



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

Incorporated with Limited Liability by Amiri Decree
as company subject to license No. (3) of year 1994 and registered
in the insurance companies register under No. 90 as 1512/194
Field No. Capital Dikhar: One thousand million

شركة عربية اسكندنافية للتأمين
بأمر مرسوم رقم 3 لسنة 1994
مدرجة في سجل شركات التأمين
رقم 90 ك 1512/194
رأس المال المصرح به: مليار 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 ended 31st December 2005.

Financial Results

1. Premiums

For 2005 the Gross premiums written was AED 41.94 Million as against AED 39.44 Million in 2004. The continued implementation **Portfolio optimization Project (POP)** through researched underwriting guidelines has helped us maintain the Gross written Premium on Motor portfolio in 2005 AED 22.32 Million (AED 22.46 Million in 2004) at 53% to the Gross written Premium.

2. Investments

The Company, well guided and supported by its **Investment and Review Committee (IRC)** led by **Mr. Ahmad M.A Al Kazim**, has taken substantial advantage of the buoyant Financial market conditions in the UAE to improve its Equity Investments in DFM and ADSM to AED 209.57 Million in the the current period (AED 79.01 Million in 2004).

3. Technical and Investment Income

For 2005 the net Technical Loss was AED 15447 (Profit of AED 4.32 Million in 2004). This has been mainly due to 3 major loss in the fire portfolio and marine portfolio. The company has rationalized its motor portfolio and looking to other corrective measures adopted by the management, it is confident of improving on its current performance in the Year 2006.

The **Investment and Review Committee (IRC)**, adopting refined Investment Management paradigm has netted an Investments income of AED 126.51 Million in 2005 (AED 57.07 Million in 2004). The net profit for 2005 was AED 135.24 Million (AED 65.58 Million in 2004).

4. Earnings per Share & Shareholder's Funds

The EPS for 2005 is AED 13.52 (AED 6.56 in 2004). The Shareholder's funds as at 31st Dec 2005 amounted to AED 287.85 Million (AED 142.09 Million in 2004).



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 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.

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 2005.
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 2006.
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 2005.

Acknowledgements

The Board of Directors deeply mourns the sad demise of His Highness Shaikh Maktoum Bin Rashid Al Maktoum, the Vice President, Prime Minister and the Ruler of Dubai whose vision and guidance have helped Dubai reach its present level of growth and prosperity.

The Board of Directors convey their thanks and gratitude to the President, H.H. Shaikh Khalifa Bin Zayed Al Nahyan and Vice President, Prime Minister and Ruler of Dubai, H.H. Shaikh

Mohamed Bin Rashid Al Maktoum

Their vision and unstinted support and guidance have continued to make Dubai a business and trade hub in this region.

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.

Moh'd Amin Moh'd Siddiq Al Kazim
Vice Chairman



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

Telephone +971 (4) 4030 300
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 2005 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 2005 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 2005, which may have had a material adverse effect on the business of the Company or its financial position.

Vijendra Nath Malhotra
Registration No : 48B

20 FEB 2006

Arabian Scandinavian Insurance Company P.L.C.

Balance sheet

at 31 December 2005

	Note	2005 AED	2004 AED
Non-current assets			
Property and equipment	3	13,979,306	7,854,658
Investment properties	4	62,461,643	51,289,855
Current assets			
Investments available for sale	5	116,802,775	-
Investments fair valued through profit and loss	6	92,773,066	79,013,644
Trade receivables	7	12,546,808	17,777,279
Due from related parties	13	4,348,217	5,329,207
Reinsurers' share of outstanding claims	12	14,122,398	15,391,236
Other receivables and prepayments	8	13,377,238	1,950,560
Cash in hand and at bank	9	14,575,515	23,558,526
		<u>268,546,017</u>	<u>143,520,452</u>
Current liabilities			
Trade and other payables	10	20,088,952	21,216,284
Due to related parties	13	-	31,742
Provision for employees' terminal benefits		860,856	776,126
Unearned premium reserve	11	11,343,083	9,739,618
Additional reserve	11	2,000,000	2,000,000
Outstanding claims reserve	12	22,840,451	26,810,039
		<u>57,133,342</u>	<u>60,573,809</u>
Net current assets		<u>211,412,675</u>	<u>82,946,643</u>
Net assets		<u>287,853,624</u>	<u>142,091,156</u>
Represented by			
Share capital		100,000,000	50,000,000
Retained earnings		69,907,446	12,911,282
Legal reserve		31,559,558	18,035,037
General reserve		23,669,358	10,144,837
Proposed directors' remuneration		1,200,000	1,000,000
Proposed bonus issue		40,000,000	50,000,000
Proposed dividend		10,000,000	-
Fair value reserve		11,517,262	-
Shareholders' equity		<u>287,853,624</u>	<u>142,091,156</u>

These financial statements were approved on 20 FEB 2006


Mohd Amin Al Kazim
Vice Chairman


Ahmad M.A. Al Kazim
Managing Director

The notes on pages 9 to 26 form part of these financial statements.

