Islamic Arab Insurance Co. (Salama)
and its subsidiaries

Directors' report and consolidated financial statements

for the year ended 31 December 2013

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Directors’ report and consolidated financial statements
for the year ended 31 December 2013

Contents	***Page***

مقيدة تحت الرقم (١٧) بموجب القانون الاتحادي رقم (٩) لسنة ١٩٨٤.
Registration No. (17) under Federal Law No. (9) of 1984.

We present the 34th Annual Report together with the audited consolidated financial statements for the year ended on 31 December 2013.

Regarding problems with our core subsidiary BEST RE, we would like to inform you that management is doing its best and efforts were made to control the situation, underwriting is reduced, controls are enhanced, claims are closely monitored and expense are reduced by closing few non profitable offices. However we still need time to do a lot more to bring the situation back to normal.

During the year consolidated underwriting income is AED 127 million as compared to underwriting loss of AED 264 million for prior year. Net loss before distribution to policyholders is AED 46.2 million as compared to AED 377.5 million for prior year. During the year 2013, the Company proposed to distribute AED 14 million to policyholders as compared to AED 5.65 million for prior year resulting into the loss to shareholders of AED 60.2 million as compared to loss of AED 382 million for prior year. Net loss to shareholders is further reduced to AED 37.9 million taking in to consideration unrealised gains/losses as per Consolidated Statement of Comprehensive Income as compared to AED 359.5 million for prior year.

It will not be out of context to inform you the above results of 2013 were achieved after charging additional exchange losses under administrative expenses for settlement of claims in BEST RE and impairment relating to the goodwill attributable to BEST RE.

Subsidiaries other than BEST RE performed well fetching technical profits of AED 92 million during the year and net profits of AED 40 million. Salama UAE life performed well achieving net underwriting income of AED 42 million, however UAE Operations General did not achieve its targets as expected due to higher technical reserves charged during the year.

الطابق الرابع، بناية سبيكتروم
عود ميثاء، ص.ب: ١٠٢١٤، دبي إ.ع.م.
هاتف: ٣٥٧٧٠٠٠ ٤ ٩٧١+
فاكس: ٣٥٧٧٤١٨ ٤ ٩٧١+
البريد الإلكتروني: info@salama.ae
الموقع الإلكتروني: www.salama.ae
4th Floor, Spectrum Building
Oud Metha, P.O. Box 10214, Dubai, U.A.E.
Tel : +971 4 3577000
Fax : +971 4 3577418
E-mail: info@salama.ae
Web: www.salama.ae

The following are highlights from our consolidated financial statements for years ended 31 December 2013 and 2012:

	2013 AED '000	2012 AED '000
Gross written contributions	1,029,543	1,892,452
Contributions earned	868,592	1,625,267
Incurred claims	548,529	1,457,436
Net UW income / (loss)	127,443	(264,456)
Investment income	58,085	58,497
Net loss for the year	(60,245)	(382,464)

SALAMA is the largest takaful and re–takaful Group in the world in terms of both coverage and capitalization. The Board is committed to maintain this status and strong leadership position.

Finally, we would like to convey our thanks to our clients and reinsurers for their invaluable support. We would also like to thank the management and staff for their efforts and contribution towards the growth of SALAMA.

Board of Directors

3 1 MAR 2014

الطابق الرابع، بناية سبيكتروم
عود ميثاء، ص.ب: ١٠٢١٤، دبي، إ.ع.م
هاتف: ٣٥٧٧٠٠٠ ٤ ٩٧١+
فاكس: ٣٥٧٧٤١٨ ٤ ٩٧١+
البريد الإلكتروني: info@salama.ae
الموقع الإلكتروني: www.salama.ae
4th Floor, Spectrum Building
Oud Metha, P.O. Box 10214, Dubai, U.A.E.
Tel : +971 4 3577000
Fax : +971 4 3577418
E-mail: info@salama.ae
Web: www.salama.ae

KPMG Lower Gulf Limited
Level 13, Boulevard Plaza Tower One
Mohammed Bin Rashid Boulevard
PO Box 3800
Downtown Dubai
United Arab Emirates

Telephone +971 (4) 403 0300
Fax +971 (4) 330 1515
Website www.ae-kpmg.com

Independent auditors' report

The Shareholders
Islamic Arab Insurance Co. (Salama) and its subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Islamic Arab Insurance Co. (Salama) ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Independent auditors' report *(continued)*

Auditors' responsibility (continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2013, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit; the financial statements comply, in all material respects, with the applicable requirements of the UAE Federal Law No. 8 of 1984 (as amended) and the Articles of Association of the Company; that proper financial records have been kept by the Company; and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Company's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2013, which may have had a material adverse effect on the business of the Company or its financial position.

KPMG Lower Gulf Limited
Vijendra Nath Malhotra
Registration No: 48B

31 MAR 2014

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated statement of profit or loss

for the year ended 31 December

	Note	2013	2012
UNDERWRITING RESULTS		**AED'000**	AED'000
Underwriting income			
Gross written contributions	*39*	**1,029,543**	1,892,452
Less: reinsurance and retakaful contributions ceded		**(233,067)**	(330,054)
Net contributions		**796,476**	1,562,398
Net movement in unearned contributions		**72,116**	62,869
Contributions earned		**868,592**	1,625,267
Commission received on ceded reinsurance and retakaful		**31,922**	55,847
		900,514	1,681,114
Underwriting expenses			
Gross claims paid		**1,028,198**	1,607,091
Less: reinsurance and retakaful share of claims paid		**(138,221)**	(308,908)
Net claims paid		**889,977**	1,298,183
Net movement in outstanding claims and technical reserve family takaful		**(341,448)**	159,253
Claims incurred		**548,529**	1,457,436
Commission paid and other costs		**224,542**	488,134
		773,071	1,945,570
Net underwriting income/(expense)	*39*	**127,443**	(264,456)
Income			
Income from investments - net	*10*	**58,085**	58,497
Other income		**22,617**	29,003
		208,145	(176,956)
Expenses			
General, administrative and other expenses	*11*	**(189,037)**	(168,652)
Financial expenses		**(15,287)**	(14,604)
Impairment on goodwill	*5*	**(34,398)**	-
Provision for charitable donations	*12*	**(3,118)**	(3,819)
Net profit/(loss) before tax for the year		**(33,695)**	(364,031)
Taxation - current	*36*	**(12,513)**	(13,504)
Net loss after tax for the year before policyholders' distribution		**(46,208)**	(377,535)
Distribution to policyholders' of Holding Company	*8*	**(14,037)**	(5,650)
Policyholders' deficit	*8*	**-**	721
Net loss after tax and distribution to policyholders' for the year		**(60,245)**	(382,464)
Loss per share (AED)	*35*	**(0.059)**	(0.331)
Attributable to:			
Shareholders		**(70,184)**	(393,583)
Non-controlling interest		**9,939**	11,119
		(60,245)	(382,464)

The notes on pages 11 to 62 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on page 3-4.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated statement of comprehensive income

for the year ended 31 December

	2013	2012
	AED'000	AED'000
Net loss after tax and distribution to policyholders' for the year	**(60,245)**	(382,464)
Other comprehensive income/(loss) net of income tax		
Items that will never be reclassified to profit or loss:		
Net change in revaluation of property and equipment	**21,243**	27,156
Items that are or may be reclassified to profit or loss:		
Net change in fair value of available-for-sale investments	**10,225**	2,457
Foreign exchange translation reserve	**(9,145)**	(6,693)
Other comprehensive income for the year	**22,323**	22,920
Total comprehensive loss for the year net of income tax	**(37,922)**	(359,544)
Attributable to:		
Shareholders	**(43,768)**	(377,950)
Non-controlling interest	**5,846**	18,406
	(37,922)	(359,544)

The notes on pages 11 to 62 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on page 3-4.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated statement of financial position

as at 31 December

	Note	31 December 2013 AED'000	31 December 2012 AED'000
ASSETS			
Property and equipments	*13*	**122,698**	114,728
Intangible assets	*14*	**153,624**	189,498
Investment properties	*15*	**307,762**	284,818
Investments in associates	*16*	**41,505**	53,888
Statutory deposits	*17*	**18,887**	18,474
Investments	*18*	**1,222,816**	1,237,152
Participants' investments in unit-linked contracts	*18.2*	**643,644**	551,354
Deposits with takaful and retakaful companies	*19*	**151,354**	289,605
Contributions and takaful balance receivables	*20*	**701,730**	776,742
Retakafuls' share of outstanding claims	*23*	**327,450**	375,064
Retakafuls' share of unearned contributions	*24*	**62,740**	224,854
Amounts due from related parties	*29*	**12,700**	14,961
Other assets and receivables	*21*	**195,727**	175,393
Cash and bank balances	*22*	**341,570**	545,046
TOTAL ASSETS		**4,304,207**	4,851,577
LIABILITIES EXCLUDING POLICYHOLDERS' FUND			
Bank finances	*28*	**165,726**	160,665
Outstanding claims and family takaful reserve	*23*	**1,056,230**	1,448,507
Payable to Participants for unit-linked contracts	*26*	**640,199**	540,833
Unearned contributions reserve	*24*	**358,639**	597,417
Takaful balances payable	*25*	**706,054**	696,740
Other payables and accruals	*27*	**149,931**	143,295
Amounts due to related parties	*29*	**659**	682
TOTAL LIABILITIES EXCLUDING POLICYHOLDERS' FUND		**3,077,438**	3,588,139
Policyholders' fund	*30*	**-**	-
NET ASSETS EMPLOYED		**1,226,769**	1,263,438
FINANCED BY:			
Shareholders' equity		**1,155,000**	1,201,206
Non-controlling interest		**71,769**	62,232
		1,226,769	1,263,438

The notes on pages 11 to 62 form an integral part of these consolidated financial statements.

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 31 MAR 2014 and signed on their behalf by:

Sheikh Khaled Bin Zayed Al Nehayan
Chairman

Dr. Saleh J. Malaikah
Vice Chairman & CEO

The independent auditors' report is set out on page 3-4.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated statement of cash flows

for the year ended 31 December

	2013	2012
	AED'000	AED'000
Cash flows from operating activities		
Net (loss)/profit after tax and distribution to policyholders' for the year	**(60,245)**	(382,464)
Adjustment for:		
Depreciation	**7,135**	6,905
Net movement in unearned contributions reserve	**(72,116)**	(62,869)
Unrealised loss/(gain) on investments	**21**	(3,222)
Unrealised gain on investment properties	**(12,783)**	(500)
Amortisation of intangible assets	**1,801**	3,805
Loss on disposal of subsidiary	**-**	-
Share of loss from associates	**11,334**	3,054
Impairment of goodwill	**34,398**	-
Dividend income	**(914)**	(1,325)
Operating loss before changes in working capital	**(91,369)**	(436,616)
Change in deposits with takaful and retakaful companies	**138,251**	(20,184)
Change in contributions and takaful balance receivable	**75,012**	173,370
Change in due from / to related parties	**2,238**	(2,569)
Change in other assets and receivables	**(20,334)**	(45,305)
Change in outstanding claims (net of retakaful)	**(344,663)**	158,432
Change in takaful payables and other payables	**15,950**	475,091
Change in payable to participants for unit-linked contracts	**99,366**	66,300
Change in policyholders' fund	**-**	(721)
Net cash flows (used in)/from operating activities	**(125,549)**	367,798
Cash flows from investing activities		
Property and equipment-net	**(15,049)**	(11,169)
Net movement in intangible assets	**(647)**	(647)
Net movement in associates	**1,049**	621
Statutory deposits	**(413)**	(21,001)
Investments-net	**(78,379)**	(245,486)
Dividends received	**914**	1,325
Net cash flows used in investing activities	**(92,525)**	(276,357)
Cash flows from financing activities		
Bank finance-net	**5,061**	479
Net movement in non-controlling interest	**9,537**	18,406
Net cash flows from in financing activities	**14,598**	18,885
Net (decrease)/increase in cash and cash equivalents	**(203,476)**	110,326
Cash and cash equivalents at 1 January	**545,046**	434,720
Cash and cash equivalents at 31 December (note 22)	**341,570**	545,046

