Methaq Takaful Insurance Company
(Public Shareholding Company)

Report of the Directors and financial statements for the year ended 31 December 2010

Methaq Takaful Insurance Company (P.S.C.)

Report of the Directors and financial statements for the year ended 31 December 2010

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Methaq Takaful Insurance Company (P.S.C.)

Board of Directors report for the Company's performance and financial position for the year ended 31 December 2010

On behalf of the Board of Directors, we have the privilege to present the financial results of Methaq Takaful Insurance (P.S.C) for the year ended 31 December 2010.

Despite the global financial and economic meltdown and turmoil of regional market which characterised the year 2010, we are pleased to report that the Company posted a strong asset position in 2010. This was highlighted by sound strategic and operational progress.

During the year ended 31 December 2010 the gross takaful contributions (premiums) grew by 40% in 2010, to AED 78,260,208, against AED 55,796,486 in the period from inception to 31 December 2009.

On the policyholders' side, operational results were quite satisfactory with a net policyholders' surplus (before provision for impairment of takaful receivables) of AED 970,888, against a restated deficit of AED 9,121,704 at period ended 31 December 2009. However due to provision for doubtful receivables arising from default of one of the major brokers, we have had a net deficit on the policyholders' fund.

On the shareholders side, some of our investment initiatives during 2010 are yet to fully bear fruit. We had total shareholders income of AED 6,753,393 (2009: AED 38,802,105). Against this we had wakala fees and other income of AED 7,397,497 (2009:6,895,059). This gave a total income of AED 14,150,890.

The results are summarised below:

Brief of the statement of financial position:	31 December 2010	31 December 2009
	AED	AED
Total non-current assets & investments	44,260,087	2,719,339
Loan to Policyholders	8,935,006	9,121,704
Total current assets	169,600,691	209,210,593
Total current liabilities	82,382,423	61,290,322
Total non-current liabilities	452,125	430,274
Deficit in policyholders' fund	(11,921,099)	(9,121,704)
Total shareholders' equity	139,961,236	159,331,040

The unearned contributions provision (UCP) and retakaful share of unearned contributions provision are measured on a time appointment basis using the 1/24 method. This restatement was effected in 2010, which also affected results of 2009 in accordance with the requirements of the International Financial Reporting Standards (refer to note 2.2). Previously unearned contribution provision were computed using fixed percentages of 25% and 40% of gross takaful contributions for marine and non-marine businesses respectively. Moreover, the Company now defers its acquisition costs and recognizes the retakaful commission over the life of the related policies.
The new accounting policy and changes in measurement bases have been applied retrospectively.

Methaq Takaful Insurance Company (P.S.C.)

Board of Directors report for the Company's performance and financial position for the year ended 31 December 2010 (continued)

Brief of the statement of comprehensive income:	1 January 2010 to 31 December 2010	11 March 2008 to 31 December 2009
	AED	AED
Total revenues (Gross takaful contributions)	78,260,208	55,796,486
Surplus/ (deficit) on takaful activity (before impairment)	970,888	(9,121,704)
Net deficit from takaful operations	(2,799,395)	(9,121,704)
Net (loss) /profit for the year/period	(15,619,804)	17,008,074
Basic earnings per share	-	0.11

Looking forward, Methaq is confidently prepared for facing the challenges in the year 2011 by setting ambitious strategic goals. This is a reflection of the continued confidence and support of shareholders, customers along with Methaq's team that is comprised of professionals and technical experts who have helped the Company to reach to the current position and I am confident that the Company will reach to greater heights in the near future.

Methaq has a very sound Corporate Governance in place and all the regulatory and legislative compliance is made timely thereby reflecting a positive image of the Company and entrusting strong confidence amongst its customers, staff and all concerned entities.

Our strategic direction focuses on the following key objectives to deliver enhanced sustainable returns for the participants and the shareholders:

- Generate economic profit growth
- Reduce earnings volatility
- Enlarge market scope
- Advance organizational excellence
- Best in class customer service
- Attractive returns to participants and shareholders

We also take this opportunity to thank and appreciate the staff and the management of Methaq Takaful Insurance Company for their continued efforts, hard work and sincerity. We also express our sincere thanks to Company's shareholders, clients and all those institutions and individuals with whom the Company deals in UAE locally, in the region and at the International level.

Best Regards,

Abdullah Al-Maamarri
Managing Director

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Independent auditor's report to the shareholders of Methaq Takaful Insurance Company P.S.C.

Report on the financial statements

We have audited the accompanying financial statements of Methaq Takaful Insurance Company P.S.C., which comprise the statement of financial position as at 31 December 2010 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

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Independent auditor's report
to the shareholders of Methaq Takaful Insurance Company P.S.C. (continued)

Opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of Methaq Takaful Insurance Company P.S.C. as at 31 December 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 19 which states that the Company has filed a case in the Dubai Courts to overturn an arbitration ruling requiring the Company to pay AED 5.2 million to the landlord of its previous office premises in Dubai following early termination of the rental contract. Based on advice from legal counsel, management does not expect the final liability will exceed AED 1.5 million and has established a provision for this amount as at 31 December 2010. As of date of this report the hearing of the case has not yet commenced. The ultimate outcome of the matter cannot presently be determined.

Report on other legal and regulatory requirements

Further, as required by the UAE Federal Law No. (8) of 1984, as amended, in respect of the Company, we report that:

(i) we have obtained all the information we considered necessary for the purposes of our audit;

(ii) the financial statements comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended, and the Articles of Association of the Company;

(iii) the Company has maintained proper books of accounts in accordance with properly established procedures;

(iv) the financial information included in the Report of the Board of Directors and the Chairman Statement is consistent with the books of account of the Company; and

(v) nothing has come to our attention which causes us to believe that the Company has breached any of the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended, the UAE Federal Law No. (9) of 1984 (as amended) and UAE Federal Law No. (6) of 2007 concerning Insurance Companies and Agents or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2010.

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Independent auditor's report
to the shareholders of Methaq Takaful Insurance Company P.S.C. (continued)

Other matters

(i) The financial statements of the Company for the period from 11 March 2008 (inception date) till 31 December 2009 were audited by another auditor whose report dated 17 February 2010 expressed an unqualified opinion on those financial statements.

(ii) The comparative information have been presented for the period from inception till 31 December 2009 which is considered as the first fiscal financial period for the Company in accordance with the Articles of Association.

PricewaterhouseCoopers
_____ March 2011

Jacques E Fakhoury
Registered Auditor Number 379
Abu Dhabi, United Arab Emirates

Methaq Takaful Insurance Company (P.S.C.)

Statement of financial position

	Notes	As at 31 December 2010 AED	Restated 2009 AED
ASSETS			
Property and equipment	6	2,873,337	2,719,339
Investment property	7	21,386,750	-
Available-for-sale financial assets	8	20,000,000	-
Loan to policyholders	14	8,935,006	9,121,704
Takaful and other receivables	9	37,272,412	29,544,821
Retakaful contract assets	15	20,785,314	2,009,399
Deferred acquisition costs	27	3,758,835	5,547,633
Bank deposits with an original maturity of more than 3 months	10	35,300,000	46,000,000
Cash and cash equivalents	11	72,484,130	126,108,740
Total assets		222,795,784	221,051,636
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	12	150,000,000	150,000,000
Legal reserve	13	1,700,807	1,700,807
General reserve	13	1,700,807	1,700,807
(Accumulated losses)/retained earnings		(13,440,378)	5,929,426
Total shareholders' equity		139,961,236	159,331,040
Policyholders' fund			
Deficit in policyholders' fund	14	(11,921,099)	(9,121,704)
Loan from shareholders	14	11,921,099	9,121,704
Total policyholders' fund		-	-
LIABILITIES			
Takaful contract liabilities	15	57,837,597	47,310,161
Unearned retakaful commission	23	249,930	217,296
End of service benefits obligation	16	452,125	430,274
Provision for other liabilities and charges	19	1,500,000	-
Retakaful and other payables	17	11,360,589	5,237,219
Zakat payable	20	6,876,967	7,677,034
Retakaful deposits retained	21	4,557,340	848,612
Total liabilities		82,834,548	61,720,596
Total equity and liabilities		222,795,784	221,051,636

The financial statements were approved by the Board of Directors and authorised for issue on ...... March 2011 by:

P.O.Box: 32774 Abu Dhabi U.A.E Methaq Takaful Insurance-PSC

.... Chairman

.... Managing Director

The notes on pages 11 to 52 ~~form an~~ integral part of these financial statements.

