

Arabian Scandinavian Insurance
Company P.L.C.

Financial statements
31 December 2004

Arabian Scandinavian Insurance Company P.L.C.

Financial statements

31 December 2004

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الشركة العربية الاسكندنافية للتأمين (ش م ع) ARABIAN SCANDINAVIAN INSURANCE COMPANY (PLC)

Incorporated with limited liability by Amiri decree
A company subject to the Federal Law No. (9) of year 1984 and registered
in the insurance companies register under No. (6) on 15/12/1984
Paid Up Capital Dirhams Fifty Million

تأسست بموجب مرسوم أميري بضممان محدود
شركة خاضعة لأحكام القانون الاتحادي رقم (٩) لسنة ١٩٨٤ م ومقيدة
في سجل شركات التأمين تحت رقم (٦) بتاريخ ١٥/١٢/١٩٨٤ م
رأس المال المدفوع خمسين مليون درهم

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors takes pleasure in presenting their Annual report together with the Audited financial statements of Arabian Scandinavian Insurance Company PLC (*"The Company"*) for the year ender 31st December 2004.

I. Financial Results

1. Premiums

For 2004 the Gross premiums written was AED 39.44 Million (*AED 61.90 Million in 2003*). *Portfolio optimization Project (POP)* through researched underwriting guidelines, has resulted in significant reduction of the Gross written Premium on Motor portfolio in 2004 to AED 22.46 Million (*AED 44.5 Million in 2003*)

2. Investments

The Company, well guided and supported by its *Investment and Review Committee (IRC)* has taken substantial advantage of the Financial market conditions in the UAE to improve the Equity Investments to AED 79.01 Million (*AED 38.7 Million in 2003*).

3. Technical and Investment Income

For 2004 the net Technical profit was AED 4.32 Million (*Loss of AED 6.01 Million in 2003*). Continuing with the *Portfolio optimization Project (POP)* initiated during 2003, the Motor portfolio was further rationalized in 2004, through implementation of exacting underwriting guidelines. This has enabled the Company to turn around and accomplish positive and promising underwriting results.

The *Investment and Review Committee (IRC)*, adopting refined Investment Management Models, has netted an Investments income of AED 57.08 Million in 2004 (*AED 8.57 Million in 2003*).

The net profit for 2004 was AED 65.58 Million (*AED 7.22 Million in 2003*).

4. Shareholder's Funds

The Shareholder's funds as at 31st Dec 2004 amounted to AED 142.09 Million (*AED 76.5 Million in 2003*).

II. Future Prospects

- Employing a mission-based approach to Underwriting, Investment portfolio management and Corporate Governance, the Company is optimistic of a further improved performance in 2005. The Company is achieving promising results in its effort to optimize the Fire and Marine portfolios.

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المركز الرئيسي : ص.ب: ١٩٩٣ ، دبي ، الإمارات العربية المتحدة ، هاتف : ٢٨٢٤٤٠٣ / ٢٨٢٥٥٨٥ ، تليفاكس : ٢٨٢٥٥٨٦

Head Office: P.O. Box: 1993 Dubai, United Arab Emirates. Tel.: 2824403 / 2825585, Telefax: 2825586

E-mail: ascana@emirates.net.ae - Website: www.ascana.net



- Company has launched new Insurance Products in 2005 under the *Medical & Group Life Portfolio* based on a market survey. Complimented adequately by an aggressive promotion campaign, Company has already received impressive responses from the market.
- The Company is well set on course to address the unique Insurance needs of the significant expatriate workforce in UAE, through development of exclusive Insurance products, marketed through strategic business alliances across the continent.

III. Recommendations of the Board to the Shareholders

The Board of Directors submits the following recommendations to the shareholders at their ordinary General meeting:

1. To consider and approve the Directors' Report and the financial statements for the year ended 31st December 2004
2. To consider and approve the appropriation and distribution of profit as recommended by the Board of Directors
3. To appoint auditors for the financial year 2005
4. To discharge and absolve the Board of Directors and management from all liabilities related to the performance of their duties during the financial year 2004.

The Board of Directors submits the following recommendations to the shareholders at their Extraordinary General meeting:

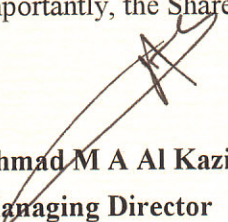
1. To approve the recommendations of the Board to amend Article No.(6) of the Articles of Association to allow the split in the face value of the shares from AED 10 to AED **One**.
2. To approve the recommendation to increase the Share Capital
3. To approve the recommendations of the Board to amend the Articles of Association to include the above

Acknowledgements

The Board of Directors deeply mourn the sad demise of **His Highness Sheikh Zayed Bin Sultan Al Nahyan** whose vision, dynamic leadership and guidance has lead the United Arab Emirates and its economy to its present glory.

