

Islamic Arab Insurance Co.  
(Salama) and its subsidiaries  
Condensed consolidated interim financial  
statements  
*for the six-month period ended 30 June 2012*

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

## Condensed consolidated interim financial statements *for the six-month period ended 30 June 2012*

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## **Independent auditors' report on review of condensed consolidated interim financial information**

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

### *Introduction*

We have reviewed the accompanying condensed consolidated interim statement of financial position of Islamic Arab Insurance Co.(Salama) ("the Company") and its subsidiaries (collectively referred to as "the Group") as of 30 June 2012, the related condensed consolidated interim statement of comprehensive income (comprising of a condensed consolidated interim statement of comprehensive income and a separate condensed consolidated interim statement of income), condensed consolidated interim statement of changes in shareholders' equity and condensed consolidated interim statement of cash flows for the six month period then ended, and notes to the condensed consolidated interim financial information("the condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Financial reporting standards IAS 34, 'Interim *Financial Reporting*'. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at and for the six month period ended 30 June 2012 is not prepared, in all material respects, in accordance with IAS 34, '*Interim Financial Reporting*'.

Vijendra Nath Malhotra  
Registration No: 48 B

14 AUG 2012

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

## Condensed consolidated interim statement of income

for the six-month period ended 30 June 2012

|                                                                               |    | Six-month<br>period ended | Six-month<br>period ended | Three-month<br>period ended | Three-month<br>period ended |
|-------------------------------------------------------------------------------|----|---------------------------|---------------------------|-----------------------------|-----------------------------|
|                                                                               |    | 30 June 2012              | 30 June 2011              | 30 June 2012                | 30 June 2011                |
| Note                                                                          |    | AED'000                   | AED'000                   | AED'000                     | AED'000                     |
|                                                                               |    | (Un-audited)              | (Un-audited)              | (Un-audited)                | (Un-audited)                |
| <b>UNDERWRITING RESULTS</b>                                                   |    |                           |                           |                             |                             |
| <b>Underwriting income</b>                                                    |    |                           |                           |                             |                             |
| Gross written contributions                                                   | 16 | 1,242,910                 | 1,262,646                 | 536,415                     | 619,878                     |
| Less: reinsurance and retakaful contributions ceded                           |    | (213,126)                 | (154,561)                 | (96,407)                    | (72,238)                    |
| Net contributions                                                             |    | 1,029,784                 | 1,108,085                 | 440,008                     | 547,640                     |
| Net movement in unearned contributions                                        |    | (89,863)                  | (173,073)                 | (14,289)                    | (89,870)                    |
| Contributions earned                                                          | 16 | 939,921                   | 935,012                   | 425,719                     | 457,770                     |
| Commission received on ceded reinsurance and retakaful                        | 16 | 32,688                    | 23,768                    | 14,723                      | 11,867                      |
|                                                                               |    | 972,609                   | 958,780                   | 440,442                     | 469,637                     |
| <b>Underwriting expenses</b>                                                  |    |                           |                           |                             |                             |
| Gross claims paid                                                             |    | 715,649                   | 486,524                   | 302,439                     | 255,372                     |
| Less: reinsurance and retakaful share of claims paid                          |    | (124,949)                 | (75,089)                  | (55,935)                    | (31,704)                    |
| Net claims paid                                                               |    | 590,700                   | 411,435                   | 246,504                     | 223,668                     |
| Net movement in outstanding claims and technical reserve family takaful       |    | (21,865)                  | 109,387                   | (11,292)                    | 52,581                      |
| Claims incurred                                                               | 16 | 568,835                   | 520,822                   | 235,212                     | 276,249                     |
| Commission paid and other costs                                               | 16 | 298,524                   | 301,834                   | 132,441                     | 130,020                     |
|                                                                               |    | 867,359                   | 822,656                   | 367,653                     | 406,269                     |
| <b>Net underwriting income</b>                                                | 16 | 105,250                   | 136,124                   | 72,789                      | 63,368                      |
| <b>Income</b>                                                                 |    |                           |                           |                             |                             |
| Income from investments                                                       |    | 29,682                    | 17,519                    | 11,385                      | 13,597                      |
| Other income                                                                  |    | 10,745                    | 12,723                    | (388)                       | 2,656                       |
|                                                                               |    | 145,677                   | 166,366                   | 83,786                      | 79,621                      |
| <b>Expenses</b>                                                               |    |                           |                           |                             |                             |
| General, administrative and other expenses                                    |    | (87,159)                  | (86,511)                  | (55,148)                    | (39,468)                    |
| Financial expenses                                                            |    | (7,341)                   | (9,430)                   | (3,483)                     | (4,626)                     |
| Provision for charitable donations                                            |    | (2,860)                   | (1,951)                   | (1,400)                     | (1,367)                     |
| <b>Net profit before tax for the period</b>                                   |    | 48,317                    | 68,474                    | 23,755                      | 34,160                      |
| <b>Taxation - current</b>                                                     |    | (7,641)                   | (6,228)                   | (1,752)                     | (2,639)                     |
| <b>Net profit after tax for the period</b>                                    |    |                           |                           |                             |                             |
| <b>before policyholders' distribution</b>                                     |    | 40,676                    | 62,246                    | 22,003                      | 31,521                      |
| Policyholders' surplus                                                        | 6  | 201                       | -                         | 201                         | -                           |
| <b>Net profit after tax and distribution to policyholders' for the period</b> |    | 40,877                    | 62,246                    | 22,204                      | 31,521                      |
| <b>Attributable to:</b>                                                       |    |                           |                           |                             |                             |
| Shareholders                                                                  |    | 32,450                    | 59,526                    | 19,434                      | 29,818                      |
| Non-controlling interest                                                      |    | 8,427                     | 2,720                     | 2,770                       | 1,703                       |
|                                                                               |    | 40,877                    | 62,246                    | 22,204                      | 31,521                      |
| <b>Earnings per share (AED) (Note 14)</b>                                     |    | 0.027                     | 0.050                     | 0.016                       | 0.025                       |

