

Arabian Scandinavian Insurance Company PLC

Annual Report 2006





His Highness

Sheikh Khalifa Bin Zayed Al Nahyan

President of the United Arab Emirates

Ruler of Abu Dhabi



His Highness

Sheikh Mohamed Bin Rashid Al Maktoum

Vice President and Prime Minister of the
United Arab Emirates

Ruler of Dubai



Board of Directors and Management

Chairman

Sh.Butti Bin Maktoum Bin Juma Al Maktoum

Vice-Chairman

Mr.Mohammed Amin Mohammed Siddiq Al Kazim

Managing Director

Mr.Ahmad Mohammed Amin Al Kazim

Directors

Mr.Majid Mohammed Amin Al Kazim

Mr.Khalid Habib Al Redha

Mr.Mahmoud Mohammed Hadi Hassan

Mr.Faisal Akeel Mohamed

Auditors

KPMG

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Report of the Board of Directors

The Board of Directors takes pleasure in presenting the Annual Report on the Company's business activities and the audited financial statements for the year ended 31 December 2006.

During 2006, the Company has achieved significant growth in the technical results. Some of the highlights are

- Increase in Written premium during 2006 by 23.75%
- Significant decreases in gross and net claims settled.

Gross & net insurance premiums

The insurance premiums written increased by 23.75% over the previous year to AED 51.91 Million (AED 41.94 Million in 2005). This significant increase has been achieved exclusively on the Non-Motor portfolio. The Motor premium written during 2006 is AED 22.17 Million (AED 22.32 in 2005).

The net retained premiums amounted to AED 36.85 Million (AED 28.75 Million in 2005) resulting in an increase of 28.19% over 2005.

Gross paid claims

The gross claim paid by the Company decreased from AED 42.06 Million in 2005 to AED 32.27 Million this year resulting in a 23.24% decrease.

Investments

The UAE stock Market experienced an unprecedented downward trend during 2006. At the end of the year, Company's investments on Available-For-Sale amounted to AED 64.73 Million (AED 116.80 Million in 2005). The Company has complied with the IAS 39 "Financial Instruments – Recognition and measurement" requirement on Impairment and has recognized the "**significant or prolonged**" impairment in the fair value of certain Investments Available-for-sale amounting to AED 32.68 Million.

Investment Properties

The Company revalued its Investment properties through Land Department of Government of Dubai and Independent Property valuers. Company has chosen to adopt a realistic approach to arrive at the Fair value by considering all the factors of prudence, physical possibility, appropriateness and legal, commercial & economic feasibility.

Net Profit

The net profits realized by the Company for 2006 amounted to AED 7.03 Million (AED 135.24 Million in 2005)



Report of the Board of Directors (Contd..)

Recommendations to the shareholders

The Board of Directors is pleased to present the following recommendations to the Ordinary general meeting of the Company's Shareholders for their approval:

- 1.To consider and approve the Board of Directors' Report and the Company's balance sheet as at 31 December 2006 and the Financial Statement for the year ended 31 December 2006.
- 2.To discharge the Chairman, Members of the Board of Directors and auditors from liabilities related to the performance of their duties during the year under review.
- 3.To consider and approve the appropriation and distribution of profit recommended by the Board of Directors.
- 4.To appoint Auditors for the year 2007 and authorize the Board of Directors to determine their fees.

Acknowledgements

On behalf of the company's Shareholders and staff, the Board of Directors would like to express their gratitude and utmost respect to His Highness Sheikh Khalifa Bin Zayed Al Nahyan, president of the United Arab Emirates and His Highness Sheikh Maktoum Bin Rashid Al Maktoum, Vice President and Ruler of Dubai. Under their astute leadership UAE enjoys a dynamic and vibrant business environment.

Further the Board of Directors take this opportunity to thank the Company staff for their effort to develop the company's business, services, systems and strengthen its relationship with its Customers, Brokers and Reinsurers.

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

Independent Auditors' Report to the Shareholders

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

Report on the financial statements

We have audited the accompanying financial statements of Arabian Scandinavian Insurance Company P.L.C. ("the Company"), which comprise the balance sheet as at 31 December 2006, and the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Basis for opinion

The carrying value of certain properties is in excess of the fair valuation provided by the Government of Dubai, Lands Department, which practice, in our opinion, is not in accordance with the fair value model for measurement as per International Financial Reporting Standard, IAS 40 "Investment Properties", accordingly the profit for the year and the retained earnings as at 31 December 2006, in our opinion, should be reduced by AED 5.2 million.

