Takaful House PJSC

FINANCIAL STATEMENTS

31 DECEMBER 2010

Ernst & Young

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF TAKAFUL HOUSE PJSC

Report on the Financial Statements

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

Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Institution, the applicable provisions of the articles of association of the Company, the UAE Commercial Companies Law of 1984 (as amended) and the UAE Federal Law No. (6) of 2007, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

ERNST & YOUNG

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 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 matters
We draw attention to note 15 to the financial statements relating to the assessment of the recoverable amount of Qard Hassan (loan free of finance charge with no repayment terms) of AED 41,265,658.

Our opinion is not qualified for this matter.

Report on Other Legal and Regulatory Requirements
We also confirm that, in our opinion: (a) the financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended), UAE Federal Law No. (6) of 2007 and the articles of association of the Company; (b) proper books of account have been kept by Company, the contents of the report of the Board of Directors relating to these financial statements are consistent with the books of account; and (c) we have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Law of 1984 (as amended), UAE Federal Law No. (6) of 2007, or of the articles of association of the Company have occurred during the year which would have had a material effect on the business of the Company or on its financial position.

Ernst & Young

Signed by:
Ali Issa
Partner
Registration No. 488

Dubai, United Arab Emirates
7 March 2011

STATEMENT OF INCOME

For the year ended 31 December 2010

	Notes	*2010 AED*	*Period from 23 July 2008 to 31 December 2009 AED*
ATTRIBUTABLE TO PARTICIPANTS			
Gross contributions written	4	**44,288,658**	22,913,821
Changes in unearned contributions	4	**(13,357,921)**	(8,315,988)
Contributions earned	4	**30,930,737**	14,597,833
Contributions ceded to retakaful	4	**(4,189,873)**	(2,283,746)
Net contributions revenue	4	**26,740,864**	12,314,087
Commission received on ceded contributions		**890,859**	500,049
Policy and survey fees		**496,610**	158,451
		28,128,333	12,972,587
UNDERWRITING EXPENSES			
Claims	5	**(18,318,760)**	(41,119,179)
Retakaful share of claims	5	**269,598**	29,259,964
Policy acquisition cost		**(5,451,111)**	(2,538,582)
Excess of loss retakaful		**(1,296,379)**	(857,740)
NET UNDERWRITING INCOME / (LOSS)		**3,331,681**	(2,282,950)
Wakala fees	6	**(6,622,358)**	(4,358,750)
Provisions for doubtful debts allocated to participants	7	**-**	(29,680,000)
Expenses allocated to participants	8	**(917,373)**	(898,560)
NET LOSS FROM TAKAFUL OPERATIONS		**(4,208,050)**	(37,220,260)
Investment income	9	**149,862**	286,202
Mudarib's share	6	**(12,186)**	(27,160)
LOSS FOR THE YEAR / PERIOD ATTRIBUTABLE TO PARTICIPANTS		**(4,070,374)**	(36,961,218)
ATTRIBUTABLE TO SHAREHOLDERS			
INCOME			
Wakala fees from participants	6	**6,622,358**	4,358,750
Mudarib's share	6	**12,186**	27,160
Investment income	9	**886,583**	4,352,323
Pre-incorporation profits	10	**-**	326,829
Other income		**-**	290,000
		7,521,127	9,355,062
EXPENSES			
General and administrative expenses	8	**(12,355,151)**	(11,236,167)
Expenses incurred during the period from inception to commencement of operations		**-**	(669,723)
LOSS FOR THE YEAR / PERIOD BEFORE QARD HASSAN		**(4,834,024)**	(2,550,828)
Provision against Qard Hassan to participants	15	**(4,189,974)**	(18,536,792)
LOSS FOR THE YEAR / PERIOD ATTRIBUTABLE TO SHAREHOLDERS		**(9,023,998)**	(21,087,620)
Basic and diluted loss per share	11	**(0.09)**	(0.21)

The attached notes 1 to 32 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2010

	Notes	2010 AED	Period from 23 July 2008 to 31 December 2009 AED
ATTRIBUTABLE TO PARTICIPANTS			
Loss for the year / period		**(4,070,374)**	(36,961,218)
Other comprehensive loss			
Unrealised loss on available-for-sale-investments	9	**(119,600)**	(114,466)
Other comprehensive loss for the year / period		**(119,600)**	(114,466)
Total comprehensive loss for the year / period attributable to participants		**(4,189,974)**	(37,075,684)
ATTRIBUTABLE TO SHAREHOLDERS			
Loss for the year/period		**(9,023,998)**	(21,087,620)
Other comprehensive loss			
Unrealised loss on available-for-sale-investments	9	**(199,743)**	(70,795)
Other comprehensive loss for the year / period		**(199,743)**	(70,795)
Total comprehensive loss for the year / period attributable to shareholders		**(9,223,741)**	(21,158,415)

STATEMENT OF FINANCIAL POSITION
At 31 December 2010

	Notes	2010 AED	2009 AED
ASSETS			
Property and equipment	12	**12,321,487**	12,262,721
Intangible assets	13	**872,676**	1,242,850
Investment securities	14	**5,204,845**	5,164,588
Participants' fund assets	16	**28,282,260**	11,635,729
Prepayments and other receivables	18	**1,842,611**	3,500,465
Wakala deposits	19	**43,375,263**	71,558,338
Cash and bank balances	20	**48,174**	1,200,401
TOTAL ASSETS		**91,947,316**	106,565,092
EQUITY, PARTICIPANT FUND AND LIABILITIES			
Shareholders' Equity			
Share capital	21	**100,000,000**	100,000,000
Accumulated losses		**(30,382,156)**	(21,158,415)
Total shareholders' equity		**69,617,844**	78,841,585
Participants' fund			
Qard Hassan against deficit in participants' fund	15	**(41,265,658)**	(37,075,684)
Less: Provision against Qard Hassan to participants' fund	15	**22,726,766**	18,536,792
Deficit in participants' fund	15	**(18,538,892)**	(18,538,892)
Liabilities			
Participants' fund liabilities	16	**38,004,925**	45,165,027
Other liabilities	25	**2,863,439**	1,097,372
Total liabilities		**40,868,364**	46,262,399
TOTAL EQUITY AND LIABILITIES		**91,947,316**	106,565,092

The financial statements were authorised for issue by the directors on 7 March 2011.