The notes on pages 8 to 17 form an integral part of these condensed consolidated interim financial statements.

The independent auditors' report on review of condensed consolidated interim financial information is set out on page 1.

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

## Condensed consolidated interim statement of comprehensive income

for the six-month period ended 30 June 2012

|                                                                                   | Six-month<br>period ended<br>30 June 2012 | Six-month<br>period ended<br>30 June 2011 | Three-month<br>period ended<br>30 June 2012 | Three-month<br>period ended<br>30 June 2011 |
|-----------------------------------------------------------------------------------|-------------------------------------------|-------------------------------------------|---------------------------------------------|---------------------------------------------|
|                                                                                   | AED'000<br>(Un-audited)                   | AED'000<br>(Un-audited)                   | AED'000<br>(Un-audited)                     | AED'000<br>(Un-audited)                     |
| <b>Net profit after tax and distribution to<br/>policyholders' for the period</b> | <b>40,877</b>                             | <b>62,246</b>                             | <b>22,204</b>                               | <b>31,521</b>                               |
| <b>Other comprehensive income net of income tax</b>                               |                                           |                                           |                                             |                                             |
| Net change in fair value of<br>available-for-sale investments                     | 891                                       | (741)                                     | (424)                                       | 27                                          |
| Foreign exchange translation reserve                                              | (7,940)                                   | 1,260                                     | (9,297)                                     | (132)                                       |
| <b>Other comprehensive income for the period</b>                                  | <b>(7,049)</b>                            | <b>519</b>                                | <b>(9,721)</b>                              | <b>(105)</b>                                |
| <b>Total comprehensive income for the period</b>                                  | <b>33,828</b>                             | <b>62,765</b>                             | <b>12,483</b>                               | <b>31,416</b>                               |
| <b>Attributable to:</b>                                                           |                                           |                                           |                                             |                                             |
| Shareholders                                                                      | 25,990                                    | 62,318                                    | 10,449                                      | 30,133                                      |
| Non-controlling interest                                                          | 7,838                                     | 447                                       | 2,034                                       | 1,283                                       |
|                                                                                   | <b>33,828</b>                             | <b>62,765</b>                             | <b>12,483</b>                               | <b>31,416</b>                               |

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**Islamic Arab Insurance Co. (Salama) and its subsidiaries**  
**Condensed consolidated interim statement of financial position**  
*as at 30 June 2012*

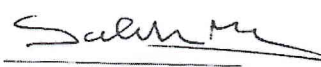
|                                                    | <i>Note</i> | <b>30 June 2012</b><br>AED'000<br>(Unaudited) | <b>31 December 2011</b><br>AED'000<br>(Audited) |
|----------------------------------------------------|-------------|-----------------------------------------------|-------------------------------------------------|
| <b>ASSETS</b>                                      |             |                                               |                                                 |
| Property and equipments                            |             | 100,927                                       | 107,027                                         |
| Intangible assets                                  |             | 5,040                                         | 6,462                                           |
| Goodwill                                           |             | 186,194                                       | 186,194                                         |
| Investment properties                              | 8           | 274,733                                       | 274,733                                         |
| Investments in associates                          | 9           | 55,636                                        | 57,563                                          |
| Statutory deposits                                 |             | 80,491                                        | 79,808                                          |
| Investments                                        | 10          | 828,599                                       | 977,872                                         |
| Participants' investments in Unit-linked contracts | 11          | 524,808                                       | 489,956                                         |
| Deposits with takaful and retakaful companies      |             | 222,882                                       | 269,421                                         |
| Contributions and takaful balance receivables      |             | 1,004,704                                     | 1,102,568                                       |
| Retakafuls' share of outstanding claims            |             | 691,417                                       | 477,688                                         |
| Retakafuls' share of unearned contributions        |             | 89,892                                        | 69,427                                          |
| Amounts due from related parties                   | 12          | 12,392                                        | 12,577                                          |
| Other assets and receivables                       |             | 100,386                                       | 130,088                                         |
| Cash and bank balances                             |             | 706,536                                       | 434,720                                         |
| <b>TOTAL ASSETS</b>                                |             | <b>4,884,637</b>                              | <b>4,676,104</b>                                |
| <b>LIABILITIES</b>                                 |             |                                               |                                                 |
| Bank finance                                       |             | 151,576                                       | 160,186                                         |
| Outstanding claims and family takaful reserve      |             | 1,461,934                                     | 1,392,699                                       |
| Payable to Participants for Unit-linked contracts  |             | 508,068                                       | 474,533                                         |
| Unearned contributions reserve                     |             | 744,367                                       | 659,172                                         |
| Takaful balances payable                           |             | 245,328                                       | 240,062                                         |
| Other payables and accruals                        |             | 115,006                                       | 124,882                                         |
| Amounts due to related parties                     | 12          | 1,028                                         | 867                                             |
| <b>TOTAL LIABILITIES</b>                           |             | <b>3,227,307</b>                              | <b>3,052,401</b>                                |
| Policyholders' fund                                | 13          | 520                                           | 721                                             |
| <b>NET ASSETS EMPLOYED</b>                         |             | <b>1,656,810</b>                              | <b>1,622,982</b>                                |
| <b>FINANCED BY:</b>                                |             |                                               |                                                 |
| Shareholders' equity                               |             | 1,605,146                                     | 1,579,156                                       |
| Non-controlling interest                           |             | 51,664                                        | 43,826                                          |
|                                                    |             | <b>1,656,810</b>                              | <b>1,622,982</b>                                |