The report of the Auditors is set out on page 3.

Arabian Scandinavian Insurance Company P.L.C.

Income statement

for the year ended 31 December 2005

	<i>Note</i>	2005 AED	2004 AED
Underwriting profit/ (loss)			
Accident & liability		1,049,565	3,356,380
Fire		(1,484,077)	(558,793)
Marine		(686,593)	599,350
Other		1,105,660	929,054
		-----	-----
Net underwriting (loss)/ profit		(15,445)	4,325,991
Other operating income	14	1,303,894	999,397
Rental income from investment properties	4	3,555,821	3,182,370
Profit on sale of investment property		3,888,935	-
Investment income	15	127,697,059	30,096,667
Unrealised (loss)/ gain on investments fair valued through profit and loss		(1,185,058)	26,979,626
		-----	-----
Net profit for the year		135,245,206	65,584,051
		=====	=====
Earnings per share	22	13.52	6.56
		=====	=====

The notes on pages 9 to 26 form part of these financial statements.

The report of the Auditors is set out on page 3.

Arabian Scandinavian Insurance Company P.L.C.

Statement of underwriting results

for the year ended 31 December 2005

	<i>Note</i>	Accident and liability AED	Fire AED	Marine AED	Other AED	Total 2005 AED	Total 2004 AED
Premium written		28,035,120	4,390,991	4,258,512	5,259,481	41,944,104	39,440,604
Less: Reinsurance share		(5,567,653)	(3,799,080)	(3,213,029)	(614,578)	(13,194,340)	(14,775,201)
Net premium		22,467,467	591,911	1,045,483	4,644,903	28,749,764	24,665,403
Less: Unearned premium reserve at 1 January		7,949,289	315,266	210,906	1,264,157	9,739,618	16,911,641
Add: Unearned premium reserve at 31 December		(8,986,987)	(236,764)	(261,371)	(1,857,961)	(11,343,083)	(9,739,618)
Additional reserve							
Less: Additional reserve at 1 January		2,000,000	-	-	-	2,000,000	2,000,000
Add: Additional reserve at 31 December		(2,000,000)	-	-	-	(2,000,000)	2,000,000
Net premiums earned		21,429,769	670,413	995,018	4,051,099	27,146,299	31,837,426
Commission earned		913,953	541,482	993,044	7,753	2,456,232	2,187,091
Total underwriting revenue		22,343,722	1,211,895	1,988,062	4,058,852	29,602,531	34,024,517
Claims paid		(31,142,057)	(7,287,711)	(1,649,798)	(1,948,818)	(42,028,384)	(53,345,288)
Less: Reinsurance share		12,995,418	6,340,808	1,642,066	210,793	21,189,085	21,682,515
Net claims paid		(18,146,639)	(946,903)	(7,732)	(1,738,025)	(20,839,299)	(31,662,773)
Add: Outstanding claims at 1 January		10,127,871	(6,794)	226,617	571,112	10,918,806	21,828,187
Less: Outstanding claims at 31 December		(7,077,276)	(429,375)	(653,873)	(557,533)	(8,718,057)	(10,918,803)
Net claims incurred		(15,096,045)	(1,383,072)	(434,988)	(1,724,446)	(18,638,550)	(20,753,389)
Commission paid		(1,452,875)	(587,867)	(418,084)	(360,309)	(2,819,135)	(2,328,328)
Total underwriting expenses		(16,548,919)	(1,970,939)	(853,072)	(2,084,755)	(21,457,685)	(23,081,717)
Underwriting surplus		5,794,803	(759,044)	1,134,990	1,974,097	8,144,846	10,942,800
Administrative expenses – allocated	<i>16</i>	(4,745,238)	(725,033)	(1,821,583)	(868,437)	(8,160,291)	(6,616,809)
Underwriting profit		1,049,565	(1,484,077)	(686,593)	1,105,660	(15,445)	4,325,991
		=====	=====	=====	=====	=====	=====

The notes on pages 9 to 26 form part of these financial statements.