Mr. Mohamed Ali Al-Neaimi
Chairman

Mr. Saleh Al Hashimi
Managing Director

The attached notes 1 to 32 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2010

	Share capital AED	*Accumulated losses AED*	*Total AED*
Share capital issued	100,000,000	-	100,000,000
Loss for the period	-	(21,087,620)	(21,087,620)
Other comprehensive loss for the period	-	(70,795)	(70,795)
Total comprehensive loss for the period	-	(21,158,415)	(21,158,415)
Balance at 31 December 2009	100,000,000	(21,158,415)	78,841,585
Loss for the year	-	(9,023,998)	(9,023,998)
Other comprehensive loss for the year	-	(199,743)	(199,743)
Total comprehensive loss for the year	-	(9,223,741)	(9,223,741)
Balance at 31 December 2010	**100,000,000**	**(30,382,156)**	**69,617,844**

The attached notes 1 to 32 form part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2010

	Notes	2010 AED	Period from 23 July 2008 to 31 December 2009 AED
OPERATING ACTIVITIES			
Loss for the year/period		**(9,023,998)**	(21,087,620)
Adjustments for:			
Depreciation	12	**1,138,071**	786,448
Amortization	13	**565,974**	248,570
Changes in the fair value of financial assets at fair value through profit or loss	9	**1,767,662**	1,835,831
Changes in fair value of available-for-sale financial assets	9	**119,600**	114,466
Gain on sale of trading securities	9	**-**	(730,947)
Income from Wakala deposits	9	**(2,687,075)**	(5,560,109)
Dividend income on securities	9	**(117,032)**	(183,300)
Provision against Qard Hassan to Participants' fund	15	**4,189,974**	18,536,792
Provision for doubtful receivables	17	**-**	29,680,000
Provision for end of service benefits	26	**203,645**	236,471
		(3,843,179)	23,876,602
Changes in operating assets and liabilities:			
Qard Hassan to participants' fund		**(4,189,974)**	(37,075,684)
Takaful receivables		**(16,370,029)**	(34,786,481)
Prepayments and other receivables		**3,944,622**	(1,367,713)
Takaful contract liabilities		**(11,513,428)**	40,054,667
Takaful payables		**2,120,356**	1,563,974
Other liabilities		**1,630,553**	952,996
End of service benefits paid	26	**(68,131)**	(92,095)
Cash used in operating activities		**(28,289,210)**	(6,873,734)
Income received on Wakala deposits	9	**2,687,075**	5,560,109
Dividend received	9	**117,032**	183,300
Net cash used in operating activities		**(25,485,103)**	(1,130,325)
INVESTING ACTIVITIES			
Purchase of property and equipment	12	**(1,196,837)**	(13,049,169)
Acquisition of intangible assets	13	**(195,800)**	(1,491,420)
Purchase of financial assets at fair value through profit or loss	14	**(2,005,510)**	(13,596,729)
Purchase of available-for-sale financial assets	14	**-**	(1,391,849)
Proceeds from sale of trading securities		**-**	8,147,575
Wakala deposits encashed during the year/period		**32,760,509**	-
New Wakala deposits made during the year/period		**(3,577,402)**	(75,185,809)
Net cash from / (used in) investing activities		**25,784,960**	(96,567,401)
FINANCING ACTIVITIES			
Share capital issued	21	**-**	100,000,000
Net cash from financing activities		**-**	100,000,000
Net increase in cash and cash equivalents		**299,857**	2,302,274
Cash and cash equivalents as 1 January		**2,302,274**	-
CASH AND CASH EQUIVALENTSAT THE END OF THE YEAR	20	**2,602,131**	2,302,274

The attached notes 1 to 32 form part of these financial statements.

1 ACTIVITIES

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

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

By a resolution of its Extraordinary General Meeting held on 8 April 2010, the shareholders of the Company resolved to change the English name of the Company from Takaful House PJSC to Dar Takaful PJSC. The legal formalities of this change are still pending at the reporting date.

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

The financial statements of 2009 were prepared for the first operating period of the Company from 23 July 2008 till 31 December 2009 (hereafter "Period 2009). Accordingly any reference made in the financial statements to the period ended 2009, refers to this Period from 23 July 2008 to 31 December 2009.

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of trading securities and available for sale investments. The financial statements have been presented in UAE Dirhams.

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

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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 assets and settle the liability simultaneously. Income and expense will not be offset in the statement of income and the statement of comprehensive income unless required or permitted by any accounting standard or interpretation.

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

Changes in accounting policy and disclosures
The accounting policies adopted are consistent with those of the previous financial year, except that the Company has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2010:

- IAS 39 *Financial Instruments: Recognition and Measurement - Eligible Hedged Items* effective 1 July 2009
- IFRIC 17 *Distributions of Non-cash Assets to Owners* effective 1 July 2009
- Improvements to IFRSs (May 2008)
- Improvements to IFRSs (April 2009)

The adoption of these interpretations had no impact on the financial position or performance of the Company. However, they resulted in changes in the accounting policies which are described below:

IFRIC 17 *Distribution of Non-cash Assets to Owners*
This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either the financial position nor performance of the Company.

Improvements to IFRSs
In April 2009, the IASB issued an omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Company.

Issued in April 2009
IFRS 8 Operating Segments: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Company's chief operating decision maker does review segment assets and liabilities, the Company has disclosed this information in Note 3.

IAS 7 Statement of Cash Flows: States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment has no impact on the Company as the Company classifies only those expenditure that results in recognising an asset as cash flow from investing activities.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

Issued in May 2008
- IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*

Issued in April 2009
- IFRS 2 *Share-based Payment*
- IAS 1 *Presentation of Financial Statements*
- IAS 17 *Leases*
- IAS 34 *Interim Financial Reporting*
- IAS 36 *Impairment of Assets*
- IAS 38 *Intangible Assets*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 16 *Hedge of a Net Investment in a Foreign Operation*

2 ACCOUNTING POLICIES (continued)

2.2 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following IASB Standards and IFRIC interpretations relevant to the Company have been issued but are not yet mandatory, and have not yet been adopted by the Company:

IAS 24(revised) Related Party Disclosures
The revised standard was issued in November 2009 and becomes effective for annual periods beginning on or after 1 January 2011. The revised standard simplifies the definition of a related party. The application of IAS 24(revised) is not expected to have a material impact on the financial statements of the Company.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined by IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

Improvements to IFRSs (issued May 2010)
The IASB issued *Improvement to IFRSs*, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below are considered to have a possible impact on the Company:
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements

The Company, however, expects no impact from the adoption of the amendments on its financial position or performance.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Liability adequacy test
At each reporting date, the Company assesses whether its recognised takaful contract liabilities are adequate using current estimates of future cash flows under its takaful contracts. If that assessment shows that the carrying amount of its takaful liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in income and an additional reserve created. The Company does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the reporting date.

