

**Abu Dhabi National Takaful  
Company PSC**

REPORT OF THE BOARD OF DIRECTORS'  
AND FINANCIAL STATEMENTS

31 DECEMBER 2010

**Abu Dhabi National Takaful  
Company PSC**

REPORT OF THE BOARD OF DIRECTORS'

31 DECEMBER 2010

**Board of Directors**

**Chairman** H.E. Khadem A. Al Qubaisi

**Vice Chairman** Mr. Khamis Buharoon

**Directors** Mr. Khalifa A. Khamis Al Rumaithi  
Mr. Adel Ahmed Al Zarouni  
Mr. Khalid Deemas Al Suwaidi  
Mr. Mohammed Ismail Al Fahim  
Mr. Khalid Al Mansouri

**Chief Executive Officer** Mr. Osama Abdeen

**Sharia'a Supervisory Board** Dr. Abdul Sattar Abu Ghuddah  
Sheikh Nizam Yaqubi  
Sheikh Osaid Kailani

**Auditors** Ernst & Young

**Dear Shareholders,**

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

It gives us pleasure to meet you and present to the General Assembly the seventh annual report on the activities of the company and its audited financial position for the year ended 31 December 2010 along with the Fatwa & Sharia'a Supervisory Board and Independent Auditor Reports.

The company stress on its original strategy by concentrating on the risk management development and controls to protect the rights of the takaful participants and shareholders and improve the technical results of takaful activities despite the current circumstances experienced by insurance industry as a result of sever fluctuations in financial markets.

As for the operation activities of the company during the year 2010, The company achieved net profit of AED 21,001,705 that represents approximately 20% as return on equity, the audited financial reports supported with auditors notes demonstrate the development made by the company.

Below is a summary of the results in comparison with the same period ended 31/12/2009:

- The gross contributions revenue for year 2010 reached AED 160 million compared to AED 228 million for year 2009, the company focused in 2010 on the businesses with high margin and reduced business with adverse results.
- Net claims incurred for year 2010 reached AED 40.0 million comparing to AED 65.1 million for year 2009. And loss ratio reduced to 47.5% comparing to 58.5% for the last year.
- Technical profit ratio to gross contributions increased from 24.0% to 27.6% for year 2010.
- Net investment income reached AED 5.4 million comparing to AED 18.3 million as net losses for the last year.
- Total cash and bank balances reached AED 159.0 million comparing to AED 139.3 million at the end of last year, and all deposited with UAE banks.
- Net profit for the year is AED 21.0 million comparing to AED 2.6 million for the same period last year and basic earning per share is AED 0.29 compared to AED 0.04 last year.
- Shareholder's equity at 31/12/2010 reached AED 126.3 million comparing to AED 106.2 million last year.

### **Distribution of Profits**

The net profits achieved by the company during the year ended 31 December 2010 amounted to AED 21,001,705. In accordance with article (58) of articles of association of the company, we propose to the general assembly to distribute 25% of the paid up capital as bonus shares to its shareholders.

### **Board of Directors Recommendations**

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

- 1) The Annual Report of the Board of Directors, Fatwa & Sharia'a Supervisory Board report and the External Auditor's report for the year ended 31<sup>st</sup> December, 2010.
- 2) The statement of financial position and income statement for the year ended 31<sup>st</sup> December, 2010.
- 3) The profit appropriation for the year ended 31<sup>st</sup> December 2010 amounting to AED 26,509,808 inclusive of the opening retained earnings of AED 5,508,103 as follows:

	<u><b>AED</b></u>
Proposed Bonus shares 25% of the paid up capital as dividend	18,150,000
Transfer to legal reserve	2,100,171
Board of Directors remunerations	1,500,000
Retained earnings, carried forward	<u>4,759,637</u>
	<u>26,509,808</u>

- 4) Release of the Directors, External Auditors and members of the Fatwa & Sharia'a Supervisory Board for their works during the year ended 31<sup>st</sup> of December, 2010.
- 5) Appoint or reappoint the External Auditors for the year ended 31<sup>st</sup> of December, 2011 and agree on the fees.
- 6) Elect Board Members for the next period.

THE ANNUAL REPORT OF THE BOARD OF DIRECTORS "continued"  
Year ended 31 December 2010

**Valued Shareholders,**

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

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

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

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

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



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

**Abu Dhabi National Takaful  
Company PSC**

FINANCIAL STATEMENTS

31 DECEMBER 2010

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ABU DHABI NATIONAL TAKAFUL COMPANY PSC

### Report on the financial statements

We have audited the accompanying financial statements of Abu Dhabi National Takaful Company PSC ("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 statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Management's Responsibility for the financial statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of the Company and the UAE Commercial Companies Law of 1984 (as amended), and for such internal control as management determines is necessary to enable preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' 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 auditors' 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 in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



*Opinion*

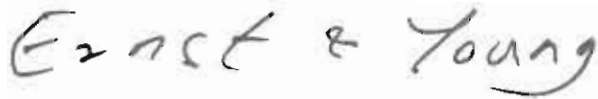
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Other matter*

The financial statements for the year ended 31 December 2009 were audited by another auditor whose report dated 22 February 2010 expressed an unqualified opinion on those financial statements.

**Report on Other Legal and Regulatory Requirements**

We also confirm that, in our opinion, the financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended) and the articles of association of the Company; proper books of account have been kept by the Company; and the contents of the report of the Board of Directors relating to these financial statements are consistent with the books of account. We further report that 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) 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.

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive, slightly stylized font.

Signed by  
Andre Kasparian  
Partner  
Ernst & Young  
Registration No. 365

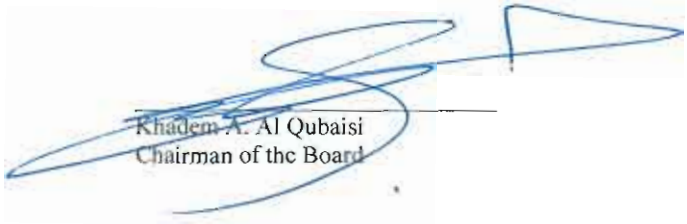
13 February 2011  
Abu Dhabi

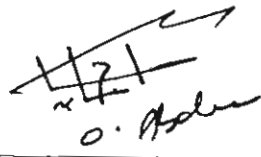
# Abu Dhabi National Takaful Company PSC

## STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	2010 AED	2009 AED
<b>ASSETS</b>			
Cash and bank balances	5	158,973,850	139,256,942
Statutory deposit	6	10,000,000	10,000,000
Investments carried at fair value through other comprehensive income	7	37,478,243	-
Available-for-sale investments	7	-	42,283,190
Retakaful contract assets	8	83,663,352	89,966,475
Takaful and other receivables	10	27,132,395	37,903,749
Prepayments and other assets	28	17,849,595	18,769,192
Furniture and equipment	11	<u>1,839,512</u>	<u>2,476,191</u>
<b>TOTAL ASSETS</b>		<b><u>336,936,947</u></b>	<b><u>340,655,739</u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital	12	72,600,000	66,000,000
Legal reserve	13	7,801,930	5,701,759
General reserve	14	25,658,718	25,658,718
Investment revaluation reserve		(4,190,643)	(3,254,093)
Retained earnings		<u>24,409,637</u>	<u>12,108,103</u>
<b>Total shareholders' equity</b>		<b><u>126,279,642</u></b>	<b><u>106,214,487</u></b>
<b>Policyholders' fund</b>			
Deficit of policyholders' fund	16	(10,256,672)	(24,903,422)
Loan from shareholders	16	<u>10,256,672</u>	<u>24,903,422</u>
<b>Total policyholders' fund</b>		<b>-</b>	<b>-</b>
<b>Liabilities</b>			
Provision for end of service benefits	17	2,333,548	3,103,739
Takaful contract liabilities	8	144,527,851	157,117,848
Accounts payable and accruals	18	49,111,006	58,743,102
Retakaful deposits retained		<u>14,684,900</u>	<u>15,476,563</u>
<b>Total liabilities</b>		<b><u>210,657,305</u></b>	<b><u>234,441,252</u></b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b><u>336,936,947</u></b>	<b><u>340,655,739</u></b>

  
Khadem A. Al Qubaisi  
Chairman of the Board

  
Osama Abdeen  
Chief Executive Officer

The attached notes 1 to 29 form part of these financial statements.

# Abu Dhabi National Takaful Company PSC

## STATEMENT OF INCOME

Year ended 31 December 2010

	Notes	2010 AED	2009 AED
<b>Attributable to policyholders</b>			
Gross takaful contributions revenue	19	159,998,213	228,239,497
Retakaful contributions	19	<u>(75,646,006)</u>	<u>(116,976,747)</u>
<b>Net earned contributions</b>	19	<b>84,352,207</b>	<b>111,262,750</b>
Gross claims incurred		(72,386,574)	(120,040,927)
Retakaful share of claims incurred		<u>32,344,662</u>	<u>54,941,042</u>
<b>Net claims incurred</b>		<b>(40,041,912)</b>	<b>(65,099,885)</b>
<b>Takaful income</b>		<b>44,310,295</b>	<b>46,162,865</b>
Takaful expenses		(13,805,221)	(9,698,783)
Retakaful and other income		<u>10,823,387</u>	<u>9,345,483</u>
<b>Takaful operating profit</b>		<b>41,328,461</b>	<b>45,809,565</b>
Policyholders' investment income	20	3,495,744	4,344,516
Mudareb share	21	(1,048,723)	(1,303,354)
Wakalah fees	21	<u>(29,128,732)</u>	<u>(38,146,235)</u>
<b>Surplus of takaful result for the year</b>		<b>14,646,750</b>	<b>10,704,492</b>
<b>Attributable to shareholders</b>			
Shareholders' investment and other income, net	22	1,905,616	(22,621,917)
Mudareb share from policyholders	21	1,048,723	1,303,354
Wakalah fees from policyholders	21	29,128,732	38,146,235
General and administrative expenses	23	(25,728,116)	(24,949,916)
Decrease in provision of loan to policyholders' fund	16	<u>14,646,750</u>	<u>10,704,492</u>
<b>Net profit for the year</b>		<b>21,001,705</b>	<b>2,582,248</b>
<b>Basic earnings per share</b>	24	<u>0.29</u>	<u>0.04</u>

The attached notes 1 to 29 form part of these financial statements.

# Abu Dhabi National Takaful Company PSC

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	<i>2010</i> <i>AED</i>	<i>2009</i> <i>AED</i>
<b>Net profit for the year</b>	<b><u>21,001,705</u></b>	<b><u>2,582,248</u></b>
<b>Other comprehensive income</b>		
Reclassification adjustment for impairment included in the statement of income	-	23,998,194
Changes in fair value relating to investments carried at fair value through other comprehensive income, net	<b>(936,550)</b>	-
Increase in fair value of available-for-sale investments	<u>-</u>	<u>5,984,428</u>
<b>Other comprehensive (loss) income for the year</b>	<b><u>(936,550)</u></b>	<b><u>29,982,622</u></b>
<b>Total comprehensive income for the year</b>	<b><u>20,065,155</u></b>	<b><u>32,564,870</u></b>

The attached notes 1 to 29 form part of these financial statements.

# Abu Dhabi National Takaful Company PSC

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Share capital AED	Legal reserve AED	General reserve AED	Investment revaluation reserve AED	Retained earnings AED	Total AED
Balance at 1 January 2009	60,000,000	5,443,534	25,658,718	(33,236,715)	15,784,080	73,649,617
Net profit for the year	-	-	-	-	2,582,248	2,582,248
Other comprehensive income	-	-	-	29,982,622	-	29,982,622
Total comprehensive income for the year	-	-	-	29,982,622	2,582,248	32,564,870
Transfer to legal reserve	-	258,225	-	-	(258,225)	-
Bonus share issue for the year 2008	6,000,000	-	-	-	(6,000,000)	-
Balance at 31 December 2009	<u>66,000,000</u>	<u>5,701,759</u>	<u>25,658,718</u>	<u>(3,254,093)</u>	<u>12,108,103</u>	<u>106,214,487</u>
Balance at 1 January 2010	66,000,000	5,701,759	25,658,718	(3,254,093)	12,108,103	106,214,487
Net profit for the year	-	-	-	-	21,001,705	21,001,705
Other comprehensive loss	-	-	-	(936,550)	-	(936,550)
Total comprehensive income for the year	-	-	-	(936,550)	21,001,705	20,065,155
Transfer to legal reserve	-	2,100,171	-	-	(2,100,171)	-
Bonus share issue for the year 2009 (note 15)	6,600,000	-	-	-	(6,600,000)	-
Balance at 31 December 2010	<u>72,600,000</u>	<u>7,801,930</u>	<u>25,658,718</u>	<u>(4,190,643)</u>	<u>24,409,637</u>	<u>126,279,642</u>

The attached notes 1 to 29 form part of these financial statements.