Opinion

In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with 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.

Report on other legal and regulatory requirements

As required by the Federal Law No.8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit, that proper financial records have been kept by the Company and the contents of the Chairman's report which relate to these financial statements are in agreement with the Company's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2006, which may have had a material adverse effect on the business of the Company or its financial position.

KPMG

20 Feb 2007

Arabian Scandinavian Insurance Company P.L.C.

Balance sheet

at 31 December 2006

	Note	2006 AED	2005 AED
Assets			
Property and equipment	3	32,048,267	21,505,961
Investment properties	4	132,250,000	54,934,988
Total non-current assets		164,298,267	76,440,949
Investments available for sale	5	64,734,457	116,802,775
Investments at fair valued through profit or loss	6	65,332,498	92,773,066
Trade receivables	7	15,608,450	12,546,808
Due from related parties	13	6,447,096	4,348,217
Reinsurers' share of outstanding claims	12	10,727,885	14,122,398
Other receivables and prepayments	8	1,854,668	13,377,238
Cash in hand and at bank	9	12,289,990	14,575,515
Total current assets		176,995,044	268,546,017
Total assets		341,293,311	344,986,966
Equity and liabilities			
Share capital	14	140,000,000	100,000,000
Legal reserve		32,262,669	31,559,558
General reserve		24,372,469	23,669,358
Retained earnings		75,532,327	121,107,446
Fair value reserve		(6,927,477)	11,517,262
Total equity		265,239,988	287,853,624
Liabilities			
Provision for employees' terminal benefits and total non-current liabilities		913,442	860,856
Trade and other payables	10	28,782,061	20,088,952
Due to related parties	13	2,029,563	-
Unearned premium reserve	11	14,535,456	11,343,083
Additional reserve	11	2,000,000	2,000,000
Outstanding claims reserve	12	22,420,497	22,840,451
Bank overdrafts		5,372,304	-
Total current liabilities		75,139,881	56,272,486
Total liabilities		76,053,323	57,133,342
Total equity and liabilities		341,293,311	344,986,966

These financial statements were approved and authorized for issue on by the Board of Directors on 20 Feb 2007 and sign on its behalf by:

Mohd Amin Al Kazim
Vice Chairman

Ahmad M.A. Al Kazim
Managing Director

The notes on pages 9 to 28 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 2006

	Note	2006 AED	2005 AED
Underwriting business			
Gross premium written		51,907,782	41,944,104
Outward reinsurance premium		(15,052,945)	(13,194,340)
Net premium written		36,854,837	28,749,764
Changes in the provision for unearned premium reserve		(3,192,373)	(1,603,465)
Earned premium, net of reinsurance		33,662,464	27,146,299
Commission earned		3,377,651	2,456,232
Total underwriting revenue		37,040,115	29,602,531
Claims paid		(33,668,447)	(42,028,384)
Reinsurance share		14,212,747	21,189,085
Net claims paid		(19,455,700)	(20,839,299)
Changes in the provision for claims		(2,974,555)	2,200,753
Net claims incurred, net of reinsurance		(22,430,255)	(18,638,546)
Commission incurred		(3,852,370)	(2,819,139)
Total underwriting expense		(26,282,625)	(21,457,685)
Underwriting surplus		10,757,490	8,144,846
General and administrative expenses	18	(8,078,606)	(8,160,291)
Rental income from investment properties-net	4	7,544,975	3,555,821
Gain on sale of investment properties		-	3,888,935
Fair value gain on revaluation of investment properties	4	64,939,012	-
Investment income	17	2,716,832	127,697,059
Fair value adjustment on investments at fair value through profit and loss		(38,884,035)	(1,185,058)
Impairment losses in available-for-sale investments	5	(32,681,929)	-
Other income	16	717,364	1,303,894
Net profit for the year		7,031,103	135,245,206
Earnings per share	24	0.05	0.97

The notes on pages 9 to 28 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 2006

