Takaful receivables
Takaful receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, takaful receivables are measured at amortised cost, using the effective profit method. The carrying value of takaful receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income. Takaful receivables are derecognised when the dercognition criteria for the financial assets have been met.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand and wakala deposits with an original maturity of three months or less.

Takaful contract liabilities
Takaful contract liabilities include the outstanding claims provision, provision for unearned premiums and provision for additional reserve.

(i) Reserve for unearned contributions
Unearned contributions are those proportions of contributions written in a year that relate to period of risk after the reporting date. Unearned contribution is calculated as the higher of the amount determined on a daily prorata basis or "1/365" method and the requirements of UAE regulations on insurance companies. This law requires maintaining a minimum reserve of 40% of annual gross contribution net of retakaful for all classes of takaful except marine which is calculated at 25%.

The proportion attributable to a subsequent period is deferred as a provision for unearned contributions.

(iii) Outstanding claims
Insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, after reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of claims cannot be known with certainty at the reporting date. The liability is not discounted for the time value of money. No provision for equalisation or catastrophic reserves is recognised. The liability is derecognised when the contract expires, is discharged or is cancelled.

(ii) Additional reserve
A provision is made for the estimated excess of potential claims over unearned contribution and for claims incurred but not reported at the financial position date.

The reserves represent management's best estimates on the basis of:

a) claims reported during the year
b) delay in reporting these claims

Takaful payables
Takaful payables are recognized when due and measured on initial recognition at the fair value of the Consideration received less directly attributable transaction costs.

Other liabilities
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the suppliers or not.

Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the statement of income.

Employees' end of service benefits
The Company provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service year. The expected costs of these benefits are accrued over the year of employment.

With respect to its national employees and employees from other GCC countries, the Company makes contributions to the Government Social Insurance Scheme calculated as a percentage of the employees' salaries. The Company's obligations are limited to these contributions, which are expensed when due.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Surplus/deficit of participants' fund
If the surplus in the participants' fund at the end of a year is sufficiently large, a percentage of the surplus shall be distributed between participants that have not made a claim, in proportion to their risk contributions to the fund after accounting for reserves. The distributions will be approved by the Company's Shari'a Supervisory Board. Any remaining surplus after the distribution will remain in the participants' fund.

A deficiency in participants' fund is made good by a profit free loan (Qard Hassan) from the shareholders' fund. This loan is to be repaid from future surpluses arising from takaful operations on a priority basis. This loan is tested for impairment anuualy and the portion of the loan that is considered impaired is charged to the statement of income.

On liquidation of the fund, the accumulated surplus in the participants' fund, if any, after meeting all obligations (including repayment of the outstanding amount of profit free loan), will be dealt with after consulting with the Company's Shari'a Supervisory Board. In case of an accumulated deficit, any profit free loan outstanding at the time of liquidation will not be repayable by the participants' fund and the shareholders' fund will forego such outstanding amount.

Offsetting
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Income and expense will not be offset in the statement of income and statement of comprehensive income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

Foreign currency translation
The Company's presentation currency is the UAE Dirham (AED). This is also the functional currency of the Company.
Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

All foreign exchange differences are taken to the statement of income, except when it relates to items when gains or losses are recognised directly in comprehensive income. The gain or loss is then recognised net of the exchange component in other comprehensive income.

Contingencies
Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Events after the reporting date
The financial statements are adjusted to reflect events that occurred between the reporting date and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the reporting date. Events that are indicative of conditions that arose after the reporting date are disclosed, but do not result in an adjustment of the financial statements themselves.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Judgements
In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Classification of investments
Management decides on acquisition of an investment whether it should be classified as held to maturity, trading securities, carried at fair value through profit or loss or available-for-sale.

For those investments deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and, in particular, that the Company has the intention and ability to hold these to maturity.

The Company classifies investments as held for trading if they are acquired primarily for the purpose of making a short term profit.

The Company classifies investments as fair value through profit or loss if management evaluates their performance on a fair value basis.

All other investments are classified as available-for-sale.

Operating lease commitments
The Company has entered into commercial property leases on its investment property. The Company, as a lessor, has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for them as operating leases.

Impairment of equity investments
The Company treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists giving due consideration to other factors, including normal volatility in share prices for quoted equities and the future cash flows and the discount factors for unquoted equities.

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

Provision for outstanding claims, whether reported or not
Considerable judgement by management is required in the estimation of amounts due to contract holders arising from claims made under takaful contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possibly significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends or other peer companies comparison methods. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a quarterly basis.

Impairment losses on takaful receivables
The Company reviews its takaful receivables on a regular basis to assess whether a provision for impairment should be recorded in the statement of income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about the probability of default and probable losses in the event of default, the value of the underlying security, and realisation costs.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation uncertainty (continued)
Impairment losses on takaful receivables (continued)
In addition to specific provisions against individually significant takaful receivables, the Company also makes a collective impairment provision against takaful receivables which, although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. The amount of the provision is based on the historical loss pattern for insurance receivables within each grade and is adjusted to reflect current economic changes.

Retakaful
The Company is exposed to disputes with, and possibility of defaults by, its retakaful companies. The Company monitors on a quarterly basis the evolution of disputes and the strength of its retakaful companies.

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

3 SEGMENTAL INFORMATION

Primary segment information
For management purposes the Company is organised into two business segments; general takaful management and investment. The general takaful segment comprises the takaful business undertaken by the Company on behalf of Participants. Investment comprises investment and cash management for the Company's own account. No operating segments have been aggregated to form the above reportable operating segments.

Segment performance is evaluated based on profit or loss which in certain respects is measured differently from profit or loss in the financial statements.

Except for Wakala fees, Mudarib's fees and Qard Hassan, no other inter-segment transactions occurred during the year. If any other transaction were to occur, transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expenses and results will include those transfers between business segments which will then be eliminated on consolidation as shown below.

