

**AL-SAGR NATIONAL INSURANCE COMPANY
(PUBLIC SHAREHOLDING COMPANY)
DUBAI - UNITED ARAB EMIRATES**

**CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2005**

**Al-Sagr National Insurance Company
(Public Shareholding Company)
Dubai - United Arab Emirates**

**Consolidated Financial Statements and
Independent Auditor's Report
For the Year Ended December 31, 2005**

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Independent Auditor's Report

The Shareholders

**Al-Sagr National Insurance Company
(Public Shareholding Company)
Dubai- United Arab Emirates**

We have audited the accompanying consolidated balance sheet of **Al-Sagr National Insurance Company (a Public Shareholding Company) - Dubai, United Arab Emirates** as of December 31, 2005 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of **Al-Sagr National Insurance Company (a Public Shareholding Company) - Dubai** as of December 31, 2005 and the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in compliance with the requirements of the U.A.E. Federal Law No. 9 of 1984, as amended, concerning Insurance Companies and Agents.

Also, in our opinion, the Company has maintained proper books of account. The information contained in the directors' report relating to the consolidated financial statements is in agreement with the books. We obtained all the information which we considered necessary for our audit. According to the information available to us, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. 8 of 1984, as amended, and of the U.A.E. Federal Law No. 9 of 1984, as amended, concerning Insurance Companies and Agents, or the Company's Articles of Association which might have materially affected the financial position of the Company or the results of its operations.

For Deloitte & Touche

**Dubai
....., 2006**

**Saba Y. Sindaha
Partner
(Registration No. 410)**

Consolidated Balance Sheet
At December 31, 2005
(In Arab Emirates Dirhams)

	<u>Note</u>	<u>December 31,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
ASSETS			
Non-current assets			
Property and equipment	5	806,600	1,076,992
Investment property	6	64,105,942	65,513,565
Goodwill	7	-	2,548,000
Investment in associate	8	5,553,333	3,724,000
Held to maturity investments	9	9,800,000	12,250,000
Available-for-sale investments	9	-	725,378
Total non-current assets		<u>80,265,875</u>	<u>85,837,935</u>
Current assets			
Reinsurance contract assets	10	81,585,822	64,069,941
Insurance and other receivables	11	84,761,510	86,228,182
Investments held for trading	9	297,417,990	90,827,452
Bank balances and cash	12	<u>78,304,565</u>	<u>74,679,322</u>
Total current assets		<u>542,069,887</u>	<u>315,804,897</u>
Total Assets		<u>622,335,762</u>	<u>401,642,832</u>

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Balance Sheet (continued)
At December 31, 2005
(In Arab Emirates Dirhams)

	<u>Note</u>	<u>December 31,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	13	50,000,000	50,000,000
Statutory reserve		25,000,000	20,232,850
General reserve		66,000,000	66,000,000
Retained earnings		<u>192,441,399</u>	<u>48,116,190</u>
Equity attributable to equity holders of the parent		333,441,399	184,349,040
Minority interest	15	<u>16,466,899</u>	<u>11,182,120</u>
Total Equity		<u>349,908,298</u>	<u>195,531,160</u>
Non-current liabilities			
Provision for employees' end of service indemnity	16	<u>4,273,623</u>	<u>3,628,106</u>
Current liabilities			
Insurance contract liabilities	10	136,629,897	102,846,854
Insurance and other payables	17	72,018,469	53,898,337
Bank overdrafts	18	<u>59,505,475</u>	<u>45,738,375</u>
Total current liabilities		<u>268,153,841</u>	<u>202,483,566</u>
Total Liabilities		<u>272,427,464</u>	<u>206,111,672</u>
Total Equity and Liabilities		<u>622,335,762</u> =====	<u>401,642,832</u> =====

The accompanying notes form an integral part of these consolidated financial statements.

The consolidated financial statements on pages 2 to 36 were approved by the Board of Directors and authorized for issue on, 2006.

Chairman

Vice Chairman

Managing Director

Consolidated Statement of Income
For the year ended December 31, 2005
(In Arab Emirates Dirhams)

	Note	Year ended December 31, 2005	Year ended December 31, 2004
Insurance premium revenue	19	178,355,889	150,139,520
Insurance premium ceded to reinsurers	19	(100,451,186)	(87,640,840)
Net insurance premium revenue	19	77,904,703	62,498,680
Gross claims incurred	10	(126,240,138)	(123,355,170)
Insurance claims recovered from reinsurers	10	67,202,813	76,761,572
Net claims incurred	10	(59,037,325)	(46,593,598)
Gross commission earned and documentation fees		29,603,325	20,260,249
Less: commission incurred		(11,470,754)	(6,690,707)
Net commission and documentation fees earned		18,132,571	13,569,542
Underwriting profit		36,999,949	29,474,624
General and administrative expenses		(16,147,038)	(14,181,271)
Net underwriting profit		20,852,911	15,293,353
Investment revenues	20	169,132,626	73,295,277
Other income and (expenses)	21	(22,358,399)	(2,007,206)
Net profit before minority interest		167,627,138	86,581,424
Minority interest		(5,284,779)	(5,122,195)
Profit for the year	22	162,342,359	81,459,229
		=====	=====
Basic earnings per share	23	324.68	162.91
		=====	=====

The accompanying notes form an integral part of these consolidated financial statements.