The report of the Auditors is set out on page 3.

Arabian Scandinavian Insurance Company P.L.C.

Statement of cash flows

for the year ended 31 December 2005

	Note	2005 AED	2004 AED
Operating activities			
Net profit for the year		135,245,206	65,584,051
<i>Adjustment for:</i>			
Depreciation		275,561	276,661
Profit on sale of property and equipment		(500)	(88,133)
Unrealised loss/ (gains) on investments fair			
Valued through profit and loss		1,185,028	(26,979,626)
Movement in unearned premium reserve		1,603,466	(7,172,023)
Profit on sale of investment property		(3,888,935)	-
Profit on sale of investments fair valued through profit and loss			
and available for sale investments		(126,728,219)	(28,656,719)
Dividend received		(968,840)	(1,439,948)
Movement in provision for employees' terminal benefits		84,730	89,390
		-----	-----
<i>Operating profit before changes in working capital</i>		6,807,497	1,613,653
Decrease in trade receivables		5,230,471	8,093,754
Decrease/ (increase) in due from related parties		980,990	(166,156)
(Increase)/ Decrease in other receivables and prepayments		(11,426,678)	1,458,842
Decrease in due to related parties		(31,742)	(18,917)
Decrease in trade and other payables		(1,127,331)	(1,399,026)
Decrease in provision for outstanding claims		(2,200,750)	(10,909,384)
		-----	-----
<i>Cash flows from operating activities</i>		(1,767,543)	(1,327,234)
		-----	-----
Investing activities			
Addition to property under construction		(21,114,205)	(7,068,630)
Purchase of investments fair valued through profit and loss		(319,556,649)	(112,723,599)
Purchase of investments available for sale		(105,285,514)	
Proceeds from sale of investment properties		7,543,034	-
Proceeds from sale of property and equipment		500	174,000
Proceeds from sale of investments		431,340,417	128,047,622
Purchase of property and equipment		(111,891)	(422,785)
Dividend received		968,840	1,439,948
		-----	-----
<i>Cash flows from investing activities</i>		(6,215,468)	9,446,556
		-----	-----
Financing activities			
Directors' remuneration paid		(1,000,000)	-
		-----	-----
<i>Cash flows from financing activities</i>		(1,000,000)	-
		-----	-----
Net (decrease)/ increase in cash and cash equivalents		(8,983,011)	8,119,322
Cash and cash equivalents at the beginning of the year		19,058,526	10,939,204
		-----	-----
Cash and cash equivalents at the end of the year		10,075,515	19,058,526
		=====	=====
These comprise the following:			
Cash in hand and at bank	9	14,575,515	23,558,526
Less: deposits having maturity of more than three months		(4,500,000)	(4,500,000)
		-----	-----
Cash and cash equivalents at the end of the year		10,075,515	19,058,526
		=====	=====

The notes on pages 9 to 26 form part of these financial statements.

The report of the Auditors is set out on page 3.

Arabian Scandinavian Insurance Company P.L.C.

Statement of changes in shareholders' equity

for the year ended 31 December 2005

	Share capital	Legal reserve	General reserve	Proposed dividends	Proposed directors' remuneration	Proposed bonus Issue	Fair value reserve	Retained earnings	Total
	AED	AED	AED	AED	AED	AED	AED	AED	AED
As at 1 January 2005	50,000,000	18,035,037	10,144,837	-	1,000,000	50,000,000	-	12,911,282	142,091,156
Net profit for the year	-	-	-	-	-	-	-	135,245,206	135,245,206
Proposed dividend	-	-	-	10,000,000	-	-	-	(10,000,000)	-
Issue of bonus shares	50,000,000	-	-	-	-	(50,000,000)	-	-	-
Transfer to legal reserve (a)	-	13,524,521	-	-	-	-	-	(13,524,521)	-
Transfer to general reserve (b)	-	-	13,524,521	-	-	-	-	(13,524,521)	-
Proposed bonus issue	-	-	-	-	-	40,000,000	-	(40,000,000)	-
Fair value reserve for investments available for sale	-	-	-	-	-	-	11,517,262	-	11,517,262
Payment of Directors' remuneration	-	-	-	-	(1,000,000)	-	-	-	(1,000,000)
Proposed directors' remuneration (c)	-	-	-	-	1,200,000	-	-	(1,200,000)	-
As at 31 December 2005	100,000,000	31,559,558	23,669,358	10,000,000	1,200,000	40,000,000	11,517,262	69,907,446	287,853,624
As 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
Proposed bonus issue	-	-	-	-	-	50,000,000	-	(50,000,000)	-
Transfer to legal reserve (a)	-	6,558,405	-	-	-	-	-	(6,558,405)	-
Transfer to general reserve (b)	-	-	6,558,405	-	-	-	-	(6,558,405)	-
Proposed directors' remuneration (c)	-	-	-	-	1,000,000	-	-	(1,000,000)	-
As at 31 December 2004	50,000,000	18,035,037	10,144,837	-	1,000,000	50,000,000	-	12,911,282	142,091,156