These segments are the basis on which the Company reports its primary segment information. Segmental information is presented below:

		Year ended 31 December 2012		
	Notes	*General Takaful management AED*	*Investment AED*	*Total AED*
Gross contributions written	4	87,170,344	-	87,170,344
Changes in unearned contributions	4	(33,198,782)	-	(33,198,782)
Contributions earned	4	53,971,562	-	53,971,562
Contributions ceded to retakaful	4	(11,159,977)	-	(11,159,977)
Net contribution revenue	4	42,811,585	-	42,811,585
Claims (net of retakaful share)	5	(30,819,925)	-	(30,819,925)
Net underwriting expenses		(5,247,544)	-	(5,247,544)
Net underwriting income		6,744,116	-	6,744,116

3 SEGMENTAL INFORMATION (continued)

Primary segment information (continued)

		Year ended 31 December 2012		
	Notes	*General Takaful management AED*	*Investment AED*	*Total AED*
General and administrative expenses	7	(2,171,219)	(19,962,422)	(22,133,641)
Wakala (fees) / income	6	(24,065,376)	24,065,376	-
Investment income	8	18,754	2,609,738	2,628,492
Qard Hassan	21	19,473,725	-	19,473,725
Excess provision	21	-	(19,473,725)	(19,473,725)
Loss for the year		-	(12,761,033)	(12,761,033)
Other comprehensive income	12	5,720	158,032	163,752
Total comprehensive gain / (loss) for the year		5,720	(12,603,001)	(12,597,281)

The following tables demonstrate other information related to each business segments:

	General Takaful Management AED	*Investment AED*	*Total AED*
Total assets	59,297,270	90,399,223	149,696,493
Total liabilities	94,198,330	2,910,687	97,109,017
Depreciation (Note 10)	-	1,579,288	1,579,288
Amortisation (Note 11)	-	344,769	344,769
Capital expenditures (Notes 10 and 11)	-	1,445,757	1,445,757

3 SEGMENTAL INFORMATION (continued)

Primary segment information (continued)

	Notes	*General Takaful management AED*	*Investment AED*	*Total AED*
		Year ended 31 December 2011		
Gross contributions written	4	35,883,610	-	35,883,610
Changes in unearned contributions	4	4,742,164	-	4,742,164
Contributions earned	4	40,625,774	-	40,625,774
Contributions ceded to retakaful	4	(6,943,119)	-	(6,943,119)
Net contribution revenue	4	33,682,655	-	33,682,655
Claims (net of retakaful share)	5	(21,639,174)	-	(21,639,174)
Provision no longer required		29,200,000	-	29,200,000
Net underwriting expenses		(3,509,890)	-	(3,509,890)
Net underwriting income		37,733,591	-	37,733,591
General and administrative expenses	7	(2,128,495)	(20,050,498)	(22,178,993)
Mudarib's fees	6	(6,385)	6,385	-
Wakala (fees) / income	6	(9,492,169)	9,492,169	-
Investment income	8	(3,209)	(1,481,724)	(1,484,933)
Recovery against Qard Hassan	21	(26,103,333)	-	(26,103,333)
Reversal of excess provision	21	-	7,564,441	7,564,441
Loss for the year		-	(4,469,227)	(4,469,227)
Other comprehensive loss /(income)	12	(36,660)	306,866	270,206
Total comprehensive loss for the year		(36,660)	(4,162,361)	(4,199,021)

The following tables demonstrate other information related to each business segments:

	General Takaful Management AED	*Investment AED*	*Total AED*
Total assets	61,549,683	84,975,705	146,525,388
Total liabilities	77,607,167	3,733,464	81,340,631
Depreciation (Note 10)	-	1,540,983	1,540,983
Amortisation (Note 11)	-	566,512	566,512
Capital expenditures (Notes 10 and 11)	-	1,378,984	1,378,984

Secondary segment information
For operational and management reporting purposes, the Company is organised as one geographical segment. Consequently, no secondary segment information is required to be provided.

4 NET CONTRIBUTIONS

	31 December 2012		
	Gross AED	***Retakaful share AED***	***Net AED***
Takaful contracts: Gross contributions written	**87,170,344**	**(12,678,049)**	**74,492,295**
Movement in provision for unearned contributions	**(33,198,782)**	**1,518,072**	**(31,680,710)**
Takaful contributions revenue	**53,971,562**	**(11,159,977)**	**42,811,585**
Unearned contributions as of 31 December (Note 19)	**(50,130,527)**	**4,655,781**	**(45,474,746)**

	31 December 2011		
	Gross AED	*Retakaful share AED*	*Net AED*
Takaful contracts: Gross contributions written	35,883,610	(8,252,741)	27,630,869
Movement in provision for unearned contributions	4,742,164	1,309,622	6,051,786
Takaful contributions revenue	40,625,774	(6,943,119)	33,682,655
Unearned contributions as of 31 December (Note 19)	(16,931,745)	3,137,709	(13,794,036)

5 CLAIMS INCURRED

	31 December 2012		
	Gross AED	***Retakaful share AED***	***Net AED***
Takaful claims paid	**24,214,466**	**(3,884,099)**	**20,330,367**
Movement in provision for outstanding claims (Note 19)	**12,038,541**	**(2,126,321)**	**9,912,220**
Movement in provision for additional reserves (Note 19)	**1,479,522**	**(902,184)**	**577,338**
Claims recorded in the statement of income	**37,732,529**	**(6,912,604)**	**30,819,925**

	31 December 2011		
	Gross AED	*Retakaful share AED*	*Net AED*
Takaful claims paid	24,616,763	(5,082,015)	19,534,748
Movement in provision for outstanding claims (Note 19)	2,301,693	(1,156,601)	1,145,092
Movement in provision for additional reserves (Note 19)	3,888,674	(2,929,340)	959,334
Claims recorded in the statement of income	30,807,130	(9,167,956)	21,639,174

6 WAKALA FEES AND MUDARIB'S FEE

Wakala fees
Wakala fee for the year ended 31 December 2012 amounted to AED 24,065,376 (Year 2011: AED 9,492,169). The fee is calculated at maximum of 30% of gross contribution of AED 87,170,344 (Year 2011: AED 35,883,610) without any deduction of policy acquisition cost. Wakala fee is charged to the statement of income when incurred.

Mudarib fee
The shareholders also manage the participants' investment funds and charge Mudarib's fee. Mudarib fee is charged @ 50% of realised investment income. During the year, Mudarib's fee amounted to AED nil (Year 2011: AED 6,385) and was charged on total realised investment income amounting to AED nil (Year 2011: AED 12,769).