Al-Sagr National Insurance Company
(Public Shareholding Company)
Dubai - United Arab Emirates

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Consolidated Statement of Changes in Equity
For the year ended December 31, 2005
(In Arab Emirates Dirhams)

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>General reserve</u>	<u>Retained earnings</u>	<u>Attributable to equity holders of parent</u>	<u>Minority interest</u>	<u>Total</u>
Balance at December 31, 2003	50,000,000	12,086,927	31,000,000	19,302,884	112,389,811	12,772,925	125,162,736
Recognised profit for the year	-	-	-	81,459,229	81,459,229	5,122,195	86,581,424
Dividends	-	-	-	(8,750,000)	(8,750,000)	(6,713,000)	(15,463,000)
Board of Directors' remuneration	-	-	-	(750,000)	(750,000)	-	(750,000)
Transfer to statutory reserve	-	8,145,923	-	(8,145,923)	-	-	-
Transfer to general reserve	-	-	35,000,000	(35,000,000)	-	-	-
Balance at December 31, 2004	50,000,000	20,232,850	66,000,000	48,116,190	184,349,040	11,182,120	195,531,160
Recognised profit for the year	-	-	-	162,342,359	162,342,359	5,284,779	167,627,138
Dividends	-	-	-	(12,500,000)	(12,500,000)	-	(12,500,000)
Board of Directors' remuneration	-	-	-	(750,000)	(750,000)	-	(750,000)
Transfer to statutory reserve	-	4,767,150	-	(4,767,150)	-	-	-
Balance at December 31, 2005	50,000,000	25,000,000	66,000,000	192,441,399	333,441,399	16,466,899	349,908,298

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows
For the year ended December 31, 2005
(In Arab Emirates Dirhams)

	Year ended December 31, 2005	Year ended December 31, 2004
Operating activities		
Profit for the year	167,627,138	86,581,424
Adjustments for:		
Amortization of goodwill	-	637,000
Impairment of goodwill	2,548,000	-
Depreciation of property and equipment	476,135	467,474
Allowance for doubtful debts	750,000	750,000
Allowance for financial assets	17,500,000	-
Investment revenues	(53,496,601)	(39,345,654)
Interest received	(2,908,241)	(1,827,918)
Increase in reinsurance contract assets	(35,015,881)	(8,915,132)
Increase in insurance contract liabilities	33,783,043	5,230,191
Fair value adjustments-securities	(112,933,585)	(33,775,097)
Fair value adjustments-investment property	(2,702,440)	-
Provision for employees' end of service indemnity	774,782	626,051
Finance costs	3,374,997	1,544,191
Operating cash flows before movements in working capital	19,777,347	11,972,530
Increase in fixed deposits with banks	(5,616,278)	(22,088,475)
Decrease/(increase) in insurance and other receivables	716,672	(9,035,093)
Increase in insurance and other payables	18,120,132	(13,449,582)
Cash generated from/(used in) operations	32,997,873	(32,600,620)
Directors' remuneration paid	(750,000)	(750,000)
Interest paid	(3,374,997)	(1,544,191)
Employees' end of service indemnity paid	(129,265)	(248,015)
Net cash from/(used in) operating activities	28,743,611	(35,142,826)
Investing activities		
Proceeds from sale of investments property	36,536,655	37,846,971
Purchase of investment property	(23,722,388)	(42,521,328)
Proceeds on sale of securities	135,988,209	74,759,770
Purchase of securities	(182,911,402)	(61,433,303)
Investments in associates	(1,829,333)	(3,724,000)
Purchase of property and equipment	(205,743)	(81,593)
Interest received	2,908,241	1,827,918
Dividends received	536,959	1,185,651
Rent received net of expenses	697,056	2,435,550
Net cash (used in)/from investing activities	(32,001,746)	10,295,636
Financing activities		
Dividends paid	(12,500,000)	(8,750,000)
Increase in bank overdrafts	13,767,100	24,621,212
Dividends paid to minority	-	(6,713,000)
Net cash from financing activities	1,267,100	9,158,212
Net decrease in cash and cash equivalents	(1,991,035)	(15,688,978)
Cash and cash equivalents at the beginning of the year	6,656,010	22,344,988
Cash and cash equivalents at the end of the year (Note 26)	4,664,975	6,656,010
	=====	=====

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements
For the year ended December 31, 2005

1. General Information

Al-Sagr National Insurance Company - Dubai (the "Company") was incorporated on December 25, 1979 as a public shareholding company by an Emiri Decree from His Highness, The Ruler of Dubai, and is registered with the Ministry of Economy of the United Arab Emirates under registration No. (16). The Company's address in Dubai is P.O. Box 14614, Dubai, UAE.

The principal activity of the Company is the writing of insurance of all types. The Company operates through its Head Office in Dubai and its branches in Dubai, Sharjah, Abu Dhabi and Ajman in the United Arab Emirates.

The Company also operates in Saudi Arabia under the name of Al-Sagr Saudi Insurance Company (a Bahraini shareholding closed exempt company) and in which the Company owns 50% of their capital (the subsidiary).

Under the new Co-operative insurance regulations promulgated in the Kingdom of Saudi Arabia by a Royal decree number M/32 dated 2/6/1424 (July 31, 2003), insurance in the Kingdom shall be undertaken through registered companies operating in a cooperative manner. No insurance or re-insurance company may be incorporated in the Kingdom without a license issued by the Royal Decree provided that it will be operating as a public joint stock company and having a minimum paid up capital of SR 100 million. Accordingly, the Company will be required to obtain a license to practice its insurance activities in the Kingdom of Saudi Arabia.