The notes on pages 11 to 62 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on page 3-4.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated statement of changes in equity

for the year ended 31 December 2013

	Attributable to the equity holders of the Company									
	Share capital AED'000	**Statutory reserve AED'000**	**Revaluation reserve AED'000**	**Foreign exchange translation reserve AED'000**	**Investment fair value reserve AED'000**	**Treasury stock AED'000**	**Accumulated losses AED'000**	**Total AED'000**	**Non-controlling interest AED'000**	**Total equity AED'000**
Balance at 1 January 2012	1,210,000	69,983	7,109	(6,277)	4,596	(35,972)	329,717	1,579,156	43,826	1,622,982
Total comprehensive loss for the year										
Loss for the year	-	-	-	-	-	-	(393,583)	(393,583)	11,119	(382,464)
Other comprehensive income										
Share in net changes in revaluation of property and equipment	-	-	19,135	-	-	-	-	19,135	8,021	27,156
Share in foreign exchange translation reserve	-	-	-	(5,086)	-	-	-	(5,086)	(1,607)	(6,693)
Share in net change in fair value of available-for-sale investments	-	-	-	-	1,584	-	-	1,584	873	2,457
Total other comprehensive income	-	-	19,135	(5,086)	1,584	-	-	15,633	7,287	22,920
Total comprehensive loss for the year	-	-	19,135	(5,086)	1,584	-	(393,583)	(377,950)	18,406	(359,544)
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-	-
Balance at 31 December 2012	**1,210,000**	**69,983**	**26,244**	**(11,363)**	**6,180**	**(35,972)**	**(63,866)**	**1,201,206**	**62,232**	**1,263,438**

The notes on pages 11 to 62 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on page 3-4.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated statement of changes in equity (continued)

for the year ended 31 December 2013

	Attributable to the equity holders of the Company									
	Share capital AED'000	**Statutory reserve AED'000**	**Revaluation reserve AED'000**	**Foreign exchange translation reserve AED'000**	**Investment fair value reserve AED'000**	**Treasury stock AED'000**	**Accumulated losses AED'000**	**Total AED'000**	**Non-controlling interest AED'000**	**Total equity AED'000**
Balance at 1 January 2013	1,210,000	69,983	26,244	(11,363)	6,180	(35,972)	(63,866)	1,201,206	62,232	1,263,438
Total comprehensive loss for the year										
Loss for the year	-	-	-	-	-	-	(70,184)	(70,184)	9,939	(60,245)
Other comprehensive income										
Share in net changes in revaluation of property and equipment	-	-	20,479	-	-	-	-	20,479	764	21,243
Share in foreign exchange translation reserve	-	-	-	(4,238)	-	-	-	(4,238)	(4,907)	(9,145)
Share in net change in fair value of available-for-sale investments	-	-	-	-	7,737	-	-	7,737	2,488	10,225
Total other comprehensive income	-	-	20,479	(4,238)	7,737	-	-	23,978	(1,655)	22,323
Total comprehensive loss for the year	-	-	20,479	(4,238)	7,737	-	(70,184)	(46,206)	8,284	(37,922)
Acquisition of non controlling interest without a change in control	-	-	-	-	-	-	-	-	1,428	1,428
Dividend paid	-	-	-	-	-	-	-	-	(175)	(175)
Balance at 31 December 2013	**1,210,000**	**69,983**	**46,723**	**(15,601)**	**13,917**	**(35,972)**	**(134,050)**	**1,155,000**	**71,769**	**1,226,769**

The notes on pages 11 to 62 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on page 3-4.

1 Legal status and activities

Islamic Arab Insurance Co. (Salama) ("the Company") is a public shareholding company, registered in the Emirate of Dubai, United Arab Emirates (UAE) and operates through various branches in the UAE. The registered office of the Company is P O Box 10214, Dubai, United Arab Emirates. The principal activity of the Company is the writing of all classes of general takaful and family takaful business (started 2006), in accordance with Islamic Shari'ah principles and in accordance with the relevant Articles of the Company and the UAE Federal Law No. 8 of 1984 (as amended) concerning commercial companies and U.A.E. Federal Law No. 6 of 2007, concerning regulations of insurance operations.

The Company and its subsidiaries are referred to as "the Group". Tariic Holding BSC (Tariic) is an intermediate holding company in Bahrain and no commercial activities are carried out in the Kingdom of Bahrain. Details of the Company's subsidiaries are mentioned in note 40 of these consolidated financial statements. The Group has the following principal subsidiaries which are engaged in insurance and reinsurance under Islamic Shari'ah principles:

	Group's Ownership		
Subsidiaries	**31-Dec 2013**	31-Dec 2012	**Country of incorporation**
Directly owned			
Tariic Holding Company	99.40%	99.40%	Kingdom of Bahrain
Through Tariic			
Salama Assurance Company - Senegal	57.41%	55.17%	Senegal
Salama Assurances Algerie	96.98%	96.98%	Algeria
Egyptian Saudi Insurance Home	51.15%	51.15%	Egypt
Best Re Holding Company	100%	100%	Malaysia

2 Basis of preparation

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the consolidated statement of financial position:

i) financial instruments at fair value through profit and loss are measured at fair value,
ii) available-for-sale financial assets are measured at fair value; and
iii) investment properties are measured at fair value.

2 Basis of preparation (continued)

c) Functional and presentation currency

These consolidated financial statements are presented in UAE Dirham (AED), which is the functional currency of the Company. Except as otherwise indicated, financial information presented in UAE Dirham has been rounded to the nearest thousand.

d) Critical accounting estimates and judgment in applying accounting policies

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described below:

The ultimate liability arising from claims made under takaful and retakaful contracts

The estimation of the ultimate liability arising from claims made under takaful contracts is the Group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in estimating the liability that the Group will ultimately pay for such claims. The provision for claims incurred but not reported ("IBNR") is an estimation of claims which are expected to be reported subsequent to the date of consolidated statement of financial position, for which the insured event has occurred prior to the date of consolidated statement of financial position.

Information about assumptions and estimation of uncertainties that have a significant risk of resulting in a material adjustment within the next financial year relating to outstanding claims and family takaful reserves are included in note 23 to the consolidated financial statements.

Impairment losses on contributions and takaful balance receivables

The Group assesses receivables that are individually significant and receivables included in a group of financial assets with similar credit risk characteristics for impairment. Receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. This assessment of impairment requires judgment. In making this judgment, the Group evaluates credit risk characteristics that consider industry, past-due status and an estimation of future cash flows being indicative of the ability to pay all amounts due as per the contractual terms.

Impairment losses on available-for-sale investments

The Group determines that available-for-sale quoted and unquoted equity securities are impaired when there has been a significant or prolonged decline in the fair value below its cost. Where fair values are not available, the recoverable amount of such investment is estimated to test for impairment. In making this judgment, the Group evaluates credit risk characteristics that consider industry, past due status and an estimation of future cash flows being indicative of the ability to pay all amounts due as per the contractual terms.

Deferred policy acquisition costs

The amount of acquisition costs to be deferred is dependent on judgments as to which issuance costs are directly related to and vary with the acquisition. Acquisition cost on long-term Takaful contracts without fixed terms with investment participation feature are amortised over the expected total life of the contract group as a constant percentage of estimated gross profit margins (including investment income) arising from these contracts in accordance with the accounting policy stated in note 3(b). The pattern of expected profit margins is based on historical and anticipated future experiences which consider assumptions, such as expenses, lapse rates or investment income and are updated at the end of each accounting period.

2 Basis of preparation (continued)

e) Changes in accounting policy

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

a) IFRS 10 Consolidated Financial Statements (2011)
b) IFRS 12 Disclosure of Interests in Other Entities
c) IFRS 13 Fair Value Measurement.
d) Presentation of Items of Other Comprehensive Income (Amendments to IAS 1).
e) Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7).
f) IAS 19 Employee Benefits (2011).

a) IFRS 10 Consolidated Financial Statements (2011)

As a result of IFRS 10 (2011) the Group has changed its accounting policies for determining whether it has control over and consequently whether it consolidates other entities. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposures or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

b) IFRS 12 Disclosure of Interests in Other Entities

As a result of IFRS 12, the Group has expanded its disclosures about its interest in subsidiaries and equity accounted investees.

c) IFRS 13 Fair Value Measurement.

In accordance with the transitional provision of IFRS 13, the Company has applied the new definition of fair value as set out in note 3 (s), prospectively. The change had no significant impact on the measurements of the Company's assets and liabilities, but the Company has included new disclosures in the financial statements, which are required under IFRS 13. These new disclosure requirements are not included in the comparative information. However, to the extent that disclosures were required by other standards before the effective date of IFRS 13, the Company has provided the relevant comparative disclosures under those standards.

d) Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

As a result of the amendments to IAS 1, the Company has modified the presentation of items of Other Comprehensive Income (OCI) in its statement of comprehensive income, to present items that would be reclassified to profit or loss in the future separately from those that would never be. Comparative information has been re-presented on the same basis.

e) Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)

Amendments to IFRS 7, ‘Disclosures – Offsetting financial assets and financial liabilities’ (the ‘‘Amendments to IFRS 7’’) require additional disclosures to enable users of financial statements to evaluate the effect or the potential effects of netting arrangements, including rights of set-off associated with an entity’s recognised financial assets and recognised financial liabilities, on the entity’s financial position.

The adoption of the new and amended standards and interpretations other than those explained above, did not have an impact on the financial position of the Company during the year.

3 Significant accounting policies

Except for the change in accounting policy stated in note 2(e), the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

a) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The consolidated financial statements of the subsidiary are included in the Group's consolidated financial statements from the date that control commences until the date that control ceases.

Non controlling interest in the equity and results of the entities that are controlled by the Group are shown separately as a part of consolidated statements of changes in shareholders equity in the Group's consolidated financial statements.

Any contribution or discounts on subsequent acquisition, after control is obtained, of equity instruments from (or sale of equity instruments to) non controlling interest is recognised directly in consolidated statement of shareholders' equity.

Investment in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of investment is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the Group's consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated, wherever practicable, to the extent of the Group's interest in the enterprise. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Acquisition from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative year presented or, if later, at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity and any gain/loss arising is recognised directly in equity.

Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

3 Significant accounting policies (continued)

b) Takaful contracts

i. Classification

The Group issues contracts that transfer either takaful risk or both takaful and financial risks. The Group does not issue contracts that transfer only financial risks.

Contracts under which the Group accepts significant 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 policyholder are classified as takaful contracts. Takaful risk is significant if an insured event could cause the Group to pay significant additional benefits due to happening of the insured event compared to its non happening.

Takaful contracts may also transfer some financial risk. Financial risk is the risk of a possible future change in one or more of a specified profit rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Contracts where takaful risk is not significant are classified as investment contracts. Once a contract is classified as a takaful contract it remains classified as a takaful contract until all rights and obligations are extinguished or expire.

ii. Recognition and measurement

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

a) General Takaful contracts

Gross written contributions, in respect of annual policies, are recognised in the consolidated statements of income at policy inception. In respect to policies with a term of more than one year, the contributions are spread over the tenure of the policies on a straight line basis, and the unexpired portion of such contributions are included under “unearned contributions” in the consolidated statements of financial position.

b) Family Takaful contracts

These contracts relate to human life events for example death or survival, bodily injury etc. For short term contracts, normally with group customers, the contributions are recognised when due. For long term contracts, normally with individual customers, the contributions are booked on receipt.

c) Investment featured unit-linked contracts

A unit-linked takaful contract is a takaful contract linking payments on the contract to units of investment funds administrated by the Group with the contributions received from the plan holder. These funds are administrated by the Group on behalf of plan holders in fiduciary trust as a Mudarib (Manager). In addition Group manages Tabarru fund on behalf of plan holders to meet the obligations arising out of takaful operations. The Group has no recourse to the assets of Tabarru fund. An investment charge based on a certain percentage of value of fund is charged as fee. The liability towards the plan holder is linked to the performance of the underlying assets of these funds. This embedded derivative meets the definition of a takaful contract. Since all the liabilities arising from the embedded derivative are already measured at fair value and since all the investments on behalf of plan holders are classified as fair value through profit and loss, the Group does not account embedded derivatives separately.

