DUBAI ISLAMIC INSURANCE &
REINSURANCE CO. (AMAN) (PSC)
DUBAI - UNITED ARAB EMIRATES

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2009

Dubai Islamic Insurance & Reinsurance Co. (Aman) (PSC)
Dubai - United Arab Emirates

Independent Auditor's Report
For the Year Ended December 31, 2009

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Independent Auditor's Report

The Board of Directors
Dubai Islamic Insurance & Reinsurance Co. (Aman) (PSC)
Dubai
United Arab Emirates

Report on the Financial Statements

We have audited the accompanying financial statements of **Dubai Islamic Insurance & Reinsurance Co. (Aman) (PSC)** (the "Company"), **Dubai,** which comprise the statement of financial position as at December 31, 2009, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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. 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.

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Independent Auditor's report to the Board of Directors of Dubai Islamic Insurance & Reinsurance Co. (Aman) (PSC), Dubai – United Arab Emirates - continued (page 2 of 2)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Dubai Islamic Insurance & Reinsurance Co. (Aman) (PSC), Dubai** as of December 31, 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Also, in our opinion, the Company has maintained proper books of account. We obtained all the information which we considered necessary for our audit. According to the information available to us, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. 8 of 1984, as amended, and of the U.A.E. Federal Law No. 6 of 2007, as amended, concerning Insurance Companies and Agents, or the Company's Articles of Association which might have materially affected the financial position of the Company or the results of its operations.

Deloitte & Touche

Anis F. Sadek
(Registration No. 521)

ديلويت اند توش

Deloitte & Touche

Dubai
February 25, 2010

Dubai Islamic Insurance & Reinsurance Co. (Aman) (PSC)
Dubai - United Arab Emirates

Statement of Financial Position
At December 31, 2009
(In Arab Emirates Dirhams)

	Note	2009	2008
ASSETS			
Cash and cash equivalents	5	**21,083,736**	40,106,802
Investment deposits	6	**35,999,980**	18,000,000
Reinsurance contract assets	7	**156,195,229**	150,535,926
Takaful receivables	8	**87,428,624**	88,767,429
Other financial assets-Available for sale	9 & 2	-	85,135,167
Other financial assets measured at fair value through other comprehensive income (FVTOCI)	9 & 2	**72,807,344**	-
Other financial assets measured at Fair value through profit and loss (FVTPL)	9 & 2	**54,371,191**	38,278,695
Prepayments and other receivables	10	**21,284,469**	20,325,825
Investment property	11	**62,308,055**	62,308,055
Furniture and equipment	12	**1,558,257**	1,733,217
Total Assets		**513,036,885**	505,191,116
LIABILITIES, POLICY HOLDERS' FUND AND EQUITY			
Liabilities			
Trade and other payables	13	**42,977,614**	38,498,360
Takaful payables	14	**61,158,376**	64,197,287
Takaful contract liabilities	7	**247,768,291**	260,498,137
Ijara payables	15	**15,313,248**	22,119,137
Amounts held under reinsurance treaties		**5,844,803**	6,625,386
Total liabilities		**373,062,332**	391,938,307
Policyholders' fund			
Deficit in policyholders' fund		**(33,277,634)**	(34,141,051)
Loan from shareholders		**33,277,634**	34,141,051
Proposed profit distribution to policyholders		**1,767,561**	1,776,344
Investments revaluation reserve		**(29,319,957)**	(30,938,932)
Total deficit in policyholders' fund	16	**(27,552,396)**	(29,162,588)
Total Liabilities and Policyholders' Fund		**345,509,936**	362,775,719
Equity			
Share capital	17	**200,000,000**	200,000,000
Statutory reserve	18	**14,335,464**	12,278,225
General reserve	19	**14,335,464**	12,278,225
Retained earnings/(accumulated losses)		**13,737,766**	(1,491,974)
Investments revaluation reserve - Available for sale (AFS)		-	(80,649,079)
Investments revaluation reserve - FVTOCI		**(74,881,745)**	-
Total Equity		**167,526,949**	142,415,397
Total Liabilities, Policyholders' Fund and Equity		**513,036,885**	505,191,116

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

The financial statements on pages 3 to 62 were approved by the Board of Directors and authorized for issue on February 25, 2010

Hussein Mohammed Al Meeza Managing Director / CEO	Basel Mohammad Al Kufairy Finance Manager

Dubai Islamic Insurance & Reinsurance Co. (Aman) (PSC)
Dubai - United Arab Emirates

Income Statement
For the year ended December 31, 2009
(In Arab Emirates Dirhams)

	Note	2009	2008
Attributable to policyholders			
Takaful income			
Takaful contributions	20	**505,460,381**	439,816,869
Takaful contributions ceded to reinsurers	20	**(351,030,878)**	(273,676,450)
Net Takaful contributions	20	**154,429,503**	166,140,419
Commission received on ceded reinsurance		**12,771,592**	18,365,111
Policy and survey fees		**3,574,685**	1,768,777
		170,775,780	186,274,307
Takaful expenses			
Gross claims incurred	21	**140,747,526**	147,095,591
Reinsurers' share of claims	21	**(52,251,867)**	(65,629,817)
Net claims incurred	21	**88,495,659**	81,465,774
Commission paid		**21,354,620**	29,819,584
Excess of loss of Takaful contributions		**7,717,777**	7,084,862
		117,568,056	118,370,220
Net Takaful income		**53,207,724**	67,904,087
Wakala fees	22	**(53,861,019)**	(77,461,650)
Net loss from Takaful operations		**(653,295)**	(9,557,563)
Investment income/(loss)	23	**2,022,283**	(17,584,748)
Mudarib's share	22	**(505,571)**	-
Income/(loss) for the year		**863,417**	(27,142,311)
Attributable to shareholders			
Income			
Investment income/(loss)	23	**5,164,811**	(45,838,483)
Wakala fees from policyholders	22	**53,861,019**	77,461,650
Mudarib's share from policyholders	22	**505,571**	-
Other income		**-**	785,356
		59,531,401	32,408,523
Expenses			
General and administrative expenses		**(39,822,425)**	(38,507,459)
Write back/(write-off) of loan to policyholders' fund		**863,417**	(27,142,311)
Profit/(loss) for the year		**20,572,393**	(33,241,247)
Earnings per share	24	**0.10**	(0.17)

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

Dubai Islamic Insurance & Reinsurance Co. (Aman) (PSC)
Dubai - United Arab Emirates

Statement of Comprehensive Income
For the year ended December 31, 2009
(In Arab Emirates Dirhams)

	2009	2008
Profit/(loss) for the year	**20,572,393**	(33,241,247)
Other comprehensive income:		
Gain on revaluation of financial assets measured at FVTOCI	**5,767,334**	-
Loss on revaluation of available-for-sale financial assets	-	(73,984,921)
Other comprehensive income/(loss) for the year	**5,767,334**	(73,984,921)
Total comprehensive income/(loss) for the year	**26,339,727**	(107,226,168)

The accompanying notes form an integral part of these financial statements

Dubai Islamic Insurance & Reinsurance Co. (Aman) (PSC)
Dubai - United Arab Emirates

Statement of Changes in Equity
For the year ended December 31, 2009
(In Arab Emirates Dirhams)