# Abu Dhabi National Takaful Company PSC

## STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	<i>Note</i>	<i>2010</i> <i>AED</i>	<i>2009</i> <i>AED</i>
<b>OPERATING ACTIVITIES</b>			
Profit for the year		21,001,705	2,582,248
Adjustments for:			
Depreciation of furniture and equipment		1,084,935	1,203,517
Movement of unearned contributions		(8,554,969)	(17,649,873)
Impairment loss on available-for-sale investments		-	23,998,194
Fixed deposits and dividend income		(5,282,934)	(5,706,260)
Net movement in provision for end of service benefits		(770,191)	682,416
Movement in provision for doubtful debts		560,996	-
Gain on disposal of furniture and equipment		(45,524)	(14,533)
		<u>7,994,018</u>	<u>5,095,709</u>
Operating profit before movements in working capital:			
Decrease in takaful and other receivables		10,210,358	3,835,848
Decrease (increase) in prepayments and other assets		919,597	(50,491)
Movement of outstanding claims		2,268,095	4,412,405
(Decrease) increase in accounts payable and accruals		(9,632,096)	2,401,482
(Decrease) increase in retakaful deposits retained		(791,663)	693,882
		<u>10,968,309</u>	<u>16,388,835</u>
Net cash from operating activities		<u>10,968,309</u>	<u>16,388,835</u>
<b>INVESTING ACTIVITIES</b>			
Movement in investment securities		3,868,397	4,488,976
Payments for furniture and equipment		(579,732)	(325,789)
Proceeds from disposal of furniture and equipment		177,000	17,000
Fixed deposits and dividend income received		5,282,934	5,706,260
Term deposits		(81,707,875)	-
		<u>(72,959,276)</u>	<u>9,886,447</u>
Net cash (used in) from investing activities		<u>(72,959,276)</u>	<u>9,886,447</u>
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(61,990,967)</b>	<b>26,275,282</b>
Cash and cash equivalents at the 1 January		<u>139,256,942</u>	<u>112,981,660</u>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	5	<u><b>77,265,975</b></u>	<u><b>139,256,942</b></u>

The attached notes 1 to 29 form part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

### 1 GENERAL

Abu Dhabi National Takaful Company PSC (the "Company") is a public shareholding company which was incorporated in Abu Dhabi, United Arab Emirates ("UAE") on 16 November 2003. The Company is registered in accordance with the UAE Federal Law No. (8) of 1984 (as amended).

The Company carries out takaful and retakaful activities of all classes in accordance with the provisions of the UAE Federal Law No. (9) of 1984 relating to insurance companies and insurance agents. The Company is domiciled and operates in the UAE and its registered address is P.O. Box 35335, Abu Dhabi, UAE.

The financial statements of Abu Dhabi National Takaful Company PSC for the year ended 31 December 2010 have been authorised for issue in accordance with a resolution of the Board of Directors on 13 February 2011.

### 2.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with the International Financial Reporting Standards and applicable requirements of UAE Commercial Companies Law (as amended).

The financial statements are prepared under the historical cost convention as modified for re-measurement of investment securities at fair value.

The financial statements are presented in United Arab Emirates Dirhams (AED) being the functional and presentation currency of the Company.

### 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2010:

- IFRS 9 Financial Instruments
- IFRS 2 Share-based Payment: Company Cash-settled Share-based Payment Transactions effective 1 January 2010;
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5 IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39;
- 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;

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

**2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES** continued

The adoption of the standards or interpretations is described below:

*IFRS 9 Financial Instruments*

The Company has adopted IFRS 9 in 2010 in advance of its effective date. The initial date of the application of IFRS 9 is 1 January 2010. The Standard has been applied prospectively.

IFRS 9 requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are subsequently measured at either fair value or amortized cost on the basis of both:

- a. its business model for managing the financial assets; and
- b. the contractual cash flow characteristics of the financial asset.

A financial asset is measured at amortized cost if both of the following conditions are met:

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

Additionally, even if the asset meets the amortised cost criteria, the Company may choose at initial recognition to designate the financial asset as at fair value through profit or loss ("FVTPL") if doing so eliminates or significantly reduces an accounting mismatch. IFRS 9 also permits classification of equity instruments except for those held for trading as at fair value through other comprehensive income ("FVTOCI") at initial recognition. If the equity investment is as at FVTOCI, all gains and losses, except for dividend income recognised in accordance with IAS 18 Revenue, are recognised in other comprehensive income and are not subsequently reclassified to profit or loss.

The Board of directors have reviewed and assessed all of the Company's existing financial assets as at the date of initial application of IFRS 9. As a result the Company's available-for-sale investments have been reclassified to FVTOCI.

The reclassification of financial assets on initial application of IFRS 9 changed either the measurement basis and/or the policy for the recognition of gains or losses for the following financial assets of the Company:

- equity instruments amounting to AED 42,283 thousand as at 31 December 2009 that were previously measured at fair value and classified as available-for-sale have been reclassified to FVTOCI.

The impact of adopting IFRS 9 has been effected in the current year without prior year restatement. The decrease in fair value during the year amounting to AED 936,550 was recognised in other comprehensive income during the year.

*IFRS 2 Share-based Payment (Revised):*

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for Company cash-settled share-based payment transactions. The Company adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Company.

*IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended):*

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results. The Company adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Company.



NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

**2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES** continued

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010. The Company adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Company.

*IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items*

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Company has concluded that the amendment will have no impact on the financial position or performance of the Company, as the Company has not entered into any such hedges.

*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 the financial position or performance of the Company.

**2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE**

Standards issued but not yet effective up to the date of the issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become applicable.

- IAS 24 Related Party Disclosures (Amendment)
- IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)
- IFRIC 14 Prepayments of a minimum funding requirement (Amendment)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Improvements to IFRSs (issued in May 2010)

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

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Takaful contracts**

*Definition*

The Company issues contracts that transfer takaful risk. Takaful contracts are those contracts when the Company (the insurer) has accepted takaful risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders.

*Recognition and measurement*

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

These contracts are casualty and property takaful contracts.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

**Takaful contracts** continued

*Recognition and measurement* continued

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

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

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

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

*Retakaful contract assets*

Contracts entered into by the Company for retakaful under which the Company's is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements of takaful contracts are classified as retakaful contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

Takaful contracts entered into by the Company under which the contract holder is involved in takaful activities are included with takaful contracts. The benefits to which the Company is entitled under its retakaful contracts held are recognised as retakaful contract assets. The Company assesses its retakaful contract assets for impairment on a regular basis. If there is objective evidence that the retakaful contract asset is impaired, the Company reduces the carrying amount of the retakaful contract assets to its recoverable amount and recognises that impairment loss in the statement of income. Amounts recoverable from or due to retakaful holders are measured consistently with the amounts associated with the retakaful contracts and in accordance with the terms of each retakaful contract.