In case of a claim, the amount paid is the higher of the sum assured or the unit value. The liability is calculated through actuarial valuation based on the present value of expected benefits to plan holders.

Where the Tabarru Fund is insufficient to meet the liabilities, the shareholders shall grant profit free loan to the fund to meet its liabilities under the contracts held with participants. This loan is called Qard-e-Hasan. The Qard-e-Hasan is repaid to shareholders from the future surplus of Tabarru Fund.

3 Significant accounting policies (continued)

b) Takaful contracts (continued)

ii. Recognition and measurement (continued)

c) Investment featured unit-linked contracts (continued)

The contribution after allocation to unit fund/investment fund of plan holder is called Takaful Donation and is taken to Tabarru fund from where Wakala fee is paid to shareholders. Takaful Donation is based on appropriate rates of mortality and morbidity. The Tabarru fund is a collective pool established, invested and managed in accordance with Sharia Principles with the purpose of providing benefits on the lives of covered members (plan holders) and for the repayment of Qard-e-Hasan (if applicable).

The long term individual life contracts contain investment participation feature. A surplus may arise in Tabaru fund after accounting for the claims, relevant expenses, investment returns and reserves. The surplus is available for the distribution to eligible participants provided there is net surplus in the Tabarru Fund in respect of the relevant year. The distribution is at the discretion of the Board of Directors. This contractual right is supplement to the other benefits mentioned in the contract.

These takaful contracts insure human life events (for example, death or survival) over a long duration. However, Takaful contributions are recognised directly as liabilities. These liabilities are increased by fair value movement of underlying investments / unit prices and are decreased by policy administration fees, mortality and surrender charges and withdrawals, if any.

The liability for these contracts includes any amounts necessary to compensate the Group for services to be performed over future periods. This is the case for contracts where the policy administration charges are higher in the initial years than in subsequent years. The mortality charges deducted in each period from the contract holders as a group are considered adequate to cover the expected total death benefit claims in excess of the contract account balances in each period; no additional liability is therefore established for these claims.

iii. Claims

Claims incurred comprise the settlement and the internal and external handling costs paid and changes in the provisions for outstanding claims arising from events occurring during the financial period. Where applicable, deductions are made for salvage and their recoveries.

Claims outstanding comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expenses and reduced by expected salvage and other recoveries. Claims outstanding are assessed by reviewing individual reported claims. Provisions for claims outstanding are not discounted. Adjustments to claims provisions established in prior periods are reflected in the consolidated financial statements of the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

iv. Gross claims paid

Gross claims paid are recognised in the consolidated statement of income when the claim amount payable to policyholders' and third parties are determined as per the terms of the takaful contracts.

3 Significant accounting policies (continued)

b) Takaful contracts (continued)

v. Claims recovered

Claims recovered include amounts recovered from retakaful companies in respect of the gross claims paid by the Group, in accordance with the retakaful contracts held by the Group. It also includes salvage and other claims recoveries.

Gross outstanding and IBNR claims

Gross outstanding claims comprise the estimated costs of claims incurred but not settled at the consolidated financial position date. Provisions for reported claims not paid as at the date of consolidated statement of financial position are made on the basis of individual case estimates. This provision is based on the estimate of the loss, which will eventually be payable on each unpaid claim, established by the management in the light of currently available information and past experience. An additional net provision is also made for any claims incurred but not reported ("IBNR") at the date of consolidated statement of financial position on the basis of management estimates. The basis of estimating outstanding claims and IBNR are detailed in note 23.

The retakaful share of the gross outstanding claims is estimated and shown separately.

vi. Contribution deficiency reserve and unearned contribution reserves

Provision is made for contribution deficiency arising from general takaful contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the consolidated financial position date exceeds the unearned contributions provision and already recorded claim liabilities in relation to such policies. The provision for contribution deficiency is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned contributions and claims provisions. An additional provision is made at the consolidated financial position date for potential shortfall in, earned contribution reserve by reference to 1/24th method except for marine business where 1/6th method is used. Unearned contributions for Family takaful business are considered by the actuary.

vii. Retakaful

The Group cedes retakaful in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities and income and expense arising from ceded retakaful contracts are presented separately from the assets, liabilities, income and expense from the related takaful contracts because the retakaful arrangements do not relieve the Group from its direct obligations to its policyholders.

Amounts due to and from retakaful operators are accounted for in a manner consistent with the related contributions is included in retakaful assets.

Retakaful assets are assessed for impairment at each consolidated financial position date. A retakaful asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due, and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. Impairment losses on retakaful assets are recognised in consolidated statement of income in the year in which they are incurred.

Profit commission in respect of retakaful contracts is recognised on an accrual basis.

3 Significant accounting policies (continued)

b) Takaful contracts (continued)

viii. Deferred commission cost

For short term takaful contracts, the deferred commission cost asset represents the proportion of acquisition costs which corresponds to the proportion of gross contributions written that is unearned at the date of consolidated statement of financial position and becomes part of unearned contribution reserves.

For individual family takaful and long term unit-linked takaful contracts, commission relating to takaful features amortised systematically over the average policy life. Commission that relates to investments feature has been allocated to Participants on prorata basis.

ix. Takaful receivables and payables

Amounts due from and to policyholders, agents, reinsurers and retakaful companies and liability towards Participant Investment Account are financial instruments and are included in takaful receivables and payables, and not in takaful contract provisions or retakaful assets.

x. Family takaful reserves

The risk reserves are determined by the independent actuarial valuation of future policy benefits. Actuarial assumptions include a margin for adverse deviation and generally vary by type of policy, year of issue and policy duration. Mortality and withdrawal rate assumptions are based on experience. Adjustments to the balance of fund are affected by charges or credits to income.

xi. Salvage and subrogation reimbursements

Some takaful contracts permit the Group to sell property (usually damaged) acquired in settling a claim (salvage). The Group may also have the right to pursue third parties for payment of some or all costs (subrogation). Estimates of salvage recoveries and subrogation reimbursements are recognised as an allowance in the measurement of the takaful liability for claims.

c) Revenue (other than takaful revenue)

Revenue (other than takaful revenue) comprises the following:

i) Fee and commission income

Fee and commissions received or receivable which do not require the Group to render further service are recognised as revenue by the Group on the effective commencement or renewal dates of the related policies.

ii) Investment income

Investment income comprises income from financial assets, rental income from investment properties and marked to market gains/losses on investment properties.

Income from financial assets comprises profit and dividend income, net gains/losses on financial assets classified at fair value through profit or loss, and realised gains/losses on financial assets.

Profit income is recognised on a time proportion basis using effective yield basis. Dividend income is recognised when the right to receive dividend is established. Usually this is the ex-dividend date for equity securities. Basis of recognition of net gains/losses on financial assets classified at fair value through profit or loss and realised gains on other financial assets are described in note 3 (d).

3 Significant accounting policies (continued)

c) Revenue (other than takaful revenue) (continued)

ii) Investment income (continued)

Rental income from investment properties under operating leases is recognised in the consolidated statement of income on a straight-line basis over the term of each lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Fair value gains/losses on investment properties are included in the consolidated statement of income in the period these gains are determined. Details of valuations during the year are included in note 15.

d) Financial instruments (financials assets and financial liabilities)

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, takaful and other receivables, cash and cash equivalents, amount due to and from related party, retakaful share of outstanding claims, retakaful share of unearned contributions reserve, deposits with takaful and retakaful companies, investment contract liabilities, bank finance, outstanding claims and family takaful reserve, unearned contributions reserve, takaful and other payables and other liabilities.

i) Recognition, derecognition and initial measurement

Non-derivative financial instruments are measured initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

Financial instruments are initially recognised on the trade date when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

Financial liabilities are derecognised if the Group's contractual obligations specified in the contract expire or are discharged or cancelled. Regular way purchases and sales of financial assets are recognised and derecognised, as applicable, on the trade date, i.e. the date that the Group commits itself to purchase or sell the asset.

ii) Categories of financial instruments

Financial instruments at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Subsequent to initial measurement, financial instruments at fair value through profit or loss are measured at fair value, with fair value changes recognised in consolidated statement of income. Net changes in the fair value of financial assets classified as at fair value through profit or loss includes profit income and any dividends received.

3 **Significant accounting policies** (continued)

d) **Financial instruments** (continued)

Non-derivative financial instruments (continued)

ii) Categories of financial instruments (continued)

In October 2008 the IASB issued Reclassification of Financial Assets (Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures). The amendment to IAS 39 permits an entity to reclassify non-derivative financial assets, other than those designated at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss (i.e., trading) category if they are no longer held for the purpose of being sold or repurchased in the near term, as follows:

a) If the financial asset would have met the definition of loans and receivables, if the financial asset had not been required to be classified as held for trading at initial recognition, then it may be reclassified if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

b) If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in 'rare circumstances'.

The amendment to IFRS 7 introduces additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendment to IAS 39. The amendments are effective retrospectively from 1 July 2008.

Pursuant to these amendments, the Group reclassified certain non-derivative financial assets out of trading assets into available-for-sale investment securities. For details on the impact of these reclassifications, see note 18.

All financial assets held by the Group in respect of its long term business funds are designated by the Group on initial recognition at fair value through profit or loss. This designation eliminates or significantly reduces a measurement inconsistency that would otherwise arise if these assets were not measured at fair value and the changes in fair value were not recognised in profit or loss.

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, and these debt securities have not been designated at fair value through profit or loss, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

This category is used for financial assets that are not classified as at fair value through profit or loss or held-to-maturity investments. Profit income is recognised in consolidated statement of income using the effective interest method. Dividend income is recognised in consolidated statement of income when the Group becomes entitled to the dividend. Foreign exchange gains/losses on monetary securities are recognised in consolidated statement of income. Other fair value changes are recognised directly in other comprehensive income until the investment is sold or impaired and the relevant balance in equity is recognised in consolidated statement of income.

Other financial assets

Other non-derivative financial assets, such as cash and cash equivalents and takaful and other receivables are measured at amortised cost using the effective interest method, less any impairment losses.

3 Significant accounting policies (continued)

d) Financial instruments (continued)

Non-derivative financial instruments (continued)

iii) Offsetting

Financial assets and financial liabilities are set off and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by accounting standards. Gains and losses arising from a group of similar transactions are reported on a net basis.

iv) Fair value measurement principle

Policy applicable from 1 January 2013

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Company measures the fair value of an instrument using the quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in the consolidated income statement on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Company on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Company recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3 Significant accounting policies (continued)

d) Financial instruments (continued)

Non-derivative financial instruments (continued)

iv) Fair value measurement principle (continued)

Policy applicable before 1 January 2013

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arms length basis.

If a market for a financial instrument is not active, the Company establishes fair value using valuation technique. Valuation techniques include using recent arm’s length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, net present value techniques and discounted cash flow methods. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Company, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Company calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other observable current market data.

v) Identification and measurement of impairment

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of an asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Group about any significant financial difficulty of the issuer, significant changes in the technological, market, economic or legal environment in which the issuer operates. A significant or prolonged decline in the fair value of an equity instrument below its cost is also objective evidence of impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in consolidated statement of income. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in other comprehensive income is transferred to consolidated statement of income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in consolidated statement of income. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in consolidated statement of other comprehensive income.

vi) Payable to Participants for unit-linked contracts

Payable to unit holder is classified as financial liability, which is designated as fair value through profit or loss, upon initial recognition. Subsequent to initial measurement, financial liabilities fair value through profit or loss are measured at fair value and any fair value change are recognised in consolidated statement of income.

3 Significant accounting policies (continued)

d) Financial instruments (continued)

Non-derivative financial instruments (continued)

vii) Other financial instruments

Other financial liabilities include amounts payable in the future to agents and intermediaries in respect of investment contracts issued by the Group. Payments are made on an annual basis on the anniversary of the inception of a contract if a contract has not been surrendered at that date.

These financial liabilities are measured at fair value on initial recognition. Fair value is determined by discounting the present value of the expected future payments at the discount rate that reflects current market assessment of the time value of money for a liability of equivalent average duration.

