

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Directors' report and consolidated financial statements  
*for the year ended 31 December 2009*

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

## Directors' report and consolidated financial statements *for the year ended 31 December 2009*

| <i>Contents</i>                                           | <i>Page</i> |
|-----------------------------------------------------------|-------------|
| Directors' report                                         | 1-2         |
| Independent auditor's report                              | 3           |
| Consolidated statement of income                          | 4           |
| Consolidated statement of comprehensive income            | 5           |
| Consolidated statement of financial position              | 6           |
| Consolidated statement of cash flows                      | 7           |
| Consolidated statement of changes in shareholders' equity | 8-9         |
| Notes                                                     | 10-61       |

Dear Shareholders,

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

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

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

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

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

1

Last year start-up of Individual Family Takaful solutions in UAE has increased its momentum tremendously in year 2009. The range of products is of international standards, market response to these products has been excellent and in very short span of time SALAMA has been able to create its own identity in the Individual Family Takaful market.

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

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

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

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

  
Board of Directors

30 MAR 2010



P O Box 3800  
Level 32, Emirates Towers  
Sheikh Zayed Road  
Dubai  
United Arab Emirates

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

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

### **Independent auditor's report**

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

### **Management's responsibility for the consolidated financial statements**

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

### **Auditor's responsibility**

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

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

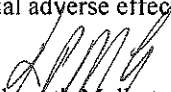
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the relevant Articles of the Company and the UAE Federal Law No. 8 of 1984 (as amended) concerning commercial companies and Federal law No. 9 of 1984 (as amended) concerning insurance companies and agents.

### **Report on other legal and regulatory requirements**

As required by the Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit, that proper financial records have been kept by the Group and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Group's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2009, which may have had a material adverse effect on the business of the Group or its consolidated financial position.

  
Vijendranath Malhotra  
Registration No : 48B

30 MAR 2010

3

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

## Consolidated statement of income

for the year ended 31 December

|                                                                                   | Note | 2009<br>AED'000 | 2008<br>AED'000 |
|-----------------------------------------------------------------------------------|------|-----------------|-----------------|
| <b>UNDERWRITING RESULTS</b>                                                       |      |                 |                 |
| <b>Underwriting income</b>                                                        |      |                 |                 |
| Gross written contributions                                                       | 36   | 1,573,098       | 1,325,149       |
| Less: reinsurance and retakaful contributions ceded                               |      | (286,520)       | (222,736)       |
| Net contributions                                                                 |      | 1,286,578       | 1,102,413       |
| Net movement in unearned contributions                                            |      | (145,378)       | (54,153)        |
| Contributions earned                                                              |      | 1,141,200       | 1,048,260       |
| Commission received on ceded reinsurance and retakaful                            |      | 57,918          | 42,072          |
|                                                                                   |      | 1,199,118       | 1,090,332       |
| <b>Underwriting expenses</b>                                                      |      |                 |                 |
| Gross claims paid                                                                 |      | 610,115         | 511,399         |
| Less: reinsurance and retakaful share of claims paid                              |      | (65,182)        | (60,449)        |
| Net claims paid                                                                   |      | 544,933         | 450,950         |
| Net movement in outstanding claims and technical reserve family                   |      | 94,693          | 168,621         |
| Claims incurred                                                                   |      | 639,626         | 619,571         |
| Commission paid and other costs                                                   |      | 376,309         | 308,045         |
|                                                                                   |      | 1,015,935       | 927,616         |
| <b>Net underwriting income</b>                                                    | 36   | 183,183         | 162,716         |
| <b>Income</b>                                                                     |      |                 |                 |
| Income/(loss) on investments                                                      | 8    | 52,115          | (22,814)        |
| Other income                                                                      |      | 28,092          | 13,586          |
|                                                                                   |      | 263,390         | 153,488         |
| <b>Expenses</b>                                                                   |      |                 |                 |
| General and administrative expenses                                               | 9    | (108,686)       | (124,046)       |
| Financial expenses                                                                |      | (34,920)        | (26,606)        |
| Provision for charitable donations                                                | 10   | (3,465)         | (3,282)         |
| <b>Net profit/(loss) before tax for the year</b>                                  |      | 116,319         | (446)           |
| <b>Tax - current</b>                                                              | 33   | (5,357)         | (3,646)         |
| <b>Net profit/(loss) after tax for the year</b>                                   |      |                 |                 |
| <b>before policyholders' distribution</b>                                         |      | 110,962         | (4,092)         |
| Distribution to policyholders of holding company                                  |      | (12,579)        | (4,087)         |
| Surplus attributable to policyholders of holding company                          |      | (2,126)         | -               |
| <b>Net profit/(loss) after tax and distribution to policyholders for the year</b> |      | 96,257          | (8,179)         |
| <b>Earnings per share (AED)</b>                                                   | 32   | 0.114           | (0.008)         |
| <b>Attributable to:</b>                                                           |      |                 |                 |
| Shareholders                                                                      |      | 91,281          | (10,400)        |
| Non-controlling interest                                                          |      | 4,976           | 2,221           |
|                                                                                   |      | 96,257          | (8,179)         |

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

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

**Islamic Arab Insurance Co. (Salama) and its subsidiaries**  
**Consolidated statement of comprehensive income**  
*for the year ended 31 December*