The Board of Directors convey their thanks and gratitude to the President, **His Highness Sheikh Khalifa Bin Zayed Al Nahyan** and Vice President, Prime Minister and Ruler of Dubai, **His Highness Sheikh Maktoum Bin Rashid Al Maktoum**, for the continued guidance and encouragement which has enabled a healthy and vibrant business environment and growth of insurance companies, through the Supreme council and Government.

Finally, the Board of Directors wish to record its appreciation of the support and co-operation, the company has received from Corporate and Individual clients, management & staff and most importantly, the Shareholders.


Ahmad M A Al Kazim
Managing Director



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Dubai
United Arab Emirates

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Fax +971 (4) 3301 515
Website www.ae-kpmg.com

The Shareholders
Arabian Scandinavian Insurance Company P.L.C.

Report of the Auditors

We have audited the accompanying balance sheet of Arabian Scandinavian Insurance Company P.L.C. ("the Company") as of 31 December 2004 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended.

Respective responsibilities of the Company's Management and the Auditors

These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

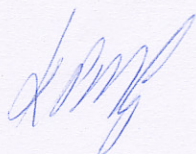
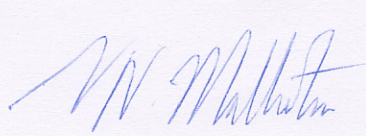
We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material mis-statement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2004 and the results of its operations and its cash flows for the year then ended in accordance with the International Financial Reporting Standards and comply, where appropriate, with the Articles of Association of the Company, Federal Law No. 8 of 1984 (as amended) concerning commercial companies and Federal law No. 9 of 1984 (as amended) concerning insurance companies and agents.

Other matters

As required by Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit, that proper financial records have been kept by the Company, and the contents of the Directors' report, which relates to the financial statements, are in agreement with the Company's financial records. We are not aware of any violation of the above-mentioned Laws and the Articles of Association having occurred during the year ended 31 December 2004, which may have had a material adverse effect on the business of the Company or its financial position.



Vijendra Nath Malhotra
Registration No : 48B

07 MAR 2005

Arabian Scandinavian Insurance Company P.L.C.

Income statement

for the year ended 31 December 2004

	Note	2004 AED	2003 AED
Underwriting profit/(loss)			
Accident & liabilities		3,356,380	(8,251,419)
Fire		(558,793)	96,837
Marine		599,350	718,120
Other		929,054	1,418,877
		<u>4,325,991</u>	<u>(6,017,585)</u>
Net underwriting profit/(loss)			
Other operating income	15	999,397	102,966
Rental income from investment properties	4	3,182,370	3,111,495
Profit on available for sale investments	16	57,076,293	8,587,273
Profit on sale of investment property		-	1,439,801
		<u>65,584,051</u>	<u>7,223,950</u>
Net profit for the year			
		<u>13.12</u>	<u>1.45</u>
Earnings per share	21		

The notes on pages 12 to 22 form part of these financial statements.

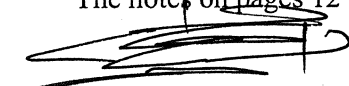
The report of the Auditors is set out on page 2.

Arabian Scandinavian Insurance Company P.L.C.

Balance sheet at 31 December 2004

	Note	2004 AED	2003 AED
Non-current assets			
Property and equipment	3	7,854,658	725,771
Investment properties	4	51,289,855	51,289,855
Current assets			
Investments available for sale	5	79,013,644	38,701,322
Trade receivables	6	17,777,279	25,871,033
Due from related parties	10	5,329,207	5,163,051
Reinsurers' share of outstanding claims	12	15,891,236	9,508,347
Other receivables and prepayments	7	1,950,560	3,409,402
Cash and bank balances	8	23,558,526	15,439,204
		<u>143,520,452</u>	<u>98,092,359</u>
Current liabilities			
Trade and other payables	9	21,216,284	22,615,310
Due to related parties	10	31,742	50,659
Provision for employees' terminal benefits		776,126	686,736
Unearned premium reserve	11	9,739,618	16,911,641
Additional reserve	11	2,000,000	2,000,000
Outstanding claims reserve	12	26,810,039	31,336,534
		<u>60,573,809</u>	<u>73,600,880</u>
Net current assets		<u>82,946,643</u>	<u>24,491,479</u>
Net assets		<u>142,091,156</u>	<u>76,507,105</u>
Represented by			
Share capital	13	50,000,000	50,000,000
Legal reserve	14	18,035,037	11,476,632
General reserve		10,144,837	3,586,432
Retained earnings		12,911,282	11,444,041
Proposed directors' remuneration		1,000,000	-
Proposed bonus issue		50,000,000	-
Shareholders' equity		<u>142,091,156</u>	<u>76,507,105</u>

The notes on pages 12 to 22 form part of these financial statements.