Methaq Takaful Insurance Company (P.S.C.)

Statement of comprehensive income

	Notes	Year ended 31 December 2010 AED	For the period from 11 March 2008 to 31 December 2009 Restated AED
Attributable to policyholders			
Takaful contributions	22	74,466,516	18,070,120
Retakaful contributions ceded	22	(14,758,295)	(2,674,104)
Net earned contributions		59,708,221	15,396,016
Retakaful commission income	23	423,322	79,264
Total underwriting income		60,131,543	15,475,280
Gross claims incurred	26	(54,750,985)	(15,169,618)
Retakaful share of claims incurred	26	12,207,200	139,697
Net claims incurred		(42,543,785)	(15,029,921)
Expenses for acquisition of takaful contracts	27	(9,527,176)	(2,691,165)
Total underwriting expenses		(52,070,961)	(17,721,086)
Net underwriting profit/(loss)		8,060,582	(2,245,806)
Provision for doubtful takaful receivables	9	(3,770,283)	-
Wakala fees	28	(7,362,462)	(6,893,143)
Net loss from takaful operations for the year/period		(3,072,163)	(9,138,949)
Policyholders' investment income		303,076	19,161
Mudarib fees	28	(30,308)	(1,916)
Net deficit of takaful results for the year/period		(2,799,395)	(9,121,704)

Methaq Takaful Insurance Company (P.S.C.)

Statement of comprehensive income (continued)

	Notes	Year ended 31 December 2010 AED	For the period from 11 March 2008 to 31 December 2009 AED
Attributable to shareholders			
IPO subscription fees		-	4,500,000
Shareholders' investment income	24	5,596,042	38,802,105
Net rental income from investment property	25	1,157,351	-
Other income		4,727	-
Wakala fees from policyholders	28	7,362,462	6,893,143
Mudarib fees from policyholders	28	30,308	1,916
Loss on disposal of property and equipment		-	(1,304,410)
Impairment provision against loan to policyholders	14	(2,986,093)	-
Pre-operating expenses		-	(4,756,644)
General and administrative expenses	29	(26,784,601)	(27,128,036)
(Loss)/profit for the year/period		(15,619,804)	17,008,074
Other comprehensive income		-	-
Total comprehensive (loss)/income		(15,619,804)	17,008,074
Basic earnings per share	31	-	0.1134

The notes on pages 11 to 52 form an integral part of these financial statements.

Methaq Takaful Insurance Company (P.S.C.)

Statement of changes in equity

	Share capital AED	Legal reserve AED	General reserve AED	Accumulated losses AED	Total AED
Issuance of share capital at inception	150,000,000	-	-	-	150,000,000
Total comprehensive income	-	-	-	17,008,074	17,008,074
Transfer to legal reserve	-	1,700,807	-	(1,700,807)	-
Transfer to general reserve	-	-	1,700,807	(1,700,807)	-
Transfer to zakat	-	-	-	(7,677,034)	(7,677,034)
Balance at 31 December 2009	150,000,000	1,700,807	1,700,807	5,929,426	159,331,040
Total comprehensive loss	-	-	-	(15,619,804)	(15,619,804)
Dividends paid (Note 13)	-	-	-	(3,750,000)	(3,750,000)
Balance at 31 December 2010	150,000,000	1,700,807	1,700,807	(13,440,378)	139,961,236

The notes on pages 11 to 52 form an integral part of these financial statements.

Methaq Takaful Insurance Company (P.S.C.)

Statement of cash flows

	Notes	Year ended 31 December 2010 AED	For the period from 11 March 2008 to 31 December 2009 Restated AED
Net cash (used in)/ generated from operating activities	33	(36,875,519)	27,479,467
Cash flows from investing activities			
Decrease/(increase) in bank deposits with an original maturity of more than 3 months		10,700,000	(46,000,000)
Purchase of property and equipment	6	(1,479,091)	(5,370,727)
Purchase of investment property	7	(22,220,000)	-
Net cash used in investing activities		(12,999,091)	(51,370,727)
Cash flows from financing activities			
Issuance of share capital	12	-	150,000,000
Dividends paid	13	(3,750,000)	-
Net cash (used in)/generated from financing activities		(3,750,000)	150,000,000
Net (decrease)/ increase in cash and cash equivalents		(53,624,610)	126,108,740
Cash and cash equivalents - beginning of the year/period		126,108,740	-
Cash and cash equivalents - end of the year/period	11	72,484,130	126,108,740

Non cash transactions

The principal non-cash transaction relate to the following:

(i) Qard Hasan loan granted by the shareholders to fund the policyholders' deficit of AED 2,799,395 (2009: AED 9,121,704)

(ii) Anticipated income from investment deposits of AED 64,256 (2009: AED 756,267)

1 General information

Methaq Takaful Insurance Company ("the Company") is a public shareholding company registered with the Department of Planning and Economy - Abu Dhabi with a trade licence number 1142419 in accordance with Federal Law number 8 of 1984 (as amended) relating to Commercial Companies in the U.A.E. The registered address of the Company is P.O. Box 32774, Abu Dhabi, United Arab Emirates.

The Company operates through the main office and has a branch incorporated in Dubai with a trade licence number 617826.

The principal activities of the Company are to carry out general takaful and retakaful activities.

The Company is listed on the Abu Dhabi Stock Exchange.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

2.1 Basis of preparation

The financial statements of Methaq Takaful Insurance Company P.S.C. have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit and loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

All amounts in the notes are shown in UAE Dirhams (AED), unless otherwise stated.

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Company

- IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009;

- IFRIC 17 (interpretation), 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009);

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures (continued)

(a) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Company (continued)

- IFRIC 18 (interpretation), 'Transfers of assets from customers' (effective for transfer of assets on or after 1 July 2009);
- IFRIC 9 (amendment), 'Reassessment of embedded derivatives' and IAS 39, 'Financial instruments: Recognition and measurement' – embedded derivatives (amendments)' (effective from I July 2009) and IAS 38 (amendment), 'Intangible assets',(effective 1 January 2010);
- IFRIC 16 (amendment), 'Hedges of a net investment in a foreign operation' (effective 1 July 2009);
- IAS 1 (amendment), 'Presentation of financial statements'-' (effective for periods beginning on or after 1 January 2010);
- IAS 36 (amendment), 'Impairment of assets' (effective 1 January 2010);
- IFRS 2 (amendments), 'Group cash-settled share-based payments transactions', In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 –Group and treasury share transactions' (effective from 1 January 2010);
- IFRS 5 (amendment), 'Disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations' (effective for periods beginning on or after 1 January 2010);

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted

- IFRS 1 (amendment), 'First time adoption of International Financial Reporting Standards – Limited exemption from comparative IFRS 7 disclosures for first time adopters' (effective from 1 July 2010);
- IFRS 9 (interpretation), 'Financial instruments' (effective from 1 January 2013);
- IAS 24 (revised), 'Related party disclosures' (effective periods beginning on or after 1 January 2011);

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures (continued)

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted (continued)

- IAS 32 (amendment), 'Classification of rights issues' (effective periods beginning on or after 1 February 2010);

- IFRIC 14 (amendment), 'The limit on a defined benefit assets, minimum funding requirement' (effective for reporting periods beginning 1 January 2011); and

- IFRIC 19 (interpretation), 'Extinguishing financial liabilities with equity instruments', (effective for period beginning on or after 1 July 2010).