*Takaful contract liabilities*

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

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

*Salvage and subrogation reimbursements*

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

**Takaful contracts** continued

*Liability adequacy test*

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the takaful contract liabilities net of related deferred policy acquisition costs. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the statement of income initially by writing off the deferred policy acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests.

*Receivables and payables related to takaful contracts*

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

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

**Revenue recognition**

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

*Dividend income*

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

*Other income*

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

*Retakaful income and expenses*

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

**Foreign currencies**

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

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

**Furniture and equipment**

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

**Furniture and equipment** continued

Depreciation is calculated so as to write off the cost of furniture and equipment on a straight-line basis over their expected useful economic lives.

The principal annual rates used for this purpose are:

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

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

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

**Impairment of tangible assets**

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

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

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

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

**Provisions**

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

**Employee benefits**

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

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

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

**Financial assets**

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

*Cash and cash equivalents*

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

*Takaful and other receivables*

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

*Investment carried at fair value through other comprehensive income*

Investments carried at fair value through other comprehensive income are initially recorded at cost and subsequently measured at fair value. Subsequent changes in fair value and gains or losses arising on disposal are recognised in other comprehensive income and dividend income is credited to statement of income when the right to receive the dividend is established.

*Available-for-sale investments*

Available-for-sale investments are recognised and derecognised, on a trade date basis, when the Company becomes, or ceases to be, a party to the contractual provisions of the instrument.

Investments designated as available for sale investments are initially recorded at cost and subsequently measured at fair value, unless this cannot be reliably measured. Changes in fair value are reported as a separate component of equity. Upon impairment any loss, or upon derecognition any gain or loss, previously reported as "cumulative changes in fair value" within equity is included in the statement of income for the year. Reversals in respect of impairment losses are not recognised in the statement of income.

*Derecognition of financial assets*

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

**3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

**Financial liabilities and equity instruments**

*Classification as debt or equity*

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

*Equity instruments*

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

*Trade payables and accruals*

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

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

*Derecognition of financial liabilities*

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

**Deficit in policyholders' fund**

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

**Dividends distribution**

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

**4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION OF UNCERTAINTY**

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

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

**Classification of investments**

Management decides on acquisition of an equity investment whether it should be classified as carried at fair value through profit or loss or through other comprehensive income.

**Valuation of unquoted equity investments**

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

**4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION OF UNCERTAINTY** continued

**Impairment of AFS investments**

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

In assessing the volatility in the share price, management also takes into consideration various aspects related to the market, including but not limited to, volume of trading over the past period, whether the listed price is a reflection of a distressed value driven by inactive or illiquid one way market, and the subsequent performance of the market after the reporting date. Management also considers its intent and ability to hold the investment until its market price recovers. Impairment of investments as at 31 December 2009 amounted to AED 23,998,194. Due to early adoption of IFRS 9, as of 1 January 2010 AFS investments were reclassified as FVTOCI.

**Impairment of takaful and other receivables**

An estimate of the collectible amount of takaful and other receivables is made when collection of the full amount is no longer probable. This determination of whether the takaful and other receivables are impaired entails the Company in evaluating the credit and liquidity position of the policyholders and the takaful companies, historical recovery rates including detailed investigations carried out and feedback received from the legal department. Impairment of takaful and other receivables as at 31 December 2010 amounted to AED 560,996 (2009: AED nil).

**The ultimate liability arising from claims made under takaful contracts**

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

**Liability adequacy test**

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

**5 CASH AND CASH EQUIVALENTS**

	<i>2010</i>	<i>2009</i>
	<i>AED</i>	<i>AED</i>
Cash and bank accounts	11,814,255	8,717,559
Term deposits (note 9)	<u>147,159,595</u>	<u>130,539,383</u>
Cash and bank balances	158,973,850	139,256,942
Less: term deposits with original maturity of more than three months	<u>(81,707,875)</u>	-
Cash and cash equivalents	<u>77,265,975</u>	<u>139,256,942</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

**5 CASH AND CASH EQUIVALENTS** continued

Term deposits represent deposits held with financial institutions in UAE, are denominated in UAE Dirhams and carry profit at the prevailing market rates ranging from 1.75% to 3.8% per annum (2009: 2.5% to 4.25%).

**6 STATUTORY DEPOSIT**

In accordance with the requirements of UAE Federal Law No. (6) of 2007, covering insurance companies and agencies, the Company maintains a bank deposit of AED 10,000,000 which cannot be utilised without the consent of the UAE Insurance Authority. The statutory deposit is held with a commercial bank in UAE, a related party.

**7 INVESTMENT SECURITIES**

**Investments carried at fair value through other comprehensive income**

	<i>2010</i> <i>AED</i>	<i>2009</i> <i>AED</i>
Quoted securities	15,559,897	-
Unquoted securities	<u>21,918,346</u>	<u>-</u>
	<u><b>37,478,243</b></u>	<u><b>-</b></u>

The geographical concentration of investments is as follows:

	<i>2010</i> <i>AED</i>	<i>2009</i> <i>AED</i>
Within UAE	37,340,835	-
Outside UAE	<u>137,408</u>	<u>-</u>
	<u><b>37,478,243</b></u>	<u><b>-</b></u>

**Available for sale investments**

	<i>2010</i> <i>AED</i>	<i>2009</i> <i>AED</i>
Quoted securities	-	11,662,491
Unquoted securities		
- at cost		10,850,450
- at fair value	<u>-</u>	<u>19,770,249</u>
	<u><b>-</b></u>	<u><b>42,283,190</b></u>

The geographical concentration of investments is as follows:

	<i>2010</i> <i>AED</i>	<i>2009</i> <i>AED</i>
Within UAE	-	42,137,738
Outside UAE	<u>-</u>	<u>145,452</u>
	<u><b>-</b></u>	<u><b>42,283,190</b></u>



# Abu Dhabi National Takaful Company PSC

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

### 7 INVESTMENT SECURITIES continued

In 2009, management reviewed its available-for-sale investments for impairment based on criteria that include the extent to which carrying value exceeds market value, the duration of the market decline, management's intent and ability to hold investment up to recovery and the financial health and specific prospects of the issuer.