	Share capital	Statutory reserve	General reserve	Proposed dividends	Investments revaluation reserve AFS	Investments revaluation reserve FVTOCI	(Accumulated losses)/ retained earnings	Total
Balance at December 31, 2007	200,000,000	12,278,225	12,278,225	20,000,000	(6,664,158)	-	33,291,846	271,184,138
Loss for the year	-	-	-	-	-	-	(33,241,247)	(33,241,247)
Other comprehensive income for the year	-	-	-	-	(73,984,921)	-	-	(73,984,921)
Total other comprehensive income for the year	-	-	-	-	(73,984,921)	-	(33,241,247)	(107,226,168)
Zakat	-	-	-	-	-	-	(1,542,573)	(1,542,573)
Dividends distributed	-	-	-	(20,000,000)	-	-	-	(20,000,000)
Balance at December 31, 2008	200,000,000	12,278,225	12,278,225	-	(80,649,079)	-	(1,491,974)	142,415,397
Effect of the change in accounting policy for classification and measurement of financial assets - IFRS 9 (Note 2)	-	-	-	-	80,649,079	(80,649,079)	-	-
Balance at January 1, 2009	200,000,000	12,278,225	12,278,225	-	-	(80,649,079)	(1,491,974)	142,415,397
Profit for the year	-	-	-	-	-	-	20,572,393	20,572,393
Other comprehensive income for the year	-	-	-	-	-	5,767,334	-	5,767,334
Total other comprehensive income for the year	-	-	-	-	-	5,767,334	20,572,393	26,339,727
Transfer to statutory reserve	-	2,057,239	-	-	-	-	(2,057,239)	-
Transfer to general reserve	-	-	2,057,239	-	-	-	(2,057,239)	-
Zakat	-	-	-	-	-	-	(1,228,175)	(1,228,175)
Balance at December 31, 2009	**200,000,000**	**14,335,464**	**14,335,464**	-	-	**(74,881,745)**	**13,737,766**	**167,526,949**

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

Dubai Islamic Insurance & Reinsurance Co. (Aman) (PSC)
Dubai - United Arab Emirates

Statement of Cash Flows
For the year ended December 31, 2009
(In Arab Emirates Dirhams)

	2009	2008
Cash flows from operating activities		
Profit/(loss) for the year	**20,572,393**	(33,241,247)
Adjustments for:		
Depreciation	**900,275**	1,010,966
Loss on revaluation of other financial assets measured at FVTPL	**7,258,686**	84,766,052
Unrealised gain on fair valuation of investment property	-	(17,000,000)
Provision for employees' end of service benefits	**637,204**	216,809
	29,368,558	35,752,580
Changes in operating assets and liabilities:		
Increase in other financial assets measured at FVTPL	**(23,351,182)**	(51,491,796)
Increase in reinsurance contract assets	**(5,659,303)**	(41,396,133)
Decrease/(increase) in Takaful receivables	**1,338,805**	(3,904,076)
(Increase)/decrease in prepayments and other receivables	**(958,644)**	55,921,350
(Decrease)/increase in Takaful contract liabilities	**(12,729,846)**	61,449,794
(Decrease)/increase in amounts held under reinsurance treaties	**(780,583)**	1,494,381
(Decrease)/increase in Takaful payables	**(3,038,911)**	17,818,926
Increase in trade payables and accruals	**4,296,432**	15,340,433
Cash (used in)/from operations	**(11,514,674)**	90,985,459
Employees' end of service benefits paid	**(115,493)**	(293,304)
Net cash (used in)/generated by operating activities	**(11,630,167)**	90,692,155
Cash flows from investing activities		
Purchase of furniture and equipment	**(725,315)**	(849,888)
Decrease/(increase) in net movement on other financial assets	**19,714,133**	(48,218,748)
Investment in deposits	**(17,999,980)**	(5,500,000)
Net cash from/(used in) investing activities	**988,838**	(54,568,636)
Cash flows from financing activities		
Ijara repaid	**(6,805,889)**	(6,805,887)
Decrease in policyholders' fund	**(8,783)**	(122,140)
Cash dividend paid	-	(20,000,000)
Zakat paid	**(1,567,065)**	(1,505,604)
Net cash used in financing activities	**(8,381,737)**	(28,433,631)
(Decrease)/increase in cash and cash equivalents	**(19,023,066)**	7,689,888
Cash and cash equivalents at the beginning of the year	**40,106,802**	32,416,914
Cash and cash equivalents at the end of the year (Note 5)	**21,083,736**	40,106,802

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

1. General information

Dubai Islamic Insurance & Reinsurance Company (Aman) (PSC) is a public shareholding company and is registered under the Commercial Companies Law of 1984 (as amended). The Company carries out general Takaful (insurance) business in accordance with the teachings of Islamic Sharia'a. The Company is also licensed to engage in reinsurance and life Takaful business. The registered address of the Company is P.O. Box 157, Dubai, United Arab Emirates.

The Company obtained its commercial license on March 12, 2003 and commenced operations on April 8, 2003.

The Company mainly issues short term Takaful contracts in connection with motor, marine, fire and engineering, general accident risks and group life and medical risks (collectively known as general Takaful). The Company also invests in investment securities and properties.

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

2. Adoption of new and revised International Financial Reporting Standards

Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the disclosure in these financial statements.

IAS 1 (as revised) *Presentation of Financial Statements*	IAS 1 (2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.
Improving Disclosures about Financial Instruments (IFRS 7 Financial Instruments: Disclosures)	The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Company has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.
IFRS 8 *Operating Segments* (as revised in 2007)	This standard requires disclosure of information about the Company's operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Company. The Company concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14.

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

Standards and Interpretations affecting amounts reported in the current period (and/or prior periods) - continued

IFRS 9 *Financial Instruments*

The Company has adopted IFRS 9 Financial Instruments (IFRS 9) in 2009 in advance of its effective date. The Company has chosen December 31, 2009 as its date of initial application (i.e. the date on which the Company has assessed its existing financial assets) as this is the first reporting period end since the Standard was issued on November 12, 2009. The standard has been applied retrospectively and as permitted, the amounts have not been restated. Below is a summary of this application:

- Comparative information for prior periods was not restated. The classification and measurement requirements previously applied in accordance with IAS 39 and disclosures required in the IFRS 7 *Financial Instruments: Disclosures* were retained.
- The Company disclosed the accounting policies for both periods, one applying IFRS 9 (current period) and one applying IAS 39 (prior periods).
- The difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application were recognised in the opening retained earnings.

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

Debt instruments are measured at amortised cost only if:

(i) The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
(ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

If either of the two criteria is not met the financial instrument is classified as at fair value through profit or loss (FVTPL). Additionally, even if the asset meets the amortised cost criteria the Company may choose at initial recognition to designate the financial assets as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

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

Standards and Interpretations affecting amounts reported in the current period (and/or prior periods) - continued

IFRS 9 *Financial Instruments (continued)*

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

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

The management have reviewed and assessed all of the Company's existing financial assets as at the date of initial application of IFRS 9. As a result:

- the Company's investments in debt instruments meeting the required criteria are measured at amortised cost;
- all of the Company's equity investments have been designated as at FVTOCI, except for investments in real estate funds which have been designated as at FVTPL; and
- the remaining investments in equity and debt instruments have been designated as at FVTPL.

As IFRS 9 was early adopted this year, the cumulative changes in fair value of available for sale investments of AED 104.20 million was not tested for impairment but transferred to 'investments revaluation reserve - other comprehensive income' as allowed by IFRS 9.

Additional disclosure required, reflecting the revised classification and measurement of financial assets of the Company as a result of adopting IFRS 9, is shown in Note 30 to the financial statements.

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

Standards and Interpretations adopted with no effect on financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported or the disclosure in these financial statements but may affect the accounting for future transactions or arrangements.

Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements* (Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate)	The amendments deal with the measurement of the cost of investments in subsidiaries, jointly controlled entities and associates when adopting IFRSs for the first time and with the recognition of dividend income from subsidiaries in a parent's separate financial statements.
Amendments to IFRS 2 *Share-based Payment* (Vesting Conditions and Cancellations)	The amendments clarify the definition of vesting conditions for the purposes of IFRS 2, introduce the concept of 'non-vesting' conditions, and clarify the accounting treatment for cancellations.
IAS 23 (as revised in 2007) *Borrowing Costs*	The principal change to the Standard was to eliminate the option to expense all borrowing costs when incurred. This change has had no impact on these financial statements.
IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*	IAS 20 has been amended to require that the benefit of a government loan at a below-market rate of interest be treated as a government grant. This change has had no impact on these financial statements.
Amendments to IAS 32 *Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements* (Puttable Financial Instruments and Obligations Arising on Liquidation)	The revisions to IAS 32 amend the criteria for debt/equity classification by permitting certain puttable financial instruments and instruments (or components of instruments) that impose on an entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation, to be classified as equity, subject to specified criteria being met.