The notes on pages 8 to 17 form an integral part of these condensed consolidated interim financial statements.

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

  
 \_\_\_\_\_  
 Sheikh Khaled Bin Zayed Al Nahayan  
 Chairman

14 AUG 2012

  
 \_\_\_\_\_  
 Dr. Saleh J. Malaikah  
 Vice Chairman & CEO

The independent auditors' report on review of condensed consolidated interim financial information is set out on page 1.

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

## Condensed consolidated interim statement of cash flows

for the six-month period ended 30 June 2012

|                                                              | Six month<br>period ended<br>30 June 2012<br>AED'000<br>(Un-audited) | Six month<br>period ended<br>30 June 2011<br>AED'000<br>(Un-audited) |
|--------------------------------------------------------------|----------------------------------------------------------------------|----------------------------------------------------------------------|
| <b>Cash flows from operating activities</b>                  |                                                                      |                                                                      |
| Net profit before non-controlling interest                   | 40,877                                                               | 62,246                                                               |
| <i>Adjustment for:</i>                                       |                                                                      |                                                                      |
| Share of profit/(loss) from associates                       | 1,307                                                                | 1,701                                                                |
|                                                              | <u>42,184</u>                                                        | <u>63,947</u>                                                        |
| Change in deposits with takaful and retakaful companies      | 46,539                                                               | (64,971)                                                             |
| Change in contributions and takaful balance receivable       | 97,864                                                               | (138,639)                                                            |
| Change in due from / to related parties                      | 346                                                                  | 220                                                                  |
| Change in other assets and receivables                       | 29,702                                                               | 85,879                                                               |
| Change in unearned contributions reserve                     | 64,730                                                               | 173,090                                                              |
| Change in outstanding claims (net of retakaful)              | (144,494)                                                            | 350,421                                                              |
| Change in takaful payables and other payables                | (4,610)                                                              | 24,934                                                               |
| Change in policyholders' fund                                | (201)                                                                | -                                                                    |
| Change in Participants' investments in Unit-linked contracts | (1,317)                                                              | -                                                                    |
| <i>Net cash flows generated from operating activities</i>    | <u>130,743</u>                                                       | <u>494,881</u>                                                       |
| <b>Cash flows from investing activities</b>                  |                                                                      |                                                                      |
| Property and equipment-net                                   | (1,083)                                                              | (8,525)                                                              |
| Net movement in intangible assets                            | 1,422                                                                | (91)                                                                 |
| Investment properties – net                                  | -                                                                    | (196,258)                                                            |
| Net movement in associates                                   | 620                                                                  | (3,402)                                                              |
| Statutory deposits                                           | (683)                                                                | 1,088                                                                |
| Investments-net                                              | 141,569                                                              | (207,025)                                                            |
| <i>Net cash flows from/(used in) investing activities</i>    | <u>141,845</u>                                                       | <u>(414,213)</u>                                                     |
| <b>Cash flows from financing activities</b>                  |                                                                      |                                                                      |
| Bank finance-net                                             | (8,610)                                                              | (17,305)                                                             |
| Net movement in non-controlling interest                     | 7,838                                                                | (1,862)                                                              |
| <i>Net cash flows used in financing activities</i>           | <u>(772)</u>                                                         | <u>(19,167)</u>                                                      |
| Net increase in cash and cash equivalents                    | 271,816                                                              | 61,501                                                               |
| Cash and cash equivalents at 1 January                       | 434,720                                                              | 209,210                                                              |
| Cash and cash equivalents at 30 June                         | <u>706,536</u>                                                       | <u>270,711</u>                                                       |

The notes on pages 8 to 17 form an integral part of these condensed consolidated interim financial statements.

The independent auditors' report on review of condensed consolidated interim financial information is set out on page 1.

