

Islamic Arab Insurance Co. (Salama) and its
subsidiaries

Interim condensed consolidated financial statements
30 September 2006

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Interim condensed consolidated financial statements
for the nine month period ended 30 September 2006

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Review Report of the Auditors

To the Board of Directors
Islamic Arab Insurance Co. (Salama)
Dubai

We have reviewed the accompanying interim condensed consolidated balance sheet of Islamic Arab Insurance Co. (Salama) ("the Company") and its subsidiaries (collectively referred to as "the Group") as of 30 September 2006, and the related interim condensed consolidated statements of income, cash flows and changes in equity for the nine month period then ended. These interim condensed consolidated financial statements are the responsibility of the Group's management. Our responsibility is to issue a report on these interim condensed consolidated financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not presented fairly, in all material respects, in accordance with International Accounting Standard 34: Interim financial reporting.

Vijendra Nath Malhotra
Registration No : 48B

06 NOV 2006

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Interim condensed consolidated income statement

for the nine month period ended 30 September 2006

		Nine month period ended 30 September 2006 AED'000 (Unaudited)	Nine month period ended 30 September 2005 AED'000 (Unaudited)	Three month period ended 30 September 2006 AED'000 (Unaudited)	Three month period ended 30 September 2005 AED'000 (Unaudited)
UNDERWRITING RESULTS					
Underwriting income					
Gross written premium		463,339	357,088	152,421	136,441
Less: reinsurance premiums ceded		(69,813)	(48,798)	(21,783)	(15,415)
Net premium		393,526	308,290	130,638	121,026
Net movement in unearned premium		(22,496)	(8,011)	(1,158)	(13,966)
Premiums earned		371,030	300,279	129,480	107,060
Commission received on ceded reinsurance		14,135	2,890	4,590	633
		385,165	303,169	134,070	107,693
Underwriting expenses					
Gross claims paid		181,047	182,303	67,969	65,586
Less: reinsurance share of claims paid		(15,377)	(25,014)	(5,656)	(11,388)
Net claims paid		165,670	157,289	62,313	54,198
Net movement in outstanding claims		36,851	20,924	18,707	32,367
Claims incurred		202,521	178,213	81,020	86,565
Commission paid		107,304	88,618	38,441	32,204
Medical fee		153	-	18	-
		309,978	266,831	119,479	118,769
Net underwriting income/(loss)		75,187	36,338	14,591	(11,076)
Net underwriting (income)/loss from subsidiaries attributable to shareholders	2	(65,652)	(30,782)	(12,520)	13,148
Wakala fees	4	(8,251)	(5,438)	(2,247)	(2,070)
Net surplus/(deficit) from insurance operations		1,284	118	(176)	2
Investment income	5	176	5,565	69	4,858
Mudarib fees	4	(26)	(835)	(10)	(729)
Other income		4	24	2	10
Net surplus/(deficit) attributable to policy holders	2,11	1,438	4,872	(115)	4,141

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Interim condensed consolidated income statement (continued)

for the nine month period ended 30 September 2006

		Nine month period ended 30 September 2006 AED'000 (Unaudited)	Nine month period ended 30 September 2005 AED'000 (Unaudited)	Three month period ended 30 September 2006 AED'000 (Unaudited)	Three month period ended 30 September 2005 AED'000 (Unaudited)
ATTRIBUTABLE TO SHAREHOLDERS					
Income					
Net underwriting income/(loss) from					
Subsidiaries attributable to shareholders	2	65,652	30,782	12,520	(13,148)
Wakala fees from policy holders	4	8,251	5,438	2,247	2,070
Mudarib fees from policy holders	4	26	835	10	729
Investment income	5	129,884	45,829	45,173	42,547
Other income		3,795	2,135	2,109	833
Net leasing income		-	4,552	-	1,455
		-----	-----	-----	-----
		207,608	89,571	62,059	34,486
Expenses					
General and administrative expenses		(57,418)	(28,604)	(19,469)	(9,199)
Financial expenses		(281)	(1,823)	(165)	(822)
Provision for charitable donations		(1,468)	(1,798)	(367)	(550)
Tax on foreign operations		(2,151)	(1,096)	(1,357)	545
Provision written back/(made) against loan to policyholders' fund	2,11	1,438	4,872	(115)	4,141
		-----	-----	-----	-----
Net profit before minority interest		147,728	61,122	40,586	28,601
Net profit attributable to:					
Shareholders of the parent Company		143,288	54,473	40,664	37,233
Minority interest	10	4,440	6,649	(78)	(8,632)
		-----	-----	-----	-----
Net profit for the period		147,728	61,122	40,586	28,601
		-----	-----	-----	-----
Earnings per share (AED)	12	0.13	0.13	0.04	0.04
		-----	-----	-----	-----