### 8 RETAKAFUL CONTRACT ASSETS AND TAKAFUL CONTRACT LIABILITIES

	2010 AED	2009 AED
<b>Gross</b>		
<b>Takaful contract liabilities</b>		
Reported claims	65,051,196	67,574,176
Claims incurred but not reported	13,885,363	13,829,045
Unearned contributions	<u>65,591,292</u>	<u>75,714,627</u>
	<u>144,527,851</u>	<u>157,117,848</u>
<b>Recoverable from retakaful</b>		
Reported claims	41,186,417	45,365,639
Claims incurred but not reported	7,125,559	7,681,094
Unearned contributions	<u>35,351,376</u>	<u>36,919,742</u>
	<u>83,663,352</u>	<u>89,966,475</u>
<b>Takaful liabilities - net</b>		
Reported claims	23,864,779	22,208,537
Claims incurred but not reported	6,759,804	6,147,951
Unearned contributions	<u>30,239,916</u>	<u>38,794,885</u>
	<u>60,864,499</u>	<u>67,151,373</u>

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

	Year ended 31 December 2010			Year ended 31 December 2009		
	Gross AED	Retakaful AED	Net AED	Gross AED	Retakaful AED	Net AED
<b>CLAIMS</b>						
Notified claims	67,574,176	45,365,639	22,208,537	47,447,905	28,460,859	18,987,046
Incurred but not reported	<u>13,829,045</u>	<u>7,681,094</u>	<u>6,147,951</u>	<u>9,552,882</u>	<u>4,595,845</u>	<u>4,957,037</u>
Total at 1 January	81,403,221	53,046,733	28,356,488	57,000,787	33,056,704	23,944,083
Claims settled	(74,853,236)	(37,079,419)	(37,773,817)	(95,638,493)	(34,951,013)	(60,687,480)
Increase in liabilities	<u>72,386,574</u>	<u>32,344,662</u>	<u>40,041,912</u>	<u>120,040,927</u>	<u>54,941,042</u>	<u>65,099,885</u>
Total at 31 December	<u>78,936,559</u>	<u>48,311,976</u>	<u>30,624,583</u>	<u>81,403,221</u>	<u>53,046,733</u>	<u>28,356,488</u>
Notified claims	65,051,196	41,186,417	23,864,779	67,574,176	45,365,639	22,208,537
Incurred but not reported	<u>13,885,363</u>	<u>7,125,559</u>	<u>6,759,804</u>	<u>13,829,045</u>	<u>7,681,094</u>	<u>6,147,951</u>
Total at 31 December	<u>78,936,559</u>	<u>48,311,976</u>	<u>30,624,583</u>	<u>81,403,221</u>	<u>53,046,733</u>	<u>28,356,488</u>
<b>UNEARNED CONTRIBUTION</b>						
Total at 1 January	75,714,627	36,919,742	38,794,885	113,222,950	56,778,192	56,444,758
Increase during the year	65,591,292	35,351,376	30,239,916	75,714,627	36,919,742	38,794,885
Release during the year	(75,714,627)	(36,919,742)	(38,794,885)	(113,222,950)	(56,778,192)	(56,444,758)
Net decrease during the year	<u>(10,123,335)</u>	<u>(1,568,366)</u>	<u>(8,554,969)</u>	<u>(37,508,323)</u>	<u>(19,858,450)</u>	<u>(17,649,873)</u>
Total at 31 December	<u>65,591,292</u>	<u>35,351,376</u>	<u>30,239,916</u>	<u>75,714,627</u>	<u>36,919,742</u>	<u>38,794,885</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

**9 RELATED PARTIES**

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

	<i>2010</i>	<i>2009</i>
	<i>AED</i>	<i>AED</i>
Gross contributions written	<u>29,486,095</u>	<u>31,554,279</u>
Interest income on term deposits	<u>1,853,985</u>	<u>1,035,183</u>
Term deposits at 31 December	<u>58,408,678</u>	<u>42,888,099</u>

Term deposits are held with a related party registered as a commercial bank in UAE, are denominated in UAE Dirhams, short-term in nature and carry profit at 1.75% to 3.8% per annum (2009: 2.5% to 3.5%).

Information on the statutory deposit was disclosed in note 6.

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

	<i>2010</i>	<i>2009</i>
	<i>AED</i>	<i>AED</i>
Short term benefits	<u>2,477,717</u>	<u>2,760,189</u>
Long term benefits	<u>198,438</u>	<u>175,000</u>

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

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

**10 TAKAFUL AND OTHER RECEIVABLES**

	<i>2010</i>	<i>2009</i>
	<i>AED</i>	<i>AED</i>
Due from policyholders, net of provision	16,339,684	22,568,417
Due from insurance / reinsurance companies	9,396,407	10,844,620
Notes receivable - post dated cheques	612,422	1,559,886
Accrued income	626,492	2,648,547
Other receivables	<u>157,390</u>	<u>282,279</u>
	<u>27,132,395</u>	<u>37,903,749</u>

Amounts due from policyholders and insurance and reinsurance companies balances consist of a large number of policyholders and insurance and reinsurance companies. The Company's terms of business require amounts to be paid in accordance with arrangements reached with the policyholders and insurance and reinsurance companies and no interest is charged on takaful and other receivables.

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

As at 31 December 2010, balances due from policyholders at nominal value of AED 560,996 (2009: AED nil) were impaired and fully provided for.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

**10 TAKAFUL AND OTHER RECEIVABLES** continued

As at 31 December, the ageing of unimpaired takaful receivables is as follows:

	<i>Past due but not impaired</i>				<i>Total AED</i>
	<i>Not past due AED</i>	<i>90 - 180 days AED</i>	<i>181 - 360 days AED</i>	<i>More than 360 days AED</i>	
<b>2010</b>	<b>11,484,797</b>	<b>4,895,863</b>	<b>5,863,566</b>	<b>3,491,865</b>	<b>25,736,091</b>
2009	19,728,223	5,574,952	7,268,613	841,249	33,413,037