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

Standards and Interpretations adopted with no effect on the financial statements - continued

IAS 40 *Investment property*	IAS 40 has been amended to include within its scope investment property in the course of construction.
IAS 38 *Intangible Assets*	IAS 38 has been amended to state that an entity is permitted to recognise a prepayment asset for advertising or promotional expenditure only up to the point at which the entity has the right to access the goods purchased or up to the point of receipt of services. These ammendments have no affect on entity's financial performance or financial position.
IFRIC 9 *Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement* (Embedded Derivatives)	Amendments to IFRIC 9 and IAS 39 require entities to assess whether to separate an embedded derivative from a host contract in the case where the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. The amendments to IFRIC 9 require an assessment to be made either when the entity first became party to the contract or when a change in the terms of the contract significantly modifies expected cash flows. The amendments are applicable for annual periods ending on or after 31 December 2009. The application of the amendment is not expected to have a significant impact on the Company's financial statements as no reclassifications were made for instruments that contained embedded derivatives.
IFRIC 13 *Customer Loyalty Programmes*	The application of the amendment is not expected to have a significant impact on the Company's financial statements as the Company has no customer loyalty programmes.
IFRIC 15 *Agreements for the Construction of Real Estate*	The Interpretation addresses how entities should determine whether an agreement for the construction of real estate is within the scope of IAS 11 Construction Contracts or IAS 18 Revenue and when revenue from the construction of real estate should be recognised. The requirements have not affected the accounting for the Company's construction activities.
IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*	The Interpretation provides guidance on the detailed requirements for net investment hedging for certain hedge accounting designations.

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

Standards and Interpretations in issue but not yet adopted

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

IFRS 3 *Business Combinations*	Effective for annual periods beginning on or after July 1, 2009
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	Effective for annual periods beginning on or after January 1, 2010
IAS 7 *Statement of Cash Flows*	Effective for annual periods beginning on or after January 1, 2010
IAS 17 *Leases*	Effective for annual periods beginning on or after January 1, 2010
IAS 27 *Consolidated and Separate Financial Statements*	Effective for annual periods beginning on or after July 1, 2009
IAS 28 *Investments in Associates*	Effective for annual periods beginning on or after July 1, 2009
IFRIC 17 *Distributions of Non-cash Assets to Owners*	Effective for annual periods beginning on or after July 1, 2009
IFRIC 18 *Transfers of Assets from Customers*	Effective for annual periods beginning on or after July 1, 2009
IFRIC 19: *Extinguishing Financial Liabilities with Equity Instruments*	Effective for annual periods beginning on or after July 1, 2010
Amendment to IFRIC 14: IAS 19: *The limit on a defined Benefit Asset, Minimum Funding Requirement and their interaction*	Effective for annual periods beginning on or after January 1, 2011

The management anticipates that the adoption of these Standards and Interpretations will not have a significant impact on the presentation and disclosures of the Company's financial statements.

3. Accounting policies

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards and applicable requirements of U.A.E. Federal Law No. 9 of 1984, as amended, concerning Insurance Companies and Agents.

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.

Basis of preparation

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments which are stated at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Gross Takaful contributions

Gross Takaful contributions comprise the total contributions receivable for the whole period of cover provided by Takaful contracts entered into during the accounting period and are recognised on the date on which the Takaful policy incepts. Contributions include any adjustments arising in the accounting period for contributions receivable in respect of Takaful contracts executed in prior accounting periods. Contributions collected by intermediaries but not yet received, are assessed based on estimates from Takaful operations or past experience and are included in Takaful contributions.

Unearned contributions are those proportions of contributions written in a year that relate to periods of risk after the balance sheet date. Unearned contributions are calculated in accordance with Federal Law No.9 of 1984. The proportion attributable to subsequent periods is deferred as a provision for unearned contributions.

Claims

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 additional reserve.

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

3. Accounting policies (continued)

Liability adequacy test

At the end of each reporting date the Company assesses whether its recognised Takaful 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 liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised as charge against income and an additional reserve created.

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

Reinsurance

The Company cedes Takaful risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance 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 income statement. Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

Contributions and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract. Contributions and claims are presented on a gross basis for both ceded and assumed reinsurance. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expired or when the contract is transferred to another party.

Policy acquisition costs

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

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are amortized over the terms of the policies as premium is earned.

3. Accounting policies (continued)

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 recognizes that impairment loss in the income statement.

Investment income

Profit from investment deposits is recognised on a time proportion basis.

Dividend income is accounted for when the right-to-receive payment is established.

Rental income from investment property which is leased under an operating lease is recognised on a straight-line basis over the term of the lease

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

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 income statement on a straight-line basis over the lease term.

Product classification

Takaful contracts are those contracts where a group of participants (the policyholders) mutually cover one another against prescribed uncertain future events of loss or damage. The Company acts as an agent (Wakil) on their behalf in managing the Islamic Takaful operations, in consideration of a Wakala fee. The Takaful amounts (contributions) paid net of the Wakala fee are considered as Mudaraba capital, where the Company acts as Mudarib, investing these funds in consideration of a pre-agreed share of the realised profit or loss, if any. The policyholders further donate their contributions (tabarru) to those other policyholders who suffer a prescribed event of loss or damage, payable per the policies of the Company, in its capacity as an agent.

3. Accounting policies (continued)

Product classification - continued

Once a contract has been classified as a Takaful contract, it remains as a Takaful contract for the remainder of its lifetime, even if the Takaful risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified profit rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable.

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

Financial assets

Cash and cash equivalents

Cash and cash equivalents include cash on hand, in banks and fixed deposits in banks with maturity not more than three months from the date of placement.

Takaful, reinsurance and other receivables

Takaful, reinsurance and other receivables that have fixed or determinable payments are measured at amortised cost using the effective profit rate method, less any impairment.

Deficit in policyholders' fund

Any deficit in the policyholders' fund, except for deficits arising from a decline in the fair value of securities, is financed by the shareholders through a Qard Hasan (a finance cost free loan with no repayment terms). The Company maintains a full provision against the Qard Hasan.

Financial instruments (applying IFRS 9 – current period)

(i) **Initial recognition and subsequent measurement**

Date of recognition

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned.

3. Accounting policies (continued)

Financial instruments (applying IFRS 9 – current period) - continued

(i) Initial recognition and subsequent measurement (continued)

Classification and initial measurement of financial instruments

For the purposes of classifying financial assets an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer (under IAS 32 Financial Instruments: Presentation). All other non-derivative financial assets are 'debt instruments'.

Financial assets are classified into the following categories: 'financial assets measured at amortized cost', 'financial assets measured at fair value through profit or loss', and 'financial assets measured at fair value through other comprehensive income'.

All the financial instruments are initially measured at fair value, plus transaction costs that are directly attributable to the acquisition of financial asset, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets at amortized cost and the effective profit rate method

Debt instruments are measured at amortised cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

Debt instruments meeting these criteria are measured initially at fair value plus transaction costs (except if they are designated as at fair value through profit or loss – see below). They are subsequently measured at amortised cost using the effective profit rate method less any impairment (see below), with profit revenue recognised on an effective yield basis in interest income.

Subsequent to initial recognition, the Company is required to reclassify debt instruments from amortised cost to fair value through profit or loss, if the objective of the business model changes so that the amortised cost criteria are no longer met.

The effective profit rate method is a method of calculating the amortised cost of a debt instrument and of allocating profit income on Islamic products over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3. Accounting policies (continued)

Financial instruments (applying IFRS 9 – current period) - continued

(i) **Initial recognition and subsequent measurement** (continued)

Financial assets at amortized cost and the effective profit rate method (continued)

The Company may irrevocably elect at initial recognition to classify a debt instrument that meets the amortised cost criteria above as at fair value through profit or loss, if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortised cost.

Financial assets at fair value through profit or loss (FVTPL)

Debt instrument financial assets that do not meet the amortised cost criteria described above, or that meet the criteria but the entity has chosen to designate as at FVTPL at initial recognition, are measured at FVTPL. The Company has not designated a debt instrument financial asset as financial assets at FVTPL except for investments in real estate funds.

Subsequent to initial recognition, the Company is required to reclassify debt instruments from FVTPL to amortised cost if the objective of the business model changes so that the amortised cost criteria starts to be met and the instrument's contractual cash flows meet the amortised cost criteria. Reclassification of debt instruments designated as at FVTPL at initial recognition is not permitted.

