

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

Report and consolidated financial statements
for the year ended 31 December 2013

Dubai Islamic Insurance & Reinsurance Co. (Aman) (PSC)

Contents	Pages
Independent auditor's report	1 - 2
Consolidated statement of financial position	3
Consolidated income statement	4
Consolidated statement of comprehensive income	5
Consolidated statement of changes in equity	6
Consolidated statement of cash flows	7
Notes to the consolidated financial statements	8 - 53

INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of **Dubai Islamic Insurance & Reinsurance Co. (Aman) (PSC)** (the "Company") and its **Subsidiaries** (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of these consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), and for such internal control as management determined is necessary to enable the preparation of the consolidated financial statements that are free from material misstatements whether due to fraud or errors.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Cont'd...

INDEPENDENT AUDITOR'S REPORT (continued)*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Dubai Islamic Insurance & Reinsurance Co. (Aman) (PSC) and its Subsidiaries** as at 31 December 2013, and the Group's financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Emphasis of matters

Without qualifying our opinion, we draw attention to the following matters:

- (a) Note 35(b) to the consolidated financial statements which explains that during the Company's Annual General Meeting (AGM) held on 25 April 2013, all members of the Board of Directors resigned and were not absolved from their liability for the consolidated financial statements for the year ended on 31 December 2012 by the shareholders. During the meeting, the shareholders requested the Emirates Securities and Commodities Authority (ESCA) to assemble an independent committee to investigate certain transactions executed during the term of the resigned Board of Directors. The new Board of Directors was appointed on 29 July 2013 and is confident that the outcome of such an investigation by ESCA will be in the Group's favour and therefore, no contingency provisions have been recorded by the Group.
- (b) Note 36 to the consolidated financial statements which explains that the previous Chief Executive Officer (CEO) of the Group resigned on 10 July 2013. The Company entered into an agreement with the previous CEO on 9 July 2013 for the payment for and/or transfer of certain assets and investments that were held by him on trust and for the benefit of the Group. The Board of Directors is confident that this agreement will result in the realization of a minimum of the carrying value of assets due from him or held by the previous CEO on trust and for the benefit of the Group and therefore no adjustments to the carrying value of the assets are required.

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, concerning formation of Insurance Authority of U.A.E., 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 (M.E.)

Anis Sadek
Registration Number 521
30 March 2014



Consolidated statement of financial position
As at 31 December 2013

	Note	2013 AED	2012 AED
ASSETS			
Cash and cash equivalents	5	41,500,203	28,520,772
Investment deposits	6	35,000,000	35,000,000
Retakaful contract assets	7	151,513,721	161,720,810
Takaful receivables	8	79,858,888	89,638,206
Other financial assets measured at fair value through other comprehensive income (FVTOCI)	9	115,767,630	76,438,064
Other financial assets measured at fair value through profit and loss (FVTPL)	9	13,046,013	19,890,263
Prepayments and other receivables	10	19,387,184	23,259,400
Due from related parties	29	97,000	113,271
Investment property	11	62,352,585	64,352,585
Furniture and equipment	12	4,297,714	4,717,004
Total Assets		522,820,938	503,650,375
LIABILITIES, POLICY HOLDERS' FUND AND EQUITY			
Liabilities			
Due to Bank	13	19,448,778	17,983,884
Trade and other payables	14	66,167,609	50,285,270
Takaful and Retakaful payables	15	59,401,357	48,022,768
Due to a related party	29	959,677	659,677
Takaful contract liabilities	7	255,661,889	245,196,167
Ijara payables	16	9,840,000	13,120,000
Amounts held under Retakaful treaties		3,188,892	3,309,438
Total liabilities		414,668,202	378,577,204
Policyholders' fund			
Deficit in policyholders' fund		(97,575,338)	(36,330,857)
Qard Hassan from shareholders		97,575,338	36,330,857
Proposed profit distribution to policyholders		1,765,346	1,765,346
Policyholders' investments revaluation reserve	9	(15,319,195)	(19,113,931)
Total deficit in policyholders' fund	17	(13,553,849)	(17,348,585)
Total Policyholders' Fund and Liabilities		401,114,353	361,228,619
Equity			
Share capital	18	225,750,000	225,750,000
Statutory reserve	19	18,004,919	18,004,919
General reserve	20	18,004,919	18,004,919
Investments revaluation reserve - FVTOCI	9	(63,768,809)	(99,303,639)
Accumulated losses		(69,254,375)	(15,377,384)
Equity attributable to shareholders of the Parent		128,736,654	147,078,815
Non-controlling interest		(7,030,069)	(4,657,059)
Total Equity		121,706,585	142,421,756
Total Liabilities, Policyholders' Fund and Equity		522,820,938	503,650,375

Mohammed Omeir Yousef Almheiri
Chairman

Jihad Fattrouni
General Manager

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

5/16

1.A

**Consolidated Income Statement
for the year ended 31 December 2013**

	Note	2013 AED	2012 AED
Attributable to policyholders			
Takaful income			
Takaful contributions	21	504,579,091	493,856,361
Retakaful contributions ceded	21	(376,235,122)	(367,241,292)
Net Takaful contributions	21	128,343,969	126,615,069
Commission received on ceded Retakaful		10,579,198	11,550,027
Policy and survey fees		11,821,545	7,162,252
		<u>150,744,712</u>	<u>145,327,348</u>
Takaful expenses			
Gross claims incurred	22	(177,637,394)	(116,965,549)
Retakaful share of claims	22	51,282,510	45,961,870
Net claims incurred	22	(126,354,884)	(71,003,679)
Commissions paid		(23,847,348)	(18,375,128)
Excess of loss of Takaful contributions		(9,822,312)	(6,588,326)
		<u>(160,024,544)</u>	<u>(95,967,133)</u>
Net Takaful (loss)/income		(9,279,832)	49,360,215
Wakala fees	23	(52,839,247)	(54,483,358)
Net loss from Takaful operations		(62,119,079)	(5,123,143)
Investment income	24	1,166,130	753,875
Mudarib's share	23	(291,532)	(188,469)
Loss for the year		<u>(61,244,481)</u>	<u>(4,557,737)</u>
Attributable to shareholders			
Income			
Investment income	24	4,992,881	4,108,439
Wakala fees from policyholders	23	52,839,247	54,483,358
Mudarib's share from policyholders	23	291,532	188,469
Other income		4,214,965	1,233,787
		<u>62,338,625</u>	<u>60,014,053</u>
Expenses			
General and administrative expenses	25	(56,295,577)	(49,431,383)
Contribution of Qard Hassan to policyholders' fund		(61,244,481)	(4,557,737)
		<u>(117,540,058)</u>	<u>(53,989,120)</u>
(Loss)/profit for the year		<u>(55,201,433)</u>	<u>6,024,933</u>
Attributable to:			
Shareholders of the parent		(52,828,423)	8,549,367
Non-controlling interests		(2,373,010)	(2,524,434)
		<u>(55,201,433)</u>	<u>6,024,933</u>
(Loss)/earnings per share	26	<u>(0.23)</u>	<u>0.04</u>

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

**Consolidated statement of comprehensive income
for the year ended 31 December 2013**

	2013 AED	2012 AED
(Loss)/profit for the year	(55,201,433)	6,024,933
Other comprehensive income		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Changes in fair values of financial assets carried at fair value through other comprehensive income	35,534,830	3,351,608
Realized loss on sale of financial assets carried at fair value through other comprehensive income	-	(446,055)
Total comprehensive (loss)/income for the year	(19,666,603)	8,930,486
Attributable to:		
Shareholders of the parent	(17,293,593)	11,454,920
Non-controlling interests	(2,373,010)	(2,524,434)
	(19,666,603)	8,930,486