**11 FURNITURE AND EQUIPMENT**

	<i>Furniture fixtures and office equipment AED</i>	<i>Computer equipment and accessories AED</i>	<i>Vehicles AED</i>	<i>Total AED</i>
<b>2010</b>				
Cost:				
At 1 January 2010	4,307,358	2,160,830	434,500	6,902,688
Additions	23,252	79,755	476,725	579,732
Disposals	<u>(3,760)</u>	<u>-</u>	<u>(334,550)</u>	<u>(338,310)</u>
At 31 December	<b><u>4,326,850</u></b>	<b><u>2,240,585</u></b>	<b><u>576,675</u></b>	<b><u>7,144,110</u></b>
Depreciation:				
At 1 January 2010	2,463,103	1,737,439	225,955	4,426,497
Charge for the year	720,594	223,058	141,283	1,084,935
Relating to disposals	<u>(3,494)</u>	<u>-</u>	<u>(203,340)</u>	<u>(206,834)</u>
At 31 December 2010	<b><u>3,180,203</u></b>	<b><u>1,960,497</u></b>	<b><u>163,898</u></b>	<b><u>5,304,598</u></b>
Net carrying amount 31 December 2010	<b><u>1,146,647</u></b>	<b><u>280,088</u></b>	<b><u>412,777</u></b>	<b><u>1,839,512</u></b>
<b>2009</b>				
Cost:				
At 1 January 2009	4,546,569	1,940,477	435,080	6,922,126
Additions	50,210	225,629	49,950	325,789
Disposals	<u>(289,421)</u>	<u>(5,276)</u>	<u>(50,530)</u>	<u>(345,227)</u>
At 31 December	<b><u>4,307,358</u></b>	<b><u>2,160,830</u></b>	<b><u>434,500</u></b>	<b><u>6,902,688</u></b>
Depreciation:				
At 1 January 2009	1,951,248	1,449,278	165,214	3,565,740
Charge for the year	800,887	293,435	109,195	1,203,517
Relating to disposals	<u>(289,032)</u>	<u>(5,274)</u>	<u>(48,454)</u>	<u>(342,760)</u>
At 31 December 2009	<b><u>2,463,103</u></b>	<b><u>1,737,439</u></b>	<b><u>225,955</u></b>	<b><u>4,426,497</u></b>
Net carrying amount 31 December 2009	<b><u>1,844,255</u></b>	<b><u>423,391</u></b>	<b><u>208,545</u></b>	<b><u>2,476,191</u></b>

# Abu Dhabi National Takaful Company PSC

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

### 12 SHARE CAPITAL

	<i>2010</i> <i>AED</i>	<i>2009</i> <i>AED</i>
<i>Authorized, issued and fully paid</i>		
72,600,000 shares of AED 1 each		
(31 December 2009: 66,000,000)	<u>72,600,000</u>	<u>66,000,000</u>

A bonus share dividend was approved by the shareholders in their Annual General Meeting held on 20 March 2010 and the Company has completed the registration formalities with the concerned authorities.

At 31 December 2010, 28,783,396 shares (2009: 26,165,925 shares) were held by Abu Dhabi Islamic Bank PJSC and 43,816,604 shares (2009: 39,834,075 shares) were held by other UAE nationals and institutions.

### 13 LEGAL RESERVE

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

### 14 GENERAL RESERVE

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

### 15 DIVIDENDS

For the year ended 31 December 2010, the Board of Directors proposed a bonus share dividend of AED 18,150,000 (2009: AED 6,600,000) at the rate of 25%% of the Company's capital subject to approval of the shareholders at the Annual General Meeting.

### 16 POLICYHOLDERS' FUND

	<i>2010</i> <i>AED</i>	<i>2009</i> <i>AED</i>
At 1 January	(24,903,422)	(35,607,914)
Net surplus for the year	<u>14,646,750</u>	<u>10,704,492</u>
At 31 December	<u>(10,256,672)</u>	<u>(24,903,422)</u>

# Abu Dhabi National Takaful Company PSC

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

### 17 PROVISION FOR END OF SERVICE BENEFITS

	<i>2010</i>	<i>2009</i>
	<i>AED</i>	<i>AED</i>
At 1 January	3,103,739	2,421,323
Charged during the year	783,335	899,082
Paid during the year	<u>(1,553,526)</u>	<u>(216,666)</u>
At 31 December	<u>2,333,548</u>	<u>3,103,739</u>

### 18 ACCOUNTS PAYABLE AND ACCRUALS

	<i>2010</i>	<i>2009</i>
	<i>AED</i>	<i>AED</i>
Due to policy holders	4,050,608	4,621,555
Due to takaful companies	4,683,053	6,168,897
Due to retakaful companies	25,697,084	27,085,081
Accrued liabilities	2,821,869	8,578,736
Other payables	<u>11,858,392</u>	<u>12,288,833</u>
	<u>49,111,006</u>	<u>58,743,102</u>

The average credit period is 60 to 90 days terms. The Company has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

### 19 NET EARNED CONTRIBUTIONS

	<i>2010</i>	<i>2009</i>
	<i>AED</i>	<i>AED</i>
<b>Gross contributions earned</b>		
Gross contributions written	149,874,878	190,731,174
Change in unearned contributions provision	<u>10,123,335</u>	<u>37,508,323</u>
	<u>159,998,213</u>	<u>228,239,497</u>
<b>Retakaful contributions</b>		
Retakaful contributions	74,077,640	97,118,297
Change in unearned contributions provision	<u>1,568,366</u>	<u>19,858,450</u>
	<u>75,646,006</u>	<u>116,976,747</u>
<b>Net contributions earned</b>	<u>84,352,207</u>	<u>111,262,750</u>

### 20 POLICYHOLDERS' INVESTMENT INCOME

	<i>2010</i>	<i>2009</i>
	<i>AED</i>	<i>AED</i>
Income from short term investment deposits	<u>3,495,744</u>	<u>4,344,516</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

**21 MUDAREB SHARE AND WAKALAH FEES**

The shareholders manage the policyholder's investment fund and charge 30% (2009: 30%) of investment income earned by policyholders' investment fund as mudareb share.

The shareholders manage the takaful operations for the policyholders and charge 20% (2009: 20%) of gross takaful contributions as wakalah fees.

**22 SHAREHOLDERS' INVESTMENT AND OTHER INCOME, NET**

	<i>2010</i>	<i>2009</i>
	<i>AED</i>	<i>AED</i>
Return on short term investment accounts and deposits	1,409,322	821,303
Dividend income from investment securities	377,868	540,441
Gain on disposal of furniture and equipment	45,524	14,533
Other income	72,902	-
Impairment loss on available-for-sale investments	<u>-</u>	<u>(23,998,194)</u>
	<u><b>1,905,616</b></u>	<u><b>(22,621,917)</b></u>

**23 GENERAL AND ADMINISTRATIVE EXPENSES**

	<i>2010</i>	<i>2009</i>
	<i>AED</i>	<i>AED</i>
Staff costs	17,832,225	17,397,813
Rental expenses	2,985,850	3,107,184
Depreciation of furniture and equipment	1,084,935	1,203,517
Other expenses	<u>3,825,106</u>	<u>3,241,402</u>
	<u><b>25,728,116</b></u>	<u><b>24,949,916</b></u>

**24 BASIC EARNINGS PER SHARE**

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

	<i>2010</i>	<i>2009</i>
	<i>AED</i>	<i>AED</i>
Net profit for year	<u><b>21,001,705</b></u>	<u><b>2,582,248</b></u>
Ordinary shares in issue	<u><b>72,600,000</b></u>	<u><b>72,600,000</b></u>
Basic earnings per share	<u><b>0.29</b></u>	<u><b>0.04</b></u>

The earnings per share for the year ended 31 December 2009 were adjusted for the bonus shares issued during 2010. The Company has not issued any instruments which would have a dilutive impact on earnings per share when exercised.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

25 SEGMENT INFORMATION

**Primary segment information**

The Company has adopted IFRS 8 Operating Segments with effect from 1 January 2009 ("IFRS 8"). IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and reward approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. This has not resulted in any significant change to the reportable segments presented by the Company as the segments reported by the Company were consistent with the internal reports provided to the chief operating decision maker.