	Note	Accident and liability AED	Fire AED	Marine AED	Other AED	Total 2006 AED	Total 2005 AED
Premium written		29,269,211	5,138,860	5,217,854	12,281,857	51,907,782	41,944,104
Less: Reinsurance share		(6,024,145)	(4,514,362)	(3,841,323)	(673,115)	(15,052,945)	(13,194,340)
Net premium		23,245,066	624,498	1,376,531	11,608,742	36,854,837	28,749,764
Less: Unearned premium reserve at 1 January		8,986,987	236,764	261,371	1,857,961	11,343,083	9,739,618
Add: Unearned premium reserve at 31 December		(9,298,026)	(249,799)	(344,133)	(4,643,498)	(14,535,456)	(11,343,083)
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		22,934,027	611,463	1,293,769	8,823,205	33,662,464	27,146,299
Commission earned		1,150,025	962,640	1,239,876	25,110	3,377,651	2,456,232
Total underwriting revenue		24,084,052	1,574,103	2,533,645	8,848,315	37,040,115	29,602,531
Claims paid- net		(23,755,544)	(6,471,200)	(772,090)	(2,669,613)	(33,668,447)	(42,028,384)
Less: Reinsurance share		8,805,555	4,028,711	690,977	687,504	14,212,747	21,189,085
Net claims paid		(14,949,989)	(2,442,489)	(81,113)	(1,982,109)	(19,455,700)	(20,839,299)
Add: Outstanding claims at 1 January		7,077,277	429,375	653,873	557,533	8,718,058	10,918,806
Less: Outstanding claims at 31 December		(7,310,139)	(423,089)	(2,095,691)	(1,863,694)	(11,692,613)	(8,718,053)
Net claims incurred		(15,182,851)	(2,436,203)	(1,522,931)	(3,288,270)	(22,430,255)	(18,638,546)
Commission incurred		(1,836,460)	(647,704)	(506,242)	(861,964)	(3,852,370)	(2,819,139)
Total underwriting expenses		(17,019,311)	(3,083,907)	(2,029,173)	(4,150,234)	(26,282,625)	(21,457,685)
Underwriting surplus		7,064,741	(1,509,804)	504,472	4,698,081	10,757,490	8,144,846
General and administrative expenses – allocated	18	(4,498,687)	(789,845)	(902,348)	(1,887,726)	(8,078,606)	(8,160,291)
Underwriting profit		2,566,054	(2,299,649)	(397,876)	2,810,355	2,678,884	(15,445)

The notes on pages 9 to 28 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 2006

	Note	2006 AED	2005 AED
Cash flows from operating activities			
Net profit for the year		7,031,103	135,245,206
Adjustment for:			
Depreciation		204,826	275,561
Profit on sale of property and equipment		-	(500)
Fair value adjustment on investments at fair valued through profit or loss		38,884,035	1,185,028
Impairment loss on available for sale investments		32,681,929	-
Fair value gain on revaluation of investment properties		(64,939,012)	-
Movement in unearned premium reserve		3,192,373	1,603,466
Gain on sale of investment property			(3,888,935)
Investment income		(163,809)	(126,728,219)
Dividend received		(2,553,023)	(968,840)
Movement in provision for employees' terminal benefits		52,587	84,730
		-----	-----
Operating profit before changes in working capital		14,391,009	6,807,497
Changes in trade receivables		(3,061,641)	5,230,471
Changes in due from related parties		(2,098,879)	980,990
Changes in other receivables and prepayments		11,522,570	(11,426,678)
Changes in due to related parties		2,029,563	(31,742)
Changes in trade and other payables		8,693,109	(1,127,331)
Changes in provision for outstanding claims		2,974,559	(2,200,750)
		-----	-----
Net cash flows from operating activities		34,450,290	(1,767,543)
		-----	-----
Cash flows from investing activities			
Addition to property under construction		(23,045,748)	(21,114,205)
Purchase of investments at fair valued through profit or loss		(87,918,624)	(319,556,649)
Purchase of investments available-for-sale		(35,290,289)	(105,285,514)
Proceeds from sale of investment properties		-	7,543,034
Proceeds from sale of property and equipment		-	500
Proceeds from sale of investments		112,870,903	431,340,417
Purchase of property and equipment		(77,384)	(111,891)
Dividend received		2,553,023	968,840
		-----	-----
Cash flows from investing activities		(30,908,119)	(6,215,468)
		-----	-----
Financing activities			
Directors' remuneration paid		(1,200,000)	(1,000,000)
Dividend paid		(10,000,000)	-
		-----	-----
Cash flows from financing activities		(11,200,000)	(1,000,000)
		-----	-----
Net decrease in cash and cash equivalents		(7,657,829)	(8,983,011)
Cash and cash equivalents at the beginning of the year		10,075,515	19,058,526
		-----	-----
Cash and cash equivalents at the end of the year		2,417,686	10,075,515
		=====	=====
Cash and cash equivalent at 31 December comprise the following:			
Cash in hand and at bank	9	12,289,990	14,575,515
Less: deposits having maturity of more than three months		(4,500,000)	(4,500,000)
Less: bank overdraft		(5,372,304)	-
		-----	-----
Cash and cash equivalents at the end of the year		2,417,686	10,075,515
		=====	=====