Subsequent to initial recognition these financial liabilities are stated at amortised cost using the yield basis.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

e) Investment properties

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in statement of income.

The Group determines fair value on the basis of valuation provided by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in consolidated statement of income. When an investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

f) Foreign currency transactions

Transactions denominated in foreign currencies are translated to AED at the spot exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to AED at the spot exchange rates ruling at the date of consolidated statement of financial position. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to AED at the foreign exchange rates ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in the consolidated statement of income. The assets and liabilities of foreign subsidiaries and the equity of associates are translated at the rate of exchange ruling at the reporting date.

The consolidated statements of income of foreign subsidiaries and the results of associates are translated at the average exchange rates for the year. The exchange differences on the retranslation are taken directly to the consolidated other comprehensive income.

3 Significant accounting policies (continued)

g) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of tax effects.

Treasury shares

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity in consolidated statement of changes in equity.

h) Property and equipment and depreciation

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any except for land and building which are stated at revalued amount.

Capital work in progress

Capital work in progress is stated at cost until the construction is complete. Upon the completion of construction, the cost of such assets together with the cost directly attributable to construction, including capitalised borrowing costs are transferred to the respective class of asset. Depreciation is charged if use of the asset commences before construction is complete.

Subsequent expenditure

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised. All other expenditure is recognised in the consolidated statement of income as an expense.

Depreciation

Depreciation is charged to the consolidated statement of income on a straight line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated. The depreciation methods, useful lives and residual value of property and equipment are reassessed annually. The estimated useful lives of these assets (except for land) are 4-10 years.

i) Employee terminal benefits

Defined benefit plan

The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. The management considers that the difference between the liability as calculated using an actuarial method would not be materially different from the provision carried in the financial statements.

With respect to national employees, the Group makes contributions to local takaful schemes as per the local laws calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

3 Significant accounting policies (continued)

j) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, current accounts with banks and bank deposits with maturities of less than three months, net of revolving bank finance and excluding deposits under lien.

k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

l) Operating lease

Leases in terms of which the substantial risk and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease rentals and payments are recognised as an expense in the consolidated statement of income on a straight-line basis over the lease term.

m) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiary.

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised directly in other comprehensive income.

Acquisitions of non controlling interest

Goodwill arising on the acquisition of a non controlling interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

(ii) Software

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the statement of income on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets comprise of software costs, which are amortised over a period of 3-5 years. Expenditure on internally generated intangible assets is recognised in the consolidated statement of income as an expense as incurred.

n) Income tax

The Company is not subject to any taxes on profits in the UAE. Taxation on foreign operations of the subsidiaries is provided for in accordance with fiscal regulations applicable in each territory.

o) Policyholders' fund

Any deficit in the policyholders' fund is financed by the shareholders through Qard-e-Hasan as per their undertaking. The Group maintains a full provision against such balances (refer note 30).

3 Significant accounting policies (continued)

p) Underwriting income attributable to policyholders and shareholders

As stated in note 1, the Group operates in accordance with Islamic Shari'ah principles. As a result, the net underwriting income from the operations of the Group is attributable to policyholders in accordance with the terms and conditions of takaful contracts acquired by the policyholder which stipulates that the insured, on taking out this policy from the Group becomes entitled to participate in the contributions pool with insured parties in the class of takaful on cooperative (mutual basis).

The relationship of the insured with the Group is determined particularly as to his share in the surplus net of management expenses, liabilities for claims and necessary reserves, by the Board of Directors of the Group for the class of takaful at the end of fiscal year of the Group. The Group undertakes to pay such share to the insured in the net profits in accordance with the resolution of the Board of Directors of the Company after the close of fiscal year of the Group. However, the net underwriting income from the operations of subsidiaries is attributable to the shareholders in accordance with the regulations prevailing in the jurisdiction of each subsidiary.

Therefore, the Group maintains separate accounts for takaful operations on behalf of the policyholders.

q) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

r) Operating segment

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

s) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

i) Property and equipment

The fair value of property and equipment, where relevant is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

3 Significant accounting policies (continued)

s) Determination of fair values (continued)

ii) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

iii) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of profit at the reporting date.

iv) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and profit cash flows, discounted at the market rate of profit at the reporting date. In respect of the liability component of convertible notes, if any, the market rate of profit is determined by reference to similar liabilities that do not have a conversion option.

t) Liability adequacy test

At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities using current estimates of future cash flows under takaful contracts. In performing these, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets supporting such liabilities are used. Any deficiency in the carrying amounts is immediately charged to the statement of income for takaful operations by establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

Where the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

u) New standards and interpretations not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014 and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

Reference	Title	Financial year beginning on or after
- IAS 32 (Amendment)	Financial Instruments : Presentation	1 January 2014
- IFRS 9	Financial Instruments	Not yet finalised
- IFRIC 21	Levies	1 January 2014

The application of these new standards might have a material impact on the Group financial statements in the period of initial application. The Group is in the process of assessing the impact of these standards.

4 Risk management

The Group issues contracts that transfer either insurance risk or both insurance and financial risks. The Group does not issue contracts that transfer only financial risk. This section summarises these risks and the way the Group manages them.

a) Introduction and overview

Governance framework

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

Capital management framework

The Group has an internal risk management framework for identifying risks to which each of its business units and the Group as a whole are exposed, quantifying their impact on economic capital. The internal framework estimates indicate how much capital is needed to mitigate the risk of insolvency to a selected remote level of risk applied to a number of tests (both financial and non-financial) on the capital position of the business.

Regulatory framework

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

The operations of the Group are also subject to regulatory requirements within the UAE. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions to minimize the risk of default and insolvency on the part of the takaful companies to meet unforeseen liabilities as these arise.

Asset liability management (ALM) framework

Financial risks arise from open positions in profit rate, currency and equity products, all of which are exposed to general and specific market movements. The main risk that the Group faces due to the nature of its investments and liabilities is the equity price risk. The Group manages these positions within an ALM framework that has been developed to achieve long-term investment returns in excess of its obligations under takaful and investment contracts.

The Group's ALM framework is also integrated with the management of the financial risks associated with the Group's other financial assets and liabilities not directly associated with takaful and investment liabilities.

The Group's ALM framework also forms an integral part of the takaful risk management policy, to ensure in each period sufficient cash flow is available to meet liabilities arising from takaful and investment contracts.

4 Risk management (continued)

b) Takaful risk

Takaful risk is where the Group agrees to indemnify the insured parties against happening of unforeseen future insured events. The frequency and severity of claims are the main risk factors. As per the practices adopted by the Group, actual claim amounts can vary marginally compared to the outstanding claim reserves but are not expected to have a material impact.

Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. The Group underwrites mainly property, engineering, motor, miscellaneous accident, marines and personal accident classes. These classes of takaful are generally regarded as short-term takaful contracts where claims are normally intimated and settled within a short time span. This helps to mitigate takaful risk.

Property

For property takaful contracts, the main perils are fire damage and other allied perils and business interruption resulting there from.

These contracts are underwritten either on replacement value or indemnity basis with appropriate values for the interest insured. The cost of rebuilding or repairing the damaged properties, the time taken to reinstate the operations to its pre-loss position in the case of business interruption and the basis of takaful are the main factors that influence the level of claims.

Engineering

For engineering takaful contracts, the main elements of risks are loss or damaged to insured project works and resultant third party liabilities, loss or damage to insured plants, machinery and equipment and resultant business interruption losses. The extent of the loss or damage is the main factor that influences the level of claims.

Motor

For motor takaful contracts, the main elements of risks are claims arising out of death and bodily injury and damage to third party properties as well as that of insured vehicles.

The potential court awards for death and bodily injury and the extent of damage to properties are the key factors that influence the level of claims.

Miscellaneous accident

For miscellaneous accident classes of takaful such as loss of money, infidelity of employees, personal accident, workmen’s compensation, travel, general third party liability and professional indemnity are underwritten.

The extent of loss or damage and the potential court awards for liability classes are the main factors that influence the level of claims.

4 Risk management (continued)

b) Takaful risk (continued)

Marine

In marine takaful the main risk elements are loss or damage to insured cargo and hull due to various mishaps resulting in the total or partial loss claims. The extent of the loss or damage is the main factor that influences the level of claims.

Family takaful contracts

Underwriting is managed at each business unit through a dedicated underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff. The underwriting policy is clearly documented, setting out risks which are unacceptable and the terms applicable for non-standard risks.

Health selection is part of the Group's underwriting procedures, whereby contributions are charged to reflect the health condition and family medical history of the applicants. Pricing is based on assumptions, such as mortality and persistency, which consider past experience and current trends. Contracts including specific risks and guarantees are tested for profitability according to predefined procedures before approval.

Products are reviewed by the business units on an annual basis to confirm, or otherwise, that pricing assumptions remain appropriate. Analysis is performed on earnings and liability movements to understand the source of any material variation in actual results from what was expected. This confirms the appropriateness of assumptions used in underwriting and pricing.

Retakaful risk

In line with other takaful and retakaful companies, in order to minimise financial exposure arising from large claims, the Group, in the normal course of business, enters into agreements with other parties for retakaful purposes. Such retakaful arrangement provides for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth.

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

Retakaful ceded contracts do not relieve the Group from its obligations and as a result the Group remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the retakaful agreements.

Concentration of takaful risk

The Group has certain single takaful contracts which it considers as risks of high severity but very low frequency. The Group cedes substantial part of these risks and its net exposure on any one single event is limited to AED 7.3 million (*2012 AED 7.3 million*).

4 **Risk management** (continued)

b) **Takaful risk** (continued)

Terms and conditions of takaful contracts

Takaful is based on uncertainty of event. As such the terms and conditions of takaful contracts varies but are normally based on the international guidance and policy wordings as followed by all takaful companies in the market.

Normally a takaful contract contains the coverage of the subject of takaful, the exclusions and obligations of the insured and the insurers. Deviations are reported forthwith to the insurer by the insured and any accident event to be reported immediately. Long tail business is generally that where the time period to ultimately finalise and settle claims could take a number of years.

The Group's estimates for reported and unreported losses and establishing resulting provisions and related retakaful recoverables are continually reviewed and updated, and adjustments resulting from this review are reflected in the income statement. The process relies upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis for predicting future claims.

Reserving risks are addressed by ensuring prudent and appropriate reserving for business written by the Group, thus ensuring that sufficient funds are available to cover future claims. Reserving practises for the Individual Family Takaful Portfolio involve the use of actuarial analysis from an independent actuary.

4 Risk management (continued)

c) Financial risks

The Group has exposure to the following primary risks from its use of financial instruments:

- Credit risk,
- Liquidity risk,
- Market risk, and
- Operational risk.

i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

A credit risk policy setting out the assessment and determination of what constitutes credit risk for the Group has been established and policies and procedures are in place to mitigate the Group's exposure to credit risk.

Compliance with the policy is monitored and exposures and breaches are regularly reviewed for pertinence and for changes in the risk environment.

For all classes of financial assets held by the Group, other than those relating to retakaful contracts, the maximum credit risk exposure to the Group is the carrying value as disclosed in the consolidated financial statements at the consolidated financial position date.

Retakaful is placed with reinsures and retakaful companies approved by the management, which are generally international companies that are rated by international rating agencies or other GCC companies.

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

At each reporting date, management performs an assessment of creditworthiness of reinsures and retakaful companies updates the retakaful purchase strategy, ascertaining suitable allowance for impairment if required.

The Group monitors concentrations of credit risk by sector and by geographic location.

Credit risk is controlled through terms of trade for receipt of contributions. Most of the counterparties are takaful companies that are generally not rated. However, they are selected on their standing in the market, rating, relationship experience and length of association. All retakaful counterparties are rated.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the end of the reporting period was as follows:

	2013	2012
	AED'000	AED'000
Financial assets		
Statutory deposits	**18,887**	18,474
Investments	**1,222,816**	1,237,152
Deposits with insurance and reinsurance	**151,354**	289,605
Premiums and insurance balance receivables	**701,730**	776,742
Reinsurers' share of outstanding claims	**327,450**	375,064
Amounts due from related parties	**12,700**	14,961
Other assets	**65,965**	91,421
Cash in hand and at bank	**341,570**	545,046
Total	**2,842,472**	3,348,465

4 **Risk management** (continued)

c) **Financial risks** (continued)

ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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

Maturity profiles

The table below summarizes the maturity profile of the financial liabilities of the Group based on remaining undiscounted contractual obligations. Repayments which are subject to notice are treated as if notices were to be given immediately.