The notes on pages 8 to 18 form an integral part of these interim condensed consolidated financial statements.

The review report is set out on page 1.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Interim condensed consolidated balance sheet

at 30 September 2006

		30 September 2006 AED'000 (Unaudited)	31 December 2005 AED'000 (Audited)	30 September 2005 AED'000 (Unaudited)
	Note			
Non-current assets				
Property and equipment		55,041	49,293	35,708
Intangible assets		11,640	3,757	-
Goodwill	3	186,194	186,194	186,194
Investment properties		13,000	13,000	13,000
Operating lease assets		-	-	47,916
Investments in associates	6	55,051	60,055	53,612
Statutory deposits	7	36,983	16,916	7,894
Available for sale investments		23,857	90,065	74,373
Loan and receivables - long term portion		12,150	12,150	12,150
		-----	-----	-----
		393,916	431,430	430,847
		-----	-----	-----
Current assets				
Financial assets at fair value through profit or loss		40,901	70,202	47,553
Loan and receivables - short term portion		1,716	15,452	19,488
Deposits with insurance and reinsurance companies		284,522	275,383	207,039
Premiums and insurance balance receivables		292,074	224,060	200,202
Reinsurers' share of outstanding claims		71,310	67,466	61,704
Amounts due from related parties	9	250,334	95,701	241,304
Murabaha and other deposit		-	-	267,429
Other assets and receivables		69,385	55,516	120,124
Cash in hand and at bank		654,870	561,078	102,495
		-----	-----	-----
		1,665,112	1,364,858	1,267,338
		-----	-----	-----
Current liabilities				
Outstanding claims reserve		343,900	307,245	219,512
Unearned premiums reserve		109,315	82,143	80,559
Insurance balances payable		87,704	81,830	91,061
Other payables and accruals	8	78,722	50,184	58,420
Amounts due to related parties	9	4,867	517	5,146
Deposit certificates		-	-	39,899
Bank finance - short term portion		10,964	7,609	5,114
		-----	-----	-----
		635,472	529,528	499,711
		-----	-----	-----
Net current assets		1,029,640	835,330	767,627
		-----	-----	-----
Non current liability				
Bank finance - long term portion		(149,118)	(518)	(43)
		-----	-----	-----
Policyholders' fund				
Deficiency in policyholders' fund	11	(11,483)	(12,921)	(12,318)
Loans from shareholders	11	11,483	12,921	12,318
		-----	-----	-----
		-	-	-
		-----	-----	-----
Net assets		1,274,438	1,266,242	1,198,431
		=====	=====	=====

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Interim condensed consolidated balance sheet (continued)

at 30 September 2006

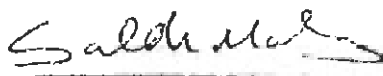
	Note	30 September 2006 AED'000 (Unaudited)	31 December 2005 AED'000 (Audited)	30 September 2005 AED'000 (Unaudited)
Represented by:				
Shareholders' funds				
Share capital		1,100,000	1,000,000	1,000,000
Statutory reserve		16,878	16,878	5,804
Revaluation reserve		7,196	6,855	-
Investment fair value reserve		5,270	-	-
Foreign exchange translation		(5,008)	(3,942)	(4,224)
Retained earnings		111,760	88,059	42,865
		<u>1,236,096</u>	<u>1,107,850</u>	<u>1,044,445</u>
Minority interest	10	<u>38,342</u>	<u>158,392</u>	<u>153,986</u>
Total equity (including minority interest)		<u><u>1,274,438</u></u>	<u><u>1,266,242</u></u>	<u><u>1,198,431</u></u>

