# ABU DHABI NATIONAL TAKAFUL COMPANY P.S.C.

## Reports and financial statements for the year ended 31 December 2008

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# ABU DHABI NATIONAL TAKAFUL COMPANY P.S.C.

## Reports and financial statements for the year ended 31 December 2008


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## BOARD OF DIRECTORS

| | |
|---|---|
| Chairman | H.E. Khadem A. Al Qubaisi |
| Vice Chairman | Mr. Khamis Buharoon |
| Directors | Mr. Mohammed Abdullah Al Qubaisi |
| | Mr. Khalifa A. Khamis Al Rumaithi |
| | Mr. Adel Ahmed Al Zarouni |
| | Mr. Khalid Deemas Al Suwaidi |
| | Mr. Mohammed Ismail Al Fahim |
| General Manager | Mr. Oussama Kaissi |
| Sharia'a Supervisory Board | Dr. Abdul Sattar Abu Ghuddah |
| | Sheikh Nizam Yaqubi |
| | Sheikh Osaid Kailani |
| Auditors | Deloitte & Touche |

## The 5th Annual Report of the Board of Directors for the financial year ended 31 December 2008

**Dear Shareholders,**

**Peace be upon you.....**

It gives us pleasure to meet you and present to the General Assembly the fifth annual report on the activities of the Company and its audited financial position for the financial year ending 31 December 2008 along with the Fatwa & Sharia'a Supervisory Board and independent auditor report.

The audited financial reports for the year 2008 have been prepared in accordance with the International Financial Reporting Standards ("IFRS"), while taking into consideration the changes in fair value of available for sale investments as part of Shareholders' equity.

As for the business activities of the Company during the year 2008, the audited financial reports supported with auditors notes demonstrate the development and progress made by the Company as far as its technical position is concerned.

Below is a summary of the results in comparison with the same period ended 31 December 2007:

- Achieved an increase in volume of premiums subscribed of 50% and amounted to AED 207 million.
- Takaful operating profit increased by 52% from AED 15.5 million to AED 23.6 million.
- The net profit for the year reached AED 11.6 million versus AED 10.6 million for the year 2007 achieving an increase of 10%.
- Shareholders' equity amounted to AED 73.6 million by the end of the year 2008 versus AED 103.9 million by the end of 2007 due to the decrease in the investment revaluation reserve as a result of the global financial crisis and its impact on the local market.

## The 5th Annual Report of the Board of Directors for the financial year ended 31 December 2008 (continued)

### Distribution of Profits

The net profit achieved by the Company during the financial year ended 31 December 2008 amounted to AED 11,587,176. In accordance with Article (58) of Articles of Association of the Company, we propose to the General Assembly to distribute 10% of the paid up capital as bonus shares to its Shareholders.

### Board of Directors Recommendations

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

1. The 5th Annual Report of the Board of Directors, Fatwa & Sharia'a Supervisory Board Report and the external auditor's report for the year ended 31 December 2008.
2. The balance sheet and income statement for the year ended 31 December 2008.
3. The profit distribution for the year ended 31 December 2008 amounting to AED 18,101,516 inclusive of the opening retained earning of AED 6,514,340 as follows:

The Board of Directors proposed the profit distribution as follows:

| | AED |
|---|---|
| Proposed bonus share of 10% of the paid up capital | 6,000,000 |
| Transfer to legal reserve | 1,158,718 |
| Transfer to general reserve | 1,158,718 |
| Transfer to retained earnings | 9,784,080 |
| | 18,101,516 |

4. Release of the Directors, external auditors and the members of the Fatwa & Sharia'a Supervisory Board of their duties during the year ended 31 December 2008.
5. Appoint or reappoint the external auditor for the year ending 31 December 2009 and agree on the fees.

## The 5th Annual Report of the Board of Directors for the financial year ended 31 December 2008 (continued)

**Valued Shareholders,**

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

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

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

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

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

**Khadem Abdulla Al Qubaisi**
**Chairman of Board of Directors**

Deloitte.

**Deloitte & Touche (M.E.)**
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Hamdan Street
P.O.Box 990, Abu Dhabi
United Arab Emirates

Tel: +971 (2) 676 0606
Fax: +971 (2) 676 0644
www.deloitte.com

# INDEPENDENT AUDITOR'S REPORT

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

*Report on the financial statements*

We have audited the accompanying financial statements of Abu Dhabi National Takaful Company P.S.C. (the "Company"), which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the financial statements*

Management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Deloitte.

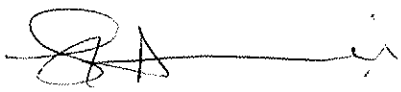
## INDEPENDENT AUDITOR'S REPORT (Continued)

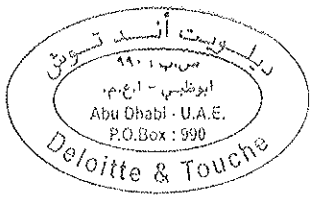
*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Report on Other Legal and Regulatory Requirements*

Also, in our opinion, proper books of account are maintained by the Company, and the information included in the Board of Directors' report is in agreement with the books of account. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. According to the information available to us, there were no contraventions of the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended), the UAE Federal Law No. (9) of 1984 (as amended) concerning Insurance Companies and Agents or the Articles of Association of the Company which might have a material effect on the financial position of the Company or on the results of its operations for the year.






