Islamic Arab Insurance Co. (Salama) and its subsidiaries

Directors' report and consolidated financial statements

for the year ended 31 December 2009

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for the year ended 31 December 2009

Contents

سلامة
SALAMA
الشركة الإسلامية العربية للتأمين (ش.م.ع.)
ISLAMIC ARAB INSURANCE CO. (P.S.C.)
معاً لمستقبل آمن.
SECURING OUR FUTURE together

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

Dear Shareholders,

The Board of Directors is pleased to present the 30th Annual Report of the Company together with the audited consolidated financial statements for the year ended on 31 December 2009.

SALAMA, being the largest takaful and re–takaful Group in the world by way of coverage and capitalization, has completed its 30 years of presence in the market with immense success and achievements. We, therefore, congratulate you, our shareholders on this joyful occasion.

Although the effects of financial turmoil can still be seen around the globe, however, all the operating entities of SALAMA Group have maintained their growth momentum in their respective markets. The gross written premium income of the Group has increased by 19% to AED 1.573 billion against AED 1.325 billion in year 2008. The management's continuous increased focus on operational performance and core business activities of the Group resulted in increase in underwriting income by 12% from AED 163 million in 2008 to AED 183 million for year 2009.

After the global financial turmoil, the market in general is showing signs of recovery though very little, however SALAMA has made remarkable achievements in investment side as well and ended with AED 52 million profit as compared to last year's loss of AED 23 million. This was the result of prudent and timely corrective measures in addition to our diversification strategy.

We have maintained a financial strength rating of "A-" by AM BEST and "BBB+" by S & P. Both ratings are based on good competitive position, strong operating performance and strong capitalization. Both ratings carry stable outlook which is unlikely to change in near future.

الطابق الثاني، اميرالد للشقق المفروشة،
عود ميثاء، ص.ب: ١٠٢١٤، دبي
هاتف: ٣٣٥٥٣٠٠ ٤ ٩٧١+
فاكس: ٣٣٤٣٦٦٢ ٤ ٩٧١+
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Last year start–up of Individual Family Takaful solutions in UAE has increased its momentum tremendously in year 2009. The range of products is of international standards, market response to these products has been excellent and in very short span of time SALAMA has been able to create its own identity in the Individual Family Takaful market.

Consolidated financial highlights of the Group for years ended December 2009 and 2008 are as follows:-

	2009 AED '000	2008 AED '000
Gross premium written	**1,573,098**	1,325,149
Earned premium	**1,141,200**	1,048,260
Incurred claims	**639,626**	619,571
Net underwriting income	**183,183**	162,716
Investment income / (loss)	**52,115**	(22,814)
Net profit / (loss) for the year	**96,257**	(8,179)

SALAMA is the largest takaful and re–takaful Group in the world by coverage and capitalization. The Board is committed to maintain this identity and strong leadership position.

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

30 MAR 2010

الطابق الثاني، اميرالد للشقق المفروشة، عود ميثاء، ص.ب: ١٠٢١٤، دبي
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The Shareholders
Islamic Arab Insurance Co. (Salama) and its subsidiaries

Independent auditor's report

We have audited the accompanying consolidated financial statements of Islamic Arab Insurance Co. (Salama) ("the Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income (comprising of a consolidated statement of comprehensive income and a separate consolidated statement of income), consolidated statements of changes in equity and consolidated statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the relevant Articles of the Company and the UAE Federal Law No. 8 of 1984 (as amended) concerning commercial companies and Federal law No. 9 of 1984 (as amended) concerning insurance companies and agents.

Report on other legal and regulatory requirements

As required by the Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit, that proper financial records have been kept by the Group and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Group'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 2009, which may have had a material adverse effect on the business of the Group or its consolidated financial position.

Vijendranath Malhotra
Registration No : 48B

30 MAR 2010

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated statement of income

for the year ended 31 December

	Note	**2009**	2008
UNDERWRITING RESULTS		**AED'000**	AED'000
Underwriting income			
Gross written contributions	*36*	**1,573,098**	1,325,149
Less: reinsurance and retakaful contributions ceded		**(286,520)**	(222,736)
Net contributions		**1,286,578**	1,102,413
Net movement in unearned contributions		**(145,378)**	(54,153)
Contributions earned		**1,141,200**	1,048,260
Commission received on ceded reinsurance and retakaful		**57,918**	42,072
		1,199,118	1,090,332
Underwriting expenses			
Gross claims paid		**610,115**	511,399
Less: reinsurance and retakaful share of claims paid		**(65,182)**	(60,449)
Net claims paid		**544,933**	450,950
Net movement in outstanding claims and technical reserve family		**94,693**	168,621
Claims incurred		**639,626**	619,571
Commission paid and other costs		**376,309**	308,045
		1,015,935	927,616
Net underwriting income	*36*	**183,183**	162,716
Income			
Income/(loss) on investments	*8*	**52,115**	(22,814)
Other income		**28,092**	13,586
		263,390	153,488
Expenses			
General and administrative expenses	*9*	**(108,686)**	(124,046)
Financial expenses		**(34,920)**	(26,606)
Provision for charitable donations	*10*	**(3,465)**	(3,282)
Net profit/(loss) before tax for the year		**116,319**	(446)
Tax - current	*33*	**(5,357)**	(3,646)
Net profit/(loss) after tax for the year before policyholders' distribution		**110,962**	(4,092)
Distribution to policyholders of holding company		**(12,579)**	(4,087)
Surplus attributable to policyholders of holding company		**(2,126)**	-
Net profit/(loss) after tax and distribution to policyholders for the year		**96,257**	(8,179)
Earnings per share (AED)	*32*	**0.08**	(0.01)
Attributable to:			
Shareholders		**91,281**	(10,400)
Non-controlling interest		**4,976**	2,221
		96,257	(8,179)

The notes on pages 10 to 61 form an integral part of these consolidated financial statements.

The independent auditor's report is set out on page 3.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated statement of comprehensive income

for the year ended 31 December

	2009 AED'000	2008 AED'000
Net profit/(loss) after tax and distribution to policyholders for the year	**96,257**	(8,179)
Other comprehensive income net of income tax		
Net change in revaluation of property and equipment	**5,377**	869
Net change in fair value of available-for-sale investments	**19,836**	(32,437)
Foreign exchange translation reserve	**(118)**	(8,320)
Other comprehensive income/(expense) for the year	**25,095**	(39,888)
Total comprehensive income/(expense) for the year	**121,352**	(48,067)
Attributable to:		
Shareholders	**111,063**	(46,266)
Non-controlling interest	**10,289**	(1,801)
	121,352	(48,067)

The notes on pages 10 to 61 form an integral part of these consolidated financial statements.

The independent auditor's report is set out on page 3.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated statement of financial position

as at 31 December

	Note	2009 AED'000	2008 AED'000
ASSETS			
Property and equipment	11	71,602	63,119
Intangible assets	12	7,734	9,974
Goodwill	5	186,194	186,194
Investment properties	13	83,744	86,326
Investments in associates	14	27,981	24,694
Statutory deposits	15	40,608	34,133
Investments	16	1,273,181	909,616
Deposits with takaful and retakaful companies	17	325,803	313,855
Contributions and takaful balance receivables	18	751,864	627,585
Retakafuls' share of outstanding claims	21	130,352	98,642
Retakafuls' share of unearned contributions	22	81,161	47,121
Amounts due from related parties	26	11,352	256,046
Other assets and receivables	19	97,127	71,627
Cash and bank balances	20	197,728	189,546
TOTAL ASSETS		3,286,431	2,918,478
LIABILITIES EXCLUDING POLICYHOLDERS' FUND			
Bank finance	25	291,417	368,732
Outstanding claims and family takaful reserve	21	804,659	678,590
Unearned contributions reserve	22	402,569	223,229
Takaful balances payable	23	157,981	150,451
Other payables and accruals	24	115,019	114,425
Amounts due to related parties	26	4,621	4,546
TOTAL LIABILITIES EXCLUDING POLICYHOLDERS' FUND		1,776,266	1,539,973
Policyholders' fund	27	2,126	-
NET ASSETS EMPLOYED		1,508,039	1,378,505
FINANCED BY:			
Shareholders' equity		1,465,311	1,354,344
Non-controlling interest		42,728	24,161
		1,508,039	1,378,505

The notes on pages 10 to 61 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 ______________ and signed on their behalf by:

Saleh ...