For operating purposes, the Company is organised into two main business segments:

- Underwriting of takaful business incorporating all classes of takaful including fire, marine, motor, general accident, engineering, energy and family takaful. This business is conducted fully within the UAE.
- Investments incorporating investments in UAE marketable equity securities, short-term investments with banks and other securities.

Information regarding the Company's reportable segments is presented below:

**Segment revenue and results**

	2010			2009		
	<i>Underwriting AED</i>	<i>Investments AED</i>	<i>Total AED</i>	<i>Underwriting AED</i>	<i>Investments AED</i>	<i>Total AED</i>
Direct revenue	170,821,600	5,401,360	176,222,960	237,584,980	5,720,793	243,305,773
Direct costs	(115,687,918)	-	(115,687,918)	(182,076,632)	-	(182,076,632)
Takaful expenses	(13,805,221)	-	(13,805,221)	(9,698,783)	-	(9,698,783)
Non-cash investment losses	-	-	-	-	(23,998,194)	(23,998,194)
<b>Segment results</b>	<b>41,328,461</b>	<b>5,401,360</b>	<b>46,729,821</b>	<b>45,809,565</b>	<b>(18,277,401)</b>	<b>27,532,164</b>
Unallocated costs			<u>(25,728,116)</u>			<u>(24,949,916)</u>
<b>Net profit for the year</b>			<u><b>21,001,705</b></u>			<u><b>2,582,248</b></u>

Revenue reported above represents revenue generated from external customers and third parties. There were no inter-segment revenues in the year (2009: AED nil).

The accounting policies of the reportable segments are the same as the Company's accounting policies described in note 3.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

25 SEGMENT INFORMATION continued

Segment assets and liabilities

	2010			2009		
	Underwriting AED	Investments AED	Total AED	Underwriting AED	Investments AED	Total AED
Segment assets	226,768,163	107,122,345	333,890,508	245,599,880	90,890,852	336,490,732
Unallocated assets			<u>3,046,439</u>			<u>4,165,007</u>
Total assets			<u>336,936,947</u>			<u>340,655,739</u>
Segment liabilities	201,941,585	37,891	201,979,476	226,084,674	37,891	226,122,565
Unallocated liabilities			<u>8,677,829</u>			<u>8,318,687</u>
Total liabilities			<u>210,657,305</u>			<u>234,441,252</u>
Capital expenditure		579,732	579,732		325,789	325,789

Revenue from underwriting departments

The following is an analysis of the Company's revenues classified by major underwriting departments.

	2010 AED	2009 AED
Motor	48,267,276	78,646,902
Medical	29,200,163	35,721,822
Energy	8,112,265	33,237,341
Workmen's compensation and miscellaneous accidents	26,116,014	32,644,462
Fire	15,750,260	14,564,237
Engineering	10,552,983	12,893,337
Marine and aviation	3,301,768	5,686,124
Others	<u>18,697,484</u>	<u>14,845,272</u>
	<u>159,998,213</u>	<u>228,239,497</u>

26 TAKAFUL RISK

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

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

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



## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

### 26 TAKAFUL RISK continued

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

#### *Frequency and severity of claims*

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

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

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

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

Claims on takaful contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and an element of the claims provision includes incurred but not reported claims. The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims. For some takaful contracts, the IBNR proportion of the total liability is high and will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

**26 TAKAFUL RISK** continued

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

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

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

*Process used to decide on assumptions*

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

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

*Claims development process*

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

**26 TAKAFUL RISK** continued

**Motor - Gross**

*Accident year*

	<i>2006 and earlier AED'000</i>	<i>2007 AED'000</i>	<i>2008 AED'000</i>	<i>2009 AED'000</i>	<i>2010 AED'000</i>	<i>Total AED'000</i>
At the end of the accident year	30,267	39,914	55,752	52,935	35,617	
One year later	30,240	39,851	55,492	52,320	-	
Two years later	30,095	39,702	55,284	-	-	
Three years later	29,032	39,580	-	-	-	
Four years later	<u>26,817</u>	-	-	-	-	
Current estimate of cumulative claims	30,267	39,914	55,752	52,935	35,617	214,485
Cumulative payments to date	<u>(30,247)</u>	<u>(39,702)</u>	<u>(54,102)</u>	<u>(48,462)</u>	<u>(19,656)</u>	<u>(192,169)</u>
Liability recognised in the statement of financial position	<u>20</u>	<u>212</u>	<u>1,650</u>	<u>4,473</u>	<u>15,961</u>	<u>22,316</u>

**Non Motor - Gross**

*Underwriting year*

At the end of the underwriting year	28,174	23,979	39,065	42,955	69,063	
One year later	28,174	23,645	38,315	39,102	-	
Two year later	27,960	23,202	37,891	-	-	
Three years later	27,110	22,838	-	-	-	
Four years later	<u>26,055</u>	-	-	-	-	
Current estimate of cumulative claims	28,174	23,979	39,065	42,955	69,063	203,236
Cumulative payments to date	<u>(28,174)</u>	<u>(23,202)</u>	<u>(37,323)</u>	<u>(34,000)</u>	<u>(23,920)</u>	<u>(146,619)</u>
Liability recognised in the statement of financial position	<u>-</u>	<u>777</u>	<u>1,742</u>	<u>8,955</u>	<u>45,143</u>	<u>56,617</u>

*Concentration of takaful risk*

Substantially all of the Company's underwriting activities are carried out in the UAE.

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

**26 TAKAFUL RISK** continued

*Sensitivity of underwriting profit and losses*

The contribution by the takaful operations to the profit of the Company for the year ended 31 December 2010 amounts to AED 15.6 million (2009: AED 20.9 million). The Company does not foresee any adverse change in the contribution of takaful profit due to the following reasons:

The Company has an overall risk retention level of 51% (2009: 49%) and the same is mainly contributed by one class of business i.e., Motor wherein the retention level is 87%. However, in this line the liabilities are adequately covered by excess of loss retakaful program to guard against major financial impact.