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

For major customers with high portfolio contribution, the policy acquisition cost is charged to the statement of income in line with the earned portion of the related policy premium. The proportion attributable to subsequent periods is deferred as prepaid acquisition cost.

Commissions earned
Commissions earned are recognised at the time policies are written. For major customers with high portfolio contribution, the commission receivable from retakaful is recognised in the statement of income in line with the earned portion of the related policy premium. The proportion attributable to subsequent periods is deferred as unearned commission.

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Property and equipment
Property and equipment, including owner-occupied property, is stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment losses. Replacement or major inspection costs are capitalised when incurred and if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. Depreciation is provided on a straight line basis over the useful lives of the following classes of assets:

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

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

Impairment reviews are performed when there are indicators that the carrying value may not be recoverable. Impairment losses are recognised in the statement of income as an expense.

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets
The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded investment securities or other available fair value indicators.

Fair value of financial instruments
The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the reporting date. If quoted market prices are not available, reference can also be made to broker or dealer price quotations.

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

Financial Assets

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

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

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

The Company's financial assets include cash and Wakala deposits, trade and other receivables, loan and other receivables, quoted and unquoted financial instruments, and derivative financial instruments.

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

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

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

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Assets (continued)

Held-to-maturity financial assets
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold until maturity. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, held-to-maturity financial assets are measured at amortised cost, using the effective profit rate method. Gains and losses are recognised in the statement of income when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and other receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, loans and receivables are measured at amortised cost, using the effective profit rate method. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. These investments are initially recorded at fair value. After initial measurement, available-for-sale financial assets are measured at fair value. Fair value gains and losses are reported as a separate component in the statement of comprehensive income until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative fair value gains and losses previously reported in the statement of comprehensive income are transferred to the statement of income.

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

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

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

Derecognition of financial instruments
The derecognition of a financial instrument takes place when the Company no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

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

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Qard Hassan and deficit in participants' fund
The deficit in participants' funds represents accumulated losses on participants' operations in addition to any decline in the fair value of available-for-sale financial assets attributable to participants.

Such a deficit is funded by the Shareholders as a 'Qard Hassan' loan which is tested annually for impairment. In the event, any or all of the deficit in participants' funds is not recoverable, from future surpluses, the amount that is considered impaired is charged off to the shareholders' statement of income.

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

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Takaful contract liabilities

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

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation
The Company's presentation currency is the UAE Dirham (AED). This is also the functional currency of the Company. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the statement of income, except when it relates to items when gains or losses are recognised directly in comprehensive income. The gain or loss is then recognised net of the exchange component in the other comprehensive income.

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

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

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

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

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

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

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

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

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

Valuation of unquoted equity investments
Valuation of unquoted equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

2 ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimation uncertainty (continued)

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

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

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

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

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

3 SEGMENTAL INFORMATION

Primary segment information

For management purposes the Company is organised into two business segments, takaful fund management and investment. The general takaful segment comprises the takaful business undertaken by the Company. Investments comprise investment and cash management for the Company's own account. No operating segments have been aggregated to form the above reportable operating segments.

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

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

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

3 SEGMENTAL INFORMATION (continued)

Primary segment information (continued)

		Year from 1 January to 31 December 2010			
	Notes	***Takaful fund management AED***	***Investment AED***	***Adjustment and eliminations AED***	***Total AED***
Gross contributions written	4	44,288,658	-	-	44,288,658
Changes in unearned contributions	4	(13,357,921)	-	-	(13,357,921)
Contributions earned	4	30,930,737	-	-	30,930,737
Contributions ceded to retakaful	4	(4,189,873)	-	-	(4,189,873)
Net contribution revenue	4	26,740,864	-	-	26,740,864
Claims (net of retakaful share)	5	(18,049,162)	-	-	(18,049,162)
Net underwriting expenses		(5,360,021)	-	-	(5,360,021)
Net underwriting loss		3,331,681	-	-	3,331,681
General and administrative expenses	8	(917,373)	(12,355,151)	-	(13,272,524)
Mudarib's share	6	(12,186)	12,186	-	-
Wakala (fees) / income	6	(6,622,358)	6,622,358	-	-
Investment income	9	149,862	886,583	-	1,036,445
Loss for the year		**(4,070,374)**	**(4,834,024)**	-	**(8,904,398)**
Other comprehensive loss		(119,600)	(199,743)	-	(319,343)
Total comprehensive loss for the year		**(4,189,974)**	**(5,033,767)**	-	**(9,223,741)**

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

	Takaful fund AED	***Investment AED***	***Adjustment and eliminations AED***	***Total AED***
Total assets	**28,282,260**	**95,208,049**	**(31,542,993)**	**91,947,316**
Total liabilities	**(69,547,918)**	**(2,863,439)**	**31,542,993**	**(40,868,364)**
Depreciation (Note 12)	-	**1,138,071**	-	**1,138,071**
Amortization (Note 13)	-	**565,974**	-	**565,974**
Capital expenditures (Notes 12 and 13)	-	**1,392,637**	-	**1,392,637**

3 SEGMENTAL INFORMATION (continued)

Primary segment information (continued)

		Period from 23 July 2008 to 31 December 2009			
	Notes	*Takaful fund Management AED*	*Investment AED*	*Adjustment and eliminations AED*	*Total AED*
Gross contributions written	4	22,913,821	-		22,913,821
Changes in unearned contributions	4	(8,315,988)	-		(8,315,988)
Contributions earned	4	14,597,833	-		14,597,833
Contributions ceded to retakaful	4	(2,283,746)	-		(2,283,746)
Net contribution revenue	4	12,314,087	-		12,314,087
Claims (net of retakaful share)	5	(11,859,215)	-		(11,859,215)
Net underwriting expenses		(2,737,822)	-		(2,737,822)
Net underwriting loss		(2,282,950)	-		(2,282,950)
General and administrative expenses	8	(898,560)	(11,236,167)		(12,134,727)
Provision for doubtful debts	17	(29,680,000)	-		(29,680,000)
Net other expenses		-	(52,894)		(52,894)
Wakala (fees) / income	6	(4,358,750)	4,358,750		-
Mudarib's share	6	(27,160)	27,160		-
Investment income	9	286,202	4,352,323		4,638,525
Loss for the period		(36,961,218)	(2,550,828)	18,538,892	(20,973,154)
Other comprehensive loss		(114,466)	(70,795)		(185,261)
Total comprehensive loss for the period		(37,075,684)	(2,621,623)	18,538,892	(21,158,415)