Vice Chairman & CEO

Chairman

30 MAR 2010

The independent auditor's report is set out on page 3.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated statement of cash flows

for the year ended 31 December

	2009 AED'000	2008 AED'000
Cash flows from operating activities		
Net profit/(loss) before non-controlling interest	96,257	(8,179)
Adjustment for:		
Depreciation	5,271	5,551
Net movement in unearned contributions reserve	145,300	54,153
Unrealised losses on investments	402	29,757
Unrealised loss on investment property	2,583	472
Amortisation of intangible assets	1,567	1,313
Share of (profit)/loss from associates	(3,592)	5,933
Dividend income	(2,336)	(2,247)
Operating profit before changes in working capital	245,452	86,753
Change in deposits with takaful and retakaful companies	(11,948)	(7,067)
Change in contributions and takaful balance receivable	(124,279)	(174,278)
Change in due from / to related parties	244,769	(206,397)
Change in other assets and receivables	(25,500)	(8,280)
Change in outstanding claims (net of retakaful)	94,359	163,145
Change in takaful payables and other payables	10,250	61,007
Net cash flows from operating activities	433,103	(85,117)
Cash flows from investing activities		
Property and equipment-net	(11,143)	(8,779)
Net movement in intangible assets	673	(2,748)
Investment properties – net	-	3,297
Net movement in associates	305	(1,020)
Statutory deposits	(6,475)	(6,462)
Investments-net	(346,893)	(51,105)
Dividends received	2,336	2,247
Net cash flows from investing activities	(361,197)	(64,570)
Cash flows from financing activities		
Decrease from buyback of share capital	-	(11,214)
Bank finance-net	(77,315)	190,590
Net movement in non-controlling interest	13,591	(3,088)
Net cash flows from financing activities	(63,724)	176,288
Net increase/(decrease) in cash and cash equivalents	8,182	26,601
Cash and cash equivalents at 1January	189,546	162,945
Cash and cash equivalents at 31December (note 20)	197,728	189,546

The notes on pages 10 to 61 form an integral part of these consolidated financial statements.

The independent auditor's report is set out on page 3.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated statement of changes in equity

for the year ended 31 December 2009

	Attributable to the equity holders of the Company									
	Share capital AED'000	Statutory reserve AED'000	Revaluation reserve AED'000	Foreign exchange translation AED'000	Investment fair value reserve AED'000	Treasury stock AED'000	Retained earnings AED'000	Total AED'000	Non-controlling interest AED'000	Total equity AED'000
Balance at 1 January 2008	1,100,000	49,904	11,627	2,302	6,592	(24,759)	266,157	1,411,823	25,028	1,436,851
Total comprehensive income for the year										
Profit /(Loss) for the year	-	-	-	-	-	-	(10,400)	(10,400)	2,221	(8,179)
Other comprehensive income for the year										
Share in foreign exchange translation reserve	-	-	-	(6,973)	-	-	-	(6,973)	(1,347)	(8,320)
Share in net change in fair value of available-for-sale investments										
Net change in fair value	-	-	-	-	(89,569)	-	-	(89,569)	(2,680)	(92,249)
Net amount transferred to consolidated statement of income	-	-	-	-	59,812	-	-	59,812	-	59,812
Share in net changes in revaluation of property and equipment	-	-	864	-	-	-	-	864	5	869
Total other comprehensive income	-	-	864	(6,973)	(29,757)	-	-	(35,866)	(4,022)	(39,888)
Total comprehensive income for the year	-	-	864	(6,973)	(29,757)	-	(10,400)	(46,266)	(1,801)	(48,067)
Transaction with owners, recorded directly in equity										
Buy back of own shares	-	-	-	-	-	(11,213)	-	(11,213)	-	(11,213)
Increase in cash through contribution	-	-	-	-	-	-	-	-	1,648	1,648
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	(714)	(714)
Balance at 31 December 2008	**1,100,000**	**49,904**	**12,491**	**(4,671)**	**(23,165)**	**(35,972)**	**255,757**	**1,354,344**	**24,161**	**1,378,505**

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated statement of changes in equity (continued)

for the year ended 31 December 2009

	Attributable to the equity holders of the Company									
	Share capital AED'000	Statutory reserve AED'000	Revaluation reserve AED'000	Foreign exchange translation AED'000	Investment fair value reserve AED'000	Treasury stock AED'000	Retained earnings AED'000	Total AED'000	Non-controlling interest AED'000	Total equity AED'000
Balance at 1 January 2009	1,100,000	49,904	12,491	(4,671)	(23,165)	(35,972)	255,757	1,354,344	24,161	1,378,505
Total comprehensive income for the year										
Profit for the year	-	-	-	-	-	-	91,281	91,281	4,976	96,257
Other comprehensive income										
Share in foreign exchange translation reserve	-	-	-	(338)	-	-	-	(338)	220	(118)
Share in net change in fair value of available-for-sale investments										
Net change in fair value	-	-	-	-	17,171	-	-	17,171	2,665	19,836
Net amount transferred to consolidated statement of income	-	-	-	-	-	-	-	-	-	-
Share in net changes in revalutaion of property and equipment	-	-	2,949	-	-	-	-	2,949	2,428	5,377
Total other comprehensive	-	-	2,949	(338)	17,171	-	-	19,782	5,313	25,095
Total comprehensive income for the year	-	-	2,949	(338)	17,171	-	91,281	111,063	10,289	121,352
Transaction with owners, recorded directly in equity										
Movement upon the acquisition of subsidiary	-	-	-	-	-	-	(96)	(96)	(297)	(393)
Increase in cash through contribution	-	-	-	-	-	-	-	-	9,743	9,743
Transfer to statutory reserve	-	9,128	-	-	-	-	(9,128)	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	(1,168)	(1,168)
Balance at 31 December 2009	**1,100,000**	**59,032**	**15,440**	**(5,009)**	**(5,994)**	**(35,972)**	**337,814**	**1,465,311**	**42,728**	**1,508,039**

The notes on pages 10 to 61 form an integral part of these consolidated financial statements.

The independent auditor's report is set out on page 3.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes

(forming part of the consolidated financial statements)

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'a principles and in accordance with UAE Federal Law no. 9 of 1984 (as amended) relating to insurance companies and insurance agents.

In September 2005, the Company acquired 82.21% of Takaful & Retakaful International Investment Company BSC (c) ("Tariic") ("the Subsidiary"), a closed Bahrain Joint Stock Company incorporated in the Kingdom of Bahrain, with the control transferring with effect from 1 January 2005 in accordance with a Sale and Purchase Agreement (refer note 5). After the initial purchase, further acquisitions were made in Tariic. After purchasing additional 4,080,465 shares in 2007, the holding of the Company has increased to 99.40%.