Investments in equity instruments are classified as at fair value through profit or loss, unless the Company designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) at initial recognition.

Financial assets at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in income statement.

Profit income on debt instruments at FVTPL is included in the net investment income.

Dividend income on investments in equity instruments at fair value through profit or loss is recognised in income statement when the Company's right to receive the dividends is established in accordance with IAS 18 *Revenue*.

3. Accounting policies (continued)

Financial instruments (applying IFRS 9 – current period) - continued

(i) **Initial recognition and subsequent measurement** (continued)

Financial assets at fair value through other comprehensive income (FVTOCI)

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

A financial asset is held for trading if:

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

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

(ii) **Reclassification of financial assets**

The financial assets are required to be reclassified if the objective of the Company's business model for managing those financial assets changes. Such changes are expected to be very infrequent. The Company determines these changes by the Company's Board of Directors as a result of external or internal changes and must be significant to the Company's operations and demonstrable to external parties.

If the Company reclassifies financial assets, it shall apply the reclassification prospectively from the reclassification date. Any previously recognised gains, losses or profit are not required to be restated.

3. Accounting policies (continued)

Financial instruments (applying IFRS 9 – current period) - continued

(ii) **Reclassification of financial assets**

If the Company reclassifies a financial asset so that it is measured at fair value, its fair value is determined at the reclassification date. Any gain or loss arising from a difference between the previous carrying amount and fair value is recognised in the income statement.

If the Company reclassifies a financial asset so that it is measured at amortised cost, its fair value at the reclassification date becomes its new carrying amount.

The reclassification day is the first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets.

Financial assets (applying IAS 39, applicable only to the comparative figures presented and financial assets that have been derecognised at the date of initial application)

(i) **Initial recognition and subsequent measurement**

Date of recognition

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned.

Initial measurement of financial assets

Financial assets are classified into the following specified categories: 'financial assets at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'finances and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

All the financial instruments are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL, which are initially measured at fair value.

3. Accounting policies (continued)

Financial assets (applying IAS 39, applicable only to the comparative figures presented and financial assets that have been derecognised at the date of initial application) - continued

(i) **Initial recognition and subsequent measurement** (continued)

Financial assets at fair value through profit or loss

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

Financial assets held for trading

A financial asset is classified as held for trading if:

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

Financial assets designated as at FVTPL

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or profit earned on the financial assets.

3. Accounting policies (continued)

Financial assets (applying IAS 39, applicable only to the comparative figures presented and financial assets that have been derecognised at the date of initial application) - continued

(i) **Initial recognition and subsequent measurement** (continued)

Held to maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Company has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are measured at amortised cost using the effective profit rate method less any impairment, with revenue recognised on an effective yield basis.

Available for sale financial investments

Listed shares and other securities held by the Company that are traded in an active market are classified as available for sale. After initial measurement, available for sale financial investments, are subsequently measured at fair value. The Company also has investments in unlisted shares that are not traded in an active market but that are also classified as available for sale financial assets and stated at fair value, because the directors consider that fair value can be reliably measured.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, profit rate calculated using the effective profit rate method, and foreign exchange gains and losses on monetary assets, which are recognised in the income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on available for sale equity instruments are recognised in the income statement when the Company's right to receive the dividends is established.

The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in the income statement are determined based on the amortised cost of the monetary asset.

3. Accounting policies (continued)

Financial assets (applying IAS 39, applicable only to the comparative figures presented and financial assets that have been derecognised at the date of initial application) - continued

***(ii)* Impairment of financial assets**

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

For listed and unlisted equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

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

Available for sale financial investments

When an available for sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to income statement in the period. Impairment losses in respect of available for sale equity securities, previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

Impairment of financial assets carried at amortized costs

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of finance and advances to customers, where the carrying amount is reduced through the use of an allowance account. When finance or advance to customers is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement.

3. Accounting policies (continued)

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 profit in the asset and an associated liability for amounts it may have to pay.

Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

Takaful and other payables, bank financings and due to related parties are classified as 'other financial liabilities' and are initially measured at fair value, net of transaction cost. Other financial liabilities are subsequently measured at amortised cost using the effective profit rate method.

Derecognition of financial liabilities

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

Dividend distribution

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

3. Accounting policies

Furniture and equipment

Furniture and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Land is stated at cost. Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method, over the estimated useful lives of the respective assets.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Furniture and fixtures	4 years
Office equipments	4 years
Motor vehicles	4 years

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

Takaful contract liabilities

(i) Unearned contributions reserve

At the end of each year a proportion of net retained contributions of the general Takaful, medical and group life Takaful is reserved to cover portions of risks which have not expired at the balance sheet date. These reserves are calculated in accordance with Federal Law No. 9 of 1984 relating to Takaful companies at 40% of annual contributions earned net of reinsurance for all classes of Takaful except marine which is calculated at 25%. Unearned contributions reserves for medical and group life business are calculated on a daily pro rata basis.

(ii) Outstanding claims

Takaful contract liabilities are recognised when contracts are entered into and contributions 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 balance sheet 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 balance sheet 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.

3. Accounting policies (continued)

Takaful contract liabilities - continued

(iii)Additional reserve

A provision is made for the estimated excess of potential claims over unearned contributions, for claims incurred but not reported at the balance sheet date and for potential shortfall in unearned contribution reserve. The reserves represent management's best estimates on the basis of:

a) claims reported during the year;
b) delay in reporting these claims; and
c) shortfall in the unearned contribution reserve by reference to the $1/8^{th}$ method.

Murabaha and Ijara payable

Murabaha and Ijara payable is stated net of deferred profit payable. Deferred profit payable is recognised as an expense on a time proportion basis.

Payables and accruals

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

Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is stated at its fair value at the end of each reporting period. Gains or losses arising from changes in the fair value of investment property are included in the income statement.

Impairment of tangible assets

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

3. Accounting policies (continued)

Impairment of tangible assets - continued

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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.

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.

Foreign currencies

The financial statements are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the financial statements, the results and financial position of each entity are expressed in Arab Emirates Dirhams ("AED"), which is the functional currency of the Company, and the presentation currency for the financial statements.

3. Accounting policies (continued)

Foreign currencies - continued

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on 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 recognized in profit or loss in the year in which they arise except for:

- Exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to finance costs on foreign currency financings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognized in the foreign currency translation reserve and recognized in profit or loss on disposal of the net investment.

Zakat

Zakat as approved by the Company's Sharia'a Supervisory Board is computed on the following basis:

- Zakat on shareholders' equity is deducted from retained earnings and is computed on their Zakat Pool (Statutory Reserve, General Reserve, Retained Earnings and employees' end of service benefits).
- Zakat is distributed by a committee appointed by the Board of Directors and operating as per the by-law set by the Board.
- Zakat on paid up capital and proposed dividend is not included in the Zakat computation and is payable directly by the shareholders themselves.

Provision for employees' end of service indemnity

Provision for employees' end of service indemnity is made in accordance with the Company's policy which meets the requirements of U.A.E. labour laws, and is based on current remuneration and cumulative years of service at the balance sheet date.

3. Accounting policies (continued)

Defined contribution plan

U.A.E. National employees in the United Arab Emirates are members of the Government-managed retirement pension and social security benefit scheme established pursuant to U.A.E. Federal Labour Law No. 7 of 1999. The Company is required to contribute 12.5% of the "contribution calculation salary" to the retirement benefit scheme to fund the benefits. These employees are also required to contribute 5% of the "contribution calculation salary" to the scheme. The only obligation of the Company with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to the income statement.

4. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies, which are described in Note 3, management has made judgments that have the most significant effect on the amounts recognized in the financial statements and applied certain assumptions concerning the future, and other key sources of estimation uncertainty at the financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, as discussed below:

Critical judgements in applying accounting policies

Valuation of unquoted equity investments

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

Additional reserve

Management, based on past experience, uses the industry standard "1/8th method" to assess any potential shortfall in the unearned contribution reserve.

Provision for outstanding claims, whether reported or not

Considerable judgement by management is required in the estimation of amounts due to Takaful 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.

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

Critical judgements in applying accounting policies - continued

Provision for outstanding claims, whether reported or not (continued)

In particular, 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 yet reported (IBNR) at the balance sheet 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. 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.