The notes on pages 9 to 28 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 2006

	Share capital AED	Legal reserve AED	General reserve AED	Revaluation reserve AED	Retained earnings AED	Total AED
At 1 January 2006	100,000,000	31,559,558	23,669,358	11,517,262	121,107,446	287,853,624
Issue of bonus shares	40,000,000	-	-	-	(40,000,000)	-
Dividend paid	-	-	-	-	(10,000,000)	(10,000,000)
Payment of Directors' remuneration (a)	-	-	-	-	(1,200,000)	(1,200,000)
Net profit for the year	-	-	-	-	7,031,103	7,031,103
Transfer to legal reserve (b)	-	703,111	-	-	(703,111)	-
Transfer to general reserve (c)	-	-	703,111	-	(703,111)	-
Fair value adjustment	-	-	-	(50,743,413)	-	(50,743,413)
Reversal on disposal of investments	-	-	-	(383,255)	-	(383,255)
Impairment losses in available for sale investments	-	-	-	32,681,929	-	32,681,929
At 31 December 2006	140,000,000	32,262,669	24,372,469	(6,927,477)	75,532,327	265,239,988
At 1 January 2005	50,000,000	18,035,037	10,144,837	-	63,911,282	142,091,156
Issue of bonus shares	50,000,000	-	-	-	(50,000,000)	-
Payment of Directors' remuneration (a)	-	-	-	-	(1,000,000)	(1,000,000)
Net profit for the year	-	-	-	-	135,245,206	135,245,206
Transfer to legal reserve (b)	-	13,524,521	-	-	(13,524,521)	-
Transfer to general reserve (c)	-	-	13,524,521	-	(13,524,521)	-
Fair value adjustment	-	-	-	11,517,262	-	11,517,262
As at 31 December 2005	100,000,000	31,559,558	23,669,358	11,517,262	121,107,446	287,853,624

- (a) 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.
- (b) 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.
- (c) 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.

The notes on pages 9 to 28 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.

2. Significant accounting policies

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and the requirements of UAE Federal Law No.8 of 1984 (as amended).

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

a) 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 at fair value through profit or loss, and available-for-sale investments, which are stated at fair value.

b) 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.

c) Revenue recognition

Premiums are recognized as revenue (earned premiums) proportionally over the period of insurance coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as the unearned premium liability. Premiums are shown before deduction of commission.

d) Claims

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Company. The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

2. Significant accounting policies (continued)

e) Interest income

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

f) Rental income

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

g) Dividend income

Dividend income is recognised in the income statement on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

h) 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.

i) Financial assets and liabilities

Recognition

The Company initially recognizes claims on the date that they are reported. All other financial assets and liabilities (including assets designated at fair value through profit or loss) are initially recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Derecognition

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfer the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company also derecognizes certain assets when it charges off balances pertaining to the assets deemed to be uncollectible.

Offsetting

Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Company has a legal right to set off the amounts and intends either to settle on a net basis or realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Company's trading activities in investment securities.

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

2. Significant accounting policies (continued)

i) Financial assets and liabilities (continued)

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques including the discounted cash flow method.

Identification and measurement of impairment

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

The Company considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Impairment losses on assets carried at amortised cost are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. Cash flows, and resulted losses are recognised in profit or loss.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognized by transferring the difference between the amortized acquisition cost and current fair value out of equity to profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized directly in equity.

j) Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available for sale.

