Islamic Arab Insurance Co. (Salama)
and its subsidiaries

Directors' report and consolidated financial statements

for the year ended 31 December 2011

Islamic Arab Insurance Co. (Salama) and its subsidiaries

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for the year ended 31 December 2011

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

سلامة
SALAMA
الشركة الإسلامية العربية للتأمين (ش.م.ع.)
ISLAMIC ARAB INSURANCE CO. (P.S.C.)

معاً. لمستقبل آمن.
SECURING OUR FUTURE. *together.*

We are proud to present to you the 32nd Annual Report together with the audited consolidated financial statements for the year ended on 31 December 2011.

One of the major achievements in this financial year is the positive improvement in the financial strength and rating of our Group by S&P to "A–". It is also our pleasure to report to you that we maintained the same rating of "A–" by AM BEST. Both ratings are based on good competitive position, strong operating performance and strong capitalization of Salama and its major subsidiary Bestre.

Taking advantage of our diversified operations, the financials are reflecting the continued growth momentum.. The gross written contribution income of the Group has increased by 23% to AED 2.268 Billion against AED 1.842 Billion in 2010. Unfortunately, in the last quarter of the year our core subsidiary BEST RE was badly hit by the catastrophic Thailand floods. This catastrophy is a rare occurrence and major reinsurers covering Thailand Insurance market have suffered big losses. Bestre was able to absorb the impact with a small loss to the company. However with the diversified operations of the group as well as its focus on operational performance, the Group resulted in stable underwriting income of AED 222 million in 2011 vs AED 221 M in 2010. Net profits increased from AED 55 million in 2010 to AED 60 million in 2011.

On the investments side, we maintained our prudent strategy and focus on diversified and balanced returns. During the year, the returns on investment were slightly higher to AED 41 million as compared to last year's investment income of AED 37 million.

As planned, Individual Family Takaful solutions in UAE have increased its momentum tremendously in 2011 as well, now accounting for around 38% of the total contribution from the UAE market. Our success is the Shari'ah compliant product range of international standards with excellent market response.

الطابق الرابع، بناية سبيكتروم
عود ميثاء، ص.ب: ١٠٢١٤، دبي إ.ع.م.
هاتف: ٣٥٨٧٧٠٠ ٤ ٩٧١+
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The following are highlights from our consolidated financial statements for years ended 31 December 2011 and 2010:

	2011 AED '000	2010 AED '000
Gross written contributions	**2,268,073**	1,841,968
Contributions earned	**1,782,624**	1,422,643
Incurred claims	**1,056,861**	793,384
Net underwriting income	**221,618**	222,303
Investment income	**41,165**	37,073
Net profit for the year	**60,039**	55,312

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

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

Board of Directors

28 March 2012

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Independent auditors' report

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Islamic Arab Insurance Co. (Salama) ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, the consolidated statements of comprehensive income(comprising of a consolidated statement of comprehensive income and a separate consolidated statement of income), changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

KPMG

Independent auditors' report *(continued)*

Auditors' responsibility (continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2011, and its consolidated financial performance and its consolidated statement of 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).

Report on Other Legal and Regulatory Requirements

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit, that proper financial records have been kept by the Company, and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the 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 2011, which may have had a material adverse effect on the business of the Company or its financial position.

KPMG

Vijendranath Malhotra
Registration No: 48B

2 8 MAR 2012

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated statement of income

for the year ended 31 December

UNDERWRITING RESULTS	*Note*	2011 AED'000	(Restated) 2010 AED'000
Underwriting income			
Gross written contributions	*37*	**2,268,073**	1,841,968
Less: reinsurance and retakaful contributions ceded		**(341,714)**	(292,331)
Net contributions		**1,926,359**	1,549,637
Net movement in unearned contributions		**(143,735)**	(126,994)
Contributions earned		**1,782,624**	1,422,643
Commission received on ceded reinsurance and retakaful		**51,665**	54,264
		1,834,289	1,476,907
Underwriting expenses			
Gross claims paid		**1,041,662**	831,672
Less: reinsurance and retakaful share of claims paid		**(164,172)**	(121,426)
Net claims paid		**877,490**	710,246
Net movement in outstanding claims and technical reserve family takaful		**179,371**	83,138
Claims incurred		**1,056,861**	793,384
Commission paid and other costs		**555,810**	461,220
		1,612,671	1,254,604
Net underwriting income	*37*	**221,618**	222,303
Income			
Income from investments	*8*	**41,165**	37,073
Other income		**26,418**	20,906
		289,201	280,282
Expenses			
General, administrative and other expenses	*9*	**(188,529)**	(172,800)
Financial expenses		**(16,713)**	(21,616)
Provision for charitable donations	*10*	**(3,898)**	(3,522)
Net profit before tax for the year		**80,061**	82,344
Taxation - current	*34*	**(6,860)**	(8,659)
Net profit after tax for the year before policyholders' distribution		**73,201**	73,685
Distribution to policyholders of Holding Company		**(12,441)**	(20,499)
Policyholders' surplus		**(721)**	2,126
Net profit after tax and distribution to policyholders for the year		**60,039**	55,312
Earnings per share (AED)	*33*	**0.050**	0.042
Attributable to:			
Shareholders		**59,671**	49,837
Non-controlling interest		**368**	5,475
		60,039	55,312

The notes on pages 11 to 60 form an integral part of these consolidated financial statements.

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

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated statement of comprehensive income

for the year ended 31 December

	2011 AED'000	(Restated) 2010 AED'000
Net profit after tax and distribution to policyholders for the year	**60,039**	55,312
Other comprehensive income net of income tax		
Net change in revaluation of property and equipment	**(7,826)**	(806)
Net change in fair value of available-for-sale investments	**2,451**	9,507
Foreign exchange translation reserve	**(4,583)**	(1,648)
Adjustment on reclassification of available-for-sale investment into associate	**-**	3,278
Other comprehensive income for the year	**(9,958)**	10,331
Total comprehensive income for the year	**50,081**	65,643
Attributable to:		
Shareholders	**53,651**	59,925
Non-controlling interest	**(3,570)**	5,718
	50,081	65,643

The notes on pages 11 to 60 form an integral part of these consolidated financial statements.

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

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated statement of financial position

as at 31 December

	Note	31 December 2011 AED'000	(Restated) 31 December 2010 AED'000	(Restated) 01 January 2010 AED'000
ASSETS				
Property and equipments	*11*	107,027	71,817	71,602
Intangible assets	*12*	6,462	5,204	7,734
Goodwill	*5*	186,194	186,194	186,194
Investment properties	*13*	274,733	83,129	83,744
Investments in associates	*14*	57,563	57,331	27,981
Statutory deposits	*15*	79,808	60,286	40,608
Investments	*16*	977,872	1,222,069	1,256,801
Participants' investments in unit-linked contracts	*16*	489,956	166,847	16,380
Deposits with takaful and retakaful companies	*17*	269,421	323,517	325,803
Contributions and takaful balance receivables	*18*	1,102,568	825,863	751,864
Retakafuls' share of outstanding claims	*21*	477,688	217,759	130,352
Retakafuls' share of unearned contributions	*22*	69,427	52,143	81,161
Amounts due from related parties	*27*	12,577	12,280	11,352
Other assets and receivables	*19*	130,088	185,053	97,127
Cash and bank balances	*20*	434,720	209,210	197,728
TOTAL ASSETS		4,676,104	3,678,702	3,286,431
LIABILITIES EXCLUDING POLICYHOLDERS' FUND				
Bank finances	*26*	160,186	213,682	291,417
Outstanding claims and family takaful reserve	*21*	1,392,699	952,945	790,020
Payable to Participants for unit-linked contracts	*24*	474,533	159,932	14,639
Unearned contributions reserve	*22*	659,172	499,879	402,569
Takaful balances payable	*23*	240,062	122,352	157,981
Other payables and accruals	*25*	124,882	158,072	115,019
Amounts due to related parties	*27*	867	311	4,621
TOTAL LIABILITIES EXCLUDING POLICYHOLDERS' FUND		3,052,401	2,107,173	1,776,266
Policyholders' fund	*28*	721	-	2,126
NET ASSETS EMPLOYED		1,622,982	1,571,529	1,508,039
FINANCED BY:				
Shareholders' equity		1,579,156	1,525,304	1,465,311
Non-controlling interest		43,826	46,225	42,728
		1,622,982	1,571,529	1,508,039