Managing Director

The report of the Auditors is set out on page 2.

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Arabian Scandinavian Insurance Company P.L.C.

Statement of cash flows

for the year ended 31 December 2004

	2004 AED	2003 AED
Operating activities		
Net profit for the year	65,584,051	7,223,950
<i>Adjustment for:</i>		
Depreciation	276,661	278,803
(Profit)/loss on sale of property and equipment	(88,133)	2,333
Increase in fair value of available for sale investments	(26,979,626)	(5,705,846)
Decrease in unearned premium reserve	(7,172,023)	(13,025,345)
Profit on sale of investment property	-	(1,439,801)
Profit on sale of available for sale investments	(28,656,719)	(1,925,641)
Dividend received on available for sale investments	(1,439,948)	(955,786)
Increase/(decrease) in provision for employees' terminal benefits	89,390	(248,712)
<i>Operating profit/(loss) before changes in working capital</i>	<u>1,613,653</u>	<u>(15,796,045)</u>
Decrease in trade receivables	8,093,754	4,970,015
(Increase)/decrease in due from related parties	(166,156)	1,532,827
Decrease/(increase) in other receivables and prepayments	1,458,842	(1,138,515)
Decrease in due to related parties	(18,917)	(16,832)
(Decrease)/increase in trade and other payables	(1,399,026)	5,249,660
(Decrease)/increase in provision for outstanding claims	(10,909,384)	4,670,368
<i>Cash flows from operating activities</i>	<u>(1,327,234)</u>	<u>(528,522)</u>
Investing activities		
Purchase of investment properties	-	(11,180,755)
Addition to property under construction	(7,068,630)	(155,318)
Purchase of available for sale investments	(112,723,599)	(15,969,884)
Proceeds from sale of investment properties	-	10,047,000
Proceeds from sale of property and equipment	174,000	1,000
Proceeds from sale of securities	128,047,622	17,872,318
Purchase of property and equipment	(422,785)	(98,956)
Dividend received from available for sale investments	1,439,948	955,786
<i>Cash flows from investment activities</i>	<u>9,446,556</u>	<u>1,471,191</u>
Net increase in cash and cash equivalents	8,119,322	942,669
Cash and cash equivalents at the beginning of the year	10,939,204	9,996,535
Cash and cash equivalents at the end of the year	<u>19,058,526</u>	<u>10,939,204</u>

The notes on pages 12 to 22 form part of these financial statements.

The report of the Auditors is set out on page 2.

Arabian Scandinavian Insurance Company P.L.C.

Statement of changes in shareholders' equity

for the year ended 31 December 2004

	Share capital AED	Legal reserve AED	General reserve AED	Retained earnings AED	Proposed directors' remuneration AED	Proposed bonus issue AED	Total AED
At 1 January 2003	50,000,000	10,754,237	2,864,037	5,664,881	-	-	69,283,155
Net profit for the year	-	-	-	7,223,950	-	-	7,223,950
Transfer to reserves	-	722,395	722,395	(1,444,790)	-	-	-
At 31 December 2003	<u>50,000,000</u>	<u>11,476,632</u>	<u>3,586,432</u>	<u>11,444,041</u>	<u>-</u>	<u>-</u>	<u>76,507,105</u>
At 1 January 2004	50,000,000	11,476,632	3,586,432	11,444,041	-	-	76,507,105
Net profit for the year	-	-	-	65,584,051	-	-	65,584,051
Transfer to reserves	-	6,558,405	6,558,405	(13,116,810)	-	-	-
Proposed directors' remuneration	-	-	-	(1,000,000)	1,000,000	-	-
Proposed bonus issue	-	-	-	(50,000,000)	-	50,000,000	-
At 31 December 2004	<u>50,000,000</u>	<u>18,035,037</u>	<u>10,144,837</u>	<u>12,911,282</u>	<u>1,000,000</u>	<u>50,000,000</u>	<u>142,091,156</u>

The notes on pages 12 to 22 form part of these financial statements.