The Company is currently in the process of identifying the relevance and the impact of the above standards, amendments and interpretations on its financial statements. Management expects that most of the relevant standards, amendments and interpretations will not have a material impact on the financial statements.

2.2 Change in accounting policies

With effect from 1 January 2010, the Company changed its accounting policy in respect of the following:

- measurement basis of unearned contributions provision and retakaful share of unearned contributions provision;
- recognition of acquisition costs; and
- recognition of retakaful commission income.

The Company now measures the unearned contributions provision (UCP) and retakaful share of unearned contributions provision (RT share of UCP) on a time apportionment basis using the 1/24 method.

The Company previously computed these reserves using fixed percentages of 25% and 40% of gross takaful contributions for marine and non-marine businesses respectively.

The Company now defers the acquisition costs proportionally over the period of coverage using the 1/24 method and in line with the gross takaful contributions. Also the Company now recognises retakaful commission income proportionally over the period of coverage and in line with the contributions ceded to the retakaful companies on the contracts issued.

2 Summary of significant accounting policies (continued)

2.2 Change in accounting policies (continued)

These new accounting policies and changes in measurement bases have been applied retrospectively in these financial statements as if these policies have always been applied. The restatements reduced the net surplus on policyholders' fund for the period ended 31 December 2009 by AED 9,227,179 as follows:

	2009 AED
Unearned contributions provision	(15,451,882)
Retakaful share of unearned contributions provision	894,366
Deferred acquisition costs	5,547,633
Unearned retakaful commission	(217,296)
Reduction in net surplus on policyholders' fund	(9,227,179)

The restatements resulted in a net deficit position for the policyholders' fund as at 31 December 2009 of AED 9,121,704 and accordingly a Qard Hasan loan was established from the shareholders to the policyholders' fund.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of Methaq Takaful Insurance Company P.S.C. that makes strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in 'UAE Dirhams (AED), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

2 Summary of significant accounting policies (continued)

2.4 Foreign currency translation (continued)

(d) Transactions and balances (continued)

Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the statement of comprehensive income. All other foreign exchange gains and losses are presented within other operating income/expenses in the shareholders' statement of comprehensive income.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognized in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in the fair value reserve in other comprehensive income.

2.5 Property and equipment

Property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation is calculated using the straight-line method to write off the cost of assets to their estimated residual values over their expected useful lives, as follows:

	Years
Furniture, fixtures and office equipment	5
Computer equipment and accessories	3

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income.

2 Summary of significant accounting policies (continued)

2.6 Investment property

Property held to earn long-term rental yields and/or for capital appreciation that is not occupied by the Company is classified as investment property.

Investment property comprises a building and is carried at cost. Transaction costs are included on initial measurement. The fair value of the investment property is disclosed in note 7. This is assessed using internationally accepted valuation methods, such as taking comparable properties as a guide to current market prices or by applying the discounted cash flow method. This valuation is reviewed annually by an independent valuer.

The investment property is depreciated using the straight-line method over a twenty year period.

2.7 Financial assets

The Company classifies its investments into the following categories: financial assets at fair value through profit and loss, held-to-maturity and available-for-sale financial assets and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the investments were acquired.

2.7.1 Classification

(i) Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit and loss at inception.

A financial asset is classified into this category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit taking, or if so designated by management to minimise any measurement or recognition inconsistency with the associated liabilities.

(ii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity.

Returns on held-to-maturity investments is included in the statement of comprehensive income and reported as 'Investment income'. An impairment is reported as a deduction from the carrying value of the investment and recognised in the statement of comprehensive income as 'Net gains/ (losses) on investment securities'.

2 Summary of significant accounting policies (continued)

2.7 Financial assets (continued)

2.7.1 Classification (continued)

(iii) Available-for-sale financial assets

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in rates of return, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit and loss.

(iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables arising from takaful contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

2.7.2 Recognition and measurement

Regular-way purchases and sales of financial assets are recognised on the trade-date – the date on which the Company commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus, in the case of all financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income.

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective rate of return method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income when the Company's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the statement of comprehensive income as net realised gains on financial assets.

2 Summary of significant accounting policies (continued)

2.7 Financial assets (continued)

2.7.2 Recognition and measurement (continued)

Returns on available-for-sale securities calculated using the effective rate of return method is recognised in the statement of comprehensive income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income when the Company's right to receive payments is established. Both are included in the investment income line.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in other comprehensive income. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2.8 Impairment of assets

(a) Financial assets carried at amortised cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in returns or principal payments;
- the Company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or

2 Summary of significant accounting policies (continued)

2.8 Impairment of assets (continued)

(a) Financial assets carried at amortised cost (continued)

- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - adverse changes in the payment status of borrowers in the portfolio; and
  - national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Company's grading process that considers asset type, industry, geographical location, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated.

If there is objective evidence that an impairment loss has been incurred, the carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. 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 by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

(b) Financial assets classified as available-for-sale

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not subsequently reversed through the statement of comprehensive income.

2 Summary of significant accounting policies (continued)

2.8 Impairment of assets (continued)

(b) Financial assets classified as available-for-sale (continued)

If in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

(c) Other non-financial assets

Assets that have an indefinite useful life, for example land, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2.11 Takaful contracts

The Company issues takaful contracts which are those contracts that transfer significant takaful risk.

(i) Recognition and measurement

General takaful contracts protect the Company's customers for damage suffered to their assets as well as against the risk of causing harm to third parties as a result of their legitimate activities. General takaful contracts also protect the Company's customers from the consequences of events such as illness and disability.

2 Summary of significant accounting policies (continued)

2.11 Takaful contracts (continued)

(i) Recognition and measurement (continued)

For all these contracts, contributions are recognised as revenue proportionally over the period of coverage. The portion of contributions received on in-force contracts that relates to unexpired risks at the reporting date is reported as the unearned contributions liability. Contributions are shown before deduction of commission.

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the reporting date even if they have not yet been reported to the Company.

The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

(ii) Liability adequacy tests

Liability adequacy tests are performed at the reporting date to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to policyholders' statement of comprehensive income by establishing a provision for losses arising from liability adequacy tests.

(iii) Deferred policy acquisition costs

Commissions that are related to securing new contracts and renewing existing contracts are capitalised as Deferred Acquisition Costs ("DAC"). All other costs are recognised as expenses when incurred. Deferred acquisition costs are subsequently amortised over the life of the contracts. The resulting change to the carrying value of the DAC is charged to the policyholders' statement of comprehensive income.

(iv) Retakaful contracts held

Contracts entered into by the Company with retakaful companies under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for takaful contracts are classified as retakaful contracts held.

Takaful contracts entered into by the Company under which the contract holder is another insurer (inward retakaful activity) are included with takaful contracts.

2 Summary of significant accounting policies (continued)

2.11 Takaful contracts (continued)

(iv) Retakaful contracts held (continued)

The benefits to which the Company is entitled under its retakaful contracts held are recognised as retakaful contract assets. These assets consist of short-term balances due from retakaful companies (classified within loans and receivables), as well as longer-term receivables (classified as retakaful contract assets) that are dependent on the expected claims and benefits arising under the related reinsured takaful contracts.

Amounts recoverable from or due to retakaful companies are measured consistently with the amounts associated with the reinsured takaful contracts and in accordance with the terms of each retakaful contract. Retakaful liabilities are primarily contributions payable for retakaful contracts and are recognised as an expense when due.