The notes on pages 11 to 60 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 28 MAR 2012 and signed on their behalf by:

Sheikh Khaled Bin Zayed Al Nehayan
Chairman

Dr. Saleh J. Malaikah
Vice Chairman & CEO

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

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated statement of cash flows

for the year ended 31 December

	2011 AED'000	(Restated) 2010 AED'000
Cash flows from operating activities		
Net profit after tax and distribution to policyholders for the year	**60,039**	55,312
Adjustment for:		
Depreciation	**5,675**	5,756
Net movement in unearned contributions reserve	**143,735**	126,994
Unrealised losses on investments	**18,608**	466
Unrealised gain/(loss) on investment property	**(373)**	615
Amortisation of intangible assets	**1,578**	3,567
Loss on disposal of subsidiary	**1,381**	-
Share of profit from associates	**(1,244)**	(2,014)
Dividend income	**(914)**	(2,313)
Operating profit before changes in working capital	**228,485**	188,383
Change in deposits with takaful and retakaful companies	**54,096**	2,286
Change in contributions and takaful balance receivable	**(276,705)**	(73,999)
Change in due from / to related parties	**259**	(5,238)
Change in other assets and receivables	**54,965**	(87,926)
Change in outstanding claims (net of retakaful)	**179,825**	75,518
Change in takaful payables and other payables	**84,520**	7,423
Change in payable to participants for unit-linked contracts	**314,601**	145,293
Change in policyholders' fund	**721**	(2,126)
Net cash flows from operating activities	**640,767**	249,614
Cash flows from investing activities		
Property and equipment-net	**(49,402)**	(7,253)
Net movement in intangible assets	**(2,836)**	(1,037)
Net movement in associates	**1,012**	(24,058)
Statutory deposits	**(19,522)**	(19,678)
Investments-net	**(289,528)**	(108,706)
Dividends received	**914**	2,313
Net cash flows used in investing activities	**(359,362)**	(158,419)
Cash flows from financing activities		
Bank finance-net	**(53,496)**	(77,735)
Net movement in non-controlling interest	**(2,399)**	(1,978)
Net cash flows used in financing activities	**(55,895)**	(79,713)
Net increase in cash and cash equivalents	**225,510**	11,482
Cash and cash equivalents at 1 January	**209,210**	197,728
Cash and cash equivalents at 31 December (note 20)	**434,720**	209,210

The notes on pages 11 to 60 form an integral part of these consolidated financial statements.

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

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated statement of changes in equity

for the year ended 31 December 2011

	Attributable to the equity holders of the Company									
	Share capital AED'000	**Statutory reserve AED'000**	**Revaluation reserve AED'000**	**Foreign exchange translation reserve AED'000**	**Investment fair value reserve AED'000**	**Treasury stock AED'000**	**Retained earnings AED'000**	**Total AED'000**	**Non-controlling interest AED'000**	**Total equity AED'000**
Balance at 1 January 2010	1,100,000	59,032	15,440	(5,009)	(5,994)	(35,972)	337,814	1,465,311	42,728	1,508,039
Total comprehensive income for the year										
Profit for the year	-	-	-	-	-	-	49,837	49,837	5,475	55,312
Other comprehensive income										
Share in foreign exchange translation reserve	-	-	-	(532)	-	-	-	(532)	(1,116)	(1,648)
Share in net change in fair value of available-for-sale investments	-	-	-	-	8,093	-	-	8,093	1,414	9,507
Share in net changes in revalutaion of property and equipment	-	-	(751)	-	-	-	-	(751)	(55)	(806)
Adjustment on reclassification of available-for-sale investment into associate	-	-	-	-	-	-	3,278	3,278	-	3,278
Total other comprehensive income	-	-	(751)	(532)	8,093	-	3,278	10,088	243	10,331
Total comprehensive income for the year	-	-	(751)	(532)	8,093	-	53,115	59,925	5,718	65,643
Transaction with owners, recorded directly in equity										
Movement upon the acquisition of subsidiary	-	-	-	-	-	-	68	68	(2,418)	(2,350)
Increase in cash through contribution	-	-	-	-	-	-	-	-	2,076	2,076
Transfer to statutory reserve	-	4,984	-	-	-	-	(4,984)	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	(1,879)	(1,879)
Balance at 31 December 2010 restated	1,100,000	64,016	14,689	(5,541)	2,099	(35,972)	386,013	1,525,304	46,225	1,571,529

The notes on pages 11 to 60 form an integral part of these consolidated financial statements.

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

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Consolidated statement of changes in equity (continued)

for the year ended 31 December 2011

	Attributable to the equity holders of the Company									
	Share capital AED'000	Statutory reserve AED'000	Revaluation reserve AED'000	Foreign exchange translation reserve AED'000	Investment fair value reserve AED'000	Treasury stock AED'000	Retained earnings AED'000	Total AED'000	Non-controlling interest AED'000	Total equity AED'000
Balance at 1 January 2011	1,100,000	64,016	14,689	(5,541)	2,099	(35,972)	386,013	1,525,304	46,225	1,571,529
Total comprehensive income for the year										
Profit for the year							59,671	59,671	368	60,039
Other comprehensive income										
Share in foreign exchange translation reserve	-	-	-	(738)				(738)	(3,845)	(4,583)
Share in net change in fair value of available-for-sale investments	-	-	-		2,497	-	-	2,497	(46)	2,451
Share in net changes in revalutaion of property and equipment	-	-	(7,779)	-	-	-	-	(7,779)	(47)	(7,826)
Total other comprehensive income	-	-	(7,779)	(738)	2,497	-	-	(6,020)	(3,938)	(9,958)
Total comprehensive income for the year	-	-	(7,779)	(738)	2,497	-	59,671	53,651	(3,570)	50,081
Transaction with owners, recorded directly in equity										
Movement upon the acquisition of subsidiary	110,000	-	-	-	-	-	(110,000)	-	-	-
Adjustment of opening retained earning in Best Re Tunis			199	2				201	3,850	4,051
Transfer to statutory reserve	-	5,967	-	-	-	-	(5,967)	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	(2,679)	(2,679)
Balance at 31 December 2011	**1,210,000**	**69,983**	**7,109**	**(6,277)**	**4,596**	**(35,972)**	**329,717**	**1,579,156**	**43,826**	**1,622,982**

The notes on pages 11 to 60 form an integral part of these consolidated financial statements.