In addition, the Company acquired 222,494 shares in Best Re which is one of the subsidiaries of Tariic. The shares acquired represents 40.45 % holding in Best Re. During the third quarter of 2006, Best Re has increased its share capital from 550,000 to 1 million shares which all were allotted to Tariic. The direct shareholdings of the Company decreased to 22.25%.

The Company and its subsidiaries are referred to as "the Group". Tariic is a holding company and no commercial activities are carried out in the Kingdom of Bahrain. It has the following subsidiaries which are engaged in takaful and retakaful under Islamic Shari'a principles:

	Tariic Ownership		
Subsidiaries	**31 December 2009**	31 December 2008	**Country of Incorporation**
Best Re	**77.75%**	77.75%	Tunisia
Salama Assurances Senegal (formerly SOSAR)	**55.1%**	52.66%	Senegal
Salama Assurances Algerie (formerly Al Baraka Oua Al Amane)	**89.11%**	89.11%	Algeria
Egypt Saudi Insurance Home	**51.15%**	51.15%	Egypt

2 Basis of preparation

a) Statement of compliance

Consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB") and the requirements of UAE Federal Law No.8 of 1984 (as amended).

2 Basis of preparation (continued)

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

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,

iii) investment property is measured at fair value, and

iv) land and buildings are measured at revalued amounts.

c) Functional and reporting currency

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

d) Critical accounting estimates and judgement in applying accounting policies

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

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.

Impairment losses on 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 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 judgement, 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.

2 Basis of preparation (continued)

e) Change in accounting policies

Overview

Effective 1January 2009 the Group has changed its accounting policies in the following areas :

i) Determination and presentation of operating segments

From 1 January 2009 the Group determines and presents operating segments based on the information that is provided to management "the Group's operating decision makers" internally. This change in accounting policy is due to the adoption of IFRS 8 *Operating Segments*.

Previously operating segments were determined and presented in accordance with IAS 14 *Segment Reporting*. The new accounting policy in respect of segment operating disclosures is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of this standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

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. An operating segment's operating results are reviewed regularly by General Manager to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the management include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investment income, general and administrative expenses and other income.

Segment capital expenditure is the total cost incurred during the period to acquire property and equipment, and intangible assets other than goodwill.

ii) Presentation of financial statements

The Group has applied revised IAS 1 *Presentation of Financial Statements (2007)*, which became effective as of 1 January 2009. As a result, the Group presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

f) Other accounting developments

Disclosures pertaining to fair values and liquidity risk for financial instruments

The Group has applied Improving *Disclosures about Financial Instruments* (Amendments to IFRS 7), issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

The methods for determination of fair values of financial instruments are included in note 3 (d) (iv).

The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorised as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reasons therefore, are required to be disclosed for each class of financial instruments.

2 Basis of preparation (continued)

f) Other accounting developments (continued)

Revised disclosures in respect of fair values of financial instruments are included in note 16.

Further, the definition of liquidity risk has been amended and it is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The amendments require disclosure of a maturity analysis for non-derivative and derivative financial liabilities, but contractual maturities are required to be disclosed for derivative financial liabilities only when contractual maturities are essential for an understanding of the timing of cash flows.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except 2(e),which addresses the change in accounting policies

a) Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises 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 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 shareholders' equity.

Associates

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.

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 policyholder) by agreeing to compensate the policyholder 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 an takaful contract it remains classified as a takaful contract until all rights and obligations are extinguished or expire.

ii. Recognition and measurement
Gross written contributions

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 is included under "unearned contributions" in the consolidated statements of financial position.

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.

iii. Claims

Claims incurred comprise the settlement and the internal and external handling costs of 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 statement of income when the claim amount payable to policyholders and third parties is 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 21.

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

vi. 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 Individual 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 retakafuls 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 general 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, commission is deferred and charged over four years on straight line basis.

ix. Takaful receivables and payables

Amounts due from and to policyholders, agents reinsurers and retakaful companies 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 property and fair value gains/losses on investment property.

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 interest rate method. 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 is described in note 3 (d).

3. Significant accounting policies (continued)

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

Rental income from investment property under operating leases is recognised in 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 property 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 13.

d) Financial instruments

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 recognised 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 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 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)

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 16.

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 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

The determination of fair values of financial instruments is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models.

Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions. When entering into an arm's length transaction, a financial instrument is recognised initially at its transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference is not recognised in statement of income immediately. The timing of its recognition depends upon the facts and circumstances of each transaction but is not later than when the market data which supports the gain or loss becomes available.

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.

3. Significant accounting policies (continued)

d) Financial instruments (continued)

Non-derivative financial instruments (continued)

v) Identification and measurement of impairment (continued)

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 other comprehensive income.

vi) 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 effective interest method.

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. Investment property is measured at fair value with any change therein recognised in statement of income

When the use of a property changes such that it is reclassified as property 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 foreign exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to AED at the foreign 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 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 consolidated financial position 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 other comprehensive income.

3. Significant accounting policies (continued)

g) Share capital

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

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.

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 capitalized 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 capitalized. 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.

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 in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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 interset 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 Group is not subject to any taxes in the UAE. Taxation on foreign operations of the subsidiaries is provided for in accordance with fiscal regulations applicable in each location.

o) Policyholders' fund

Any deficit in the policyholders' fund is financed by the shareholders through loans. The Group maintains a full provision against such loans (refer note 27).

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'a 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) Long-term Unit Linked takaful contracts

A unit-linked takaful contract is a takaful contract linking payments on the contract to units of investment funds set up by the Group with the contributions received from the plan holder. These funds are managed 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 an 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 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.

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).

3. Significant accounting policies (continued)

q) Long-term Unit Linked takaful contracts (continued)

The long term individual life contracts contain Discretionary Participation Feature (DPF). 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. The DPF is classified as liability and is included in policyholders' fund (note 28).

r) 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.

s) 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 (see note 2(e)(i)).

t) 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)

t) Determination of fair values (continued)

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, where appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, and the market's general perception of their creditworthiness; the allocation of maintenance and insurance responsibilities between the Group and the lessee; and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices and where appropriate counter-notices have been served validly and within the appropriate time.

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.

u) 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 takafu 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.

v) New standards and interpretations not yet effective

A number of new standards, amendment to standards and interpretations are not effective for the year ended 31 December 2009, and have not been applied in preparation of these consolidated financial statements:

IFRS-3(Revised):	Business Combination (effective 1 July 2009);
IFRS 5 amendments:	Non-current Assets Held for Sale and Discontinued Operations (effective 1 July 2009)
Amendments to IAS-39 :	Financial Instruments recognition and measurement (effective 1st July 2009);
IAS-27 : (Amended)	Consolidated and Separate Financial Statements (effective 1 July 2009);
Amendments to IAS- 32 :	Financial Instruments: Presentation (effective 1 February 2010);
IFRIC-17:	Distribution of Non-cash Assets to Owners (effective:1 July 2009)
IAS-24 (Revised):	Related Party Disclosures (effective 1 January 2011);
IFRIC-19:	Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010);
IFRS 9:	Financial Instruments (effective 1 January 2013)

IFRS 9 Financial Instruments, published on 12 November 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value.A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and profit on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognised in consolidated statement of income, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in consolidated statement of income.

The Group is currently in the process of evaluating the potential effect of this standard. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

Management has assessed the impact of the new standards, amendments to standards and interpretations and amendments to published standards, and concluded that they are either not relevant to the Group or their impact is limited to the disclosures and presentation requirement in the consolidated financial statements.

The application of these new standards, interpretations and amendments will not have a material impact on the Group's consolidated financial statements in the period of initial application.

4. Risk management

This section summarizes 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 recognizes the critical importance of having efficient and effective risk management systems in place.

The Group is in the phase of establishing a risk management function with clear terms of reference from the Board of Directors, its committees and the associated executive management committees.