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

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

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

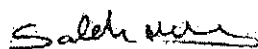
## Consolidated statement of financial position

as at 31 December

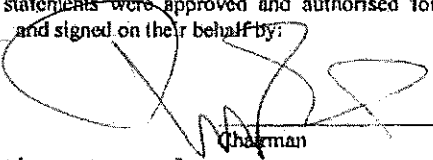
|                                                            | Note | 2009<br>AED'000  | 2008<br>AED'000  |
|------------------------------------------------------------|------|------------------|------------------|
| <b>ASSETS</b>                                              |      |               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

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

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



Vice Chairman & CEO

  
Chairman

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

30 MAR 2010



# Islamic Arab Insurance Co. (Salama) and its subsidiaries

## Consolidated statement of cash flows

for the year ended 31 December

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

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

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

## Consolidated statement of changes in equity for the year ended 31 December 2009

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

## Consolidated statement of changes in equity (continued)

for the year ended 31 December 2009

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

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

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

## Notes

(forming part of the consolidated financial statements)

### 1. Legal status and activities

Islamic Arab Insurance Co. (Salama) ("the Company") is a public shareholding company, registered in the Emirate of Dubai, United Arab Emirates (UAE) and operates through various branches in the UAE. The registered office of the Company is P O Box 10214, Dubai, United Arab Emirates. The principal activity of the Company is the writing of all classes of general takaful and family takaful business (started 2006), in accordance with Islamic Shari'a principles and in accordance with UAE Federal Law no. 9 of 1984 (as amended) relating to insurance companies and insurance agents.

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

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

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

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

### 2 Basis of preparation

#### a) Statement of compliance

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (*continued*)

## **2 Basis of preparation (continued)**

### **b) Basis of measurement**

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

- i) financial instruments at fair value through profit and loss are measured at fair value,
- ii) available-for-sale financial assets are measured at fair value,
- iii) investment property is measured at fair value, and
- iv) land and buildings are measured at revalued amounts.

### **c) Functional and reporting currency**

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

### **d) Critical accounting estimates and judgement in applying accounting policies**

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

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

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

#### *Impairment losses on receivables*

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

#### *Impairment losses on available-for-sale investments*

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 2 Basis of preparation (continued)

### e) Change in accounting policies

#### Overview

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

#### i) Determination and presentation of operating segments

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

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

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

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components. An operating segment’s operating results are reviewed regularly by General Manager to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

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

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

#### ii) Presentation of financial statements

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

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

### f) Other accounting developments

#### Disclosures pertaining to fair values and liquidity risk for financial instruments

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

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

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (*continued*)

## 2 Basis of preparation (*continued*)

### f) Other accounting developments (*continued*)

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

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

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

## 3. Significant accounting policies

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

### a) Basis of consolidation

#### *Subsidiaries*

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

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

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

#### *Associates*

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

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

#### *Transactions eliminated on consolidation*

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 3. Significant accounting policies (continued)

### b) Takaful contracts

#### i. Classification

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

Contracts under which the Group accepts significant takaful risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as takaful contracts. Takaful risk is significant if an insured event could cause the Group to pay significant additional benefits due to happening of the insured event compared to its non happening.

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

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

#### ii. Recognition and measurement

##### Gross written contributions

##### General Takaful contracts

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

##### Family Takaful contracts

These contracts relate to human life events for example death or survival, bodily injury etc.

For short term contracts, normally with group customers, the contributions are recognised when due.

For long term contracts, normally with individual customers, the contributions are booked on receipt.

#### iii. Claims

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

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

#### iv. Gross claims paid

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



# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 3. Significant accounting policies (continued)

### b) Takaful contracts (continued)

#### v. Claims recovered

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

#### Gross outstanding and IBNR claims

Gross outstanding claims comprise the estimated costs of claims incurred but not settled at the consolidated financial position date. Provisions for reported claims not paid as at the date of consolidated statement of financial position are made on the basis of individual case estimates. This provision is based on the estimate of the loss, which will eventually be payable on each unpaid claim, established by the management in the light of currently available information and past experience. An additional net provision is also made for any claims incurred but not reported ("IBNR") at the date of consolidated statement of financial position on the basis of management estimates. The basis of estimating outstanding claims and IBNR are detailed in note 21.

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

#### vi. Unearned contribution reserves

Provision is made for contribution deficiency arising from general takaful contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the consolidated financial position date exceeds the unearned contributions provision and already recorded claim liabilities in relation to such policies. The provision for contribution deficiency is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned contributions and claims provisions.

An additional provision is made at the consolidated financial position date for potential shortfall in unearned contribution reserve by reference to 1/24<sup>th</sup> method except for marine business where 1/6<sup>th</sup> method is used. Unearned contributions for Individual Family takaful business are considered by the actuary.

#### vii. Retakaful

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

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

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

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (*continued*)

## 3. Significant accounting policies (*continued*)

### b) Takaful contracts (*continued*)

#### viii. *Deferred commission cost*

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

For individual family takaful, commission is deferred and charged over four years on straight line basis.