Ahmad Nimer
Registration No. 380
Abu Dhabi, United Arab Emirates
29 January 2009

## Balance sheet
## at 31 December 2008

| | Notes | 2008 AED | 2007 AED |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | **112,981,660** | 123,850,814 |
| Statutory deposit | 5 | **10,000,000** | 7,500,000 |
| Available-for-sale investments | 6 | **40,787,738** | 39,660,418 |
| Retakaful contract assets | 7 | **89,834,896** | 48,960,442 |
| Takaful and other receivables | 9 | **41,739,597** | 26,998,367 |
| Prepayments and other assets | | **18,718,701** | 1,024,575 |
| Property and equipment | 10 | **3,356,386** | 2,137,503 |
| **Total assets** | | **317,418,978** | 250,132,119 |
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' equity** | | | |
| Share capital | 11 | **60,000,000** | 60,000,000 |
| Legal reserve | 12 | **5,443,534** | 4,284,816 |
| General reserve | 13 | **25,658,718** | 24,500,000 |
| Investment revaluation reserve | | **(33,236,715)** | 8,637,661 |
| Retained earnings | | **15,784,080** | 6,514,340 |
| **Total shareholders' equity** | | **73,649,617** | 103,936,817 |
| **Policyholders' fund** | | | |
| Deficit of policyholders' fund | 15 | **(35,607,914)** | (25,245,317) |
| Loan from shareholders | 15 | **35,607,914** | 25,245,317 |
| **Total policyholders' fund** | | **-** | - |
| **Liabilities** | | | |
| Provision for end of service benefits | 16 | **2,421,323** | 1,553,394 |
| Takaful contract liabilities | 7 | **170,223,737** | 107,047,756 |
| Retakaful and other payables | 17 | **56,341,620** | 26,049,750 |
| Retakaful deposits retained | | **14,782,681** | 11,544,402 |
| **Total liabilities** | | **243,769,361** | 146,195,302 |
| **Total equity and liabilities** | | **317,418,978** | 250,132,119 |

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

.....
**Oussama Kaissi**
**General Manager**

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

## Income statement
## for the year ended 31 December 2008

| | Notes | 2008 AED | 2007 AED |
|---|---|---|---|
| **Attributable to policyholders** | | | |
| Gross takaful contributions revenue | 18 | **158,816,247** | 117,831,051 |
| Retakaful contributions ceded | 18 | **(69,377,656)** | (52,595,855) |
| **Net earned contributions** | 18 | **89,438,591** | 65,235,196 |
| Gross claims incurred | | **(99,922,194)** | (78,622,039) |
| Retakaful share of claims incurred | | **32,955,129** | 29,312,218 |
| **Net claims incurred** | | **(66,967,065)** | (49,309,821) |
| **Takaful income** | | **22,471,526** | 15,925,375 |
| Takaful expenses | | **(12,151,771)** | (8,684,629) |
| Retakaful and other income | | **13,247,484** | 8,274,071 |
| **Takaful operating profit** | | **23,567,239** | 15,514,817 |
| Policyholders' investment income | 19 | **1,809,962** | 2,251,984 |
| Mudareb share | 20 | **(542,989)** | (675,595) |
| Wakalah fees | 20 | **(35,196,809)** | (27,667,746) |
| **Deficit of takaful result for the year** | | **(10,362,597)** | (10,576,540) |
| **Attributable to shareholders** | | | |
| Shareholders' investment and other income | 21 | **10,336,903** | 11,055,752 |
| Mudareb share from policyholders | 20 | **542,989** | 675,595 |
| Wakalah fees from policyholders | 20 | **35,196,809** | 27,667,746 |
| General and administative expenses | 22 | **(24,126,928)** | (18,250,354) |
| Provision of loan to policyholders fund | 15 | **(10,362,597)** | (10,576,540) |
| **Net profit for the year** | | **11,587,176** | 10,572,199 |
| **Basic earnings per share** | 23 | **0.19** | 0.18 |

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

## Statement of changes in Shareholders' equity for the year ended 31 December 2008

| | Share capital AED | Legal reserve AED | General reserve AED | Investment revaluation reserve AED | Retained earnings AED | Total AED |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2007** | 60,000,000 | 3,227,596 | 18,200,000 | (316,148) | 6,299,361 | 87,410,809 |
| Net profit for the year | - | - | - | - | 10,572,199 | 10,572,199 |
| Transfer to legal reserve | - | 1,057,220 | - | - | (1,057,220) | - |
| Transfer to general reserve | - | - | 6,300,000 | - | (6,300,000) | - |
| Increase in fair value of available-for-sale investments | - | - | - | 8,953,809 | - | 8,953,809 |
| Dividends paid | - | - | - | - | (3,000,000) | (3,000,000) |
| **Balance at 1 January 2008** | 60,000,000 | 4,284,816 | 24,500,000 | 8,637,661 | 6,514,340 | 103,936,817 |
| Net profit for the year | - | - | - | - | 11,587,176 | 11,587,176 |
| Transfer to legal reserve | - | 1,158,718 | - | - | (1,158,718) | - |
| Transfer to general reserve | - | - | 1,158,718 | - | (1,158,718) | - |
| Decrease in fair value of available-for-sale investments | - | - | - | (41,874,376) | - | (41,874,376) |
| **Balance at 31 December 2008** | **60,000,000** | **5,443,534** | **25,658,718** | **(33,236,715)** | **15,784,080** | **73,649,617** |