The Company has net commission earning of 26.2% (2009: 20.4%) of the takaful operating profit predominantly from retakaful placement which remains as a comfortable source of income.

Because of low risk retention of 51% (2009: 49%) volume of the business and limited exposure in high retention areas like Motor, the Company is comfortable to maintain a net loss ratio in the region of 45% to 75% and does not foresee any serious financial impact in the takaful net profit.

**27 FINANCIAL INSTRUMENTS**

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

**Fair value of financial instruments**

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

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

- |         |  |
|---------|--|
| Level 1 | fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities   |
| Level 2 | fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) |
| Level 3 | fair value measurement are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable input).   |

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

27 FINANCIAL INSTRUMENTS continued

Fair value of financial instrnments continued

	<i>Level 1 AED</i>	<i>Level 2 AED</i>	<i>Level 3 AED</i>	<i>Total AED</i>
<i>Investments carried at fair value through other comprehensive income</i>				
<b>31 December 2010</b>				
Equities	15,559,897	-	9,172,937	24,732,834
Investment funds	-	8,640,496	-	8,640,496
Investment in sukuk	-	<u>4,104,913</u>	-	<u>4,104,913</u>
<b>Total</b>	<u>15,559,897</u>	<u>12,745,409</u>	<u>9,172,937</u>	<u>37,478,243</u>
<i>Available-for-sale financial assets</i>				
<b>31 December 2009</b>				
Equities	11,662,491	-	-	11,662,491
Investment funds	-	6,800,221	-	6,800,221
Investment in sukuk	-	<u>12,970,028</u>	-	<u>12,970,028</u>
<b>Total</b>	<u>11,662,491</u>	<u>19,770,249</u>	<u>-</u>	<u>31,432,740</u>

There were no transfers between levels 1, 2 and 3 in 2010 and 2009.

**Capital risk management**

The Company has established the following capital management objectives, policies and approach to manage the risks that affect its capital position.

The Company's objectives when managing capital are:

- to comply with the capital requirements required by the UAE Federal Law No. 9 of 1984, as amended, concerning insurance companies and agents. The Company manages its capital on a basis of 130% - 145% of its minimum regulatory capital position presented in the table below. Management considers the quantitative threshold of 35% - 60% sufficient to maximise shareholders' return and to support the capital required;
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing takaful contracts commensurately with the level of risk.

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

# Abu Dhabi National Takaful Company PSC

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

### 27 FINANCIAL INSTRUMENTS continued

#### Capital risk management continued

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

	<i>2010</i> <i>AED</i>	<i>2009</i> <i>AED</i>
Capital	<u>72,600,000</u>	<u>66,000,000</u>

The UAE Insurance Authority has issued resolution No. 42 for 2009 setting the minimum subscribed or paid-up capital of AED 100 million for establishing insurance firm and AED 250 million for reinsurance firm. The resolution also stipulates that at least 75 percent of the capital of the insurance companies established in the UAE should be owned by UAE or GCC national individuals or corporate bodies. The resolution allows for compliance with the minimum capital requirements up to a period of 3 years until 2012. The Company has initiated a plan to increase the capital in order to comply with the above requirements.

#### Significant accounting policies

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

#### Categories of financial instruments

	<i>2010</i> <i>AED</i>	<i>2009</i> <i>AED</i>
<b>Financial assets</b>		
Statutory deposit	10,000,000	10,000,000
Investments carried at FVTOCI	37,478,243	-
Available-for-sale investments	-	42,283,190
Retakaful contract assets	83,663,352	89,966,475
Takaful and other receivables	27,132,395	37,903,749
Cash and bank balances	<u>158,973,850</u>	<u>139,256,942</u>
Total	<u>317,247,840</u>	<u>319,410,356</u>
<b>Takaful</b>		
Takaful contract liabilities	144,527,851	157,117,848
Accounts payable and accruals	49,111,006	58,743,102
Retakaful deposits retained	<u>14,684,900</u>	<u>15,476,563</u>
Total	<u>208,323,757</u>	<u>231,337,513</u>

#### Profit return rate risk management

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

27 FINANCIAL INSTRUMENTS continued

**Foreign currency risk**

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

**Market price risk**

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

**Credit risk management**

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

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

- Retakafuls' share of takaful liabilities;
- Amounts due from retakaful in respects of claims already paid;
- Amounts due from takaful contract holders;
- Amounts due from takaful intermediaries; and
- Amounts due from banks for its bank balances and fixed deposits.

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

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

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

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

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

At 31 December 2010, all of the deposits were placed with 2 banks (2009: 3 banks). Management is confident that this concentration at year end does not result in any credit risk to the Company as these banks are major banks operating in the UAE and are highly regulated by the Central Bank.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

27 FINANCIAL INSTRUMENTS continued

**Credit risk management** continued

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

**Liquidity risk management**

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

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

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

	<i>Carrying amount AED</i>	<i>0 - 180 days AED</i>	<i>181 - 365 days AED</i>
<b>Financial liabilities at 31 December 2010</b>			
Takaful contract liabilities	144,527,851	-	144,527,851
Accounts payable and accruals	49,111,006	34,482,148	14,628,858
Retakaful deposits retained	<u>14,684,900</u>	-	<u>14,684,900</u>
<b>Total</b>	<b><u>208,323,757</u></b>	<b><u>34,482,148</u></b>	<b><u>173,841,609</u></b>
<b>Financial liabilities at 31 December 2009</b>			
Takaful contract liabilities	157,117,848	-	157,117,848
Accounts payable and accruals	58,743,102	49,394,870	9,348,232
Retakaful deposits retained	<u>15,476,563</u>	-	<u>15,476,563</u>
<b>Total</b>	<b><u>231,337,513</u></b>	<b><u>49,394,870</u></b>	<b><u>181,942,643</u></b>

**Fair value of financial assets and liabilities**

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

28 CONTINGENT LIABILITIES AND COMMITMENTS

	<i>2010 AED</i>	<i>2009 AED</i>
Bank guarantees	<u>2,896,416</u>	<u>4,626,041</u>
Commitments	<u>4,296,343</u>	<u>4,296,343</u>

Bank guarantees were issued in the normal course of business.

The commitments are in respect of the acquisition of investment properties. Advance payments amounting to AED 16,680,559 made in 2008 are presented under prepayments and other assets in the statement of financial position. The outstanding commitment is scheduled for payment at the end of the year 2012.



NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

**29      COMPARATIVE INFORMATION**

Certain comparative figures in the statement of cash flows have been reclassified to conform with the current year presentation. Such reclassifications have no effect on the previously reported profit or equity of the Company.