7 GENERAL AND ADMINISTRATIVE EXPENSES

	2012 AED	*2011 AED*
Staff cost	**14,543,925**	14,954,716
Marketing expenses	**271,358**	731,239
Administrative expenses	**4,011,209**	3,465,705
Depreciation and amortisation	**1,924,057**	2,026,935
Provision for doubtful debts (Note 14)	**1,300,320**	909,178
Other expenses	**82,772**	91,220
	22,133,641	22,178,993

	2012 AED	*2011 AED*
Allocated to:		
Shareholders	**19,962,422**	20,050,498
Participants	**2,171,219**	2,128,495
	22,133,641	22,178,993

8 INVESTMENT INCOME

	31 December 2012		
	Participant AED	*Shareholders AED*	*Total AED*
Fair value gains and (losses)			
Financial assets at fair value through profit or loss account (Note 12)	17,859	676,800	694,659
Realised gains and (losses)			
Gain on trading of securities	-	488,781	488,781
Other investment income			
Income from Wakala deposits	-	1,350,636	1,350,636
Dividend income on trading of securities	-	49,752	49,752
Income from debt securities	-	43,472	43,472
Other income	895	297	1,192
	18,754	**2,609,738**	**2,628,492**

8 INVESTMENT INCOME (continued)

	31 December 2011		
	Participant AED	*Shareholders AED*	*Total AED*
Fair value gains and (losses)			
Financial assets at fair value through profit or loss account (Note 12)	(15,978)	(2,028,412)	(2,044,390)
Impairment loss on Available-for-sale financial assets (Note 12)	-	(415,947)	(415,947)
Realised gains and (losses)			
Loss on trading of securities	-	(82,855)	(82,855)
Other investment income			
Income from Wakala deposits	9,862	925,490	935,352
Dividend income on trading of securities	2,907	120,000	122,907
Investment income through profit or loss	(3,209)	(1,481,724)	(1,484,933)

Investment income has been allocated to the shareholders and participants on the basis of investments held by each fund.

9 BASIC AND DILUTED LOSS PER SHARE

Loss per share is calculated by dividing the net result for the year by the weighted average number of shares outstanding during the year as follows:

	2012 AED	*2011 AED*
Loss for the year attributable to shareholders	**(12,761,033)**	(4,469,227)
Weighted average number of shares outstanding during the year	**100,000,000**	100,000,000
Basic and diluted loss per share	**(0.128)**	(0.044)

The Company has not issued any instruments which would have an impact on earnings per share when exercised.

10 PROPERTY AND EQUIPMENT

	Building AED	*Furniture and fixtures AED*	*Office equipment AED*	*Capital work in progress AED*	*Total AED*
Cost:					
At 1 January 2012	10,226,500	2,716,605	1,888,120	775,400	15,606,625
Additions	-	499,493	106,419	819,605	1,425,517
Transfers	-	1,297,170	73,430	(1,370,600)	-
At 31 December 2012	**10,226,500**	**4,513,268**	**2,067,969**	**224,405**	**17,032,142**
Depreciation:					
At 1 January 2012	745,684	1,267,125	1,452,693	-	3,465,502
Charge for the year	255,656	1,032,362	291,270	-	1,579,288
At 31 December 2012	**1,001,340**	**2,299,487**	**1,743,963**	-	**5,044,790**
Net carrying amount:					
At 31 December 2012	**9,225,160**	**2,213,781**	**324,006**	**224,405**	**11,987,352**

10 PROPERTY AND EQUIPMENT (continued)

	Building AED	*Furniture Furniture and fixtures AED*	*Office Office equipment AED*	*Capital Capital work in progress AED*	*Total AED*
Cost:					
At 1 January 2011	10,226,500	2,325,019	1,660,987	33,500	14,246,006
Additions	-	359,586	227,133	773,900	1,360,619
Transfers	-	32,000	-	(32,000)	-
At 31 December 2011	10,226,500	2,716,605	1,888,120	775,400	15,606,625
Depreciation:					
At 1 January 2011	490,020	513,733	920,766	-	1,924,519
Charge for the year	255,664	753,392	531,927	-	1,540,983
At 31 December 2011	745,684	1,267,125	1,452,693	-	3,465,502
Net carrying amount:					
At 31 December 2011	9,480,816	1,449,480	435,427	775,400	12,141,123

Included in buildings are the Company's office in Jumeirah Lake Towers, Dubai with a carrying value of AED 9,225,160 (2011: AED 9,480,816). As of 31 December 2012, the management estimated the fair value of the office at AED 4.7 million (2011: AED 4.6 million). However, management considers that the office suffers no impairment as its value in use is assessed to be not less than the carrying amount at 31 December 2012

11 INTANGIBLE ASSETS

	2012 AED	*2011 AED*
Cost:		
At the beginning of the year	**1,705,585**	1,687,220
Additions during the year	**20,240**	18,365
At 31 December	**1,725,825**	1,705,585
Accumulated amortisation:		
At the beginning of the year	**(1,381,056)**	(814,544)
Charge for the year	**(344,769)**	(566,512)
At 31 December	**(1,725,825)**	(1,381,056)
Net carrying amount:		
At 31 December	**-**	324,529

Intangible assets represent an ERP solution acquired by the Company for its takaful business.

12 INVESTMENT SECURITES

The Company's investment securities are summarised by categories as follows:

	2012 AED	*2011 AED*
Financial assets at fair value through profit or loss	**2,637,000**	3,098,841
Available-for-sale financial assets	**2,813,185**	741,505
	5,450,185	3,840,346

	2012 AED	*2011 AED*
Investment securities attributable to:		
Shareholders		
Financial assets at fair value through profit or loss	**2,563,000**	3,042,701
Available-for-sale financial assets	**2,651,725**	585,765
	5,214,725	3,628,466

	2012 AED	*2011 AED*
Participants		
Financial assets at fair value through profit or loss	**74,000**	56,140
Available-for-sale financial assets	**161,460**	155,740
	235,460	211,880

The fair value of all investment securities is equivalent to the carrying value.