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

## Statement of cash flows
## for the year ended 31 December 2008

| | 2008 AED | 2007 AED |
|---|---|---|
| **Operating activities** | | |
| Net profit for the year | **11,587,176** | 10,572,199 |
| **Adjustments for:** | | |
| Retakaful contract assets and takaful contract liabilities | **22,301,527** | 22,027,380 |
| Investment income | **(12,146,865)** | (13,256,104) |
| Depreciation of property and equipment | **1,314,131** | 1,061,488 |
| Net movement in provision for end of service benefits | **867,929** | 595,250 |
| Gain on disposal of property and equipment | **-** | (51,632) |
| **Operating profit before movements in working capital** | **23,923,898** | 20,948,581 |
| Increase in takaful and other receivables | **(14,741,230)** | (4,744,837) |
| Increase in prepayments and other assets | **(17,694,126)** | (65,413) |
| Increase/(decrease) in retakaful and other payables | **30,291,870** | (56,044,909) |
| Increase in retakaful deposits retained | **3,238,279** | 4,212,348 |
| **Net cash generated from/(used in) operating activities** | **25,018,691** | (35,694,230) |
| **Investing activities** | | |
| Purchase of available-for-sale investments | **(63,142,206)** | (2,280,527) |
| Proceeds from disposal of available-for-sale investments | **27,876,946** | 11,072,524 |
| Movement in statutory deposit | **(2,500,000)** | - |
| Purchase of property and equipment | **(2,533,014)** | (916,856) |
| Proceeds from disposal of property and equipment | **-** | 191,250 |
| Investment income | **4,410,429** | 6,301,085 |
| **Net cash (used in)/generated from investing activities** | **(35,887,845)** | 14,367,476 |
| **Financing activities** | | |
| Dividends paid | **-** | (3,000,000) |
| **Net decrease in cash and cash equivalents** | **(10,869,154)** | (24,326,754) |
| Cash and cash equivalents at the beginning of the financial year | **123,850,814** | 148,177,568 |
| **Cash and cash equivalents at the end of the financial year** | **112,981,660** | 123,850,814 |

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

## Notes to the financial statements for the year ended 31 December 2008

### 1 General

Abu Dhabi National Takaful Company P.S.C. is a public shareholding company which was incorporated in Abu Dhabi on 16 November 2003. The Company is registered in accordance with the United Arab Emirates (UAE) Federal Law No. 9 of 1984, as amended.

The Company carries out takaful and retakaful activities of all classes. The Company is domiciled in the UAE and its registered address is P.O. Box 35335, Abu Dhabi, UAE.

### 2 Adoption of new and revised standards

Three interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) effective for the current period are as follows:

- IFRIC 11 *IFRS 2: Group and Treasury Share Transactions*
- IFRIC 12 *Service Concession Arrangements*
- IFRIC 14 *IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their interaction.*

The adoption of these Interpretations has not led to any changes in the Company's accounting policies.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

*New Standards and Amendments to Standards:*

| | |
|---|---|
| • IAS 1 (Revised) *Presentation of Financial Statements* and IAS 32 (revised) *Financial Instruments: Presentation – Amendments relating to puttable instruments and obligations arising on liquidation* | Effective for annual periods beginning on or after 1 January 2009 |
| • IAS 23 (Revised) *Borrowing Costs* | Effective for annual periods beginning on or after 1 January 2009 |

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 2 Adoption of new and revised standard (continued)

*New Standards and Amendments to Standards (continued):*

| | |
|---|---|
| • IAS 39 (Revised) *Financial Instruments: Recognition and Measurement- Amendments for eligible hedged Items* | Effective for annual periods beginning on or after 1 July 2009 |
| • International Financial Reporting Standards (IFRS) 1 (Revised) *First time Adoption of IFRS* and IAS 27 (Revised) *Consolidated and Separate Financial Statements – Amendment relating to cost of an investment on first time adoption* | Effective for annual periods beginning on or after 1 January 2009 |
| • IFRS 2 (Revised) *Share-based payment – Amendment relating to vesting conditions and cancellations* | Effective for annual periods beginning on or after 1 January 2009 |
| • IFRS 3 (Revised) *Business Combinations – Comprehensive revision on applying the acquisition method and consequential amendments to* IAS 27 (revised) *Consolidated and Separate Financial Statements,* IAS 28 (Revised) *Investments in Associates* and IAS 31 (Revised) *Interests in Joint Ventures* | Effective for annual periods beginning on or after 1 July 2009 |
| • IFRS 8 *Operating Segments* | Effective for annual periods beginning on or after 1 January 2009 |
| • Amendments to IFRS 5, IAS 1, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41 *resulting from the May and October 2008 Annual Improvements to IFRSs* | Effective for annual periods beginning on or after 1 January 2009 |

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 2. Adoption of new and revised standard (continued)

### 2.1 Standards and interpretations in issue not yet adopted (continued)

*New Interpretations:*

| | |
|---|---|
| • IFRIC 13 *Customer Loyalty Programmes* | Effective for annual periods beginning on or after July 1, 2008 |
| • IFRIC 15 *Agreements for the Construction of Real Estate* | Effective for annual periods beginning on or after January 1, 2009 |
| • IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* | Effective for annual periods beginning on or after October 1, 2008 |
| • IFRIC 17 *Distributions of Non-cash Assets to Owners* | Effective for annual periods beginning on or after July 1, 2009 |

The Directors anticipate the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company in the period of initial application.

### 3 Summary of significant accounting policies

### 3.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and applicable requirements of UAE Federal Law No. 9 of 1984, as amended, concerning Insurance Companies and Agents.

### 3.2 Basis of preparation

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies are set out below.

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 3 Summary of significant accounting policies (continued)

### 3.3 Takaful contracts

*Definition*

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

*Recognition and measurement*

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

These contracts are casualty and property takaful contracts.

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

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

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

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

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 3 Summary of significant accounting policies (continued)

### 3.3 Takaful contracts (continued)

*Retakaful contract assets*

Contracts entered into by the Company for retakaful under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements of takaful contracts are classified as retakaful contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Takaful contracts entered into by the Company under which the contract holder is involved in takaful activities are included with takaful contracts. The benefits to which the Company is entitled under its retakaful contracts held are recognised as retakaful contract assets. The Company assesses its retakaful contract assets for impairment on a regular basis. If there is objective evidence that the retakaful contract asset is impaired, the Company reduces the carrying amount of the retakaful contract assets to its recoverable amount and recognises that impairment loss in the income statement.