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

	Takaful fund AED	*Investment AED*	*Adjustment and eliminations AED*	*Total AED*
Total assets	11,635,729	98,475,749	(3,546,386)	106,565,092
Total liabilities	(48,711,413)	(1,097,372)	3,546,386	(46,262,399)
Depreciation (Note 12)	-	786,448	-	786,448
Amortization (Note 13)	-	248,570	-	248,570
Capital expenditures (Notes 12 and 13)	-	14,540,589	-	14,540,589

Secondary segment information

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

4 NET CONTRIBUTIONS

	Year from 1 January to 31 December 2010		
	Gross AED	*Retakaful share AED*	*Net AED*
Takaful contracts: Gross contributions written	44,288,658	(4,704,544)	39,584,114
Movement in provision for unearned contributions	(13,357,921)	514,671	(12,843,250)
Takaful contributions revenue	**30,930,737**	**(4,189,873)**	**26,740,864**
Unearned contributions as of 31 December (Note 23)	**(21,673,909)**	**1,828,087**	**(19,845,822)**

	Period from 23 July 2008 to 31 December 2009		
	Gross AED	*Retakaful share AED*	*Net AED*
Takaful contracts contributions written	22,913,821	(3,597,162)	19,316,659
Movement in provision for unearned contributions	(8,315,988)	1,313,416	(7,002,572)
Takaful contributions revenue	14,597,833	(2,283,746)	12,314,087
Unearned contributions as of 31 December (Note 23)	(8,315,988)	1,313,416	(7,002,572)

5 CLAIMS

	Year from 1 January to 31 December 2010		
	Gross AED	*Retakaful share AED*	*Net AED*
Takaful claims paid	44,359,247	(269,598)	44,089,649
Changes in provision for outstanding claims (Note 23)	(26,040,487)	-	(26,040,487)
Claims recorded in the statement of income	**18,318,760**	**(269,598)**	**18,049,162**

	Period from 23 July 2008 to 31 December 2009		
	Gross AED	*Retakaful share AED*	*Net AED*
Takaful claims paid	5,834,114	-	5,834,114
Changes in provision for outstanding claims (Note 23)	35,285,065	(29,259,964)	6,025,101
Claims recorded in the statement of income	41,119,179	(29,259,964)	11,859,215

5 CLAIMS (continued)

A participant under a fire takaful contract has filed a law suit against the Company to claim a loss due to a fire in its premises. During the year, the Company paid an amount of AED 30,148,653 to Dubai Courts in execution of a formal injunction dated 16 August 2010 to settle the fire claim amount.

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

6 WAKALA FEES AND MUDARIB'S SHARE

The shareholders manage the takaful operations for the participants and charge 30% (Period 2009: 30%) of gross written contribution of AED 44,288,658 (Period 2009: AED 22,913,821) as Wakala fees after deduction of policy acquisition cost of AED 5,451,111 (Period 2009: AED 2,538,582). For the year ended 31 December 2010, Wakala fees charged to participants amounted to AED 6,622,358 (Period 2009: AED 4,358,750).

For major customers with high portfolio contribution, the Wakala is charged to the statement of income in line with the earned portion of the related policy premium. The proportion attributable to subsequent periods deferred as unearned Wakala amounted to AED 555,269 (Period 2009: AED Nil).

The shareholders also manage the participants' investment funds and charge 10% of investment income earned by the participants' investment funds as Mudaribs' share. During the year, Mudarib's share amounted to AED 12,186 (Period 2009: AED 27,160) and was charged on total realised investment income amounting to AED 152,014 (Period 2009: AED 271,596).

7 PROVISION FOR DOUBTFUL DEBTS ATTRIBUTABLE TO PARTICPANTS

Included in the provision for doubtful debts attributable to participants is an amount of AED 29.2 million charged to statement of income of Period 2009 and covering a claim receivable from retakaful companies (Notes 5 and 17).

8 GENERAL AND ADMINISTRATIVE EXPENSES

	2010 *AED*	*Period from 23 July 2008 to 31 December 2009* *AED*
Staff cost	**7,841,866**	6,888,942
Marketing expenses	**81,844**	205,364
Administrative expenses	**3,642,103**	3,971,723
Depreciation and amortization	**1,704,045**	1,035,019
Other expenses	**2,666**	33,679
	13,272,524	12,134,727
Allocated to:		
Shareholders	**12,355,151**	11,236,167
Participants	**917,373**	898,560
	13,272,524	12,134,727

9 INVESTMENT INCOME

	31 December 2010		
	Participant AED	*Shareholder AED*	*Total AED*
Fair value gains and (losses)			
Financial assets at fair value through profit or loss account (Note 14)	(2,152)	(1,765,510)	(1,767,662)
Available-for-sale financial assets (Note 14)	(119,600)	(199,743)	(319,343)
Other investment income			
Income from Wakala deposits	152,014	2,535,061	2,687,075
Dividend income on trading of securities	-	117,032	117,032
Total investment income net of loss	30,262	686,840	717,102
Loss on available-for-sale securities taken to the statement of comprehensive income	119,600	199,743	319,343
Investment income through profit or loss	**149,862**	**886,583**	**1,036,445**

	Period from 23 July 2008 to 31 December 2009		
	Participant AED	*Shareholder AED*	*Total AED*
Fair value gains and losses			
Financial assets at fair value through profit or loss account (Note 14)	14,606	(1,850,437)	(1,835,831)
Available-for-sale financial assets (Note 14)	(114,466)	(70,795)	(185,261)
Realised gains and losses			
Gain on sale of trading of securities	78,835	652,112	730,947
Other investment income			
Income from Wakala deposits	171,761	5,388,348	5,560,109
Dividend income on trading of securities	21,000	162,300	183,300
Total investment income net of loss	171,736	4,281,528	4,453,264
Loss on available-for-sale securities taken to the statement of comprehensive income	114,466	70,795	185,261
Investment income through profit or loss	286,202	4,352,323	4,638,525

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

10 PRE-INCORPORATION PROFITS

This represents income earned during 2009 period on investing the Company's share capital as well as excess funds received through the initial public offering (IPO) subscriptions, net of expenses up to 23 July 2008, date of incorporation. These are as follows:

	Period from 23 July 2008 to 31 December 2009 AED
Income from Wakala deposits	1,620,126
Offering fee	3,500,000
	5,120,126
Pre-incorporation expenses	(4,793,297)
	326,829

11 BASIC AND DILUTED LOSS PER SHARE

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

	2010 AED	*Period from 23 July 2008 to 31 December 2009 AED*
Net loss for the year/period	**(9,023,998)**	(21,087,620)
Weighted average number of shares outstanding during the year/period	**100,000,000**	100,000,000
Basic and diluted loss per share	**(0.09)**	(0.21)