The Board of Directors proposed a bonus share issue of 5,000,000 shares representing 100% of the existing share capital.

Arabian Scandinavian Insurance Company P.L.C.

Revenue and expenditure account for the year ended 31 December 2004

	Note	2004 AED	2003 AED
Gross premiums written		39,440,604	61,901,956
Less: reinsurance premiums ceded		(14,775,201)	(19,298,093)
Net premiums written		<u>24,665,403</u>	<u>42,603,863</u>
Unearned premium reserve:			
Less: At 31 December		(9,739,618)	(16,911,641)
Add: At 1 January		16,911,641	29,936,988
Additional reserve:			
Less: At 31 December		(2,000,000)	(2,000,000)
Add: At 1 January		2,000,000	2,000,000
Net premiums earned		<u>31,837,426</u>	<u>55,629,210</u>
Gross claims paid		53,345,288	82,412,178
Less: claims recovered from reinsurers		(21,682,515)	(33,368,835)
Net claims paid		<u>31,662,773</u>	<u>49,043,343</u>
Outstanding claims reserve (net):			
Add: At 31 December		10,918,803	21,828,187
Less: At 1 January		(21,828,187)	(17,157,820)
Net claims incurred		<u>20,753,389</u>	<u>53,713,710</u>
Net commission expense		(141,237)	(905,169)
General and administrative expenses	17	(6,616,809)	(7,027,916)
Net underwriting profit/(loss)		<u><u>4,325,991</u></u>	<u><u>(6,017,585)</u></u>

The notes on pages 12 to 22 form part of these financial statements.

Arabian Scandinavian Insurance Company P.L.C.

Accident & liabilities insurance Revenue and expenditure account *for the year ended 31 December 2004*

	2004 AED	2003 AED
Gross premiums written	28,186,946	50,145,703
Less: reinsurance premiums ceded	(8,313,722)	(12,271,465)
Net premiums written	19,873,224	37,874,238
Unearned premium reserve:		
Less: At 31 December	(7,949,289)	(15,149,695)
Add: At 1 January	15,149,695	28,237,288
Additional reserve:		
Less: At 31 December	(2,000,000)	(2,000,000)
Add: At 1 January	2,000,000	2,000,000
Net premiums earned	27,073,630	50,961,831
Gross claims paid	46,732,951	75,855,066
Less: claims recovered from reinsurers	(17,415,241)	(28,751,572)
Net claims paid	29,317,710	47,103,494
Outstanding claims reserve (net):		
Add: At 31 December	10,127,868	20,927,640
Less: At 1 January	(20,927,640)	(16,150,962)
Net claims incurred	18,517,938	51,880,172
Net commission expense	(470,489)	(1,622,965)
General and administrative expenses - allocated	(4,728,823)	(5,710,113)
Net underwriting profit/(loss)	3,356,380	(8,251,419)

The notes on pages 12 to 22 form part of these financial statements.

Arabian Scandinavian Insurance Company P.L.C.

Fire insurance

Revenue and expenditure account

for the year ended 31 December 2004

	2004 AED	2003 AED
Gross premiums written	4,237,537	4,202,155
Less: reinsurance premiums ceded	(3,449,373)	(3,996,558)
Net premiums written	788,164	205,597
Unearned premium reserve:		
Less: At 31 December	(315,266)	(82,239)
Add: At 1 January	82,239	217,595
Net premiums earned	555,137	340,953
Gross claims paid	4,174,864	2,136,940
Less: claims recovered from reinsurers	(3,461,093)	(1,971,329)
Net claims paid	713,771	165,611
Outstanding claims reserve (net):		
Add: At 31 December	(6,794)	328,186
Less: At 1 January	(328,186)	(195,303)
Net claims incurred	378,791	298,494
Net commission (expense)/income	(24,223)	532,879
General and administrative expenses - allocated	(710,916)	(478,501)
Net underwriting (loss)/profit	(558,793)	96,837

The notes on pages 12 to 22 form part of these financial statements.

Arabian Scandinavian Insurance Company P.L.C.