*Takaful contract liabilities*

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

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

*Salvage and subrogation reimbursements*

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

## Notes to the financial statements for the year ended 31 December 2007 (continued)

### 3 Summary of significant accounting policies (continued)

### 3.3 Takaful contracts (continued)

*Liability adequacy test*

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the takaful contract liabilities net of related deferred policy acquisition costs. Any deficiency is immediately charged to the income statement initially by writing off the deferred policy acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests.

*Receivables and payables related to takaful contracts*

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

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

### 3.4 Revenue recognition

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

*Dividend income*

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

*Other income*

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

*Retakaful income and expenses*

Retakaful income is recognised when retakaful is entered into and retakaful expenses are recognised when the policies are issued.

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 3 Summary of significant accounting policies (continued)

### 3.5 Foreign currencies

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

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

Exchange differences are recognised in the income statement in the period in which they arise.

### 3.6 Property and equipment

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

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

Depreciation is calculated so as to write off the cost of property and equipment on a straight-line basis over their expected useful economic lives. The principal annual rates used for this purpose are:

| | % |
|---|---|
| Furniture, fixtures and office equipment | 20 |
| Computer equipment and accessories | 25 – 33.33 |
| Vehicles | 25 |

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

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

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 3 Summary of significant accounting policies (continued)

### 3.7 Impairment of tangible assets

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

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

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

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

### 3.8 Provisions

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

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

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 3 Summary of significant accounting policies (continued)

### 3.9 Employee benefits

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

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

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

### 3.10 Financial assets

The Company has the following financial assets: 'cash and cash equivalents', 'takaful and other receivables' and 'available-for-sale' (AFS) financial assets. The classification depends on the nature of the financial asset and is determined at the time of initial recognition.

*Cash and cash equivalents*

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

*Takaful and other receivables*

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

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 3 Summary of significant accounting policies (continued)

### 3.10 Financial assets (continued)

*AFS investments*

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

AFS investments are measured at subsequent reporting dates at fair value unless the latter cannot be reliably measured. Gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gains or losses previously recognised in equity are included in the income statement for the period. Impairment losses recognised in the income statement for equity investments classified as AFS are not subsequently reversed through the income statement.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in income statement, and other changes are recognised in equity.

Dividends on AFS equity instruments are recognised in the income statement when the Company's rights to receive the dividends are established.

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For unquoted shares classified as AFS at cost, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in profits or principal payments; or
- it becoming probable that the issuer will enter bankruptcy or financial reorganisation.

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

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 3 Summary of significant accounting policies (continued)

### 3.10 Financial assets (continued)

*Impairment of financial assets (continued)*

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective rate of return.

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

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Derecognition of financial assets*

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

### 3.11 Financial liabilities and equity instruments

*Classification as debt or equity*

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

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 3 Summary of significant accounting policies (continued)

### 3.11 Financial liabilities and equity instruments (continued)

*Equity instruments*

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

*Retakaful and other payables*

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

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

*Derecognition of financial liabilities*

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

### 3.12 Deficit in policyholders' fund

Deficit in the policyholders' fund is financed by the Shareholders through loans. The Company maintains a full provision against such loans.

### 3.13 Dividends distribution

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

### 3.14 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns and that are different from those of segments operating in other economic environments.

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 4 Critical accounting judgements and key sources of estimation of uncertainty

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

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

### 4.1 Classification of investments

Management designates at the time of acquisition of securities whether these should be classified as fair value through profit or loss (FVTPL), AFS or held to maturity investments. In judging whether investments in securities are FVTPL, AFS or held to maturity, management has considered the detailed criteria for determination of such classification as set out IAS 39 *Financial Instruments: Recognition and Measurement*. Management is satisfied that its investments in securities are appropriately classified.

### 4.2 Valuation of unquoted equity investments

Valuation of unquoted AFS equity investments is normally based on recent market transactions on an arm's length basis, fair value of another instrument that is substantially the same, expected cash flows discounted at current rates for similar instruments or other valuation models. In the absence of an active market for these investments or any recent transactions that could provide evidence of the current fair value, these investments are carried at cost less recognised impairment losses, if any. Management believes that the carrying values of these unquoted equity investments are not materially different from their fair values.

### 4.3 Impairment of AFS investments

Management regularly reviews indicators of impairment for AFS investments and considers whether there has been a significant or prolonged decline in their fair value below cost. This determination of what is significant or prolonged decline requires judgement. In making this judgement and to decide if an impairment loss adjustment is necessary, the Management evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology and operational and financial cash flows and pay out dividend capability of the investee.

## Notes to the financial statements for the year ended 31 December 2008 (continued)

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

### 4.3 Impairment of AFS investments (continued)

In assessing the volatility in the share price, the Management also takes into consideration various aspects related to the market, including but not limited to, volume of trading over the past period, whether the listed price is a reflection of a distressed value driven by inactive or illiquid one way market, and the subsequent performance of the market after the balance sheet date. Management also considers its intent and ability to hold the investment until its market price recovers. Impairment of AFS investments as at 31 December 2008 and 2007 amounted to AED Nil.

### 4.4 Impairment of takaful and other receivables

An estimate of the collectible amount of takaful and other receivables is made when collection of the full amount is no longer probable. This determination of whether the takaful and other receivables are impaired entails the Company in evaluating the credit and liquidity position of the policy holders and the takaful companies, historical recovery rates including detailed investigations carried out during 2008 and feedback received from the legal department. Impairment of takaful and other receivables as at 31 December 2008 and 2007 amounted to AED Nil.