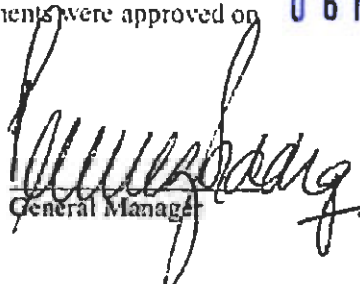
The notes on pages 8 to 18 form an integral part of these interim condensed consolidated financial statements.

We approve these interim condensed consolidated financial statements and confirm that we are responsible for them, including selecting the accounting policies and making the judgements underlying them. We confirm also that we have made available all relevant accounting records and information for their compilation.

These interim condensed consolidated financial statements were approved on

06 NOV 2006


Vice Chairman & CEO


General Manager

The review report is set out on page 1.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Interim condensed consolidated statement of cash flows

for the nine month period ended 30 September 2006

	Nine month period ended 30 September 2006 AED'000 (Unaudited)	Nine month period ended 30 September 2005 AED'000 (Unaudited)
Operating activities		
Net profit before minority interest	147,728	61,122
<i>Adjustment for:</i>		
Net movement in unearned premiums reserve	27,172	10,488
Dividend income	(692)	(596)
	<u>174,208</u>	<u>71,014</u>
<i>Operating profit before changes in working capital</i>		
Increase in deposits with insurance and reinsurance companies	(9,139)	(6,232)
Increase in premiums and insurance balance receivable	(68,014)	(50,606)
Increase in due from related parties	(154,633)	(202,172)
Increase in other assets and receivables	(13,869)	(65,943)
Increase in outstanding claims (net of reinsurance)	32,811	17,989
Increase/(decrease) in insurance payables and other payables	34,412	(60,897)
Increase/(decrease) in due to related parties	4,350	1,754
	<u>126</u>	<u>(295,093)</u>
<i>Cash flows from operating activities</i>		
Investing activities		
Net movement in property and equipment and intangible assets	(13,290)	(3,036)
Net movement in operating lease assets	-	5,443
Net movement in investments	26,395	(387,987)
Loans and receivables received	13,736	-
(Increase)/decrease in statutory deposits	(20,067)	3,656
Dividend received	692	596
	<u>7,466</u>	<u>(381,328)</u>
<i>Cash flows from investing activities</i>		
Financing activities		
Increase/(decrease) in term bank finance	158,559	(83)
Decrease in deposit certificates	-	(2,983)
Proceeds from increase in share capital	-	950,000
Cash paid on acquisition of subsidiaries, net of cash acquired	-	(189,338)
Net movement in minority interest	(144,077)	15,990
	<u>14,482</u>	<u>773,586</u>
<i>Cash flows from financing activities</i>		
Increase in cash and cash equivalents	22,074	97,165
Cash and cash equivalents at the beginning of the period	414,474	314
	<u>436,548</u>	<u>97,479</u>
Cash and cash equivalents at the end of the period		
Cash in hand and at bank	654,870	102,495
Lien over term deposits	(140,000)	-
Cash held within IPO Fund	(78,322)	-
Bank overdraft	-	(5,016)
	<u>436,548</u>	<u>97,479</u>
Cash and cash equivalents at the end of the period		

The notes on pages 8 to 18 form an integral part of these interim condensed consolidated financial statements.
The review report is set out on page 1.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Interim condensed consolidated statement of changes in equity (Unaudited)
for the nine month period ended 30 September 2006