(a) Carrying values of financial instruments other than derivative financial instruments:

	Notes	*Available for sale AED*	*Fair value through profit or loss AED*	*Total AED*
At 1 January 2012		741,505	3,098,841	3,840,346
Purchases during the year		2,001,100	-	2,001,100
Sold during the year		(93,172)	(1,156,500)	(1,249,672)
Fair value loss recorded in the statement of income	8	-	694,659	694,659
Fair value gain recorded in the statement of comprehensive income		163,752	-	163,752
At 31 December 2012		**2,813,185**	**2,637,000**	**5,450,185**

12 INVESTMENT SECURITES (continued)

(a) Carrying values of financial instruments other than derivative financial instruments: (continued)

	Notes	*Available for sale AED*	*Fair value through profit or loss AED*	*Total AED*
At 1 January 2011		887,245	4,582,118	5,469,363
Purchases during the year		-	1,803,576	1,803,576
Sold during the year		-	(1,242,463)	(1,242,463)
Fair value loss recorded in the statement of income	8	-	(2,044,390)	(2,044,390)
Fair value loss recycled to statement of income		207,140	-	207,140
Impairment booked during the year	8	(415,947)	-	(415,947)
Fair value gain recorded in the statement of comprehensive income		63,067	-	63,067
At 31 December 2011		741,505	3,098,841	3,840,346

(b) Determination of fair value and fair values hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques that use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

All financial instruments recorded at fair value by the Company are classified in level 1 hierarchy position.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1 AED'000	***Level 2 AED'000***	***Level 3 AED'000***	***Total fair value AED'000***
31-Dec-12				
Financial assets at fair value through profit or loss				
Equity securities	2,637,000	-	-	2,637,000
Available-for-sale financial assets:				
Debt securities	-	-	2,001,100	2,001,100
Equity securities	812,085	-	-	812,085
	3,449,085	-	**2,001,100**	**5,450,185**

12 INVESTMENT SECURITES (continued)

(b) Determination of fair value and fair values hierarchy (continued)

	Level 1 *AED'000*	*Level 2* *AED'000*	*Level 3* *AED'000*	*Total fair value* *AED'000*
31-Dec-11				
Financial assets at fair value through profit or loss				
Equity securities	3,098,841	-	-	3,098,841
Available-for-sale financial assets:				
Equity securities	741,505	-	-	741,505
	3,840,346	-	-	3,840,346

Financial instruments recorded at fair value
Included in the Level 1 category are financial assets that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are assets for which pricing is obtained via pricing services, but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Company's own models whereby the majority of assumptions are market observable.

Non market observable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The main asset classes in this category are unlisted equity investments in limited partnerships. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the Company. Therefore, unobservable inputs reflect the Company's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Company's own data.

13 WAKALA AND RESTRICTED DEPOSITS

	2012 ***AED***	*2011* *AED*
Wakala deposits (a)	**33,000,000**	8,500,000
Wakala deposits held as restricted deposits (b)	**6,000,000**	6,000,000
	39,000,000	14,500,000
Attributable to:		
Shareholders including restricted deposits	**39,000,000**	14,500,000
Participants	**-**	-
	39,000,000	14,500,000

13 WAKALA DEPOSITS (continued)

(a) Wakala deposits have a fixed maturity of 3 to 6 months from the date of inception and yield a profit rate of 2.25% pa to 2.60 % pa (Year 2011: 2.1% pa to 3.25% pa).

(b) Wakala deposits held as restricted deposits have a fixed maturity of one year from the date of deposit and yield a profit rate of 1.19 % pa (2011: 1.4% pa). These represent the amounts that cannot be withdrawn without the prior approval of the Ministry of Economy in accordance with Article 42 of the Federal Law No. 6 of 2007.

14 TAKAFUL RECEIVABLES

	2012 AED	*2011 AED*
Contributions receivable	**27,749,736**	14,125,455
Receivable from other insurance companies	**11,721,563**	7,997,238
Receivable from Reinsurance companies (a)	**-**	31,606,104
	39,471,299	53,728,797
Less: Provisions for doubtful receivables	**(2,684,667)**	(1,389,178)
	36,786,632	52,339,619

All of the above amounts are due within twelve months of the reporting date. The amounts due from retakaful are normally settled on a quarterly basis.

As at 31 December 2012, contribution and takaful companies' balances receivable at nominal value of AED 2,684,667 (2011: AED 1,389,178) were impaired. Movements in provision for doubtful receivable was as follows:

	2012 AED	*2011 AED*
As at 1 January	**1,389,178**	29,680,000
Charge for the year (Note 7)	**1,300,320**	909,178
Provisions written off during the year	**(4,831)**	-
Written back during the year (a)	**-**	(29,200,000)
As at 31 December	**2,684,667**	1,389,178

(a) A participant under a fire takaful contract filed a law suit against the Company to claim a loss due to a fire in its premises. The Company paid an amount of AED 30,148,653 to Dubai Courts in execution of a formal injunction dated 16 August 2011 to settle the fire claim amount.

In relation to this fire claim, the Company made a cash call of AED 29.2 million to its retakaful companies representing the retakaful share of loss as per retakaful treaties. This was rejected by retakaful companies based on an exclusion clause, which led the Company and its retakaful companies to enter into an arbitration process in order to settle their dispute on the interpretation of this exclusion clause. In the financial statements of the year ended 31 December 2009, the Company accounted for the retakaful share of the loss amounting to AED 29.2 million and made a full provision on the retakaful receivables.

On 19 December 2012, the arbitration was decided in favour of the Company ordering the retakaful companies to pay AED 31.6 m. The company reversed the provision against recovery amounting to AED 29.2 m in 2011. The remaining amount of recovery was booked as retakaful share of claim amounting to AED 1.2m and other income amounting to AED 1.2 m 2011.

15 PREPAYMENTS AND OTHER RECEIVABLES

	2012 *AED*	*2011* *AED*
Deposits	**476,269**	272,357
Prepaid expenses	**1,044,562**	2,013,366
Other receivables	**176,291**	69,342
	1,697,122	2,355,065

Included in the deposits is an amount of AED Nil (2011: AED 55,812) representing a balance held by a related party to be utilised for investment in securities on behalf of the Company.