Marine insurance

Revenue and expenditure account

for the year ended 31 December 2004

	2004 AED	2003 AED
Gross premiums written	3,556,786	3,645,235
Less: reinsurance premiums ceded	(2,713,163)	(2,779,210)
Net premiums written	843,623	866,025
Unearned premium reserve:		
Less: At 31 December	(210,906)	(216,506)
Add: At 1 January	216,506	263,527
Net premiums earned	849,223	913,046
Gross claims paid	597,279	2,784,550
Less: claims recovered from reinsurers	(518,947)	(2,530,941)
Net claims paid	78,332	253,609
Outstanding claims reserve (net):		
Add: At 31 December	226,617	172,690
Less: At 1 January	(172,690)	(311,554)
Net claims incurred	132,259	114,745
Net commission income	479,096	334,904
General and administrative expenses - allocated	(596,710)	(415,085)
Net underwriting profit	599,350	718,120

The notes on pages 12 to 22 form part of these financial statements.

Arabian Scandinavian Insurance Company P.L.C.

Other insurance

Revenue and expenditure account

for the year ended 31 December 2004

	2004 AED	2003 AED
Gross premiums written	3,459,335	3,908,863
Less: reinsurance premiums ceded	(298,943)	(250,860)
Net premiums written	3,160,392	3,658,003
Unearned premium reserve:		
Less: At 31 December	(1,264,157)	(1,463,201)
Add: At 1 January	1,463,201	1,218,578
Net premiums earned	3,359,436	3,413,380
Gross claims paid	1,840,194	1,635,623
Less: claims recovered from reinsurers	(287,234)	(114,993)
Net claims paid	1,552,960	1,520,630
Outstanding claims reserve (net):		
Add: At 31 December	571,112	399,671
Less: At 1 January	(399,671)	(500,000)
Net claims incurred	1,724,401	1,420,301
Net commission expense	(125,621)	(149,985)
General and administrative expenses - allocated	(580,360)	(424,217)
Net underwriting profit	929,054	1,418,877

The notes on pages 12 to 22 form part of these financial statements.

Arabian Scandinavian Insurance Company P.L.C.

Notes

(forming part of the financial statements)

1. Legal Status and principal activities

Arabian Scandinavian Insurance P.L.C. ("the Company") is a Public Shareholding Company, registered in the United Arab Emirates in 1992 with an authorised, issued and fully paid up capital of AED 50,000,000 comprising 5,000,000 shares of AED 10 each. Prior to 1992, the Company was a Limited Liability Company incorporated by Amiri Decree of His Highness, the Ruler of Dubai, in 1978.

The Company is subject to the regulations of Federal Law No. 9 of 1984 (as amended), applicable to insurance companies and is registered in the insurance companies' register under number (6) in 1984.

The principal activity of the Company is the writing of all classes of general insurance business. The Company operates through its Dubai and Abu Dhabi offices.

The registered office of the Company is at Al Kazim Building, P. O. Box 1993, Dubai, UAE.

2. Significant accounting policies

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the Standard Interpretation Committee of the International Accounting Standards Board (IASB).

Basis of preparation

The financial statements are presented in United Arab Emirates Dirhams ("AED") and are prepared on a historical cost basis except for investment properties and available for sale investments which are carried at fair value.

The following significant accounting policies have been applied by the Company and are consistent with those used in the previous year.

Premiums

Premiums, net of the reinsured amounts ceded, are recognised as revenue once the risk is accepted. Amounts ceded to reinsurance companies are recognised in accordance with reinsurance arrangements in place during the year.

Unearned premium reserve and additional reserve

The unearned premium reserve represents the estimated proportion of the net premiums written which relates to the period of insurance subsequent to the balance sheet date and is calculated at 25% on marine and at 40% on all other insurance business in accordance with UAE legislation.

An additional reserve is created where the management considers that the above basis of calculation of the reserve does not fully take account of the average policy inception date for the motor portfolio.

Rental income

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease.

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

2. Significant accounting policies (continued)

Interest income

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

Dividend income

Dividend income is recognised in the income statement when received.

Claims settled

Claims settled during the year are charged to the income statement net of reinsurance, salvage and other recoveries.

Provision for outstanding and IBNR claims

Outstanding claims comprise the estimated costs of claims incurred but not settled at the balance sheet date. Provisions for reported claims not paid as at the balance sheet date are made on the basis of individual case estimates after deduction of estimated recoveries and reinsurance share. This provision is based on the estimate of the loss, which will eventually be payable on each unpaid claim, established by the management in the light of currently available information and past experience. An additional net provision is also made for any claims incurred but not reported ("IBNR") at the balance sheet date on the basis of management estimates.

General and administrative expenses

General and administrative expenses for the year, which relate directly to insurance operations are allocated to the insurance departments in proportion to the gross premiums written by each department.