			Contractual cash flows				
31 December 2013	**Carrying value**	**Total**	**Less than 180 days**	**180 days to 1 year**	**1-5 year**	**Over 5 year**	**No stated maturity**
				AED '000			
Outstanding claims reserve	**1,056,230**	**(1,056,230)**	**(116,439)**	**(52,388)**	**(810,335)**	**-**	**(77,068)**
Takaful balance payable	**706,054**	**(706,054)**	**(406,113)**	**(65,718)**	**(213,727)**	**(4,587)**	**(15,909)**
Payable to Participants for unit-linked contracts	**640,199**	**(640,199)**	**-**	**-**	**-**	**-**	**(640,199)**
Other payables	**113,750**	**(113,750)**	**(39,594)**	**(49,605)**	**-**	**-**	**(24,551)**
Amount due to related parties	**659**	**(659)**	**-**	**-**	**-**	**-**	**(659)**
Bank finances	**165,726**	**(274,479)**	**(7,026)**	**(7,026)**	**(42,939)**	**(213,436)**	**(4,052)**
Total liabilities	**2,682,618**	**(2,791,371)**	**(569,172)**	**(174,737)**	**(1,067,001)**	**(218,023)**	**(762,438)**

			Contractual cash flows				
31 December 2012	Carrying value	Total	Less than 180 days	180 days to 1 year	1-5 year	Over 5 year	No stated maturity
				AED '000			
Outstanding claims reserve	1,448,507	(1,448,507)	(95,134)	(35,956)	(126,032)	-	(1,191,385)
Takaful balance payable	696,740	(696,740)	(422,098)	(115,136)	(139,996)	(1,698)	(17,812)
Payable to Participants for unit-linked contracts	540,833	(540,833)	-	-	-	-	(540,833)
Other payables	143,295	(143,295)	(42,054)	(27,313)	-	-	(73,928)
Amount due to related parties	682	(682)	-	-	-	-	(682)
Bank finances	160,665	(378,088)	(6,794)	(6,794)	(48,823)	(310,212)	(5,465)
Total liabilities	2,990,722	(3,208,145)	(566,080)	(185,199)	(314,851)	(311,910)	(1,830,105)

4 Risk management (continued)

c) Financial risks (continued)

iii) Market risk

Market 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 Group limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in local equity and sukuk markets. In addition, the Group actively monitors the key factors that affect stock and sukuk market movements, including analysis of the operational and financial performance of investees.

(a) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Company's functional currency is the UAE Dirham.

The significant financial assets and liabilities exposed to currency risk in equivalent thousand of Dirham are as under:

31 December 2013	**Financial assets**	**Financial liabilities**	**Net**
Currency	**AED'000**	**AED'000**	**AED'000**
EURO	**120,509**	**(180,736)**	**(60,227)**
USD	**1,140,041**	**(322,347)**	**817,694**
EGP	**249,084**	**(124,189)**	**124,895**
TND	**22,091**	**(23,592)**	**(1,501)**
CFA	**67,036**	**(52,596)**	**14,440**
DZD	**250,235**	**(107,829)**	**142,406**
Others	**777,145**	**(1,015,988)**	**(238,843)**

31 December 2012	Financial assets	Financial liabilities	Net
Currency	AED'000	AED'000	AED'000
EURO	121,684	(158,672)	(36,988)
USD	1,418,552	(443,801)	974,751
EGP	258,132	(119,280)	138,852
TND	16,822	(17,254)	(432)
CFA	63,883	(41,153)	22,730
DZD	214,930	(82,409)	132,521
Others	1,704,423	(1,917,737)	(213,314)

4 Risk management (continued)

c) Financial risks (continued)

iii) Market risk (continued)

(a) Currency risk (continued)

Sensitivities

The analysis below is performed for reasonably possible movements in foreign exchange rate with all other assumptions held constant showing the impact on net profit or equity. The sensitivities carried out for subsidiaries only as the impact of currency risk on the Company's own assets and liabilities is considered insignificant.

31 December 2013	**Change in exchange rates**	**Impact on consolidated net profit**	**Impact on consolidated statement of other comprehensive income**
		AED'000	**AED'000**
Financial assets	**+10%**	**+168,247**	**-**
	-10%	**-168,247**	**-**
Financial liabilities	**+10%**	**+73,774**	**-**
	-10%	**-73,774**	**-**

31 December 2012	Change in exchange rates	Impact on consolidated net profit	Impact on consolidated statement of other comprehensive income
		AED'000	AED'000
Financial assets	+10%	+190,563	-
	-10%	-190,563	-
Financial liabilities	+10%	+78,458	-
	-10%	-78,458	-

(b) Profit rate risk

Profit rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market profit rates.

An increase of 100 basis points at the reporting date would have decreased the net assets and the profit of the Group by AED 4,418 (*2012: AED 7,168*), the decrease of 100 basis points will result in equal but opposite effect.

(c) Equity price risk

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

The Group's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities not held for the account of unit-linked business.

4 Risk management (continued)

c) Financial risks (continued)

iii) Market risk (continued)

(c) Equity price risk (continued)

The Group's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each country, sector and market and careful and planned use of derivative financial instruments.

Sensitivities

The analysis below is performed for reasonably possible movements in equity prices with all other assumptions held constant showing the impact on net profit or equity.

31 December 2013

Change in equity prices	Impact on net profit AED'000	Impact on other comprehensive income AED'000
+10%	**+105,623**	**+72,878**
-10%	**-105,623**	**-72,878**

31 December 2012

Change in equity prices	Impact on net profit AED'000	Impact on other comprehensive income AED'000
+10%	+144,851	+107,344
-10%	-144,851	-107,344

d) Operational risks

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss.

The Group cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Group is able to manage the risks.

The Group has detailed systems and procedures manuals with effective segregation of duties, access controls, authorisation and reconciliation procedures, staff training and assessment processes etc. with a compliance and internal audit framework. Business risks such as changes in environment, technology and the industry are monitored through the Group's strategic planning and budgeting process.

5 Acquisition of subsidiaries

As stated in note 1, with effect from 1 January 2005, the Company acquired 82.21% share in Tariic. The operating results and financial position of Tariic for the year ended 31 December 2005 have been consolidated with the financial statements of the Company as the Group has control over the operating and financial policies of Tariic. The above acquisition resulted in recognition of Goodwill in statement of financial position amounting to AED 186.19 million.

Subsequent to the above acquisition, as stated in note 1, the Company increased its holding in Tariic to 99.40% as at September 30, 2007 by further acquisitions of 4,080,465 shares. The net resultant discount of AED 2.62 million on these acquisitions was recognised directly in Company's shareholder's equity.

In addition to the acquisitions in Tariic, as stated in note 1, Company acquired shares in Best Re, subsidiary of Tariic. The goodwill amounting to AED 25.6 million was recognised in Company's shareholder's equity. After the acquisition, Tariic acquired further holding in Best Re and recognised AED 7.4 million discounts directly in Tariic's shareholder's equity. Consequently, the share of Company to the above discount of AED 7.0 million was recognised directly in shareholders' equity.

The management has allocated goodwill to each subsidiary on systematic basis. On the basis of assumptions they consider appropriatness of carrying value of each business unit after assessing the external market conditions they conclude that goodwill attributable to Best Re has been impaired, accordingly the Group has taken AED 34.4 million as an impairment loss (2012: Nil).

The carrying value has been tested for impairment by using an earnings multiples model based of comparable peers. Companies exist in the similar market with similar size.

The key assumptions described above may change as the economic and market conditions change. Management estimates that reasonably possible changes in these assumptions are not expected to cause the recoverable amount of goodwill to decline below the carrying amount.

6 Accounting classification of financial assets and financial liabilities

The table below shows a reconciliation between line items in the statement of financial position and categories of financial instruments.

At 31 December 2013	FVTPL	Available-for-sale Investments	Amortised Cost	Total carrying amount
	AED '000	AED '000	AED '000	AED '000
Financial assets				
Investments	35,108	334,617	853,091	**1,222,816**
Investments in associates	41,505	-	-	**41,505**
Investment properties	307,762	-	-	**307,762**
Statutory deposits	-	-	18,887	**18,887**
Participants' investments in unit-linked contracts	643,644	-	-	**643,644**
Deposits with takaful and retakaful companies	-	-	151,354	**151,354**
Contributions and takaful balance receivables	-	-	701,730	**701,730**
Amounts due from related parties	-	-	12,700	**12,700**
Other assets and receivables	-	-	188,865	**188,865**
Cash and bank balances	-	-	341,570	**341,570**
	1,028,019	334,617	2,268,197	**3,630,833**
Financial liabilities				
Bank finances	-	-	165,726	**165,726**
Payable to Participants for unit-linked contracts	640,199	-	-	**640,199**
Takaful balances payable	-	-	706,054	**706,054**
Other payables	-	-	125,411	**125,411**
Amounts due to related parties	-	-	659	**659**
	640,199	-	997,850	**1,638,049**

7 Fair value of financial instrument

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

7 Fair value of financial instrument (continued)

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

a) Fair value hierarchy of assets/liabilities measured at fair value

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the consolidated statement of financial position.

As at 31 December 2013

Financial assets	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total AED '000
Financial asset at fair value through profit or loss				
Mutual fund	23,091	5,310	-	28,401
Participants' investments in unit-linked contracts	-	643,644	-	643,644
Shares and securities	6,707	-	-	6,707
Investment properties	-	-	307,762	307,762
	29,798	648,954	307,762	986,514
Available for sale				
Mutual fund	12,740	313,820	-	326,560
Shares and securities	7,967	90	-	8,057
	20,707	313,910	-	334,617

7 Fair value of financial instrument (continued)

a) Fair value hierarchy of assets/liabilities measured at fair value (continued)

As at 31 December 2012

Financial assets	**Level 1 AED '000**	**Level 2 AED '000**	**Level 3 AED '000**	**Total AED '000**
Financial asset at fair value through profit or loss				
Mutual fund	25,640	2,182	-	27,822
Participants' investments in unit-linked contracts	-	551,354	-	551,354
Shares and securities	5,991	-	-	5,991
Investment properties	-	-	284,818	284,818
	31,631	**553,536**	**284,818**	**869,985**
Available for sale				
Mutual fund	23,545	216,595	-	240,140
Shares and securities	3,273	92	-	3,365
	26,818	**216,687**	**-**	**243,505**

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in Level 3 of the fair value hierarchy:

	2013 AED'000	2012 AED'000
Balance at 1 January	**284,818**	274,733
Purchases/classified as Level 3	**10,161**	64,650
Sales	**-**	(55,065)
Fair value movement (refer note 15)	**12,783**	500
Balance at 31 December	**307,762**	284,818

7 Fair value of financial instrument *(continued)*

b) Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

As at 31 December 2013

Financial assets	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Total carrying amount**
	AED '000	AED '000	**AED '000**	AED '000	**AED '000**
Statutory deposits	**-**	**18,887**	**-**	**18,887**	**18,887**
Deposits with takaful and retakaful companies	**-**	**151,354**	**-**	**151,354**	**151,354**
Contributions and takaful balance receivables	**-**	**-**	**701,730**	**701,730**	**701,730**
Amounts due from related parties	**-**	**-**	**12,700**	**12,700**	**12,700**
Other assets and receivables	**-**	**-**	**188,865**	**188,865**	**188,865**
	-	**170,241**	**903,295**	**1,073,536**	**1,073,536**
Financial liabilities					
Bank finances	**-**	**-**	**165,726**	**165,726**	**165,726**
Takaful balances payable	**-**	**-**	**706,054**	**706,054**	**706,054**
Other payables	**-**	**-**	**125,411**	**125,411**	**125,411**
Amounts due to related parties	**-**		**659**	**659**	**659**
	-	**-**	**997,850**	**997,850**	**997,850**

a) In respect of those financial assets and financial liabilities measured at amortised cost, which are of short term nature (up to 1 year), management believes that carrying amount is equivalent to it's fair value.

b) Fair values of deposits with banks are measured at their amortised cost, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is considered to be the amount payable at the reporting date.