### 4.5 The ultimate liability arising from claims made under takaful contracts

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

### 4.6 Liability adequacy test

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

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 5 Statutory deposit

In accordance with the requirements of Federal Law No. 9 of 1984 (as amended), covering insurance companies and agencies, the Company maintains a bank deposit of AED 10,000,000 (2007 - AED 7,500,000) which cannot be utilised without the consent of the UAE Ministry of Economy.

### 6 Available-for-sale investments

The movement in the AFS investments is as follows:

| | 2008 AED | 2007 AED |
|---|---|---|
| Fair value at 1 January | **39,660,418** | 32,543,587 |
| Additions during the year | **63,142,206** | 2,280,527 |
| Disposals during the year | **(20,140,510)** | (4,117,505) |
| Net movement in fair value adjustment | **(41,874,376)** | 8,953,809 |
| **Fair value at 31 December** | **40,787,738** | 39,660,418 |

The fair value of these investments comprises the following:

| | 2008 AED | 2007 AED |
|---|---|---|
| Investments in quoted UAE equity securities | **997,225** | 28,346,760 |
| Investments in quoted overseas equity securities | **160,847** | 806,050 |
| Investments in unquoted UAE equity securities | **14,375,202** | 10,507,608 |
| Investments in other securities | **25,254,464** | - |
| | **40,787,738** | 39,660,418 |

The geographical distribution of investments is as follows:

| | 2008 AED | 2007 AED |
|---|---|---|
| Within UAE | **40,626,891** | 38,854,368 |
| Outside UAE | **160,847** | 806,050 |
| | **40,787,738** | 39,660,418 |

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 6 Available-for-sale investments (continued)

At 31 December 2008, AFS investments in unquoted UAE securities have been valued at cost, which in the Directors' opinion, costs approximate the fair values at the balance sheet date.

### 7 Takaful contract liabilities and retakaful contract assets

| | 2008 AED | 2007 AED |
|---|---|---|
| **Gross** | | |
| Takaful contract liabilities | | |
| Reported claims | **47,447,905** | 34,799,452 |
| Claims incurred but not reported | **9,552,882** | 7,249,161 |
| Unearned premiums | **113,222,950** | 64,999,143 |
| | **170,223,737** | 107,047,756 |
| **Recoverable from retakaful** | | |
| Reported claims | **28,460,859** | 20,312,168 |
| Claims incurred but not reported | **4,595,845** | 3,279,209 |
| Unearned premiums | **56,778,192** | 25,369,065 |
| | **89,834,896** | 48,960,442 |
| **Takaful liabilities - net** | | |
| Reported claims | **18,987,046** | 14,487,284 |
| Claims incurred but not reported | **4,957,037** | 3,969,952 |
| Unearned premiums | **56,444,758** | 39,630,078 |
| | **80,388,841** | 58,087,314 |

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 7 Takaful contract liabilities and retakaful contract assets (continued)

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

| | Year ended 31 December 2008 | | | Year ended 31 December 2007 | | |
|---|---|---|---|---|---|---|
| | Gross AED | Retakaful AED | Net AED | Gross AED | Retakaful AED | Net AED |
| **CLAIMS** | | | | | | |
| Notified claims | **34,799,452** | **20,312,168** | **14,487,284** | 13,589,159 | 6,749,666 | 6,839,493 |
| Incurred but not reported | **7,249,161** | **3,279,209** | **3,969,952** | 3,268,682 | 1,335,679 | 1,933,003 |
| **Total at 1 January** | **42,048,613** | **23,591,377** | **18,457,236** | 16,857,841 | 8,085,345 | 8,772,496 |
| Claims settled | **(42,048,613)** | **(23,591,377)** | **(18,457,236)** | (16,857,841) | (8,085,345) | (8,772,496) |
| Increase in liabilities | **57,000,787** | **33,056,704** | **23,944,083** | 42,048,613 | 23,591,377 | 18,457,236 |
| **Total at 31 December** | **57,000,787** | **33,056,704** | **23,944,083** | 42,048,613 | 23,591,377 | 18,457,236 |
| Notified claims | **47,447,905** | **28,460,859** | **18,987,046** | 34,799,452 | 20,312,168 | 14,487,284 |
| Incurred but not reported | **9,552,882** | **4,595,845** | **4,957,037** | 7,249,161 | 3,279,209 | 3,969,952 |
| **Total at 31 December** | **57,000,787** | **33,056,704** | **23,944,083** | 42,048,613 | 23,591,377 | 18,457,236 |
| **UNEARNED PREMIUM** | | | | | | |
| **Total at 1 January** | **64,999,143** | **25,369,065** | **39,630,078** | 44,491,460 | 17,204,022 | 27,287,438 |
| Increase during the year | **113,222,950** | **56,778,192** | **56,444,758** | 64,999,143 | 25,369,065 | 39,630,078 |
| Release during the year | **(64,999,143)** | **(25,369,065)** | **(39,630,078)** | (44,491,460) | (17,204,022) | (27,287,438) |
| Net increase during the year | **48,223,807** | **31,409,127** | **16,814,680** | 20,507,683 | 8,165,043 | 12,342,640 |
| **Total at 31 December** | **113,222,950** | **56,778,192** | **56,444,758** | 64,999,143 | 25,369,065 | 39,630,078 |

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 8 Related parties

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

| | 2008 AED | 2007 AED |
|---|---|---|
| Gross contributions written | **29,222,808** | 14,050,038 |

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

| | 2008 AED | 2007 AED |
|---|---|---|
| Short term benefits | **2,279,793** | 1,860,333 |
| Long term benefits | **764,226** | 343,550 |

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

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

### 9 Takaful and other receivables

| | 2008 AED | 2007 AED |
|---|---|---|
| Due from policy holders | **37,930,476** | 20,183,558 |
| Due from takaful/retakaful companies | **2,654,974** | 2,229,655 |
| Notes receivable - post dated cheques | **638,634** | 1,379,335 |
| Accrued income | **371,430** | 628,723 |
| Other receivables | **144,083** | 2,577,096 |
| | **41,739,597** | 26,998,367 |

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 9 Takaful and other receivables (continued)

The average credit period on sale of services is 90 days. No interest is charged on takaful and other receivables. Due from policyholders that are past due beyond 360 days are provided for based on estimated irrecoverable amounts determined by reference to past default experience. Included in the Company's trade receivable balances are debtors with a carrying amount of AED 767,073 (2007: AED Nil) which are past due at the reporting date for which the Company has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable.