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Investment properties

Investment properties comprise land and building and are classified as long term assets as they are intended to be held for more than one year from the balance sheet date. Investment properties are measured by applying the fair value model under IAS 40 and gains or losses from fair value adjustments are recognised in the income statement.

Foreign currency transactions

Transactions denominated in foreign currencies are translated to AED at the foreign exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to AED at the foreign exchange rates ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to AED at the foreign exchange rates ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in the income statement.

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

2. Significant accounting policies (continued)

Property and equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of property, plant and equipment. The estimated useful life of furniture and fixtures and motor vehicles is 4 years.

Property that is being constructed or developed for future use as investment property is classified as property and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property.

Financial instruments

(i) Classification

Originated loans and receivables

These are loans and receivables created by the Company by providing money or services to a debtor. Originated loans and receivables include trade receivables.

Available-for-sale financial assets

These are financial assets that are not held for trading purposes, or originated by the Company or held to maturity. Available-for-sale financial instruments include equity investments.

(ii) Recognition

Originated loans and receivables

These are recognised when delivered to the counter party.

Available-for-sale financial assets

These are recognised on the date at which the Company commits to purchase the assets. From this date, any gains or losses arising from changes in fair value of the assets are recognised.

(iii) Measurement

Financial instruments are initially measured at cost, including transaction costs. Subsequent to initial recognition, all available-for-sale financial assets are measured at fair value.

(iv) Fair value measurement principles

The fair value of financial instruments is based on their closing price quoted at the balance sheet date without any deduction for transaction costs. In case of instruments that do not have a quoted market price in an active market, the fair value is estimated using pricing models or discounted cash flow techniques, as applicable. Such fair value incorporates an assessment of the liquidity, or lack thereof, of the particular financial instrument. However, wherever such techniques cannot be applied, the instruments are stated at cost, including transaction costs, less impairment losses, if any.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

2. Significant accounting policies (continued)

Financial instruments (continued)

(v) Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of available-for-sale financial assets are recognised in the income statement.

(vi) Specific instruments

Cash and cash equivalents comprise cash and bank balances and term deposits with maturity period of less than 3 months.

(vii) De-recognition

A financial asset is derecognised when the Company loses control over the contractual rights comprising that asset. This occurs when the rights are realised, expired or are surrendered. A financial liability is derecognised when it is extinguished.

Available for sale assets that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Company commits to sell the assets. The Company uses the specific identification method to determine the gain or loss on de-recognition.

Gain or loss on de-recognition is included in investment income.

Impairment of assets

The carrying amounts of the Company's assets are reviewed at each balance sheet date whenever there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Provisions

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

Trade and other payables

Trade and other payables are stated at their cost.

Employee terminal benefits

Provision is made for employee terminal benefits in accordance with the Company's policy, which meets the requirements of the UAE Labour Law applicable to an employee's accumulated period of service at the balance sheet date. The Company pays its obligations regarding UAE citizens into Social Security and UAE Pension Fund in accordance with the UAE Labour Law.

Obligations for contributions to the employee terminal benefits scheme are recognised as an expense in the income statement as incurred

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

3. Property and equipment

	Furniture and fixtures AED	Motor vehicles AED	Property under construction AED	Total AED
At 1 January 2004	2,403,901	297,625	155,318	2,856,844
Additions	57,785	365,000	7,068,630	7,491,415
Disposals	-	(281,500)	-	(281,500)
At 31 December 2004	2,461,686	381,125	7,223,948	10,066,759
Depreciation				
At 1 January 2004	1,991,530	139,543	-	2,131,073
Charge for the year	202,066	74,595	-	276,661
Disposals	-	(195,633)	-	(195,633)
At 31 December 2004	2,193,596	18,505	-	2,212,101
Net book value				
At 31 December 2004	268,090	362,620	7,223,948	7,854,658
At 31 December 2003	412,371	158,082	155,318	725,771

Property under construction comprises of land and construction costs and will be reclassified to investment property upon completion.

4. Investment properties

	2004 AED	2003 AED
At 1 January	51,289,855	48,716,299
Purchased during the year	-	11,180,755
Sold during the year	-	(8,607,199)
At 31 December	51,289,855	51,289,855

Investment properties comprise of plots of land and a building. The value of investment properties at 31 December 2004, as determined by an independent real estate broker, is AED 54,600,000. However, the investment properties continued to be carried at cost in the financial statements as the Company's Management is of the view that the cost of the properties is not materially different from their fair value.