#### ix. *Takaful receivables and payables*

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

#### x. *Family takaful reserves*

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

#### xi. *Salvage and subrogation reimbursements*

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

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

Revenue (other than takaful revenue) comprises the following:

#### i) **Fee and commission income**

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

#### ii) **Investment income**

Investment income comprises income from financial assets, rental income from investment property and fair value gains/losses on investment property.

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

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (*continued*)

## 3. Significant accounting policies (*continued*)

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

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

Fair value gains/losses on investment property are included in the consolidated statement of income in the period these gains are determined. Details of valuations during the year are included in note 13.

### d) Financial instruments

#### Non-derivative financial instruments

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

#### *i) Recognition, derecognition and initial measurement*

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

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

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

#### *ii) Categories of financial instruments*

##### *Financial instruments at fair value through profit or loss*

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (*continued*)

## 3. Significant accounting policies (*continued*)

### d) Financial instruments (*continued*)

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

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

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

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

Pursuant to these amendments, the Group reclassified certain non-derivative financial assets out of trading assets into available-for-sale investment securities. For details on the impact of these reclassifications, see note 16.

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

#### *Held-to-maturity investments*

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

#### *Available-for-sale financial assets*

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

#### *Other financial assets*

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 3. Significant accounting policies (continued)

### d) Financial instruments (continued)

#### Non-derivative financial instruments (continued)

##### iii) Offsetting

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

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

##### iv) Fair value measurement

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

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

##### v) Identification and measurement of impairment

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

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

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes *(continued)*

## 3. Significant accounting policies (continued)

### d) Financial instruments (continued)

#### Non-derivative financial instruments (continued)

##### *v) Identification and measurement of impairment (continued)*

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

##### *vi) Other financial instruments*

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

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

Subsequent to initial recognition these financial liabilities are stated at amortised cost using the effective interest method.

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

### e) Investment properties

Investment property is property held either to earn rental income or for capital appreciation or for both. Investment property is measured at fair value with any change therein recognised in statement of income

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

### f) Foreign currency transactions

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

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 3. Significant accounting policies (continued)

### g) Share capital

#### *Ordinary shares*

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

#### *Treasury shares*

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

### h) Property and equipment and depreciation

#### *Property and equipment*

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

#### *Capital work in progress*

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

#### *Subsequent expenditure*

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

#### *Depreciation*

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

### i) Employee terminal benefits

#### *Defined benefit plan*

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

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (*continued*)

## 3. Significant accounting policies (*continued*)

### j) Cash and cash equivalents

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

### k) Provisions

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

### l) Operating lease

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

### m) Intangible assets

#### (i) Goodwill

Goodwill arises on the acquisition of subsidiary.

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

#### *Acquisitions of non controlling interest*

Goodwill arising on the acquisition of a non controlling 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 Group is not subject to any taxes in the UAE. Taxation on foreign operations of the subsidiaries is provided for in accordance with fiscal regulations applicable in each location.

### o) Policyholders' fund

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



# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 3. Significant accounting policies (continued)

### p) Underwriting income attributable to policyholders and shareholders

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

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

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

### q) Long-term Unit Linked takaful contracts

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

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

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

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (*continued*)

## **3. Significant accounting policies (continued)**

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

The long term individual life contracts contain Discretionary Participation Feature (DPF). A surplus may arise in Tabaru fund after accounting for the claims, relevant expenses, investment returns and reserves. The surplus is available for the distribution to eligible participants provided there is net surplus in the Tabarru Fund in respect of the relevant year. The distribution is at the discretion of the Board of Directors. This contractual right is supplement to the other benefits mentioned in the contract. The DPF is classified as liability and is included in policyholders' fund (note 28).

### **r) Earnings per share**

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

### **s) Operating segment**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available (see note 2(e)(i)).

### **t) Determination of fair values**

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

### **i) Property and equipment**

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (*continued*)

## 3. Significant accounting policies (*continued*)

### t) Determination of fair values (*continued*)

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

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

### ii) Investments in equity and debt securities

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

### iii) Trade and other receivables

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

### iv) Non-derivative financial liabilities

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

### u) Liability adequacy test

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

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

## Notes (continued)

### v) New standards and interpretations not yet effective

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

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

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

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

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

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (*continued*)

## 4. Risk management

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

### a) Introduction and overview

#### *Governance framework*

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

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

#### *Capital management framework*

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

#### *Regulatory framework*

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

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

#### *Asset liability management (ALM) framework*

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

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

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (*continued*)

## 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.

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (*continued*)

## 4. Risk management (continued)

### b) Takaful risk (continued)

#### *Marine*

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

#### *Family takaful contracts*

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

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

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

#### **Retakaful risk**

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

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

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

#### **Concentration of takaful risk**

The Group has certain single takaful contracts which it considers as risks of high severity but very low frequency. The Group re-insures substantial part of these risks and its net exposure on any one single event is limited to AED 18 million (*2008: AED 11 million*).