Notes (*continued*)

8 Allocation of the net profit

	For the year ended 31 December 2013				For the year ended 31 December 2012			
	Shareholders AED'000	**Policyholders AED'000**	**Non-controlling interest AED'000**	**Total AED'000**	Shareholders AED'000	Policyholders AED'000	Non -controlling interest AED'000	Total AED'000
Net underwriting income								
Total net underwriting income	-	**127,443**	-	**127,443**	-	(264,456)	-	(264,456)
Income								
Wakalah share (note 9)	**63,790**	**(63,790)**	-	-	64,048	(64,048)	-	-
Mudarib share (note 9)	**82**	**(82)**	-	-	135	(135)	-	-
Net technical charges from/to shareholders to poliyholders	**(9,167)**	**9,167**	-	-	(7,496)	7,496	-	-
Net underwriting income from subsidiaries	**92,265**	**(92,265)**	-	-	(323,533)	323,533	-	-
Income from investment (note 10)	**57,438**	**647**	-	**58,085**	57,412	1,085	-	58,497
Other income	**22,617**	-	-	**22,617**	29,003	-	-	29,003
	227,025	**(18,880)**	-	**208,145**	(180,431)	3,475	-	(176,956)
Expenses								
General, administrative and other expenses	**(226,553)**	-	-	**(226,553)**	(172,471)	-	-	(172,471)
Finance expenses	**(15,287)**	-	-	**(15,287)**	(14,604)	-	-	(14,604)
Net loss before tax for the year	**(14,815)**	**(18,880)**	-	**(33,695)**	(367,506)	3,475	-	(364,031)
Tax – current	**(12,513)**	-	-	**(12,513)**	(13,504)	-	-	(13,504)
Net loss after tax for the year	**(27,328)**	**(18,880)**	-	**(46,208)**	(381,010)	3,475	-	(377,535)
Share of non-controlling interest	**(9,939)**	-	**9,939**	-	(11,119)	-	11,119	-
Policyholders' deficit	-	-	-	-	-	721	-	721
Surplus distribution for family takaful policyholders	-	**(14,037)**	-	**(14,037)**	-	(5,650)	-	(5,650)
Chargeback of funding of fund provided (note 30)	**(32,917)**	**32,917**	-	-	(1,454)	1,454	-	-
Net loss for the year	**(70,184)**	-	**9,939**	**(60,245)**	(393,583)	-	11,119	(382,464)

9 Wakalah and Mudarib Share

The shareholders manage the takaful operations of the Group for the policyholders and charge 15% *(2012: 15%)* of gross written contributions of non family takaful business (excluding subsidiaries) as share. For family takaful business, sharing ratio is 15% (*2012:15%*) of mortality costs.

The shareholders of the Group also manage the policyholders' investment funds other than family takaful and subsidiaries and charge 15% *(2012: 5%)* of investment income earned by the policyholders as Mudarib share.

10 Income from investments

	For the year ended 31 December 2013		
	Shareholders AED'000	**Policyholders AED'000**	**Total AED'000**
Income from investments in Mudaraba and IPO fund	**17,162**	**-**	**17,162**
Realised profit on sale of investments	**3,356**	**-**	**3,356**
Unrealised gain on investments	**(21)**	**-**	**(21)**
Unrealised gain on investments properties	**12,783**	**-**	**12,783**
Income on Sukuk and other held to maturity investments	**8,539**	**-**	**8,539**
Income from bank deposits and loans and receivables	**20,074**	**647**	**20,721**
Dividend income	**914**	**-**	**914**
Share of loss from associates	**(11,334)**	**-**	**(11,334)**
Rental income (note 15)	**5,965**	**-**	**5,965**
	57,438	**647**	**58,085**

	For the year ended 31 December 2012		
	Shareholders AED'000	Policyholders AED'000	Total AED'000
Income from investments in Mudaraba and IPO fund	15,575	-	15,575
Realised profit on sale of investments	5,650	-	5,650
Unrealised loss on investments	3,222	-	3,222
Unrealised gain on investments properties	500	-	500
Income on Sukuk and other held to maturity investments	10,476	-	10,476
Income from bank deposits and loans and receivables	17,851	1,085	18,936
Dividend income	1,325	-	1,325
Share of profit from associates	(3,054)	-	(3,054)
Rental income (note 15)	5,867	-	5,867
	57,412	1,085	58,497

11 General administrative and other expenses

These include:

	2013 AED'000	2012 AED'000
Staff costs	79,491	78,252
Rent, rates and service charges	7,511	9,043
Utilities	340	329
Travelling and conveyance	2,662	3,269
Printing and stationery	3,362	3,188
Licenses and other government expenses	1,628	2,053
Depreciation	7,135	6,905
Amortisation	1,801	3,805
Marketing and advertising	2,675	4,091
Legal and professional fees - Company	2,158	2,032

12 Provision for charitable donations

In accordance with Islamic Shari'ah requirements, certain profits earned by the subsidiaries have been reduced from income and transferred to a separate provision which are utilised for charitable donations. Movement in the provision recognised in the consolidated statement of financial position are as follows:

	2013 AED'000	2012 AED'000
Balance at 1 January	**6,397**	2,578
Provided during the year	**3,118**	3,819
Utilised during the year	**(2,293)**	-
Balance at 31 December (included in other payables and accruals) (note 27)	**7,222**	6,397

13 Property and equipments

	Land	Building	Furniture & fixtures	Computer	Motor Vehicles	Capital work in progress	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cost							
At 1 January 2012	16,798	82,024	23,376	11,181	3,195	1,376	137,950
Revaluations	978	17,240	-	-	-	-	18,218
Additions	-	-	1,546	976	253	317	3,092
Disposals	(7,669)	(2,711)	(279)	(178)	(384)	(527)	(11,748)
At 31 December 2012	10,107	96,553	24,643	11,979	3,064	1,166	147,512
At 1 January 2013	**10,107**	**96,553**	**24,643**	**11,979**	**3,064**	**1,166**	**147,512**
Additions	**-**	**-**	**876**	**531**	**1,260**	**1,850**	**4,517**
Revaluations	**115**	**21,617**	**(237)**	**(20)**	**4**	**2**	**21,481**
Disposals / transfers	**-**	**(11,811)**	**(348)**	**(27)**	**(662)**	**-**	**(12,848)**
At 31 December 2013	**10,222**	**106,359**	**24,934**	**12,463**	**3,666**	**3,018**	**160,662**
Depreciation							
At 1 January 2012	-	6,085	13,586	9,208	2,044	-	30,923
Charge for the year	-	3,043	2,521	1,034	276	31	6,905
Revaluations	-	(3,437)	-	-	-	-	(3,437)
On disposals	-	(928)	(222)	(167)	(291)	1	(1,607)
At 31 December 2012	-	4,763	15,885	10,075	2,029	32	32,784
At 1 January 2013	**-**	**4,763**	**15,885**	**10,075**	**2,029**	**32**	**32,784**
Charge for the year	**-**	**3,277**	**2,441**	**995**	**422**	**-**	**7,135**
Revaluations	**-**	**110**	**(138)**	**10**	**(38)**	**-**	**(56)**
On disposals	**-**	**(1,628)**	**(137)**	**(8)**	**(126)**	**-**	**(1,899)**
At 31 December 2013	**-**	**6,522**	**18,051**	**11,072**	**2,287**	**32**	**37,964**
Net book value							
At 31 December 2013	**10,222**	**99,837**	**6,883**	**1,391**	**1,379**	**2,986**	**122,698**
At 31 December 2012	10,107	91,790	8,758	1,904	1,035	1,134	114,728

14 Intangible assets

	Computer software	Goodwill	Total
	AED'000	AED'000	AED'000
Cost			
At 1 January 2012	17,043	186,194	203,237
Additions	647	-	647
Disposals	(15)	-	(15)
At 31 December 2012	17,675	186,194	203,869
At 1 January 2013	**17,675**	**186,194**	**203,869**
Additions	**325**	**-**	**325**
Disposals	**-**	**-**	**-**
At 31 December 2013	**18,000**	**186,194**	**204,194**
Accumulated amortisation and impairment losses			
At 1 January 2012	10,581	-	10,581
Charge for the year	3,805	-	3,805
Impairment loss	-	-	-
On disposals	(15)	-	(15)
At 31 December 2012	14,371	-	14,371
At 1 January 2013	**14,371**	**-**	**14,371**
Charge for the year	**1,801**	**-**	**1,801**
Impairment loss (note 5)	**-**	**34,398**	**34,398**
On disposals	**-**	**-**	**-**
At 31 December 2013	**16,172**	**34,398**	**50,570**
Net book value			
At 31 December 2013	**1,828**	**151,796**	**153,624**
At 31 December 2012	3,304	186,194	189,498

Computer software licences acquired by the Group are capitalised on the basis of the costs incurred to acquire and bring into their internal use. For goodwill, refer note 5.

15 Investment properties

Investment properties mainly comprise of land and building acquired by the Group in UAE in 1997, and lands in Kingdom of Saudi Arabia (KSA) acquired in 2006 and 2011. The value of investment properties, as determined by independent valuer as at 31 December 2013, is AED 17 million (*2012: AED 13 million*) and AED 262 million (*2012: AED 262 million*) for properties in UAE and KSA respectively.

In the year 2011, the Group has acquired a property amounting to AED 196 million in Kingdom of Saudi Arabia ("KSA"). The acquisition of property was held through a Salama lead consortium whereby Salama and Best Re Holdings limited (100 % subsidiary) will be sharing risk and rewards associated with the property (Salama 68.96% and Best Re Holdings Limited 31.04%).The property is owned by the consortium through a nominee agreement for and on behalf of the Group.

The rental income of properties amount to AED 5.9 million in 2013 (*2012: AED 5.8 million*), there is no direct related expenses in respect of investment property.

The investments made in KSA are jointly owned by the Group with Saudi Arabia local partners. The lands are owned by the Group through a nominee agreement for and on behalf of the Group.

The Group investment property portfolio, is being managed and maintained by a third party administrative, and the rental income received from these properties are being set off with the administrative fees.

Valuation of investment properties

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Group's investment property portfolio annually.

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment properties, as well as the significant unobservable inputs used.

The Company has taken the highest and best use fair values for the fair value measurement of its investment properties.

Valuation technique	Significant unobservable inputs	Interrelationship between key unobservable inputs and
		The estimated fair value increase/decrease if:
1) Income valuation approach 2) Sales comparative valuation approach 3) Market value approach	-Expected market rental growth rate -Risk adjusted discount rates -Free hold property -Free of covenants , third party rights and obligations -Statutory and legal validity -Condition of the property -Sales value of comparable properties	-Expected market rental growth rate were higher -The risk adjusted discount rates were lower / higher -The property is not free hold -The property is subject to any covenants, rights and obligations -The property is subject to any adverse legal notices / judgment -The property is subject to any defect / damages -The property is subject to sales value fluctuations of surrounding properties in the area.