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

## Condensed consolidated interim statement of changes in equity (Un-audited)

for the six-month period ended 30 June 2012

| Attributable to the equity holders of the Company                      |                          |                              |                                |                                                 |                                          |                           |                              |                  |                                     |
|------------------------------------------------------------------------|--------------------------|------------------------------|--------------------------------|-------------------------------------------------|------------------------------------------|---------------------------|------------------------------|------------------|-------------------------------------|
|                                                                        | Foreign                  |                              |                                |                                                 |                                          |                           |                              |                  |                                     |
|                                                                        | Share capital<br>AED'000 | Statutory reserve<br>AED'000 | Revaluation reserve<br>AED'000 | Foreign exchange translation reserve<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 |
| Balance at 1 January 2011                                              | 1,100,000                | 64,016                       | 14,689                         | (5,541)                                         | 2,099                                    | (35,972)                  | 386,013                      | 1,525,304        | 46,225                              |
| <b>Total comprehensive income for the period</b>                       | -                        | -                            | -                              | -                                               | -                                        | -                         | 59,526                       | 59,526           | 2,720                               |
| Profit for the period                                                  | -                        | -                            | -                              | -                                               | -                                        | -                         | -                            | -                | -                                   |
| <b>Other comprehensive income</b>                                      | -                        | -                            | -                              | 2,170                                           | -                                        | -                         | -                            | 2,170            | (910)                               |
| Movement in foreign exchange translation reserve                       | -                        | -                            | -                              | -                                               | -                                        | -                         | -                            | -                | -                                   |
| Movement in net change in fair value of available-for-sale investments | -                        | -                            | -                              | -                                               | 622                                      | -                         | -                            | 622              | (1,363)                             |
| Total other comprehensive income                                       | -                        | -                            | -                              | 2,170                                           | 622                                      | -                         | -                            | 2,792            | (2,273)                             |
| <b>Total comprehensive income for the period</b>                       | -                        | -                            | -                              | 2,170                                           | 622                                      | -                         | 59,526                       | 62,318           | 447                                 |
| <b>Transactions with owners, recorded directly in equity</b>           | -                        | -                            | -                              | -                                               | -                                        | -                         | -                            | -                | 411                                 |
| Effect of change in shareholdings                                      | 110,000                  | -                            | -                              | -                                               | -                                        | -                         | (110,000)                    | -                | -                                   |
| Issuance of Bonus share                                                | 1,210,000                | 64,016                       | 14,689                         | (3,371)                                         | 2,721                                    | (35,972)                  | 335,539                      | 1,587,622        | 47,083                              |
| <b>Balance at 30 June 2011</b>                                         |                          |                              |                                |                                                 |                                          |                           |                              |                  |                                     |

The notes on pages 8 to 17 form an integral part of these condensed consolidated interim financial statements.

The independent auditors' report on review of condensed consolidated interim financial information is set out on page 1.

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

## Condensed consolidated interim statement of changes in equity (Un-audited) (continued)

for the six-month period ended 30 June 2012

|                                                                        | Attributable to the equity holders of the Company |               |              |                 |              |                 |                  |               |                  |         |
|------------------------------------------------------------------------|---------------------------------------------------|---------------|--------------|-----------------|--------------|-----------------|------------------|---------------|------------------|---------|
|                                                                        | Share                                             | Statutory     | Revaluation  | Foreign         |              | Investment      | Treasury         | Retained      | Non-controlling  | Total   |
|                                                                        |                                                   |               |              | exchange        | translation  |                 |                  |               |                  |         |
|                                                                        | capital                                           | reserve       | reserve      | reserve         | reserve      | reserve         | stock            | earnings      | interest         | equity  |
|                                                                        | AED'000                                           | AED'000       | AED'000      | AED'000         | AED'000      | AED'000         | AED'000          | AED'000       | AED'000          | AED'000 |
| Balance at 1 January 2012                                              | 1,210,000                                         | 69,983        | 7,109        | (6,277)         | 4,596        | (35,972)        | 1,579,156        | 43,826        | 1,622,982        |         |
| <b>Total comprehensive income for the period</b>                       |                                                   |               |              |                 |              |                 |                  |               |                  |         |
| Profit for the period                                                  | -                                                 | -             | -            | -               | -            | -               | 32,450           | 8,427         | 40,877           |         |
| <b>Other comprehensive income</b>                                      |                                                   |               |              |                 |              |                 |                  |               |                  |         |
| Movement in foreign exchange translation reserve                       | -                                                 | -             | -            | (7,183)         | -            | -               | (7,183)          | (757)         | (7,940)          |         |
| Movement in net change in fair value of available-for-sale investments | -                                                 | -             | -            | -               | 723          | -               | 723              | 168           | 891              |         |
| Total other comprehensive income                                       | -                                                 | -             | -            | (7,183)         | 723          | -               | (6,460)          | (589)         | (7,049)          |         |
| Total comprehensive income for the period                              | -                                                 | -             | -            | (7,183)         | 723          | -               | 25,990           | 7,838         | 33,828           |         |
| <b>Balance at 30 June 2012</b>                                         | <b>1,210,000</b>                                  | <b>69,983</b> | <b>7,109</b> | <b>(13,460)</b> | <b>5,319</b> | <b>(35,972)</b> | <b>1,605,146</b> | <b>51,664</b> | <b>1,656,810</b> |         |

The notes on pages 8 to 17 form an integral part of these condensed consolidated interim financial statements.

The independent auditors' report on review of condensed consolidated interim financial information is set out on page 1.