During 2004, the shareholders of the Company have submitted an application for the insurance license with Saudi Arabian Monetary Agency ("SAMA") under a new company namely "Al Sagr Company for Co-operative Insurance". It is expected that this new company will later assume all the activities of Al Sagr Saudi Insurance Co. following the issuance of the respective insurance license. The new company is currently under licensing by the regulatory authorities in Saudi Arabia and accordingly the articles of associations related to this company was completed and approved by the Ministry of Commerce in Saudi Arabia. The financial statements have been prepared on the assumption that the subsidiary company will continue as a going concern and, accordingly, do not include any adjustments that might result should it not be able to continue as a going concern.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

2. Adoption of new and revised International Financial Reporting Standards

- a) The principal effect of the adoption of the revised IAS 39 has been that a gain or loss arising from a change in the fair value of available-for-sale investments is recognized directly in equity rather than in profit or loss for the year as previously followed by the Company.
- b) In the current year, the Company has adopted all the other new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on January 1, 2005. The above have no significant effect on amounts reported for the current and prior accounting periods.

The adoption of IFRS 4 'Insurance Contracts' has affected disclosures with respect to insurance contracts issued and reinsurance contracts held. All comparative disclosures have been amended accordingly.

At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective:

IFRS 6	<i>Exploration for and Evaluation of Mineral Resources</i>
IFRS 7	<i>Financial Instruments: Disclosures</i>
IFRIC 4	<i>Determining whether an Arrangement contains a Lease</i>
IFRIC 5	<i>Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>
IFRIC 6	<i>Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment</i>
IFRIC 7	<i>Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies</i>
IFRIC 8	<i>Scope of IFRS 2</i>
IFRIC 9	<i>Reassessment of Embedded Derivatives</i>

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the consolidated financial statements of the Company.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

2. Adoption of new and revised International Financial Reporting Standards
(continued)

IFRIC 3, *Business Combination*

Goodwill

IFRS 3 has been adopted for business combinations for which the agreement date is on or after March 31, 2004. The option of limited retrospective application of the Standard has not been taken up, thus avoiding the need to restate past business combinations.

After initial recognition, IFRS 3 requires goodwill acquired in a business combination to be carried at cost less any accumulated impairment losses. Under IAS 36 Impairment of Assets (as revised in 2004), impairment reviews are required annually, or more frequently if there are indications that goodwill might be impaired. IFRS 3 prohibits the amortization of goodwill. Previously, under IAS 22, the Group carried goodwill in its balance sheet at cost less accumulated amortization and accumulated impairment losses. Amortization was charged over the estimated useful life of the goodwill, subject to the rebuttable presumption that the maximum useful life of goodwill was 10 years.

In accordance with the transitional rules of IFRS 3, the Company has applied the revised accounting policy for goodwill prospectively from the beginning of its first annual period beginning on or after March 31, 2004, i.e. January 1, 2005, to goodwill acquired in business combinations for which the agreement date was before March 31, 2004. Therefore, from January 1, 2005, the Company has discontinued amortizing such goodwill and has tested the goodwill for impairment in accordance with IAS 36. At January 1, 2005, the carrying amount of amortization accumulated before that date of AED 3,822,000 has been eliminated, with a corresponding decrease in goodwill.

Because the revised accounting policy has been applied prospectively, the change has had no impact on amounts reported for 2004 or prior periods.

No amortization has been charged in 2005. The charge in 2004 was AED 637,000.

An impairment loss of AED 2,548,000 has been recognized in the current period in accordance with IAS 36. Had the Group's previous accounting policy been applied in the current year, this amount would have been split between an amortization charge of AED 637,000 and an impairment loss of AED 1,911,000, because the calculation of the recoverable amount of goodwill has not been affected by the 2004 amendments to IAS 36.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

3. Significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and applicable requirements of U.A.E. Federal Law No. 9 of 1984, as amended, concerning Insurance Companies and Agents. For the purpose of the consolidated financial statements, the results and financial position of the Company are expressed in Arab Emirates Dirhams, which is the functional currency of the Company and the presentation currency for the consolidated financial statements. The financial statements of the subsidiary company expressed in Saudi Riyals were translated for consolidation purposes to Arab Emirates Dirhams at the exchange rates prevailing at year-end, as parity exchange rates are fixed.

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of investment property and financial instruments. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements includes the accounts of Al-Sagr National Insurance Company (a public shareholding company) and the accounts of its 50% owned subsidiary Al-Sagr Saudi Insurance Company (a Bahraini shareholding closed exempt company) and its branches in Saudi Arabia over which the Company has significant influence over its financial and operating policies (herein referred together as the "Group").

All significant inter-company transactions and balances of the consolidated companies are eliminated on consolidation. Minority interest is reflected in the consolidated income statement and in the consolidated balance sheet as a separate caption under equity.

Revenue recognition

Insurance contracts

Premiums on insurance contracts are recognized as revenue (earned premiums) proportionally over the period of 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.

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.

Interest income

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the interest rate applicable.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

3. Significant accounting policies (continued)

Revenue recognition (continued)

Dividend income

Dividend income from investments is recognized when the shareholders' right to receive payment has been established.

Rental income

Rental income from investment property which are leased under operating leases are recognized on a straight line basis over the term of the relevant lease.

General and administrative expenses

Direct general and administrative expenses are charged to the respective departments while indirect general and administrative expenses are allocated among insurance departments in proportion to premiums written by each department.