15 Investment properties *(continued)*

	2013 AED'000	2012 AED'000
Movement in Investment properties		
Balance at 1 January	**284,818**	274,733
Acquired during the year	**10,161**	64,650
Disposal during the year	**-**	(55,065)
Fair value gain (note 10)	**12,783**	500
Balance at 31 December	**307,762**	284,818

16 Investment in associates

The principal associates of the Group, all of which have 31 December as their year end are as follows:

Associates	Ownership 2013	Ownership 2012	Country of incorporation	2013 AED'000	2012 AED'000
GEPAR	**20.00%**	20.00%	Tunisia	**496**	924
Salama Cooperative Insurance Co. (formerly Saudi IAIC)	**30.00%**	30.00%	KSA	**13,076**	25,452
Best Invest	**36.11%**	36.11%	Tunisia	**-**	-
Islamic Insurance Jordan	**20%**	20%	Jordan	**27,933**	27,512
				41,505	53,888

Movements during the year	2013 AED'000	2012 AED'000
Balance at 1 January	**53,888**	57,563
Share of (loss)/profit in associates (note 10)	**(11,334)**	(3,054)
Change in reserve	**(1,049)**	(621)
Balance at 31 December	**41,505**	53,888

Summarised financial information of the major associates is as under:

	2013 AED'000	2012 AED'000
Total assets	**401,851**	378,125
Total liabilities	**(308,440)**	(222,725)
Revenue	**197,979**	295,590
Deficit	**(33,112)**	(14,589)

17 Statutory deposits

Company	2013 AED'000	2012 AED'000
Islamic Arab Insurance Co. (Salama)	**10,000**	10,000
Tariic	**-**	-
Egypt Saudi Insurance Home	**1,593**	1,819
Salama Senegal	**6,539**	5,901
Best Re Holding	**755**	754
	18,887	18,474

These statutory deposits are required to be placed by all insurance and takaful companies operating in respective countries mentioned above with the designated National Banks. Statutory deposits, which depend on the nature of takaful activities, cannot be withdrawn except with the prior approval of the regulatory authorities.

18 Investments

	31 December 2013			31 December 202		
	Domestic investments AED'000	**International investments AED'000**	**Total AED'000**	Domestic investments AED'000	International investments AED'000	Total AED'000
Financial asset at fair value through profit or loss						
Mutual fund and externally managed portfolios	**-**	**28,401**	**28,401**	-	27,822	27,822
Shares and securities	**6,707**	**-**	**6,707**	4,381	1,610	5,991
	6,707	**28,401**	**35,108**	4,381	29,432	33,813
Available-for-sale investments						
Mutual fund and externally managed portfolio	**-**	**326,560**	**326,560**	-	240,140	240,140
Shares and Securities	**7,968**	**89**	**8,057**	3,272	93	3,365
	7,968	**326,649**	**334,617**	3,272	240,233	243,505
Islamic placements (refer 18.1)	**-**	**676,731**	**676,731**	-	771,938	771,938
Held to maturity						
SUKUK and Government bonds	**-**	**176,360**	**176,360**	-	187,896	187,896
Total investments	**14,675**	**1,208,141**	**1,222,816**	7,653	1,229,499	1,237,152

18.1 Represent Shari'ah compliant placements with different financial institutions having profit rates of 0.22% to 4.75% *(2012: 0.22% to 4.75%)* and maturing in more than 3 months when acquired.

18.2 Participants' investments in unit-linked contracts

	2013 AED'000	2012 AED'000
Financial asset at fair value through profit or loss	**643,644**	551,354

19 Deposits with takaful and retakaful companies

	2013 AED'000	2012 AED'000
Contributions deposits	**74,569**	217,997
Claim deposits	**76,785**	71,608
	151,354	289,605

Contribution deposits with takaful companies primarily pertain to Best Re amounting to AED 71 million *(2012: AED 214 million)*. Claim deposits also pertain mainly to Best Re amounting to AED 73 million *(2012: AED 68 million)*. As per the relevant local regulations, the ceding company retains a portion of unearned contributions and outstanding claims after net payments to Best Re.

20 Contributions and takaful balance receivables

	2013	2012
	AED'000	AED'000
Takaful contributions receivables	**270,104**	412,108
Due from takaful and retakaful companies	**451,401**	384,215
	721,505	796,323
Provision for impairment losses		
Takaful contributions receivables	**(7,917)**	(3,886)
Due from takaful and retakaful companies	**(11,858)**	(15,695)
	701,730	776,742

Aging of contributions and takaful balance receivables

	2013	
	Gross amount	**Impairment**
	AED'000	**AED'000**
Not yet due	**211,205**	**-**
Past due over 0 to 60 days	**71,416**	**-**
Past due over 60 to 120 days	**69,001**	**-**
Past due over 120 to 180 days	**54,746**	**-**
Past due over 180 days to 1 year	**84,695**	**-**
Over 1 year	**225,088**	**(14,421)**
Total contributions and takaful balance receivables	**716,151**	**(14,421)**
Net contributions and takaful balance receivables	**701,730**	

Aging of contributions and takaful balance receivables

	2012	
	Gross amount	Impairment
	AED'000	AED'000
Not yet due	96,132	-
Past due over 0 to 60 days	115,142	-
Past due over 60 to 120 days	15,394	-
Past due over 120 to 180 days	62,213	-
Past due over 180 days to 1 year	270,464	-
Over 1 year	236,978	(19,581)
Total contributions and takaful balance receivables	796,323	(19,581)
Net contributions and takaful balance receivables	776,742	

21 Other assets and receivables

	2013 **AED'000**	2012 AED'000
Utility, security and other deposits	**25,092**	930
Due from employees	**3,150**	3,858
Due from brokers	**4,951**	3,595
Other prepayments	**6,862**	5,149
Advance taxes paid	**2,129**	1,896
Income receivable on investments	**14,934**	52,522
Deferred commission	**65,400**	44,533
Others	**73,209**	62,910
	195,727	175,393

22 Cash and bank balances

	2013 **AED'000**	2012 AED'000
Cash in hand	**701**	499
Cash at bank	**98,824**	96,616
Term deposits	**242,045**	447,931
	341,570	545,046

Cash and bank balances - by geographical distribution

	2013 **AED'000**	2012 AED'000
Domestic	**139,172**	175,948
International	**202,398**	369,098
	341,570	545,046

23 Outstanding claims and family takaful reserve

	2013 AED'000	2012 AED'000
Reserve for outstanding claims	**897,539**	1,139,707
Reserve for incurred but not reported claims	**158,691**	308,800
	1,056,230	1,448,507
Less: Retakafuls' share of outstanding claims	**(327,450)**	(375,064)
	728,780	1,073,443

Movements in outstanding claims reserve and family takaful reserve

	2013			
	Gross AED'000	**Retakaful AED'000**	**Adjustment AED'000**	**Net AED'000**
Balance at 1 January	**1,448,507**	**(375,064)**	**-**	**1,073,443**
Foreign exchange differences	**-**	**3**	**(3,218)**	**(3,215)**
Net movement during the year	**(392,277)**	**47,611**	**3,218**	**(341,448)**
Balance at 31 December	**1,056,230**	**(327,450)**	**-**	**728,780**
	2012			
	Gross AED'000	Retakaful AED'000	Adjustment AED'000	Net AED'000
Balance at 1 January	1,392,699	(477,688)	-	915,011
Foreign exchange differences	-	-	(821)	(821)
Net movement during the year	55,808	102,624	821	159,253
Balance at 31 December	1,448,507	(375,064)	-	1,073,443

Assumptions and sensitivities

Process used to determine the assumptions

The process used to determine the assumptions for calculating the outstanding claim reserve is intended to result in neutral estimates of the most likely or expected outcome. The sources of data used as inputs for the assumptions are reviewed annually.

The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case by case basis with due regard to the claim circumstances, information available from loss adjusters and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises.

During the year, the management of one of the subsidiary has examined the existing levels of IBNR and technical reserves and considers the circumstances exists. The majority of reserves were related to reduction in pipeline premiums pertaining to the treaties and are of business which cedant decided not to go-ahead resulting into reversals of premiums, commission, claims, UPR and IBNR projected at the reporting date.

23 Outstanding claims and family takaful reserve (continued)

Process used to determine the assumptions (continued)

The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments or if catastrophic events occur. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate.

The provision estimation difficulties also differ by class of business due to differences in the underlying takaful contract, claim complexity, the volume of claims and the individual severity of claims, determining the occurrence date of a claim, and reporting lags.

IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of retakaful recoveries. The method used by the Group takes into account historical data, past estimates and details of the retakaful programme, to assess the expected size of retakaful recoveries.

Assumptions and sensitivities to changes in key variables

The assumptions that have the greatest effect on the measurement of takaful contract provisions are the expected loss ratios for the most recent accident years for accident and liabilities. These are used for assessing the IBNR for the 2012 and 2013 accident years.

Where variables are considered to be immaterial, no impact has been assessed for insignificant changes to these variables. Particular variables may not be considered material at present. However, should the materiality level of an individual variable change, assessment of changes to that variable in the future may be required.

An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Group’s estimation process. The Group believes that the liability for claims reported in the statement of financial position is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims arise.

23 Outstanding claims and family takaful reserve (continued)

Claims development

The Group maintains adequate reserves in respect of its takaful business in order to protect against adverse future claims experience and developments. The uncertainties about the amount and timing of claim payments are normally resolved within one year.

Takaful claims-gross

Underwriting year (cumulative amounts)	**2009 AED'000**	**2010 AED'000**	**2011 AED'000**	**2012 AED'000**	**2013 AED'000**	**Total AED'000**
Development year 1	383,937	436,761	710,264	295,729	289,248	-
Development year 2	774,105	925,725	1,485,103	298,119	-	-
Development year 3	866,354	1,247,353	1,475,036	-	-	-
Development year 4	865,436	1,245,129	-	-	-	-
Development year 5	855,303	-	-	-	-	-
Current estimate of cumulative claims (A)	855,303	1,245,129	1,475,036	298,119	289,248	4,162,835
Cumulative payments to date (B)	(799,532)	(966,574)	(1,141,295)	(168,661)	(77,458)	(3,153,520)
Net (A-B)	55,771	278,555	333,741	129,458	211,790	1,009,315

Liability recognised in the consolidated statement of financial position as part of gross claim	1,009,315
Reserve in respect of years prior to 2009 part of the gross claim	46,915
Total reserve included in the consolidated statement of financial position as part of the gross claim	1,056,230

23 Outstanding claims and family takaful reserve (continued)

***Claims development** (continued)*

Takaful claims-net

Underwriting year (cumulative amounts)	**2009** AED'000	**2010** AED'000	**2011** AED'000	**2012** AED'000	**2013** AED'000	**Total** AED'000
Development year 1	317,725	381,160	442,785	431,015	288,035	
Development year 2	621,243	813,669	1,065,409	468,277	-	-
Development year 3	781,086	1,198,351	1,060,505	-	-	-
Development year 4	758,641	1,184,210	-	-	-	-
Development year 5	745,722	-	-	-	-	-
Current estimate of cumulative claims (A)	745,722	1,184,210	1,060,505	468,277	288,035	3,746,749
Cumulative payments to date (B)	(726,971)	(1,015,858)	(867,924)	(301,048)	(108,004)	(3,019,805)
Net (A-B)	18,751	168,352	192,581	167,229	180,031	726,944

Liability recognised in the consolidated statement of financial position as part of net claim	726,944
Reserve in respect of years prior to 2009 part of the net claim	1,836
Total reserve included in the consolidated statement of financial position as part of the net claim	728,780

Sensitivities

The general takaful claims provision is sensitive to the above key assumptions. The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant showing the impact on liabilities and net income.

31 December 2013

		Impact on gross liabilities AED'000	***Impact on net profit** AED'000
Current claims	**+10%**	**+105,623**	**+72,878**
	-10%	**-105,623**	**-72,878**

31 December 2012

		Impact on gross liabilities AED'000	*Impact on net profit AED'000
Current claims	+10%	+144,851	+107,344
	-10%	-144,851	-107,344

* the impact on net profit is net of retakaful.