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

12 PROPERTY AND EQUIPMENT

	Building AED	*Furniture and fixtures AED*	*Office equipment AED*	*Capital work in progress AED*	*Total AED*
Cost:					
At 1 January 2010	10,226,500	1,487,390	1,293,959	41,320	13,049,169
Additions	-	829,809	367,028	-	1,196,837
Transfers	-	7,820	-	(7,820)	-
At 31 December 2010	**10,226,500**	**2,325,019**	**1,660,987**	**33,500**	**14,246,006**
Depreciation:					
At 1 January 2010	234,357	100,119	451,972	-	786,448
Charge for the year	255,663	413,614	468,794	-	1,138,071
At 31 December 2010	**490,020**	**513,733**	**920,766**	-	**1,924,519**
Net carrying amount:					
At 31 December 2010	**9,736,480**	**1,811,286**	**740,221**	**33,500**	**12,321,487**

12 PROPERTY AND EQUIPMENT (continued)

	Building *AED*	*Furniture and fixtures* *AED*	*Office equipment* *AED*	*Capital work in progress* *AED*	*Total* *AED*
Cost:					
Additions during the period	10,226,500	1,487,390	1,293,959	41,320	13,049,169
At 31 December 2009	10,226,500	1,487,390	1,293,959	41,320	13,049,169
Depreciation:					
Charge for the period	234,357	100,119	451,972	-	786,448
At 31 December 2009	234,357	100,119	451,972	-	786,448
Net carrying amount:					
At 31 December 2009	9,992,143	1,387,271	841,987	41,320	12,262,721

Included in buildings are the Company's office apartments in Jumeirah Lake Towers, Dubai with a carrying value of AED 9,141,428 (2009: AED 9,381,466). As of 31 December 2010, the management estimated the fair value of these apartments at AED 4.5 m (2009: AED 4.5 million). However, the management considers that these apartments suffer no impairments as their value in use is assessed to be not less than their carrying amounts at 31 December 2010.

13 INTANGIBLE ASSETS

	2010 *AED*	*2009* *AED*
Cost:		
At the beginning of the year	**1,491,420**	-
Additions during the year/ period	**195,800**	1,491,420
At 31 December	**1,687,220**	1,491,420
Accumulated amortization:		
At the beginning of the year	**(248,570)**	-
Amortization charge for the year/period	**(565,974)**	(248,570)
At 31 December	**(814,544)**	(248,570)
Net carrying amount:		
At 31 December	**872,676**	1,242,850

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

14 FINANCIAL INSTRUMENTS

The Company's financial instruments other than derivative financial instruments are summarised by categories as follows:

	2010 *AED*	*2009* *AED*
Investment securities		
Financial assets at fair value through profit or loss	**4,582,118**	4,344,270
Available-for-sale financial assets	**887,245**	1,206,588
	5,469,363	5,550,858
Loans and receivables	**21,245,897**	8,566,240
	26,715,260	14,117,098

	2010 *AED*	*2009* *AED*
Investment securities attributable to:		
Shareholders	**5,204,845**	5,164,588
Participants (Note 16)	**264,518**	386,270
	5,469,363	5,550,858

The following table compares the fair values of the financial instruments to their carrying values as at December 31:

2010		***Carrying value AED***	***Fair value AED***
Financial assets at fair value through profit or loss	(a)	**4,582,118**	**4,582,118**
Available-for-sale financial assets	(b)	**887,245**	**887,245**
Loans and receivables	(c)	**21,245,897**	**21,245,897**
		26,715,260	**26,715,260**

2009		*Carrying value AED*	*Fair value AED*
Financial assets at fair value through profit or loss	(a)	4,344,270	4,344,270
Available-for-sale financial assets	(b)	1,206,588	1,206,588
Loans and receivables	(c)	8,566,240	8,566,240
		14,117,098	14,117,098

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

	2010 *AED*	*2009* *AED*
Fair value		
Equity securities (held for trading)	**4,582,118**	4,344,270

14 FINANCIAL INSTRUMENTS (continued)

(b) Available-for-sale financial assets

	2010 *AED*	*2009* *AED*
Fair value		
Equity securities	**887,245**	1,206,588

(c) Loans and receivables

	2010 *AED*	*2009* *AED*
Amortised cost		
Takaful receivables (Note 17)	**19,648,423**	5,106,481
Deposits (Note 18)	**748,888**	2,679,036
Other receivables (Note 18)	**848,586**	780,723
	21,245,897	8,566,240

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

	Notes	*Available for sale AED*	*Fair value through profit or loss AED*	*Total AED*
At 1 January 2010		1,206,588	4,344,270	5,550,858
Purchases during the year		-	2,005,510	2,005,510
Fair value (loss) recorded in the statement of income	9	-	(1,767,662)	(1,767,662)
Fair value (loss) recorded in the statement of comprehensive income	9	(319,343)	-	(319,343)
At 31 December 2010		**887,245**	**4,582,118**	**5,469,363**

	Notes	*Available for sale AED*	*Fair value through profit or loss AED*	*Total AED*
Purchases during the period		1,391,849	13,596,729	14,988,578
Disposals during the period		-	(7,416,628)	(7,416,628)
Fair value (loss) recorded in the statement of income	9	-	(1,835,831)	(1,835,831)
Fair value (loss) recorded in the statement of comprehensive income	9	(185,261)	-	(185,261)
At 31 December 2009		1,206,588	4,344,270	5,550,858

Fair value of financial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements, i.e., loans and receivables.

14 FINANCIAL INSTRUMENTS (continued)

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

Assets for which fair value approximates carrying value
For financial assets and financial liabilities that have a short-term maturity (less than three months), it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits, and savings accounts without a specific maturity. For other variable rate instruments an adjustment is made to reflect the change in required credit spread since the instrument was first recognised.

Fixed rate financial instruments
The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market profit rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed profit bearing deposits is based on discounted cash flows using prevailing money-market profit rates for debts with similar credit risk and maturity.

(e) Determination of fair value and fair values hierarchy

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

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

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

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

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

15 DEFICIT IN PARTICIPANTS' FUND

	2010 *AED*	*2009* *AED*
Qard Hassan against deficit in participants' fund	**41,265,658**	37,075,684
Less: Provision against Qard Hassan to participants' fund	**(22,726,766)**	(18,536,792)
Net deficit in participants' fund	**18,538,892**	18,538,892

The shareholders have funded the deficit in the participants' fund in accordance with the Company's policy through a Qard Hassan (free of finance charge with no repayment terms) of AED 41,265,658 (2009: AED 37,075,684). As at 31 December 2010, Qard Hassan at nominal value of AED 22,726,766 (2009: AED 18,536,792) was assessed to be impaired and, for the year then ended, AED 4,189,974 (Period 2009: AED 18,536,792) was charged to the statement of income for the year.