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

**Consolidated statement of changes in equity
for the year ended 31 December 2013**

	Share capital AED	Statutory reserve AED	General reserve AED	Investments revaluation reserve - FVTOCI AED	Accumulated losses AED	Equity attributable to shareholders of the Parent AED	Non- controlling interests AED	Total AED
Balance at 1 January 2012	225,750,000	16,453,241	16,453,241	(102,655,247)	(19,318,830)	136,682,405	(2,132,300)	134,550,105
Profit/(loss) for the year	-	-	-	-	8,549,367	8,549,367	(2,524,434)	6,024,933
Other comprehensive income/(loss)	-	-	-	3,351,608	(446,055)	2,905,553	-	2,905,553
Total other comprehensive income/ (loss) for the year	-	-	-	3,351,608	8,103,312	11,454,920	(2,524,434)	8,930,486
Transfer to statutory reserve	-	1,551,678	-	-	(1,551,678)	-	-	-
Transfer to general reserve	-	-	1,551,678	-	(1,551,678)	-	-	-
Zakat	-	-	-	-	(1,028,835)	(1,028,835)	-	(1,028,835)
Change in controlling interest	-	-	-	-	(29,675)	(29,675)	(325)	(30,000)
Balance at 31 December 2012	225,750,000	18,004,919	18,004,919	(99,303,639)	(15,377,384)	147,078,815	(4,657,059)	142,421,756
Loss for the year	-	-	-	-	(52,828,423)	(52,828,423)	(2,373,010)	(55,201,433)
Other comprehensive income	-	-	-	35,534,830	-	35,534,830	-	35,534,830
Total other comprehensive income/ (loss) for the year	-	-	-	35,534,830	(52,828,423)	(17,293,593)	(2,373,010)	(19,666,603)
Zakat	-	-	-	-	(1,048,568)	(1,048,568)	-	(1,048,568)
Balance at 31 December 2013	225,750,000	18,004,919	18,004,919	(63,768,809)	(69,254,375)	128,736,654	(7,030,069)	121,706,585

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

**Consolidated statement of cash flows
for the year ended 31 December 2013**

	2013 AED	2012 AED
Cash flows from operating activities		
(Loss)/profit for the year	(55,201,433)	6,024,933
Adjustments for:		
Depreciation	1,602,813	1,088,837
(Gain)/loss on revaluation of other financial assets measured at FVTPL	(109,176)	1,386,513
Loss on revaluation of investment property	2,000,000	-
Allowance for doubtful receivables	6,200,000	-
Gain on sale of other financial assets measured at FVTPL	(5,834,908)	-
Provision for employees' end of service benefits	1,147,194	915,216
Changes in operating assets and liabilities:	(50,195,510)	9,415,499
Decrease/(increase) in Retakaful contract assets	10,207,089	(2,890,558)
Decrease/(increase) in Takaful receivables	3,579,318	(6,795,370)
Decrease/(increase) in prepayments and other receivables	3,872,216	(3,200,103)
Increase in Takaful contract liabilities	10,465,722	1,911,777
Decrease in amounts held under Retakaful treaties	(120,546)	(390,201)
Increase in Takaful and Retakaful payables	11,378,589	7,143,950
Increase in trade and other payables	15,342,420	16,538,873
Increase in due to a related party	300,000	300,000
Decrease in due from related parties	16,271	-
Cash generated from operations	4,845,569	22,033,867
Employees' end of service benefits paid	(321,851)	(723,311)
Net cash from operating activities	4,523,718	21,310,556
Cash flows from investing activities		
Purchase of furniture and equipment	(1,642,059)	(3,735,119)
Proceeds from sale of furniture and equipment	458,536	2,333
Purchase of other financial assets measured at FVTPL	(8,848,515)	(9,529,395)
Proceeds from sale of other financial assets measured at FVTPL	21,636,849	53,025
Net cash from/(used in) investing activities	11,604,811	(13,209,156)
Cash flows from financing activities		
Ijara repayments	(3,280,000)	(3,280,000)
Increase in due to bank	1,464,894	2,720,109
Zakat paid	(1,333,992)	(1,028,835)
Change in controlling interests	-	(30,000)
Net cash used in financing activities	(3,149,098)	(1,618,726)
Net increase in cash and cash equivalents	12,979,431	6,482,674
Cash and cash equivalents at the beginning of the year	28,520,772	22,038,098
Cash and cash equivalents at the end of the year (Note 5)	41,500,203	28,520,772

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

Notes to the consolidated financial statements for the year ended 31 December 2013

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 principles of Islamic Sharia'a as interpreted by its Fatwa and Sharia Board. The Company is also licensed to engage in Retakaful 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 12 March 2003 and commenced operations on 8 April 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 nine 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.

The Company with its subsidiaries are together referred to as the "Group" in these consolidated financial statements. At 31 December 2013, the Company had the following subsidiaries:

Name of subsidiary	Place of incorporation (or registration) and operation	Beneficial of ownership profit %	Proportion of voting power held %	Principal activity
Nawat Investments L.L.C.	United Arab Emirates	100.00	100.00	Investment in commercial, industrial and agricultural enterprises and management.
Technik Auto Service Centre Co. L.L.C	United Arab Emirates	100.00	100.00	Vehicles' repair services
Amity Health L.L.C.	United Arab Emirates	51.00	51.00	Medical billing services

The previous CEO (who resigned during the period - see Note 36) holds 1% of Nawat Investments L.L.C. and a related party holds 1% of Technik Auto Service Centre Co. L.L.C. on behalf and for the benefit of the Group.

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

2. Application of new and revised International Financial Reporting Standards (“IFRSs”)

2.1 *New and revised IFRSs affecting amounts reported and/or disclosures in the consolidated financial statements*

In the current year, the Group has applied the following new and revised IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2013.

- *IFRS 13 Fair Value Measurement*

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements in IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurement and disclosures about fair value measurements except for share-based payment transactions that are within the scope of IFRS 2 Share-based payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realizable value for the purposes of measuring inventories or value in use for impairment assessment purpose).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognized in the consolidated financial statements.

- *Amendments to IAS 1 Presentation of Items of Other Comprehensive Income*

The main amendment to IAS 1 requires items of other comprehensive income to be grouped into two categories in the other comprehensive income section:

- a) Items that will not be reclassified subsequently to profit or loss; and
- b) Items that may be reclassified subsequently to profit or loss when specific conditions are met.

Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The application of amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

2.2 *New and revised IFRSs applied with no material effect on the consolidated financial statements*

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

- Amendments to IFRS 1 *Government Loans* provide relief to first-time adopters of IFRSs by amending IFRS 1 to allow prospective application of IAS 39 or IFRS 9 and paragraph 10A of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* to government loans outstanding at the date of transition to IFRSs.

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

2. Application of new and revised International Financial Reporting Standards (“IFRSs”) (continued)

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

- Amendments to IFRS 7 *Financial Instruments: Disclosures* enhances disclosures about offsetting of financial assets and financial liabilities.
- Amendments to IFRS 9 *Financial Instruments* - Including new general hedge accounting model.
- IFRS 10 *Consolidated Financial Statements* uses control as the single basis for consolidation, irrespective of the nature of the investee. IFRS 10 requires retrospective application subject to certain transitional provisions providing an alternative treatment in certain circumstances. Accordingly, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* have been amended for the issuance of IFRS 10.
- IFRS 11 *Joint Arrangements* establishes two types of joint arrangements: Joint operations and joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of those parties to the joint arrangement. Accordingly, IAS 28 *Investments in Associates and Joint Ventures* has been amended for the issuance of IFRS 11.
- IFRS 12 *Disclosure of Interests in Other Entities* combines the disclosure requirements for an entity’s interests in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure standard.
- Amendments to IAS 19 *Employee Benefits* eliminate the “corridor approach” and therefore require an entity to recognise changes in defined benefit plan obligations and plan assets when they occur.
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* clarifies the requirements for accounting for stripping costs associated with waste removal in surface mining, including when production stripping costs should be recognised as an asset, how the asset is initially recognised, and subsequent measurement.
- Annual Improvements to IFRSs 2009 - 2011 Cycle

The annual improvements include the amendments to five IFRSs which have been summarized below:

- *IFRS 1 First Time Adoption of International Financial Reporting Standards* -Repeated application of IFRS 1.
- *IFRS 1 First Time Adoption of International Financial Reporting Standards* -Borrowing costs.
- *IAS 1 Presentation of Financial Statements* - Clarification of the requirements for comparative information.
- *IAS 16 Property, Plant and Equipment* - Classification of servicing equipment.
- *IAS 32 Financial Instruments: Presentation* - Tax effect of the distribution to the holders of equity instruments.
- *IAS 34 Interim Financial Reporting* - Interim financial reporting and segment information for total assets and liabilities.