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 4. Risk management (continued)

### b) Takaful risk (continued)

#### Terms and conditions of takaful contracts

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

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

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

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

#### Credit risks

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

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

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

#### 31 December 2009

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



# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 4. Risk management (continued)

### b) Takaful risk (continued)

31 December 2008

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

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

31 December 2009

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

31 December 2008

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

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 4. Risk management

### b) Takaful risk (continued)

#### Claims development

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

#### Takaful claims-gross

| Underwriting year                                                                                     | 2005<br>AED'000 | 2006<br>AED'000 | 2007<br>AED'000 | 2008<br>AED'000 | 2009<br>AED'000 | Total<br>AED'000 |
|-------------------------------------------------------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|
| Development year 1<br>(cumulative amount)                                                             | 212,795         | 315,800         | 425,910         | 517,935         | 362,093         | -                |
| Development year 2<br>(cumulative amount)                                                             | 260,569         | 343,345         | 473,671         | 639,909         | -               | -                |
| Development year 3<br>(cumulative amount)                                                             | 268,345         | 371,992         | 510,611         | -               | -               | -                |
| Development year 4<br>(cumulative amount)                                                             | 277,268         | 375,824         | -               | -               | -               | -                |
| Development year 5<br>(cumulative amount)                                                             | 327,286         | -               | -               | -               | -               | -                |
| Current estimate of<br>cumulative claims (A)                                                          | 327,286         | 375,824         | 510,611         | 639,909         | 362,093         | 2,215,723        |
| Cumulative payments to<br>date (B)                                                                    | (239,132)       | (305,258)       | (379,549)       | (359,018)       | (144,803)       | (1,427,760)      |
| Net (A-B)                                                                                             | 88,154          | 70,566          | 131,062         | 280,891         | 217,290         | 787,963          |
| Liability recognised in the consolidated statement of financial position as part of gross claim       |                 |                 |                 |                 |                 | 787,963          |
| Reserve in respect of years prior to 2005 part of the gross claim                                     |                 |                 |                 |                 |                 | 16,696           |
| Total reserve included in the consolidated statement of financial position as part of the gross claim |                 |                 |                 |                 |                 | 804,659          |

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 4. Risk management

### b) Takaful risk (continued)

#### Claims development (continued)

##### Takaful claims-net

| Underwriting year                                                                                      | 2005      | 2006      | 2007      | 2008      | 2009      | Total       |
|--------------------------------------------------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|-------------|
|                                                                                                        | AED'000   | AED'000   | AED'000   | AED'000   | AED'000   | AED'000     |
| Development year 1<br>(cumulative amount)                                                              | 167,492   | 263,731   | 343,677   | 446,321   | 292,569   | -           |
| Development year 2<br>(cumulative amount)                                                              | 211,467   | 282,342   | 409,489   | 556,567   | -         | -           |
| Development year 3<br>(cumulative amount)                                                              | 220,943   | 332,836   | 444,724   | -         | -         | -           |
| Development year 4<br>(cumulative amount)                                                              | 243,404   | 336,611   | -         | -         | -         | -           |
| Development year 5<br>(cumulative amount)                                                              | 293,486   | -         | -         | -         | -         | -           |
| Current estimate of<br>cumulative claims (A)                                                           | 293,486   | 336,611   | 444,724   | 556,567   | 292,569   | 1,923,957   |
| Cumulative payments<br>to date (B)                                                                     | (206,058) | (268,611) | (329,860) | (332,280) | (125,371) | (1,262,180) |
| Net (A-B)                                                                                              | 87,428    | 68,000    | 114,864   | 224,287   | 167,198   | 661,777     |
| Liability recognised in the consolidated statement of financial position as part of<br>gross claim     |           |           |           |           |           | 661,777     |
| Reserve in respect of years prior to 2005 part of the net claim                                        |           |           |           |           |           | 12,530      |
| Total reserve included in the consolidated statement of financial position as part of<br>the net claim |           |           |           |           |           | 674,307     |

#### Sensitivities

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

#### 31 December 2009

|                  | Change in<br>Assumption | Impact on gross liabilities<br>AED'000 | *Impact on net profit<br>AED'000 |
|------------------|-------------------------|----------------------------------------|----------------------------------|
| Current claims   | +10%                    | +80,466                                | +67,431                          |
|                  | -10%                    | -80,466                                | -67,431                          |
| 31 December 2008 |                         |                                        |                                  |
|                  | Change in<br>Assumption | Impact on gross liabilities<br>AED'000 | *Impact on net profit<br>AED'000 |
| Incurred claims  | +10%                    | +67,859                                | +57,994                          |
|                  | -10%                    | -67,859                                | -57,994                          |

\* the impact on net profit is net of retakaful.

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (*continued*)