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

Of the balances due from policyholders at the end of year, AED 14,658,652 (2007: AED 2,998,956) is due from the Company's largest customer. There are 14 (2007: 6) other customers who represent more than 50% of the total balance of due from policyholders. The Company does not hold any collateral over these balances.

The Company does not have any past history of significant defaults of balances due from its takaful and other receivables. The provision for impairment of balances due from takaful and other receivables at 31 December 2008 are AED Nil (2007: AED Nil).

Ageing of takaful and other receivables

| | **2008 AED** | 2007 AED |
|---|---|---|
| Not past due | **32,911,830** | 18,132,192 |
| Past due but not impaired | | |
| 90 to 180 days | **1,335,261** | 3,049,599 |
| 181 to 360 days | **6,725,433** | 5,816,576 |
| More than 360 days | **767,073** | - |
| | **8,827,767** | 8,866,175 |
| Total takaful and other receivables | **41,739,597** | 26,998,367 |

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 10 Property and equipment

| | Furniture, fixtures and office equipment AED | Computer equipment and accessories AED | Vehicles AED | Total AED |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2007 | 2,191,386 | 1,458,055 | 100,530 | 3,749,971 |
| Additions | 33,829 | 270,762 | 612,265 | 916,856 |
| Disposal | - | - | (277,715) | (277,715) |
| At 1 January 2008 | 2,225,215 | 1,728,817 | 435,080 | 4,389,112 |
| Additions | 2,321,354 | 211,660 | - | 2,533,014 |
| **At 31 December 2008** | **4,546,569** | **1,940,477** | **435,080** | **6,922,126** |
| **Accumulated depreciation** | | | | |
| At 1 January 2007 | 663,924 | 652,299 | 11,995 | 1,328,218 |
| Charge for the year | 440,781 | 438,459 | 182,248 | 1,061,488 |
| Eliminated on disposal | - | - | (138,097) | (138,097) |
| At 1 January 2008 | 1,104,705 | 1,090,758 | 56,146 | 2,251,609 |
| Charge for the year | 846,543 | 358,520 | 109,068 | 1,314,131 |
| **At 31 December 2008** | **1,951,248** | **1,449,278** | **165,214** | **3,565,740** |
| **Carrying amount 31 December 2008** | **2,595,321** | **491,199** | **269,866** | **3,356,386** |
| 31 December 2007 | 1,120,510 | 638,059 | 378,934 | 2,137,503 |

### 11 Share capital

| | 2008 AED | 2007 AED |
|---|---|---|
| **Authorised, issued and fully paid** | | |
| 60,000,000 shares of AED 1 each | **60,000,000** | 60,000,000 |

At 31 December 2008, a total of 23,759,569 shares were held by Abu Dhabi Islamic Bank PJSC and 36,240,431 shares were held by other UAE nationals and institutions.

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 12 Legal reserve

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

### 13 General reserve

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

### 14 Dividends

For the year ended 31 December 2008, the Board of Directors proposed a bonus share dividend of AED 6,000,000 at the rate of 10% of the Company's capital subject to the approval of the Shareholders at the Annual General Meeting.

### 15 Policyholders' fund

| | **2008** **AED** | 2007 AED |
|---|---|---|
| At 1 January | **(25,245,317)** | (14,668,777) |
| Net deficit for the year | **(10,362,597)** | (10,576,540) |
| **At 31 December** | **(35,607,914)** | (25,245,317) |

In 2008, the shareholders had financed the policyholders' fund deficit amounting to AED 10,362,597 (2007: AED 10,576,540).

### 16 Provision for end of service benefits

| | **2008** **AED** | 2007 AED |
|---|---|---|
| At 1 January | **1,553,394** | 958,144 |
| Charged during the year | **1,189,571** | 662,129 |
| Paid during the year | **(321,642)** | (66,879) |
| **At 31 December** | **2,421,323** | 1,553,394 |

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 17 Retakaful and other payables

| | 2008 AED | 2007 AED |
|---|---|---|
| Due to policy holders | **3,875,197** | 1,348,604 |
| Due to takaful companies | **7,353,090** | 9,795,210 |
| Due to retakaful companies | **31,749,174** | 7,012,875 |
| Accrued liabilities | **7,740,608** | 2,634,628 |
| Due to related parties (Note 8) | **-** | 2,337,444 |
| Other payables | **5,623,551** | 2,920,989 |
| | **56,341,620** | 26,049,750 |

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

### 18 Net earned contributions

| | 2008 AED | 2007 AED |
|---|---|---|
| **Gross contributions written** | | |
| Gross contributions written | **207,040,055** | 138,338,734 |
| Change in unearned contributions provision | **(48,223,808)** | (20,507,683) |
| | **158,816,247** | 117,831,051 |
| **Retakaful contributions** | | |
| Retakaful contributions | **100,786,783** | 60,760,898 |
| Change in unearned contributions provision | **(31,409,127)** | (8,165,043) |
| | **69,377,656** | 52,595,855 |
| **Net earned contributions** | **89,438,591** | 65,235,196 |

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 19 Policyholders' investment income

| | 2008 AED | 2007 AED |
|---|---|---|
| Income from short term investment deposits | **1,809,962** | 2,251,984 |

### 20 Wakalah fees and Mudareb share

- The shareholders manage the takaful operations for the policyholders and charge 17% (2007 - 20 %) of gross takaful contributions as wakalah fees.
- The shareholders manage the policyholders' investment fund and charge 30 % (2007 - 30%) of investment income earned by policyholders' investment fund as mudareb share.