16 DEFERRED POLICY COST

	2012 *AED*	*2011* *AED*
At 1 January	**460,011**	654,361
Booked during the year	**9,413,036**	4,101,672
Charged to statement of income	**(4,773,360)**	(4,296,022)
	5,099,687	460,011

17 CASH AND CASH EQUIVALENTS

	2012 *AED*	*2011* *AED*
Cash	**54,716**	162,738
Bank balances	**6,358,330**	1,822,892
Wakala deposits maturing within 3 months	**30,100,838**	16,000,000
	36,513,884	17,985,630
Attributable to:		
Shareholders	**31,108,620**	16,671,107
Participants	**5,405,264**	1,314,523
	36,513,884	17,985,630

18 DEFEERED DISCOUNT RECEIVED

	2012 *AED*	*2011* *AED*
At 1 January	**186,058**	214,699
Received during the year	**2,053,958**	1,192,611
Charged to income statement	**(1,445,011)**	(1,221,252)
At 31 December	**795,005**	**186,058**

19 TAKAFUL CONTRACT ASSESTS AND LIABILITIES

2012	***Gross AED***	***Retakaful share AED***	***Net AED***
Unearned contribution reserve (Note 4)	50,130,527	(4,655,781)	45,474,746
Outstanding claims (a)	22,229,247	(3,282,922)	18,946,325
Additional reserve (b)	6,723,761	(3,831,524)	2,892,237
	79,083,535	**(11,770,227)**	**67,313,308**

2011	*Gross AED*	*Retakaful share AED*	*Net AED*
Unearned contribution reserve (Note 4)	16,931,745	(3,137,709)	13,794,036
Outstanding claims (a)	10,190,706	(1,156,601)	9,034,105
Additional reserve (b)	5,244,239	(2,929,340)	2,314,899
	32,366,690	(7,223,650)	25,143,040

(a) Outstanding claims

	Outstanding claims AED	***Due from retakaful AED***	***Net AED***
At 1 January 2012	10,190,706	(1,156,601)	9,034,105
Net Increase / (decrease) during the year (Note 5)	12,038,541	(2,126,321)	9,912,220
At 31 December 2012	**22,229,247**	**(3,282,922)**	**18,946,325**

	Outstanding claims AED	*Due from retakaful AED*	*Net AED*
At 1 January 2011	7,889,013	-	7,889,013
Net Increase / (decrease) during the year (Note 5)	2,301,693	(1,156,601)	1,145,092
At 31 December 2011	10,190,706	(1,156,601)	9,034,105

There are no material amounts for which amount and timing of claim payment is not resolved within one year of the reporting date.

(b) Additional reserves

	Outstanding reserve AED	***Due from retakaful AED***	***Net AED***
At 1 January 2012	5,244,239	(2,929,340)	2,314,899
Net (decrease) during the year (Note 5)	1,479,522	(902,184)	577,338
At 31 December 2012	**6,723,761**	**(3,831,524)**	**2,892,237**

19 TAKAFUL CONTRACT ASSESTS AND LIABILITIES (continued)

(b) Additional reserves (continued)

	Outstanding reserve AED	*Due from retakaful AED*	*Net AED*
At 1 January 2011	1,355,565	-	1,355,565
Net (decrease) during the year (Note 5)	3,888,674	(2,929,340)	959,334
At 31 December 2011	5,244,239	(2,929,340)	2,314,899

20 TAKAFUL PAYABLES

	2012 AED	*2011 AED*
Due to insurance companies, garages and other third parties	**9,128,053**	7,035,400
Due to retakaful companies	**3,150,381**	2,488,741
Accrued expenses	**424,900**	174,863
Other payables	**225,052**	-
	12,928,386	9,699,004

21 QARD HASSAN

	2012 AED	*2011 AED*
(a) Qard Hassan		
As at 1 January	**15,162,325**	41,265,658
Deficit during the year	**19,473,725**	-
Recovered during the year	-	(26,103,333)
As at 31 December	**34,636,050**	15,162,325
Provision against Qard Hasan		
As at 1 January	**15,162,325**	22,726,766
Provided during the year	**19,473,725**	-
Excess provision reversed during the year	-	(7,564,441)
Balance as at 31 December	**34,636,050**	15,162,325
Net balance as at 31 December	-	-

The shareholders have funded the deficit in the participants' fund in accordance with the Company's policy through a Qard Hassan (free of finance charge with no repayment terms). During the current year the Participant fund reported a deficit amounting to AED 19,473,725 (2011: Surplus of 26,103,333).

22 OTHER LIABILITIES

	2012 *AED*	*2011* *AED*
Trade and other payables	**1,858,137**	3,028,268
End of service benefits (Note 23)	**585,678**	380,885
Accrued leave salary	**466,872**	324,311
	2,910,687	3,733,464

23 EMPLOYEES' END OF SERVICE BENEFITS

Movements in the provision for employees' end of service benefits were as follows:

	2012 *AED*	*2011* *AED*
As at 31 December	**380,885**	279,890
Provided during the year	**307,635**	267,366
End of service benefits paid	**(102,842)**	(166,371)
Provision at 31 December	**585,678**	380,885

24 SHARE CAPITAL

	2012 *AED*	*2011* *AED*
Authorised, issued and fully paid		
100,000,000 shares of AED 1 each	**100,000,000**	100,000,000

25 RESERVES

Statutory reserve
As required by the Commercial Companies Law of 1984 (as amended) and the Company's articles of association, 10% of the net profit should be transferred to statutory reserve. No transfer has been made to statutory reserve in view of the losses incurred in the current year and prior year.

Fair value reserve
This reserve records fair value changes on financial instrument held at fair value through other comprehensive income.

26 RELATED PARTY TRANSACTIONS

Related parties represent the major shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

a) Balances with related parties

Balances with related parties included in the statement of financial position are as follows:

	2012 AED	*2011 AED*
Placements with Islamic financial institutions		
Shareholders		
Mawarid Finance PJSC	**35,000,000**	14,500,000
Deposits with related parties		
Mawarid Finance	**414,749**	240,337
Accrued profit on deposits		
Mawarid Finance	**82,500**	24,153
Due to a related party		
Mawarid Finance PJSC	**72,135**	85,881
Other related parties	**-**	20,000
	72,135	105,881

b) Transactions with related parties

Transactions with related parties included in the financial statements are as follows:

	2012 AED	*2011 AED*
Income from wakala deposits		
Major Shareholders		
Mawarid Finance PJSC	**249,567**	877,337
Contributions earned		
Major Shareholders	**177,944**	712,169
Other related parties	**4,590,598**	4,437,204
	4,768,542	5,149,373
Claims paid		
Major Shareholders	**584,037**	405,181
Other related parties	**2,222,529**	2,624,819
	2,806,566	3,030,000
Management charges paid		
Mawarid Finance PJSC	**406,000**	150,000
Other related parties	**-**	180,000
	406,000	330,000

26 RELATED PARTIES' TRANSACTIONS (continued)

c) Compensation of key management personnel

	2012 *AED*	*2011* *AED*
Short-term benefits	**3,417,213**	2,901,667
Employees' end of service benefits	**169,080**	199,839
	3,586,293	3,101,506

Outstanding balances at the year-end arise in the normal course of business. For the years ended 31 December 2012 and 31 December 2011, the Company has not recorded any impairment of amounts owed by related parties.