	Share capital AED'000	Statutory reserve AED'000	Revaluation reserve AED'000	Foreign exchange translation AED'000	Investment fair value reserve AED'000	Retained earnings AED'000	Total AED'000
At 1 January 2005	50,000	5,804	-	-	-	(12,398)	43,406
Increase in share capital	950,000	-	-	-	-	-	950,000
Share in foreign exchange translation reserve	-	-	-	(4,224)	-	-	(4,,224)
Movement upon acquisition of minority interest	-	-	-	-	-	790	790
Net profit for the period	-	-	-	-	-	54,473	54,473
At 30 September 2005	<u>1,000,000</u>	<u>5,804</u>	<u>-</u>	<u>(4,224)</u>	<u>-</u>	<u>42,865</u>	<u>1,044,445</u>
At 1 January 2006	1,000,000	16,878	6,855	(3,942)	-	88,059	1,107,850
Bonus shares issued	100,000	-	-	-	-	(100,000)	-
Share in foreign exchange translation reserve	-	-	-	(1,066)	-	-	(1,066)
Share in revaluation reserve	-	-	341	-	-	-	341
Share in investment fair value reserve	-	-	-	-	5,270	-	5,270
Movement upon further acquisitions of subsidiaries (note 3)	-	-	-	-	-	(19,587)	(19,587)
Net profit for the period	-	-	-	-	-	143,288	143,288
At 30 September 2006	<u>1,100,000</u>	<u>16,878</u>	<u>7,196</u>	<u>(5,008)</u>	<u>5,270</u>	<u>111,760</u>	<u>1,236,096</u>

In June 2005, the Board of Directors of the Company approved to reduce the face value of the shares from AED 100 to AED 1.

In July 2005, the Company increased its share capital through a rights issue of 750 million shares at AED 1 per share and through public offer of 200 million shares at AED 1 per share increasing its share capital by AED 950 million.

The Board of Directors proposed to issue 10% bonus shares. The proposal was approved by the shareholders in the Annual General Meeting held in 29 April 2006.

The notes on pages 8 to 18 form an integral part of these interim condensed consolidated financial statements.

The review report is set out on page 1.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes

(forming part of the interim condensed 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 insurance business, principally motor insurance, in accordance with Islamic Sharia'a principles.

In June 2005, the Company acquired 41,105,320 shares (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 3).

Subsequent to the above acquisition, the shareholders of Tariic approved to increase their share capital from USD 26 million to USD 100 million by issuing 74 million rights shares at par value of USD 1 per share. The Company participated in the increased capital of Tariic to the extent of their stake in Tariic (82.21%) by subscribing to 41,105,320 shares.

Tariic further offered the Company to subscribe to 8,180,534 shares which were not subscribed by the minority shareholders during the rights issue. The Company accepted the offer and as a result, the percentage of ownership in Tariic increased from 82.21% to 90.39%.

In addition, the Company acquired 423,650 shares of Tariic from Islamic Arab Insurance Co. Labuan, Malaysia, a related party, in accordance with a Shares Sale Contract. This further increased the percentage of ownership in Tariic from 90.39% to 90.81%.

In the first half of 2006, the Company further purchased 4,507,346 shares of Tariic increasing the holding from 90.81% in December 2005 to 95.32% this period. In addition, the Company acquired 222,494 shares in Best Re which is one of the subsidiaries of Tariic. The shares acquired represent 40.45 % holding in Best Re. During the quarter, Best Re has increased its capital from 550,000 to 1 million shares which were allotted to Tariic only due to which, the shareholding of the Company decreased to 22.25% and Tariic shareholding in Best Re increased from 59.55% in December 2005 to 77.75% this period. By virtue of this direct holding in Best Re, in addition to the holding through Tariic, Best Re becomes direct subsidiary of the Company effective 1 April 2006.