Key sources of estimation uncertainty

Property and equipment

Property and equipment is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, which depends on operational factors. The management has not considered any residual value as it is deemed immaterial.

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 income statement. 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.

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 Takaful receivables within each grade and is adjusted to reflect current economic changes.

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

Key sources of estimation uncertainty - continued

Reinsurance

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

Liability adequacy test

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

5. Cash and cash equivalents

	December 31,	
	2009	2008
	AED	AED
Cash on hand	**245,350**	856,983
Bank current accounts	**20,838,386**	39,249,819
	21,083,736	40,106,802

6. Investment deposits

	December 31,	
	2009	2008
	AED	AED
Restricted deposits	**10,000,000**	10,000,000
Fixed deposits	**25,999,980**	8,000,000
	35,999,980	18,000,000

Restricted deposits, which have fixed maturity of one year, represent the amounts that cannot be withdrawn without the prior approval of the Ministry of Economy in accordance with the U.A.E. Federal Law No. 6 of 2007.

Fixed deposits have a fixed maturity of three months to one year from the date of deposit and carry an average expected rate of return between 4% to 5% (2008: 4% to 6%).

7. Reinsurance contract assets and Takaful contract liabilities

	Gross		Reinsurers' share		Net	
	2009	2008	**2009**	2008	**2009**	2008
	AED	AED	**AED**	AED	**AED**	AED
Unearned contributions	**141,270,205**	143,657,155	**94,344,282**	85,591,220	**46,925,923**	58,065,935
Additional reserve	**14,603,677**	21,900,000	**-**	-	**14,603,678**	21,900,000
Outstanding claims	**91,894,409**	94,940,982	**61,850,947**	64,944,706	**30,043,462**	29,996,276
	247,768,291	260,498,137	**156,195,229**	150,535,926	**91,573,063**	109,962,211

Outstanding claims

	Gross		Reinsurers' share		Net	
	2009	2008	**2009**	2008	**2009**	2008
	AED	AED	**AED**	AED	**AED**	AED
Balance at the beginning of the year	**94,940,982**	86,613,385	**64,944,706**	55,088,462	**29,996,276**	31,524,923
Movement during the year	**(3,046,573)**	8,327,597	**(3,093,759)**	9,856,244	**47,186**	(1,528,647)
Balance at the end of the year	**91,894,409**	94,940,982	**61,850,947**	64,944,706	**30,043,462**	29,996,276

Additional reserve

	2009	2008
	AED	AED
Balance at beginning of the year	**21,900,000**	16,000,000
Movement	**(7,296,323)**	5,900,000
Balance at end of the year	**14,603,677**	21,900,000

8. Takaful receivables

	December 31, 2009 AED	December 31, 2008 AED
Due from Takaful policy holders and brokers	**65,402,143**	72,622,090
Amounts due from Takaful and reinsurance companies	**26,026,481**	20,145,339
Allowance for doubtful debts	**(4,000,000)**	(4,000,000)
	87,428,624	88,767,429

Movement in the allowance for doubtful debts:

	2009 AED	2008 AED
Balance at beginning of the year	**4,000,000**	3,500,000
Charge for the year	**-**	500,000
Balance at end of the year	**4,000,000**	4,000,000

9. Other financial assets

	December 31, 2009 AED	December 31, 2008 AED
Financial assets - Available for sale (AFS)		
-Listed	**-**	22,851,474
-Real Estate Funds	**-**	15,084,940
-Unlisted	**-**	47,198,753
	-	85,135,167
Financial assets measured at fair value through other comprehensive income (FVTOCI)		
-Listed	**34,870,910**	-
-Unlisted	**37,936,434**	-
	72,807,344	-
Financial assets measured at fair value through profit and loss (FVTPL)		
Financial assets measured at FVTPL	**54,371,191**	38,278,695
	127,178,535	123,413,862

9. Other financial assets (continued)

The Company has opted to early adopt IFRS 9 which has resulted in a change in the Company's accounting policy for its classification and measurement of financial instruments. This change to accounting policy has been applied retrospectively and as permitted by IFRS 9 the Company elected not to restate the comparative amounts (refer Note 2).

Investments by geographic concentration are as follows:

	December 31,	
	2009	2008
	AED	AED
-Within U.A.E.	**74,498,514**	67,359,559
-Outside U.A.E.	**52,680,021**	56,054,303
	127,178,535	123,413,862

i. FVTOCI listed securities are carried at a value of AED 34,870,910 (2008: AED 22,851,474), with a decline in their fair value from original acquisition cost amounting to AED 104,201,702 (2008: AED 111,588,011). Of this amount, AED 74,881,745 (2008: AED 80,649,079) is deducted from shareholders' equity and AED 29,319,957 (2008: AED 30,938,932) is deducted from policyholders' fund in accordance with the allocation of investment losses to the shareholders and policyholders as approved by the Company's Fatwa and Sharia'a Supervisory Board.

ii. Financial assets measured at FVTPL includes an amount of AED 11,475,907 which represents real estate funds which have a maturity of 3 to 4 years (2008: 4 to 5 years). The Company expects to earn approximately a 3% to 7% per annum (2008: 3% to 7%) return on the real estate funds investments.

iii. Unlisted securities are carried at fair value at a value of AED 37,936,434 mainly represent the Company's investments in shares of companies registered in Dubai, Algeria, Kuwait and certain other international markets.

10. Prepayments and other receivables

	December 31, 2009 AED	December 31, 2008 AED
Other receivables	**17,494,895**	15,887,938
Prepaid expenses	**3,789,574**	4,437,887
	21,284,469	20,325,825

11. Investment property

	December 31, 2009 AED	December 31, 2008 AED
Balance at beginning of the year	**62,308,055**	45,308,055
Change in fair value	-	17,000,000
Balance at end of the year	**62,308,055**	62,308,055

The investment property comprises a plot of land purchased in 2007. The Company used the fair value model permitted under IAS 40 for determining the carrying value of the investment property. The property is mortgaged as security against an Ijara payable (Note 15).

12. Furniture and equipment

	Motor vehicles AED	Furniture and fixtures AED	Office equipment AED	Total AED
Cost				
At December 31, 2007	260,870	3,469,669	3,281,983	7,012,522
Additions	414,565	306,259	129,064	849,888
At December 31, 2008	675,435	3,775,928	3,411,047	7,862,410
Additions	6,500	334,783	384,032	725,315
Disposal	(125,000)	-	-	(125,000)
At December 31, 2009	**556,935**	**4,110,711**	**3,795,079**	**8,462,725**
Accumulated depreciation				
At December 31, 2007	164,330	2,552,427	2,401,470	5,118,227
Charge for the year	107,493	433,238	470,235	1,010,966
At December 31, 2008	271,823	2,985,665	2,871,705	6,129,193
Charge for the year	137,264	438,181	324,830	900,275
Eliminated on disposal	(125,000)	-	-	(125,000)
At December 31, 2009	**284,087**	**3,423,846**	**3,196,535**	**6,904,468**
Net carrying amount				
At December 31, 2009	**272,848**	**686,865**	**598,544**	**1,558,257**
At December 31, 2008	403,612	790,263	539,342	1,733,217

13. Trade and other payables

	December 31, 2009 AED	December 31, 2008 AED
Trade payables and accruals	**38,889,307**	34,592,875
Employees' end of service benefits	**2,521,056**	1,999,345
Zakat payables	**1,567,251**	1,906,140
	42,977,614	38,498,360

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

	December 31, 2009 AED	December 31, 2008 AED
Balance at beginning of the year	**1,999,345**	2,075,840
Amounts charged during the year	**637,204**	216,809
Amounts paid during the year	**(115,493)**	(293,304)
Balance at end of the year	**2,521,056**	1,999,345

14. Takaful payables

	December 31, 2009 AED	December 31, 2008 AED
Due to reinsurers and other Takaful payables	**61,158,376**	64,197,287

15. Ijara payables

	December 31, 2009 AED	December 31, 2008 AED
Ijara payables	**15,313,248**	22,119,137

The Company obtained Ijara finance of AED 34,029,440 from an Islamic bank in the U.A.E., to finance the acquisition of an investment property (Note 11). The Ijara finance carries a profit rate of 7% (2008: 7%) with twenty quarterly repayments which commenced from February 2007. The Ijara finance is secured by legal mortgage over the investment property.