27 FATWA AND SHARI'A SUPERVISORY BOARD

The Company's business activities are subject to the supervision of a Fatwa and Shari'a Supervisory Board (FSSB) consisting of three members appointed by the shareholders. FSSB performs a supervisory role in order to determine whether the operations of the Company are conducted in accordance with Shari'a rules and principles.

28 ZAKAT

Zakat as approved by the Company's Sharia'a Supervisory Board amounted to AED 0.01899 per share (2011: 0.01627 per share).

The Management has opted to communicate the amount of Zakat payable to each shareholder, requiring them to pay their share of Zakat directly.

29 RISK MANAGEMENT

(i) Governance framework

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

The Company's risk management function is carried out by the Board of Directors, with its associated committees. This is supplemented with a clear organisational structure with delegated authorities and responsibilities from the Board of Directors to the Managing director.

The Board of Directors meets regularly to approve any commercial, regulatory and organisational decisions. The Management under the authority delegated from the Board of Directors defines the Company's risk and its interpretation, limits structure to ensure the appropriate quality and diversification of assets, aligns underwriting and retakaful strategy to the corporate goals, and specifies reporting requirements.

The primary objective of the Company's capital management is to comply with the regulatory requirements in the UAE and to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholder value. Capital comprises share capital, accumulated losses and fair value reserve and is measured at AED 52,852,482 (2011: AED 65,455,483).

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company has fully complied with the externally imposed capital requirements and no changes were made in the objectives, policies or processes during the year.

29 RISK MANAGEMENT (continued)

(ii) Regulatory framework

Regulators are primarily interested in protecting the rights of the participants and monitor them closely to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

The operations of the Company are also subject to regulatory requirements within the jurisdictions where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of the takaful companies to meet unforeseen liabilities as these arise.

(iii) Asset liability management (ALM) framework

Financial risks arise from open positions in profit rate, currency and equity products, all of which are exposed to general and specific market movements. The Company manages these positions to achieve long-term investment returns in excess of its obligations under takaful contracts. The principal technique of the Company's ALM is to match assets to the liabilities arising from takaful contracts by reference to the type of benefits payable to contract holders.

The management actively monitors the ALM to ensure in each year sufficient cash flow is available to meet liabilities arising from takaful contracts.

The management regularly monitors the financial risks associated with the Company's other financial assets and liabilities not directly associated with takaful liabilities.

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

29A Takaful risk

The principal risk the Company faces under takaful contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

Takaful risk is basically concentrated in the motor class of business. However, the variability of risks is improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of retakaful arrangements.

Frequency and amounts of claims
The frequency and amounts of claims can be affected by several factors. The Company underwrites mainly property, motor, marine, fire and medical risks. These are regarded as short-term takaful contracts, as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate takaful risk.

Motor
Motor takaful is designed to compensate contract holders for damage suffered to their vehicles or liability to third parties arising through accidents. Contract holders could also receive compensation for the fire or theft of their vehicles.

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. The Company has retakaful cover for such claims to limit losses for any individual claim to AED 200,000 (Year 2011: AED 200,000).

The level of court awards for deaths and to injured parties and the replacement costs of motor vehicles are the key factors that influence the level of claims.

29 RISK MANAGEMENT (continued)

29A Takaful risk (continued)

Frequency and amounts of claims (continued)

Property

Property takaful is designed to compensate contract holders for damage suffered to properties or for the value of property lost. Contract holders could also receive compensation for the actual loss caused by the inability to use the insured properties.

For property takaful contracts the main risks are fire and business interruption. The Company's policies aim careful selection and implementation of underwriting strategy guidelines, as well as the use of retakaful arrangements.

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Company has retakaful cover for such damage to limit losses for any individual claim to AED 350,000 (Year 2011: AED 350,000).

Liability

For miscellaneous accident classes of insurance such as loss of money, infidelity of employees, personal accident, workmen's compensation, travel, general third party liability and professional indemnity are underwritten. The Company has retakaful to limit losses for any individual claim to AED 200,000 (Year 2011: AED 200,000).

Medical

Medical takaful is designed to compensate the contract holders for medical costs. Personal accident insurance entitles the contract holders or their beneficiaries to specified amounts in case of death or permanent or partial disability.

For medical insurance, the main risks are illness and related healthcare costs. The Company generally does not offer medical takaful to walk-in customers and is generally offered to corporate customers with large population to be covered under the policy.The Company has retakaful to limit losses for any individual claim to 80% of the claim amount.

Marine

Marine takaful is designed to compensate contract holders for damage and liability arising through loss or damage to marine craft and accidents at sea resulting in the total or partial loss of cargoes.

For marine takaful the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.
The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered. The Company has retakaful to limit losses for any individual claim to AED 350,000 (Year 2011: AED 350,000).

Fire

Fire takaful is designed to compensate contract holders for damage and liability arising through loss or damage to the insured assets.

The Company's policies aim careful selection and implementation of underwriting strategy guidelines, as well as the use of retakaful arrangements. The Company has retakaful to limit losses for any individual claim to AED 350,000 (Year 2011: AED 350,000).

29 RISK MANAGEMENT (continued)

29A Takaful risk (continued)

Frequency and amounts of claims (continued)

The table below sets out the concentration of contract liabilities by type of contract:

2012	*Gross Liabilities AED*	*Retakaful share of liabilities AED*	*Net liabilities (Assets) AED*
Motor	19,862,287	(1,615,995)	18,246,292
Engineering	649,302	(589,862)	59,440
Fire	1,261,426	(866,356)	395,070
Liability	393,153	(166,228)	226,925
Others	63,079	(44,481)	18,598
Total	**22,229,247**	**(3,282,922)**	**18,946,325**

2011	*Gross Liabilities AED*	*Retakaful share of liabilities AED*	*Net liabilities (Assets) AED*
Motor	9,252,426	(584,541)	8,667,885
Engineering	136,580	(116,264)	20,316
Fire	391,862	(342,391)	49,471
Liability	303,838	(28,025)	275,813
Others	106,000	(85,380)	20,620
Total	10,190,706	(1,156,601)	9,034,105

Geographical concentration of risks

The takaful risk arising from takaful contracts is concentrated mainly in the United Arab Emirates.