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

2. Application of new and revised International Financial Reporting Standards (“IFRSs”) (continued)

2.3 New and revised IFRSs in issue but not yet effective and not early adopted

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
<ul style="list-style-type: none"> Amendments to IAS 19 <i>Employee Benefits</i> - to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. 	1 July 2014
<ul style="list-style-type: none"> Amendments to IAS 32 <i>Financial Instruments: Presentation</i> relating to application guidance on the offsetting of financial assets and financial liabilities. 	1 January 2014
<ul style="list-style-type: none"> Amendments to IAS 36 - <i>recoverable amount disclosures</i> <p>The amendments restrict the requirements to disclose the recoverable amount of an asset or CGU to the period in which an impairment loss has been recognized or reversed. They also expand and clarify the disclosure requirements applicable when an asset or CGU’s recoverable amount has been determined on the basis of fair value less costs of disposal.</p>	1 January 2014
<ul style="list-style-type: none"> Amendments to IAS 39 <i>Financial Instruments: Recognition and Measurement, Novation of Derivatives and Continuation of Hedge Accounting</i> <p>The amendment allows the continuation of hedge accounting when a derivative is novated to a clearing counterparty and certain conditions are met.</p>	1 January 2014
<ul style="list-style-type: none"> IFRIC 21 - <i>Levies</i> <p>Interpretation was developed to address the concerns about how to account for levies that are based on financial data of a period that is different from that in which the activity that give rise to the payment of the levy occurs.</p>	1 January 2014
<ul style="list-style-type: none"> Amendments to IFRS 10, IFRS 12 and IAS 27 - Guidance on Investment Entities. On 31 October 2012, the IASB published a standard on investment entities, which amends IFRS 10, IFRS 12, and IAS 27 and introduces the concept of an investment entity in IFRSs. The amendments establish an exception to IFRS 10’s general consolidation principle for investment entities, requiring them to “measure particular subsidiaries at fair value through profit or loss, rather than consolidate them.” In addition, the amendments outline required disclosures for reporting entities that meet the definition of an investment entity. 	1 January 2014

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

2. Application of new and revised International Financial Reporting Standards (“IFRSs”) (continued)

2.3 New and revised IFRSs in issue but not yet effective and not early adopted (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
<ul style="list-style-type: none"> • Annual Improvements to <i>IFRSs 2010 - 2012 Cycle</i> <ul style="list-style-type: none"> ▪ <i>IFRS 2 Share Based Payments</i> - definition of ‘vesting condition’. ▪ <i>IFRS 3 Business Combinations</i> - accounting for contingent consideration. ▪ <i>IFRS 8 Operating Segments</i> - aggregation of segments, reconciliation of segment assets. ▪ <i>IAS 16 Property, Plant and Equipment</i> - proportionate restatement of accumulated depreciation on revaluation. ▪ <i>IAS 24 Related Party Disclosures</i> - management entities. ▪ <i>IAS 38 Intangible Assets</i> - proportionate restatement of accumulated depreciation on revaluation. 	1 July 2014
<ul style="list-style-type: none"> • Annual Improvements to <i>IFRSs 2011 - 2013 Cycle</i> <ul style="list-style-type: none"> ▪ <i>IFRS 1 First Time Adoption of International Financial Reporting Standards</i> - meaning of effective IFRSs. ▪ <i>IFRS 3 Business Combinations</i> - scope exception for joint ventures. ▪ <i>IFRS 13 Fair Value Measurement</i> - scope of the portfolio exception. ▪ <i>IAS 40 Investment Property</i> - interrelationship between IFRS 3 and IAS 40. 	1 July 2014

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group’s consolidated financial statements for the period beginning 1 January 2014 or as and when they are applicable and adoption of these new standards, interpretations and amendments may have no material impact on the consolidated financial statements of the Group in the period of initial application.

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

3. Significant accounting policies

3.1 Statement of compliance

The consolidated 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 consolidated 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.

3.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for assets, goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account when pricing the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value such as value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The consolidated financial statements are presented in Arab Emirates Dirham (AED) and all values are rounded to the nearest dirham, except when otherwise indicated.

The principal accounting policies are set out below.

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

3. Significant accounting policies (continued)

3.3 Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Group and entities controlled by the Group. Control is achieved where the Group has:

- power over an investee,
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect the amount of the investor's returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders and other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns and previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the financial period are included in the consolidated income statement from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss of each component of other comprehensive income is attributable to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interest in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to shareholders of the Parent.

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

3. Significant accounting policies (continued)

3.3 Basis of consolidation (continued)

Changes in the Group's ownership interest in existing subsidiaries (continued)

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss have been recognised in the consolidated statement of comprehensive income and accumulated in equity, the amounts previously recognised in the consolidated statement of comprehensive income and accumulated in equity are accounted for as if the Parent had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, *Financial Instruments* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

3.4 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 reporting date. Unearned contributions are calculated in accordance with Federal Law No.6 of 2007. The proportion attributable to subsequent periods is deferred as a provision for unearned contributions.

3.5 Claims

Claims consist of amounts paid and payable to Takaful 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 and reflected in the consolidated income statement.

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

3.6 Liability adequacy test

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

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

3. Significant accounting policies (continued)

3.7 Retakaful

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

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the Retakaful can be measured reliably. The impairment loss is recorded in the consolidated income statement. Ceded Retakaful arrangements do not relieve the Group from its obligations to policyholders.

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

3.8 Policy acquisition costs

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 Takaful contribution is earned.

3.9 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 Group reduces the carrying amount of the Takaful receivable accordingly and recognizes that impairment loss in the consolidated income statement.

3.10 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 reporting date. These reserves are calculated in accordance with Federal Law No. 6 of 2007 relating to Takaful companies at 40% of annual contributions earned net of Retakaful for all classes of Takaful except marine which is calculated at 25% and medical and group life which are calculated on a daily pro-rata basis.

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

3. Significant accounting policies (continued)

3.10 Takaful contract liabilities (continued)

(ii) Outstanding claims

Retakaful 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 reporting date, whether reported or not, after reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of claims cannot be known with certainty at the reporting date. The liability is not discounted for the time value of money. No provision for equalisation or catastrophic reserves is recognised. The liability is derecognised when the contract expires, is discharged or is cancelled.

(iii) Additional reserve

A provision is made for the estimated claims incurred but not reported at the reporting date and for potential shortfall in unearned contribution reserve as per the requirement of IFRS compared to requirement of Federal Law No. 6 of 2007. The reserves represent management's best estimates on the basis of:

- a) claims reported during the year;
- b) delay in reporting these claims;
- c) shortfall in the unearned contribution reserve by reference to the 1/8th method; and
- d) actuary estimate.

3.11 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 Group acts as an agent (Wakil) on their behalf in managing the Islamic Takaful operations, in consideration of a Wakala fee. Wakala fee is charged on gross Takaful contributions where the Group retained significant risk on such contributions. No Wakala fee is charged on those Takaful contributions where they retain insignificant risk. The Takaful amounts (contributions) paid net of the Wakala fee are considered as Mudaraba capital, where the Group 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 Group, in its capacity as an agent.

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

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)****3. Significant accounting policies (continued)****3.12 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 Hassan (a finance cost free loan with no repayment terms). The Group maintains a full provision against the Qard Hassan.

3.13 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.