### 21 Shareholders' investment and other income

| | 2008 AED | 2007 AED |
|---|---|---|
| Return on short term investment accounts and deposits | **1,100,644** | 3,130,282 |
| Income from investments | **7,736,436** | 6,955,019 |
| Dividend income on AFS investments | **1,499,823** | 918,819 |
| Gain on disposal of property and equipment | - | 51,632 |
| | **10,336,903** | 11,055,752 |

### 22 General and administrative expenses

| | 2008 AED | 2007 AED |
|---|---|---|
| Staff costs | **16,719,968** | 13,247,996 |
| Rental expenses | **3,305,729** | 1,318,267 |
| Depreciation on property and equipment | **1,314,131** | 1,061,488 |
| Other expenses | **2,787,100** | 2,622,603 |
| | **24,126,928** | 18,250,354 |

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 23 Basic earnings per share

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

| | 2008 AED | 2007 AED |
|---|---|---|
| Net profit for year | **11,587,176** | 10,572,199 |
| Ordinary shares in issue | **60,000,000** | 60,000,000 |
| Basic earnings per share | **0.19** | 0.18 |

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

### 24 Segment information

**Primary segment information**

The company is organised into two main business segments:

- Underwriting of general takaful business incorporating all classes of general takaful including fire, marine, motor, general accident, engineering, energy and family takaful. This business is conducted fully within the UAE.

- Investments incorporating investments in UAE marketable equity securities, short-term investments with banks and other securities.

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 24 Segment information (continued)

**Primary segment information (continued)**

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Underwriting | Investments | Total | Underwriting | Investments | Total |
| | AED | AED | AED | AED | AED | AED |
| **Segment revenue** | **172,063,731** | **12,146,865** | **184,210,596** | 126,105,122 | 13,307,736 | 139,412,858 |
| Segment result | **23,567,239** | **12,146,865** | **35,714,104** | 15,514,817 | 13,307,736 | 28,822,553 |
| Unallocated costs | | | **(24,126,928)** | | | (18,250,354) |
| Net profit for the year | | | **11,587,176** | | | 10,572,199 |
| **Segment assets** | **222,768,108** | **89,476,778** | **312,244,886** | 139,144,880 | 107,825,161 | 246,970,041 |
| Unallocated assets | | | **5,174,092** | | | 3,162,078 |
| Total assets | | | **317,418,978** | | | 250,132,119 |
| **Segment liabilities** | **231,039,309** | **37,891** | **231,077,200** | 139,101,880 | 2,375,335 | 141,477,215 |
| Unallocated liabilities | | | **12,692,161** | | | 4,718,087 |
| Total liabilities | | | **243,769,361** | | | 146,195,302 |

There were no transactions between the business segments.

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 25 Takaful risk

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

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

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

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

*Frequency and severity of claims*

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

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

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 25 Takaful risk (continued)

*Frequency and severity of claims (continued)*

The retakaful arrangements include excess and catastrophe coverage. The effect of such retakaful arrangements is that the Company should not suffer net takaful losses of a set limit of AED 250,000 in any one motor policy and AED 1,500,000 for any one non-motor policy. The Company has survey units dealing with the mitigation of risks surrounding claims. This unit investigates and recommends ways to improve risk claims. The risks are reviewed individually at least once in 3 years and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Company actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

*Sources of uncertainty in the estimation of future claim payments*

Claims on takaful contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and element of the claims provision includes incurred but not reported claims (IBNR). The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims. For some takaful contracts, the IBNR proportion of the total liability is high and will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities. In estimating the liability for the cost of reported claims not yet paid, the Company considers information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio.

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

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

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 25 Takaful risk (continued)

*Sources of uncertainty in the estimation of future claim payments (continued)*

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

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

*Process used to decide on assumptions*

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

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

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 25 Takaful risk (continued)

*Claims development process*

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

**Motor - Gross:**

| Accident year | 2005 and earlier AED'000 | 2006 AED'000 | 2007 AED'000 | 2008 AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| At the end of the accident year | 52,712 | 54,636 | 54,655 | 55,544 | |
| One year later | 39,823 | 39,837 | 39,918 | - | |
| Two years later | 19,703 | 19,706 | - | - | |
| Three years later | 5,268 | - | - | - | |
| Four years later | - | - | - | - | |
| Current estimate of cumulative claims | 5,268 | 19,706 | 39,918 | 55,544 | 120,436 |
| Cumulative payments to date | (5,267) | (19,696) | (38,421) | (37,981) | (101,365) |
| Liability recognised in the balance sheet | 1 | 10 | 1,497 | 17,563 | 19,071 |

**Non Motor - Gross:**

| Underwriting year | 2005 and earlier AED'000 | 2006 AED'000 | 2007 AED'000 | 2008 AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| At the end of the underwriting year | 33,190 | 37,796 | 37,995 | 50,685 | |
| One year later | 25,299 | 25,549 | 28,846 | - | |
| Two years later | 18,092 | 18,283 | - | - | |
| Three years later | 7,373 | - | - | - | |
| Four years later | - | - | - | - | |
| Current estimate of cumulative claims | 7,373 | 18,283 | 28,846 | 50,685 | 105,187 |
| Cumulative payments to date | (7,365) | (17,873) | (21,135) | (20,884) | (67,257) |
| Liability recognised in the balance sheet | 8 | 410 | 7,711 | 29,801 | 37,930 |