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 are included with insurance contracts. The benefits to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance assets. The Company assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance assets to its recoverable amount and recognizes that impairment loss in the profit or loss for the year.

Insurance contract liabilities

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Company and still unpaid at the balance sheet date, in addition for claims incurred but not reported. The unearned premium considered in the insurance contract liabilities comprise the estimated proportion of the gross premiums written which relates to the periods of insurance subsequent to the balance sheet date and is estimated using the 25% and 40% method for marine and non-marine business respectively, as required by U.A.E. Federal Law No. 9 of 1984, as amended, concerning Insurance Companies and Agents.

The reinsurers' portion towards the above outstanding claims, and unearned premium is classified as reinsurance contract assets in the consolidated financial statements.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

3. Significant accounting policies (continued)

Salvage and subrogation reimbursements

Estimates of salvage and subrogation reimbursements are considered as an allowance in the measurement of the insurance liability for claims.

Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred policy acquisition costs. Any deficiency is immediately charged to profit or loss for the year initially by writing off the deferred policy acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests.

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Arab Emirates Dirhams, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

3. Significant accounting policies (continued)

Foreign currencies (continued)

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's Kingdom of Saudi Arabia operations (including comparatives) are expressed in Saudi Riyals using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Provision for employees' end of service indemnity

Provision for employees' end of service indemnity is made in accordance with the U.A.E. labour laws, and is based on current remuneration and cumulative years of service at the balance sheet date.

Defined contribution plan

U.A.E. national employees of the Company are members of the Government managed retirement pension and social security benefit scheme established pursuant to U.A.E. Federal Labour Law No. 7 of 1999. The Company is required to contribute 12.5% of "contribution calculation salary" to the retirement benefit scheme to fund the benefits. These employees are also required to contribute 5% of the "contribution calculation salary" to the scheme. The only obligation of the Company with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to the profit or loss.

Statutory reserve

In accordance with U.A.E. Federal Commercial Companies Law Number 8 of 1984, as amended, the Company has established a statutory reserve by appropriation of 10% of profit for each year until the reserve equals 50% of the paid-up share capital. This reserve is not available for distribution except as stipulated by the Law.

General reserve

Transfers to general reserve are made in accordance with board of directors resolution and approval of the shareholders. This reserve is available for distribution upon board of directors' approval and shareholders' ratification.

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005**

3. Significant accounting policies (continued)

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any identified impairment loss. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets concerned over 3 to 4 years.

Investments in associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Company's interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate) are not recognized.

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Notes to the Consolidated financial statements (continued)
For the year ended December 31, 2005

3. Significant accounting policies (continued)

Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the year in which they arise.

Impairment

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Financial instruments

Financial assets and financial liabilities are recognized on the Company's balance sheet when the Company has become a party to the contractual provisions of the instrument.

Insurance receivables

Insurance receivables are stated at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

3. Significant accounting policies (continued)

Financial instruments (continued)

Investments

Investments are recognised and derecognized on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortized cost using the effective interest rate method, less any impairment loss recognized to reflect irrecoverable amounts. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortized cost would have been had the impairment not been recognized.

Investments other than held to maturity debt securities of the Company are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in the consolidated income statement for the year. For available-for-sale investments, gains and losses arising from changes in fair value are recognized directly in equity, until the security is disposed off or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the consolidated income statement for the year.

Impairment losses recognized in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss.

For investments traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of the business on the balance sheet date.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

3. Significant accounting policies (continued)

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability. The accounting policies adopted for specific financial liabilities are set out below.

Insurance payables

Insurance payables are stated at nominal value.

Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

4. Critical accounting judgments and key sources of estimation uncertainty

The Group makes estimates and assumptions that affect the reported amounts of insurance contract assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and the latest available information including expectations of future events that are believed to be reasonable under the circumstances.

The ultimate liability arising from claims made under insurance contracts

The estimation of ultimate liability arising from the claims made under insurance contracts is the Company's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Company will eventually pay for such claims. Estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the balance sheet date. Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Company and management estimates based on past claims settlement trends for the claims incurred but not reported. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

Note 28, claims development process, present the development of the estimate of ultimate claim cost for claims notified in a given year. This gives an indication of the accuracy of the Company's estimation technique for claims payments.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

5. Property and equipment

	<u>Office improvement</u>	<u>Furniture and equipment</u>	<u>Motor vehicles</u>	<u>Total</u>
	AED	AED	AED	AED
Cost				
At December 31, 2003	1,086,690	1,959,897	260,300	3,306,887
Additions	<u>10,638</u>	<u>70,955</u>	<u>-</u>	<u>81,593</u>
At December 31, 2004	1,097,328	2,030,852	260,300	3,388,480
Additions	-	205,743	-	205,743
Disposals	<u>(44,470)</u>	<u>(257,695)</u>	<u>-</u>	<u>(302,165)</u>
At December 31, 2005	<u>1,052,858</u>	<u>1,978,900</u>	<u>260,300</u>	<u>3,292,058</u>
Accumulated depreciation				
At December 31, 2003	467,316	1,310,298	66,400	1,844,014
Charge for the year	<u>218,162</u>	<u>184,237</u>	<u>65,075</u>	<u>467,474</u>
At December 31, 2004	685,478	1,494,535	131,475	2,311,488
Charge for the year	203,176	207,884	65,075	476,135
Eliminated on disposals	<u>(44,470)</u>	<u>(257,695)</u>	<u>-</u>	<u>(302,165)</u>
At December 31, 2005	<u>844,184</u>	<u>1,444,724</u>	<u>196,550</u>	<u>2,485,458</u>
Carrying amount				
At December 31, 2005	208,674	534,176	63,750	806,600
	=====	=====	=====	=====
At December 31, 2004	411,850	536,317	128,825	1,076,992
	=====	=====	=====	=====