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 (e.g. unearned contributions reserve) 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 re-insures substantial part of these risks and its net exposure on any one single event is limited to AED 18 million (*2008: AED 11 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 settled 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.

Credit risks

Credit risk under takaful contracts is risk that a counterparty will be unable to pay amounts in full when due.

Credit risk is control 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.

The concentration of the takaful risk before and after retakaful by the territory in relation to the type of risk accepted is summarized below:

31 December 2009

	Gross outstanding claims AED'000	Retakaful AED'000	Net outstanding claims AED'000
Africa	207,765	(21,610)	186,155
Far East	390,599	(82,491)	308,108
Middle East	156,255	(23,557)	132,698
Other	50,040	(2,694)	47,346
Total	804,659	(130,352)	674,307

4. **Risk management** (continued)

b) **Takaful risk** (continued)

31 December 2008

	Gross outstanding claims AED'000	Retakaful AED'000	Net outstanding claims AED'000
Africa	163,935	(20,709)	143,226
Far East	344,256	(58,795)	285,461
Middle East	138,766	(16,969)	121,797
Other	31,633	(2,169)	29,464
Total	678,590	(98,642)	579,948

The concentration of the takaful risk before and after retakaful by the line of business in relation to the type of risk accepted is summarized below:

31 December 2009

	Gross outstanding claims AED'000	**Retakaful AED'000**	**Net outstanding claims AED'000**
Motor	**147,005**	**(1,262)**	**145,743**
Non-motor	**619,498**	**(121,086)**	**498,412**
Health	**2,134**	**(1,413)**	**721**
Family takaful	**36,022**	**(6,591)**	**29,431**
Total	**804,659**	**(130,352)**	**674,307**

31 December 2008

	Gross outstanding claims AED'000	Retakaful AED'000	Net outstanding claims AED'000
Motor	129,480	(3,235)	126,245
Non-motor	539,529	(89,316)	450,213
Health	2,586	(1,438)	1,148
Family takaful	6,995	(4,653)	2,342
Total	678,590	(98,642)	579,948

Retakaful arrangements are effected with reinsurers and retakaful companies whose creditworthiness is assessed on the basis of satisfying minimum rating and financial strength criteria

4. Risk management

b) Takaful risk (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	2005	2006	2007	2008	2009	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Development year 1 **(cumulative amount)**	212,795	315,800	425,910	517,935	362,093	-
Development year 2 **(cumulative amount)**	260,569	343,345	473,671	639,909	-	-
Development year 3 **(cumulative amount)**	268,345	371,992	510,611	-	-	-
Development year 4 **(cumulative amount)**	277,268	375,824	-	-	-	-
Development year 5 **(cumulative amount)**	327,286	-	-	-	-	-
Current estimate of cumulative claims (A)	327,286	375,824	510,611	639,909	362,093	2,215,723
Cumulative payments to date (B)	(239,132)	(305,258)	(379,549)	(359,018)	(144,803)	(1,427,760)
Net (A-B)	88,154	70,566	131,062	280,891	217,290	787,963

Liability recognised in the consolidated statement of financial position as part of gross claim	787,963
Reserve in respect of years prior to 2005 part of the gross claim	16,696
Total reserve included in the consolidated statement of financial position as part of the gross claim	804,659

4. Risk management

b) Takaful risk (continued)

Claims development (continued)

Takaful claims-net

Underwriting year	2005 AED'000	2006 AED'000	2007 AED'000	2008 AED'000	2009 AED'000	Total AED'000
Development year 1 **(cumulative amount)**	167,492	263,731	343,677	446,321	292,569	-
Development year 2 **(cumulative amount)**	211,467	282,342	409,489	556,567	-	-
Development year 3 **(cumulative amount)**	220,943	332,836	444,724	-	-	-
Development year 4 **(cumulative amount)**	243,404	336,611	-	-	-	-
Development year 5 **(cumulative amount)**	293,486	-	-	-	-	-
Current estimate of cumulative claims (A)	293,486	336,611	444,724	556,567	292,569	1,923,957
Cumulative payments to date (B)	(206,058)	(268,611)	(329,860)	(332,280)	(125,371)	(1,262,180)
Net (A-B)	87,428	68,000	114,864	224,287	167,198	661,777

Liability recognised in the consolidated statement of financial position as part of gross claim	661,777
Reserve in respect of years prior to 2005 part of the net claim	12,530
Total reserve included in the consolidated statement of financial position as part of the net claim	674,307

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 2009

	Change in Assumption	**Impact on gross liabilities AED'000**	***Impact on net profit AED'000**
Current claims	**+10%**	**+80,466**	**+67,431**
	-10%	**-80,466**	**-67,431**

31 December 2008

	Change in Assumption	Impact on gross liabilities AED'000	*Impact on net profit AED'000
Incurred claims	+10%	+67,859	+57,994
	-10%	-67,859	-57,994

* the impact on net profit is net of retakaful.

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 securities that are rated by international rating agencies or other GCC securities.

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.

ii) Liquidity risk

Liquidity risk is the risk that a Group will encounter difficulty to meet commitments associated with financial liabilities.

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

4 **Risk management** (continued)

c) **Financial risks** (continued)

ii) Liquidity risk (continued)

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 notice were to be given immediately.

31 December 2009	**Carrying value**	**Contractual cash outflows**	**Less than 180 days**	**180 days to 1 year**	**1-5 year**	**Over 5 year**	**No stated maturity**
				AED '000			
Outstanding claims Reserve	**804,659**	**(804,659)**	**(277,899)**	**(514,227)**	**-**	**-**	**(12,533)**
Takaful balance payable	**157,981**	**(157,981)**	**(43,310)**	**(28,341)**	**(49,293)**	**-**	**(37,037)**
Other payables	**115,019**	**(115,019)**	**(25,752)**	**(13,946)**	**(27,680)**	**-**	**(47,641)**
Amount due to related parties	**4,621**	**(4,621)**	**(1,907)**	**-**	**(2,714)**	**-**	**-**
Bank finance	**291,417**	**(549,128)**	**(7,706)**	**(119,483)**	**(68,572)**	**(353,367)**	**-**
Total liabilities	**1,373,697**	**(1,631,408)**	**(356,574)**	**(675,997)**	**(148,259)**	**(353,367)**	**(97,211)**

31 December 2008	Carrying value	Contractual cash outflows	Less than 180 days	180 days to 1 year	1-5 year	Over 5 year	No stated maturity
				AED '000			
Outstanding claims reserve	678,590	(678,590)	(50,329)	(607,810)	-	-	(20,451)
Takaful balance payable	150,451	(150,451)	(122,276)	(10,621)	(17,554)	-	-
Other payables	114,425	(114,425)	(99,019)	(13,713)	-	-	(1,693)
Amount due to related parties	4,546	(4,546)	(1,729)	(2,817)		-	-
Bank finance	368,732	(641,654)	(7,260)	(211,321)	(57,663)	(365,410)	-
Total liabilities	1,316,744	(1,589,666)	(280,613)	(846,282)	(75,217)	(365,410)	(22,144)

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 bond markets. In addition, the Group actively monitors the key factors that affect stock and bond 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 2009	**Financial assets**	**Financial liabilities**	**Net**
Currency	**AED'000**	**AED'000**	**AED'000**
EURO	**170,975**	**(179,600)**	**(8,625)**
US$	**1,743,620**	**(376,891)**	**1,366,729**
EGP	**106,252**	**(40,553)**	**65,699**
TND	**3,805**	**(14,814)**	**(11,009)**
CFA	**40,684**	**(42,767)**	**(2,083)**
DZD	**117,241**	**(81,246)**	**35,995**
AED	**417,707**	**(253,326)**	**164,381**
Others	**283,641**	**(380,750)**	**(97,109)**