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 25 Takaful risk (continued)

*Concentration of takaful risk*

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

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

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

*Sensitivity of underwriting profit and losses*

The contribution by the takaful operations to the net profit of the Company stood at 66% for the year ended 31 December 2008 (2007: 54%). The Company does not foresee any adverse change in the contribution of takaful profit due to the following reasons:

The Company has an overall risk retention level in the range of 51% (2007: 56%) and this is mainly due to low retention levels in Engineering and Fire and Accident lines. However, for other lines of business, the Company is adequately covered by excess of loss retakaful programs to guard against major financial impact.

The Company has net commission earnings of around 6% (2007: 6%) of the underwriting income predominantly from the retakaful placement which remains as a comfortable source of income.

Because of low risk retention of 51% (2007: 56%) volume of the business and limited exposure in high retention areas like Motor, the Company is comfortable to maintain a net loss ratio in the region of 45% to 84% and does not foresee any serious financial impact in the takaful net profit.

### 26 Financial instruments

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

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 26 Financial instruments (continued)

### 26.1 Capital risk management

The Company's objectives when managing capital are:

- to comply with the capital requirements required by the UAE Federal Law No. 9 of 1984, as amended, concerning Insurance Companies and Agents. The Company manages its capital on a basis of 148%-207% of its minimum regulatory capital position presented in the table below. Management considers the quantitative threshold of 35% - 60% sufficient to maximise shareholders' return and to support the capital required;
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing takaful contracts commensurately with the level of risk.

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

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

| | **2008** **AED** | 2007 AED |
|---|---|---|
| Total equity | **73,649,617** | 103,936,817 |
| Minimum regulatory capital | **50,000,000** | 50,000,000 |

### 26.2 Significant accounting policies

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

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 26 Financial instruments (continued)

### 26.3 Categories of financial instruments

| | 2008 AED | 2007 AED |
|---|---|---|
| **Financial assets** | | |
| Statutory deposit | **10,000,000** | 7,500,000 |
| AFS investments | **40,787,738** | 39,660,418 |
| Retakaful contract assets | **89,834,896** | 48,960,442 |
| Takaful and other receivables | **41,739,597** | 26,998,367 |
| Cash and cash equivalents | **112,981,660** | 123,850,814 |
| Total | **295,343,891** | 246,970,041 |
| **Takaful** | | |
| Takaful contract liabilities | **170,223,737** | 107,047,756 |
| Retakaful and other payables | **56,341,620** | 26,049,750 |
| Retakaful deposits retained | **14,782,681** | 11,544,402 |
| Total | **241,348,038** | 144,641,908 |

### 26.4 Profit return rate risk management

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

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

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

### 26.5 Foreign currency risk

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

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 26 Financial instruments (continued)

### 26.6 Market price risk

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

### 26.7 Credit risk management

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

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

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

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

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

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

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 26 Financial instruments (continued)

### 26.7 Credit risk management (continued)

Management information reported to the Company includes details of provisions for impairment on takaful receivables and subsequent write-offs. Exposures to individual policyholders and groups of policyholders are mitigated by ongoing credit evaluation of their financial condition. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for retakafuls is carried out by the Company. Details on concentration of amounts due from policyholders is disclosed in Note 9. Management believes that the concentration of credit risk is mitigated by high credit rating and financial stability of its policy holders.

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

At 31 December 2008, all of the deposits were placed with 3 banks (2007: 1 bank). Management is confident that this concentration at year end does not result in any credit risk to the Company as these bank are major banks operating in the UAE and are highly regulated by the Central Bank.

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

### 26.8 Liquidity risk management

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

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

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 26 Financial instruments (continued)

### 26.8 Liquidity risk management (continued)

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

| | Carrying amount AED | 0-180 days AED | 181-365 days AED |
|---|---|---|---|
| **Financial liabilities at 31 December 2008** | | | |
| Takaful contract liabilities | 170,223,737 | - | 170,223,737 |
| Retakaful and other payables | 56,341,620 | 49,875,470 | 6,466,150 |
| Retakaful deposits retained | 14,782,681 | - | 14,782,681 |
| Total | 241,348,038 | 49,875,470 | 191,472,568 |

| | Carrying amount AED | 0-180 days AED | 181-365 days AED |
|---|---|---|---|
| **Financial liabilities at 31 December 2007** | | | |
| Takaful contract liabilities | 107,223,737 | - | 107,223,737 |
| Retakaful and other payables | 26,049,750 | 23,377,231 | 2,672,519 |
| Retakaful deposits retained | 11,544,402 | - | 11,544,402 |
| Total | 144,817,889 | 23,377,231 | 121,440,658 |

### 26.9 Fair value of financial assets and liabilities

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

## Notes to the financial statements for the year ended 31 December 2008 (continued)

### 27 Contingent liabilities and commitments

| | 2008 AED | 2007 AED |
|---|---|---|
| Bank guarantees | **1,585,000** | - |
| Commitments | **150,125,028** | - |

Bank guarantees were issued in the normal course of business.

At 31 December 2008, the Company has estimated commitments in respect of the acquisition of investment properties. Reservation payments made during the year, amounting to AED 16,680,559, is presented under prepayments and other assets in the balance sheet. The outstanding commitment is scheduled for payment in installments up to year 2012.

### 28 Approval of financial statements

The financial statements were approved by management and authorised for issue on 29 January 2009. The Board of Directors approved the financial statements in their meeting held on 18 February 2009.