3.14 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.15 Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit and loss are recognised immediately in the consolidated income statement.

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

3. Significant accounting policies (continued)

3.15 Financial instruments (continued)

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

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 except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'.

Debt instruments, including receivables related to Takaful contracts, 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.

All other financial assets are subsequently measured at fair value.

Amortised cost and effective profit method

The effective profit method is a method of calculating the amortised cost of a debt instrument and of allocating profit income over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective profit basis for debt instruments (other than those financial assets designated as FVTPL) are measured subsequently at amortised cost. Profit income is recognised in the consolidated income statement.

Cash and cash equivalents

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

Takaful, Retakaful and other receivables

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

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

3. Significant accounting policies (continued)

3.15 Financial instruments (continued)

Financial assets (continued)

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

At initial recognition, the Group 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;
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking.

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 transferred to consolidated income statement, but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognised in the consolidated income statement when the Group's right to receive the dividends is established in accordance with IAS 18 Revenue, unless the dividends clearly represent a recovery of part of the cost of the investment.

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

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

Debt instruments that do not meet the amortised cost criteria (as described above) are measured at FVTPL. In addition, debt instruments that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTPL on initial recognition is not allowed.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement is included in the 'net investment income' line item in the consolidated income statement. Fair value is determined in the manner described in Note 34 to the consolidated financial statements.

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

3. Significant accounting policies (continued)

3.15 Financial instruments (continued)

Financial assets (continued)

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

Profit income on debt instruments as at FVTPL is included in the net gain or loss described above and is included in the 'net investment income' line item.

Dividend income on investments in equity instruments at FVTPL is recognised in the consolidated income statement when the Group's right to receive the dividends is established in accordance with IAS 18 Revenue and is included in the net gain or loss described above.

Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss. Therefore,

- for financial assets that are classified as at FVTPL, the foreign exchange component is recognised in the consolidated income statement; and
- for financial assets that are designated as at FVTOCI, any foreign exchange component is recognised in other comprehensive income.

For foreign currency denominated debt instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the consolidated income statement.

Impairment of financial assets

Financial assets that are measured at amortised cost are assessed for 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 assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in profit or principal payments; or
- the disappearance of an active market for that financial asset because of financial difficulties.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, 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. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

3. Significant accounting policies (continued)

3.15 Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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

De-recognition of financial assets

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

On de-recognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the consolidated income statement.

On de-recognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to the consolidated income statement, but is reclassified to retained earnings.

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

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 Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'Other financial liabilities'.

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

3. Significant accounting policies (continued)

3.15 Financial instruments (continued)

Financial liabilities and equity instruments issued by the Group (continued)

Other financial liabilities

Other financial liabilities, including takaful, retakaful and other payables, ijara payable and due to banks are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective profit method, with profit expense recognized on an effective yield basis.

The effective profit method is a method of calculating the amortised cost of a financial liability and of allocating profit expense over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments and are recognised in the consolidated income statement.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period.

De-recognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated income statement.

3.16 Furniture and equipment

Furniture and equipment are carried at cost less accumulated depreciation and any accumulated impairment loss.

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

Depreciation is charged so as to write off the cost, over their estimated useful lives, using the straight-line method, as follows:

Furniture and fixtures	4 years
Office equipment	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 consolidated income statement.

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

3. Significant accounting policies (continued)

3.17 Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in the consolidated income statement in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the investment property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the period in which the investment property is derecognised.

3.18 Impairment of tangible assets

At the end of each reporting period, the Group 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 Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 consolidated 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 consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.19 Provisions

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

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

3. Significant accounting policies (continued)

3.19 Provisions (continued)

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting 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.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.20 Foreign currencies

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

Transactions in currencies other than the Group's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting 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 consolidated income statement 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.

3.21 Zakat

Zakat as approved by the Group'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.

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

3. Significant accounting policies (continued)

3.22 Provision for employees' end of service indemnity

Provision for employees' end of service indemnity is made in accordance with the Group'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 reporting date.

3.23 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 Group 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 Group with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to the consolidated income statement.

4. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group'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 consolidated 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:

4.1 Critical judgements in applying accounting policies

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on net book value (NBV) of the underlying investment. Management believes that the fair value using NBV approximates the fair value if valuation models were applied, as these investments are held in entities operating in the financial services industry where majority of the assets and liabilities are held at fair value.

Additional reserve

Management assesses the additional reserve for different Takaful classes as mentioned below:

- a) For life Takaful, the management appointed an external actuary to calculate the required technical reserve taking into consideration of mortality rates and other probabilities which might vary from actuals once incurred;
- b) Medical Takaful additional reserve is calculated on daily pro-rata basis; and
- c) For other Takaful classes, based on past experience, uses the industry standard "1/8th method" to assess any potential shortfall in the unearned contribution reserve when compared to requirements of Federal Law No. 6 of 2007.

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

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

4.1 Critical judgements in applying accounting policies (continued)

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.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the financial position date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. 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.

4.2 Key sources of estimation uncertainty

Useful lives of furniture and equipment

Furniture 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 Group reviews its Takaful receivables on a regular basis to assess whether a provision for impairment should be recorded in the consolidated income statement. In particular, judgment 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 Group 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.

Retakaful

The Group is exposed to disputes with, and possibility of defaults by, its Retakaful providers. The Group monitors on a quarterly basis the evolution of disputes with and the financial strength of its Retakaful providers and seek legal opinion on such disputes as and when needed.

Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of Takaful contract liabilities. The Group 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 consolidated income statement.

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

5. Cash and cash equivalents

	2013	2012
	AED	AED
Cash on hand	25,625	259,104
Bank current accounts	41,474,578	28,261,668
	41,500,203	28,520,772

6. Investment deposits

	2013	2012
	AED	AED
Restricted deposits	10,000,000	10,000,000
Fixed deposits	25,000,000	25,000,000
	35,000,000	35,000,000

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 2% to 5% (2012: 2% to 5%). Fixed deposits are held by Islamic Banks.

7. Retakaful contract assets and Takaful contract liabilities

	Contract Liabilities		Contract Assets		Net	
	2013	2012	2013	2012	2013	2012
	AED	AED	AED	AED	AED	AED
Unearned contributions	115,830,199	133,054,576	71,883,180	86,345,737	43,947,019	46,708,839
Additional reserve	29,389,133	13,245,010	-	-	29,389,133	13,245,010
Outstanding claims	110,442,557	98,896,581	79,630,541	75,375,073	30,812,016	23,521,508
	255,661,889	245,196,167	151,513,721	161,720,810	104,148,168	83,475,357

Outstanding claims

	Contract Liabilities		Contract Assets		Net	
	2013	2012	2013	2012	2013	2012
	AED	AED	AED	AED	AED	AED
Balance at the beginning of the year	98,896,581	108,358,734	75,375,073	73,909,138	23,521,508	34,449,596
Movement during the year (Note 22)	11,545,976	(9,462,153)	4,255,468	1,465,935	7,290,508	(10,928,088)
Balance at the end of the year	110,442,557	98,896,581	79,630,541	75,375,073	30,812,016	23,521,508

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

7. Retakaful contract assets and Takaful contract liabilities (continued)

Additional reserve

	2013 AED	2012 AED
Balance at beginning of the year	13,245,010	5,058,030
Movement during the year	16,144,123	8,186,980
Balance at end of the year	<u>29,389,133</u>	<u>13,245,010</u>

8. Takaful receivables

	2013 AED	2012 AED
Due from Takaful policy holders and brokers	44,841,338	51,862,411
Amounts due from Takaful and Retakaful companies	45,217,550	41,775,795
Less: Allowance for doubtful Takaful receivables	(10,200,000)	(4,000,000)
	<u>79,858,888</u>	<u>89,638,206</u>