16. Policyholders' fund

	2009 AED	2008 AED
Accumulated Takaful deficit	**(34,141,051)**	(6,998,740)
Profit/(loss) for the year	**863,417**	(27,142,311)
Loan from shareholders (i)	**33,277,634**	34,141,051
Proposed profit distribution to policyholders (ii)	**1,767,561**	1,776,344
Investment revaluation reserve AFS	-	(30,938,932)
Investment revaluation reserve FVTOCI (iii)	**(29,319,957)**	-
Total deficit in policyholders' fund	**(27,552,396)**	(29,162,588)

(i) The shareholders finance the policyholders' deficit excluding loss related to negative fair value movements of investments in accordance with the Company's policy through a Qard Hasan (a profit free loan with no repayment terms charged to income statement).

(ii) The Company started distribution of the profit to the policyholders in 2008 as approved by the Fatwa and Sharia'a Supervisory Board.

(iii) During the current year, the Company transferred to the policyholders their share of investment revaluation reserve FVTOCI of AED 29,319,957 from the shareholders' equity in the same ratio as the policyholders share of investment losses (refer Note 23). When the Company disposes of these investments, any gains or losses realized will be distributed between the shareholders and policyholders in the same ratio as outlined in Note 23 and, should such disposal result in a realized loss, the portion allocated to policyholders would require an additional Qard Hasan of an equivalent amount from the shareholders.

17. Share capital

	2009 AED	2008 AED
Issued and fully paid:		
200,000,000 ordinary shares of AED 1 each	**200,000,000**	200,000,000

At the Extraordinary General Meeting held on May 25, 2008, the shareholders of the Company resolved to split the shares' nominal value from AED 10 to AED 1 per share, thereby increasing the number of shares from 20 million to 200 million. At the same meeting, the shareholders also resolved that G.C.C. nationals and other foreign nationals can hold up to 15% each in the share capital of the Company and the remaining minimum balance of 70% should be held by U.A.E. nationals.

18. Statutory reserve

In accordance with United Arab Emirates Federal Commercial Companies Law number 8 of 1984, as amended, the Company has established a statutory reserve by appropriation of 10% of the profit for each year until the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution except as stipulated by the Law.

19. General reserve

The Company is required to transfer 10% of the profit for the year to a general reserve in accordance with its Articles of Association. The reserve is available for distribution by a resolution of the shareholders of the company at an ordinary general meeting, on the recommendation of the Board of Directors.

20. Contributions earned

Year 2009	**Gross AED**	**Reinsurers' share AED**	**Net AED**
Takaful contracts contributions	**495,777,108**	**359,783,940**	**135,993,168**
Movement in provision for unearned contributions	**2,386,950**	**(8,753,062)**	**11,140,012**
Movement in additional reserve (Note 7)	**7,296,323**	**-**	**7,296,323**
Takaful contributions	**505,460,381**	**351,030,878**	**154,429,503**
Unearned contributions at reporting date (Note 7)	**141,270,205**	**94,344,282**	**46,925,923**

Year 2008	Gross AED	Reinsurers' share AED	Net AED
Takaful contracts contributions	492,939,066	305,216,339	187,722,727
Movement in provision for unearned contributions	(47,222,197)	(31,539,889)	(15,682,308)
Movement in additional reserve (Note 7)	(5,900,000)	-	(5,900,000)
Takaful contributions	439,816,869	273,676,450	166,140,419
Unearned contributions at reporting date (Note 7)	143,657,155	85,591,220	58,065,935

21. Claims

	2009			2008		
	Gross AED	*Reinsurers' share AED*	*Net AED*	*Gross AED*	*Reinsurers' share AED*	*Net AED*
Takaful claims paid in the year	**143,794,099**	**55,345,626**	**88,448,473**	138,767,994	55,773,573	82,994,421
Changes in provision for outstanding claims	**(3,046,573)**	**(3,093,759)**	**47,186**	8,327,597	9,856,244	(1,528,647)
Claims recorded in income statement	**140,747,526**	**52,251,867**	**88,495,659**	147,095,591	65,629,817	81,465,774

For details of the movement in the provision for outstanding claims and the related reinsurers' share, refer to Note 7.

22. Wakala fees and Mudarib's share

The Company manages the Takaful operations for the policyholders and charges 25% of the gross Takaful contributions as Wakala fees (2008: 25%). During the year, no Wakala fee was charged on gross Takaful contributions amounting to AED 280,333,031 (2008: AED 183,092,466) as the Company retained insignificant risk on such contributions and commission income from such business was significantly lower than the normal commission. Management therefore decided not to charge Wakala fee on these Takaful contributions. The Wakala fee was charged on a total gross contribution of AED 215,444,077 (2008: AED 309,846,600).

The Company also manages the policyholders' investment funds and charges 25% of net investment income earned by the policyholders' investment funds as the Mudaribs' share. The Mudarib fee charged was AED 505,571 for the year (2008: AED Nil).

23. Investment income/(losses)

	December 31,	
	2009	2008
	AED	AED
Fair value gains and losses		
Fair value loss on FVTPL	**(7,258,686)**	(84,766,052)
Fair value gain on investment properties	**-**	17,000,000
Realised gains and losses		
Gain on sale of trading securities	**11,434,454**	89,659
Other investment income		
Income from investment deposits	**1,179,018**	769,454
Income from investment in real estate funds	**371,102**	1,520,562
Dividend income	**2,691,059**	3,627,610
Other miscellaneous income	**143,702**	40,750
Investment financing cost	**(1,373,555)**	(1,705,214)
	7,187,094	(63,423,231)
Allocated to:		
Policyholders	**2,022,283**	(17,584,748)
Shareholders	**5,164,811**	(45,838,483)
	7,187,094	(63,423,231)

Investment income and losses are allocated amongst the shareholders and the policyholders on a pro rata basis. This allocation to policyholders is approved by the Company's Fatwa and Sharia'a Supervisory Board on an annual basis.

24. Basic and diluted earnings per share

Earnings per share is calculated by dividing profit attributable to the shareholders for the year, by weighted average number of shares outstanding during the year.

	December 31,	
	2009	2008
	AED	AED
Net profit/(loss) for the year	**20,572,393**	(33,241,247)
Weighted average number of shares outstanding during the year	**200,000,000**	200,000,000
Earnings per share	**0.10**	(0.17)

The weighted average number of shares outstanding as reported for all the years has been adjusted for the effects of the share split approved on May 25, 2008 (Note 17).

No figure for diluted earnings per share has been presented since the Company has not issued any instruments which would have an impact on earnings per share when exercised.

25. Fatwa and Sharia'a supervisory board

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

26. Related party transactions

Related parties represent major shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties.

The Managing Director of the Company is also a key management executive of Al Salam Bank in Algeria and Al Salam Bank in Bahrain. The Company has invested in equity in both banks a total amount of AED 31.29 million (2008: AED 2.7 million). The pricing policies and terms of these transactions were approved by the Board of Directors.

26. Related party transactions (continued)

The significant balances outstanding at reporting date in respect of related parties included in the financial statements are as follows:

	Major shareholders AED	**Other related parties AED**	**Total 2009 AED**	Major shareholders AED	Other related parties AED	Total 2008 AED
Investment deposits	-	**5,000,000**	**5,000,000**	10,000,000	5,000,000	15,000,000
Carrying value of investments in ordinary shares	-	-	-	7,202,962	39,561,451	46,764,413
Cost of investment in Real Estate Funds	-	**3,711,775**	**3,711,775**	12,403,060	3,711,775	16,114,835
Contributions receivable	**441,704**	**3,406,804**	**3,848,508**	2,539,278	10,070,105	12,609,383

The income and expenses in respect of related parties included in the financial statements are as follows:

	Major shareholders AED	**Other related parties AED**	**Total 2009 AED**	Major shareholders AED	Other related parties AED	Total 2008 AED
Gross contributions	**545,353**	**4,601,325**	**5,146,678**	27,910,458	451,670	28,362,128
Gross claims	**54,105**	**2,604,641**	**2,658,746**	15,555,538	104,057	15,659,595
Profit share on investment deposits and real estate funds	-	**254,480**	**254,480**	716,841	794,044	1,510,885
Dividend income	-	-	-	1,010,133	1,578,893	2,589,026

In 2008, the Company purchased 3,276,520 shares of Al Salam Bank – Bahrain for AED 9.21 million from a related company. These shares are registered in the name of the related company which holds it in trust for and on behalf of the Company. The market value of the shares as at the end of the reporting period was AED 2.9 million. The change in fair value has been reflected in equity under investment revaluation reserve.