## 4. Risk management (continued)

### c) Financial risks

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

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

#### i) Credit risk

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

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

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

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

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

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

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

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

#### ii) Liquidity risk

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

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

# 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 notice were to be given immediately.

| 31 December 2009              | Carrying value   | Contractual cash outflows | Less than 180 days | 180 days to 1 year | 1-5 year         | Over 5 year      | No stated maturity |
|-------------------------------|------------------|---------------------------|--------------------|--------------------|------------------|------------------|--------------------|
|                               |                  |                           | AED '000           |                    |                  |                  |                    |
| Outstanding claims Reserve    | 804,659          | (804,659)                 | (277,899)          | (514,227)          | -                | -                | (12,533)           |
| Takaful balance payable       | 157,981          | (157,981)                 | (43,310)           | (28,341)           | (49,293)         | -                | (37,037)           |
| Other payables                | 115,019          | (115,019)                 | (25,752)           | (13,946)           | (27,680)         | -                | (47,641)           |
| Amount due to related parties | 4,621            | (4,621)                   | (1,907)            | -                  | (2,714)          | -                | -                  |
| Bank finance                  | 291,417          | (549,128)                 | (7,706)            | (119,483)          | (68,572)         | (353,367)        | -                  |
| <b>Total liabilities</b>      | <b>1,373,697</b> | <b>(1,631,408)</b>        | <b>(356,574)</b>   | <b>(675,997)</b>   | <b>(148,259)</b> | <b>(353,367)</b> | <b>(97,211)</b>    |
| 31 December 2008              | Carrying value   | Contractual cash outflows | Less than 180 days | 180 days to 1 year | 1-5 year         | Over 5 year      | No stated maturity |
|                               |                  |                           | AED '000           |                    |                  |                  |                    |
| Outstanding claims reserve    | 678,590          | (678,590)                 | (50,329)           | (607,810)          | -                | -                | (20,451)           |
| Takaful balance payable       | 150,451          | (150,451)                 | (122,276)          | (10,621)           | (17,554)         | -                | -                  |
| Other payables                | 114,425          | (114,425)                 | (99,019)           | (13,713)           | -                | -                | (1,693)            |
| Amount due to related parties | 4,546            | (4,546)                   | (1,729)            | (2,817)            | -                | -                | -                  |
| Bank finance                  | 368,732          | (641,654)                 | (7,260)            | (211,321)          | (57,663)         | (365,410)        | -                  |
| <b>Total liabilities</b>      | <b>1,316,744</b> | <b>(1,589,666)</b>        | <b>(280,613)</b>   | <b>(846,282)</b>   | <b>(75,217)</b>  | <b>(365,410)</b> | <b>(22,144)</b>    |

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (*continued*)

## 4 Risk management (continued)

### c) Financial risks (continued)

#### iii) Market risk

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

#### (a) Currency risk

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

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

| 31 December 2009 | Financial<br>assets | Financial<br>liabilities | Net       |
|------------------|---------------------|--------------------------|-----------|
| Currency         | AED'000             | AED'000                  | AED'000   |
| EURO             | 170,975             | (179,600)                | (8,625)   |
| US\$             | 1,743,620           | (376,891)                | 1,366,729 |
| EGP              | 106,252             | (40,553)                 | 65,699    |
| TND              | 3,805               | (14,814)                 | (11,009)  |
| CFA              | 40,684              | (42,767)                 | (2,083)   |
| DZD              | 117,241             | (81,246)                 | 35,995    |
| AED              | 417,707             | (253,326)                | 164,381   |
| Others           | 283,641             | (380,750)                | (97,109)  |
| 31 December 2008 | Financial<br>assets | Financial<br>liabilities | Net       |
| Currency         | AED'000             | AED'000                  | AED'000   |
| EURO             | 222,077             | (171,473)                | 50,604    |
| US\$             | 1,367,052           | (315,935)                | 1,051,117 |
| EGP              | 56,374              | (25,891)                 | 30,483    |
| TND              | 1,488               | -                        | 1,488     |
| CFA              | 40,801              | (42,038)                 | (1,237)   |
| DZD              | 114,543             | (80,150)                 | 34,393    |
| AED              | 582,464             | (253,532)                | 328,932   |
| Others           | 216,337             | (406,255)                | (189,918) |

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 4. Risk management (continued)

### c) Financial risks (continued)

#### iii) Market risk (continued)

##### *Sensitivities*

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

#### 31 December 2009

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

#### 31 December 2008

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

### (b) Profit rate risk

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

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

An increase of 100 basis points at the reporting date would have decreased the net assets and the profit of the Group by AED 5,910 (2008: AED 2,801), the decrease of 100 basis points will result in equal but opposite effect.

### (c) Equity price risk

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

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

# Islamic Arab Takaful Co. (Salama) and its subsidiaries

Notes (continued)

## 4. Risk management (continued)

### c) Financial risks (continued)

#### iii) Market risk (continued)

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

#### *Sensitivities*

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

#### 31 December 2009

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

#### 31 December 2008

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

### d) Operational risks

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

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

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



# Islamic Arab Takaful Co. (Salama) and its subsidiaries

Notes (*continued*)

## 5. Acquisition of subsidiaries

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

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

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

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

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

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

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

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

6. Allocation of the net profit for the year

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 7. Wakalah and Mudarib Share