Retakaful risk

In common with other takaful companies, in order to minimise financial exposure arising from large claims, the Company, in the normal course of business, enters into arrangements with other parties for retakaful purposes. Such retakaful arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the retakaful is effected under treaty, facultative and excess of loss retakaful contracts.

To minimise its exposure to significant losses from retakaful insolvencies, the Company evaluates the financial condition of retakaful companies. The Company deals with retakaful approved by the Board of Directors and hires external experts and brokers to select retakaful companies.

29B Financial risk

Financial instrument consists of financial assets and financial liabilities. The Company has no derivative financial instruments.

The Company's financial assets include investment securities, wakala deposits, takaful receivables, other receivables, due from participants and bank balances.

29 RISK MANAGEMENT (continued)

29B Financial risk (continued)

The Company's financial liabilities include outstanding claims reserve, takaful payables, other liabilities and due to shareholders.

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, foreign currency risk, profit risk and equity price risk. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

The Company does not enter into derivative transactions.

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. For all classes of financial assets held by the Company, the maximum exposure to credit risk to the Company is the carrying value as disclosed in the statement of financial position.

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- The Company only enters into takaful and retakaful contracts with recognised, credit worthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from takaful and retakaful contracts are monitored by a credit committee on an ongoing basis in order to reduce the Company's exposure to bad debts.

- The Company seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.

- The Company's trading securities are managed by the brokers on behalf of the company under the supervision of the management in accordance with the guidance of Board of Directors.

- The Company's bank balances are maintained with local reputable banks in accordance with limits set by the management. Wakala deposits are maintained with an Islamic finance company which is a related party.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross before the effect of mitigation through the use of any collateral held or other credit arrangements.

	Notes	***2012 AED***	*2011 AED*
Financial instruments – Debt securities	12	**2,001,100**	-
Restricted deposits	13	**6,000,000**	6,000,000
Wakala deposits	13	**33,000,000**	8,500,000
Takaful receivables	14	**36,786,632**	52,339,619
Other receivables	15	**652,560**	341,699
Bank balances and wakala deposits	17	**36,459,168**	17,822,892
Retakaful share of claims	19	**3,282,922**	1,156,601
		118,182,382	86,160,811

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references have been made to the specific notes.

29 RISK MANAGEMENT (continued)

29B Financial risk (continued)

Credit risk (continued)
The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit rating of counterparties.

31 December 2012	*Unimpaired*				
	High grade AED	***Standard grade (satisfactory) AED***	***Sub-standard grade (unsatisfactory) AED***	***Past due and impaired AED***	***Total AED***
Investment securities	2,001,100	-	-	-	2,001,100
Takaful receivable	-	36,786,632	-	2,684,667	39,471,299
Retakaful share of claims	-	3,282,922	-	-	3,282,922
Deposits	476,269	-	-	-	476,269
Other receivables	-	176,291	-	-	176,291
Restricted deposits	6,000,000		-	-	6,000,000
Wakala deposits	33,000,000		-	-	33,000,000
Bank balances	36,459,168	-	-	-	36,459,168
	77,936,537	**40,245,845**	-	**2,684,667**	**120,867,049**
Less: Impairment provision (Note 14)					(2,684,667)
					118,182,382

31 December 2011	*Unimpaired*				
	High grade AED	*Standard grade (satisfactory) AED*	*Sub-standard grade (unsatisfactory) AED*	*Past due and impaired AED*	*Total AED*
Takaful receivable	-	52,339,619	-	1,389,178	53,728,797
Retakaful share of claims	-	1,156,601	-	-	1,156,601
Deposits	272,357	-	-	-	272,357
Other receivables	-	69,342	-	-	69,342
Restricted deposits	6,000,000	-	-	-	6,000,000
Wakala deposits	8,500,000	-	-	-	8500,000
Cash and cash equivalents	17,822,892	-	-	-	17,822,892
	32,595,249	53,565,562	-	1,389,178	87,549,989
Less: Impairment provision (Note 14)					(1,389,178)
					86,160,811

Takaful receivables comprise a large number of customers and takaful companies mainly within the United Arab Emirates. Retakaful receivables are from the retakaful companies based mainly in the UAE and some of the retakaful payable in Europe (rest of the world).

29 RISK MANAGEMENT (continued)

29B Financial risk (continued)

Credit risk (continued)
The Company's financial position can be analysed by the following geographical regions:

2012	***Assets AED***	***Liabilities AED***	***Commitments AED***
United Arab Emirates	**116,738,643**	**31,863,695**	**-**
Rest of the world	**4,183,122**	**-**	**89,419**
Total	**120,921,765**	**31,863,695**	**89,419**

2011	*Assets AED*	*Liabilities AED*	*Commitments AED*
United Arab Emirates	88,685,531	22,427,090	172,000
Rest of the world	267,967	1,917,446	220,200
Total	88,953,498	24,344,536	392,200

The following table provides an age analysis of takaful receivables arising from takaful and retakaful contracts:

	Neither past due nor impaired	*Past due but not impaired*		*Unimpaired*		
	Up to 60 days AED	*60 to 120 days AED*	*Above 120 days AED*	*Total AED*	*Past due and impaired AED*	*Total AED*
31 December 2012	**22,206,043**	**3,570,042**	**11,010,547**	**36,786,632**	**2,684,667**	**39,471,299**
31 December 2011	35,250,597	3,836,050	13,252,972	52,339,619	1,389,178	53,728,797

For assets to be classified as 'past due and impaired' contractual payments in arrears are more than 180 days and impairment adjustment is recorded in the statement of income for this. When the credit exposure is adequately secured or when the management is confident of recovery, arrears more than 180 days might still be classified as 'past due but not impaired', with no impairment adjustment recorded.

Impaired financial assets
At 31 December 2012 there are impaired contribution receivables and retakaful receivable of AED 2,684,667(2011: AED 1,389,178). The Company records impairment allowances in a separate impairment allowance account.