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 insurance, reinsurance and leasing activities under Islamic Sharia'a principles:

Subsidiaries	Tariic Ownership	Country of Incorporation
Best Re	77.75%	Tunisia
Sosar Al Aman Assurance	52.66%	Senegal
Al Baraka Oua Al Aman	89.11%	Algeria
Egypt Saudi Insurance Home	51.15%	Egypt

Refer to note 6 detailing the change in classification of investment in Best Lease from a subsidiary to an associate.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (*continued*)

2. **Basis of preparation and significant accounting policies**

Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and its interpretations adopted by the International Accounting Standards Board and the requirements of UAE Federal Law No.8 of 1984 (as amended).

Basis of preparation

As mentioned in note 1, the Company acquired Tariic during June 2005. As a result, the annual financial statements for year ended 31 December 2005 have been prepared on a consolidated basis for the Group.

The interim condensed consolidated financial statements are presented in United Arab Emirate Dirham (“AED”), rounded to the nearest thousand. They are prepared on the historical cost basis except for the measurement of available-for-sale investments, financial assets at fair value through profit and loss, investment properties and revalued land and buildings which are stated at their fair values.

These interim condensed consolidated financial statements do not include all the information required for full annual consolidated financial statements and should be read in conjunction with financial statements as at and for the year ended 31 December 2005.

Estimates

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

In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2005.

Financial risk management

The Group’s financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2005.

The accounting policies applied by the Group in the preparation of the interim condensed consolidated financial statements are consistent with those applied by the Group in the annual consolidated financial statements of the Group as at and for the year ended 31 December 2005.

Change in accounting policies

In December 2003 and March 2004, the IASB approved amendments to a number of existing standards as a result of the Improvements project and issued several new standards. The objectives of the Improvements project were to reduce or eliminate alternatives, redundancies and conflicts within the standards, to deal with some convergence issues and to make other improvements.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

2. Basis of preparation and significant accounting policies (continued)

Change in accounting policies (continued)

As a result, the Group changed some of its accounting policies as described below. The amendments became effective on 1 January 2005. Comparative information was adjusted in accordance with IAS 8 Accounting Policies, Changes in Accounting estimates and errors to ensure the appropriate accounting policies within each period.

- i. IFRS 4 "Insurance Contracts": The Group has adopted IFRS 4 effective 1 January 2005. Following the adoption of IFRS 4, "Insurance Contracts", the Group continues to apply the same accounting policies for the recognition and measurement of obligations arising from insurance contracts issued (including related policy on acquisition costs) and reinsurance contracts held for the financial statements for the year ended 31 December 2005 as were applied for the Group's audited financial statements at 31 December 2004 with the exception of its policy for liability adequacy test.
- ii. IAS 39 (Revised) "Financial Instruments - Recognition and Measurement": The revised IAS 39 has introduced a new classification 'fair value through profit or loss' (FVP) under which financial assets can be classified and carried at fair value with changes in fair value being recognized in the income statement. This new classification includes financial assets held for trading and those designated at FVP on initial recognition as determined by the management.
- iii. IAS 16 (Revised) "Property, Plant & Equipment": The Group revised its accounting policy in respect of measurement of land and building from the cost model to revaluation model which requires that after recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount less any subsequent accumulated depreciation and impairment losses. The land and building has been revalued as at 31 December 2005 resulting in a Group share of surplus of AED 6.8 million which has been taken to revaluation reserve. As it is impractical to reassess and revalue land and building for the prior years, the assets, opening retained earnings and income statement have not been restated.

Underwriting income attributable to policyholders and shareholders

As stated in note 1, the Group operates in accordance with Islamic Sharia'a principles. As a result, the net underwriting income from the operations of the Company is attributable to policyholders in accordance with the terms and conditions of insurance contracts acquired by the policyholder which stipulates that the insured on taking out this policy from the Company becomes entitled to participate in the premium pool with insured parties in the class of insurance on cooperative (mutual basis). The relationship of the insured with the Company will be 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 Company for the class of insurance at the end of fiscal year of the Company. The Company 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 Company. 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 the subsidiary.