The Company assesses its retakaful contract assets for impairment on a quarterly basis. If there is objective evidence that the retakaful contract asset is impaired, the Company reduces the carrying amount of the retakaful asset to its recoverable amount and recognises that impairment loss in the statement of comprehensive income. The objective evidence of impairment is described in Note 2.8.

Retakaful commissions received from the retakaful companies are recognized over the same period as the related ceded contributions.

(v) Receivables and payables related to takaful contracts

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

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

The Company gathers the objective evidence that a takaful receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets.

(vi) Salvage and subrogation reimbursements

Some takaful contracts permit the Company to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Company may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the takaful liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

2 Summary of significant accounting policies (continued)

2.11 Takaful contracts (continued)

(vi) Salvage and subrogation reimbursements (continued)

Subrogation reimbursements are considered as an allowance in the measurement of the takaful liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

2.12 Qard Hasan and deficit in policyholders' fund

Deficits in policyholders' fund are financed by the shareholders through Qard Hasan loans. This loan is tested quarterly for impairment. In the event that it is judged by management that any or the entire deficit in the policyholders' fund is not recoverable from future surpluses, the amount considered impaired is charged to the shareholders' statement of comprehensive income.

2.13 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets.

2.14 Employees benefits

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

Provision is also made for the full amount of end of service benefits due to non-UAE national employees in accordance with UAE Labour Law, for their period of service up to the reporting date. Provision is also made up to the reporting date for pension contributions related to UAE national employees, in accordance with applicable regulation.

The provision relating to annual leave and leave passage is considered as a current liability, while that relating to end of service benefits is disclosed as a non-current liability.

2.15 Investment income

Investment income mainly comprises returns and dividend income, building income, realised capital gains and losses and foreign exchange gains and losses on debt securities. Investment income is stated net of investment expenses and charges.

Anticipated income from investments is recognised in the statement of comprehensive income on an accrual basis. Returns include income earned on bank deposits and debt securities.

2 Summary of significant accounting policies (continued)

2.15 Investment income (continued)

Dividend receivables are included separately in dividend income when a dividend is declared. Realised gains and losses on investments are calculated as the difference between net sales proceeds and the carrying value of investments.

Fair value gains and losses on investments disposed of which were previously deferred in other comprehensive income are transferred to the statement of comprehensive income.

2.16 Dividend distribution

Dividend distribution to the shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the shareholders.

2.17 Other payables

Other payables are recognised initially at fair value and subsequently measured at amortized cost using the effective rate of return method.

2.18 Provisions

Provisions for legal claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an expense.

3 Critical accounting estimates and judgements in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3 Critical accounting estimates and judgements in applying accounting policies (continued)

(a) Ultimate liability arising from takaful contracts

The estimation of the ultimate liability arising from claims made under takaful contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. In particular, the claims arising from the motor takaful policies are exposed to claims for bodily injury claims.

Estimation of the ultimate cost of bodily injury claims is a complex process and cannot be done using conventional actuarial techniques. Significant factors that affect the trends that influence the bodily injury estimation process are the inconsistent court resolutions and jurisprudence that has broadened the intent and scope coverage of the protections offered in the takaful contracts issued by the Company. Due to this uncertainty, it is not possible to determine the future development of bodily injury claims with the same degree of reliability as with other types of claims.

For the remaining class of business, the source of uncertainty is lower as most of the claims are supported by professional survey reports which are used as the basis to estimate the liabilities.

The critical accounting estimate in regards to takaful liabilities is further described in note 4.1.

(b) Provision for impairment of receivables

The impairment charge reflects estimates of losses arising from the failure or inability of the customers concerned to make the required payments. The charge is based on the aging of the party accounts, the customer's credit worthiness and historic write-off experience. Changes to the estimated impairment provision may be required if the financial condition of the customers was to improve or deteriorate.

4 Management of capital, takaful and financial risk

The Company issues contracts that transfer takaful risk. This section summarizes these risks and the way the Company manages them.

4.1 Takaful risk

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

For a portfolio of takaful contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its takaful contracts is that the actual claims exceed the carrying amount of the takaful liabilities. This could occur because the frequency or severity of claims is greater than estimated.

4 Management of capital, takaful and financial risk (continued)

4.1 Takaful risk (continued)

Insurance events are random and the actual number and amount of claims will vary from year to year from the level established using statistical techniques.

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

Factors that aggravate takaful risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

(a) Frequency and severity of claims

The frequency and severity of claims can be affected by several factors, such as inflation, legal rulings, and weather events. The Company manages these risks through its underwriting strategy, adequate retakaful arrangements and proactive claims handling.

Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Company has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Takaful contracts also entitle the Company to pursue third parties for payment of some or all costs (i.e., subrogation).

The Company has the right to re-price the risk on renewal and claims payment limits are always included to cap the amount payable on occurrence of the insured event.

The retakaful arrangements include quota share, surplus as well as excess of loss treaties.

The takaful risk arising from these contracts is concentrated mainly in the U.A.E. The Company sells takaful products to corporate organisations and the general public.

The concentration of takaful risk before and after retakaful in relation to the type of general takaful risk accepted is summarised below, with reference to the carrying amount of the related takaful liabilities (gross and net of retakaful) arising from general takaful contracts:

4 Management of capital, takaful and financial risk (continued)

4.1 Takaful risk (continued)

(a) Frequency and severity of claims (continued)

As at 31 December 2010
In AED'000

	Type of risk					
	Fire	Motor	Medical	Marine and aviation	Accident and Others	Total
Gross	2,364	30,022	18,556	96	6,800	57,838
Net	237	30,022	5,981	9	803	37,052

As at 31 December 2009
In AED'000

	Type of risk					
	Fire	Motor	Medical	Marine and aviation	Accident and Others	Total
Gross	480	43,932	2,075	158	665	47,310
Net	96	43,932	823	13	437	45,301

To minimise its exposure to significant losses from retakaful company insolvencies, the Company evaluates the financial condition of its retakaful companies and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the retakaful companies.

4 Management of capital, takaful and financial risk (continued)

4.1 Takaful risk (continued)

(b) Sources of uncertainty in the estimation of future claim payments

Claims on general takaful contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occur during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and a larger element of the claims provision relates to incurred but not reported claims ("IBNR"). There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopt.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for IBNR, a provision for reported claims not yet paid and a provision for unexpired risks at the reporting date.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available. IBNR claims may not be apparent to the insured until several months after the event that gave rise to the claims has happened.

In estimating the liability for the cost of reported claims not yet paid the Company considers any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio.

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

Note 15 presents the development of the estimate of ultimate claim cost for claims notified in a given year. This gives an indication of the accuracy of the Company's estimation technique for claims payments.

4 Management of capital, takaful and financial risk (continued)

4.1 Takaful risk (continued)

(c) Assumptions made when providing for takaful liabilities

The Company uses several statistical methods to incorporate the various assumptions made in order to estimate the ultimate cost of claims. The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident year that is not yet fully developed to produce an estimated ultimate claims cost for each accident year.

4.2 Financial risk

The Company is exposed to financial risk through its financial assets, financial liabilities, retakaful assets and takaful liabilities. In particular the key financial risk is that in the long term the proceeds from the policyholders' financial assets are not sufficient to fund the obligations arising from its takaful contracts. The most important components of this financial risk are rate of return risk, equity price risk, currency risk and credit risk.

These risks arise from open positions in the rate of return, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Company primarily faces due to the nature of its investments and liabilities are rate of return risk and equity price risk. The Company manages these positions to achieve long-term investment returns in excess of its obligations under takaful contracts.

4.2.1 Market risk

Market risk is comprised of rate of return risk, equity price risk and currency risk.