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

4. Investment properties (continued)

The rental income and operating expenses relating to these properties are as follows:

	2004 AED	2003 AED
Gross rental income	3,274,848	3,225,661
Less: Direct operating expenses	(92,478)	(114,166)
Net rental income	<u>3,182,370</u>	<u>3,111,495</u>

5. Investments available for sale

	2004 AED	2003 AED
Equity investments - Quoted	78,498,287	38,167,383
Equity investments - Unquoted	515,357	533,939
	<u>79,013,644</u>	<u>38,701,322</u>

Available for sale securities include the following:

	2004 AED	2003 AED
Equity investments in local and GCC shares and funds		
- Quoted (a)	78,308,697	38,054,122
- Unquoted	515,357	533,939
	<u>78,824,054</u>	<u>38,588,061</u>
Equity investments in foreign funds		
- Quoted	189,590	113,261
	<u>79,013,644</u>	<u>38,701,322</u>

(a) Shares amounting to AED 19.2 million (2003: AED 0.3 million) are registered in the name of the Managing Director and held for the beneficial interest of the Company.

6. Trade receivables

	2004 AED	2003 AED
Accounts receivable	3,879,757	7,148,732
Reinsurance companies	555,842	1,664,119
Insurance companies, agents and brokers	14,517,974	18,879,657
	<u>18,953,573</u>	<u>27,692,508</u>
Less: Allowance for impairment losses	(1,176,294)	(1,821,475)
	<u>17,777,279</u>	<u>25,871,033</u>

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

7. Other receivables and prepayments

	2004 AED	2003 AED
Prepaid expenses	564,491	394,753
Advances and deposits	37,997	126,310
Other receivables	1,348,072	2,888,339
	<u>1,950,560</u>	<u>3,409,402</u>

8. Cash and bank balances

	2004 AED	2003 AED
Cash and bank balances	13,001,905	3,487,671
Call deposits	498,157	499,085
Term deposits	10,058,464	11,452,448
	<u>23,558,526</u>	<u>15,439,204</u>

Term deposits include AED 4,500,000 (2003: AED 4,500,000), which are held as guarantee deposits in favour of the UAE Ministry of Economy and Commerce in accordance with Federal Law No. 9 of 1984 (as amended). The remaining term deposits held by the Company at 31 December 2004 have a maturity period of less than 3 months. The above deposits carry interest rates of 0.75% to 2.00%.

9. Trade and other payables

	2004 AED	2003 AED
Creditors	4,132,206	5,766,388
Reinsurance companies	9,157,773	8,226,685
Premium reserve withheld	2,952,463	3,027,669
Accrued expenses	276,909	325,081
Insurance companies	2,961,204	3,068,793
Deferred rental income	1,581,622	1,251,926
Other payables	154,107	948,768
	<u>21,216,284</u>	<u>22,615,310</u>

10. Related party transactions

The Company, 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.

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

10. Related party transactions (continued)

The following are the details of significant transactions with related parties.

	2004 AED	2003 AED
Insurance policies written for shareholders' companies	147,632	160,404
Management expenses (net)	850,759	787,409
Premiums written through a related party broker	6,408,151	8,865,619
Commission paid	1,295,194	1,616,366

The balances with related parties at 31 December 2004 are as follows:

	2004 AED	2003 AED
Due from related parties		
Insurance Service Management	4,695,139	5,077,145
Architectural Construction Team	8,075	4,580
General Supermarket	-	17,179
Kazim Chemical Industries	-	35,588
Ahmed M A Kazim	200	28,559
Al Kazim Furniture	5,828	-
Act Construction Co.	619,965	-
	<u>5,329,207</u>	<u>5,163,051</u>

	2004 AED	2003 AED
Due to related parties		
Al Kazim	13,174	24,445
Al Kazim Furniture	-	1,921
Al Kazim Real Estate	8,150	7,710
Santy General Trading	578	5,073
Kazim Travel Agency	3,430	11,510
General Supermarket	6,410	-
	<u>31,742</u>	<u>50,659</u>

11. Unearned premium reserve

	2004 AED	2003 AED
Balance at 31 December	<u>9,739,618</u>	<u>16,911,641</u>

The unearned premium reserve represents the estimated proportion of the net premiums written which relates to the period of insurance subsequent to the balance sheet date and is calculated at 25% on marine insurance business and at 40% on all other insurance business.

Additional reserve of AED 2 million (2003: AED 2 million) has been created as the management feels that the calculation of unearned premium reserve does not fully take account of the average policy inception date for the motor portfolio.