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

2. Significant accounting policies (continued)

j) Investment securities (continued)

Fair value through profit or loss

Investments held for trading purposes are classified as investments at fair value through profit or loss, with fair value changes recognized immediately in profit or loss as described.

Available-for-sale

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliability measured are carried at cost. All other available-for-sale investments are carried at fair value, with fair value changes are recognized directly in equity until the investment is sold or impaired and the balance in equity is recognized in profit or loss.

k) 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.

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) Investment properties

Property held either to earn rental income or for capital appreciation or for both, and that is not occupied by the Company is classified as investment property.

Investment properties comprise freehold land and buildings. Investment properties are measured at fair value with any change therein is recognised in the income statement. Rental income from investment property is accounted for as described in accounting policy (f).

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

2. Significant accounting policies (continued)

n) 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.

o) Receivable and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for receivables. The impairment loss is calculated under the same method used for these financial assets.

p) Accounts payable and accruals

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

q) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and at bank. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

r) 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.

s) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than investment properties, are reviewed at each reporting date or whenever, there is any indication of impairment. If any such indication exists, the recoverable amount 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)

t) 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 recognized as an expense in the income statement on a straight-line basis over the lease term.

u) 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.

Ultimate liability arising from claims under insurance contracts

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 at each reporting date and establishes appropriate provisions taking into consideration the related reinsurance share in such loss and accordingly adjustments resulting from this process are reflected in income. During this process the management relies upon their past experience (past statistics of claims), adjusted for the effect of current developments and likely trends, to estimate future claims liabilities.

Impairment of available for-sale equity investments

The Company determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates among other factors prevailing share price, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

v) Reinsurance contracts held

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

2. Significant accounting policies (continued)

v) Reinsurance contracts held (continued)

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of balances due from reinsurers that are dependent on the expected claims and benefits arising under the related reinsurance contracts.

Amounts recoverable from or due to reinsurer are measured consistently with the amounts associated with the reinsured insurance and in accordance with the terms of each reinsurance contract.

Reinsurance liabilities are primarily premium payable for reinsurance contracts and are recognised as expense when due.

The Company assesses its reinsurance assets for impairment on a regular basis. If there is an objective evidence that the reinsurance asset is impaired, the Company reduce the carrying amount of the reinsurance asset to its recoverable amount and recognised the impairment loss in the income statement. The Company gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for the financial assets held at amortisation cost. The impairment loss is also calculated following the same method used for these financial assets.

w) 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.

x) Determination of fair values

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

i) Investment property

An external independent valuer, having appropriate experience in the location and category of property being valued, values investment property portfolio at every year end. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudent and without compulsion.

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

2. Significant accounting policies (continued)

x) Determination of fair values (continued)

i) Investment property (continued)

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

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

ii) Investments in equity securities

The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is determined by reference to their quoted bid price at reporting date.

y) New standards and interpretations not yet effective

The new standards, amendments to standards and interpretations, which are not yet effective and are not applied in preparing these financial statements, are as follows:

- IAS 1 *Presentation of Financial Statements – Capital Disclosures* requires the Company to disclose information that enables users of its financial statements to evaluate entity's objectives, policies and processes for managing capital; and
- IFRS 7 *Financial Instruments – Disclosures* requires the Company to disclose the qualitative and quantitative information about its exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risks and market risk.

IAS 1 and IFRS 7 (superseding IAS 30 and 32) which become mandatory for the Company's 2007 financial statements are not expected to have any impact on the financial statements of the Company except for the disclosures as required under the respective IAS and IFRS.