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

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

## 8. Income/(loss) from investments

|                                                        | For the year ended 31 December 2009 |                          |                  |
|--------------------------------------------------------|-------------------------------------|--------------------------|------------------|
|                                                        | Shareholders<br>AED'000             | Policyholders<br>AED'000 | Total<br>AED'000 |
| Income from investments in Mudaraba and IPO fund       | 8,370                               | -                        | 8,370            |
| Realised profit on sale of investments                 | 11,549                              | -                        | 11,549           |
| Unrealised loss on investments                         | (402)                               | -                        | (402)            |
| Unrealised loss on investments properties              | (1,550)                             | (1,033)                  | (2,583)          |
| Income on Sukuk and other Held to maturity investments | 20,738                              | -                        | 20,738           |
| Income from bank deposits and loans and receivables    | 6,034                               | 1,564                    | 7,598            |
| Dividend income                                        | 2,336                               | -                        | 2,336            |
| Share of profit from associates                        | 3,592                               | -                        | 3,592            |
| Rental income (note 13)                                | 573                                 | 344                      | 917              |
|                                                        | <u>51,240</u>                       | <u>875</u>               | <u>52,115</u>    |
|                                                        |                                     |                          |                  |
|                                                        | For the year ended 31 December 2008 |                          |                  |
|                                                        | Shareholders<br>AED'000             | Policyholders<br>AED'000 | Total<br>AED'000 |
| Income from investments in Mudaraba and IPO fund       | 10,289                              | -                        | 10,289           |
| Realised loss on sale of investments                   | (1,933)                             | -                        | (1,933)          |
| Unrealised loss on investments                         | (40,473)                            | -                        | (40,473)         |
| Unrealised loss on investments properties              | (472)                               | (278)                    | (750)            |
| Realised gain on investments properties                | 6,711                               | -                        | 6,711            |
| Income from bank deposits and loans and receivables    | 5,393                               | 689                      | 6,082            |
| Dividend income                                        | 2,247                               | -                        | 2,247            |
| Share of loss from associates                          | (5,933)                             | -                        | (5,933)          |
| Rental income (note 13)                                | 596                                 | 350                      | 946              |
|                                                        | <u>(23,575)</u>                     | <u>761</u>               | <u>(22,814)</u>  |

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

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 9. General and administrative expenses

These include:

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

## 10. Provision for charitable donations

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

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 11. Property and equipment

|                           | Land<br>AED'000 | Building<br>AED'000 | Furniture<br>& fixtures<br>AED'000 | Computer<br>AED'000 | Motor<br>Vehicles<br>AED'000 | Capital<br>work in<br>progress<br>AED'000 | Total<br>AED'000 |
|---------------------------|-----------------|---------------------|------------------------------------|---------------------|------------------------------|-------------------------------------------|------------------|
| <b>Cost</b>               |                 |                     |                                    |                     |                              |                                           |                  |
| At 1 January 2008         | 17,701          | 36,479              | 19,462                             | 11,446              | 3,961                        | 561                                       | 89,610           |
| Revaluations              | (638)           | -                   | -                                  | -                   | -                            | -                                         | (638)            |
| Additions                 | -               | 508                 | 2,212                              | 1,153               | 874                          | 411                                       | 5,158            |
| Disposal                  | -               | (669)               | (840)                              | (230)               | (470)                        | (32)                                      | (2,241)          |
| Transfer                  | -               | -                   | -                                  | (1,453)             | -                            | -                                         | (1,453)          |
| At 31 December 2008       | 17,063          | 36,318              | 20,834                             | 10,916              | 4,365                        | 940                                       | 90,436           |
| At 1 January 2009         | 17,063          | 36,318              | 20,834                             | 10,916              | 4,365                        | 940                                       | 90,436           |
| Revaluations              | -               | 5,844               | -                                  | -                   | -                            | -                                         | 5,844            |
| Additions                 | -               | 3,723               | 3,986                              | 1,137               | 641                          | -                                         | 9,487            |
| Disposals                 | -               | -                   | (3,461)                            | (2,462)             | (1,541)                      | (537)                                     | (8,001)          |
| At 31 December 2009       | 17,063          | 45,885              | 21,359                             | 9,591               | 3,465                        | 403                                       | 97,766           |
| <b>Depreciation</b>       |                 |                     |                                    |                     |                              |                                           |                  |
| At 1 January 2008         | -               | 3,449               | 8,968                              | 7,563               | 3,074                        | 561                                       | 23,615           |
| Revaluations              | -               | -                   | -                                  | -                   | -                            | -                                         | -                |
| Charge for the year       | -               | 962                 | 3,045                              | 1,317               | 227                          | -                                         | 5,551            |
| On disposals              | -               | (106)               | (299)                              | (198)               | (250)                        | (31)                                      | (884)            |
| Transfer                  | -               | -                   | -                                  | (965)               | -                            | -                                         | (965)            |
| At 31 December 2008       | -               | 4,305               | 11,714                             | 7,717               | 3,051                        | 530                                       | 27,317           |
| At 1 January 2009         | -               | 4,305               | 11,714                             | 7,717               | 3,051                        | 530                                       | 27,317           |
| Revaluations              | -               | -                   | -                                  | -                   | -                            | -                                         | -                |
| Charge for the year       | -               | 1,034               | 1,934                              | 1,672               | 631                          | -                                         | 5,271            |
| On disposals              | -               | -                   | (2,575)                            | (2,395)             | (1,382)                      | (530)                                     | (6,882)          |
| Adjustment on revaluation | -               | 458                 | -                                  | -                   | -                            | -                                         | 458              |
| At 31 December 2009       | -               | 5,797               | 11,073                             | 6,994               | 2,300                        | -                                         | 26,164           |
| <b>Net book value</b>     |                 |                     |                                    |                     |                              |                                           |                  |
| At 31 December 2009       | 17,063          | 40,088              | 10,286                             | 2,597               | 1,165                        | 403                                       | 71,602           |
| At 31 December 2008       | 17,063          | 32,013              | 9,120                              | 3,199               | 1,314                        | 410                                       | 63,119           |

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 12. Intangible assets

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

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

## 13. Investment properties

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

The rental income of UAE properties amount to AED 0.9 million in 2009 (2008: AED 0.9 million), there is no direct related expenses in respect of investment property.