31 December 2008	Financial assets	Financial liabilities	Net
Currency	AED'000	AED'000	AED'000
EURO	222,077	(171,473)	50,604
US$	1,367,052	(315,935)	1,051,117
EGP	56,374	(25,891)	30,483
TND	1,488	-	1,488
CFA	40,801	(42,038)	(1,237)
DZD	114,543	(80,150)	34,393
AED	582,464	(253,532)	328,932
Others	216,337	(406,255)	(189,918)

4. **Risk management** (continued)

c) **Financial risks** (continued)

iii) Market 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 2009

	Change in forex	**Impact on net profit AED'000**	**Impact on other comprehensive income AED'000**
Financial assets	**+10%**	**+198,312**	**-**
	-10%	**-198,312**	**-**
Financial liabilities	**+10%**	**+66,876**	**-**
	-10%	**-66,876**	**-**

31 December 2008

	Change in forex	Impact on net profit AED'000	Impact on other comprehensive income AED'000
Financial assets	+ 10%	+163,371	-
	- 10%	-163,371	-
Financial liabilities	+ 10%	+57,738	-
	- 10%	-57,738	-

(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.

The Group is not exposed to any profit rate risk in terms of the re-pricing of its liabilities since in accordance with Islamic Shari'a, the Group does not entered into any interest bearing liabilities.

An increase of 100 basis points at the reporting date would have decreased the net assets and the profit of the Group by AED 5,910 (*2008: AED 2,801*), 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)

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 2009

Change in equity prices	Impact on net profit AED'000	Impact on other comprehensive income AED'000
+10%	**+5,530**	**+21,663**
-10%	**-5,530**	**-21,663**

31 December 2008

Change in equity prices	Impact on net profit AED'000	Impact on other comprehensive income AED'000
+10%	+3,885	+33,201
-10%	-3,885	-33,201

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.

No impairment losses on goodwill were recognised during 2009 *(2008: nil)*.

The recoverable amounts for the subsidiaries have been calculated based on their value in use.

Value in use for each subsidiary was determined by discounting the future cash flows expected to be generated from the continuing operations of subsidiaries.

The key assumptions used by the Group may change as economic and market conditions change. The Group estimates that reasonably possible changes in those assumptions are not expected to cause the recoverable amount of either subsidiary to decline below the carrying amount.

6. Allocation of the net profit for the year

	For the year ended 31 December 2009				For the year ended 31December 2008			
	Shareholder AED'000	**Policyholders AED'000**	**Non-controlling interest AED'000**	**Total AED'000**	Shareholder AED'000	Policyholder AED'000	Non - controlling interest AED'000	Total AED'000
Net underwriting income								
Total net underwriting income	-	**183,183**	-	**183,183**	-	162,716	-	162,716
Income								
Wakalah fees (note 7)	**43,001**	**(43,001)**	-	-	33,125	(33,125)	-	-
Mudarib fees (note 7)	**131**	**(131)**	-	-	114	(114)	-	-
Net underwriting income from subsidiaries	**119,151**	**(119,151)**	-	-	124,925	(124,925)	-	-
Income/(loss) from investment (note 8)	**51,240**	**875**	-	**52,115**	(23,575)	761	-	(22,814)
Other income	**28,008**	**84**		**28,092**	10,411	3,175	-	13,586
	241,531	**21,859**	-	**263,390**	145,000	8,488	-	153,488
Expenses								
General and administrative expenses	**(108,686)**	-	-	**(108,686)**	(124,046)	-	-	(124,046)
Finance expenses	**(34,920)**	-	-	**(34,920)**	(26,606)	-	-	(26,606)
Provision for charitable donations	**(3,465)**	-	-	**(3,465)**	(3,282)	-	-	(3,282)
Surplus distribution for family takaful Policyholders	-	**(12,579)**	-	**(12,579)**	(4,087)	-	-	(4,087)
Net profit/(loss) before tax for the year	**94,460**	**9,280**	-	**103,740**	(13,021)	8,488	-	(4,533)
Tax – current	**(5,357)**	-	-	**(5,357)**	(3,646)	-	-	(3,646)
Net profit/(loss) after tax for the year	**89,103**	**9,280**	-	**98,383**	(16,667)	8,488	-	(8,179)
Share of non-controlling interest	**(4,976)**	-	**4,976**	-	(2,221)	-	2,221	-
Chargeback of funding provided (note 27)	**7,154**	**(7,154)**	-	-	8,488	(8,488)	-	-
Net profit/(loss) for the year	**91,281**	**2,126**	**4,976**	**98,383**	(10,400)	-	2,221	(8,179)

7. Wakalah and Mudarib Share

The shareholders manage the takaful operations of the Group for the policyholders and charge 15% *(2008: 15%)* of gross written contributions of non family takaful business (excluding subsidiaries) as fees. For family takaful business, fees are being charged at 15% *(2008:15%)*of mortality costs.

The shareholders of the Group also manage the policyholders' investment funds and charge 15% *(2008: 15%)* of investment income earned by the policyholders as Mudarib share.

8. Income/(loss) from investments

	For the year ended 31 December 2009		
	Shareholders AED'000	**Policyholders AED'000**	**Total AED'000**
Income from investments in Mudaraba and IPO fund	**8,370**	**-**	**8,370**
Realised profit on sale of investments	**11,549**	**-**	**11,549**
Unrealised loss on investments	**(402)**	**-**	**(402)**
Unrealised loss on investments properties	**(1,550)**	**(1,033)**	**(2,583)**
Income on Sukuk and other Held to maturity investments	**20,738**	**-**	**20,738**
Income from bank deposits and loans and receivables	**6,034**	**1,564**	**7,598**
Dividend income	**2,336**	**-**	**2,336**
Share of profit from associates	**3,592**	**-**	**3,592**
Rental income (note 13)	**573**	**344**	**917**
	51,240	**875**	**52,115**

	For the year ended 31 December 2008		
	Shareholders AED'000	Policyholders AED'000	Total AED'000
Income from investments in Mudaraba and IPO fund	10,289	-	10,289
Realised loss on sale of investments	(1,933)	-	(1,933)
Unrealised loss on investments	(40,473)	-	(40,473)
Unrealised loss on investments properties	(472)	(278)	(750)
Realised gain on investments properties	6,711	-	6,711
Income from bank deposits and loans and receivables	5,393	689	6,082
Dividend income	2,247	-	2,247
Share of loss from associates	(5,933)	-	(5,933)
Rental income (note 13)	596	350	946
	(23,575)	761	(22,814)

Investment income of the Company has been allocated to the shareholders in the ratio of capital to total assets of the Group as at latest audited financial position date. The remaining income has been allocated to the policyholders.

In July 2005, the Company increased its share capital from AED 50 million to AED 1 billion. Investment income generated by investing these funds have not been allocated to the policyholders as these funds pertain to shareholders and are not generated from the operations of the Group.