- (a) In accordance with Article 255 of the UAE Federal Commercial Companies Law, a minimum of 10% of the net profit of the Company is required to be allocated every year to a statutory reserve, which is not distributable. Such allocations may be ceased when the statutory reserve equals half of the paid up share capital of the Company.
- (b) In accordance with the Company's Articles of Association, a minimum of 10% of the annual net profits should be transferred to general reserve until such time as this reserve equals at least 50% of the paid up share capital.
- (c) In accordance with the Ministry of Economy and Commerce interpretation of Article 118 of Federal Law No. 8 of 1984, directors' remuneration has been treated as an appropriation from shareholders' equity.

The notes on pages 9 to 26 form part of these financial statements.

The report of the Auditors is set out on page 3.

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. 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 its interpretations adopted by the International Accounting Standards Board (“IASB”) and the requirements of UAE Federal Law No.8 of 1984 (as amended).

The following accounting policies have been applied consistently in dealing with the items in relation to the Company’s financial statements except for the adoption of revised IAS 39 and IFRS 4.

Refer to note 19, which sets out the status of the Company’s compliance with the requirements of IFRS 4 relating to the disclosure of claims development tables.

Adoption of revised IAS 39

The Company has adopted the revised International Accounting Standard No 39 “Financial Instruments. The most significant impact of this revised IAS 39 has been the accounting treatment for recognizing unrealized gains or losses on revaluation of available-for-sale category of investments. Prior to 2005, the Company adopted the policy of recognizing all unrealized fair value gains/ (losses) on available-for-sale assets in the income statement as this was an allowable treatment under IAS 39. Under revised IAS, which is effective from 1 January 2005, all unrealized fair value revaluation gains/ (losses) on available-for-sale assets must be shown as part of shareholder’s equity and not through the income statement.

On adoption of revised IAS 39 the Company has re-designated all equity investments previously designated as available-for-sale to “investments fair valued through profit and loss” as permitted by the Standard. Unrealized fair value gains or losses arising from these investments are accounted for in the income statement. Hence there is no impact of a restatement on the Company’s income statement and balance sheet of 2004.

Arabian Scandinavian Insurance Company P.L.C.

Notes (*continued*)

2. Significant accounting policies (*continued*)

Adoption of IFRS 4

The Company has adopted IFRS 4 effective 1 January 2005. Following the adoption of IFRS 4, “Insurance Contracts”, the Company 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 year ended 31 December 2005 as were applied for the Company’s audited financial statements at 31 December 2004 with the exception of its policy for liability adequacy test as disclosed below.

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, investments fair valued through profit and loss account and investments available for sale, which are stated at fair value.

The significant accounting policies adopted are as follows:

a) Insurance contracts

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts.

b) Revenue recognition

Premiums are recognised as revenue once the risk is accepted. Amount ceded to reinsurers are recognised in accordance with re-insurance agreements in place during the year. Commission income and expense are recognised on accrual basis.

Unearned premium reserve and additional reserve

The unearned premium reserve represents the estimated proportion of the net premiums written which relates to the periods of insurance subsequent to the balance sheet date and is calculated at 25% on marine cargo business and at 40% on all other insurance business. In instances where the management is of the opinion that the unearned premium reserve calculated on the above basis is not adequate to cover the unexpired risk existing after the balance sheet date, an additional technical reserve is created.

c) Claims

Claims paid

Claims paid during the year are charged against the year’s income on the basis of actual settlements made.