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

1 Legal status and activities

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

The Company and its subsidiaries are referred to as "the Group". Tariic Holding BSC (Tariic) is an intermediate holding company in Bahrain and no commercial activities are carried out in the Kingdom of Bahrain. The Group has the following principal subsidiaries which are engaged in insurance and reinsurance under Islamic Sharia'a principles:

	Group's Ownership		
Subsidiaries	**31-Dec 2011**	31-Dec 2010	**Country of incorporation**
Through Tariic			
Salama Senegal	55.17%	55.17%	Senegal
Salama Assurances Algerie	96.98%	96.98%	Algeria
Egyptian Saudi Insurance Home	51.15%	51.15%	Egypt
Best Re Holding Company	100%	100%	Malaysia
Best Re-Tunis (refer note below)	-	100%	Tunisia
Directly owned			
Tariic Holding Company	99.40%	99.40%	Kingdom of Bahrain

During the year the Group disposed off its entire stake in Best Re - Tunis, the details of the transaction and its impact has been disclosed in note 38 to the consolidated financial statements.

2 Basis of preparation

a) Statement of compliance

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

b) Basis of measurement

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

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

2 Basis of preparation (continued)

c) Functional and presentation currency

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

d) Critical accounting estimates and judgment in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments 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.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are included in the following notes:

- Note 13: Investment properties
- Note 16: Investments
- Note 21: Outstanding claims and retakafuls' share of outstanding claims
- Note 22: Retakafuls' share of unearned contribution and unearned contribution reserves.

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

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

Information about assumptions and estimation of uncertainties that have a significant risk of resulting in a material adjustment within the next financial year relating to outstanding claims and family takaful reserves are included in note 21 to the consolidated financial statements.

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

2 Basis of preparation (continued)

d) Critical accounting estimates and judgment in applying accounting policies (continued)

Deferred policy acquisition costs

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

e) Changes in accounting policies

i) IAS 24 " Related party disclosure' (revised)

The Group has adopted IAS 24 "Related party disclosures' (revised) effective from 1 January 2011. IAS 24 amended the definition of a related party and modifies certain related party disclosure requirements for Government related entities. The management assessed the impact of this new standard believes that changes have no significant affect on the Company's financial statements.

ii) *Unbundling of investment component*

The Group has changed its accounting policy for recognition, measurement and subsequent measurement of a takaful contract having investment component. The Group has decided to unbundle the takaful contract into takaful component and investment component to make the consolidated financial statements more relevant to the economic decision-making needs of the users. On unbundling, the takaful contract will be accounted for in accordance with note 3(b) and investment component is accounted for in accordance with note 3(d).

The above change in accounting policy was applied retrospectively, the following table summaries the impact of change in accounting policy to the consolidated statement of financial position and consolidated statement of income. The change in accounting will not have any significant impact on consolidated statement of comprehensive income and consolidated statement of changes in equity.

Impact on consolidated statement of financial position

	Other assets-deferred commission	Outstanding claims & family takaful reserves	Payable to participants of unit-linked contracts
	AED'000	AED'000	AED'000
Balance as reported at 1 January 2010	97,127	819,298	-
Effect of change in accounting policy	-	(14,639)	14,639
Balance as at 1 January 2010	97,127	804,659	14,639
Balance as at 31 December 2010 (As stated previously)	192,347	1,120,171	-
Effect of change in accounting policy	(7,294)	(167,226)	159,932
Balance as at 31 December 2010	185,053	952,945	159,932

Impact on consolidated statement of income

	Gross contribution	Net movement in outstanding claims & family takaful	Commission expense	Earnings per share
	AED'000	AED'000	AED'000	AED
Year ended 31 December 2010 (As stated previously)	1,989,462	228,211	463,649	0.050
Effect of change in accounting policy	(147,494)	(145,073)	(2,429)	-
Balance at 31 December 2010 (Restated)	1,841,968	83,138	461,220	0.050

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except as explained in note 2(e) which addresses the changes in accounting policies. Certain comparative amounts have been reclassified to conform with the current year's presentation.

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 separately as a part of consolidated statements of changes in shareholders equity in the Group's consolidated financial statements.

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

Investment in associates (equity accounted investees)

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

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

Transactions eliminated on consolidation

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

Acquisition from entities under common control

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

Loss of control

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

3 Significant accounting policies (continued)

b) Takaful contracts

i. Classification

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

Contracts under which the Group accepts significant takaful risk from another party (the 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 a takaful contract it remains classified as a takaful contract until all rights and obligations are extinguished or expire.

ii. Recognition and measurement

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

a) General Takaful contracts

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

b) Family Takaful contracts

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

c) Investment featured unit-linked contracts

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

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

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

3 **Significant accounting policies** (continued)

c) Investment featured unit-linked contracts (continued)

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

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

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

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

iii. Claims

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

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

iv. Gross claims paid

Gross claims paid are recognised in the consolidated statement of income when the claim amount payable to policyholders and third parties 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. Contribution deficiency reserve and unearned contribution reserves

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

vii. Retakaful

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

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

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

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

3 Significant accounting policies (continued)

b) Takaful contracts (continued)

viii. Deferred commission cost

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

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

ix. Takaful receivables and payables

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

x. Family takaful reserves

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

xi. Salvage and subrogation reimbursements

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

c) Revenue (other than takaful revenue)

Revenue (other than takaful revenue) comprises the following:

i) Fee and commission income

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

ii) Investment income

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

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

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

3 Significant accounting policies (continued)

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

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

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

Non-derivative financial instruments (continued)

ii) Categories of financial instruments (continued)

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

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

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

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

Pursuant to these amendments, the Group reclassified certain non-derivative financial assets out of trading assets into available-for-sale investment securities. For details on the impact of these reclassifications, see note 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 consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

iv) Fair value measurement

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 consolidated statement of other comprehensive income.

vi) Payable to Participants for unit-linked contracts

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

vii) Other financial instruments

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

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

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

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

e) Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both. Investment properties are measured at fair value with any change therein recognised in the consolidated 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 consolidated statement of income. The assets and liabilities of foreign subsidiaries and the equity of associates are translated at the rate of exchange ruling at the reporting date.

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

3 Significant accounting policies (continued)

g) Share capital

Ordinary shares

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 in consolidated statement of changes in equity.

h) Property and equipment and depreciation

Property and equipment

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

Capital work in progress

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

Subsequent expenditure

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

Depreciation

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

i) Employee terminal benefits

Defined benefit plan

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

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 consolidated 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 interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

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

(ii) Software

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

n) Income tax

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

o) Policyholders' fund

Any deficit in the policyholders' fund is financed by the shareholders through Qard Hasn as per their undertaking. The Group maintains a full provision against such balances (refer note 28).

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) Earnings per share

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

r) Operating segment

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

s) Determination of fair values

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

i) Property and equipment

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

3 Significant accounting policies (continued)

s) Determination of fair values (continued)

ii) Investments in equity and debt securities

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

iii) Trade and other receivables

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

iv) Non-derivative financial liabilities

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

t) Liability adequacy test

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

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

u) New standards and interpretations not yet effective

A number of new standards, amendments to existing standards and interpretations are not yet effective for the year ended 31 December 2011, and have not been early adopted in preparing these consolidated financial statements:

Reference	Title	Financial year beginning on or after
- IFRS 9	Financial instruments	1 January 2015
- IAS 1	(Amendments to IAS 1) Presentation of Items of other comprehensive income	1 July 2012
- IFRS 10	Consolidated financial statements	1 January 2013
- IFRS 11	Joint arrangements	1 January 2013
- IFRS 12	Disclosure of interest in other entities	1 January 2013
- IFRS 13	Fair value measurement	1 January 2013
- IAS 19	Employee benefits	1 January 2013
- IAS 27	Separate Financial Statements	1 January 2013
- IAS 28	Investments in associates and joint ventures	1 January 2013

The management anticipates that the adoption of these standards and interpretations will not have a material impact on the Groups' consolidated financial statements.