24 Unearned contributions reserve

Movements in unearned contributions reserve:

	2013			
	Gross AED'000	**Retakafuls' AED'000**	**Adjustment AED'000**	**Net AED'000**
Balance at 1 January	**597,417**	**(224,854)**	**-**	**372,563**
Foreign exchange differences	**-**	**-**	**(4,548)**	**(4,548)**
Provision made during the year	**358,639**	**(62,740)**	**4,548**	**300,447**
Provision released during the year	**(597,417)**	**224,854**	**-**	**(372,563)**
Balance at 31 December	**358,639**	**(62,740)**	**-**	**295,899**

	2012			
	Gross AED'000	Retakafuls' AED'000	Adjustment AED'000	Net AED'000
Balance at 1 January	659,172	(221,883)	-	437,289
Foreign exchange differences	-	-	(1,857)	(1,857)
Provision made during the year	597,417	(224,854)	1,857	374,420
Provision released during the year	(659,172)	221,883	-	(437,289)
Balance at 31 December	597,417	(224,854)	-	372,563

25 Takaful balances payable

	2013 AED'000	2012 AED'000
Takaful companies	**87,922**	89,457
Customers and others	**618,132**	281,353
Retakaful companies	**-**	325,930
	706,054	696,740

26 Payable to Participants for unit-linked contracts

	2013 AED'000	2012 AED'000
Balance at 1 January	**540,833**	474,533
Amounts invested by Participants	**228,278**	183,098
Refund/Redemption during the year	**(3,475)**	(6,938)
Net movement including redemption in fund	**(89,442)**	(77,109)
	676,194	573,584
Deferred acquisition cost	**(35,995)**	(32,751)
	640,199	540,833

27 Other payables and accruals

	2013	2012
	AED'000	AED'000
Payable to garages and brokers	**14,572**	25,341
Provision for charitable donations (note 12)	**7,222**	6,397
Payable to suppliers	**22,076**	17,812
Staff related accruals	**6,636**	17,039
Accrued expenses	**3,944**	4,002
Other provisions	**6,718**	6,030
Taxes payable	**22,942**	23,610
Other payables	**65,821**	43,064
	149,931	143,295

28 Bank finances

	2013	2012
	AED'000	AED'000
Long-term portion	**161,674**	155,200
Short-term portion	**4,052**	5,465
	165,726	160,665

Above include financing for one of the Group's subsidiaries equivalent to AED 155.6 million (*2012: AED 155.6 million*) arranged by Merrill Lynch International. The financing has a repayment period of 20 years with an early redemption option after 10 years. The profit is payable at rate 8.75 % p.a. (*2012: 8.75%*). The profit is payable at each quarter end.

29 Related party transactions

The Group, in the normal course of business, collects contributions, settles claims and enters into other transactions with other businesses that fall within the definition of related parties contained in the International Accounting Standard 24. The management believes that the terms of such transactions are not significantly different from those that could have been obtained from third parties. The following are the details of significant transactions with related parties.

	2013	2012
	AED'000	AED'000
General and administrative expenses	**1,728**	2,070
Retakaful on contributions	**5,066**	7,167
Retakaful on claims	**1,478**	1,881

Transactions and receivables related to Bin Zayed Group are in respect of management of the Group's investment portfolio.

Amounts due from related parties	**2013**	2012
	AED'000	AED'000
Bin Zayed Group	**11,128**	11,128
IAIC Bahrain	**19**	21
Other entities under common management with the Group	**1,553**	3,812
	12,700	14,961
Amounts due to related parties		
IAIC Bahrain-current account	**-**	-
Other entities under common management with the Group	**659**	682
	659	682
Compensation of key management personnel		
Short term benefits	**10,153**	9,503
Employees end of service benefits	**946**	393
	11,099	9,896

30 Policyholders' fund

	2013	2012
	AED'000	AED'000
Balance at 1 January	**-**	721
Reversal of cost charged to family takaful policyholders for prior years	**-**	-
Net (deficit)/surplus attributable to policyholders for the year (note 8)	**(18,880)**	3,475
Proposed surplus distribution to policyholders of family takaful	**(14,037)**	(5,650)
	(32,917)	(1,454)
Financed by shareholders'	**32,917**	1,454
	-	-

The shareholders of the Company financed the policyholders' deficit in accordance with the takaful contracts between the Company and its Policyholders.

31 Share capital

	2013	2012
	AED'000	AED'000
Authorised, issued and fully paid up capital		
1,210,000,000 shares of AED 1 each (*2012: 1,210,000,000 shares of AED 1*)	**1,210,000**	1,210,000

32 Statutory reserve

In accordance with Article 255 of the UAE Federal Commercial Companies Law, a minimum of 10% of the net profit of the Company is required to be allocated every year to a statutory reserve, which is not distributable. Such allocations may be ceased when the statutory reserve equals half of the paid up share capital of the Company.

33 Revaluation reserve

The Group's share on revaluation amounting to AED 21 million (*2012 : AED 27 million*) on land and building during the year has been credited to a non distributable reserve (refer note 3 and 13).

34 Treasury shares

In the previous year the Company bought back 19,697,615 shares amounting to AED 35.97 million. The buyback of shares was duly approved by the Board of Directors.

The treasury shares are debited as a separate category of shareholders' equity at cost.

35 Loss per share

The calculation of loss per share for the year ended 31 December 2013 is based on loss of AED 70.2 million (2012 earnings per share on loss: AED 393.6 million) divided by the weighted average number of shares of 1,188 million (2012: 1,188 million) outstanding during the year after taking into account the treasury shares held. There is no dilutive effect on basic earnings per share. Loss per share has been adjusted for the impact of change in accounting policy as stated in note 3(q).

36 Taxation - current

Taxation comprises of taxation of foreign operation, in view of the operations of the Group being subject to various tax jurisdictions and regulations, it is not practical to provide reconciliation between the accounting and taxable profits together with details with effective tax rates.

37 Contingent liabilities and capital commitments

	2013	2012
	AED'000	AED'000
Letters of guarantee	**15,026**	14,278

Statutory deposits of AED 15.29 million (*2012 AED 14.55million*) are held as lien by the bank against the above guarantees.

37 Contingent liabilities and capital commitments (continued)

The Group, in common with other insurance companies, is involved as a defendant in a number of legal cases in respect of its underwriting activities. The Group, through Best Re (L) Limited one of its subsidiary, is facing certain claims and litigations in Labuan Malaysia and Korea. These include winding up petition by a cedant claim for nonpayment of a committed debt in connection with a claim being contested in Korea as well. Subsequent to the period end, Labuan Court issued a winding-up order against nonpayment of the promised liability, which the subsidiary appealed against and has obtained stay order against the winding-up order and pursuant to the court order placed the disputed funds with relevant regulatory authority until a final verdict on the case.

The Group is exposed to certain claims and litigations, these are subject to legal cases filed by policyholders, cedants and retakaful operators in connection with policies issued. The management believes, based on independent legal counsel opinions that the ascertainment of liabilities and its timing is highly subjective and dependent on outcomes of court's decisions. Furthermore. as per independent legal counsel, the Group has strong grounds to defend the suits successfully. Accordingly, no additional provision for these claims has been made in the consolidated financial statements. However a provision is made in respect of each individual case where it is probable that the outcome would result in a loss to the Group in terms of an outflow of economic resources and a reliable estimate of the amount of outflow can be made.

There are no significant capital commitments at 31 December 2013 (*2012: nil*).

38 Operating lease commitments

The Group’s non-cancellable operating lease commitments are payable as follows:

	2013 **AED’000**	2012 AED’000
Less than one year	**1,585**	1,658
Between one to five years	**-**	-
	1,585	1,658

39 Operating segment

By business

(for the year ended 31 December 2012)

	Non -motor	**Motor**	**Health**	**Family takaful**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Gross written contributions	470,558	281,548	66,683	210,754	1,029,543
Net contributions earned	358,910	311,605	26,183	171,894	868,592
Commissions received on ceded reinsurance and retakaful	21,265	(210)	894	9,973	31,922
	380,175	311,395	27,077	181,867	900,514
Net claims incurred	(189,939)	(280,052)	(19,444)	(59,094)	(548,529)
Commissions paid and other costs	(118,621)	(32,514)	(5,950)	(67,457)	(224,542)
Net underwriting income	**71,615**	**(1,171)**	**1,683**	**55,316**	**127,443**
Investment and other income					**80,702**
Unallocated expenses and tax					**(268,390)**
Net profit after tax					**(60,245)**

(for the year ended 31 December 2012)

	Non-motor	Motor	Health	Family takaful	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Gross written contributions	1,120,010	506,960	60,800	204,682	1,892,452
Net contributions earned	908,627	543,759	22,625	150,256	1,625,267
Commissions received on ceded reinsurance and retakaful	41,739	722	1,547	11,839	55,847
	950,366	544,481	24,172	162,095	1,681,114
Net claims incurred	(1,057,220)	(314,087)	(12,150)	(73,979)	(1,457,436)
Commissions paid and other costs	(338,873)	(100,426)	(6,125)	(42,710)	(488,134)
Net underwriting income	(445,727)	129,968	5,897	45,406	(264,456)
Investment and other income					87,500
Unallocated expenses and tax					(205,508)
Net profit after tax					(382,464)

39 **Operating segment** (continued)

By Geography

(for the year ended 31 December 2013)

	Africa	**Far East**	**Middle East**	**Turkey and Central Asia**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Gross written contributions	327,015	269,566	374,704	58,258	1,029,543
Net contributions earned	260,565	280,921	272,191	54,915	868,592
Commissions received on ceded reinsurance and retakaful	11,842	3,782	16,298	-	31,922
	272,407	284,703	288,489	54,915	900,514
Net claims incurred	(150,138)	(186,714)	(185,051)	(26,626)	(548,529)
Commissions paid and other cost	(66,076)	(46,553)	(92,849)	(19,064)	(224,542)
Net underwriting income	**56,193**	**51,436**	**10,589**	**9,225**	**127,443**
Investment and other income					**80,702**
Unallocated expenses and tax					**(268,390)**
Net profit after tax					**(60,245)**

By Geography

(for the year ended 31 December 2012)

	Africa	Far East	Middle East	Turkey and Central Asia	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Gross written contributions	352,272	1,112,309	416,731	11,140	1,892,452
Net contributions earned	285,118	1,021,124	300,972	18,053	1,625,267
Commissions received on ceded reinsurance and retakaful	17,213	17,523	21,111	-	55,847
	302,331	1,038,647	322,083	18,053	1,681,114
Net claims incurred	(134,409)	(1,105,519)	(182,520)	(34,988)	(1,457,436)
Commissions paid and other cost	(59,181)	(347,417)	(78,164)	(3,372)	(488,134)
Net underwriting income	108,741	(414,289)	61,399	(20,307)	(264,456)
Investment and other income					87,500
Unallocated expenses and Tax					(205,508)
Net profit after tax					(382,464)

40 Non-controlling interest

The following table summaries the information relating to each of the Group's subsidiaries as at the reporting date, before any intra group eliminations:-

Salama Assurance Company-Senegal

	2013	2012
	AED'000	AED'000
Non-contolling interest share	**42.59%**	44.83%
Current assets	**26,358**	30,443
Non-current assets	**26,211**	25,576
Current liabilities	**(30,817)**	(35,518)
Carrying amount of non-contolling interest	**9,264**	9,191
Underwriting loss	**(2,852)**	(1,751)
Loss	**(2,962)**	(2,147)
Total comprehensive loss	**(2,595)**	(2,749)
Loss allocated to non-contolling interest	**(1,262)**	(963)
Cash flows from operating activities	**(503)**	(1,417)
Cash flows from investing activities	**3,013**	(686)
Cash flows from financing activities, before dividends to non-contolling interest	**(1,413)**	1,152
Cash flows from financing activities- cash dividends to non-contolling interest	-	(165)
Net increase (decrease) in cash and cash equivalents	**1,097**	(1,116)

During the year, the shareholders of the Salama Assurance Company - Senegal increased the share capital by AED 3.78 million, which resulted in the Group acquiring an additional 2.24%, resulting increasing its ownership from 55.17% to 57.41%. This resulted in an insignificant change in non-controlling interest.

Egypt Saudi Insurance Home

	2013	2012
	AED'000	AED'000
Non-contolling interest share	**48.85%**	48.85%
Current assets	**137,772**	167,422
Non-current assets	**132,340**	86,384
Current liabilities	**(180,215)**	(175,764)
Carrying amount of non-contolling interest	**43,915**	38,124
Underwriting income	**3,692**	11,362
Profit	**21,792**	27,477
Total comprehensive income	**11,847**	27,063
Profit allocated to non-contolling interest	**10,645**	13,423
Cash flows from operating activities	**1,879**	44,161
Cash flows from investing activities	**(1,086)**	(55,549)
Cash flows from financing activities, before dividends to non-contolling interest	-	13,792
Cash flows from financing activities- cash dividends to non-contolling interest	-	(888)
Net increase in cash and cash equivalents	**793**	1,516

41 Comparative figures

Certain comparatives have been reclassified / regrouped to conform to the presentation adopted in the financial statements.