(i) Rate of return risk

The Company's result will be affected by changes in prevailing rates of return since a large portion of its income is affected by the anticipated income on investment deposits.

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

The sensitivity analysis for rate of return risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates of return at the reporting date.

If on the investment deposits at 31 December 2010 the rates of return had been 1% point (2009 1% point) higher/lower during the year with all other variables held constant, profit for the year and net deficit of takaful results for the year would have been AED 1,198,250 higher/lower (2009: AED 997,833 higher/lower) and AED 104,083 higher/lower (2009: AED 11,056 higher/lower) respectively, mainly as a result of higher/lower rate of return on investment deposits.

4 Management of capital, takaful and financial risk (continued)

4.2 Financial risk (continued)

4.2.1 Market risk (continued)

(ii) Equity price risk

At the reporting date the Company did not hold equity securities, hence there is no exposure to equity price risk.

(iii) Currency risk

The Company's main operations are currently in the United Arab Emirates and therefore have limited exposure to foreign exchange risk. The transactions and balances are denominated in AED.

4.2.2 Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- retakaful assets including receivables from retakaful companies;
- recoveries from other takaful companies;
- amounts due from takaful contract holders;
- amounts due from takaful intermediaries; and
- investment deposits.

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty. Such risks are subject to a regular review.

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

Management maintains records of the payment history for significant contract holders with whom they conduct regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Company. Management information reported includes details of provisions for impairment on long outstanding receivables and subsequent write-offs.

The Company's cash and bank deposits are placed with reputable local banks with good financial standards. Currently only investment deposits with major banks are maintained limiting the Company's credit risk exposure to individual enterprises and risks associated with other investment securities.

4 Management of capital, takaful and financial risk (continued)

4.2 Financial risk (continued)

4.2.2 Credit risk (continued)

Maximum exposure to credit risk is equal to net carrying amounts of the financial assets as reported in the statement of financial position.

The table below summarises assets bearing credit risk:

	2010 AED	2009 AED
Loan to policyholders	8,935,006	9,121,704
Takaful and other receivables (excluding prepayments)	36,706,241	28,354,985
Retakaful contract assets	20,785,314	2,009,399
Bank deposits	35,300,000	46,000,000
Cash and cash equivalents (excluding cash on hand)	72,455,130	126,034,740
Total assets bearing credit risk	174,181,691	211,520,828

The assets above are analysed in the below using Standard & Poors (S&P) rating (or equivalent when not available from S&P). The concentration of credit risk is substantially unchanged compared to the prior period.

	31 December 2010			
	A	**BBB**	**Not rated**	**Total**
	AED' 000	AED' 000	AED' 000	AED' 000
Loan to policyholders	-	-	8,935	8,935
Takaful and other receivables (excluding prepayments)	20	630	36,056	36,706
Retakaful contract assets	3,365	545	16,875	20,785
Bank deposits	3,000	-	32,300	35,300
Cash and cash equivalents (excluding cash on hand)	2,863	-	69,592	72,455
	9,248	1,175	163,758	174,181

4 Management of capital, takaful and financial risk (continued)

4.2 Financial risk (continued)

4.2.2 Credit risk (continued)

	31 December 2009			
	A	**BBB**	**Not rated**	**Total**
	AED' 000	AED' 000	AED' 000	AED' 000
Loan to policyholders	-	-	9,122	9,122
Takaful and other receivables (excluding prepayments)	51	32	28,272	28,355
Retakaful contract assets	900	357	752	2,009
Bank deposits		6,000	40,000	46,000
Cash and cash equivalents (excluding cash on hand)	-	10,757	115,278	126,035
	951	17,146	193,424	211,521

Takaful receivables

Analysis of takaful receivables (net due from contract holders and due from agents, brokers and intermediaries) by economic sector is as follows:

	2010 AED	2009 AED
Corporate	8,295,397	334,999
Brokers	14,335,424	23,439,745
Takaful companies	4,540,531	108,421
Individuals	175,994	30,879
Others	8,308	-
	27,355,654	23,914,044

4.2.3 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations when they fall due as a result of policyholder claims payments, cash requirements from contractual commitments or other cash outflows. Liquidity requirements are monitored regularly and Company management ensures that sufficient funds are available to meet commitments as they arise.

As at 31 December 2010 and 31 December 2009, the contractual timing of cash flows arising from assets and liabilities for management of the general takaful contracts are due within 12 months and equal their balances as the impact of discounting is not significant.

4 Management of capital, takaful and financial risk (continued)

4.3 Capital management

The Company maintains an efficient capital structure from equity shareholders' funds, consistent with the Company's risk profile and the regulatory and market requirements of its business.

The Company's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to maintain financial strength to support new business growth;
- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- to allocate capital efficiently to support growth; and
- to manage exposures to movement in exchange rates.

The Company has a number of sources of capital available to it and seeks to ensure that it can consistently maximise returns to shareholders. At the year end the Company had not utilised any debt facilities in funding its operations.

4.4 Fair value estimation

The fair values of the Company's financial assets and liabilities approximate to their carrying amounts as disclosed in these financial statements.

IFRS 7 required the disclosure by level of the fair value measurement hierarchy in respect of financial instruments that are measured in the statement of financial position at fair value. The different levels have been defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included within level 1 that are observable for asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

As at 31 December 2010 and 31 December 2009, the Company did not have any financial assets measured at fair value on the statement of financial position.

5 Segmental information

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. All operating segments used by management meet the definition of a reportable segment under IFRS 8.

The Company is organized into two business segments, shareholders and policyholders. Shareholders' segment comprises investment and cash management for the Company's own account in addition to management of the policyholders' fund. The policyholders segment comprises the takaful business undertaken by the Company. These segments are the basis on which the Company reports its primary segment information. Segmental information is presented below:

	Year ended 31 December 2010		
	Policyholders	Shareholders	Total
Net underwriting income	8,060,582	-	8,060,582
Provision for doubtful takaful receivables	(3,770,283)	-	(3,770,283)
Wakala fees	(7,362,462)	7,362,462	-
	(3,072,163)	7,362,462	4,290,299
Investment income	303,076	6,758,120	7,061,196
Mudarib fees	(30,308)	30,308	-
Impairment provision against loan to policyholders	-	(2,986,093)	(2,986,093)
General and administrative expenses	-	(26,784,601)	(26,784,601)
Loss for the year	(2,799,395)	(15,619,804)	(18,419,199)
At 31 December 2010			
Total assets	61,243,927	161,551,857	222,795,784

5 Segmental information (continued)

	Period from 11 March 2008 to 31 December 2009		
	Restated		Restated
	Policyholders	**Shareholders**	**Total**
Net underwriting loss	(2,245,806)	-	(2,245,806)
Wakala fees	(6,893,143)	6,893,143	-
	(9,138,949)	6,893,143	(2,245,806)
IPO subscription fees	-	4,500,000	4,500,000
Investment income	19,161	38,802,104	38,821,265
Mudarib fees	(1,916)	1,916	-
General and administrative expenses	-	(33,189,089)	(33,189,089)
(Loss)/profit for the period	(9,121,704)	17,008,074	7,886,370
At 31 December 2009			
Total assets	48,040,765	173,010,871	221,051,636

The Company's underwriting business is based entirely within the United Arab Emirates. Retakaful treaties are arranged with companies based primarily in the GCC or in Europe. The investments of the Company are held in the United Arab Emirates.

The policyholders' segment is further organized into three main product lines consistent with the reports used by the Board. These include:

- Motor: Covers damage to motor cars and related property and injuries or death of persons
- Medical: Covers groups of individuals for medical treatment
- Others: Covers insurance of engineering, property, marine and personal, general and third party accidents.

Details of the three takaful product lines of the policyholders' segment are set out below:

Methaq Takaful Insurance Company (P.S.C.)