9. General and administrative expenses

These include:

	2009 AED'000	2008 AED'000
Staff costs	**50,511**	56,083
Rent, rates and service charges	**6,620**	5,889
Utilities	**1,172**	992
Travelling and conveyance	**2,295**	2,549
Printing and stationery	**1,873**	2,404
Licenses and other government expenses	**3,080**	1,905
Depreciation	**5,271**	5,551
Amortisation	**1,567**	1,313
Marketing and advertising	**1,905**	2,291
Audit, legal and professional	**6,753**	6,450

10. Provision for charitable donations

In accordance with Islamic Shari'a 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 statement of financial position are as follows:

	2009 AED'000	2008 AED'000
Balance at 1 January	**22,796**	19,514
Provided during the year	**3,465**	3,282
Utilised during the year	**(844)**	-
Balance at 31 December (included in Other payables and accruals) (note 24)	**25,417**	22,796

11. Property and equipment

	Land AED'000	Building AED'000	Furniture & fixtures AED'000	Computer AED'000	Motor Vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost							
At 1 January 2008	17,701	36,479	19,462	11,446	3,961	561	89,610
Revaluations	(638)	-	-	-	-	-	(638)
Additions	-	508	2,212	1,153	874	411	5,158
Disposal	-	(669)	(840)	(230)	(470)	(32)	(2241)
Transfer	-	-	-	(1,453)	-	-	(1,453)
At 31 December 2008	17,063	36,318	20,834	10,916	4,365	940	90,436
At 1 January 2009	**17,063**	**36,318**	**20,834**	**10,916**	**4,365**	**940**	**90,436**
Revaluations	-	**5,844**	-	-	-	-	**5,844**
Additions	-	**3,723**	**3,986**	**1,137**	**641**	-	**9,487**
Disposals	-	-	**(3,461)**	**(2,462)**	**(1,541)**	**(537)**	**(8,001)**
At 31 December 2009	**17,063**	**45,885**	**21,359**	**9,591**	**3,465**	**403**	**97,766**
Depreciation							
At 1 January 2008	-	3,449	8,968	7,563	3,074	561	23,615
Revaluations	-	-	-	-	-	-	-
Charge for the year	-	962	3,045	1,317	227	-	5,551
On disposals	-	(106)	(299)	(198)	(250)	(31)	(884)
Transfer	-	-	-	(965)	-	-	(965)
At 31 December 2008	-	4,305	11,714	7,717	3,051	530	27,317
At 1 January 2009	-	**4,305**	**11,714**	**7,717**	**3,051**	**530**	**27,317**
Revaluations	-	-	-	-	-	-	-
Charge for the year	-	**1,034**	**1,934**	**1,672**	**631**	-	**5,271**
On disposals	-	-	**(2,575)**	**(2,395)**	**(1,382)**	**(530)**	**(6,882)**
Adjustment on revaluation	-	**458**	-	-	-	-	**458**
At 31 December 2009	-	**5,797**	**11,073**	**6,994**	**2,300**	-	**26,164**
Net book value							
At 31 December 2009	**17,063**	**40,088**	**10,286**	**2,597**	**1,165**	**403**	**71,602**
At 31 December 2008	17,063	32,013	9,120	3,199	1,314	410	63,119

Land and building of subsidiaries is being revalued on an open market basis by a professional firm of independent property valuers and the Group's share of the surplus of AED 2.9 million *(2008: AED 0.86 million)* has been credited to revaluation reserve.

12. Intangible assets

	2009 AED'000	2008 AED'000
Cost		
Balance at 1 January	**22,274**	18,615
Additions during the year	**1,371**	2,269
Others	**(9,832)**	1,390
Balance at 31 December	**13,813**	22,274
Accumulated amortisation		
Balance at 1 January	**12,300**	10,074
Charge for the year	**1,567**	1,313
Others	**(7,788)**	913
Balance at 31 December	**6,079**	12,300
Net book value at 31 December	**7,734**	9,974

The intangible assets represent computer software licences acquired by the Group and are capitalised on the basis of the costs incurred to acquire and bring into use the specific software.

13. Investment properties

Investment properties comprise of land and building acquired by the Group in UAE in 1997, and lands in Kingdom of Saudi Arabia (KSA) acquired in 2006. The value of investment properties, as determined by independent valuer as at 31 December 2009, is AED 13.64 million (2008: AED 16.22 million) and AED 70.10 million (2008 : AED 70.10 million) for properties in UAE and KSA respectively.

The rental income of UAE properties amount to AED 0.9 million in 2009 (*2008: AED 0.9 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.

General and administrative expenses includes AED 43,900 (2008: AED 19,650) incurred in respect of repairs and maintenance of investment property.

14. Investment in associates

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

Associates	Ownership 2009	Ownership 2008	Country of incorporation	31 December 2009 AED'000	31 December 2008 AED'000
GEPAR	**20.00%**	20.00%	Tunisia	**265**	249
Saudi IAIC Cooperative Insurance Co. (Saudi IAIC)	**30.00%**	30.00%	KSA	**26,655**	23,203
Best Invest	**47.00%**	47.00%	Tunisia	**1,061**	1,238
SCI Al Amane	-	30.00%	Senegal	-	2
SCI Al Baraka	-	30.00%	Senegal	-	2
				27,981	24,694

Movements during the year	**2009 AED'000**	2008 AED'000
Balance at 1 January	**24,694**	29,607
Purchases	-	1,067
Disposal of associates	**(294)**	-
Share of profit/(loss) in associates (note 8)	**3,592**	(5,933)
Change in reserve	**(11)**	(47)
Balance at 31 December	**27,981**	24,694

Summarised financial information of the major associates is as under:

	2009 AED'000	2008 AED'000
Total assets	**249,341**	245,566
Total liabilities	**(175,144)**	(185,386)
Revenue	**208,453**	74,449
Surplus/(deficit)	**20,062**	(6,725)

15. Statutory deposits

Company	**Country of incorporation**	**2009 AED'000**	2008 AED'000
IAIC	UAE	**10,000**	10,000
Tariic	Bahrain	**195**	195
Egypt Saudi Insurance Home	Egypt	**23,689**	18,270
Salama Senegal (Sosar)	Senegal	**5,958**	5,668
Best Re	Tunis	**766**	-
		40,608	34,133

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.

16. Investments

	31 December 2009			31 December 2008		
	Domestic investment AED'000	**International investment AED'000**	**Total AED'000**	Domestic investment AED'000	International investment AED'000	Total AED'000
Financial asset at fair value through profit or loss						
Mutual fund and externally managed portfolios	-	**52,270**	**52,270**	-	36,547	36,547
Shares and securities	**2,451**	**10,647**	**13,098**	1,449	854	2,303
	2,451	**62,917**	**65,368**	1,449	37,401	38,850
Available-for-sale investments						
Mutual fund and externally managed portfolio	-	**296,870**	**296,870**	15,215	310,028	325,243
Shares and Securities	**7,565**	**20,967**	**28,532**	5,983	21,762	27,745
Others	-	-	-	-	-	-
	7,565	**317,837**	**325,402**	21,198	331,790	352,988
Islamic placements *	-	**607,021**	**607,021**	-	476,006	476,006
Held to maturity						
SUKUK and Government bonds	-	**275,390**	**275,390**	-	41,772	41,772
Total investments	**10,016**	**1,263,165**	**1,273,181**	22,647	886,969	909,616

*Represent Sharia'h compliant placements with different financial institutions having profit rates of 0.50% to 5.50% (2008: 0.50% to 6.50%) and maturing in more than 3 months when acquired.

16. **Investments** (continued)

Determining fair values

The determination of fair value for financial assets and liabilities is based on quoted market price in an active market under level 1 of fair value hierarchy. The fair value of investment properties is based on accounting policy stated in note 3(e).The investment securities disclosure are provided in note 8.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

Investments securities	**Level 1**	**Level 2**	**Level 3**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
31 December 2009				
Fair value through profit and loss				
Mutual fund	**3,051**	**49,219**	**-**	**52,270**
Shares and securities	**13,098**	**-**	**-**	**13,098**
	16,149	**49,219**	**-**	**65,368**
Available for sale*				
Mutual fund	**-**	**296,870**	**-**	**296,870**
Shares and securities	**28,080**	**-**	**452**	**28,532**
	28,080	**296,870**	**452**	**325,402**

*There has been no movement during the year in the level 3.