Therefore, the Company maintains separate accounts for insurance operations on behalf of the policyholders. Accordingly, the financial statements have been prepared on that basis and comply with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) to the extent that these are compatible with International Financial Reporting Standards.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

3. 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 had the following effect on the Group's assets and liabilities:

	Tariic AED'000
Property and equipment, net	28,211
Intangible assets	5,311
Operating lease assets	53,360
Investment in associates	41,773
Available for sale investments	24,560
Statutory deposits	13,957
Deposits with insurance and reinsurance companies	201,796
Premiums and insurance balances receivables	146,163
Reinsurers' share of outstanding claims	66,888
Amounts due from related parties	714
Other assets and receivables	36,327
Cash in hand and at bank	95,318
Gross outstanding claims	(204,869)
Unearned premiums	(43,796)
Insurance balances payable	(70,318)
Other payables and accruals	(36,596)
Amounts due to related parties	(78,629)
Bank finance	(54,736)
Minority interest (note 10)	(132,137)

Net worth acquired	93,297
Goodwill on acquisition	186,194

Consideration paid to shareholders of subsidiaries towards net assets acquired at 1 January 2005	279,491
Consideration paid to shareholders of subsidiaries towards increase in capital during 2005	72,409

Total consideration paid to shareholders of subsidiaries	<u>351,900</u>

Subsequent to the above acquisition, as stated in note 1, the Company subscribed to 49,285,854 shares in the increased in share capital of Tariic, and purchased 423,650 shares from a related party. By virtue of these transactions, the percentage of ownership of the Company in Tariic as at 31 December 2005 increased from 82.21% to 90.81%. The resultant net discount of AED 0.8 million is recognised directly in the Company's shareholders' equity.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

3. Acquisition of subsidiaries (continued)

Also, as stated in noted 1, the Company further acquired shares of Tariic and Best Re and the resultant net discount and goodwill amounting to AED 2.1 million and AED 28.7 million, respectively are recognised directly in the Company's shareholders' equity.

In addition, due to additional 450,000 shares of Best Re acquired by Taricc, a discount of AED 7.4 million is recognised directly in Tariic's shareholder's equity. Consequently, the share of the Company to the above discount of AED 7 million is recognised directly in the shareholders' equity.

4. Wakala and mudarib fees

The shareholders manage the insurance operations of the Company for the policyholders and charge 15% (2005: 15%) of gross written premium (excluding subsidiaries) as Wakala fees.

The shareholders of the Company also manage the policyholders' investment funds and charge 15% (2005: 15%) of investment income earned by the policyholders as Mudarib fees.

5. Investment income

	Nine month period ended 30 September 2006 AED'000 (Unaudited)	Nine month period ended 30 September 2005 AED'000 (Unaudited)
Rental income	631	574
Income from investment deposits	167	186
Realised gain on investments	-	10,080
Profit commission on Modaraba investment	-	404
Dividend income	-	596
	-----	-----
	798	11,840
Less: Allocated to policyholders*	(176)	(5,565)
	-----	-----
Allocated to shareholders*	622	6,275
Investment income allocated to the shareholders only**	129,262	39,554
	-----	-----
Total investment income attributable to shareholders	129,884	45,829
	=====	=====

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

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

5. Investment income (continued)

**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 Company. The details of these investment income are as follows:

	Nine month period ended 30 September 2006 AED'000 (Unaudited)	Nine month period ended 30 September 2005 AED'000 (Unaudited)
Income from investment in IPO Fund	126,994	10,078
Realised gain on sale of investments	1,003	1,459
Unrealised (loss)/gain on investments	(17,271)	20,002
Income from bank deposits and notes receivable	9,252	519
Profit on IPO subscription	-	2,228
Profit on Modaraba investment	4,198	-
Dividend income	692	-
Share of profits from investment in associates (refer note 6)	339	-
Others	4,055	5,268
	<u>129,262</u>	<u>39,554</u>