Outstanding claims and IBNR reserve

On an on-going basis, provisions are made for all known and reported claims, including handling cost, for all classes of business which have not been paid as at 31 December 2005, after deduction of reinsurance share and estimated recoveries on account of salvage and subrogation reimbursements. An additional provision is also made for any claims incurred but not reported at the balance sheet date on the basis of management estimates. The method used by the Company to calculate claims Incurred But Not Reported (IBNR) takes into account historical data, past estimates and details of the reinsurance programme, to assess the expected size of reinsurance recoveries.

Arabian Scandinavian Insurance Company P.L.C.

Notes (*continued*)

2. Significant accounting policies (*continued*)

d) Interest income

Interest income is recognised in the income statement on an accrual basis.

e) Rental income

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

f) Dividend income

Dividend income is recognised in the income statement when received.

g) 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.

h) Liability adequacy test

All recognized insurance liabilities, including outstanding claims, are subject to a liability adequacy test at each reporting date. This involves comparison of current estimates of all contractual cash flows attached to these liabilities with their carrying amounts. Estimates of contractual cash flows include expected claim handling costs and recoveries from third parties. Any deficiency in carrying amounts is immediately charged to the statement of insurance operations by establishing a provision for losses arising from liability adequacy test.

i) Financial instruments

Classification

Investments fair valued through profit and loss are financial assets which are held for trading.

Available-for-sale assets are financial assets which are not held for trading purposes or held to maturity.

Recognition

The Company recognises financial assets fair valued through profit and loss and available for sale on the date it commits to purchase the assets.

Measurement

Financial instruments are measured initially at cost, including transaction costs.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

2. Significant accounting policies (continued)

i) Financial instruments (continued)

Fair value measurement principles

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.

Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of financial assets fair valued through profit or loss are recognised directly in the income statement. Gains and losses arising from a change in the fair value of available for sale financial assets are recognised directly in equity.

Derecognition

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

Financial assets through profit or loss 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 weighted average method to determine the gain or loss on derecognition.

Available for sale financial assets that are sold are derecognised and the cumulative gains or losses previously recognised in equity are recognised in profit or loss.

j) Investment properties

Investment properties are stated at fair value determined annually by an independent registered valuer. Fair value is based on current market prices for similar properties in the same location and condition. Any gain or loss arising in fair value is recognised in the income statement. Rental income from investment property is accounted for as described in accounting policy (e).

k) 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, which are stated at historical cost, are translated to AED at the foreign exchange rate ruling at the date of the transaction. Realised and unrealised exchange gains and losses have been dealt with in the income statement.

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

2. Significant accounting policies (continued)

l) Property and equipment and depreciation

Property and equipment are stated at cost of acquisition less accumulated depreciation to date and impairment losses, if any. Property and equipment are depreciated over their estimated useful lives using the straight line method of calculation.

The estimated useful lives of all property and equipment are estimated as four years. Depreciation rates, useful lives, as well as residual values, are reassessed annually.

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.

m) Employee terminal benefits

Provision is made for employee terminal benefits in accordance with the Company's policy, which meets the requirements of the UAE Federal 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 a Social Security and UAE Pension Fund in accordance with the UAE Federal Law No. 7 of 1999 for Pension and Social Security.

n) Trade and other receivables

Trade and other receivables are stated at the amortised costs net of provision for amounts estimated to be doubtful of recovery.

o) Accounts payable and accruals

Trade payables and accruals are stated at the amortised costs. Liabilities are recognised for amounts to be paid in future for goods or services received, whether or not billed to the Company.

p) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, balances in current accounts, and short term fixed deposits with banks.

q) 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.

r) Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date or whenever, there is any indication of impairment. If any such indication exists, the recoverable value of the assets is estimated. An impairment loss is recognised where the carrying amount of an asset exceeds its recoverable value. Impairment losses are recognised in the income statement. The impairment losses are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amounts.

Arabian Scandinavian Insurance Company P.L.C.