Notes to the financial statements for the year ended 31 December 2010 (continued)

5 Segment information (continued)

Takaful results by segment

	Year ended 31 December 2010			
	Motor AED	**Medical** AED	**Others** AED	**Total** AED
Takaful contributions	56,721,167	12,028,264	5,717,085	74,466,516
Retakaful contributions ceded	(1,590,443)	(7,935,836)	(5,232,016)	(14,758,295)
Net earned contributions	55,130,724	4,092,428	485,069	59,708,221
Retakaful commission earned	-	23,855	399,467	423,322
Total underwriting income	55,130,724	4,116,283	884,536	60,131,543
Gross claims incurred	(37,839,607)	(12,631,176)	(4,280,202)	(54,750,985)
Retakaful share of claims incurred	-	9,354,680	2,852,520	12,207,200
Net claims incurred	(37,839,607)	(3,276,496)	(1,427,682)	(42,543,785)
Expenses for acquisition of takaful contracts	(8,346,190)	(653,667)	(527,319)	(9,527,176)
Total underwriting expenses	(46,185,797)	(3,930,163)	(1,955,001)	(52,070,961)
Net underwriting profit for the year	8,944,927	186,120	(1,070,465)	8,060,582

	Period from 11 March 2008 to 31 December 2009			
	Motor AED	**Medical** AED	**Others** AED	**Total** AED
Takaful contributions	16,821,389	694,606	554,125	18,070,120
Retakaful contributions ceded	(1,523,387)	(509,308)	(641,409)	(2,674,104)
Net earned contributions	15,298,002	185,298	(87,284)	15,396,016
Retakaful commission earned	-	11,333	67,931	79,264
Total underwriting income	15,298,002	196,631	(19,353)	15,475,280
Gross claims incurred	(14,702,046)	(279,755)	(187,817)	(15,169,618)
Retakaful share of claims incurred	-	88,697	51,000	139,697
Net claims incurred	(14,702,046)	(191,058)	(136,817)	(15,029,921)
Expenses for acquisition of takaful contracts	(2,568,552)	(29,740)	(92,873)	(2,691,165)
Total net underwriting expenses	(17,270,598)	(220,798)	(229,690)	(17,721,086)
Net underwriting loss for the period	(1,972,596)	(24,167)	(249,043)	(2,245,806)

6 Property and equipment

	Furniture, fixtures and office equipment	Computers, equipments and accessories	Total
	AED	AED	AED
Cost			
Additions	2,787,086	2,583,641	5,370,727
Disposals	(1,745,801)	-	(1,745,801)
At 31 December 2009	1,041,285	2,583,641	3,624,926
Additions	1,060,994	418,097	1,479,091
At 31 December 2010	2,102,279	3,001,738	5,104,017
Depreciation			
Charge for the period	621,078	725,900	1,346,978
Disposals	(441,391)	-	(441,391)
At 31 December 2009	179,687	725,900	905,587
Charge for the year	400,457	924,636	1,325,093
At 31 December 2010	580,144	1,650,536	2,230,680
Net book value			
At 31 December 2010	1,522,135	1,351,202	2,873,337
At 31 December 2009	861,598	1,857,741	2,719,339

7 Investment property

	2010	2009
	AED	AED
Additions	22,220,000	-
At 31 December	22,220,000	-
Accumulated depreciation		
Charge for the year	(833,250)	-
At 31 December	(833,250)	-
Net book amount		
At 31 December	21,386,750	-

7 Investment property (continued)

Investment property comprises a building that was purchased during the year ended 31 December 2010. The building is held for long-term rental yields. However at the year end, the property's title was not transferred in the Company's name. Management is in the process of formalizing the necessary registration procedures to transfer title to the Company's name.

The property was valued by an independent valuer at 31 December 2010 on the basis of determining the open market value of the investment property. The open market value of the property was determined using recent market prices. The property is located in Abu Dhabi. The fair value of the investment property which has been determined amounts to AED 22,243,299.

The net building income amounted to AED 1,157,351 (note 25).

8 Available-for-sale financial assets

	2010 AED	2009 AED
Unlisted equity securities	20,000,000	-

The unlisted equity securities of AED 20 million represent a 20% participation in the development of a real estate project ("SARAYA PROJECT"). The investment is based on a memorandum of understanding signed with the developer and no share certificates have been issued for this project.

This investment is stated at cost in the absence of active markets or other means of reliably measuring its fair value.

9 Takaful and other receivables

	2010 AED	2009 AED
Receivables arising from takaful and retakaful contracts		
Due from takaful contract holders	13,020,230	474,299
Due from agents, brokers and intermediaries	18,105,707	23,439,745
Less provision for impairment of receivables from agents, brokers and intermediaries	(3,770,283)	-
	27,355,654	23,914,044
Other receivables		
Due from related parties (note 18)	1,712,194	1,747,322
Advances towards formation of companies	822,178	822,178
Impairment provision against advances towards formation of companies	(665,284)	-
Recoveries of claims from other insurance/takaful companies	5,601,714	-
Prepaid expenses	566,171	1,189,836
Margin on letters of guarantee	39,000	84,000
Refundable deposits	543,478	192,728
Anticipated income from investment deposits	820,523	756,267
Advances to third parties	136,661	340,116
Advances to staff	140,714	479,380
Other receivables	199,409	18,950
	9,916,758	5,630,777
Total takaful and other receivables	37,272,412	29,544,821

All the takaful and other receivables are current receivables. The estimated fair values of the takaful and other receivables approximate their carrying amounts as at 31 December 2010 and 31 December 2009.

The nature of the Company's operations is such that the balances due from takaful contract holders tend to be concentrated with few customers. At 31 December 2010, 3 customers accounted for 44% (31 December 2009: 2 customers accounted for 49%) of takaful receivables outstanding at that date.

9 Takaful and other receivables (continued)

At 31 December 2010, takaful receivables of AED 31,125,937 were categorized as follows:

	2010 AED
Fully performing	19,592,059
Past due but not impaired	7,763,595
Impaired	3,770,283
	31,125,937

Takaful receivables that are due for more than three months are considered past due. At 31 December 2010, due from contract holders, agents, brokers and intermediaries of AED 7,763,995 (2009: AED 7,371,614) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. No provision was made against these balances. The aging analysis of these receivables is as follows:

Past due but not impaired:

	2010 AED	2009 AED
Up to 3 months	6,715,611	7,173,910
Over 3 months	1,047,984	197,704
	7,763,595	7,371,614

As at 31 December 2010, takaful receivables with a carrying value of AED 3,770,283 (2009: nil) were impaired and fully provided for.

The movement in the Company's provision for impairment of takaful receivables is as follows:

	2010 AED	2009 AED
Provision for the year	3,770,283	-
At 31 December	3,770,283	-

Impairment of other receivables

The Company has recognised a loss of AED 665,284 (2009: nil) for the impairment of its other receivables during the year ended 31 December 2010.

The creation of provision for impaired takaful receivables has been included in the policyholders' statement of comprehensive income and the provision for impaired other receivables has been included in the shareholders' statement of comprehensive income. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

10 Bank deposits with an original maturity of more than 3 months

	2010 AED	2009 AED
Restricted investment deposits	6,000,000	6,000,000
Bank deposits with an original maturity of more than 3 months	29,300,000	40,000,000
	35,300,000	46,000,000

In accordance with the requirements of Federal Law Number 9 of 1984 (as amended) and the UAE Federal Law Number (6) of 2007 concerning Insurance Companies and Agents, the Company maintains a bank deposit of AED 6,000,000 which cannot be utilised without the consent of the UAE Ministry of Economy and Commerce.