The management expects to recover the remaining balance from the future profits attributable to participants, including amount that is expected to be recovered as a result of the arbitration described in note 5.

16 PARTICIPANTS' FUND ASSETS AND LIABILITIES

	Notes	*2010* *AED*	*2009* *AED*
Investment securities	14	**264,518**	386,270
Takaful receivables	17	**19,648,423**	5,106,481
Retakaful assets	23	**1,828,087**	1,313,416
Prepayments and other assets	18	**1,359,836**	100,218
Wakala deposits	19	**2,627,439**	3,627,471
Cash and bank balances	20	**2,553,957**	1,101,873
Participants' fund assets		**28,282,260**	11,635,729
Takaful contract liabilities	23	**(30,918,487)**	(43,601,053)
Takaful payables	24	**(7,086,438)**	(1,563,974)
Participants' fund liabilities		**(38,004,925)**	(45,165,027)
Expenses payable to Shareholders		**(31,542,993)**	(3,546,386)
Total takaful fund liabilities		**(69,547,918)**	(48,711,413)
Accumulated deficit at 31 December		**(41,265,658)**	(37,075,684)

17 TAKAFUL RECEIVABLES

	2010 *AED*	*2009* *AED*
Contribution receivables	**13,542,947**	3,540,150
Receivable from other insurance and retakaful companies	**35,785,476**	31,246,331
	49,328,423	34,786,481
Less: Provisions for doubtful receivables	**(29,680,000)**	(29,680,000)
	19,648,423	5,106,481

As at 31 December 2010, receivables at nominal value of AED 29,680,000 (2009: AED 29,680,000). This amount was charged to the statement of income attributable to participants of Period 2009 (Note 7) and includes an amount of AED 29.2 million owed by retakaful companies on a fire claim (Note 5).

18 PREPAYMENTS AND OTHER RECEIVABLES

	2010 *AED*	*2009* *AED*
Deposits	**748,888**	2,679,036
Prepaid expenses	**1,604,973**	140,924
Other receivables	**848,586**	780,723
	3,202,447	3,600,683

18 PREPAYMENTS AND OTHER RECEIVABLES (continued)

	2010 *AED*	*2009* *AED*
Attributable to:		
Shareholders	**1,842,611**	3,500,465
Participants (Note 16)	**1,359,836**	100,218
	3,202,447	3,600,683

Included in the deposits is an amount of AED 650,888 (2009: AED 2,628,036) representing a balance held by a related party to be utilized for investment in securities on behalf of the Company (Note 27).

19 WAKALA DEPOSITS

	2010 *AED*	*2009* *AED*
Wakala deposits (a)	**39,421,504**	68,922,143
Wakala deposits held as statutory deposits (b)	**6,581,198**	6,263,666
	46,002,702	75,185,809
Attributable to:		
Shareholders	**43,375,263**	71,558,338
Participants (Note 16)	**2,627,439**	3,627,471
	46,002,702	75,185,809

(a) Wakala deposits have a fixed maturity of 3 to 6 months from the date of deposit and carry profit rate of 3% to 3.75% (Period 2009: 3.3% to 4.75%).

(b) Wakala deposits held as statutory deposits have a fixed maturity of one year from the date of deposit and carry profit rate of 3.75% (2009: 5%). These represent the amounts that cannot be withdrawn without the prior approval of the Ministry of Economy in accordance with Article 42 of the Federal Law No. 6 of 2007.

Wakala deposits of AED 136,525 (Period 2009: AED 49,000) are held as cash margins against bank guarantees (Note 31). All Wakala deposits are held with a related party (Note 27).

20 CASH AND BANK BALANCES

	2010 *AED*	*2009* *AED*
Cash	**6,376**	3,967
Bank balances	**2,595,755**	2,298,307
	2,602,131	2,302,274
Attributable to:		
Shareholders	**48,174**	1,200,401
Participants (Note 16)	**2,553,957**	1,101,873
	2,602,131	2,302,274

21 SHARE CAPITAL

	2010 AED	2009 AED
Authorised, issued and fully paid		
100,000,000 shares of AED 1 each	**100,000,000**	100,000,000

22 RESERVES

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

The statutory reserve is not available for distribution except in the circumstances prescribed by the law.

23 TAKAFUL CONTRACT LIABILITIES

2010	*Gross AED*	*Retakaful share AED*	*Net AED*
Unearned contribution reserve (Note 4)	21,673,909	(1,828,087)	19,845,822
Outstanding claims (a)	9,244,578	-	9,244,578
	30,918,487	**(1,828,087)**	**29,090,400**

2009	*Gross AED*	*Retakaful share AED*	*Net AED*
Unearned contribution reserve (Note 4)	8,315,988	(1,313,416)	7,002,572
Outstanding claims (a)	35,285,065	-	35,285,065
	43,601,053	(1,313,416)	42,287,637

23 TAKAFUL CONTRACT LIABILITIES (continued)

(a) Outstanding claims

	Outstanding claims AED	*Due from retakaful AED*	*Net AED*
At 1 January 2010	35,285,065	-	35,285,065
Net (decrease) during the year (note 5)	(26,040,487)	-	(26,040,487)
At 31 December 2010	**9,244,578**	-	**9,244,578**

	Outstanding claims AED	*Due from retakaful AED*	*Net AED*
At the start of period 2009	-	-	-
Net increase / (decrease) during the period (note 5)	35,285,065	(29,259,964)	6,025,101
Provision against retakaful companies (i)	-	29,259,964	29,259,964
At 31 December 2009	35,285,065	-	35,285,065

Outstanding claims include provision for claims incurred but not reported (IBNR) at the reporting date amounting to AED 1,355,565 (2009: AED 1,355,565). For analysis of takaful risk by line of business refer to Note 30.

Uncertainty about the amount and timing of claims payment for all material amounts is typically resolved within one year.

(i) As explained in note 5, the Company has made a cash call of AED 29.2 million to its retakaful companies representing the retakaful share of loss in a fire claim as per retakaful treaties. In the financial statements of the prior period ended 31 December 2009, the Company accounted for the retakaful share of the loss and made a full provision on the retakaful receivables.