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

6. Investment property

	<u>Building</u> AED	<u>Land</u> AED	<u>Total</u> AED
Fair value, at December 31, 2003	35,137,873	14,676,596	49,814,469
Transfer during the year	10,746,145	(10,746,145)	-
Additions during the year	13,829,016	28,692,312	42,521,328
Disposals during the year	(24,993,568)	(1,828,664)	(26,822,232)
Fair value, at December 31, 2004	34,719,466	30,794,099	65,513,565
Additions during the year	23,586,955	135,433	23,722,388
Increase in fair value during the year	2,702,440	-	2,702,440
Disposals during the year	(5,600,000)	(22,232,451)	(27,832,451)
Fair value, at December 31, 2005	55,408,861 =====	8,697,081 =====	64,105,942 =====

The fair value of the Company's investment property at December 31, 2005 has been arrived at on the basis of a valuation carried out at that date by independent valuers, on an open market value basis. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

The property rental income earned by the Company from its investment property, which are leased out under operating leases, and direct operating expenses arising on the investment property are as follows:

	<u>Year ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
	AED	AED
Rental income	789,792	2,869,207
Direct operating expenses	(92,736)	(433,657)
	697,056 =====	2,435,550 =====

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

7. Goodwill

	<u>AED</u>
<i>Cost</i>	
At December 31, 2003	6,370,000
At December 31, 2004	6,370,000
Elimination of amortization accumulated prior to the adoption of IFRS 3 (see note 3)	(3,822,000)
At December 31, 2005	<u>2,548,000</u>
<i>Amortisation</i>	
At December 31, 2003	3,185,000
Amortization for the year	637,000
At December 31, 2004	3,822,000
Elimination of amortization accumulated prior to the adoption of IFRS 3 (see note 3)	(3,822,000)
At December 31, 2005	-
<i>Impairment</i>	
Impairment loss recognized in the year ended December 31, 2005 and balance at December 31, 2005	2,548,000
<i>Carrying amount</i>	
At December 31, 2005	-
	=====
At December 31, 2004	2,548,000
	=====

8. Investments in associate

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
	<u>AED</u>	<u>AED</u>
Cost of investment in associate	3,724,000	-
Additions during the year	1,829,333	3,724,000
	<u>5,553,333</u>	3,724,000
	=====	=====

Investment in associate represents payments made against the share capital of Al Sagr Company for Co-operative Insurance (SCCI), Kingdom of Saudi Arabia, which is under formation.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

9. Investments in securities

	December 31,	
	2005	2004
	AED	AED
Held for trading investments	297,417,990	90,827,452
Available - for - sale investments	-	725,378
Held-to-maturity investments	9,800,000	12,250,000
	307,217,990	103,802,830
	=====	=====

Held for trading investments include AED 3,060,000 (2004: AED 924,296) of unquoted investments, which are recognized at cost.

Following are the movement of investments in securities during the year 2005:

	2005	2004
	AED	AED
a) Investments held for trading:		
Fair value, at the beginning of the year	90,827,452	53,440,603
Net additions during the year	93,656,953	3,611,752
Increase in fair value	112,933,585	33,775,097
Fair value, at the end of the year	297,417,990	90,827,452
	=====	=====

Held for trading investments amounting to AED 3,677,464 (2004: Nil) are registered in the name of a related party in trust and for the benefit of the Company.

	2005	2004
	AED	AED
b) Available-for-sale investments :		
Fair value, at the beginning of the year	725,378	1,293,883
Sales during the year	(725,378)	(568,505)
Fair value, at the end of the year	-	725,378
	=====	=====

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

9. Investments in securities (continued)

	<u>2005</u> AED	<u>2004</u> AED
c) Held-to-maturity investments:		
Cost, at the beginning of the year	12,250,000	3,920,000
Net (disposals)/additions during the year	(2,450,000)	8,330,000
Cost, at the end of the year	9,800,000	12,250,000
	=====	=====

The market value of held-to-maturity investments as of December 31, 2005 amounted to AED 9,800,000 (2004: AED 12,250,000).

Held-to-maturity investments are registered in the name of the sole agent in the Kingdom of Saudi Arabia, Sagr Al Bayda'a Trading Agencies Co. Ltd. to the benefit of the Company.

