

# **Islamic Arab Insurance Co. (PSC)**

## **FINANCIAL STATEMENTS**

**31 December 2004**

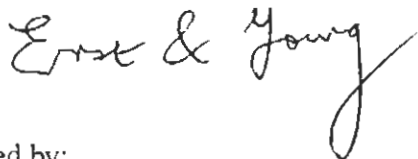
## AUDITORS' REPORT TO THE SHAREHOLDERS OF ISLAMIC ARAB INSURANCE CO. (PSC)

We have audited the accompanying balance sheet of Islamic Arab Insurance Co. (PSC) as of 31 December 2004, and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

We also confirm that in our opinion proper books of account have been kept by the Company, and the contents of the report of the Board of Directors relating to these financial statements are in agreement with the books of account. We obtained all the information and explanations which we required for the purpose of our audit. Furthermore, nothing has come to our attention which causes us to believe that the Company has breached any of the provisions of the UAE Federal Law No. (8) of 1984 (as amended), UAE Federal Law No. (9) of 1984 (as amended) or of the Articles of association of the Company during the year which would have had a material effect on the business of the Company or on its financial position as at 31 December 2004.



Signed by:  
Edward Quinlan  
Partner  
Registration No. 93

26 April 2005

Dubai

Islamic Arab Insurance Co. (PSC)

STATEMENT OF INCOME

Year ended 31 December 2004

	<i>Notes</i>	<i>2004</i> <i>AED</i>	<i>2003</i> <i>AED</i> <i>(Restated)</i>
<b>ATTRIBUTABLE TO POLICY HOLDERS</b>			
<b>UNDERWRITING INCOME</b>			
Premiums earned	3	42,512,755	36,589,648
Commission received on ceded reinsurance		228,753	557,976
		<u>42,741,508</u>	<u>37,147,624</u>
<b>UNDERWRITING EXPENSES</b>			
Claims incurred		30,792,325	29,787,317
Commission paid		3,873,391	3,850,713
		<u>34,665,716</u>	<u>33,638,030</u>
<b>NET UNDERWRITING INCOME</b>		<b>8,075,792</b>	<b>3,509,594</b>
Wakala fees	4	<u>(6,797,673)</u>	<u>(6,698,922)</u>
<b>NET SURPLUS (DEFICIT) FROM INSURANCE OPERATIONS</b>		<b>1,278,119</b>	<b>(3,189,328)</b>
Investment income	5	1,507,671	1,024,342
Mudarib fees	4	(226,151)	(153,651)
Other (expenses) income	6	<u>(971,100)</u>	<u>2,099,855</u>
<b>NET SURPLUS (DEFICIT) ATTRIBUTABLE TO POLICYHOLDERS</b>	17	<u><u>1,588,539</u></u>	<u><u>(218,782)</u></u>
<b>ATTRIBUTABLE TO SHAREHOLDERS</b>			
<b>INCOME</b>			
Investment income	5	1,700,140	1,202,490
Wakala fees from policyholders	4	6,797,673	6,698,922
Mudarib fees from policyholders	4	226,151	153,651
		<u>8,723,964</u>	<u>8,055,063</u>
<b>EXPENSES</b>			
Staff costs		(3,608,224)	(3,327,281)
General and administrative expenses		(3,104,921)	(3,182,317)
Provision written back (made) against loan to policyholders' fund		<u>1,588,539</u>	<u>(218,782)</u>
<b>NET PROFIT FOR THE YEAR</b>		<u><u>3,599,358</u></u>	<u><u>1,326,683</u></u>
Basic earnings per share	7	<u><u>7.19</u></u>	<u><u>2.65</u></u>

The attached notes 1 to 27 form part of these financial statements.