24 TAKAFUL PAYABLES

	2010 AED	*2009 AED*
Due to retakaful and other takaful payables	**7,086,438**	1,563,974

25 OTHER LIABILITIES

	2010 AED	*2009 AED*
Trade and other payables	**2,368,517**	880,746
End of service benefits (Note 26)	**279,890**	144,376
Accrued leave salary	**215,032**	72,250
	2,863,439	1,097,372

26 EMPLOYEES' END OF SERVICE BENEFITS

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

	2010 *AED*	*Period from 23 July 2008 to 31 December 2009* *AED*
At the beginning of the period 2009	**144,376**	-
Provided during the period	**203,645**	236,471
End of service benefits paid	**(68,131)**	(92,095)
Provision at 31 December	**279,890**	144,376

27 RELATED PARTIES' TRANSACTIONS

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

a) Balances with related parties

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

	2010 *AED*	*2009* *AED*
Placements with Islamic financial institutions		
Shareholders		
Mawarid Finance PJSC (Note 19)	**46,002,702**	75,185,809
Due from related parties		
Al Jazeerah Financial Services (Note 18)	**650,888**	2,628,036
Due to a related party		
Mawarid Finance PJSC	**1,029,226**	350,000
Other related parties	**200,000**	-
	1,229,226	350,000

b) Transactions with related parties

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

	2010 *AED*	*Period from 23 July 2008 to 31 December 2009* *AED*
Income from wakala deposits		
Major Shareholders		
Mawarid Finance PJSC (Note 9)	**2,687,075**	5,560,109
Contributions earned		
Major Shareholders	**10,873**	48,284
Other related parties	**6,488,335**	-
	6,499,208	48,284

27 RELATED PARTIES' TRANSACTIONS (continued)

b) Transactions with related parties (continued)

	2010 AED	Period from 23 July 2008 to 31 December 2009 AED
Other income		
Major Shareholders		
Mawarid Finance PJSC	-	290,000

	2010 AED	Period from 23 July 2008 to 31 December 2009 AED
Management charges paid		
Major Shareholders		
Mawarid Finance PJSC	**650,000**	1,000,000
Purchase of property		
Major Shareholders		
Mawarid Finance PJSC	-	9,601,500

c) Compensation of key management personnel

	2010 AED	Period from 23 July 2008 to 31 December 2009 AED
Short-term benefits	**2,199,150**	807,367
Employees' end of service benefits	**116,489**	33,351
	2,315,639	840,718

28 FATWA AND SHARI'A SUPERVISORY BOARD

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

29 ZAKAT

Zakat as approved by the Company's Sharia'a Supervisory Board amounted to AED 0.01239 per share (2009: 0.028 per share).

As decided by the Extraordinary General Assembly dated 8 April 2010, the shareholders have opted to communicate the amount of Zakat payable to each shareholder, requiring them to pay their share of Zakat directly.

30 RISK MANAGEMENT

(i) Governance framework

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

The Company's risk management function is carried out by the Board of Directors, with its associated committees. This is supplemented with a clear organisational structure with delegated authorities and responsibilities from the Board of Directors to the Chief Executive Officer, General Manager and senior managers.

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

(ii) Capital management framework

The primary objective of the Company's capital management is to comply with the regulatory requirements in the UAE and to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholder value. Capital comprises share capital and accumulated losses and is measured at AED 69,617,844 (2009: AED 78,841,585).

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

(iii) Regulatory framework

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

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

(iv) Asset liability management (ALM) framework

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

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

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

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

30 RISK MANAGEMENT (continued)

30A Takaful risk

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

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

Frequency and amounts of claims

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

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

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. The Company has retakaful cover for such claims to limit losses for any individual claim to AED 200,000 (Period 2009: AED 200,000).

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

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

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

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Company has retakaful cover for such damage to limit losses for any individual claim to AED 350,000 (Period 2009: AED 350,000).

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

For marine takaful the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered. The Company has retakaful to limit losses for any individual claim to AED 350,000 (Period 2009: AED 350,000).

30 RISK MANAGEMENT (continued)

30A Takaful risk (continued)

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

The Company's policies aim careful selection and implementation of underwriting strategy guidelines, as well as the use of retakaful arrangements. The Company has retakaful to limit losses for any individual claim to AED 350,000 (Period 2009: AED 350,000).

The table below sets out the concentration of contract liabilities by type of contract excluding the provision for claims incurred but not reported at reporting date amounting to AED 1,355,565 (2009: AED 1,355,565):

2010	*Gross Liabilities AED*	*Retakaful share of liabilities AED*	*Net liabilities (Assets) AED*
Motor	7,055,669	-	7,055,669
Property	14,726	-	14,726
Fire	504,698	-	504,698
Others	313,920	-	313,920
Total	**7,889,013**	**-**	**7,889,013**

2009	*Gross Liabilities AED*	*Retakaful share of liabilities AED*	*Net liabilities (Assets) AED*
Motor	2,888,888	-	2,888,888
Property	3,099	(35,364)	(32,265)
Fire	31,000,200	(29,202,300)	1,797,900
Others	37,313	(22,300)	15,013
Total	33,929,500	(29,259,964)	4,669,536

Geographical concentration of risks

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

Retakaful risk

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

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

30 RISK MANAGEMENT (continued)

30B Financial risk

The Company's principal financial instruments are financial investments (trading and available for sale securities), receivables arising from takaful and retakaful contracts, statutory deposits and cash and cash equivalents.

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

The Company does not enter into derivative transactions.

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

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

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

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

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

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

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

	Notes	*2010 AED*	*2009 AED*
Takaful receivable	17	**19,648,423**	5,106,481
Retakaful assets	23	**1,828,087**	1,313,416
Deposits	18	**748,888**	2,679,036
Other receivables	18	**848,586**	780,723
Wakala deposits	19	**46,002,702**	75,185,809
Cash and cash equivalents	20	**2,602,131**	2,302,274
		71,678,817	87,367,739

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

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

30 RISK MANAGEMENT (continued)

30B Financial risk (continued)

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

31 December 2010	*Unimpaired*				
	High grade AED	***Standard grade (satisfactory) AED***	***Sub-standard grade (unsatisfactory) AED***	***Past due and impaired AED***	***Total AED***
Takaful receivable	-	19,648,423	-	29,680,000	49,328,423
Retakaful assets	-	1,828,087	-	-	1,828,087
Deposits	748,888	-	-	-	748,888
Other receivables	-	848,586	-	-	848,586
Wakala deposits	-	46,002,702	-	-	46,002,702
Bank balances and cash	2,602,131	-	-	-	2,602,131
	3,351,019	**68,327,798**	-	**29,680,000**	101,358,817
Less: Impairment provision (Note 17)					(29,680,000)
					71,678,817