Compensation of key management personnel is as follows:

	2009 AED	2008 AED
Short term employee benefits	**2,483,638**	2,262,450
End of service benefits	**235,605**	182,344
Total compensation paid to key management personnel	**2,719,243**	2,444,794

27. Segmental information

The Company has adopted IFRS 8 Operating Segments with effect from January 1, 2009. The segments identified in accordance with IFRS 8 do not differ materially from those previously disclosed under IAS 14.

Operating Segments are identified on the basis of internal reports about the components of the company that are regularly reviewed by the Company's Managing Director (MD) in order to allocate resources to the segment and to assess its performance. Information reported to the Company's MD for the purpose of resource allocation and assessment of performance is based on following strategic business activities:

- **Takaful activities** include the general, life and medical Takaful business undertaken by the Company.

- **Investment activities** represent investment and cash management for the Company's own account.

Notes to the Financial Statements - continued
For the year ended December 31, 2009

27. Segmental information (continued)

The following table presents segment information for the years ended December 31, 2009 and December 31, 2008.

	Year ended December 31, 2009		Year ended December 31, 2008			
	Attributable to		Attributable to		**Total**	
	Policyholders	**Shareholders**	Policyholders	Shareholders	**2009**	2008
	AED	**AED**	AED	AED	**AED**	AED
Takaful						
Underwriting income	**170,775,780**	-	186,274,307	-	**170,775,780**	186,274,307
Underwriting expenses	**(117,568,056)**	-	(118,370,220)	-	**(117,568,056)**	(118,370,220)
Net underwriting income	**53,207,724**	-	67,904,087	-	**53,207,724**	67,904,087
Wakala fees	**(53,861,019)**	**53,861,019**	(77,461,650)	77,461,650	-	-
Mudarib fees	**(505,571)**	**505,571**	-	-	-	-
	(1,158,866)	**54,366,590**	(9,557,563)	77,461,650	**53,207,724**	67,904,087
Investment						
Investment income/(loss)	**2,022,283**	**5,164,811**	(17,584,748)	(45,838,482)	**7,187,094**	(63,423,230)
Unallocated other income and expenses	-	**(39,822,425)**	-	(37,722,104)	**(39,822,425)**	(37,722,104)
Profit/(loss) attributable to policyholders	**863,417**		(27,142,311)			
Write back/(write-off) loan to policyholders' fund		**863,417**		(27,142,311)		
Profit/(loss) for the period		**20,572,393**		(33,241,247)	**20,572,393**	(33,241,247)

27. Segmental information (continued)

Other information

	Takaful		Investment		Total	
	2009	2008	**2009**	2008	**2009**	2008
	AED	AED	**AED**	AED	**AED**	AED
Segment assets	**257,550,315**	301,469,199	**255,486,570**	203,721,917	**513,036,885**	505,191,116
Segment liabilities	**330,196,688**	340,656,583	**15,313,248**	22,119,136	**345,509,936**	362,775,719
Capital expenditure	**725,315**	922,348	**-**	-	**725,315**	922,348
Depreciation	**900,275**	1,010,966	**-**	-	**900,275**	1,010,966

Secondary segment information

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

28. Capital 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, General Manager and senior managers.

The board of directors meets regularly to approve any commercial, regulatory and organisational decisions. The Managing Director 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 reinsurance strategy to the corporate goals, and specifies reporting requirements.

(ii) Capital management framework

The primary objective of the Company's capital management is to comply with the regulatory requirements in the U.A.E. and to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholder value.

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 years ended December 31, 2009 and 2008.

(iii) Regulatory framework

Regulators are primarily interested in protecting the rights of the policyholders 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 insurance companies to meet unforeseen liabilities as these arise.

29. Risk management

(i) 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 Managing Director actively monitors the ALM to ensure in each period sufficient cash flow is available to meet liabilities arising from Takaful contracts.

The Managing Director 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.

The above risk exposure is mitigated by diversification across a large portfolio of Takaful contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance 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, medical and group life. 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.

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. In recent years the Company has only underwritten policies for properties containing fire detection and fighting equipment.

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 reinsurance cover for such damage to limit losses for any individual claim to AED 300,000 (2008: AED 300,000).

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 reinsurance cover for such claims to limit losses for any individual claim to AED 350,000 (2008: AED 500,000)

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

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 reinsurance to limit losses for any individual claim to AED 300,000 (2008: AED 300,000).

Medical, group life and personal accident

Medical Takaful is designed to compensate the contract holders for medical costs. Group life and personal accident Takaful entitles the contract holders or their beneficiaries to specified amounts in case of death or permanent or partial disability.

For medical Takaful, the main risks are illness and related healthcare costs. For group life and personal accident the main risks are claims from death and permanent or partial disability. The Company generally does not offer medical Takaful to walk-in customers. Medical, group life and personal accident Takaful are generally offered to corporate customers with large population to be covered under the policy. The Company has reinsurance cover for such claims to limit losses for any individual claim to AED 500,000 (2008: AED 500,000).

Geographical concentration of risks

The Takaful risk arising from Takaful contracts is concentrated mainly in the United Arab Emirates. The geographical concentration of risks is similar to prior year.

Reinsurance risk

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 arrangements with other parties for reinsurance purposes. Such reinsurance 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 reinsurance is effected under treaty, facultative and excess of loss reinsurance contracts.

29. Risk management (continued)

29A Takaful risk - continued

Reinsurance risk - continued

To minimise its exposure to significant losses from reinsurers insolvencies, the Company evaluates the financial condition of its reinsurers. The Company deals with reinsurers approved by the Board of Directors.

29B Financial risk

The Company's principal financial instruments are financial investments (trading securities), receivables arising from Takaful and reinsurance contracts, statutory deposits and cash and cash equivalents.

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 reviews and agrees policies for managing each of these risks and they are summarised below.

The Company does not enter into any 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 balance sheet.

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

- The Company only enters into Takaful and reinsurance 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 reinsurance contracts are monitored 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 investments are managed by the Managing Director in accordance with the guidance of the investment committee and the supervision of the Board of Directors.
- The Company's bank balances are maintained with a range of international and local banks in accordance with limits set by the management.

29. Risk management (continued)

29B Financial risk - continued

Credit risk (continued)

The table below shows the maximum exposure to credit risk for the components of the balance sheet:

	Notes	*2009 AED*	*2008 AED*
Cash and cash equivalents	5	**21,083,736**	40,106,802
Investment deposits	6	**35,999,980**	18,000,000
Reinsurance contract assets	7	**156,195,229**	150,535,926
Takaful receivables	8	**87,428,624**	88,767,429
Other financial assets FVTPL	9	**54,371,191**	38,278,695
Other financial assets AFS	9	**-**	85,135,167
Other financial assets FVTOCI	9	**72,807,344**	-
Other receivables	10	**17,494,895**	15,887,938
		445,380,999	436,711,957

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.

Takaful receivables comprise a large number of customers and Takaful companies mainly within the United Arab Emirates. Reinsurance receivables are from the reinsurance companies based mainly in Europe and the Middle East.

The Company's financial position can be analysed by the following geographical regions:

	2009			*2008*		
	Assets AED	***Liabilities and equity AED***	***Contingent liabilities and commitments AED***	*Assets AED*	*Liabilities and equity AED*	*Contingent liabilities and commitments AED*
United Arab Emirates	**311,530,097**	**482,151,900**	**779,951**	304,570,709	451,919,931	1,021,513
Other Middle Eastern countries	**29,707,564**	**9,919,046**	**-**	34,776,251	34,363,098	-
Europe	**162,113,656**	**19,944,530**	**-**	155,913,980	16,422,513	-
Rest of the world	**9,685,568**	**1,021,409**	**-**	9,930,176	2,485,574	-
Total	**513,036,885**	**513,036,885**	**779,951**	505,191,116	505,191,116	1,021,513

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.