# Islamic Arab Insurance Co. (PSC)

## BALANCE SHEET

At 31 December 2004

	Notes	2004 AED	2003 AED (Restated)
<b>ASSETS</b>			
Cash and investments:			
Bank balances and cash		313,712	310,738
Investment deposits	8	5,636,066	6,250,000
Available-for-sale investments	9	28,961,526	17,138,824
Investment properties	10	13,000,000	13,000,000
Modaraba investment	11	-	41,800,000
		<u>47,911,304</u>	<u>78,499,562</u>
Premiums and insurance balances receivable	12	8,752,847	12,895,842
Equipment and vehicles	13	1,393,309	1,880,520
Amounts due from related parties	22	35,740,318	3,296,342
Other assets	14	845,771	1,606,532
		<u>46,732,245</u>	<u>19,679,236</u>
<b>TOTAL ASSETS</b>		<u><u>94,643,549</u></u>	<u><u>98,178,798</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' funds</b>			
Share capital	15	50,000,000	50,000,000
Statutory reserve	16	5,804,112	5,444,176
Accumulated deficit	17	(12,398,261)	(15,637,683)
Total equity		<u>43,405,851</u>	<u>39,806,493</u>
<b>Policyholders' fund</b>			
Deficiency in policyholders' fund	17	(17,189,583)	(18,778,122)
Loan from shareholders	17	17,189,583	18,778,122
		<u>-</u>	<u>-</u>
<b>Liabilities</b>			
Insurance funds:			
Unearned premiums		16,932,216	16,322,826
Gross outstanding claims	18	15,975,862	21,472,617
		<u>32,908,078</u>	<u>37,795,443</u>
Insurance balances payable	19	4,115,556	5,828,065
Other payables and accruals	20	13,468,497	14,025,696
Employees' end of service benefits		521,667	490,601
Vehicle loans	21	223,900	232,500
Total liabilities		<u>51,237,698</u>	<u>58,372,305</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>94,643,549</u></u>	<u><u>98,178,798</u></u>

The financial statements were authorised for issue in accordance with a resolution of the directors on 26 April 2005.

\_\_\_\_\_  
Vice Chairman

\_\_\_\_\_  
General Manager

The attached notes 1 to 27 form part of these financial statements.

Islamic Arab Insurance Co. (PSC)

STATEMENT OF CASH FLOWS

Year ended 31 December 2004

	2004 AED	2003 AED (Restated)
<b>OPERATING ACTIVITIES</b>		
Net profit for the year	3,599,358	1,326,683
Adjustments for:		
Movement in unearned premiums	609,390	4,425,162
Depreciation	604,854	577,083
Net movements in provision for employees' end of service benefits	31,066	8,528
Gain on disposal of equipment and vehicles	(28,900)	-
	<hr/>	<hr/>
Cash from operations before changes in operating assets and liabilities	4,815,768	6,337,456
Premiums and insurance balances receivable	4,142,995	(2,510,738)
Due from related parties	(2,466,678)	3,750,058
Other assets	760,761	(235,133)
Gross outstanding claims	(5,496,755)	(6,153,400)
Insurance balances payable	(1,712,509)	(772,500)
Other payables and accruals	(557,199)	(1,068,913)
	<hr/>	<hr/>
Net cash used in operating activities	(513,617)	(653,170)
	<hr/>	<hr/>
<b>INVESTING ACTIVITIES</b>		
Purchase of equipment and vehicles	(277,690)	(1,231,571)
Investment deposit	613,934	-
Proceeds from disposal of equipment and vehicle	188,947	-
	<hr/>	<hr/>
Net cash from (used in) investing activities	525,191	(1,231,571)
	<hr/>	<hr/>
<b>FINANCING ACTIVITIES</b>		
Vehicles loan	88,500	-
Payment of vehicles loans	(97,100)	(90,000)
	<hr/>	<hr/>
Net cash used in financing activities	(8,600)	(90,000)
	<hr/>	<hr/>
<b>INCREASE (DECREASE) IN BANK BALANCES AND CASH</b>	<b>2,974</b>	<b>(1,974,741)</b>
Bank balances and cash at the beginning of the year	310,738	2,285,479
	<hr/>	<hr/>
<b>BANK BALANCES AND CASH AT THE END OF THE YEAR</b>	<b>313,712</b>	<b>310,738</b>
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*Non cash transactions:*

Transfers of balances between related parties (see notes 9 and 11) have been considered as non-cash transactions and excluded from this statement.