31 December 2009	*Unimpaired*				
	High grade AED	*Standard grade (satisfactory) AED*	*Sub-standard grade (unsatisfactory) AED*	*Past due and impaired AED*	*Total AED*
Takaful receivable	-	5,106,481	-	29,680,000	34,786,481
Retakaful assets	-	1,313,416	-	-	1,313,416
Deposits	2,679,036	-	-	-	2,679,036
Other receivables	-	780,723	-	-	780,723
Wakala deposits	-	75,185,809	-	-	75,185,809
Bank balances and cash	2,302,274	-	-	-	2,302,274
	4,981,310	82,386,429	-	29,680,000	117,047,739
Less: Impairment provision (Note 17)					(29,680,000)
					87,367,739

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

30 RISK MANAGEMENT (continued)

30B Financial risk (continued)

Credit risk (continued)

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

2010	***Assets*** ***AED***	***Liabilities*** ***AED***	***Commitments*** ***AED***
United Arab Emirates	71,678,817	40,606,942	-
Rest of the world	-	261,422	-
Total	**71,678,817**	**40,868,364**	-

2009	*Assets* *AED*	*Liabilities* *AED*	*Commitments* *AED*
United Arab Emirates	87,367,739	45,373,399	370,000
Rest of the world	-	789,000	-
Total	87,367,739	46,262,399	370,000

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

	Neither past due nor impaired	*Past due but not impaired*		*Unimpaired*		
	Up to 60 days AED	*60 to 120 days AED*	*Above 120 days AED*	*Total AED*	*Past due and impaired AED*	*Total AED*
31 December 2010	**11,585,376**	**4,052,809**	**4,010,238**	**19,648,423**	**29,680,000**	**49,328,423**
31 December 2009	2,840,670	688,295	1,577,516	5,106,481	29,680,000	34,786,481

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

Impaired financial assets
At 31 December 2010 there are impaired contribution receivables and retakaful receivable of AED 29,680,000 (2009: AED 29,680,000). The Company records impairment allowances in a separate impairment allowance account.

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

30 RISK MANAGEMENT (continued)

30B Financial risk (continued)

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

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

The table below summarises the maturity profile of the financial assets and liabilities of the Company based on remaining undiscounted contractual obligations.

	31 December 2010				
Financial assets	*less than 3 months AED*	*3 to 12 months AED*	*1 to 5 years AED*	*Over 5 years AED*	*Total AED*
Financial assets at fair value through profit and loss account	4,582,118	-	-	-	4,582,118
Available-for-sale financial assets	887,245	-	-	-	887,245
Takaful and retakaful receivables	21,476,510	-	-	-	21,476,510
Deposits	748,888	-	-	-	748,888
Other receivables	848,586	-	-	-	848,586
Wakala deposits	39,421,504	6,581,198	-	-	46,002,702
Bank balances and cash	2,602,131	-	-	-	2,602,131
Total assets	**70,566,982**	**6,581,198**	-	-	**77,148,180**
Financail liabilities					
Outstanding claims	9,244,578	-	-	-	9,244,578
Takaful payable	7,086,438	-	-	-	7,086,438
Trade and other payables	2,368,518	-	-	-	2,368,518
Total liabilities	**18,699,534**	-	-	-	**18,699,534**

30 RISK MANAGEMENT (continued)

30B Financial risk (continued)

Liquidity risk (continued)

	31 December 2009				
Financial assets	*less than 3 months AED*	*3 to 12 months AED*	*1 to 5 years AED*	*Over 5 years AED*	*Total AED*
Financial assets at fair value through profit and loss account	4,344,270	-	-	-	4,344,270
Available-for-sale financial assets	1,206,588	-	-	-	1,206,588
Takaful and retakaful receivables	6,419,897	-	-	-	6,419,897
Deposits	2,679,036	-	-	-	2,679,036
Other receivables	780,723	-	-	-	780,723
Wakala deposits	68,922,143	6,263,666	-	-	75,185,809
Bank balances and cash	2,302,274	-	-	-	2,302,274
Total assets	86,654,931	6,263,666	-	-	92,918,597
Financial liabilities					
Outstanding claims	4,285,065	31,000,000	-	-	35,285,065
Takaful payable	1,563,974	-	-	-	1,563,974
Trade and other payables	880,746	-	-	-	880,746
Total liabilities	6,729,785	31,000,000	-	-	37,729,785

Provision for outstanding claims incurred but not reported amounting to AED 1,355,565 (2009: AED 1,355,565) has been excluded from the total outstanding claims as it is not a financial liability.

Market risk

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

Foreign currency risk

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

Profit rate risk

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

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

30 RISK MANAGEMENT (continued)

30B Financial risk (continued)

Profit rate risk (continued)
The analysis below shows possible movements in profit rates and their impact on profitability of the company.

	Increase in basis points	*Effect on profit for the period AED*
2010		
Profit bearing assets	**+ 100**	**460,027**
2009		
Profit bearing assets	+ 100	1,127,787

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

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

The Company has no significant concentration of price risk. The price risk is managed by outsourcing the trading of securities held by the company to professional brokers. However the activities of brokers are also monitored and supervised by the management.

The analysis below shows possible movements in the stock market indices and their impact on profit of the company.

	Increase in basis points	*Effect on profit and loss for the period AED*	*Effect on other comprehensive income AED*
2010			
Equity securities	**+ 20%**	**916,423**	**177,449**
2009			
Equity securities	+ 20%	868,854	241,318

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

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

31 COMMITMENTS AND GUARANTEES

Commitments

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

	2010 *AED*	*2009* *AED*
Development of new software	-	85,000
Decoration of new branch office	-	285,000
	-	370,000

Guarantees

As at 31 December 2010, the Company has bank guarantees against labour and third party commitments for AED 131,750 (2009: AED 49,000). These are secured by cash margins of AED 136,525 (2009: AED 49,000) included in Wakala deposits.

32 CHANGES IN THE DISCLOSURES RELATING TO 2009 PERIOD

Statement of income
The management has changed the presentation of the statement of income in order to split the disclosure of Contributions Earned into Gross contributions written and Changes in unearned contributions. This has also resulted in changing the way contributions ceded to Retakaful were presented.

Those changes are meant to improve the relevance of the statement of income and the comparability of information there included and has no other impact on the financial position, performance or cash flow of the Company for the Period 2009 or the year ended 31 December 2010.

Statement of financial position
Expenses payable to shareholders which were previously reported under takaful liabilities in participant liabilities for AED 3,546,386 at 31 December 2009, were netted off against the same amount previously included under prepayments and other assets in shareholders' assets.