4. Risk management

This section summarises these risks and the way the Group manages them.

a) Introduction and overview

Governance framework

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

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 cedes substantial part of these risks and its net exposure on any one single event is limited to AED 18 million *(2010: AED 18 million)*.

4 Risk management (continued)

b) Takaful risk (continued)

Terms and conditions of takaful contracts

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

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

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

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

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

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

31 December 2011

	Gross contribution	Retakaful	Net contributions
	AED'000	AED'000	AED'000
Africa	342,378	(52,784)	289,594
Far East	1,411,564	(165,692)	1,245,872
Middle East	421,102	(120,133)	300,969
Other	93,029	(3,105)	89,924
Total	2,268,073	(341,714)	1,926,359

4 Risk management (continued)

b) Takaful risk (continued)

31 December 2010

	Gross	Retakaful	Net contributions
	AED'000	AED'000	AED'000
Africa	375,204	(44,410)	330,794
Far East	993,322	(146,408)	846,914
Middle East	376,499	(98,652)	277,847
Other	96,943	(2,861)	94,082
Total	1,841,968	(292,331)	1,549,637

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

31 December 2011

	Gross	**Retakaful**	**Net**
	AED'000	**AED'000**	**AED'000**
Motor	**652,971**	**(4,036)**	**648,935**
Non-motor	**1,354,250**	**(256,685)**	**1,097,565**
Health	**47,894**	**(25,576)**	**22,318**
Family takaful	**212,958**	**(55,417)**	**157,541**
Total	**2,268,073**	**(341,714)**	**1,926,359**

31 December 2010

	Gross	Retakaful	Net contributions
	AED'000	AED'000	AED'000
Motor	341,765	(3,719)	338,046
Non-motor	1,296,501	(207,762)	1,088,739
Health	39,083	(20,663)	18,420
Family takaful	164,619	(60,187)	104,432
Total	1,841,968	(292,331)	1,549,637

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 (continued)

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 (cumulative amounts)	**2007 AED'000**	**2008 AED'000**	**2009 AED'000**	**2010 AED'000**	**2011 AED'000**	**Total AED'000**
Development year 1	242,540	290,546	390,835	451,603	764,200	-
Development year 2	424,960	597,149	784,158	938,625	-	-
Development year 3	468,870	668,930	878,596	-	-	-
Development year 4	497,033	717,968	-	-	-	-
Development year 5	521,365	-	-	-	-	-
Current estimate of cumulative claims (A)	521,365	717,968	878,596	938,625	764,200	3,820,754
Cumulative payments to date (B)	(481,795)	(628,806)	(673,451)	(561,302)	(157,444)	(2,502,798)
Net (A-B)	39,570	89,162	205,145	377,323	606,756	1,317,956

Liability recognised in the consolidated statement of financial position as part of gross claim	1,317,956
Reserve in respect of years prior to 2007 part of the gross claim	74,743
Total reserve included in the consolidated statement of financial position as part of the gross claim	1,392,699

4 Risk management (continued)

b) Takaful risk (continued)

Claims development *(continued)*

Takaful claims-net						
Underwriting year	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
(cumulative amounts)	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Development year 1	122,348	218,613	319,920	388,977	473,749	
Development year 2	334,035	502,801	625,984	812,832	-	-
Development year 3	394,809	552,553	784,546	-	-	-
Development year 4	426,525	660,783	-	-	-	-
Development year 5	464,985	-	-	-	-	-
Current estimate of cumulative claims (A)	464,985	660,783	784,546	812,832	473,749	3,196,895
Cumulative payments to date (B)	(454,073)	(590,604)	(596,359)	(499,730)	(121,754)	(2,262,520)
Net (A-B)	10,912	70,179	188,187	313,102	351,995	934,375

Liability recognised in the consolidated statement of financial position as part of net claim	934,375
Reserve in respect of years prior to 2007 part of the net claim	(19,364)
Total reserve included in the consolidated statement of financial position as part of the net claim	915,011

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 2011

		Impact on gross liabilities	***Impact on net profit**
		AED'000	**AED'000**
Current claims	**+10%**	**+139,270**	**+91,501**
	+10%	**-139,270**	**-91,501**

31 December 2010

		Impact on gross liabilities	*Impact on net profit
		AED'000	AED'000
Current claims	+10%	+112,017	+90,241
	-10%	-112,017	-90,241

* 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 companies that are rated by international rating agencies or other GCC companies.

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

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

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

ii) Liquidity risk

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

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

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes *(continued)*

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 notices were to be given immediately.

31 December 2011	**Carrying value**	**Total**	**Less than 180 days**	**180 days to 1 year**	**1-5 year**	**Over 5 year**	**No stated maturity**
				Contractual cash flows			
				AED '000			
Outstanding claims reserve	**1,392,699**	**(1,392,699)**	**(1,136,781)**	**(255,918)**	**-**	**-**	**-**
Takaful balance payable	**240,062**	**(240,062)**	**(86,500)**	**(109,499)**	**(43,707)**	**(356)**	**-**
Payable to Participants for unit-linked contracts	**474,533**	**(474,533)**	**-**	**-**	**-**	**-**	**(474,533)**
Other payables	**124,882**	**(124,882)**	**(66,210)**	**(30,424)**	**(91)**	**-**	**(28,157)**
Amount due to related parties	**867**	**(867)**	**(697)**	**(133)**	**-**	**-**	**(37)**
Bank finances	**160,186**	**(368,783)**	**(7,186)**	**(7,186)**	**(57,539)**	**(291,691)**	**(5,181)**
Total liabilities	**2,393,229**	**(2,601,826)**	**(1,297,374)**	**(403,160)**	**(101,337)**	**(292,047)**	**(507,908)**

31 December 2010	Carrying value	Total	Less than 180 days	180 days to 1 year	1-5 year	Over 5 year	No stated maturity
				Contractual cash flows			
				AED '000			
Outstanding claims reserve	952,945	(952,945)	(618,091)	(334,854)	-	-	-
Takaful balance payable	122,352	(122,352)	(49,979)	(12,098)	(60,275)	-	-
Payable to Participants for unit-linked contracts	159,932	(159,932)	-	-	-	-	159,932
Other payables	158,072	(158,078)	(71,385)	(36,465)	(17,351)	(3,775)	(29,102)
Amount due to related parties	311	(311)	-	(285)	-	-	(26)
Bank finances	213,682	(418,376)	(9,569)	(59,632)	(57,389)	(291,786)	-
Total liabilities	1,607,294	(1,811,994)	(749,024)	(443,334)	(135,015)	(295,561)	130,804

4 Risk management (continued)

c) Financial risks (continued)

iii) Market risk

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

(a) Currency risk

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

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

31 December 2011	**Financial assets**	**Financial liabilities**	**Net**
Currency	**AED'000**	**AED'000**	**AED'000**
EURO	**117,287**	**(172,930)**	**(55,643)**
US$	**693,169**	**(486,532)**	**206,637**
EGP	**96,629**	**(85,560)**	**11,069**
TND	**24,273**	**(27,559)**	**(3,286)**
CFA	**75,715**	**(52,129)**	**23,586**
DZD	**199,438**	**(93,959)**	**105,479**
Others	**855,892**	**(465,951)**	**389,941**