11 Cash and cash equivalents

	2010 AED	2009 AED
Cash on hand	29,000	74,000
Current bank accounts	30,455,130	3,634,740
Bank deposits with an original maturity of less than 3 months	42,000,000	122,400,000
	72,484,130	126,108,740

12 Share capital

The authorized, issued and paid up capital of the Company as at 31 December 2010 and 31 December 2009 amounted to AED 150,000,000 divided into 150,000,000 shares of AED 1 par value per share.

13 Reserves

Dividends

At the Annual General Meeting on 28 February 2010, the shareholders of the Company approved dividend payment of 2.5% of share capital for the period ended 31 December 2009 amounting to AED 3.75 million.

13 Reserves (continued)

Legal reserve

In accordance with the UAE Federal Law No. (8) of 1984, as amended, 10% of the annual profit of the Company is transferred to a non-distributable legal reserve. Transfers to this reserve are required to be made until such time as it equals 50% of the paid up share capital of the Company.

General reserve
In accordance with Article 64 of the Company's Articles of Association, 10% of the Company's net profit for the year is transferred to the general reserve.

No transfers to the legal and general reserves have been made for the year ended 31 December 2010 as the Company incurred losses.

14 Policyholders' fund (Note 2.2)

	2010 AED	Restated 2009 AED
Policyholders' fund		
At beginning of period	(9,121,704)	-
Net deficit of takaful results for the year/period	(2,799,395)	(9,121,704)
Deficit in policyholders' fund	(11,921,099)	(9,121,704)
Loan from shareholders		
At beginning of period	9,121,704	-
Loan granted during the year/period	2,799,395	9,121,704
In policyholders' fund	11,921,099	9,121,704
Impairment provision against loan to policyholders charged to shareholders	(2,986,093)	-
	8,935,006	9,121,704

The shareholders have funded the deficit in the policyholders' fund in accordance with the Company's policy (note 2.11) through a Qard Hasan (free of finance charge) of AED 11,921,099 as of 31 December 2010 with no repayment terms. As at 31 December 2010, Qard Hasan with a nominal value of AED 2,986,093 (2009: nil) was impaired and charged to the statement of comprehensive income attributable to the shareholders.

Management expects to recover the remaining balance from future surpluses on takaful results attributable to policyholders.

15 Takaful contract liabilities and retakaful contract assets (Note 2.2)

	2010 AED	Restated 2009 AED
Gross		
Reported claims	12,646,539	6,383,795
Claims incurred but not reported	3,671,000	3,200,000
Unearned contributions provision	41,520,058	37,726,366
Total takaful liabilities, gross	57,837,597	47,310,161
Recoverable from retakaful companies		
Reported claims	5,592,678	50,000
Claims incurred but not reported	874,300	-
Unearned contributions provision	14,318,336	1,959,399
	20,785,314	2,009,399
Net		
Reported claims	7,053,861	6,333,795
Claims incurred but not reported	2,796,700	3,200,000
Unearned contributions provision	27,201,722	35,766,967
Total takaful liabilities, net	37,052,283	45,300,762

15.1 Development claim tables

The following table summarises the progression of claims provisioning and payments since the inception of the Company:

	2010 AED
Claims outstanding	12,646,539
IBNR	3,671,000
Outstanding claims recoveries	(5,601,714)
	10,715,825

15 Takaful contract liabilities and retakaful contract assets (continued)

15.1 Development claim tables (continued)

	Accident year		
	2009 AED	2010 AED	Total AED
Reporting year and earlier- Gross			
At the end of the reporting year	14,972,895	46,494,747	61,467,642
One year later	7,074,377	-	7,074,377
Current estimate of cumulative claims	22,047,272	46,494,747	68,542,019
Cumulative payments to date	(13,833,455)	(43,992,739)	(57,826,194)
Liability recognised in the statement of financial position (Gross)	8,213,817	2,502,008	10,715,825
Liability recognised in the statement of financial position (Net)			4,248,847

15.2 Movements in takaful contract liabilities and retakaful contract assets

	2010		
	Gross AED	**Retakaful** AED	**Net** AED
CLAIMS			
Notified claims	6,383,795	50,000	6,333,795
Claims incurred but not reported	3,200,000	-	3,200,000
At 1 January	9,583,795	50,000	9,533,795
Claims settled in the year	(52,437,094)	(5,790,222)	(46,646,872)
Increase in liabilities	59,170,838	12,207,200	46,963,638
At 31 December	16,317,539	6,466,978	9,850,561
Notified claims	12,646,539	5,592,678	7,053,861
Claims incurred but not reported	3,671,000	874,300	2,796,700
	16,317,539	6,466,978	9,850,561
UNEARNED CONTRIBUTION			
At 1 January	37,726,366	1,959,399	35,766,967
Increase during the year	41,520,058	14,318,336	27,201,722
Released during the year	(37,726,366)	(1,959,399)	(35,766,967)
Net increase during the year	3,793,692	12,358,937	8,565,245
At 31 December	41,520,058	14,318,336	27,201,722

15 Takaful contract liabilities and retakaful contract assets (continued)

15.2 Movements in takaful contract liabilities and retakaful contract assets (continued)

	2009		
	Gross AED	Retakaful AED	Net AED
CLAIMS			
Claims settled in the period	(5,389,100)	(89,697)	(5,299,403)
Increase in liabilities	14,972,895	139,697	14,833,198
At 31 December	9,583,795	50,000	9,533,795
Notified claims	6,383,795	50,000	6,333,795
Claims incurred but not reported	3,200,000	-	3,200,000
	9,583,795	50,000	9,533,795
UNEARNED CONTRIBUTION			
Increase during the period	37,726,366	1,959,399	35,766,967
Released during the period	-	-	-
Net increase during the period	37,726,366	1,959,399	35,766,967
At 31 December	37,726,366	1,959,399	35,766,967

16 End of service benefits obligation

The movement of the end of service benefits obligation is as follows:

	2010 AED	2009 AED
At 1 January	430,274	-
Charged during the period (note 30)	134,444	450,898
Settlements	(112,593)	(20,624)
At 31 December	452,125	430,274

17 Retakaful and other payables

	2010 AED	2009 AED
Due to retakaful companies	7,708,383	2,605,815
Other payables	219,175	517,002
Accrued expenses	2,487,394	2,114,402
Rent received in advance	945,637	-
	11,360,589	5,237,219

18 Related party balances and transactions

Related parties comprise the shareholders and directors, key management personnel and businesses controlled by the shareholders or directors over which they exercise significant management influence.

	2010 AED	2009 AED
Related party balances		
Takaful receivables due from related parties	628,164	311,394
Other receivables due from a shareholder (Note 9)	1,712,194	1,747,322
	2,340,358	2,058,716

Related party transactions
During the period, the Company entered into the following significant transactions with related parties in the ordinary course of business at terms and conditions agreed upon between the parties.

	Year ended 31 December 2010 AED	For the period from 11 March 2008 to 31 December 2009 AED
Gross takaful contributions	488,892	413,129
Key management compensation		
Salaries and other benefits	3,613,965	5,443,108

19 Provisions for other liabilities and charges

	2010 AED	2009 AED
Provision for litigation	1,500,000	-

The Company was party to an arbitration case with the landlord of its previous office premises in Dubai concerning early termination of the rental contract.

The arbitration ruling was issued in January 2011 requiring the Company to pay AED 5.2 million as compensation and related legal charges. Management is in the process of filing a case in the Dubai Courts to overturn the arbitration ruling supported by an advice from its legal counsel. Management believes that the termination of the lease agreement was justifiable in the light of non-fulfilment of obligations by the landlord and legitimate in the circumstances.