10. Insurance contract liabilities and re-insurance contract assets

	<u>December 31,</u> <u>2005</u> AED	<u>2004</u> AED
Gross		
Insurance contract liabilities		
Claims reported unsettled	58,697,648	45,165,754
Claims incurred but not reported	3,000,000	3,500,000
Unearned premiums	74,932,249	54,181,100
Total insurance contract liabilities, gross	136,629,897	102,846,854
Recoverable from reinsurers		
Claims reported unsettled	44,205,582	34,856,240
Unearned premiums	37,380,240	29,213,701
Total reinsurers' share of insurance liabilities	81,585,822	64,069,941
Net		
Claims reported unsettled	14,492,066	10,309,514
Claims incurred but not reported	3,000,000	3,500,000
Unearned premiums	37,552,009	24,967,399
	55,044,075	38,776,913
	=====	=====

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

10. Insurance contract liabilities and re-insurance contract assets (continued)

Movement in the insurance contract liabilities and reinsurance contract assets during the year were as follows:

	Year ended December 31, 2005			Year ended December 31, 2004		
	Gross AED	Reinsurance AED	Net AED	Gross AED	Reinsurance AED	Net AED
Claims						
Notified claims	45,165,754	(34,856,240)	10,309,514	41,880,013	(30,102,525)	11,777,488
Incurred but not reported	3,500,000	-	3,500,000	3,500,000	-	3,500,000
Total at the beginning of the year	48,665,754	(34,856,240)	13,809,514	45,380,013	(30,102,525)	15,277,488
Claims settled in the year	(113,208,244)	57,853,471	(55,354,773)	(120,069,429)	72,007,857	(48,061,572)
Increase in liabilities	126,240,138	(67,202,813)	59,037,325	123,355,170	(76,761,572)	46,593,598
Total at the end of the year	61,697,648	(44,205,582)	17,492,066	48,665,754	(34,856,240)	13,809,514
	=====	=====	=====	=====	=====	=====
Notified claims	58,697,648	(44,205,582)	14,492,066	45,165,754	(34,856,240)	10,309,514
Incurred but not reported	3,000,000	-	3,000,000	3,500,000	-	3,500,000
Total at the end of the year	61,697,648	(44,205,582)	17,492,066	48,665,754	(34,856,240)	13,809,514
	=====	=====	=====	=====	=====	=====
Unearned premium						
Total at the beginning of the year	54,181,100	(29,213,701)	24,967,399	64,685,420	(37,501,053)	27,184,367
Increase in the year	74,932,249	(37,380,240)	37,552,009	54,181,100	(29,213,701)	24,967,399
Release in the year	(54,181,100)	29,213,701	(24,967,399)	(64,685,420)	37,501,053	(27,184,367)
Net increase during the year (Note 19)	20,751,149	(8,166,539)	12,584,610	(10,504,320)	8,287,352	(2,216,968)
Total at the end of the year	74,932,249	(37,380,240)	37,552,009	54,181,100	(29,213,701)	24,967,399
	=====	=====	=====	=====	=====	=====

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

11. Insurance and other receivables

	December 31,	
	2005	2004
	AED	AED
Receivables arising from insurance and reinsurance contracts:		
Due from policy holders	55,653,813	48,545,029
Allowance for doubtful debts	(2,156,550)	(2,971,959)
	<u>53,497,263</u>	<u>45,573,070</u>
Due from insurance and reinsurance companies	<u>19,588,050</u>	<u>31,784,329</u>
Other receivables:		
Accrued interest income	1,309,842	1,072,696
Prepaid expenses and refundable deposits	815,951	1,196,391
Due from staff	451,265	196,382
Other receivables	<u>9,099,139</u>	<u>6,405,314</u>
	<u>11,676,197</u>	<u>8,870,783</u>
	<u>84,761,510</u>	<u>86,228,182</u>
	=====	=====

12. Bank balances and cash

	December 31,	
	2005	2004
	AED	AED
Cash on hand	47,300	37,500
Bank balances:		
Current accounts	4,617,675	2,618,510
Fixed deposits	<u>73,639,590</u>	<u>72,023,312</u>
	<u>78,304,565</u>	<u>74,679,322</u>
	=====	=====

Fixed deposits with banks as at December 31, 2005 include AED 7,500,000 (2004: AED 7,500,000) deposited in the name of the Company to the order of the Minister of Economy and Trade of the United Arab Emirates as required by the Federal Law Number (9) of 1984 relating to Insurance Companies and Agents.

Fixed deposits with banks as at December 31, 2005 amounting to AED 66,139,590 are under lien (2004: AED 68,023,312) against the bank facilities availed by the Company.

All fixed deposits with banks mature within different periods not exceeding one year from the balance sheet date.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

13. Share capital

	December 31,	
	2005	2004
	AED	AED
Issued and fully paid:		
500,000 ordinary shares of AED 100 each	50,000,000	50,000,000
	=====	=====

14. Proposed cash dividend

The Board of Directors proposed the following to the general assembly:

- 1) - to divide the par value of shares from AED 100 to AED 1.
- 2) - to increase the share capital from AED 50 million to AED 150 million by distributing 150 million shares as follows:
 - a) increasing the capital through distributing 100% bonus shares.
 - b) increase the capital by 100% through issuance of new shares to the shareholders at par value without premium.

This proposal is subject to the approval of general assembly in the next ordinary and extraordinary meeting.

15. Minority interest

	2005	2004
	AED	AED
Opening balance	11,182,120	12,772,925
Dividends paid	-	(6,713,000)
Share of profit for the year	<u>5,284,779</u>	<u>5,122,195</u>
	16,466,899	11,182,120
	=====	=====

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

16. Provision for employees' end of service indemnity

Movements in the net liability were as follows:

	<u>2005</u>	<u>2004</u>
	AED	AED
Balance at the beginning of the year	3,628,106	3,250,070
Amounts charged to income	774,782	626,051
Amounts paid	(129,265)	(248,015)
Balance, at the end of the year	4,273,623	3,628,106
	=====	=====