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 2005	2,461,686	381,125	14,750,603	17,593,414
Additions	111,891	-	21,114,205	21,226,096
Transfer to investment properties (note 4)	-	-	(14,825,887)	(14,825,887)
Disposals	-	(4,825)	-	(4,825)
At 31 December 2005	<u>2,573,577</u>	<u>376,300</u>	<u>21,038,921</u>	<u>23,988,798</u>
At 1 January 2006	2,573,577	376,300	21,038,921	23,988,798
Additions	77,384	-	23,045,748	23,123,132
Transfer to investment properties (note 4)	-	-	(12,376,000)	(12,376,000)
Disposals	-	-	-	-
At 31 December 2006	<u>2,650,961</u>	<u>376,300</u>	<u>31,708,669</u>	<u>34,735,930</u>
Depreciation				
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	<u>2,375,082</u>	<u>107,755</u>	<u>-</u>	<u>2,482,837</u>
At 1 January 2006	2,375,082	107,755	-	2,482,837
Charge	111,177	93,649	-	204,826
On disposals	-	-	-	-
At 31 December 2006	<u>2,486,259</u>	<u>201,404</u>	<u>-</u>	<u>2,687,663</u>
Net book value				
At 31 December 2006	<u>164,702</u>	<u>174,896</u>	<u>31,708,669</u>	<u>32,048,267</u>
At 31 December 2005	<u>198,495</u>	<u>268,545</u>	<u>21,038,921</u>	<u>21,505,961</u>

Property under construction comprises cost of land and construction thereon, which will be reclassified to investment property upon completion of the construction.

At 31 December 2006, properties under construction includes AED 2,067,978 which were registered in the name of a shareholder that was held by him beneficially for and on behalf the Company.

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

4. Investment properties

	2006 AED	2005 AED
Balance at 1 January (refer note 25)	54,934,988	43,763,200
Transfer from property and equipment upon completion	12,376,000	14,825,887
Change in fair value	64,939,012	-
Sold during the year	-	(3,654,099)
	-----	-----
Balance at 31 December	132,250,000	54,934,988
	=====	=====

Investment properties comprise pieces of land and buildings, which are mainly leased to third parties. The valuation of investment properties is based on valuations provided by the independent third party valuers and Dubai Land Department. In the case of one investment property the value is based on future sales arrangements entered into by the Company.

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

	2006 AED	2005 AED
Gross rental income	8,146,853	3,883,059
Direct operating expenses	(601,878)	(327,238)
	-----	-----
Net rental income	7,544,975	3,555,821
	=====	=====

5. Investments available for sale

	2006 AED	2005 AED
Equity investments – Quoted	61,419,341	116,802,775
Equity investments – Unquoted (see note below)	3,315,116	-
	-----	-----
	64,734,457	116,802,775
	=====	=====

At 31 December 2006, the Company has recognized impairment losses amounted to approximately AED 33.75 million in profit and loss account on available-for-sale investments identified as being impaired.

During the year Company has subscribed to the following shares:

Name of company	No. of shares
Dubai Financial Market (DFM)	500,113
Manazel	500,000
Mawarid	2,000,000

	3,000,113
	=====

These shares were allocated to the Company as initial public offering (IPO). The cost of these shares was AED 3,315,116. As per the terms of allocation the Company cannot dispose off these shares for a period of two years. At 31 December 2006, the shares were waiting for listing and hence, these investments are carried at cost.

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

6. Investments fair valued through profit and loss

	2006 AED	2006 AED
Equity investments – Quoted	64,817,141	92,257,709
Equity investments – Unquoted	515,357	515,357
	=====	=====
	65,332,498	92,773,066
	=====	=====

7. Trade receivables

	2006 AED	2005 AED
Insurance companies, agents and brokers	11,907,965	9,562,190
Accounts receivable	4,236,509	3,872,699
Reinsurance companies	2,101,748	1,421,530
	=====	=====
	18,246,222	14,856,419
Less: Allowance for impairment losses	(2,637,772)	(2,309,611)
	=====	=====
	15,608,450	12,546,808
	=====	=====

8. Other receivables and prepayments

	2006 AED	2005 AED
Prepaid expenses	627,659	753,414
Advances and deposits	345,786	45,538
Other receivables	881,223	12,578,286
	=====	=====
	1,854,668	13,377,238
	=====	=====

9. Cash in hand and at bank

	2006 AED	2005 AED
Cash in hand	129,647	-
Cash at bank	203,252	3,561,182
Call deposits	1,096,225	654,760
Term deposits	10,860,866	10,359,573
	=====	=====
	12,289,990	14,575,515
	=====	=====

Term deposits include AED 4,500,000 (2005: AED 4,500,000), which are held as guarantee deposits in favour of the UAE Ministry of Commerce and Economy in accordance with Federal Law No. 9 of 1984 (as amended). The remaining of the term deposits were held by the Company at 31 December 2006 with a maturity for a period of less than 3 months. The above deposits carry interest at the rates ranging between 2% and 5% per annum.