19 Provisions for other liabilities and charges (continued)

The final outcome will depend upon the acceptance by the Dubai Courts of the case brought by the Company and a subsequent ruling thereon. Based on legal advice, management believes that the current arbitration award is not enforceable owing to technical deficiencies in the proceedings and the Dubai Courts will hear a case against the award. Management does not expect that the final liability under such a case will exceed AED 1.5 million. A corresponding provision for this amount in respect of this claim has been established as of 31 December 2010.

The provision charge is recognized in the shareholders' statement of comprehensive income within general and administrative expenses.

20 Zakat payable

Movement in the Zakat fund during the period was as follows:

	2010 AED	2009 AED
At 1 January	7,677,034	-
Charged during the year/period	-	7,677,034
Paid during the year/period	(800,067)	-
At 31 December	6,876,967	7,677,034

During the year the Board of Directors passed a resolution to amend Article 68 of the Articles of Association of the Company to preclude the Company from being liable for zakat payable by shareholders on the value of their investment in the Company, as calculated on the Company's asset base. Accordingly no charge has been made this year. This resolution is yet to be ratified by the shareholders at an extraordinary general meeting.

21 Retakaful deposits retained

Movements in retakaful deposits retained during the year were as follows

	2010 AED	2009 AED
At 1 January	848,612	-
Retained during the year/period	4,446,744	848,612
Released during the year/period	(738,016)	-
At 31 December	4,557,340	848,612

22 Net contributions earned (Note 2.2)

	Year ended 31 December 2010 AED	For the period from 11 March 2008 to 31 December Restated 2009 AED
Gross takaful contributions	78,260,208	55,796,486
Change in unearned contribution provision	(3,793,692)	(37,726,366)
Takaful contributions	74,466,516	18,070,120
Gross retakaful contributions	(24,663,232)	(2,752,403)
Excess of loss contributions ceded	(2,454,000)	(1,881,100)
Change in unearned contribution provision	12,358,937	1,959,399
Retakaful contributions ceded	(14,758,295)	(2,674,104)
Net contributions earned	59,708,221	15,396,016

23 Retakaful commission income (Note 2.2)

	Year ended 31 December 2010 AED	For the period from 11 March 2008 to 31 December Restated 2009 AED
Gross retakaful commission	455,956	296,560
Unearned retakaful commissions at beginning of the period	217,296	-
Unearned retakaful commissions at end of the period	(249,930)	(217,296)
Retakaful commission earned	423,322	79,264

24 Shareholders' investment income

Income from investment deposits	5,596,042	4,560,945
Return on held to maturity investment	-	22,873,045
Gain on sale of investments at fair value through profit or loss	-	11,368,115
	5,596,042	38,802,105

25 Net rental income from investment property

	Year ended 31 December 2010 AED	For the period from 11 March 2008 to 31 December 2009 AED
Rental income from investment property	1,279,363	-
Expenses incurred on investment property	(122,012)	-
	1,157,351	-

26 Net claims incurred

Gross claims paid, net of recoveries	52,437,094	5,389,100
TPA fees and roadside assistance	1,181,861	196,723
Change in provision for outstanding claims	6,262,744	6,383,795
Change in outstanding claims recoveries	(5,601,714)	-
Change in claims incurred but not reported	471,000	3,200,000
Gross claims incurred	54,750,985	15,169,618
Recovered claims from retakaful contracts	(5,790,222)	(89,697)
Change in retakaful share of outstanding claims	(5,542,678)	(50,000)
Change in retakaful share of claims incurred but not reported	(874,300)	-
Retakaful share of claims incurred	(12,207,200)	(139,697)
Net claims incurred	42,543,785	15,029,921

27 Expenses for acquisition of takaful contracts (Note 2.2)

	Year ended 31 December 2010 AED	For the period from 11 March 2008 to 31 December 2009 Restated AED
Commissions paid	7,738,378	8,238,798
Deferred acquisition costs at beginning of the year/period	5,547,633	-
Deferred acquisition costs at end of the year/period	(3,758,835)	(5,547,633)
Acquisition costs incurred	9,527,176	2,691,165

28 Wakala and Mudarib fees

The shareholders manage the takaful operations for the policyholders and charged the following range of percentages of gross takaful contributions as wakala fees.

Motor	12.5%
Medical	0 - 10%
Others	0 - 17.5%

The shareholders manage the policyholders' investment fund and charge 10% of investment income earned by policyholders' investment fund as mudarib fees.

29 General and administrative expenses

	Year ended 31 December 2010 AED	For the period from 11 March 2008 to 31 December 2009 AED
Salaries and related benefits (note 30)	16,702,142	16,447,087
Rent	1,218,362	3,889,128
Depreciation of property and equipment (note 6)	1,325,093	1,346,978
Depreciation of investment property (note 7)	833,250	-
Government and professional expenses	1,986,313	870,809
Advertising expenses	873,010	590,899
Printing, stationery and supplies	325,110	227,593
Repairs and maintenance	268,727	-
Communication charges	248,016	365,366
Miscellaneous expenses	839,294	3,390,176
Provision for legal claims (note 19)	1,500,000	-
Impairment provision against advances towards formation of companies (note 9)	665,284	-
	26,784,601	27,128,036

30 Salaries and related benefits

Salaries and wages	14,082,825	13,656,383
Other benefits	2,484,873	2,339,806
End of service benefits	134,444	450,898
	16,702,142	16,447,087

31 Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period. The number of ordinary shares outstanding during the period was 150,000,000 shares. The Company incurred losses during the year ended 31 December 2010.

32 Contingent liabilities

	2010 AED	2009 AED
Letters of guarantee	9,700,100	6,039,000

The above guarantees were issued in the ordinary course of business.

33 Cash flows from operating activities

	Notes	Year ended 31 December 2010 AED	For the period from 11 March 2008 to 31 December 2009 Restated AED
Cash flows from operating activities			
(Loss)/profit for the year/ period		(15,619,804)	17,008,074
Net deficit from takaful operations		(2,799,395)	(9,121,704)
		(18,419,199)	7,886,370
Adjusted for:			
Depreciation on property and equipment	6	1,325,093	1,346,978
Depreciation on investment property	7	833,250	-
Loss on disposal of property and equipment		-	1,304,410
End of service benefits obligation	16	134,444	450,898
Income from investment deposits		(5,899,118)	(4,580,106)
Return on held to maturity investment	24	-	(22,873,045)
Gain on disposal of investments at fair value through profit or loss		-	(9,868,115)
Provision for legal case	19	1,500,000	-
Impairment provision against takaful receivables	9	3,770,283	-
Impairment provision against other receivables	9	665,284	-
Impairment provision against loan to policyholders	14	2,986,093	-
Cash flows before payment of employees' end of service and changes in operating assets and liabilities		(13,103,870)	(26,332,610)
Payment of employees' end of service benefit obligations	16	(112,593)	(20,624)
Decrease / (increase) in deferred acquisition cost		1,788,798	(5,547,633)
Increase in retakaful contract assets		(18,775,915)	(2,009,399)
Increase in takaful and other receivables		(12,098,902)	(28,788,554)
Decrease in held to maturity financial assets		-	122,571,781
Increase in takaful contract liabilities		10,527,436	47,310,161
Increase in retakaful and other payables		6,123,370	5,237,219
Increase in unearned retakaful commission		32,634	217,296
Increase in retakaful deposits retained		3,708,728	848,612
Purchase of available-for-sale financial assets	8	(20,000,000)	-
Purchase of held to maturity investments		-	(99,698,736)
Purchase of financial assets at fair value through profit or loss		-	(142,179,192)
Proceeds from the sale of financial assets at fair value through profit or loss		-	152,047,307
Cash (used in) / generated from operations		(41,910,314)	23,655,628
Income from investment deposits		5,834,862	3,823,839
Decrease in zakat payable	20	(800,067)	-
Net cash (used in) / generated from operating activities		(36,875,519)	27,479,467