31 December 2010	Financial assets	Financial liabilities	Net
Currency	AED'000	AED'000	AED'000
EURO	124,294	(162,273)	(37,979)
US$	1,647,869	(564,546)	1,083,323
EGP	137,676	(59,597)	78,079
TND	4,779	(23,622)	(18,843)
CFA	57,616	(58,463)	(847)
DZD	212,806	(88,245)	124,561
Others	617,906	(446,575)	171,331

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes *(continued)*

4 **Risk management** (continued)

c) **Financial risks** (continued)

iii) Market risk (continued)

(a) Currency risk (continued)

Sensitivities

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

31 December 2011	**Change in exchange rates**	**Impact on consolidated net profit AED'000**	**Impact on consolidated statement of other comprehensive income AED'000**
Financial assets	**+10%**	**+109,769**	-
	-10%	**-109,769**	-
Financial liabilities	**+10%**	**+83,561**	-
	-10%	**-83,561**	-

31 December 2010	Change in exchange rates	Impact on consolidated net profit AED'000	Impact on consolidated statement of other comprehensive income AED'000
Financial assets	+10%	+198,872	-
	-10%	-198,872	-
Financial liabilities	+10%	+87,035	-
	-10%	-87,035	-

(b) Profit rate risk

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

An increase of 100 basis points at the reporting date would have decreased the net assets and the profit of the Group by AED 6,734 (*2010: AED 7,193*), the decrease of 100 basis points will result in equal but opposite effect.

(c) Equity price risk

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

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

4 Risk management (continued)

c) Financial risks (continued)

iii) Market risk (continued)

(c) Equity price risk (continued)

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

Sensitivities

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

31 December 2011

Change in equity prices	Impact on net profit AED'000	Impact on other comprehensive income AED'000
+10%	**+2,338**	**+28,113**
-10%	**-2,338**	**-28,113**

31 December 2010

Change in equity prices	Impact on net profit AED'000	Impact on other comprehensive income AED'000
+10%	+3,083	+25,825
-10%	-3,083	-25,825

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 the year *(2010: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.

Notes (*continued*)

6 Allocation of the net profit

	For the year ended 31 December 2011				For the year ended 31December 2010			
	Shareholders AED'000	Policyholders AED'000	Non-controlling interest AED'000	Total AED'000	Shareholders AED'000	Policyholders AED'000	Non - controlling interest AED'000	Total AED'000
Net underwriting income								
Total net underwriting income	-	221,618	-	221,618	-	222,303	-	222,303
Income								
Wakalah share (note 7)	69,636	(69,636)	-	-	53,248	(53,248)	-	-
Mudarib share (note 7)	88	(88)	-	-	127	(127)	-	-
Net technieal charges from/to shareholders to poliyholders	1,614	(1,614)	-	-	(6,573)	6,573	-	-
Net underwriting income from subsidiaries	137,182	(137,182)	-	-	172,054	(172,054)	-	-
Income from investment (note 8)	40,429	736	-	41,165	23,605	13,468	-	37,073
Other income	26,073	345	-	26,418	20,465	441	-	20,906
	275,022	14,179	-	289,201	262,926	17,356	-	280,282
Expenses								
General, administrative and other expenses	(192,427)	-	-	(192,427)	(176,322)	-	-	(176,322)
Financial expenses	(16,713)	-	-	(16,713)	(21,616)	-	-	(21,616)
Net profit before tax for the year	65,882	14,179	-	80,061	64,988	17,356	-	82,344
Tax – current	(6,860)	-	-	(6,860)	(8,659)	-	-	(8,659)
Net profit after tax for the year	59,022	14,179	-	73,201	56,329	17,356	-	73,685
Share of non-controlling interest	(368)	-	368	-	(5,475)	-	5,475	-
Opening balanee of policyholders' (deficit)/surplus	1,017	(1,017)	-	-	-	2,126	-	2,126
Surplus distribution for family takaful policyholders	-	(12,441)	-	(12,441)	-	(20,499)	-	(20,499)
Chargeback of (funding)/chargeback of fund provided (note 28)	-	(721)	-	(721)	(1,017)	1,017	-	-
Net profit for the year	59,671	-	368	60,039	49,837	-	5,475	55,312

7 Wakalah and Mudarib Share

The shareholders manage the takaful operations of the Group for the policyholders and charge 15% *(2010: 15%)* of gross written contributions of non family takaful business (excluding subsidiaries) as share. For family takaful business, sharing ratio is 15% (*2010:15%*) of mortality costs.

The shareholders of the Group also manage the policyholders' investment funds other than family takaful and subsidiaries and charge 15%*(2010: 15%)* of investment income earned by the policyholders as Mudarib share.

8 Income from investments

	For the year ended 31 December 2011		
		Restated	
	Shareholders	Policyholders	Total
	AED'000	AED'000	AED'000
Ineome from investments in Mudaraba and IPO fund	21,907	-	21,907
Realised profit on sale of investments	586	-	586
Unrealised profit on investments	(18,608)	-	(18,608)
Unrealised gain on investments properties	373	-	373
Income on Sukuk and other held to maturity investments	12,572	-	12,572
Income from bank deposits and loans and receivables	14,973	736	15,709
Dividend income	914	-	914
Share of profit from associates	1,244	-	1,244
Rental income (note 13)	6,468	-	6,468
	40,429	736	41,165

	For the year ended 31 December 2010		
		Restated	
	Shareholders	Policyholders	Total
	AED'000	AED'000	AED'000
Income from investments in Mudaraba and IPO fund	7,202	-	7,202
Realised profit on sale of investments	3,216	(147)	3,069
Unrealised loss on investments	(12,909)	12,443	(466)
Unrealised loss on investments properties	(285)	(330)	(615)
Income on Sukuk and other held to maturity investments	15,566	-	15,566
Income from bank deposits and loans and receivables	6,133	1,089	7,222
Dividend income	2,313	-	2,313
Share of profit from associates	2,014	-	2,014
Rental income (note 13)	355	413	768
	23,605	13,468	37,073

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

9 General administrative and other expenses

These include:

	For the year ended 31 December	
	2011	2010
	AED'000	AED'000
Staff costs	82,745	71,937
Rent, rates and service charges	8,180	6,924
Utilities	231	1,263
Travelling and conveyance	3,591	980
Printing and stationery	3,860	3,574
Licenses and other government expenses	1,676	3,018
Depreciation	5,675	5,955
Amortisation	1,578	3,567
Marketing and advertising	4,434	5,212
Legal and professional fees	14,234	9,644

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 consolidated statement of financial position are as follows:

	2011	2010
	AED'000	AED'000
Balance at 1 January	**23,636**	25,417
Provided during the year	**3,898**	3,522
Utilised during the year	**(24,956)**	(5,303)
Balance at 31 December (included in other payables and accruals) (note 25)	**2,578**	23,636