December 31, 2009

	Unimpaired				
	High grade AED	***Standard grade (satisfactory) AED***	***Sub-standard grade (unsatisfactory) AED***	***Past due and impaired AED***	***Total AED***
Cash and cash equivalents	**21,083,736**	-	-	-	**21,083,736**
Investment deposits	**35,999,980**	-	-	-	**35,999,980**
Reinsurance contract assets	**156,195,229**	-	-	-	**156,195,229**
Takaful receivables	**87,428,624**	-	-	**4,000,000**	**91,428,624**
Other financial assets					
FVTOCI	**72,807,344**	-	-	-	**72,807,344**
FVTPL	**54,371,191**	-	-	-	**54,371,191**
Other receivables	**17,494,895**	-	-	-	**17,494,895**
	445,380,999	-	-	**4,000,000**	**449,380,999**
Less: Allowance for doubtful debts					**(4,000,000)**
					445,380,999

December 31, 2008

	Unimpaired				
	High grade AED	*Standard grade (satisfactory) AED*	*Sub-standard grade (unsatisfactory) AED*	*Past due and impaired AED*	*Total AED*
Cash and cash equivalents	40,106,802	-	-	-	40,106,802
Investment deposits	18,000,000	-	-	-	18,000,000
Reinsurance contract assets	150,535,926	-	-	-	150,535,926
Takaful receivables	88,767,429	-	-	4,000,000	92,767,429
Investment securities					
FVTPL	38,278,695	-	-	-	38,278,695
Available-for-sale	85,135,167	-	-	-	85,135,167
Other receivables	15,887,938	-	-	-	15,887,938
	436,711,957	-	-	4,000,000	440,711,957
Less: Allowance for doubtful debts					(4,000,000)
					436,711,957

29. Risk management (continued)

29B Financial risk - continued

Credit risk (continued)

The following table provides an age analysis of Takaful receivables arising from Takaful and reinsurance contracts:

	Neither past due nor impaired	*Past due but not impaired*				
	Up to 90 days AED'000	*90 to 180 days AED'000*	*Above 180 days AED'000*	*Total AED'000*	*Past due and impaired AED'000*	*Total AED'000*
2009	**50,519**	**26,138**	**14,772**	**91,429**	**4,000**	**87,429**
2008	51,690	29,983	11,094	92,767	4,000	88,767

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 income statement 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.

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 (continued)

The table below summarises the maturity of the financial liabilities of the Company based on remaining undiscounted contractual obligations:

December 31, 2009	***1 to 12 months AED***	***1 to 5 years AED***	***Over 5 years AED***	***Total AED***
Liabilities				
Trade and other payables	**42,977,614**	-	-	**42,977,614**
Takaful payables	**61,158,376**	-	-	**61,158,376**
Takaful contract liabilities	**247,768,292**	-	-	**247,768,292**
Financial liabilities				
Ijara payables	**6,805,888**	**8,507,360**	-	**15,313,248**
Amounts held under reinsurance treaties	**5,844,803**	-	-	**5,844,803**
	364,554,973	**8,507,360**	-	**373,062,333**

December 31, 2008	*1 to 12 months AED*	*1 to 5 years AED*	*Over 5 years AED*	*Total AED*
Liabilities				
Trade and other payables	38,498,360	-	-	38,498,360
Takaful payables	64,197,287	-	-	64,197,287
Takaful contract liabilities	260,498,137	-	-	260,498,137
Financial liabilities				
Ijara payables	7,282,238	18,392,913	-	25,675,151
Amounts held under reinsurance treaties	6,625,386	-	-	6,625,386
	377,101,408	18,392,913	-	395,494,321

Market risk

Market risk arises from fluctuations in foreign exchange rates, profit rates and equity prices. The value of risk that may be accepted by the Company is monitored on a regular basis by the Managing Director.

29. Risk management (continued)

29B Financial risk - continued

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the Company does not hedge its foreign currency exposure.

There are no significant exchange rate risks as substantially all financial assets and financial liabilities are denominated in U.A.E. Dirhams or US Dollars to which the Dirham is fixed.

Profit rate risk

Profit rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market rates. Floating rate instruments expose the Company to cash flow risk.

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

Details of maturities of the major classes of profit generating financial instruments as at December 31 are as follows:

2009	*Less than 1 years AED*	*1 to 5 years AED*	*Over 5 years AED*	*Total AED*	*Effective profit rate*
Assets:					
Investment deposits	**35,999,980**	-	-	**35,999,980**	**5%**
Liabilities:					
Ijara payables	**6,805,888**	**8,507,360**	-	**15,313,248**	**7%**
2008					
Assets:					
Investment deposits	18,000,000	-	-	18,000,000	5%
Liabilities:					
Ijara payables	6,805,888	15,313,249	-	22,119,137	7%

The impact of changes in profit rate risk is not expected to be significant for the Company.

29. Risk management (continued)

29B Financial risk - continued

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Company's investment portfolio.

The effect on equity as a result of a change in the fair value of equity instruments held as FVTOCI or available-for-sale at the reporting date due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	2009		2008	
	Change in equity price %	Effect on equity AED	Change in equity price %	Effect on equity AED
All investments - (Mainly Dubai Financial Market and Abu Dhabi Stock Market)	**10**	**7,280,734**	10	8,513,516

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. Financial instruments

(a) 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 recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the financial statements.

(b) Categories of financial instruments

	December 31,	
	2009	2008
	AED	AED
Financial assets		
Finances and receivables (including cash and cash equivalents)	**445,380,999**	436,711,957
Financial liabilities		
At amortized cost	**370,541,276**	389,938,962

30. Financial instruments (continued)

The table below illustrates the classification and measurement of financial assets under IFRS 9 and IAS 39 at the date of initial application, December 31, 2009.

	Original measurement Category IAS39	New measurement Category IFRS 9	Original carrying amount AED	New carrying amount AED
Cash and cash equivalents	Other amortized cost	Financial assets at amortized cost	**21,083,736**	**21,083,736**
Investment deposits	Other amortized cost	Financial assets at amortized cost	**35,999,980**	**35,999,980**
Reinsurance contract assets	Other amortized cost	Financial assets at amortized cost	**156,195,229**	**156,195,229**
Takaful receivables	Other amortized cost	Financial assets at amortized cost	**87,428,624**	**87,428,624**
Other receivables	Other amortized cost	Financial assets at amortized cost	**17,494,895**	**17,494,895**
Other financial assets				
- Available for sale:				
Equities	Available for sale investments	Financial assets at FVTOCI	**72,807,344**	**72,807,344**
Mutual and other funds	Available for sale investments	Financial assets at FVTPL	**11,475,907**	**11,475,907**
- Held for trading:				
Equities	Financial assets at FVTPL	Financial assets at FVTPL	**42,895,284**	**42,895,284**

31. Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Company is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

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

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

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

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

	December 31, 2009			
	Level 1	Level 2	Level 3	Total
	AED'000	AED'000	AED'000	AED'000
Other financial assets FVTOCI	34,871	-	37,936	72,807
Other financial assets FVTPL	54,371	-	-	54,371
	89,242	-	37,936	127,178

The investments classified under Level 3 category have been fair-valued based on information available for each investment. Based on the information available the valuation has been carried on net asset value or valuation provided by the portfolio managers.

32. Contingencies and commitments

Contingent liabilities

At reporting date, the Company had contingent liabilities in respect of bank and other guarantees arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to AED 779,951 (December 31, 2008: AED 1,021,513).

Legal claims

The Company, in common with the majority of insurers, is subject to litigation in the normal course of its business. Based on independent legal advice, the management does not believe that the outcome of these court cases will have a material impact on the Company's income or financial position.

Commitments

The Company has a commitment for AED 15.3 million (2008: AED 14.7 million) on account of investments made in securities. The Company has to pay for investment securities as and when calls are made by the investee company. Commitment in respect of purchase of investment securities is payable on various dates by February 2010.