6. 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	30 September 2006 AED'000 (Unaudited)	31 December 2005 AED'000 (Audited)
	30 September 2006	31 December 2005			
GEPAR	19.06%	18.16%	Tunisia	92	92
Islamic Arab Insurance Co. (IAIC) Gulf*	47.08%	45.23%	KSA	51,964	51,964
ITE	46.71%	44.50%	Tunisia	43	43
Best Lease	45.75%	43.59%	Tunisia	2,952	6,669
Al Aman Takaful Insurance	28.53%	27.18%	Lebanon	-	1,287
Lloyds Tunisia	23.77%	22.65%	Tunisia	-	-
Best Invest	23.83%	22.70%	Tunisia	-	-
				<u>55,051</u>	<u>60,055</u>

*This represents investment in an associate company as a result of ownership by Tariic of 41% and by the Company of 8% which is under formation at the balance sheet date and is carried at cost.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

6. Investment in associates (continued)

Movements during the period

	30 September 2006 AED'000 (Unaudited)
Balance at 1 January	60,055
Change in impairment reserve	148
Share in profit of associates	339
Sale of an associate	(5,491)

Closing balance	<u>55,051</u>

7. Statutory deposits

Company	Country of incorporation	30 September 2006 AED'000 (Unaudited)	31 December 2005 AED'000 (Audited)
IAIC	UAE	8,036	5,036
Tariic	Bahrain	195	195
Egypt Saudi Insurance Home	Egypt	8,094	7,868
Al Baraka Oua Al Amane	Algeria	16,608	-
Sosar Al Amane Assurance	Senegal	4,050	3,817
		-----	-----
		<u>36,983</u>	<u>16,916</u>

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

8. Other payables and accruals

The balance as at 30 September 2006 includes an amount of AED 29.2 million (2005: nil) payable to three entities which mainly represents amount to be paid for the further acquisitions of Tariic and Best Re shares (refer note 1 and note 3).

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

9. Related party transactions

The Group, in the normal course of business, collects premiums, 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.

	Nine month period ended 30 September 2006 AED'000 (Unaudited)	Nine month period ended 30 September 2005 AED'000 (Unaudited)
Profit on Modaraba investment	-	404
General and administrative expenses	300	1,500
Reinsurance on premiums	6,271	1,795
Reinsurance on claims	1,419	1,605
Purchase of investments by Bin Zayed Group on behalf of the Group	297,678	-
Sale of investments by Bin Zayed Group on behalf of the Group	293,617	-

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

	30 September 2006 AED'000 (Unaudited)	31 December 2005 AED'000 (Audited)
Amounts due from related parties		
Bin Zayed Group	241,161	79,756
IAIC Labuan	7,004	14,706
IAIC Bahrain - Reinsurance Account	64	259
Shareholders of the subsidiaries	-	110
Other entities under common management with the Group	2,105	870
	<u>250,334</u>	<u>95,701</u>
Amounts due to related parties		
IAIC Bahrain - Current account	443	517
IAIC Bahrain - Reinsurance account	1,041	-
IAIC Bahrain	722	-
Other associated companies	2,661	-
	<u>4,867</u>	<u>517</u>

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

9. Related party transactions (continued)

Compensation of key management personnel

	Nine month period ended 30 September 2006 AED'000 (Unaudited)	Nine month period ended 30 September 2005 AED'000 (Unaudited)
Short term benefits	2,804	2,503
Employees end of service benefits	3,814	4,787
	-----	-----
	<u>6,618</u>	<u>7,290</u>

10. Minority interest

	30 September 2006 AED'000 (Unaudited)	31 December 2005 AED'000 (Audited)
Balance at 1 January	158,392	-
Minority interest upon acquisition (note 3)	-	132,137
Net movement in minority interest during the period/year	(12,826)	13,196
Acquisition of Best Re shares by the Company	(93,025)	-
Acquisition of Tariic shares by the Company	(18,639)	-
Minority's share of profit for the period	4,440	13,059
	-----	-----
Closing balance	<u>38,342</u>	<u>158,392</u>

11. Policyholders' fund

	30 September 2006 AED'000 (Unaudited)	31 December 2005 AED'000 (Audited)
Balance at 1 January	(12,921)	(17,190)
Net surplus attributable to policyholders	1,438	4,269
	-----	-----
Closing balance	<u>(11,483)</u>	<u>(12,921)</u>

The shareholders of the Company have financed the policyholders' deficit in accordance with the Company's policy through loans. These loans are long term and without any profit rate and with no fixed repayment terms. Full provision is maintained against such loans.