The attached notes 1 to 27 form part of these financial statements.

Islamic Arab Insurance Co. (PSC)

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2004

	<i>Share capital</i> AED	<i>Statutory reserve</i> AED	<i>(Accumulated deficit)/</i> <i>Retained earnings</i> AED	<i>Total</i>
Balance at 1 January 2003	50,000,000	5,484,272	1,554,878	57,039,150
Change in accounting Policy (note 28)	-	(172,764)	(18,386,576)	(18,559,340)
Balance at 1 January 2003, as restated	50,000,000	5,311,508	(16,831,698)	38,479,810
Net profit for the year	-	-	1,326,683	1,326,683
Transfer to statutory reserve	-	132,668	(132,668)	-
Balance at 31 December 2003	50,000,000	5,444,176	(15,637,683)	39,806,493
Net profit for the year	-	-	3,599,358	3,599,358
Transfer to statutory reserve	-	359,936	(359,936)	-
Balance at 31 December 2004	<u>50,000,000</u>	<u>5,804,112</u>	<u>(12,398,261)</u>	<u>43,405,851</u>

The attached notes 1 to 27 form part of these financial statements

## 1 ACTIVITIES

Islamic Arab Insurance Co. (P.S.C.) (the 'Company') is a public shareholding company registered in the Emirate of Dubai, United Arab Emirates ("UAE") and operates through various branches in the UAE. The registered address of the main branch is P. O. Box 10214, Dubai, United Arab Emirates.

The Company provides insurance services, principally motor insurance in accordance with the teachings of Islamic Sharia'a.

The Company had 58 employees as of 31 December 2004 (2003: 48).

## 2 SIGNIFICANT ACCOUNTING POLICIES

### **Basis of preparation**

The financial statements have been prepared in accordance with Standards issued or adopted by the International Accounting Standards Board, interpretations issued by the International Financial Reporting Interpretations Committee, and applicable requirements of UAE Federal Law No. 8 of 1984 (as amended) relating to commercial companies and Federal Law No. 9 of 1984 relating to insurance companies.

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

The financial statements have been presented in UAE Dirhams.

### **Accounting convention**

The financial statements are prepared under the historical cost convention, except for the measurement of fair value of investments in properties.

Except as explained in note 27, the accounting policies are consistent with those used in the previous year.

### **Premiums earned**

Net written premiums are taken into income on the date of writing of policies after adjusting for unearned premiums.

### **Commissions earned and paid**

Commissions earned and paid are recognised at the time policies are written.

### **Income from investment deposits**

Income from investment deposits is recognised on accrual basis.

### **Rental income**

Rental income is recognised as rent accrues.

### **Available-for-sale investments**

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments which are classified as "available-for-sale" are measured at fair value. In the case of unquoted investments where fair value cannot be measured reliably, such investments are carried at cost less any provision for impairment.

Dividend income is recognised when the right to receive the dividend is established.

### **Premiums and insurance balances receivable**

Provision is made against premiums and insurance balances receivable as soon as they are considered doubtful of recovery.

**2 SIGNIFICANT ACCOUNTING POLICIES - continued**

**Equipment and vehicles**

Equipment and vehicles are recorded at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight line basis over the estimated useful lives of equipment and vehicles as follows:

Furniture and fixtures	4 to 10 years
Motor vehicles	4 years

The carrying values of equipment and vehicles are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

**Investment properties**

Investment properties are initially measured at cost, including transaction costs. Subsequent expenditure is added to the carrying value of investment properties when it is probable that future economic benefits will flow to the Company. Any expenditure that results in the maintenance of property to an acceptable standard or specification is treated as repairs and maintenance expenses and is charged to the income statement in the year in which it is incurred.

Subsequently, investment properties are measured at fair values based on the valuations of independent real estate consultants. Fair values are assessed annually at the balance sheet date. Any gain or loss arising from a change in the fair values of investment properties is included in the income statement.