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

10. Trade and other payables

	2006 AED	2005 AED
Creditors	3,181,121	2,596,222
Reinsurance companies	8,785,268	7,620,081
Deferred rental income	4,337,974	2,044,953
Insurance companies	3,522,820	3,238,213
Premium reserve withheld	3,468,664	2,913,011
Accrued expenses	123,116	113,070
Other payables	5,363,098	1,563,402
	-----	-----
	28,782,061	20,088,952
	=====	=====

11. Unearned premium reserve and additional technical reserve

Movements in unearned premium reserve

	2006 AED	2005 AED
Balance at 1 January	11,343,083	9,739,618
Provision made during the year	14,535,456	11,343,083
Provision released during the year	(11,343,083)	(9,739,618)
	-----	-----
Balance at 31 December	14,535,456	11,343,083
	=====	=====

Additional reserve of AED 2.0 million (2005: AED 2.0 million) has been created as the management believes that while calculating unearned premium reserve the average policy inception date for the motor portfolio is not considered.

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

12. Outstanding claims reserve

	2006 AED	2005 AED
Reserve for outstanding claims	19,520,497	20,740,451
Reserve for incurred but not reported claims	2,900,000	2,100,000
	-----	-----
	22,420,497	22,840,451
Less: Reinsurers' share of outstanding claims	(10,727,885)	(14,122,398)
	-----	-----
	11,692,612	8,718,053
	=====	=====

Movements in outstanding claims reserve:

	2006		
	Gross AED	Reinsurance AED	Net AED
Total at beginning of the year	22,840,451	14,122,398	8,718,053
Less: Settled during the year	(32,261,416)	(14,212,748)	(18,048,668)
Add: Provision made during the year	31,841,462	10,818,235	21,023,227
	-----	-----	-----
Total at end of the year	22,420,497	10,727,885	11,692,612
	=====	=====	=====
	2005		
	Gross AED	Reinsurance AED	Net AED
Total at beginning of the year	26,810,039	15,891,236	10,918,803
Less: Settled during the year	(42,062,462)	(21,189,085)	(20,873,377)
Add: Provision made during the year	38,092,874	19,420,247	18,672,627
	-----	-----	-----
Total at end of the year	22,840,451	14,122,398	8,718,053
	=====	=====	=====

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 2005 and 2006 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 following are the details of significant transactions with related parties.

	2006 AED	2005 AED
Premium on insurance policies written for shareholders' companies	343,263	339,992
Expenses incurred (net) by a related party on behalf of the Company	1,334,635	1,193,401
Premiums written through a related party broker	7,312,495	5,343,639
Commission paid	869,416	656,160
Key management compensation		
- salaries and other short term benefits	860,900	814,954
- terminal benefits	49,500	-
- directors' remuneration paid	1,200,000	1,000,000
Sale of investment property to key management	-	7,543,034
Claims paid to related parties	112,176	71,501
Claims paid through a related party broker	132,102	386,974
Construction carried out by a related party	13,109,717	12,232,407
	=====	=====

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

13. Related party transactions (continued)

The balances with related parties at 31 December 2006 are as follows:

	2006 AED	2005 AED
Due from related parties		
Insurance Service Management	4,426,924	3,798,872
Al Kazim Real Estate	1,982,020	-
Ahmed M A Kazim	11,384	-
General Supermarket	10,839	-
Mohammed Amin Al Kazim	9,100	-
Al Kazim Furniture	5,504	-
Al Kazim Travel Agency	1,125	-
Architectural Construction Company	200	549,345
	-----	-----
	6,447,096	4,348,217
	=====	=====

	2006 AED	2005 AED
Due to related parties		
Architectural Construction Company	1,993,883	-
Al Kazim Furniture	26,775	-
Kazim Travel Agency	5,660	-
General Supermarket	2,595	-
Santy General Trading	650	-
	-----	----
	2,029,563	-
	=====	=====

14. Share capital

	2006 AED	2005 AED
Authorised, issued and fully paid:		
Issued for cash 100,000,000 shares of AED 1 each	100,000,000	100,000,000
Issued as bonus shares 40,000,000 shares of AED 1 each	40,000,000	-
	<u>140,000,000</u>	<u>100,000,000</u>

During 2006, the share of AED 10 has been split into the shares in the denomination of AED 1 each and accordingly numbers of share issued has been increased from 14 million to 140 million.