9. Other financial assets measured at fair value

	2013 AED	2012 AED
Financial assets measured at fair value through other comprehensive income (FVTOCI) (A)		
- Listed	68,371,412	29,037,341
- Unlisted	47,396,218	47,400,723
	<u>115,767,630</u>	<u>76,438,064</u>
Financial assets measured at fair value through profit and loss (FVTPL) (B)		
Financial assets measured at FVTPL	13,046,013	19,890,263
Total other financial assets measured at fair value (A+B)	<u>128,813,643</u>	<u>96,328,327</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

9. Other financial assets measured at fair value (continued)

Investments by geographic concentration are as follows:

	2013 AED	2012 AED
- Within U.A.E.	67,094,070	38,409,801
- Outside U.A.E.	61,719,573	57,918,526
	<u>128,813,643</u>	<u>96,328,327</u>

- i. FVTOCI listed and unlisted securities are carried at a value of AED 115,767,630 (2012: AED 76,438,064), with a decline in their fair value from original acquisition cost amounting to AED 79,088,004 (2012: AED 118,417,570). Of this amount, AED 63,768,809 (2012: AED 99,303,639) is deducted from shareholders' equity and AED 15,319,195 (2012: AED 19,113,931) is deducted from policyholders' fund in accordance with the allocation of investment losses to the shareholders and policyholders as approved by the Group's Fatwa and Sharia'a Supervisory Board.
- ii. Unlisted securities are carried at fair value at a value of AED 47,396,218 (2012: AED 47,400,723) mainly represent the Group's investments in shares of companies registered in Dubai, Algeria, Kuwait and certain other international markets.
- iii. Out of the financial assets measured at FVTPL, an amount of Nil (2012: AED 293,286) were held by the previous CEO (who resigned during the period end - see Note 36) on behalf and for the benefit of the Group which has been transferred back to the Group and disposed of during the period.
- iv. The Group holds shares of Al Salam Bank - Bahrain and Al Salam Bank - Algeria which are held by the previous CEO (who resigned during the period - see Note 36) or a company related to him on behalf and for the benefit of the Group [Note 29(a)].

10. Prepayments and other receivables

	2013 AED	2012 AED
Advances for acquisition of investment property	3,000,000	5,358,581
Less: Allowance for doubtful debts	(2,000,000)	(2,000,000)
	<u>1,000,000</u>	<u>3,358,581</u>
Prepaid expenses	5,302,765	5,454,559
Other receivables	13,084,419	14,446,260
	<u>19,387,184</u>	<u>23,259,400</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

11. Investment property

	2013 AED	2012 AED
Balance at beginning of the year	64,352,585	64,352,585
Loss on revaluation of investment property	(2,000,000)	-
Balance at end of the year	<u>62,352,585</u>	<u>64,352,585</u>

The investment property comprises a plot of land purchased in 2007. The property is subject to an Ijara Muntahiya Bittamlik facility from a local Islamic Bank and is mortgaged as security against an Ijara payable (Note 16) and against Sharia compliant secured overdraft facility (Note 13). The valuation, which conforms to international valuation standards, was arrived at by the reference to market evidence of transaction prices for similar properties, and was determined by an independent valuation expert.

Fair value hierarchy of the Group's investment properties are as follows:

At 31 December 2013

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
Investment property	-	-	62,352,585	62,352,585

At 31 December 2012

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
Investment property	-	-	64,352,585	64,352,585

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

12. Furniture and equipment

	Motor vehicles AED	Furniture and fixtures AED	Office equipment AED	Total AED
Cost				
At 1 January 2012	624,435	5,147,447	4,865,552	10,637,434
Additions	-	1,734,624	2,000,495	3,735,119
Disposals	-	(2,335)	-	(2,335)
At 31 December 2012	624,435	6,879,736	6,866,047	14,370,218
Additions	476,135	422,833	743,091	1,642,059
Disposals	(476,135)	(22,092)	-	(498,227)
At 31 December 2013	624,435	7,280,477	7,609,138	15,514,050
Accumulated depreciation				
At 1 January 2012	386,530	4,259,674	3,918,175	8,564,379
Charge for the year	112,638	515,465	460,734	1,088,837
Eliminated on disposals	-	(2)	-	(2)
At 31 December 2012	499,168	4,775,137	4,378,909	9,653,214
Charge for the year	138,762	729,165	734,886	1,602,813
Eliminated on disposals	(39,691)	-	-	(39,691)
At 31 December 2013	598,239	5,504,302	5,113,795	11,216,336
Net carrying amount				
At 31 December 2013	26,196	1,776,175	2,495,343	4,297,714
At 31 December 2012	125,267	2,104,599	2,487,138	4,717,004

13. Due to bank

The Group obtained a Sharia Compliant secured overdraft facility with a total limit of AED 20 million (2012: AED 18 million) from an Islamic bank in the U.A.E. to meet business requirements at commercial profit rates. The facility is secured by lien over fixed deposits based on a Mudarabah financing structure of AED 20 million (2012: AED 18 million) as margin in favor of the bank and mortgage of investment property under Ijara Muntahiya Bittamlik facility.

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

14. Trade and other payables

	2013	2012
	AED	AED
Trade payables and accruals	60,261,294	44,918,874
Employees' end of service benefits	4,857,303	4,031,960
Zakat payable	1,049,012	1,334,436
	<u>66,167,609</u>	<u>50,285,270</u>
Balance at end of the year	<u>66,167,609</u>	<u>50,285,270</u>

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

	2013	2012
	AED	AED
Balance at beginning of the year	4,031,960	3,840,055
Amounts charged during the year	1,147,194	915,216
Amounts paid during the year	(321,851)	(723,311)
	<u>4,857,303</u>	<u>4,031,960</u>
Balance at end of the year	<u>4,857,303</u>	<u>4,031,960</u>

15. Takaful and Retakaful payables

	2013	2012
	AED	AED
Amount due to Takaful and Retakaful companies	59,401,357	48,022,768
	<u>59,401,357</u>	<u>48,022,768</u>

16. Ijara payables

	2013	2012
	AED	AED
Ijara payables	9,840,000	13,120,000
	<u>9,840,000</u>	<u>13,120,000</u>

The Group had obtained an Ijara finance of AED 16.4 million from an Islamic bank in the U.A.E which carries a profit rate of 3 months EIBOR+2.5% per annum with a minimum rate of 7% per annum. The facility is payable over twenty quarterly payments ending on December 2016. The Ijara finance is secured by legal mortgage over the investment property.

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

17. Policyholders' Fund

	2013 AED	2012 AED
Deficit in Policyholders' Fund:		
Beginning balance of deficit in policyholders' fund	(36,330,857)	(31,773,120)
Loss for the year	(61,244,481)	(4,557,737)
	<u>(97,575,338)</u>	<u>(36,330,857)</u>
Ending balance of deficit in policyholders' fund	(97,575,338)	36,330,857
Qard Hassan from shareholders (i)	97,575,338	36,330,857
Proposed profit distribution to policyholders (ii)	1,765,346	1,765,346
Investment revaluation reserve FVTOCI (iii)	(15,319,195)	(19,113,931)
	<u>(13,553,849)</u>	<u>(17,348,585)</u>
Total deficit in policyholders' fund	<u>(13,553,849)</u>	<u>(17,348,585)</u>

- (i) The shareholders finance the policyholders' deficit excluding loss related to negative fair value movements of investments in accordance with the Group's policy, through a Qard Hassan (a profit free loan with no repayment terms charged to consolidated income statement).
- (ii) The Group 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 Group transferred to the policyholders their share of investment revaluation reserve FVTOCI of AED 15,319,195 (2012: AED 19,113,931) from the shareholders' equity in the same ratio as the policyholders share of investment losses (refer Note 24).

18. Share capital

	2013 AED	2012 AED
Issued and fully paid:		
225,750,000 ordinary shares of AED 1 each		
(2012: 225,750,000 ordinary shares)	225,750,000	225,750,000

19. Statutory reserve

In accordance with United Arab Emirates Federal Commercial Companies Law number 8 of 1984, as amended, the Group has established a statutory reserve by appropriation of 10% of the profit of the Parent Company 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.