Collateral
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Collateral is mainly obtained in the form of post dated cheques and guarantees.

(a) Financial instruments – investments

Investments in financial assets represent investments in quoted shares of companies incorporated in the United Arab Emirates (Note 12).

(b) Cash and cash equivalents

Cash and cash equivalents of the Company are with Banks registered and operate in the United Arab Emirates.

29 RISK MANAGEMENT (continued)

29B Financial risk (continued)

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its commitments associated with takaful contracts and financial liabilities when they fall due.

Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

29 RISK MANAGEMENT (continued)

29B Financial risk (continued)

Liquidity risk

The table below summarises the maturity of the assets and liabilities of the Company based on remaining contractual settlement dates.

	31 December 2012				31 December 2011			
	Less than one year AED	More than one year AED	No Term AED	Total AED	Less than one year AED	More than one year AED	No Term AED	Total AED
ASSETS								
Property and equipment	-	-	11,987,352	11,987,352	-		12,141,123	12,141,123
Intangible assets	-	-	-	-	-	-	324,529	324,529
Investment secutrities	-	1,000,000	4,450,185	5,450,185	-	-	3,840,346	3,840,346
Restricted deposits	-	-	6,000,000	6,000,000	-	-	6,000,000	6,000,000
Wakala deposits	33,000,000	-	-	33,000,000	8,500,000	-	-	8,500,000
Deferred policy cost	5,099,687	-	-	5,099,687	460,011	-	-	460,011
Retakaful assets	11,770,227	-	-	11,770,227	7,223,650	-	-	7,223,650
Takaful receivables	36,786,632	-	-	36,786,632	52,339,619	-	-	52,339,619
Prepayments and other assets	652,560	-	1,044,562	1,697,122	341,699	-	2,013,366	2,355,065
Due from participants	1,391,404	-	-	1,391,404	35,355,415	-	-	35,355,415
Cash and cash equivalents	36,513,884	-	-	36,513,884	17,985,630	-	-	17,985,630
TOTAL ASSETS	125,214,394	1,000,000	23,482,099	149,696,493	122,206,024	-	24,319,364	146,525,388

29 RISK MANAGEMENT (continued)

29B Financial risk (continued)

Liquidity risk (continued)

	31 December 2012				31 December 2011			
	Less than one year AED	***More than one year AED***	***No Term AED***	***Total AED***	*Less than one year AED*	*More than one year AED'*	*No Term AED'*	*Total AED'*
EQUITY AND LIABILITIES								
Shareholders' equity								
Share capital	-	-	**100,000,000**	**100,000,000**	-	-	100,000,000	100,000,000
Accumulated losses	-	-	**(47,341,878)**	**(47,341,878)**	-	-	(34,580,845)	(34,580,845)
Available for sale investments reserve	-	-	**194,360**	**194,360**	-	-	36,328	36,328
Total shareholders' equity	-	-	**52,852,482**	**52,852,482**	-	-	65,455,483	65,455,483
Takaful operations' deficit								
Available for sale investments reserve	-	-	**(265,006)**	**(265,006)**	-	-	(270,726)	(270,726)
Total takaful operations' deficit	-	-	**(265,006)**	**(265,006)**	-	-	(270,726)	(270,726)

29 RISK MANAGEMENT (continued)

29B Financial risk (continued)

Liquidity risk (continued)

	31 December 2012				31 December 2011			
	Less than one year AED'	More than one year AED'	No Term AED'	Total AED'	Less than one year AED'	More than one year AED'	No Term AED'	Total AED'
Liabilities								
Deferred discount received	795,005	-	-	795,005	186,058	-	-	186,058
Takaful contract liabilities	79,083,535	-	-	79,083,535	32,366,690	-	-	32,366,690
Takaful payables	12,928,386	-	-	12,928,386	9,699,004	-	-	9,699,004
Other liabilities	1,858,137	-	1,052,550	2,910,687	3,028,268	-	705,196	3,733,464
Due to shareholders	1,391,404	-	-	1,391,404	35,355,415	-	-	35,355,415
Total liabilities	96,056,467	-	1,052,550	97,109,017	80,635,435	-	705,196	81,340,631
TOTAL TAKAFUL OPERATIONS' DEFICIT SHAREHOLDERS' EQUITY AND LIABILITIES	96,056,467	-	53,640,026	149,696,493	80,635,435	-	65,889,953	146,525,388

29 RISK MANAGEMENT (continued)

Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The value of risk that may be accepted by the Company is monitored on a regular basis by the management. Market risk comprises three types of risk as follows.

Foreign currency risk
Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currently the company does not have any financial asset or liability in foreign currency that may expose the company to this risk.

Profit rate risk
Profit rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market rates. Floating rate instruments expose the Company to cash flow of profit risk, where as fixed profit rate instrument exposes the Company to fair value of profit risk.

The Company is exposed to profit rate risk on certain of its investments and bank balances. The Company limits its risk by monitoring changes in such rates.

The analysis below shows possible movements in profit rates and their impact on profitability of the company.

	Increase in basis points	*Effect on profit for the year AED*
2012		
Profit bearing assets	**100**	**711,019**
2011		
Profit bearing assets	+100	305,000

Any movement in interest rates in the opposite direction will produce exactly opposite results.

Price risk
Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from profit rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company has no significant concentration of price risk. The price risk is managed by outsourcing the trading of securities held by the company to professional brokers. However the activities of brokers are also monitored and supervised by the management.
The analysis below shows possible movements in the stock market indices and their impact on profit of the company.

	Change in equity price %	*Effect on profit and loss for the year AED*	*Effect on other comprehensive income AED*
2012			
Equity securities	**+20%**	**527,400**	**162,417**
2011			
Equity securities	+ 20%	619,768	148,301

Any movement in market indices in the opposite direction will produce exactly opposite results.

29 RISK MANAGEMENT (continued)

29C Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Company cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

30 COMMITMENTS AND GUARANTEES

Commitments

The Company has the following capital expenditure commitment at the reporting date:

	2012 *AED*	*2011* *AED*
Software development	**89,419**	220,200
Office renovation	**-**	172,000
	89,419	392,200

Guarantees

As at 31 December 2012, the Company has bank guarantees against labour and third party commitments for AED 200,020 (2011: AED 132, 000). The Company has also issued financial guarantees to retakaful companies amounting to AED 52,525 (2010: AED 52,525).