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

## Notes

(forming part of the condensed consolidated interim 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, in accordance with Islamic Shari'a principles and in accordance with the relevant Articles of the Company and the UAE Federal Law No. 8 of 1984 (as amended) concerning commercial companies and UAE Federal Law No. 6 of 2007, concerning regulations of insurance operations.

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

|                               | Group's Ownership |                     | Country of<br>incorporation |
|-------------------------------|-------------------|---------------------|-----------------------------|
|                               | 30 June<br>2012   | 31 December<br>2011 |                             |
| <b>Subsidiaries</b>           |                   |                     |                             |
| <i>Through Tariic</i>         |                   |                     |                             |
| Salama Senegal                | 55.17%            | 55.17%              | Senegal                     |
| Salama Assurances Algerie     | 96.98%            | 96.98%              | Algeria                     |
| Egyptian Saudi Insurance Home | 51.15%            | 51.15%              | Egypt                       |
| Best Re Holding Company       | 100%              | 100%                | Malaysia                    |
| <i>Directly owned</i>         |                   |                     |                             |
| Tariic Holding Company        | 99.40%            | 99.40%              | Kingdom of Bahrain          |

### 2 Basis of preparation

#### a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with the International Financial Reporting Standard ("IFRS"), IAS 34 *Interim Financial Reporting*. They do not include all of the information required for the full annual financial statements, and should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2011.

#### b) Basis of measurement

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

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

#### c) Functional and reporting currency

These condensed consolidated interim 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.

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

## Notes (*continued*)

### **3 Significant accounting policies**

The accounting policies and methods of computation applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its audited consolidated financial statements as at and for the year ended 31 December 2011.

The Groups' financial risk management objectives and policies are consistent with those disclosed in the audited consolidated financial statements as at and for the year ended 31 December 2011.

### **4 Estimates**

The preparation of the condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were significantly same as those that applied to the audited consolidated financial statements as at and for the year ended 31 December 2011.

### **5 Interim measurement**

The nature of the Group's business is such that income and expense are incurred in a manner, which is not materially impacted by any form of seasonality. These condensed consolidated interim financial statements were prepared based upon an accrual concept, which requires income and expense to be recorded as earned or incurred and not as received or paid throughout the year. However, the interim results may not represent a proportionate share of the annual profits due to variability in contributions and investment income and uncertainty of claims occurrences.

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

Notes (continued)

## 6 Allocation of the net profit (Un-audited)

|                                                                                | For the period ended 30 June 2012 |                          |                                    |                  | For the period ended 30 June 2011 |                          |                                             |                  |
|--------------------------------------------------------------------------------|-----------------------------------|--------------------------|------------------------------------|------------------|-----------------------------------|--------------------------|---------------------------------------------|------------------|
|                                                                                | Shareholders<br>AED'000           | Policyholders<br>AED'000 | controlling<br>interest<br>AED'000 | Total<br>AED'000 | Shareholders<br>AED'000           | Policyholders<br>AED'000 | Non -<br>controlling<br>interest<br>AED'000 | Total<br>AED'000 |
| <b>Net underwriting income</b>                                                 |                                   |                          |                                    |                  |                                   |                          |                                             |                  |
| Total net underwriting income                                                  | -                                 | 105,250                  | -                                  | 105,250          | -                                 | 136,124                  | -                                           | 136,124          |
| <b>Income</b>                                                                  |                                   |                          |                                    |                  |                                   |                          |                                             |                  |
| Wakalah share (note 7)                                                         | 33,947                            | (33,947)                 | -                                  | -                | 35,076                            | (35,076)                 | -                                           | -                |
| Mudarib share (note 7)                                                         | 118                               | (118)                    | -                                  | -                | 53                                | (53)                     | -                                           | -                |
| Net technical charges to shareholders from policyholders                       | (4,592)                           | 4,592                    | -                                  | -                | (1,067)                           | 1,067                    | -                                           | -                |
| Net underwriting income from subsidiaries                                      | 76,995                            | (76,995)                 | -                                  | -                | 94,325                            | (94,325)                 | -                                           | -                |
| Income from investment                                                         | 28,692                            | 990                      | -                                  | 29,682           | 25,353                            | (7,834)                  | -                                           | 17,519           |
| Other income                                                                   | 10,718                            | 27                       | -                                  | 10,745           | 12,674                            | 49                       | -                                           | 12,723           |
|                                                                                | 145,878                           | (201)                    | -                                  | 145,677          | 166,414                           | (48)                     | -                                           | 166,366          |
| <b>Expenses</b>                                                                |                                   |                          |                                    |                  |                                   |                          |                                             |                  |
| General, administrative and other expenses                                     | (87,159)                          | -                        | -                                  | (87,159)         | (86,511)                          | -                        | -                                           | (86,511)         |
| Finance expenses                                                               | (7,341)                           | -                        | -                                  | (7,341)          | (9,430)                           | -                        | -                                           | (9,430)          |
| Charitable donations                                                           | (2,860)                           | -                        | -                                  | (2,860)          | (1,951)                           | -                        | -                                           | (1,951)          |
| <b>Net profit/(loss) before tax for the period</b>                             | 48,518                            | (201)                    | -                                  | 48,317           | 68,522                            | (48)                     | -                                           | 68,474           |
| Tax - current                                                                  | (7,641)                           | -                        | -                                  | (7,641)          | (6,228)                           | -                        | -                                           | (6,228)          |
| <b>Net profit/(loss) after tax for the period</b>                              | 40,877                            | (201)                    | -                                  | 40,676           | 62,294                            | (48)                     | -                                           | 62,246           |
| Share of non-controlling interest                                              | (8,427)                           | -                        | 8,427                              | -                | (2,720)                           | -                        | 2,720                                       | -                |
| Chargeback of funding/chargeback of fund provided/Policyholders' loss financed |                                   |                          |                                    |                  |                                   |                          |                                             |                  |
| by shareholders (note 13)                                                      | -                                 | 201                      | -                                  | 201              | (48)                              | 48                       | -                                           | -                |
| <b>Net profit for the period</b>                                               | 32,450                            | -                        | 8,427                              | 40,877           | 59,526                            | -                        | 2,720                                       | 62,246           |