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes *(continued)*

11 Property and equipments

	Land	Building	Furniture & fixtures	Computer	Motor Vehicles	Capital work in progress	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cost							
At 1 January 2010	17,063	45,885	21,359	9,591	3,465	403	97,766
Additions	-	199	2,894	1,062	755	2,788	7,698
Disposals	-	(816)	(316)	(271)	(140)	(404)	(1,947)
Reclassification	-	(207)	(278)	589	-	(104)	-
Transfer	(93)	93	-	-	-	-	-
At 31 December 2010	16,970	45,154	23,659	10,971	4,080	2,683	103,517
At 1 January 2011	**16,970**	**45,154**	**23,659**	**10,971**	**4,080**	**2,683**	**103,517**
Additions	**5,836**	**49,900**	**3,116**	**1,447**	**872**	**11,079**	**72,250**
Disposals	**(6,008)**	**(13,030)**	**(3,399)**	**(1,237)**	**(1,757)**	**(12,386)**	**(37,817)**
Reclassification	-	-	-	-	-	-	-
Transfer	-	-	-	-	-	-	-
At 31 December 2011	**16,798**	**82,024**	**23,376**	**11,181**	**3,195**	**1,376**	**137,950**
Depreciation							
At 1 January 2010	-	4,266	11,470	8,221	2,059	-	26,016
Charge for the year	-	1,800	2,407	1,171	577	-	5,955
On disposals	-	-	-	(35)	(236)	-	(271)
Reclassification	-	-	(421)	421	-	-	-
At 31 December 2010	-	6,066	13,456	9,778	2,400	-	31,700
At 1 January 2011	-	**6,066**	**13,456**	**9,778**	**2,400**	-	**31,700**
Charge for the year	-	**1,810**	**2,280**	**1,124**	**461**	-	**5,675**
On disposals	-	**(1,791)**	**(2,150)**	**(1,694)**	**(817)**	-	**(6,452)**
Reclassification	-	-	-	-	-	-	-
At 31 December 2011	-	**6,085**	**13,586**	**9,208**	**2,044**	-	**30,923**
Net book value							
At 31 December 2011	**16,798**	**75,939**	**9,790**	**1,973**	**1,151**	**1,376**	**107,027**
At 31 December 2010	16,970	39,088	10,203	1,193	1,680	2,683	71,817

Net book value of AED 17.4 million relates to the subsidiary disposed off during the year (refer note 38).

12 Intangible assets

	2011 AED'000	2010 AED'000
Cost		
Balance at 1 January	**14,850**	13,813
Additions during the year	**5,527**	1,037
Disposals	**(3,334)**	-
Balance at 31 December	**17,043**	14,850
Accumulated amortisation		
Balance at 1 January	**9,646**	6,079
Charge for the year	**1,578**	3,567
Disposals	**(643)**	-
Balance at 31 December	**10,581**	9,646
Net book value at 31 December	6,462	5,204

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

13 Investment properties

Investment properties comprise of land and building acquired by the Group in UAE in 1997, and in Kingdom of Saudi Arabia (KSA) in 2006 and 2011. The value of investment properties, as determined by independent valuer as at 31 December 2011, is AED 13 million *(2010: AED 13 million)* and AED 262 million *(2010 : AED 70 million)* for properties in UAE and KSA respectively.

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

The rental income of UAE properties amount to AED 6.4 million in 2011 *(2010: AED 0.7 million)*, there is no direct related expenses in respect of investment property.
The investments made in KSA are jointly owned by the Group with Saudi Arabia local partners. The lands are owned by the Group through a nominee agreement for and on behalf of the Group.

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

	2011 AED'000	2010 AED'000
Movement in Investment properties		
Balance at 1 January	**83,129**	83,744
Acquired during the year	**196,132**	-
Disposal during the year	**(4,901)**	-
Fair value gain/(loss) (note 8)	**373**	(615)
Balance at 31 December	**274,733**	83,129

14 Investment in associates

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

	Ownership		Country of	2011	2010
Associates	**2011**	2010	**incorporation**	**AED'000**	AED'000
GEPAR	**20.00%**	20.00%	Tunisia	**925**	308
Saudi IAIC Cooperative Insurance Co. (Saudi IAIC)	**30.00%**	30.00%	KSA	**29,257**	28,590
Best Invest	**36.11%**	36.11%	Tunisia	**-**	1,012
Islamic Insurance Jordan	**20%**	20%	Jordan	**27,381**	27,421
				57,563	57,331

Movements during the year	**2011**	2010
	AED'000	AED'000
Balance at 1 January	**57,331**	27,981
Purchases	**925**	3,043
Disposal of associates	**(1,320)**	-
Share of profit in associates (note 8)	**1,244**	2,014
Reclassification	**-**	24,364
Change in reserve	**(617)**	(71)
Balance at 31 December	**57,563**	57,331

Summarised financial information of the major associates is as under:

	2011	2010
	AED'000	AED'000
Total assets	**357,783**	251,858
Total liabilities	**(209,599)**	(171,080)
Revenue	**265,713**	135,425
Surplus	**6,974**	9,350

15 Statutory deposits

Company	**2011**	2010
	AED'000	AED'000
Salama	**10,000**	10,000
Tariic	**195**	195
Egypt Saudi Insurance Home	**63,262**	43,645
Salama Senegal	**5,600**	5,715
Best Re Holding	**751**	731
	79,808	60,286

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 2011			31 December 2010		
	Domestic investments	**International investments**	**Total**	Domestic investments	International investments	Total
	AED'000	**AED'000**	**AED'000**	AED'000	AED'000	AED'000
Financial asset at fair value through profit or loss						
Mutual fund and externally managed portfolios (refer note 16.1)	**-**	**19,768**	**19,768**	-	7,659	7,659
Shares and securities	**3,610**	**-**	**3,610**	4,658	18,511	23,169
	3,610	**19,768**	**23,378**	4,658	26,170	30,828
Available-for-sale investments						
Mutual fund and externally managed portfolio	**-**	**278,409**	**278,409**	-	252,601	252,601
Shares and Securities	**2,627**	**95**	**2,722**	4,705	945	5,650
	2,627	**278,504**	**281,131**	4,705	253,546	258,251
Islamic placements *	**-**	**477,641**	**477,641**	-	685,956	685,956
Held to maturity						
SUKUK and Government bonds	**-**	**195,722**	**195,722**	-	247,034	247,034
Total investments	**6,237**	**971,635**	**977,872**	9,363	1,212,706	1,222,069

*Represent Sharia'h compliant placements with different financial institutions having profit rates of 0.22% to 4.75% *(2010: 0.22% to 4.75%)* and maturing in more than 3 months when acquired.

16.1 Participants' investments in unit-linked contracts

	2011	2010
	AED'000	AED'000
Financial asset at fair value through profit or loss	**489,956**	166,847

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 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 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
31 December 2011				
Fair value through profit and loss				
Mutual fund	**19,261**	**507**	**-**	**19,768**
Participants' investments in unit-linked contracts	**-**	**489,956**	**-**	**489,956**
Shares and securities	**3,610**	**-**	**-**	**3,610**
	22,871	**490,463**	**-**	**513,334**
Available for sale				
Mutual fund	**-**	**278,409**	**-**	**278,409**
Shares and securities	**2,627**	**95**	**-**	**2,722**
	2,627	**278,504**	**-**	**281,131**
31 December 2010 (Restated)				
Fair value through profit and loss				
Mutual fund	2,863	4,796	-	7,659
Participants' investments in unit-linked contracts	-	166,847	-	166,847
Shares and securities	23,169	-	-	23,169
	26,032	171,643	-	197,675
Available for sale				
Mutual fund	-	252,601	-	252,601
Shares and securities	4,705	96	849	5,650
	4,705	252,697	849	258,251

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

	2011 AED'000	2010 AED'000
Balance at 1 January	**849**	452
Purchases/classified as Level 3	**-**	424
Sales	**(849)**	(27)
Balance at 31 December	**-**	849

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.