Reclassification of investments

Pursuant to the amendments to IAS 39 and IFRS 7 (described in note 3(d)), the Group reclassified certain trading assets to available-for-sale investment securities. The Group identified financial assets eligible under the amendments, for which it had changed its intent such that it no longer held these financial assets for the purpose of generating profit in the short term. For trading assets identified for reclassification that would have met the definition of loans and receivables, the Group had the intention and ability to hold them for foreseeable future or until maturity. For other trading assets identified for reclassification, the Group in the context of the deterioration of the financial markets during the third quarter of 2008 constituted rare circumstances that permit reclassification out of the trading category.

The Group, as a result of the adoption of recent amendments from IASB as explained in note 3 to these consolidated financial statements, has reclassified certain investments amounting to AED 200 million, being the fair value as at 1 July 2008, from the fair value through profit or loss - held for trading classification to the available-for-sale investments category. The fair value for such investments as at 31 December 2009 included in available-for-sale investments amounts to AED 60.61 million (2008:AED 94.57 million). During the year a part of reclassified investments have been sold. As required by the said amendments, the effects of such a reclassification are set out below.

16. **Investments** (continued)

Reclassification of investments (continued)

	Statement of income		Other comprehensive income	
	2009	2008	**2009**	2008
	AED '000	AED '000	**AED '000**	AED '000
Period before reclassification				
Unrealised fair value gain recognised in consolidated statement of income	**-**	18,747	**-**	-
Period after reclassification				
Unrealised fair value gain recognised on available-for-sale revaluation reserve	**-**	-	**19,836**	21,231
Impairment loss	**-**	59,812	**-**	-

The estimated cash flows the Group expect to recover from reclassified investments as at the date of reclassification was amounting to AED 64.2 million.

17. Deposits with takaful and retakaful companies

	2009	2008
	AED'000	AED'000
Contributions deposits	**117,300**	109,873
Claim deposits	**208,503**	203,982
	325,803	313,855

Contribution deposits with takaful companies primarily pertain to Best Re amounting to AED 113 million *(2008: AED* 106 *million)*. Claim deposits also pertain mainly to Best Re amounting to AED 205 million *(2008: AED* 202 *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.

18. Contributions and takaful balance receivables

	2009 AED'000	2008 AED'000
Takaful contributions receivables	**522,407**	426,674
Due from takaful and retakaful companies	**241,112**	208,346
	763,519	635,020
Provision for impairment losses		
Takaful contributions receivables	**(3,134)**	(3,281)
Due from takaful and retakaful companies	**(8,521)**	(4,154)
	751,864	627,585

Aging of contributions and takaful balance receivables

	31 December 2009 Gross amount AED'000	Impairment AED'000
Not Past due	**453,391**	-
Past due over 0 to 60 days	**36,097**	-
Past due over 60 to 120 days	**192,381**	**(4,659)**
Past due over 120 to 180 days	**14,117**	-
Past due over 180 days to 1 year	**23,303**	-
Over 1 year	**44,230**	**(6,996)**
Total contributions and takaful balance receivables	**763,519**	**(11,655)**
Net contributions and takaful balance receivables	**751,864**	

Aging of contributions and takaful balance receivables

	31 December 2008 Gross amount AED'000	Impairment AED'000
Not past due	362,804	-
Past due over 0 to 60 days	100,288	-
Past due over 60 to 120 days	48,183	-
Past due over 120 to 180 days	23,750	-
Past due over 180 days to 1 year	34,049	-
Over 1 year	65,946	(7,435)
Total contributions and takaful balance receivables	635,020	(7,435)
Net contributions and takaful balance receivables	627,585	

19. Other assets and receivables

	2009 AED'000	2008 AED'000
Receivable from RUSD Investment Bank, Inc.	**9,940**	10,757
Operating advances	**256**	502
Utility, security and other deposits	**-**	1,137
Due from employees	**8,088**	11,630
Due from brokers	**3,004**	-
Other prepayments	**5,223**	3,498
Advance taxes paid	**389**	451
Advances for property purchase	**13,161**	-
Income receivable on investments	**28,561**	4,478
Advance commission against family takaful	**9,149**	6,287
Deferred commission	**9,623**	3,148
Subrogation	**288**	504
Others	**9,445**	29,235
	97,127	71,627

20. Cash and bank balances

	2009 AED'000	2008 AED'000
Cash in hand	**12**	116
Cash at bank	**35,717**	62,668
Term deposits	**161,999**	126,762
	197,728	189,546

Cash and bank balances - by geographical distribution

	2009 AED'000	2008 AED'000
Domestic	**53,808**	56,467
International	**143,920**	133,079
	197,728	189,546

21. Outstanding claims and family takaful reserve

	2009 AED'000	2008 AED'000
Reserve for outstanding claims	**629,716**	488,682
Reserve for incurred but not reported claims	**174,943**	189,908
	804,659	678,590
Less: Retakaful share of outstanding claims	**(130,352)**	(98,642)
	674,307	579,948

Movements in outstanding claims reserve and family takaful reserve

	2009			
	Gross AED'000	**Retakaful AED'000**	**Adjustment AED'000**	**Net AED'000**
Balance at 1 January	**678,590**	**(98,642)**	**-**	**579,948**
Foreign exchange differences	**-**	**-**	**(334)**	**(334)**
Net movement during the year	**126,069**	**(31,710)**	**334**	**94,693**
Balance at 31 December	**804,659**	**(130,352)**	**-**	**674,307**

	2008			
	Gross AED'000	Retakaful AED'000	Adjustment AED'000	Net AED'000
Balance at 1 January	517,969	(101,166)	-	416,803
Foreign exchange differences	-	-	(5,476)	(5,476)
Net movement during the year	160,621	2,524	5,476	168,621
Balance at 31 December	678,590	(98,642)	-	579,948

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.

21. Outstanding claims and family takaful reserve (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 2008 and 2009 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.

22. Unearned contributions reserve

Movements in unearned contributions reserve:

	2009			
	Gross AED'000	**Retakaful AED'000**	**Adjustment AED'000**	**Net AED'000**
Balance at 1 January	**223,229**	**(47,121)**	**-**	**176,108**
Foreign exchange differences	**-**	**-**	**(77)**	**(77)**
Provision made during the year	**402,569**	**(81,161)**	**77**	**321,485**
Provision released during the year	**(223,229)**	**47,121**	**-**	**(176,108)**
Balance at 31 December	**402,569**	**(81,161)**	**-**	**321,408**

	2008			
	Gross AED'000	Retakaful AED'000	Adjustment AED'000	Net AED'000
Balance at 1 January	172,621	(48,772)	-	123,849
Foreign exchange differences	-	-	(1,893)	(1,893)
Provision made during the year	223,229	(47,121)	1,893	178,001
Provision released during the year	(172,621)	48,772	-	(123,849)
Balance at 31 December	223,229	(47,121)	-	176,108

23. Takaful balances payable

	2009 AED'000	2008 AED'000
Takaful companies	**20,045**	12,561
Customers and others	**69,660**	74,340
Retakaful companies	**68,276**	63,550
	157,981	150,451

24. Other payables and accruals

	2009 AED'000	2008 AED'000
Payable to garages and brokers	**19,905**	3,128
Provision for charitable donations (note 10)	**25,417**	22,796
Payable to suppliers	**6,312**	-
Staff related accruals	**16,801**	3,434
Post dated cheques	**3,051**	1,114
Accrued expenses	**3,525**	393
Surplus share payable to policyholders	**11,742**	-
Other provisions	**10,063**	13,713
Taxes payable	**11,654**	15,826
Other payables	**6,549**	54,021
	115,019	114,425

25. Bank finance

	2009 AED'000	2008 AED'000
Long-term portion	**175,283**	164,507
Short-term portion	**116,134**	204,225
	291,417	368,732

Above include financing for one of the Group's subsidiaries equivalent to AED 171.99 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. The profit is payable at each quarter end.