# 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% (2011: 15%) of gross written contributions of non family takaful business (excluding subsidiaries) as wakalah share. For family takaful business, sharing ratio is 15% (2011:15%) of mortality costs.

The shareholders of the Group also manage the policyholders' investment funds other than family takaful and charge 15% (2011: 15%) of investment income earned by the policyholders as Mudarib share.

## 8 Investment properties

The geographic dispersion of investment properties is as follows:

|               | 30 June<br>2012<br>AED'000<br>(Un-audited) | 31 December<br>2011<br>AED'000<br>(Audited) |
|---------------|--------------------------------------------|---------------------------------------------|
| Within UAE    | 12,900                                     | 12,900                                      |
| GCC Countries | 261,833                                    | 261,833                                     |
|               | <u>274,733</u>                             | <u>274,733</u>                              |

Based on management's internal assessment, the carrying value of the investment properties reflects the market conditions as at 30 June 2012.

The Group investment property portfolio, is being managed and maintained by a third party administrator, and the administrative fees is set off against rental income which is presented on a net basis in financial statements.

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

Notes (continued)

## 9 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<br>incorporation | 30 June<br>2012         | 31 December<br>2011  |
|------------------------------------------------------|-----------|--------|-----------------------------|-------------------------|----------------------|
|                                                      | 2012      | 2011   |                             | AED'000<br>(Un-audited) | AED'000<br>(Audited) |
| GEPAR                                                | 20.00%    | 20.00% | Tunisia                     | 924                     | 925                  |
| Saudi IAIC Cooperative Insurance<br>Co. (Saudi IAIC) | 30.00%    | 30.00% | KSA                         | 27,368                  | 29,257               |
| Islamic Insurance Jordan                             | 20.00%    | 20.00% | Jordan                      | 27,344                  | 27,381               |
|                                                      |           |        |                             | <b>55,636</b>           | <b>57,563</b>        |

| Movements during the period/year    | 30 June<br>2012         | 31 December<br>2011  |
|-------------------------------------|-------------------------|----------------------|
|                                     | AED'000<br>(Un-audited) | AED'000<br>(Audited) |
| Balance at beginning of period/year | 57,563                  | 57,331               |
| Purchases                           | -                       | 925                  |
| Disposal of associates              | -                       | (1,320)              |
| Share of profit in associates       | (1,307)                 | 1,244                |
| Change in reserve                   | -                       | (617)                |
| Dividend                            | (620)                   | -                    |
| Balance at ending of period/year    | <b>55,636</b>           | <b>57,563</b>        |

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

Notes (continued)

## 10 Investments

|                                                                 | 30 June 2012<br>(Un-audited)       |                                         |                  | 31 December 2011<br>(Audited)      |                                         |                  |
|-----------------------------------------------------------------|------------------------------------|-----------------------------------------|------------------|------------------------------------|-----------------------------------------|------------------|
|                                                                 | Domestic<br>investments<br>AED'000 | International<br>investments<br>AED'000 | Total<br>AED'000 | Domestic<br>investments<br>AED'000 | International<br>investments<br>AED'000 | Total<br>AED'000 |
| <b>Financial asset at fair<br/>value through profit or loss</b> |                                    |                                         |                  |                                    |                                         |                  |
| Mutual fund and externally<br>managed portfolios                | -                                  | 23,135                                  | 23,135           | -                                  | 19,768                                  | 19,768           |
| Shares and securities                                           | 3,704                              | -                                       | 3,704            | 3,610                              | -                                       | 3,610            |
|                                                                 | <u>3,704</u>                       | <u>23,135</u>                           | <u>26,839</u>    | <u>3,610</u>                       | <u>19,768</u>                           | <u>23,378</u>    |
| <b>Available-for-sale<br/>investments</b>                       |                                    |                                         |                  |                                    |                                         |                  |
| Mutual fund and externally<br>managed portfolios                | -                                  | 213,605                                 | 213,605          | -                                  | 278,409                                 | 278,409          |
| Shares and securities                                           | 3,036                              | 92                                      | 3,128            | 2,627                              | 95                                      | 2,722            |
|                                                                 | <u>3,036</u>                       | <u>213,697</u>                          | <u>216,733</u>   | <u>2,627</u>                       | <u>278,504</u>                          | <u>281,131</u>   |
| <b>Islamic placements *</b>                                     | -                                  | 361,217                                 | 361,217          | -                                  | 477,641                                 | 477,641          |
| <b>Held to maturity</b>                                         |                                    |                                         |                  |                                    |                                         |                  |
| SUKUK and Government<br>bonds                                   | -                                  | 223,810                                 | 223,810          | -                                  | 195,722                                 | 195,722          |
| <b>Total investments</b>                                        | <u>6,740</u>                       | <u>821,859</u>                          | <u>828,599</u>   | <u>6,237</u>                       | <u>971,635</u>                          | <u>977,872</u>   |

\*Represent Sharia'h compliant placements with different financial institutions having profit rates of 0.22% to 4.75% (2011: 0.22% to 4.75%) and maturing in more than 3 months when acquired.