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

12. Earnings per share

The calculation of earnings per share for the nine month period ended 30 September 2006 is based on earnings of AED 143.3 million (*September 2005: AED 54.5 million*) divided by the weighted average number of shares of 1.1 billion (*September 2005: 411.0 million*) outstanding during the period. Earnings per share for the three month period ended 30 September 2006 is based on earnings of AED 40.7 million (*September 2005: AED 37.2 million*) divided by the weighted average number of shares of 1.1 billion (*September 2005: 924.5 million*) outstanding during the period. Prior period earnings per share have been adjusted to reflect the issue of bonus shares during the period.

13. Contingent liabilities and capital commitments

	30 September 2006 AED'000 (Unaudited)	31 December 2005 AED'000 (Audited)
Standby letter of credit	134,871	134,871
Letters of guarantee	8,882	5,981

Statutory deposits of AED 3.428 million are held as lien by the bank against the above guarantees.

The Standby letter of credit is in respect of Takaful Syndicate investment as during 2005, the Company entered into an agreement with Creechurch Limited to form a syndicate with Lloyds of London ("Lloyds"). The syndicate, called "Takaful Syndicate" is managed by the managing agent and will be subject to the regulations of Lloyds. As per the rules of Lloyds, the capital of the Syndicate amounting to GBP 21.335 million is "Guaranteed in favor of Lloyds of London" by the Company by issuing an unconditional letter of credit arranged from Emirates Bank International through its corresponding bank JP Morgan in London. Emirates Bank International is holding the amount of AED 140 millions under lien against this facility. The initial validity of this letter of credit is three years from the inception and it can be extended depending upon the results of the operations of Takaful Syndicate. The possible circumstances in which the guarantee may be called by Lloyds are insufficient cash flows in the Takaful Syndicate to pay off the claims of the insured.

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 September 2006 (*2005: Nil*).

Islamic Arab Insurance Co. (Salama) and its subsidiaries

Notes (continued)

14. Segmental information

By Business

(for the nine month period ended 30 September 2006)

	Fire AED'000	Accident AED'000	Engineering AED'000	Marine AED'000	Motor AED'000	Others AED'000	Total AED'000
Gross written premium	185,229	42,176	39,271	40,165	132,785	23,713	463,339
Net premiums earned	144,425	32,455	26,616	29,772	119,873	17,889	371,030
Commissions received on ceded reinsurance	6,155	1,635	2,379	1,942	1,356	668	14,135
Net claims incurred	150,580	34,090	28,995	31,714	121,229	18,557	385,165
Commissions and medical fees paid	(73,505)	(15,728)	(13,020)	(20,416)	(76,187)	(3,665)	(202,521)
Net underwriting income	(54,090)	(13,184)	(11,938)	(11,781)	(14,222)	(2,242)	(107,457)
	22,985	5,178	4,037	(483)	30,820	12,650	75,187

By Geographical

(for the nine month period ended 30 September 2006)

	Africa AED'000	Far East AED'000	Middle East AED'000	Turkey and Central Asia AED'000	Total AED'000
Gross written premium	124,869	197,832	98,418	42,220	463,339
Net premiums earned	102,418	139,635	87,626	41,351	371,030
Commissions received on ceded reinsurance	4,609	8,602	9,24	-	14,135
Net claims incurred	107,027	148,237	88,550	41,351	385,165
Commissions and medical fees paid	(43,232)	(66,403)	(68,705)	(24,181)	(202,521)
Net underwriting income	(21,076)	(59,223)	(16,146)	(11,012)	(107,457)
	42,719	22,611	3,699	6,158	75,187

Segmental information based on assets and liabilities is not presented due to unavailability.

15. Comparative figures

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