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

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 14. Investment in associates

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

| Associates                                        | Ownership |        | Country of incorporation | 31 December 2009 | 31 December 2008 |
|---------------------------------------------------|-----------|--------|--------------------------|------------------|------------------|
|                                                   | 2009      | 2008   |                          | AED'000          | AED'000          |
| GEPAR                                             | 20.00%    | 20.00% | Tunisia                  | 265              | 249              |
| Saudi IAIC Cooperative Insurance Co. (Saudi IAIC) | 30.00%    | 30.00% | KSA                      | 26,655           | 23,203           |
| Best Invest                                       | 47.00%    | 47.00% | Tunisia                  | 1,061            | 1,238            |
| SCI Al Amane                                      | -         | 30.00% | Senegal                  | -                | 2                |
| SCI Al Baraka                                     | -         | 30.00% | Senegal                  | -                | 2                |
|                                                   |           |        |                          | <u>27,981</u>    | <u>24,694</u>    |
| <b>Movements during the year</b>                  |           |        |                          | <b>2009</b>      | <b>2008</b>      |
|                                                   |           |        |                          | <b>AED'000</b>   | <b>AED'000</b>   |
| Balance at 1 January                              |           |        |                          | 24,694           | 29,607           |
| Purchases                                         |           |        |                          | -                | 1,067            |
| Disposal of associates                            |           |        |                          | (294)            | -                |
| Share of profit/(loss) in associates (note 8)     |           |        |                          | 3,592            | (5,933)          |
| Change in reserve                                 |           |        |                          | (11)             | (47)             |
|                                                   |           |        |                          | <u>27,981</u>    | <u>24,694</u>    |

Summarised financial information of the major associates is as under:

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 15. Statutory deposits

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

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.



# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 16. Investments

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

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

## Notes (continued)

### 16. Investments (continued)

#### *Determining fair values*

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

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

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

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

#### *Reclassification of investments*

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

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 16. Investments (continued)

*Reclassification of investments (continued)*

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

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

## 17. Deposits with takaful and retakaful companies

|                        | 2009           | 2008           |
|------------------------|----------------|----------------|
|                        | AED'000        | AED'000        |
| Contributions deposits | 117,300        | 109,873        |
| Claim deposits         | 208,503        | 203,982        |
|                        | <u>325,803</u> | <u>313,855</u> |

Contribution deposits with takaful companies primarily pertain to Best Re amounting to AED 113 million (2008: AED 106 million). Claim deposits also pertain mainly to Best Re amounting to AED 205 million (2008: AED 202 million). As per the relevant local regulations, the ceding company retains a portion of unearned contributions and outstanding claims after net payments to Best Re.

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 18. Contributions and takaful balance receivables

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

### Aging of contributions and takaful balance receivables

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

### Aging of contributions and takaful balance receivables

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 19. Other assets and receivables

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

## 20. Cash and bank balances

|               | 2009<br>AED'000 | 2008<br>AED'000 |
|---------------|-----------------|-----------------|
| Cash in hand  | 12              | 116             |
| Cash at bank  | 35,717          | 62,668          |
| Term deposits | 161,999         | 126,762         |
|               | <u>197,728</u>  | <u>189,546</u>  |

### Cash and bank balances - by geographical distribution

|               | 2009<br>AED'000 | 2008<br>AED'000 |
|---------------|-----------------|-----------------|
| Domestic      | 53,808          | 56,467          |
| International | 143,920         | 133,079         |
|               | <u>197,728</u>  | <u>189,546</u>  |

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 21. Outstanding claims and family takaful reserve

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

### Movements in outstanding claims reserve and family takaful reserve

|                              | 2009             |                      |                       |                |
|------------------------------|------------------|----------------------|-----------------------|----------------|
|                              | Gross<br>AED'000 | Retakaful<br>AED'000 | Adjustment<br>AED'000 | Net<br>AED'000 |
| Balance at 1 January         | 678,590          | (98,642)             | -                     | 579,948        |
| Foreign exchange differences | -                | -                    | (334)                 | (334)          |
| Net movement during the year | 126,069          | (31,710)             | 334                   | 94,693         |
|                              | <u>804,659</u>   | <u>(130,352)</u>     | <u>-</u>              | <u>674,307</u> |
|                              | 2008             |                      |                       |                |
|                              | Gross<br>AED'000 | Retakaful<br>AED'000 | Adjustment<br>AED'000 | Net<br>AED'000 |
| Balance at 1 January         | 517,969          | (101,166)            | -                     | 416,803        |
| Foreign exchange differences | -                | -                    | (5,476)               | (5,476)        |
| Net movement during the year | 160,621          | 2,524                | 5,476                 | 168,621        |
|                              | <u>678,590</u>   | <u>(98,642)</u>      | <u>-</u>              | <u>579,948</u> |

### 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.

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

## Notes (continued)

### 21. Outstanding claims and family takaful reserve (continued)

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

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

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

#### *Assumptions and sensitivities to changes in key variables*

The assumptions that have the greatest effect on the measurement of takaful contract provisions are the expected loss ratios for the most recent accident years for accident and liabilities. These are used for assessing the IBNR for the 2008 and 2009 accident years.