## 11 Participants' investments in unit-linked contracts

|                                                      | 30 June<br>2012<br>AED'000<br>(Un-audited) | 31 December<br>2011<br>AED'000<br>(Audited) |
|------------------------------------------------------|--------------------------------------------|---------------------------------------------|
| Financial asset at fair value through profit or loss | <u>524,808</u>                             | <u>489,956</u>                              |

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

Notes (continued)

## 12 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 IAS 24 Related Party Disclosures (Revised). 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.

|                                                       | Six-month<br>period ended<br>30 June<br>2012<br>AED'000<br>(Un-audited) | Six-month<br>period ended<br>30 June<br>2011<br>AED'000<br>(Un-audited) |
|-------------------------------------------------------|-------------------------------------------------------------------------|-------------------------------------------------------------------------|
| General and administrative expenses                   | 1,302                                                                   | 1,057                                                                   |
| Retakaful on contributions                            | 1,706                                                                   | 2,279                                                                   |
| Retakaful on claims                                   | 268                                                                     | 66                                                                      |
| <b>Compensation of key management personnel</b>       |                                                                         |                                                                         |
| Short term benefits                                   | 5,033                                                                   | 6,552                                                                   |
| Employees end of service benefits                     | 209                                                                     | 1,015                                                                   |
|                                                       | <b>5,242</b>                                                            | <b>7,567</b>                                                            |
|                                                       |                                                                         |                                                                         |
|                                                       | 30 June<br>2012<br>AED'000<br>(Un-audited)                              | 31 December<br>2011<br>AED'000<br>(Audited)                             |
| <b>Amounts due from related parties</b>               |                                                                         |                                                                         |
| Bin Zayed Group                                       | 11,128                                                                  | 11,128                                                                  |
| IAIC Bahrain                                          | 22                                                                      | 21                                                                      |
| Saudi IAIC Cooperative Insurance Co.                  | 51                                                                      | -                                                                       |
| Other entities under common management with the Group | 1,191                                                                   | 1,428                                                                   |
|                                                       | <b>12,392</b>                                                           | <b>12,577</b>                                                           |
| <b>Amounts due to related parties</b>                 |                                                                         |                                                                         |
| IAIC Bahrain-current account                          | 7                                                                       | 7                                                                       |
| Other entities under common management with the Group | 1,021                                                                   | 860                                                                     |
|                                                       | <b>1,028</b>                                                            | <b>867</b>                                                              |

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

Notes (*continued*)

## 13 Policyholders' fund

|                                                                                  | 30 June<br>2012<br>AED'000<br>(Un-audited) | 31 December<br>2011<br>AED'000<br>(Audited) |
|----------------------------------------------------------------------------------|--------------------------------------------|---------------------------------------------|
| Balance at 1 January                                                             | 721                                        | (1,017)                                     |
| Net (deficit)/surplus attributable to policyholders for the period/year (note 6) | (201)                                      | 14,179                                      |
| Proposed surplus distribution to policyholders of family takaful                 | -                                          | (12,441)                                    |
|                                                                                  | <u>520</u>                                 | <u>721</u>                                  |

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

## 14 Earnings per share

The calculation of earnings per share for the period ended 30 June 2012 is based on the profit attributable to shareholders of AED 32.45 million (*30 June 2011: AED 59.53 million*) divided by the weighted average number of shares of 1,188 million (*30 June 2011: 1,188 million*) outstanding during the period. There is no dilutive effect on basic earnings per share.

## 15 Contingent liabilities and capital commitments

|                      | 30 June<br>2012<br>AED'000<br>(Un-audited) | 31 December<br>2011<br>AED'000<br>(Audited) |
|----------------------|--------------------------------------------|---------------------------------------------|
| Letters of guarantee | <u>13,002</u>                              | <u>11,459</u>                               |

Statutory deposits of AED 13 million (*31 December 2011 AED 6.48 million*) are held as lien by the bank against the above guarantees.

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 capital commitments at 30 June 2012 (*31 December 2011: nil*).