Notes *(continued)*

2. Significant accounting policies (continued)

s) Operating lease

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

t) Critical accounting estimates and judgments in applying accounting policies

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

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The Company estimates for reported and unreported losses and establishing resulting provisions and related reinsurance recoverable is continually reviewed and updated, and adjustments resulting from this review are reflected in income. The process relies upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis for predicting future events.

u) Reinsurance assets

Amounts recoverable under reinsurance contracts are assessed for impairment at each balance sheet date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

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
Cost				
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
At 1 January 2005	2,461,686	381,125	7,223,948	10,066,759
Additions	111,891	-	21,114,205	21,226,096
Transfer to investment properties on completion	-	-	(14,825,887)	(14,825,887)
Disposals	-	(4,825)	-	(4,825)
At 31 December 2005	2,573,577	376,300	13,512,266	16,462,143
Depreciation				
At 1 January 2004	1,991,530	139,543	-	2,131,073
Charge	202,066	74,595	-	276,661
On disposals	-	(195,633)	-	(195,633)
At 31 December 2004	2,193,596	18,505	-	2,212,101
At 1 January 2005	2,193,596	18,505	-	2,212,101
Charge	181,486	94,075	-	275,561
On disposals	-	(4,825)	-	(4,825)
At 31 December 2005	2,375,082	107,755	-	2,482,837
Net book value				
At 31 December 2005	198,495	268,545	13,512,266	13,979,306
At 31 December 2004	268,090	362,620	7,223,948	7,854,658

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

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

4. Investment properties

	2005 AED	2004 AED
At 1 January	51,289,855	51,289,855
Transferred from property and equipment upon completion	14,825,887	-
Sold during the year	(3,654,099)	-
	-----	-----
At 31 December	62,461,643	51,289,855
	=====	=====

Investment properties comprise of plots of land and buildings. The value of investment properties at 31 December 2005, as determined by an independent real estate broker, is AED 63,000,000. 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.

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

	2005 AED	2004 AED
Gross rental income	3,883,059	3,274,848
Less: Direct operating expenses	(327,238)	(92,478)
	-----	-----
Net rental income	3,555,821	3,182,370
	=====	=====

5. Investments available for sale

	2005 AED	2005 AED
Equity investments – Quoted	116,802,775	-
	=====	=====

6. Investments fair valued through profit and loss

	2005 AED	2004 AED
Equity investments – Quoted	92,257,709	78,498,287
Equity investments – Unquoted	515,357	515,357
	-----	-----
	92,773,066	79,013,644
	=====	=====

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

7. Trade receivables

	2005 AED	2004 AED
Accounts receivable	3,872,699	3,879,757
Reinsurance companies	1,421,530	555,842
Insurance companies, agents and brokers	9,562,190	14,517,974
	-----	-----
	14,856,419	18,953,573
Less: Allowance for impairment losses	(2,309,611)	(1,176,294)
	-----	-----
	12,546,808	17,777,279
	=====	=====

8. Other receivables and prepayments

	2005 AED	2004 AED
Prepaid expenses	753,414	564,491
Advances and deposits	45,538	37,997
Other receivables	12,578,286	1,348,072
	-----	-----
	13,377,238	1,950,560
	=====	=====

9. Cash in hand and at bank

	2005 AED	2004 AED
Cash in hand	-	1,450
Call deposits	654,760	498,157
Term deposits	10,359,573	10,058,464
Cash at bank	3,561,182	13,000,455
	-----	-----
	14,575,515	23,558,526
	=====	=====

Term deposits include AED 4,500,000 (2004: 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 2005 have a maturity period of less than 3 months. The above deposits carry interest rates of 2% to 4%.

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

10. Trade and other payables

	2005 AED	2004 AED
Creditors	2,596,222	4,132,206
Reinsurance companies	7,620,081	9,157,773
Premium reserve withheld	2,913,011	2,952,463
Accrued expenses	113,070	276,909
Insurance companies	3,238,213	2,961,204
Deferred rental income	2,044,953	1,581,622
Other payables	1,563,402	154,107
	-----	-----
	20,088,952	21,216,284
	=====	=====

11. Unearned premium reserve and additional technical reserve

Movements in unearned premium reserve

	2005 AED	2004 AED
Total at beginning of the year	9,739,618	16,911,641
Provision made during the year	11,343,083	9,739,618
Provision released during the year	(9,739,618)	(16,911,641)
Total at end of the year	<u>11,343,083</u>	<u>9,739,618</u>

Additional reserve of AED 2 million (2004: 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

	2005 AED	2004 AED
Reserve for outstanding claims	20,740,451	23,810,039
Reserve for incurred but not reported claims	2,100,000	3,000,000
	-----	-----
	22,840,451	26,810,039
Less: Reinsurer's share of outstanding claims	(14,122,398)	(15,891,236)
	-----	-----
	8,718,053	10,918,803
	=====	=====

Movements in outstanding claims reserve:

	2005		
	Gross AED	Reinsurance AED	Net AED
Total at beginning of the year	26,810,039	15,891,236	10,918,803
Net movement during the year	(3,969,588)	(1,768,838)	(2,200,750)
Total at end of the year	22,840,451	14,122,398	8,718,053

	2004		
	Gross AED	Reinsurance AED	Net AED
Total at beginning of the year	31,336,534	9,508,347	21,828,187
Net movement during the year	(4,526,495)	6,382,889	(10,909,384)
Total at end of the year	26,810,039	15,891,236	10,918,803

Assumptions and sensitivities

Process used to determine the assumptions

The process used to determine the assumptions for calculating the outstanding claim reserve is intended to result in neutral estimates of the most likely or expected outcome. The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out annually. The assumptions are checked to ensure that they are consistent with observable market practices or other published information.

The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case by case basis with due regard to the claim circumstances, information available from loss adjusters and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises.

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

Arabian Scandinavian Insurance Company P.L.C.

Notes (*continued*)

12. Outstanding claims reserve (*continued*)

Assumptions and sensitivities (*continued*)

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

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

Assumptions and sensitivities to changes in key variables

The assumptions that have the greatest effect on the measurement of insurance contract provisions are the expected loss ratios for the most recent accident years for accident and liabilities. These are used for assessing the IBNR for the 2004 and 2005 accident years.

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

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

13. 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.

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

	2005 AED	2004 AED
Insurance policies written for shareholders' companies	339,992	147,632
Management expenses (net)	1,193,401	850,759
Premiums written through a related party broker	5,343,639	6,408,151
Commission paid	656,160	1,295,194
Directors' and key management personnel (remuneration including benefits)	1,814,954	1,488,315
Sale of investment property to key management	7,543,034	-
Claims paid	386,974	71,627
	=====	=====

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

13. Related party transactions (continued)

The balances with related parties at 31 December 2005 are as follows:

	2005 AED	2004 AED
Due from related parties		
Insurance Service Management	3,798,872	4,695,139
Architectural Construction Company	549,345	628,040
Ahmed M A Kazim	-	200
Al Kazim Furniture	-	5,828
	-----	-----
	4,348,217	5,329,207
	=====	=====

	2005 AED	2004 AED
Due to related parties		
Al Kazim	-	13,174
Al Kazim Real Estate	-	8,150
Santy General Trading	-	578
Kazim Travel Agency	-	3,430
General Supermarket	-	6,410
	-----	-----
	-	31,742
	=====	=====

14. Other operating income

	2005 AED	2004 AED
Profit on sale of property and equipment	500	88,133
Interest income - net	310,540	117,412
Other	992,854	793,852
	-----	-----
	1,303,894	999,397
	=====	=====

15. Investment income

	2005 AED	2004 AED
Dividend income	968,840	1,439,948
Gain on disposal	126,728,219	28,656,719
	-----	-----
	127,697,059	30,096,667
	=====	=====

Arabian Scandinavian Insurance Company P.L.C.

Notes (*continued*)

16. General and administrative expenses

	2005 AED	2004 AED
These include:		
Staff costs	3,971,173	3,766,030
Contributions to employees' terminal benefits scheme	166,902	171,224
Rent	712,490	603,395
Depreciation	275,561	276,661
	=====	=====
Number of employees at 31 December	68	68
	=====	=====

17. Contingent liabilities and capital commitments

	2005 AED	2004 AED
Letters of guarantee	9,009,009	9,862,391
	=====	=====

Capital commitments at 31 December 2005 amounted to AED 25,465,774 (2004: AED 8,752,834).

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.

18. Operating leases

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

During the current year AED 712,490 (2004: AED 603,395) was recognised as an expense in the income statement in respect of operating leases.

19. Insurance risk management

Risk management objectives and policies for mitigating insurance risk

The primary insurance activity carried out by the Company assumes the risk of loss from persons or organisations that are directly subject to the risk. Such risks may relate to property, liability, life, accident health, financial or other perils that may arise from an insurable event. The Company also has exposure to market risk through its insurance and investment activities. The Company manages the risk through well laid out procedures and delegation levels for both underwriting and settlement of claims.

The Company has structured policies for acceptance and pricing risks. All experienced and qualified professionals undertake the assessment of risks and pricing, with a conservative and cautious approach. Survey, risk measurement, sensitivity analysis, reinsurance term etc., are followed meticulously before acceptance of risk. Apart from these study of portfolio, probability, market trend, past history are all considered for pricing.