17. Insurance and other payables

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
	AED	AED
Payables arising from insurance and reinsurance contracts:		
Due to insurance and reinsurance companies	<u>30,710,223</u>	<u>25,573,281</u>
Other payables:		
Due to a related party	23,824,843	3,231,336
Insurance customers payable	6,861,080	7,515,597
Accrued expenses and provisions	3,298,427	3,115,150
Unearned income	2,742,000	2,879,200
Notes payable- post-dated cheques	1,379,001	5,408,773
Advance received against investment in property for sale	-	4,950,000
Dividend payable	-	882,000
Others	<u>3,202,895</u>	<u>343,000</u>
	41,308,246	28,325,056
	=====	=====
	72,018,469	53,898,337
	=====	=====

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

18. Bank overdrafts

The Company obtained bank facilities in the form of overdraft repayable upon demand and bearing interest ranging from 3.5% to 5% per annum (2004: 3% to 3.5% per annum). The overdraft balance was AED 59,505,475 as of December 31, 2005 (2004: AED 45,738,375). These facilities are secured by lien on fixed deposits.

19. Net insurance premium revenue

	Year ended December 31,	
	2005	2004
	AED	AED
Gross premium written		
Gross premium written	199,107,038	139,635,200
Change in unearned premium (Note 10)	(20,751,149)	10,504,320
	<u>178,355,889</u>	<u>150,139,520</u>
Reinsurance premium ceded		
Reinsurance premium ceded	(108,617,725)	(79,353,488)
Change in unearned premium (Note 10)	8,166,539	(8,287,352)
	<u>(100,451,186)</u>	<u>(87,640,840)</u>
Net insurance premium revenues	77,904,703	62,498,680
	=====	=====

20. Investment revenues

	Year ended December 31,	
	2005	2004
	AED	AED
Net income from investment in securities	44,095,341	26,059,891
Net income from investment property	9,401,260	13,460,289
Effect of changes in fair value of investment property (Note 6)	2,702,440	-
Effect of changes in fair value of trading investments	<u>112,933,585</u>	<u>33,775,097</u>
	169,132,626	73,295,277
	=====	=====

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

21. Other income and (expenses)

	Year ended December 31,	
	2005	2004
	AED	AED
Allowance for financial assets	(17,500,000)	-
Finance costs	(3,374,997)	(1,544,191)
Interest on fixed deposits	2,908,241	1,827,918
Impairment loss against goodwill	(2,548,000)	-
Amortization of goodwill	-	(637,000)
Others	(1,843,643)	(1,653,933)
	(22,358,399)	(2,007,206)
	=====	=====

22. Profit for the year

Profit for the year has been arrived at after charging the following expenses:

	Year ended December 31,	
	2005	2004
	AED	AED
Staff costs	10,741,195	9,205,701
Depreciation of property and equipment	476,135	467,474
Impairment of goodwill	2,548,000	-
Provision for doubtful debts	750,000	750,000
Amortization of goodwill	-	637,000

23. Basic earnings per share

	Year ended December 31,	
	2005	2004
Net profit for the year	AED 162,342,359	AED 81,459,229
	=====	=====
Number of shares	500,000	500,000
	=====	=====
Earnings per share	AED 324.68	AED 162.91
	=====	=====

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

24. Geographical segment

	2005			2004		
	<u>UAE</u>	<u>Outside UAE</u>	<u>Total</u>	<u>UAE</u>	<u>Outside UAE</u>	<u>Total</u>
	<u>AED</u>	<u>AED</u>	<u>AED</u>	<u>AED</u>	<u>AED</u>	<u>AED</u>
Insurance revenue	77,320,306	18,716,968	96,037,274	61,903,827	14,164,395	76,068,222
Insurance cost	(51,206,237)	(7,831,088)	(59,037,325)	(41,477,299)	(5,116,299)	(46,593,598)
General and administrative expenses	(11,380,488)	(4,766,550)	(16,147,038)	(10,167,133)	(4,014,138)	(14,181,271)
Segment result	<u>14,733,581</u>	<u>6,119,330</u>	<u>20,852,911</u>	<u>10,259,395</u>	<u>5,033,958</u>	<u>15,293,353</u>
Segment assets	<u>483,579,560</u>	<u>138,756,202</u>	<u>622,335,762</u>	<u>283,206,060</u>	<u>118,436,772</u>	<u>401,642,832</u>
	=====	=====	=====	=====	=====	=====
Segment liabilities	<u>214,849,143</u>	<u>57,578,321</u>	<u>272,427,464</u>	<u>154,631,388</u>	<u>51,480,284</u>	<u>206,111,672</u>
	=====	=====	=====	=====	=====	=====

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005**

25. Related party transactions

At the balance sheet date, amounts due from/to related parties were as follows:

	December 31,	
	2005	2004
	AED	AED
Due from policy holders	1,796,789	1,918,919
Due to shareholders (Note 17)	23,824,843	3,231,336
Gross outstanding claims	712,075	136,374

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the year for bad or doubtful debts in respect of the amounts owed by related parties.

Due to shareholders represents portion of the amount paid by the shareholders on behalf of the Company against the joint venture project for the construction of a building in Dubai Marina, in which the Company has 1/3rd share and was recorded under investment property.

Transactions:

During the year, the Company entered into the following transactions with related parties:

	Year ended December 31,	
	2005	2004
	AED	AED
Gross premium	8,870,835	4,007,677
Claims paid	1,446,869	245,491

Premiums are charged to related parties at rates agreed with the management.