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

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 22. Unearned contributions reserve

Movements in unearned contributions reserve:

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

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

## 23. Takaful balances payable

|                      | 2009<br>AED'000 | 2008<br>AED'000 |
|----------------------|-----------------|-----------------|
| Takaful companies    | 20,045          | 12,561          |
| Customers and others | 69,660          | 74,340          |
| Retakaful companies  | 68,276          | 63,550          |
|                      | -----           | -----           |
|                      | <u>157,981</u>  | <u>150,451</u>  |



# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 24. Other payables and accruals

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

## 25. Bank finance

|                    | 2009<br>AED'000 | 2008<br>AED'000 |
|--------------------|-----------------|-----------------|
| Long-term portion  | 175,283         | 164,507         |
| Short-term portion | 116,134         | 204,225         |
|                    | <u>291,417</u>  | <u>368,732</u>  |

Above include financing for one of the Group's subsidiaries equivalent to AED 171.99 million arranged by Merrill Lynch International. The financing has a repayment period of 20 years with an early redemption option after 10 years. The profit is payable at rate 8.75 % p.a. The profit is payable at each quarter end.

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 26. Related party transactions

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

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

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

| Amounts due from related parties                      | 2009<br>AED'000 | 2008<br>AED'000 |
|-------------------------------------------------------|-----------------|-----------------|
| Bin Zayed Group                                       | 11,128          | 249,208         |
| IAIC Labuan                                           | -               | 5,961           |
| IAIC Bahrain                                          | 78              | 23              |
| IAIC Cooperative Takaful                              | 101             | -               |
| Other entities under common management with the Group | 45              | 854             |
|                                                       | <u>11,352</u>   | <u>256,046</u>  |

| Amounts due to related parties                        |              |              |
|-------------------------------------------------------|--------------|--------------|
| IAIC Bahrain-current account                          | 1,990        | 1,788        |
| Bin Zayed Group                                       | -            | -            |
| Other entities under common management with the Group | 2,631        | 2,758        |
|                                                       | <u>4,621</u> | <u>4,546</u> |

| Compensation of key management personnel |               |              |
|------------------------------------------|---------------|--------------|
| Short term benefits                      | 9,376         | 7,327        |
| Employees end of service benefits        | 877           | 1,378        |
|                                          | <u>10,253</u> | <u>8,705</u> |

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 27. Policyholders' fund

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

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 28. Share capital

|                                                                          | 2009<br>AED'000  | 2008<br>AED'000  |
|--------------------------------------------------------------------------|------------------|------------------|
| <i>Authorised, issued and fully paid up capital</i>                      |                  |                  |
| 1,100,000,000 shares of AED 1 each (2008: 1,100,000,000 shares of AED 1) | <u>1,100,000</u> | <u>1,100,000</u> |

## 29. Statutory reserve

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

## 30. Revaluation reserve

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

## 31. Treasury shares

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

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

## 32. Earnings per share

The calculation of earnings per share for the year ended 31 December 2009 is based on earning of AED 91.28 million (loss of 2008: AED 10.4 million) divided by the weighted average number of shares of 807 million (2008: 1,091million) outstanding during the year after taking into account the treasury shares held. There is no dilutive effect on basic earnings per share.

## 33. Taxation on foreign operations

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

## 34. Contingent liabilities and capital commitments

|                      | 2009<br>AED'000 | 2008<br>AED'000 |
|----------------------|-----------------|-----------------|
| Letters of guarantee | <u>12,448</u>   | <u>13,675</u>   |

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 34. Contingent liabilities and capital commitments (continued)

The Group, in common with other insurance companies, is involved as a defendant in a number of legal cases in respect of its underwriting activities. A provision is made in respect of each individual case where it is probable that the outcome would result in a loss to the Group in terms of an outflow of economic resources and a reliable estimate of the amount of outflow can be made.

There are no significant capital commitments at 31 December 2009 (2008: nil).

## 35. Operating lease commitments

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

|                           | 2009<br>AED'000 | 2008<br>AED'000 |
|---------------------------|-----------------|-----------------|
| Less than one year        | 1,834           | 2,258           |
| Between one to five years | 529             | -               |
|                           | <u>2,363</u>    | <u>2,258</u>    |

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

|                           | 2009<br>AED'000 | 2008<br>AED'000 |
|---------------------------|-----------------|-----------------|
| Less than one year        | 41              | 157             |
| Between one to five years | -               | -               |
|                           | <u>41</u>       | <u>157</u>      |

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 36. Operating segment

*By business*

*(for the year ended 31 December 2009)*

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

*(for the year ended 31 December 2008)*

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

# Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

## 37. Segmental information (continued)

*By Geography*

*(for the year ended 31 December 2009)*

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

*By Geography*

*(for the year ended 31 December 2008)*

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

## 38. Comparative figures

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