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

20. General reserve

The Group is required to transfer 10% of the profit of the Parent Company 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 Group at an ordinary general meeting, on the recommendation of the Board of Directors.

21. Takaful contributions earned

	Gross AED	Retakafuls' share AED	Net AED
Year 2013			
Takaful contracts contributions	503,498,837	361,772,565	141,726,272
Movement in provision for unearned contributions	17,224,377	14,462,557	2,761,820
Movement in additional reserve (Note 7)	(16,144,123)	-	(16,144,123)
	<u>504,579,091</u>	<u>376,235,122</u>	<u>128,343,969</u>
Unearned contributions at reporting date (Note 7)	<u>115,830,199</u>	<u>71,883,180</u>	<u>43,947,019</u>
Year 2012	Gross AED	Retakafuls' share AED	Net AED
Takaful contracts contributions	505,230,291	368,665,915	136,564,376
Movement in provision for unearned contributions	(3,186,950)	(1,424,623)	(1,762,327)
Movement in additional reserve (Note 7)	(8,186,980)	-	(8,186,980)
	<u>493,856,361</u>	<u>367,241,292</u>	<u>126,615,069</u>
Unearned contributions at reporting date (Note 7)	<u>133,054,576</u>	<u>86,345,737</u>	<u>46,708,839</u>

22. Takaful claims

	2013			2012		
	Gross AED	Retakafuls' share AED	Net AED	Gross AED	Retakafuls' share AED	Net AED
Takaful claims paid in the year	166,091,418	47,027,042	119,064,376	126,427,702	44,495,935	81,931,767
Changes in provision for outstanding claims (Note 7)	11,545,976	4,255,468	7,290,508	(9,462,153)	1,465,935	(10,928,088)
	<u>177,637,394</u>	<u>51,282,510</u>	<u>126,354,884</u>	<u>116,965,549</u>	<u>45,961,870</u>	<u>71,003,679</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

23. Wakala fees and Mudarib's share

The Group manages the Takaful operations for the policyholders and charges 25% of the gross Takaful contributions net of gross unearned contribution as Wakala fees (2012: 25%). During the year, no Wakala fee was charged on gross Takaful contributions amounting to AED 292,141,849 (2012: AED 287,296,861) as the Group 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 211,356,988 (2012: AED 217,933,430).

Wakala fee is calculated as follows:

	2013 AED	2012 AED
Gross Takaful contributions	619,329,036	638,284,867
Less: Unearned contribution (Note 7)	(115,830,199)	(133,054,576)
Net Takaful contributions	503,498,837	505,230,291
Less: Takaful contributions not subject to Wakala fee	(292,141,849)	(287,296,861)
	211,356,988	217,933,430
Percentage	25%	25%
Wakala fee for the year	52,839,247	54,483,358

The Group also manages the policyholders' investment funds and is entitled to 25% of net investment income earned by the policyholders' investment funds as the Mudarib's share. The Mudarib's share was AED 291,532 for the year (2012: AED 188,469).

24. Investment income

	2013 AED	2012 AED
Fair value gains and losses		
Fair value gain/(loss) on other financial assets measured at FVTPL	109,176	(1,386,513)
Loss on revaluation of investment property	(2,000,000)	-
	(1,890,824)	(1,386,513)
Realised gains and losses		
Gain on sale of trading securities	5,834,908	4,262,863
Other investment income		
Income from investment deposits	222,537	297,970
Dividend income	1,346,464	1,149,463
Other miscellaneous income	507,262	346,744
	6,020,347	4,670,527
Less: Income on restricted deposits not distributable	138,664	191,787
Distributable income	6,159,011	4,862,314

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

24. Investment income (continued)

	2013 AED	2012 AED
<i>Allocated to:</i>		
Policyholders	1,166,130	753,875
Shareholders	4,992,881	4,108,439
	<u>6,159,011</u>	<u>4,862,314</u>

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 Group's Fatwa and Sharia'a Supervisory Board on an annual basis.

25. General and administrative expenses

	2013 AED	2012 AED
Salaries and benefits	32,224,396	34,032,781
Rent	4,380,086	4,044,208
Legal and professional fees	2,931,369	2,127,683
Advertising	264,321	566,445
Depreciation (Note 12)	1,602,813	1,088,837
Communication	1,374,388	1,359,999
Printing and stationary	797,396	746,422
Repairs and maintenance	1,059,212	943,131
Travelling and conveyance	328,315	837,147
Allowance for doubtful receivables	6,200,000	-
Other	5,133,281	3,684,730
	<u>56,295,577</u>	<u>49,431,383</u>

26. Basic and diluted earnings per share

Earnings/(loss) per share are calculated by dividing profit/(loss) attributable to the shareholders for the year, by weighted average number of shares outstanding during the year.

	2013	2012
(Loss)/profit for the year attributable to shareholders of the parent (In AED)	<u>(52,828,423)</u>	<u>8,549,367</u>
Weighted average number of shares outstanding during the year	<u>225,750,000</u>	<u>225,750,000</u>
Loss/earnings per share (In AED)	<u>(0.23)</u>	<u>0.04</u>

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

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

27. Operating lease commitments

The future minimum lease payments payable under non-cancellable operating leases where the Group is the lessee are as follows:

	2013 AED	2012 AED
Within 1 year	1,334,436	1,176,591
More than 1 year but less than 5 years	-	116,236
Total	1,334,436	1,292,827
Minimum lease payments under operating leases recognised as an expense during the year	4,380,086	4,044,208

28. Fatwa and Sharia'a supervisory board

The Group's business activities are subject to the supervision of its Fatwa and Sharia'a Supervisory Board consisting of nine 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 Group are conducted in accordance with Sharia'a rules and principles.

29. Related party transactions

The Group enters into transactions with companies and entities that fall within the definition of a related party as contained in International Accounting Standard (IAS) 24: *Related Parties*. Related parties comprise companies and entities under common ownership and/or common management and control, their partners and key management personnel. The management decides on the terms and conditions of the transactions with related parties.

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

	31 December 2013			31 December 2012		
	Major shareholders AED	Other related parties AED	Total AED	Major shareholders AED	Other related parties AED	Total AED
Investment deposits	-	5,000,000	5,000,000	-	5,000,000	5,000,000
Carrying value of investments in						
ordinary shares [Note 29(a)]	-	44,006,063	44,006,063	-	35,966,806	35,966,806
Contributions receivable	1,520,906	(477,480)	1,043,426	702,867	615,889	1,318,756
Cash and cash equivalents	-	5,856,455	5,856,455	-	5,611,021	5,611,021
Due from related parties [Note 29(b)]	-	97,000	97,000	-	113,271	113,271
Due to a related party	-	959,677	959,677	-	659,677	659,677
Prepayments and other receivables [Note 29(c)]	-	-	-	-	3,358,581	3,358,581

**Notes to the consolidated financial statements
for the year ended 31 December 2013 (continued)**

29. Related party transactions (continued)

- (a) A major shareholder, who is a member of the Board of Directors, is also a Board Member of Al Salam Bank - Algeria and Al Salam Bank - Bahrain. The Group has equity investments in Al Salam Bank - Algeria and Al Salam Bank - Bahrain amounting to AED 44 million (31 December 2012: AED 36 million). The acquisition price of these transactions was approved by the Board of Directors at the time of the transactions.

Out of the total shareholding at the reporting date, 106,530 shares amounting AED 11 million of Al Salam Bank - Algeria were held by the previous CEO (who resigned during the period and no longer qualifies as a related party) on trust and for the benefit of the Group and the total shares of Al Salam Bank - Bahrain are held by a company controlled by the previous CEO (who resigned during the period and no longer qualifies as a related party), in trust and for the benefit of the Group. Refer to note 36 for further details

- (b) Due from related parties represents the following:

	2013	2012
	AED	AED
Leader Capital LLC	-	16,271
Agility Global Health Solutions (Pty) Ltd	97,000	97,000
Total	97,000	113,271

- (c) The Group carries an advance of AED 1,000,000 (2012: AED 3,358,581) (net of allowance for doubtful debts) which was paid to a company owned by the previous CEO (who resigned during the period and no longer qualifies as a related party - see note 36) to invest in a real estate project. The outstanding balance is shown under other receivables at the end of reporting date.