Compensation of key management personnel

	Year ended December 31,	
	2005	2004
	AED	AED
Salaries and benefits	3,249,690	2,447,230
Board of directors' remuneration	750,000	750,000
	3,999,690	3,197,230
	=====	=====

The remuneration of directors is subject to approval by the shareholders and as per limits set by the U.A.E. Commercial Companies Law No. 8 of 1984, as amended.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

26. Cash and cash equivalents

	December 31,	
	2005	2004
	AED	AED
Bank balances and cash (Note 12)	78,304,565	74,679,322
Fixed deposits under lien	(73,639,590)	(68,023,312)
	4,664,975	6,656,010
	=====	=====

27. Contingent liabilities

	December 31,	
	2005	2004
	AED	AED
Contingent liabilities		
Letters of guarantees	12,476,465	15,564,634
	=====	=====

28. Management of insurance and financial risk

Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

28. Management of insurance and financial risk (continued)

Insurance risk (continued)

The Company manages risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography. Underwriting limits are in place to enforce appropriate risk selection criteria.

Claims development process

The following schedules reflect the actual claims (based on year end estimates including IBNR) compared to the previous estimates for the last three years on an accident year basis:

Outstanding claims – Gross:

	2003 and earlier AED	2004 AED	2005 AED	Total AED
At the end of the accident year	45,380,013	35,510,758	44,746,891	-
One year later	43,371,654	36,326,463	-	-
Two years later	<u>46,114,233</u>	<u>-</u>	<u>-</u>	<u>-</u>
Current estimate of cumulative claims	46,114,233	36,326,463	44,746,891	-
Cumulative payments to date	<u>(40,306,899)</u>	<u>(25,183,040)</u>	<u>-</u>	<u>-</u>
Liability recognized in the balance sheet	<u>5,807,334</u>	<u>11,143,423</u>	<u>44,746,891</u>	<u>61,697,648</u>

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

28. Management of insurance and financial risk (continued)

Insurance risk (continued)

Claims development process (continued)

Outstanding claims – net retention:

	2003 and earlier AED	2004 AED	2005 AED	Total AED
At the end of the accident year	15,277,488	12,154,443	14,781,791	-
One year later	13,869,136	13,529,782	-	-
Two years later	<u>15,652,894</u>	-	-	-
Current estimate of cumulative claims	15,652,894	13,529,782	14,781,791	-
Cumulative payments to date	<u>(14,817,346)</u>	<u>(11,655,055)</u>	-	-
Liability recognized in the balance sheet	835,548	1,874,727	14,781,791	17,492,066
	=====	=====	=====	=====

Concentration of insurance risk

Substantially all of the Company's underwriting activities are carried out in the United Arab Emirates and Kingdom of Saudi Arabia.

The insurance risk before and after reinsurance in relation to the insurance risk accepted is summarized below:

	Year ended December 31,	
	2005	2004
	AED '000	AED '000
Gross	70,066,488	54,113,539
Net	16,105,570	12,606,648

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005**

28. Management of insurance and financial risk (continued)

Reinsurance risk

In common with other insurance companies, in order to minimize financial exposure arising from large insurance claims, the Company, in the normal course of business, enters into arrangement with other parties for reinsurance purposes.

To minimize its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers. 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.

Sensitivity of underwriting profit and losses

The contribution by the insurance operations in the profit of the Company amounts to 12% for the year ended December 31, 2005. The company does not foresee any major impact in the said ratio from insurance operations due to the following reasons:

The Company has an overall retention level of 46% and the same is mainly contributed by two classes of business i.e., Motor and Medical line wherein the retention levels are 86% and 70% respectively. However, in Motor and Medical class the liabilities are adequately covered by excess of loss reinsurance programs to guard against major financial impact.

The Company has a net commission earnings of AED 17.6 million predominantly from the reinsurance placement which remains as a comfortable source of income.

Because of low retention in 48% volume of business and limited exposure in high retention areas like Motor and Medical insurance, the Company is comfortable to maintain a net loss ratio in the region of 84% to 90 % and does not foresee any serious financial impact in the insurance net profit.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

28. Management of insurance and financial risk (continued)

Financial risk

Interest rate risk

The Company's exposure to interest rate risk relates to its bank deposits and bank overdrafts. At December 31, 2005, bank deposits carried interest rates ranging from 3 % to 5% per annum (2004: 2.7 % to 3.2% per annum). The interest rate on bank overdrafts ranges between 3.5 % to 5 % per annum (2004: 3 % to 3.5 % per annum).

Exchange rate risk

There are no significant exchange rate risks as substantially all financial assets and financial liabilities are denominated in Arab Emirates Dirhams, other G.C.C. currencies or US Dollars to which the Dirham is fixed.

Liquidity risk

The credit risk on liquid funds is limited because the counter-parties are banks with high credit ratings assigned by international credit-rating agencies. All the fixed deposits mature within different periods not exceeding one year from the balance sheet date.

Credit risk

The Company's principal financial assets are bank balances and cash and insurance and other receivables.

The Company's credit risk is primarily attributable to its insurance receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005

28. Management of insurance and financial risk (continued)

Financial risk (continued)

Credit risk (continued)

At the balance sheet date, the Company's maximum exposure to credit risk, from insurance receivables situated outside the UAE were as follows:

	December 31,	
	2005	2004
	AED	AED
Europe	6,525,056	18,335,544
Middle East	68,716,807	61,993,814

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in 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 held for trading and available-for-sale investments held by it directly or through investment managers.

29. Comparative amounts

Certain amounts for the prior year were reclassified to conform to current year presentation.