Arabian Scandinavian Insurance Company P.L.C.

Notes (*continued*)

19. Insurance risk management (continued)

Underwriting strategy

Involves the Company's own risk assessment procedures and is based on balance portfolio. The philosophy and plan is set out in terms of industry, type of exposures, limits for each class, and quality of risks with acceptance levels. This is percolated down to the lower levels of the underwriting sections with the authorities specified along with their limits. Risk selection is set out as per risk management.

Reinsurance strategy

In parlance with other insurance companies to minimise and control the net exposure, the Company enters into reinsurance arrangements. This provides for additional capacity, better diversification of business and better management control on losses from any large risk.

These reinsurance are through treaty and facultative reinsurance contracts. The reinsurers are selected based on their standing in the market, rating, relationship experience and length of association.

Reinsurance recoverable are monitored on regular basis and exchanges of reconciliation's are done with complete control over the receivables.

Terms and conditions of insurance contracts

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

Normally an Insurance contract contains the coverage of the subject of insurance, the exclusions and obligations of the insured and the insurers. Deviations are reported forthwith to the insurer by the insured and any accident event to be reported immediately. Long tail business is generally those, which, prolong for the long period of time to finalise and settle claims (those of marine/ construction and liability contracts).

Insurance companies normally provide for 'IBNR' claims as a matter of abundant precaution to take care of any such claims forthcoming. These are based on historical data and experience of the respective class with a foresight.

Claims development

Claims development tables are required to be disclosed in order to put the unpaid claims estimates included in the financial statements into a context, allowing comparison of the development claims provisions with those seen in previous years.

This disclosure is not required when the uncertainty is typically resolved within one year. For all classes of business underwritten by the Company the uncertainty is typically resolved within one year except for certain classes of Motor Insurance where the uncertainty is generally resolved within three years. The data currently available is not in a form which would make it practical to present a claims development table for this class of business. The company is currently developing its existing system which will enable this disclosure in future years.

Arabian Scandinavian Insurance Company P.L.C.

Notes (*continued*)

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.

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.

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

20. Financial instruments (continued)

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. Segment information

By Business

	2005				
	Accident and Liabilities AED	Fire AED	Marine AED	Other AED	Total AED
Gross written premium	28,035,120	4,390,991	4,258,512	5,259,481	41,944,104
Net premiums earned	21,429,769	670,413	995,018	4,051,099	27,146,299
Commissions received on ceded reinsurance	913,953	541,482	993,044	7,753	2,456,232
Net claims incurred	15,096,045	1,383,072	434,988	1,724,446	18,638,550
Commissions paid	1,452,875	587,867	418,084	360,309	2,819,135
Net underwriting profit/(loss)	1,049,565	(1,484,077)	(686,593)	1,105,660	(15,445)
	2004				
	Accident and Liabilities AED	Fire AED	Marine AED	Other AED	Total AED
Gross written premium	28,186,946	4,237,537	3,556,786	3,459,335	39,440,604
Net premiums earned	27,073,630	555,137	849,224	3,359,436	31,837,426
Commissions received on ceded reinsurance	872,942	544,985	769,162	-	2,187,091
Net claims incurred	18,517,938	6,794	226,617	1,724,401	20,753,389
Commissions paid	1,343,428	569,208	290,067	125,621	2,328,328
Net underwriting profit/(loss)	3,356,379	(558,793)	599,352	929,054	4,325,991

By Geographical

The Company does not have any geographical segment as Company is carrying out all of its operations within UAE.

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

Arabian Scandinavian Insurance Company P.L.C.

Notes *(continued)*

22. Earnings per share

Earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding after adjusting for the issue of bonus shares during the year as set out below:

	2005 AED	2004 AED (Restated)
Net profit for the year	135,245,206 =====	65,584,051 =====
Weighted average number of shares outstanding during the year (after adjusting for issue of bonus shares)	10,000,000 =====	10,000,000 =====
Earnings per share	13.52 =====	6.56 =====

23. Comparative figures

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

Arabian Scandinavian Insurance
Company P.L.C.

Financial statements
31 December 2005

Arabian Scandinavian Insurance Company P.L.C.

Financial statements

31 December 2005

<i>Contents</i>	<i>Page</i>
Directors' report	1-2
Report of the Auditors	3
Balance sheet	4
Income statement	5
Statement of underwriting results	6
Statement of cash flows	7
Statement of changes in shareholders' equity	8
Notes	9 - 26