16 Investments (continued)

Reclassification of investments (continued)

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 2011 included in available-for-sale investments amounts to AED 2.6 million *(2010: AED 4.7 million)*.

	Consolidated statement of income		Consolidated statement of other comprehensive	
	2011	2010	**2011**	2010
	AED '000	AED '000	**AED '000**	AED '000
Period before reclassification				
Unrealised fair value gain recognised in consolidated statement of income	-	-	-	6,972
Period after reclassification				
Unrealised fair value (loss)/gain recognised on available-for-sale revaluation reserve	-	(9,250)	-	-
Impairment loss		-		-

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

	2011	2010
	AED'000	AED'000
Contributions deposits	**177,372**	124,070
Claim deposits	**92,049**	199,447
	269,421	323,517

Contribution deposits with takaful companies primarily pertain to Best Re amounting to AED 174 million *(2010: AED 120 million)*. Claim deposits also pertain mainly to Best Re amounting to AED 89 million *(2010: AED 196 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

	2011 AED'000	2010 AED'000
Takaful contributions receivables	**830,315**	645,460
Due from takaful and retakaful companies	**291,009**	192,255
	1,121,324	837,715
Provision for impairment losses		
Takaful contributions receivables	**(6,289)**	(5,202)
Due from takaful and retakaful companies	**(12,467)**	(6,650)
	1,102,568	825,863

Aging of contributions and takaful balance receivables

	2011	
	Gross amount AED'000	**Impairment AED'000**
Not Past due	**12,100**	-
Past due over 0 to 60 days	**667,662**	-
Past due over 60 to 120 days	**30,172**	**(248)**
Past due over 120 to 180 days	**17,279**	-
Past due over 180 days to 1 year	**189,718**	**(2,036)**
Over 1 year	**204,393**	**(16,472)**
Total contributions and takaful balance receivables	**1,121,324**	**(18,756)**
Net contributions and takaful balance receivables	**1,102,568**	

Aging of contributions and takaful balance receivables

	2010	
	Gross amount AED'000	Impairment AED'000
Not past due	548,900	-
Past due over 0 to 60 days	43,274	-
Past due over 60 to 120 days	74,146	(280)
Past due over 120 to 180 days	48,448	-
Past due over 180 days to 1 year	49,186	-
Over 1 year	73,761	(11,572)
Total contributions and takaful balance receivables	837,715	(11,852)
Net contributions and takaful balance receivables	825,863	

19 Other assets and receivables

	2011	2010
	AED'000	AED'000
Receivable against funds transferred for investment	**-**	9,940
Operating advances	**-**	2,871
Utility, security and other deposits	**1,095**	3,696
Due from employees	**5,023**	5,562
Due from brokers	**3,554**	6,535
Other prepayments	**9,283**	4,029
Advance taxes paid	**2,427**	136
Advances for property purchase	**-**	66,306
Income receivable on investments	**49,175**	49,646
Advance commission against family takaful	**-**	5,169
Deferred commission	**27,722**	21,314
Others	**31,809**	9,849
	130,088	185,053

20 Cash and bank balances

	2011	2010
	AED'000	AED'000
Cash in hand	**60**	118
Cash at bank	**94,972**	62,957
Term deposits	**339,688**	146,135
	434,720	209,210

Cash and bank balances - by geographical distribution

	2011	2010
	AED'000	AED'000
Domestic	**67,453**	67,529
International	**367,267**	141,681
	434,720	209,210

21 Outstanding claims and family takaful reserve

	2011 AED'000	2010 AED'000
Reserve for outstanding claims	**1,007,275**	723,359
Reserve for incurred but not reported claims	**385,424**	229,586
	1,392,699	952,945
Less: Retakaful share of outstanding claims	**(477,688)**	(217,759)
	915,011	735,186

Movements in outstanding claims reserve and family takaful reserve

	2011			
	Gross AED'000	**Retakaful AED'000**	**Adjustment AED'000**	**Net AED'000**
Balance at 1 January	**952,945**	**(217,759)**	-	**735,186**
Foreign exchange differences	-	-	**454**	**454**
Net movement during the year	**439,754**	**(259,929)**	**(454)**	**179,371**
Balance at 31 December	**1,392,699**	**(477,688)**	-	**915,011**

	2010			
	Gross AED'000	Retakaful AED'000	Adjustment AED'000	Net AED'000
Balance at 1 January	790,020	(130,352)	-	659,668
Foreign exchange differences	-	-	(7,620)	(7,620)
Net movement during the year	162,925	(87,407)	7,620	83,138
Balance at 31 December	952,945	(217,759)	-	735,186

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)

Process used to determine the assumptions (continued)

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

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

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

Assumptions and sensitivities to changes in key variables

The assumptions that have the greatest effect on the measurement of takaful contract provisions are the expected loss ratios for the most recent accident years for accident and liabilities. These are used for assessing the IBNR for the 2010 and 2011 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:

	2011			
	Gross	**Retakaful**	**Adjustment**	**Net**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Balance at 1 January	**499,879**	**(52,143)**	**-**	**447,736**
Foreign exchange differences	**-**	**-**	**(1,726)**	**(1,726)**
Provision made during the year	**659,172**	**(69,427)**	**1,726**	**591,471**
Provision released during the year	**(499,879)**	**52,143**	**-**	**(447,736)**
Balance at 31 December	**659,172**	**(69,427)**	**-**	**589,745**

	2010			
	Gross	Retakaful	Adjustment	Net
	AED'000	AED'000	AED'000	AED'000
Balance at 1 January	402,569	(81,161)	-	321,408
Foreign exchange differences	-	-	(666)	(666)
Provision made during the year	499,879	(52,143)	666	448,402
Provision released during the year	(402,569)	81,161	-	(321,408)
Balance at 31 December	499,879	(52,143)	-	447,736

23 Takaful balances payable

	2011	2010
	AED'000	AED'000
Takaful companies	**81,103**	23,670
Customers and others	**153,494**	33,672
Retakaful companies	**5,465**	65,010
	240,062	122,352

24 Payable to Participants for unit-linked contracts

	2011	2010
	AED'000	AED'000
Balance at 1 January	**159,932**	14,639
Amounts invested by Participants	**457,836**	163,218
Refund during the year	**(8,436)**	(1,147)
Net movement including redemption in fund	**(104,837)**	(7,062)
	504,495	169,648
Deferred acquisition cost	**(29,962)**	(9,716)
	474,533	159,932

25 Other payables and accruals

	2011	2010
	AED'000	AED'000
Payable to garages and brokers	**19,034**	24,774
Provision for charitable donations (note 10)	**2,578**	23,636
Payable to suppliers	**13,635**	3,843
Staff related accruals	**13,265**	21,940
Post dated cheques	**1,208**	1,921
Accrued expenses	**2,988**	4,742
Surplus share payable to policyholders	**-**	21,334
Other provisions	**2,616**	11,831
Taxes payable	**19,301**	16,691
Other payables	**50,257**	27,360
	124,882	158,072

26 Bank finances

	2011	2010
	AED'000	AED'000
Long-term portion	**155,088**	163,026
Short-term portion	**5,098**	50,656
	160,186	213,682

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

27 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.