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

12. Outstanding claims reserve

	2004 AED	2003 AED
Reserve for outstanding claims	23,810,039	23,836,534
Reserve for incurred but not reported claims	3,000,000	7,500,000
	<u>26,810,039</u>	<u>31,336,534</u>
Less: Reinsurer's share of outstanding claims	(15,891,236)	(9,508,347)
	<u>10,918,803</u>	<u>21,828,187</u>

13. Share capital

	2004 AED	2003 AED
<i>Authorised, issued and fully paid</i>		
5,000,000 shares of AED 10 each (2003: 500,000 shares of AED 100 each) (Refer Note 21)	<u>50,000,000</u>	<u>50,000,000</u>

14. Legal reserve

In accordance with Article 255 of the UAE Federal Commercial Companies Law, a minimum of 10% of the net profit of the Company is allocated every year to a non-distributable legal reserve. Such allocation may be ceased when the total reserve equals 50% of the paid-up share capital of the Company.

15. Other operating income

	2004 AED	2003 AED
Profit on sale of property and equipment	88,133	-
Interest income - net	117,412	102,966
Write back of stale cheques	793,852	-
	<u>999,397</u>	<u>102,966</u>

16. Profit on available for sale investments

	2004 AED	2003 AED
Dividend income	1,439,948	955,786
Unrealised gains	26,979,626	5,705,846
Gain on disposal	28,656,719	1,925,641
	<u>57,076,293</u>	<u>8,587,273</u>

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

17. General and administrative expenses

	2004 AED	2003 AED
These include:		
Staff costs	3,766,030	4,112,867
Contributions to employees' terminal benefits scheme	171,224	218,533
Rent	603,395	600,230
Depreciation	276,661	278,803
	<u>68</u>	<u>73</u>
Number of employees at 31 December		

18. Contingent liabilities and capital commitments

	2004 AED	2003 AED
Letters of guarantee	9,862,391	11,211,339

Capital commitments at 31 December 2004 amounted to AED 8,752,834 (2003: AED 1,274,389).

The Company, 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 Company in terms of an outflow of economic resources and a reliable estimate of the amount of outflow can be made.

19. Operating leases

There are no non cancellable operating lease rentals payable and receivable by the Company.

During the current year AED 603,395 (2003: AED 600,230) was recognised as an expense in the income statement in respect of operating leases.

20. Financial instruments

Financial assets of the Company include cash at bank and in hand, accounts receivables, receivables from insurers and reinsurers, other receivables and investments. Financial liabilities include accounts payable and due to insurers and reinsurers.

a) Interest rate risk management

The Company is not excessively exposed to interest rate risk as its interest sensitive assets and liabilities are re-priced frequently. Interest rate risk is mainly on account of call and term deposits.

b) Credit risk

All of the Company's underwriting activities are carried out in the United Arab Emirates.

Cash is placed with a group of local banks with good credit ratings. Credit risk on trade receivables is limited as they are due from a large number of customers, insurance companies and brokers. Credit risk of reinsurers is limited by placement only with those companies having an acceptable credit rating.

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

20. Financial instruments (continued)

c) Currency risk

Assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures. Management believes that there is a minimal risk of significant losses due to exchange rate fluctuations and consequently the Company does not hedge foreign currency exposure.

d) Managing insurance risk

The Company carries reinsurance cover to minimise exposure to potential losses arising from large insurance claims and consequently, in the normal course of business, enters into arrangements with other parties for reinsurance purposes. Reinsurance ceded contracts do not relieve the Company from its obligations to policyholders. The Company remains liable to its policyholders for the portion reinsured to the extent that any reinsurer does not meet the obligations assumed under the reinsurance agreements.

e) Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in the market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Company is exposed to market risk with respect to its investments in marketable securities. The Company limits market risks by maintaining a diversified portfolio and by continuous monitoring of developments in the market.

f) Fair value of financial assets and liabilities

The fair values of the financial assets and financial liabilities are, except where specifically disclosed, not materially different from their carrying amounts.

21. Earnings per share

Earnings per share are calculated by dividing the net profit for the year by the number of shares outstanding as set out below. During the year, the Company split the value of its ordinary shares from AED 100 to AED 10 thus increasing the number of shares issued from 500,000 to 5,000,000. For calculating the earnings per share for 2003, the number of ordinary shares outstanding at 31 December 2003 has been adjusted as if the share split occurred at the beginning of 2003.

	2004 AED	2003 AED
Net profit for the year	65,584,051	7,223,950
Number of shares outstanding during the year	5,000,000	5,000,000
Earnings per share	13.12	1.45

22. Comparative figures

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