26. 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.

	2009 AED'000	2008 AED'000
General and administrative expenses	**114**	878
Retakaful on contributions	**2,685**	3,749
Retakaful on claims	**1,028**	1,519
Commission	**-**	-
Purchase of investments	**8,852**	1,263,411
Sale of investments	**10,583**	1,400,125

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

Amounts due from related parties	**2009 AED'000**	2008 AED'000
Bin Zayed Group	**11,128**	249,208
IAIC Labuan	**-**	5,961
IAIC Bahrain	**78**	23
IAIC Cooperative Takaful	**101**	-
Other entities under common management with the Group	**45**	854
	11,352	256,046
Amounts due to related parties		
IAIC Bahrain-current account	**1,990**	1,788
Bin Zayed Group	**-**	-
Other entities under common management with the Group	**2,631**	2,758
	4,621	4,546
Compensation of key management personnel		
Short term benefits	**9,376**	7,327
Employees end of service benefits	**877**	1,378
	10,253	8,705

27. Policyholders' fund

	2009 AED'000	2008 AED'000
Balance at 1 January	**(7,154)**	(11,555)
Net surplus attributable to policyholders for the year (note 6)	**21,859**	8,488
	14,705	(3,067)
Proposed profit distribution to policyholders of Family takaful	**(12,579)**	(4,087)
	2,126	(7,154)
General Takaful		
Balance at 1 January	**(13,675)**	(12,466)
surplus in General Takaful for the year	**10,738**	(1,209)
	(2,937)	(13,675)
Family Takaful		
Balance at 1 January	**6,521**	911
Surplus in Family Takaful for the year	**11,121**	9,697
Proposed profit distribution to policyholder of Family takaful	**(12,579)**	(4,087)
	5,063	6,521
Financed by shareholders'	**-**	(7,154)
	2,126	-

The shareholders of the Company in earlier periods financed the policyholders' deficit in accordance with the Company's policy.

28. Share capital

	2009	2008
	AED'000	AED'000
Authorised, issued and fully paid up capital		
1,100,000,000 shares of AED 1 each (*2008: 1,100,000,000 shares of AED 1*)	**1,100,000**	1,100,000
	=======	=======

29. 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.

30. Revaluation reserve

The Group's share of surplus on revaluation amounting to AED 2.9 million *(2008: AED* 0.864 *million)* on land and building during the year has been credited to a non distributable reserve (refer note 2 and 11).

31. Treasury shares

In the year 2008 the Company bought back 11,476,161 shares amounting to AED 11.2 million. The buyback of shares was approved by the Board of Directors on 21 October 2008.

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

32. Earnings per share

The calculation of earnings per share for the year ended 31 December 2009 is based on earning of AED 91.28 million *(loss of 2008: AED 10.4 million)* divided by the weighted average number of shares of 1,080 million *(2008: 1,091million)* outstanding during the year after taking into account the treasury shares held. There is no dilutive effect on basic earnings per share.

33. Taxation on foreign operations

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.

34. Contingent liabilities and capital commitments

	2009	2008
	AED'000	AED'000
Letters of guarantee	**12,448**	13,675
	======	======

Statutory deposits of AED 7.62 million (*2008: AED 10 million*) are held as lien by the bank against the above guarantees.

34. 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. 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 2009 *(2008: nil)*.

35. Operating lease commitments

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

	2009 AED'000	2008 AED'000
Less than one year	**1,834**	2,258
Between one to five years	**529**	-
	2,363	2,258

The Group also leases out its investment property under operating leases. Non-cancellable operating lease rentals are receivable as follows:

	2009 AED'000	2008 AED'000
Less than one year	**41**	157
Between one to five years	**-**	-
	41	157

36. Operating segment

By business

(for the year ended 31 December 2009)

	Non - motor AED'000	Motor AED'000	Health AED'000	Family takaful AED'000	Total AED'000
Gross written contributions	1,141,073	248,885	52,072	131,067	1,573,098
Net contributions earned	815,632	236,018	23,051	66,499	1,141,200
Commissions received on ceded reinsurance and retakaful	37,795	485	832	18,806	57,918
	853,427	236,503	23,883	85,305	1,199,118
Net claims incurred	(428,831)	(171,996)	(9,524)	(29,275)	(639,626)
Commissions paid and other costs	(317,595)	(33,179)	(5,602)	(19,933)	(376,309)
Net underwriting income	**107,001**	**31,328**	**8,757**	**36,097**	**183,183**
Investment and other income					**80,207**
Unallocated expenses and tax					**(167,133)**
Net profit after tax					**96,257**

(for the year ended 31 December 2008)

	Non-motor AED'000	Motor AED'000	Health AED'000	Family takaful AED'000	Total AED'000
Gross written contributions	939,132	261,869	52,799	71,349	1,325,149
Net contributions earned	750,064	246,573	20,769	30,854	1,048,260
Commissions received on ceded reinsurance and retakaful	30,590	236	565	10,681	42,072
	780,654	246,809	21,334	41,535	1,090,332
Net claims incurred	(441,764)	(154,894)	(7,580)	(15,533)	(619,571)
Commissions paid and other costs	(265,704)	(33,521)	(5,676)	(3,144)	(308,045)
Net underwriting income	73,186	58,394	8,078	22,858	162,716
Investment and other income					(9,228)
Unallocated expenses and tax					(161,667)
Net loss after tax					(8,179)

37. Segmental information (continued)

By Geography

(for the year ended 31 December 2009)

	Africa AED'000	**Far East AED'000**	**Middle East AED'000**	**Turkey and Central Asia AED'000**	**Total AED'000**
Gross written contributions	335,563	829,756	344,586	63,192	1,573,098
Net contributions earned	274,945	583,192	221,223	61,840	1,141,200
Commissions received on ceded reinsurance and retakaful	14,469	17,389	26,060	-	57,918
	289,413	600,581	247,283	61,840	1,199,118
Net claims incurred	(137,745)	(339,003)	(130,539)	(32,339)	(639,626)
Commissions paid and other cost	(66,744)	(237,912)	(55,241)	(16,412)	(376,308)
Net underwriting income	**84,925**	**23,666**	**61,503**	**13,089**	**183,183**
Investment and other income					**80,207**
Unallocated expenses and tax					**(167,133)**
Net profit after tax					**96,257**

By Geography

(for the year ended 31 December 2008)

	Africa AED'000	Far East AED'000	Middle East AED'000	Turkey and Central Asia AED'000	Total AED'000
Gross written contributions	283,388	647,563	301,147	93,051	1,325,149
Net contributions earned	244,470	517,858	199,145	86,787	1,048,260
Commissions received on ceded reinsurance and retakaful	9,303	17,690	15,079	-	42,072
	253,773	535,548	214,224	86,787	1,090,332
Net claims incurred	(117,793)	(330,348)	(150,300)	(21,130)	(619,571)
Commissions paid and other cost	(56,420)	(186,245)	(40,568)	(24,812)	(308,045)
Net underwriting income	79,560	18,955	23,356	40,845	162,716
Investment and other income					(9,228)
Unallocated expenses and Tax					(161,667)
Net profit after tax					(8,179)

38. Comparative figures

Certain comparative figures have been reclassified, where necessary, to conform with the presentation adopted in these consolidated financial statements.