	For the year ended 31 December	
	2011	2010
	AED'000	AED'000
General and administrative expenses	**1,869**	1,579
Retakaful on contributions	**3,921**	3,340
Retakaful on claims	**164**	1,153

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

Amounts due from related parties	**2011**	2010
	AED'000	AED'000
Bin Zayed Group	**11,128**	11,128
IAIC Bahrain	**21**	130
Saudi IAIC Cooperative Insurance Co.	**-**	120
Other entities under common management with the Group	**1,428**	902
	12,577	12,280
Amounts due to related parties		
IAIC Bahrain-current account	**7**	-
Other entities under common management with the Group	**860**	311
	867	311
Compensation of key management personnel		
Short term benefits	**7,310**	8,770
Employees end of service benefits	**340**	900
	7,650	9,670

28 Policyholders' fund

	2011	2010
	AED'000	AED'000
Balance at 1 January	**(1,017)**	2,126
Reversal of cost charged to family takaful policyholders for prior years	**-**	-
Net surplus attributable to policyholders for the year (note 6)	**14,179**	17,356
Proposed surplus distribution to policyholders of family takaful	**(12,441)**	(20,499)
	721	(1,017)
Financed by shareholders'	**-**	1017
	721	-

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

29 Share capital

	2011	2010
	AED'000	AED'000
Authorised, issued and fully paid up capital		
1,210,000,000 shares of AED 1 each *(2010: 1,100,000,000 shares of AED 1)*	**1,210,000**	1,100,000

30 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.

31 Revaluation reserve

The Group's share of deficit on revaluation amounting to AED 7.82 million *(2010 deficit: AED 0.75 million)* on land and building during the year has been credited to a non distributable reserve (refer note 2 and 11).

32 Treasury shares

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

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

33 Earnings per share

The calculation of earnings per share for the year ended 31 December 2011 is based on earnings of AED 59.67 million (2010: AED 49.84 million) divided by the weighted average number of shares of 1,188 million (2010: 1,188 million) outstanding during the year after taking into account the treasury shares held. There is no dilutive effect on basic earnings per share. Earnings per share has been adjusted for the impact of change in accounting policy as stated in note 3(q).

34 Taxation - current

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

35 Contingent liabilities and capital commitments

	2011	2010
	AED'000	AED'000
Letters of guarantee	**11,459**	11,470

Statutory deposits of AED 6.48 million *(2010: AED 6.96 million)* are held as lien by the bank against the above guarantees.

35 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 2011 *(2010: nil)*.

36 Operating lease commitments

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

	2011	2010
	AED'000	AED'000
Less than one year	**1,904**	2,081
Between one to five years	**1,157**	2666
	3,061	4,747

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

	2011	2010
	AED'000	AED'000
Less than one year	**13**	13
Between one to five years	**-**	-
	13	13

37 Operating segment

By business

(for the year ended 31 December 2011)

	Non -motor	**Motor**	**Health**	**Family takaful**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Gross written contributions	1,354,250	652,971	47,894	212,958	2,268,073
Contributions earned	1,040,949	589,310	23,064	129,301	1,782,624
Commissions received on ceded reinsuranee and retakaful	45,047	224	924	5,470	51,665
	1,085,996	589,534	23,988	134,771	1,834,289
Claims incurred	(612,567)	(375,491)	(13,030)	(55,773)	(1,056,861)
Commissions paid and other eosts	(380,212)	(149,427)	(5,379)	(20,792)	(555,810)
Net underwriting income	**93,217**	**64,616**	**5,579**	**58,206**	**221,618**
Investment and other income					**67,583**
Unallocated expenses and tax					**(229,162)**
Net profit after tax					**60,039**

(for the year ended 31 December 2010)

				(Restated)	(Restated)
	Non-motor	Motor	Health	Family takaful	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Gross written contributions	1,296,501	341,765	39,083	164,619	1,841,968
Contributions earned	1,021,026	296,534	13,300	91,783	1,422,643
Commissions received on ceded reinsurance and retakaful	38,963	153	1,047	14,101	54,264
	1,059,989	296,687	14,347	105,884	1,476,907
Claims ineurred	(522,830)	(206,040)	(11,415)	(53,099)	(793,384)
Commissions paid and other costs	(388,698)	(50,941)	(4,952)	(16,629)	(461,220)
Net underwriting income	148,461	39,706	(2,020)	36,156	222,303
Investment and other income					57,979
Unallocated expenses and tax					(224,970)
Net profit after tax					55,312

37 Operating segment (continued)

By Geography

(for the year ended 31 December 2011)

	Africa	**Far East**	**Middle East**	**Turkey and Central Asia**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Gross written contributions	342,378	1,411,564	421,102	93,029	2,268,073
Contributions earned	271,280	1,136,625	296,052	78,667	1,782,624
Commissions received on ceded reinsurance and retakaful	14,017	22,904	14,744	-	51,665
	285,297	1,159,529	310,796	78,667	1,834,289
Claims incurred	(163,676)	(687,184)	(169,163)	(36,838)	(1,056,861)
Commissions paid and other cost	(58,064)	(410,764)	(60,558)	(26,424)	(555,810)
Net underwriting income	**63,557**	**61,581**	**81,075**	**15,405**	**221,618**
Investment and other income					**67,583**
Unallocated expenses and tax					**(229,162)**
Net profit after tax					**60,039**

By Geography

(for the year ended 31 December 2010)

	Africa	Far East	(Restated) Middle East	Turkey and Central Asia	(Restated) Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Gross written contributions	375,204	993,322	376,500	96,942	1,841,968
Contributions earned	307,923	775,333	258,853	80,534	1,422,643
Commissions received on ceded reinsurance and retakaful	11,988	20,192	22,084	-	54,264
	319,911	795,525	280,937	80,534	1,476,907
Claims incurred	(156,115)	(447,095)	(158,351)	(31,823)	(793,384)
Commissions paid and other cost	(68,361)	(304,769)	(61,454)	(26,636)	(461,220)
Net underwriting income	95,435	43,661	61,132	22,075	222,303
Investment and other income					57,979
Unallocated expenses and Tax					(224,970)
Net profit after tax					55,312

38 Disposal of subsidiary

During the year, as a part of internal restructuring Tariic transferred its entire stake in Best Re- Tunis to Salama. Further, Salama disposed off Group's entire stake in Best Re to a third party.

Further, as a part of Group's internal restructuring business activities of Best Re - Tunis has been allocated to Best Re Holdings Company, therefore impact of cash flows attributable to the operating activities of Best Re - Tunis is not material to the consolidated financial statements of the Group.

	2011	2010
	AED'000	AED'000
Results of the subsidiary disposed off		
- Gross Contribution	-	826,475
- Underwriting expenses	-	(747,675)
- Net underwriting profits	-	78,800
(Loss)/profit for the year	(4,008)	12,690

The impact on EPS of the disposal, will not be matarial for the consolidated financial statements.

	2011
	AED'000
Effect of disposal on the financial position of the group	
Non-current assets	
- Property and equipment	17,445
- Intangible assets	2,510
- Investments in associates	1,320
	21,275
Current assets	
- Investments	2,075
- Amounts due from related parties	461,732
- Other assets	143,802
- Islamic Placements	7,340
- Cash in hand and at bank	139
	615,088
Total assets	636,363
Current liabilities	
- Other payables and accruals	33,461
- Bank Loan - short term portion	612
- Amounts due to related parties	140,885
	174,958
Non - current liabilities	
- Bank Loan - long term portion	4,938
Net assets	456,467
Consideration, settled through payables	456,467
Cash and cash equivalent disposed off	(139)
Net cash outflows	(139)