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

	2013			2012		
	Major shareholders AED	Other related parties AED	Total AED	Major shareholders AED	Other related parties AED	Total AED
Gross contributions	1,072,090	-	1,072,090	1,023,480	1,348,091	2,371,571
Gross claims	293,780	1,184,758	1,478,538	496,420	3,736,435	4,232,855
Profit share on investment deposits	-	221,107	221,107	-	191,787	191,787

Compensation of key management personnel is as follows:

	2013	2012
	AED	AED
Short term employee benefits	1,894,211	3,029,915
End of service benefits	81,521	108,110
Total compensation paid to key management personnel	1,975,732	3,138,025

Notes to the consolidated financial statements (continued) for the year ended 31 December 2013

30. Segmental information

Operating Segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Group's management in order to allocate resources to the segment and to assess its performance. Information reported to the Group's Board of Directors 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 Group.
- **Investment activities** represent investment and cash management for the Group's own account.

The following table presents segment information for the years ended 31 December 2013 and 31 December 2012.

	2013		2012		Total	
	Policyholders AED	Attributable to Shareholders AED	Policyholders AED	Attributable to Shareholders AED	2013 AED	2012 AED
Takaful						
Underwriting income	150,744,712	-	145,327,348	-	150,744,712	145,327,348
Underwriting expenses	(160,024,544)	-	(95,967,133)	-	(160,024,544)	(95,967,133)
Net underwriting (loss)/income	(9,279,832)	-	49,360,215	-	(9,279,832)	49,360,215
Wakala fees	(52,839,247)	52,839,247	(54,483,358)	54,483,358	-	-
	(62,119,079)	52,839,247	(5,123,143)	54,483,358	(9,279,832)	49,360,215
Investment						
Investment gain	1,166,130	4,992,881	753,875	4,108,439	6,159,011	4,862,314
Unallocated income and expenses	-	(52,080,612)	-	(48,197,596)	(52,080,612)	(48,197,596)
Mudarib fees	(291,532)	291,532	(188,469)	188,469	-	-
	(61,244,481)	6,043,048	(4,557,737)	10,582,670	-	-
(Loss)/profit attributable to policyholders	(61,244,481)	6,043,048	(4,557,737)	10,582,670	-	-
Write off of Qard Hassan to policyholders' fund		(61,244,481)		(4,557,737)	(61,244,481)	(4,557,737)
(Loss)/profit for the year		(55,201,433)		6,024,933	(55,201,433)	6,024,933

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2013

30. Segmental information (continued)

Other information

	Takaful		Investment		Total	
	2013 AED	2012 AED	2013 AED	2012 AED	2013 AED	2012 AED
Segment assets	295,654,710	304,610,882	227,166,228	199,039,493	522,820,938	503,650,375
Segment liabilities	391,274,353	348,108,619	9,840,000	13,120,000	401,114,353	361,228,619
Capital expenditure	1,642,059	3,735,119	-	-	1,642,059	3,735,119
Depreciation	1,602,813	1,088,837	-	-	1,602,813	1,088,837

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2013**

30. Segmental information (continued)

Secondary segment information

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

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

	2013			2012		
	<i>Assets</i>	<i>Liabilities and equity</i>	<i>Contingent liabilities and commitments</i>	<i>Assets</i>	<i>Liabilities and equity</i>	<i>Contingent liabilities and commitments</i>
	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>
United Arab Emirates	263,303,770	246,069,332	-	225,092,872	191,364,475	537,787
Other Middle Eastern countries	33,115,344	10,412,958	-	48,824,215	27,344,210	-
Europe	178,237,620	262,714,682	-	185,894,499	272,483,460	-
Rest of the world	48,164,204	3,623,966	-	43,838,789	12,458,230	-
Total	522,820,938	522,820,938	-	503,650,375	503,650,375	537,787

31. Capital management

(i) Governance framework

The primary objective of the Group's risk and financial management framework is to protect the Group'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 Group'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 General Manager and other senior managers.

The board of directors meets regularly to approve any commercial, regulatory and organisational decisions. The board of directors defines the Group's risk and its interpretation, limits structure to ensure the appropriate quality and diversification of assets, aligns underwriting and Retakaful strategy to the corporate goals, and specifies reporting requirements.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2013**

31. Capital management (continued)

(ii) Capital management framework

The primary objective of the Group'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 Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group has fully complied with the externally imposed capital requirements and no changes were made in the objectives, policies or processes during the years ended 31 December 2013 and 2012.

(iii) Regulatory framework

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

The operations of the Group 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.

32. 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 consolidated financial statements.

(b) Categories of financial instruments

	2013 AED	2012 AED
Financial assets		
At amortized cost	321,054,231	329,439,319
At fair value	128,813,643	96,328,327
	<u>449,867,874</u>	<u>425,767,646</u>
Financial liabilities		
At amortized cost	<u>409,810,899</u>	<u>374,545,244</u>

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2013**

33. 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 Group manages these positions to achieve long-term investment returns in excess of its obligations under Takaful contracts. The principal technique of the Group'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 Group's management actively monitors the ALM to ensure in each period sufficient cash flow is available to meet liabilities arising from Takaful contracts.

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

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

33A Takaful risk

The principal risk the Group 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 Group 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 Retakaful arrangements as well as the diversification of Retakaful providers.

Frequency and amounts of claims

The frequency and amounts of claims can be affected by several factors. The Group 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.

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 Group has targeted policies for properties containing fire detection and/or fire 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 Group has Retakaful cover for such damage to limit losses for any individual claim to AED 300,000 (2012: AED 300,000).

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2013**

33. Risk management (continued)

33A Takaful risk (continued)

Frequency and amounts of claims (continued)

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 Group has Retakaful cover for such claims to limit losses for any individual claim to AED 300,000 (2012: AED 200,000)

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

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 Group has Retakaful to limit losses for any individual claim to AED 300,000 (2012: 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 Group 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 Group has Retakaful cover for such claims to limit losses for any individual claim to AED 2,000,000 (2012: AED 2,000,000).

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.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2013**

33. Risk management (continued)

33A Takaful risk (continued)

Retakaful risk

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

To minimise its exposure to significant losses from Retakaful insolvencies, the Group evaluates the financial condition of its Retakaful and ensure diversification of Retakaful providers. The Group deals with Retakaful approved by the Board of Directors.

33B Financial risk

The Group's principal financial instruments are financial investments, receivables arising from Takaful and Retakaful contracts, investment deposits and cash and cash equivalents.

The main risks arising from the Group'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 Group 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 Group, the maximum exposure to credit risk to the Group is the carrying value as disclosed in the consolidated statement of financial position.

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

- The Group only enters into Takaful and Retakaful contracts with recognised, credit worthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from Takaful and Retakaful contracts are monitored on an ongoing basis in order to reduce the Group's exposure against defaults.
- The Group 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 Group's investments are managed in accordance with the guidance of the investment committee and the supervision of the Board of Directors.
- The Group's bank balances are maintained with a range of international and local banks in accordance with limits set by the management.

Notes to the consolidated financial statements (continued)
for the year ended 31 December 2013

33. Risk management (continued)

33B Financial risk (continued)

Credit risk (continued)

The table below shows the maximum exposure to credit risk for the components of the statement of financial position:

	<i>Notes</i>	2013 AED	2012 AED
Cash and cash equivalents	5	41,500,203	28,520,772
Investment deposits	6	35,000,000	35,000,000
Retakaful contract assets	7	151,513,721	161,720,810
Takaful receivables	8	79,858,888	89,638,206
Other receivables	10	13,084,419	14,446,260
Due from related parties	29	97,000	113,271
		321,054,231	329,439,319

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

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

	<i>Neither past due nor impaired</i>	<i>Past due but not impaired</i>				
	<i>Up to 90 days AED'000</i>	<i>90 to 120 days AED'000</i>	<i>Above 120 days AED'000</i>	<i>Total AED'000</i>	<i>Past due and impaired AED'000</i>	<i>Total AED'000</i>
2013	40,311	14,658	24,890	79,859	10,200	90,059
2012	52,105	15,680	21,853	89,638	4,000	93,638

The average credit period for customers is 90 days. No profit on the past due receivables. The Group has provided for receivables based on the estimated irrecoverable amounts, determined by reference to past default experience and management's assessment of current economic conditions as to the future recoverability of these balances.