15. Proposed appropriations

Proposed dividend

The Board of Directors has proposed to the shareholders a cash dividend of AED Nil (2005: AED 10 million being 10% of the paid-up capital).

Proposed bonus shares

The Board of Directors has not proposed any bonus shares to shareholders in 2006 (2005: AED 40 million being 40% of the paid-up capital).

Directors' remuneration

Subsequent to the balance sheet date, the Board of Directors proposed their remuneration in the amount of AED 560,000 million (2005: AED 1.2 million).

Notes (continued)

16. Other income

	2006 AED	2005 AED
Interest income – net	527,934	310,540
Profit on sale of property and equipment	-	500
Others	189,430	992,854
	-----	-----
	717,364	1,303,894
	=====	=====

17. Investment income

	2006 AED	2005 AED
Dividend income	2,553,023	968,840
Gain on disposals	163,809	126,728,219
	-----	-----
	2,716,832	127,697,059
	=====	=====

18. General and administrative expenses

	2006 AED	2005 AED
Staff salaries and benefits	5,284,993	4,513,519
Office rent	733,756	712,490
Provision for receivables	407,591	1,234,551
Publicity and promotion	253,285	375,717
Fee and membership	212,373	110,118
Depreciation expense	204,826	275,561
Repair and maintenance	149,470	114,558
Insurance expenses	121,900	113,972
Printing and stationary	114,665	100,668
Travel conveyance and fare charges	113,752	83,712
Utilities	109,125	102,668
Legal and professional charges	95,823	128,831
Telephone, postage and courier	95,320	103,118
Office Expenses	93,720	115,217
Licensing fee	65,968	64,052
Staff training	17,991	-
Bank charges- net	4,048	11,539
	-----	-----
	8,078,606	8,160,291
	=====	=====

Arabian Scandinavian Insurance Company P.L.C.

Notes (continued)

19. Contingent liabilities and capital commitments

	2006 AED	2005 AED
Letters of guarantee	9,338,475 =====	9,009,009 =====
Capital commitments	22,261,254 =====	25,465,774 =====

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.

20. Operating leases commitment

	2006 AED	2005 AED
Less than one year	58,479 =====	58,479 =====

21. 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 organizations 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.

Underwriting strategy

The underwriting strategy involves the Company's own risk assessment procedures and is based on overall insurances policies' 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 delegated 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 guidelines.

Arabian Scandinavian Insurance Company P.L.C.

Notes (*continued*)

21. Insurance risk management (continued)

Reinsurance strategy

In conjunction 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 a regular basis and reconciliation statements are exchanged on quarterly basis to exercise control over the receivables.

Terms and conditions of insurance contracts

Insurance is based on 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 that where the time period to ultimately finalise and settled claims could take a number of years.

The Company estimates for reported and unreported losses at each reporting date and establishes appropriate provisions taking into consideration the related reinsurance share in such loss and accordingly adjustments resulting from this process are reflected in income. During this process the management relies upon their past experience (past statistics of claims), adjusted for the effect of current developments and likely trends, to estimate future claims liabilities.

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.

Arabian Scandinavian Insurance Company P.L.C.

Notes (*continued*)

22. Financial instruments

Financial assets of the Company include cash at bank and in hand, account 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 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.

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.

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Notes (continued)

23. Segment information

By Business

Segmental information with respect to business segment has been disclosed on page 6 “statement of underwriting results” to these financial statements.

Segmental information with respect to assets and liabilities has not been presented in these condensed financial statements due to non-availability of such information.

By Geographical

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

24. 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:

	2006 AED	2005 AED (Restated)
Net profit for the year	7,031,103 =====	135,245,206 =====
Weighted average number of shares outstanding during the year (after adjusting for issue of bonus shares)	140,000,000 =====	140,000,000 =====
Earnings per share	0.05 =====	0.97 =====

25. Comparative figures

In accordance with the requirements of IFRS, in the comparative figures at 31 December 2005, proposed bonus shares of AED 50 million, proposed dividend of AED 40 million and directors' remuneration of AED 1.0 million respectively have been reclassified under retained earnings.