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

Notes (continued)

## 16 Operating segment

*By business*

*(for the six-month period ended 30 June 2012)*

|                                                            | Non -motor<br>AED'000 | Motor<br>AED'000 | Health<br>AED'000 | Family takaful<br>AED'000 | Total<br>AED'000 |
|------------------------------------------------------------|-----------------------|------------------|-------------------|---------------------------|------------------|
| Gross written contributions                                | 767,847               | 344,699          | 31,169            | 99,195                    | 1,242,910        |
| Net contributions earned                                   | 543,398               | 310,696          | 12,024            | 73,803                    | 939,921          |
| Commissions received on ceded<br>reinsurance and retakaful | 31,950                | 73               | 665               | -                         | 32,688           |
|                                                            | 575,348               | 310,769          | 12,689            | 73,803                    | 972,609          |
| Net claims incurred                                        | (394,318)             | (128,997)        | (7,350)           | (38,170)                  | (568,835)        |
| Commissions paid and other costs                           | (203,604)             | (73,228)         | (3,842)           | (17,850)                  | (298,524)        |
| Net underwriting income                                    | (22,574)              | 108,544          | 1,497             | 17,783                    | 105,250          |
| Investment and other income                                |                       |                  |                   |                           | 40,427           |
| Unallocated expenses and tax                               |                       |                  |                   |                           | (105,001)        |
| Net profit after tax                                       |                       |                  |                   |                           | 40,676           |

*(for the six-month period ended 30 June 2011)*

|                                                            | Non -motor<br>AED'000 | Motor<br>AED'000 | Health<br>AED'000 | Family takaful<br>AED'000 | Total<br>AED'000 |
|------------------------------------------------------------|-----------------------|------------------|-------------------|---------------------------|------------------|
| Gross written contributions                                | 741,424               | 385,741          | 31,489            | 103,992                   | 1,262,646        |
| Net contributions earned                                   | 553,056               | 307,845          | 13,765            | 60,346                    | 935,012          |
| Commissions received on ceded<br>reinsurance and retakaful | 22,965                | 62               | 544               | 197                       | 23,768           |
|                                                            | 576,021               | 307,907          | 14,309            | 60,543                    | 958,780          |
| Net claims incurred                                        | (291,174)             | (194,074)        | (6,956)           | (28,618)                  | (520,822)        |
| Commissions paid and other costs                           | (195,835)             | (94,941)         | (3,386)           | (7,672)                   | (301,834)        |
| Net underwriting income                                    | 89,012                | 18,892           | 3,967             | 24,253                    | 136,124          |
| Investment and other income                                |                       |                  |                   |                           | 30,242           |
| Unallocated expenses and tax                               |                       |                  |                   |                           | (104,120)        |
| Net profit after tax                                       |                       |                  |                   |                           | 62,246           |

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

Notes (continued)

## 16 Operating segment (continued)

By Geography

(for the six-month period ended 30 June 2012)

|                                                            | Africa   | Far East  | Middle East | Turkey and<br>Central Asia | Total     |
|------------------------------------------------------------|----------|-----------|-------------|----------------------------|-----------|
|                                                            | AED'000  | AED'000   | AED'000     | AED'000                    | AED'000   |
| Gross written contributions                                | 191,785  | 777,242   | 244,065     | 29,818                     | 1,242,910 |
| Net contributions earned                                   | 136,879  | 625,373   | 158,806     | 18,863                     | 939,921   |
| Commissions received on<br>ceded reinsurance and retakaful | 8,007    | 19,357    | 5,324       | -                          | 32,688    |
|                                                            | 144,886  | 644,730   | 164,130     | 18,863                     | 972,609   |
| Net claims incurred                                        | (62,729) | (395,062) | (87,481)    | (23,563)                   | (568,835) |
| Commissions paid and other cost                            | (37,173) | (209,862) | (45,364)    | (6,125)                    | (298,524) |
| Net underwriting income                                    | 44,984   | 39,806    | 31,285      | (10,825)                   | 105,250   |
| Investment and other income                                |          |           |             |                            | 40,427    |
| Unallocated expenses and tax                               |          |           |             |                            | (105,001) |
| Net profit after tax                                       |          |           |             |                            | 40,676    |

(for the six-month period ended 30 June 2011)

|                                                            | Africa   | Far East  | Middle East | Turkey and<br>Central Asia | Total     |
|------------------------------------------------------------|----------|-----------|-------------|----------------------------|-----------|
|                                                            | AED'000  | AED'000   | AED'000     | AED'000                    | AED'000   |
| Gross written contributions                                | 197,250  | 759,186   | 241,562     | 64,648                     | 1,262,646 |
| Net contributions earned                                   | 147,853  | 580,921   | 156,405     | 49,833                     | 935,012   |
| Commissions received on ceded<br>reinsurance and retakaful | 6,246    | 12,353    | 5,169       | -                          | 23,768    |
|                                                            | 154,099  | 593,274   | 161,574     | 49,833                     | 958,780   |
| Net claims incurred                                        | (78,340) | (328,440) | (90,706)    | (23,336)                   | (520,822) |
| Commissions paid and other cost                            | (34,111) | (228,842) | (21,684)    | (17,197)                   | (301,834) |
| Net underwriting income                                    | 41,648   | 35,992    | 49,184      | 9,300                      | 136,124   |
| Investment and other income                                |          |           |             |                            | 30,242    |
| Unallocated expenses and tax                               |          |           |             |                            | (104,120) |
| Net profit after tax                                       |          |           |             |                            | 62,246    |

## 17 Comparative figures

Certain comparative figures have been reclassified, where necessary, to conform with the presentation and change in accounting policy adopted by the Group for the year ended 31 December 2011 in their audited consolidated financial statements.