At the reporting date, there is no significant concentration of credit risk that will result in a loss to the Group. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. There are no significant concentrations of credit risk to receivables outside the industry in which the Group operates.

Included in Retakaful receivables shown under Takaful receivables, an amount of AED 9,986,995 (2012: AED 9,986,995) is subject to litigation where the Group's external legal counsel is of the opinion that the court's decision will be in the favour of the Group.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2013**

33. Risk management (continued)

33B Financial risk (continued)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its commitments associated with Takaful contract liabilities 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.

The table below summarizes the maturity of the financial liabilities of the Group based on remaining discounted contractual obligations:

31 December 2013

	<i>1 to 12 months AED</i>	<i>1 to 5 years AED</i>	<i>Over 5 years AED</i>	<i>Total AED</i>
Liabilities				
Due to Bank	19,448,778	-	-	19,448,778
Trade and other payables	61,310,306	-	-	61,310,306
Takaful and Retakaful payables	59,401,357	-	-	59,401,357
Takaful contract liabilities	255,661,889	-	-	255,661,889
Ijara payables	3,280,000	6,560,000	-	9,840,000
Amounts held under Retakaful treaties	3,188,892	-	-	3,188,892
Due to a related party	959,677	-	-	959,677
	<u>403,250,899</u>	<u>6,560,000</u>	<u>-</u>	<u>409,810,899</u>

31 December 2012

	<i>1 to 12 months AED</i>	<i>1 to 5 years AED</i>	<i>Over 5 years AED</i>	<i>Total AED</i>
Liabilities				
Due to Bank	17,983,884	-	-	17,983,884
Trade and other payables	46,253,310	-	-	46,253,310
Takaful and Retakaful payables	48,022,768	-	-	48,022,768
Takaful contract liabilities	245,196,167	-	-	245,196,167
Ijara payables	3,280,000	9,840,000	-	13,120,000
Amounts held under Retakaful treaties	3,309,438	-	-	3,309,438
Due to a related party	659,677	-	-	659,677
	<u>364,705,244</u>	<u>9,840,000</u>	<u>-</u>	<u>374,545,244</u>

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 Group is monitored on a regular basis by the Board of Directors.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2013**

33. Risk management (continued)

33B 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 Group 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 Group to cash flow risk.

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

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

2013	<i>Less than 1 years AED</i>	<i>1 to 5 years AED</i>	<i>Over 5 years AED</i>	<i>Total AED</i>	<i>Effective profit rate</i>
Assets:					
Investment deposits	35,000,000	-	-	35,000,000	2% to 5%
Liabilities:					
Ijara payables	3,280,000	6,560,000	-	9,840,000	Minimum 7% commercial profit rates
Due to bank	19,448,778	-	-	19,448,778	Nil
	22,728,778	6,560,000	-	29,288,778	
2012					
Assets:					
Investment deposits	35,000,000	-	-	35,000,000	2% to 5%
Liabilities:					
Ijara payables	3,280,000	9,840,000	-	13,120,000	Minimum 7% commercial profit rates
Due to bank	17,983,884	-	-	17,983,884	Nil
	21,263,884	9,840,000	-	31,103,884	

The impact of changes in profit rate risk is not expected to be significant for the Group, as all financial assets and financial liabilities bears fixed profit rates.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2013**

33. Risk management (continued)

33B 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 Group's investment portfolio.

The following table shows the sensitivity of fair values to 10% increase or decrease as at 31 December 2013:

	Reflected in income statement		Reflected in other comprehensive income	
	Favourable change AED	Unfavourable change AED	Favourable change AED	Unfavourable change AED
2013				
Other financial assets measured at fair value	1,304,601	(1,304,601)	11,576,763	(11,576,763)
2012				
Other financial assets measured at fair value	1,989,026	(1,989,026)	7,643,806	(7,643,806)

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 Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

34. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Differences can therefore arise between book value under historical cost method and fair value estimates.

(a) Fair value of financial instruments measured at amortised cost

The management considers that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2013**

34. Fair value of financial instruments (continued)

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

Valuation of financial instruments recorded at fair value, is based on quoted market prices and other valuation techniques.

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.

Fair value of the financial assets that are measured at fair value on a recurring basis

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).

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
2013				
Other financial assets FVTOCI	68,372	-	47,396	115,768
Other financial assets FVTPL	13,046	-	-	13,046
	81,418	-	47,396	128,814
2012				
Other financial assets FVTOCI	29,038	-	47,400	76,438
Other financial assets FVTPL	19,890	-	-	19,890
	48,928	-	47,400	96,328

There were no transfers between level 1 and 2 during the years ended 31 December 2013 and 2012.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2013**

34. Fair value of financial instruments (continued)

Reconciliation of Level 3 fair value measurement of other financial assets measured at FVTOCI:

	2013 AED'000	2012 AED'000
At 1 January	47,400	33,708
Additions during the year	-	9,689
Changes in fair value	(4)	(2,104)
Reclassification	-	6,107
At 31 December	47,396	47,400

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.

35. Contingencies

- (a) At reporting date, the Group did not have any contingent liabilities in respect of bank or any other guarantees arising in the ordinary course of business from which it is anticipated that no material liabilities will arise (31 December 2012: AED 537,787).
- (b) During the Company's Annual General Meeting (AGM) held on 25 April 2013, all members of the Board of Directors resigned and were not absolved from their liability for the consolidated financial statements for the year ended on 31 December 2012 by the shareholders. During the meeting, the shareholders requested the Emirates Securities and Commodities Authority (ESCA) to assemble an independent committee to investigate certain transactions executed during the term of the resigned Board of Directors. The new Board of Directors appointed on 29 July 2013 is confident that the outcome of such investigation will be in the Group's favour and therefore, no contingency provisions have been recorded by the Group.

36. Significant events

The previous CEO of the Group resigned on 10 July 2013. The Company entered into an agreement with the previous CEO on 9 July 2013 for the payment and/or transfer of certain assets and investments that were held by him or by entities controlled by him on trust and for the benefit of the Group. The Board of Directors is confident that this arrangement agreed will result in the realization of a minimum of the carrying value of assets due from him or held by him on trust and for the benefit of the Group and therefore no adjustments to the carrying value of the assets are required.

The settlement agreement referred to above contains the following 3 clauses:

- (a) The advance of AED 5,358,581 (disclosed in the Note 29(c) as net) to invest in a real estate project in the emirate of Ajman will be returned to the Company.
- (b) Transfer of shares of Al Salam Bank - Bahrain (currently held under the name of Leader Capital) together with the payment of any associated dividends due, to the Company's name.

**Notes to the consolidated financial statements (continued)
for the year ended 31 December 2013**

36. Significant events (continued)

- (c) Transfer of legal ownership of Al Salam Bank - Algeria shares held by the previous CEO to the Company's name.

The Company has received an amount of AED 2.3 million during the year against the advance mentioned in clause (a) above.

37. Comparatives

Due to the resignation of the previous CEO of the Group as mentioned in note 36 above, the comparative figures provided in the related party note for previous period may not be readily comparable to current period figures, as the previous CEO is no longer considered as a related party to the Group effective from 10 July 2013.

38. Approval of consolidated financial statements

The consolidated financial statements for the year ended 31 December 2013 were approved by the Board of Directors and authorized for issue on 30 March 2014.