**Impairment and uncollectibility of financial assets**

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss recognised for the difference between the recoverable amount and the carrying amount. Impairment losses are recognised in the income statement.

**Deficiency in policyholders' fund**

Any deficit in the policyholders' fund is financed by the shareholders through loans. The company maintains a full provision against such loans (see also note 27).

**Unearned premium reserve**

At the end of each year a proportion of net retained premiums is provided to cover portions of risks, which have not expired at the balance sheet date. The reserves are calculated in accordance with Federal Law No. 9 of 1984 relating to insurance companies at 40% of annual premiums earned net of reinsurance for all classes of insurance except marine, which is calculated at 25%.

**Gross outstanding claims**

Gross outstanding claims comprise the gross estimated cost of claims incurred but not paid at the balance sheet date, whether reported or not. Provisions for reported claims not paid as at the balance sheet date are made on the basis of individual case estimates.

In addition, a provision based on management's judgement and the Company's prior experience is maintained for the cost of settling claims incurred but not reported at the balance sheet date.

Any difference between the provisions at the balance sheet date and settlements and provisions in the following year is included in the policyholders' account for that year.

**Reinsurance**

Amounts receivable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured parties.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

**2 SIGNIFICANT ACCOUNTING POLICIES - continued****Payables and accruals**

Liabilities are recognised for amounts to be paid in the future for goods or services rendered, whether billed by the supplier or not.

**Provisions**

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

**Employees' end of service benefits**

The Company provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees the Company makes contributions to Social Insurance Scheme calculated as a percentage of the employees' salaries. The Company's obligations are limited to these contributions, which are expensed when due.

**Foreign currencies**

Transactions in foreign currencies are recorded at the rate ruling at the date of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

**3 PREMIUMS EARNED**

	<i>2004</i>	<i>2003</i>
	<i>AED</i>	<i>AED</i>
Gross written premiums	45,872,087	44,659,478
Reinsurance premiums ceded	<u>(2,749,942)</u>	<u>(3,644,666)</u>
	43,122,145	41,014,812
Movement in unearned premiums	<u>(609,390)</u>	<u>(4,425,164)</u>
	<u>42,512,755</u>	<u>36,589,648</u>

**4 WAKALA AND MUDARIB FEES**

The shareholders manage the insurance operations for the policyholders and charge 15% (2003: 15%) of gross written premium as Wakala fees.

The shareholders also manage the policyholders' investment funds and charge 15% (2003: 15%) of investment income earned by the policyholders as Mudarib fees.

# Islamic Arab Insurance Co. (PSC)

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

### 5 INVESTMENT INCOME

	<i>2004</i> <i>AED</i>	<i>2003</i> <i>AED</i>
Investment income consists of:		
Profit commission on Modaraba investment	1,567,500	1,254,000
Income from investment deposits	202,733	218,832
Rental income	761,250	754,000
Dividend income	676,328	-
	<u>3,207,811</u>	<u>2,226,832</u>
	<i>2004</i> <i>AED</i>	<i>2003</i> <i>AED</i>
Allocated to:		
Policyholders	1,507,671	1,024,342
Shareholders	1,700,140	1,202,490
	<u>3,207,811</u>	<u>2,226,832</u>

Investment income has been allocated to the shareholders in the ratio of capital to total assets. The remaining income has been allocated to the policyholders.

### 6 OTHER (EXPENSES) INCOME

	<i>2004</i> <i>AED</i>	<i>2003</i> <i>AED</i>
Provision for doubtful debts	(1,000,000)	-
Reversal of provisions no longer required	-	2,009,409
Others	28,900	90,446
	<u>(971,100)</u>	<u>2,099,855</u>

### 7 BASIC EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year as follows:

	<i>2004</i> <i>AED</i>	<i>2003</i> <i>AED</i>
Net profit for the year	<u>3,599,358</u>	<u>1,326,683</u>
Weighted average number of shares outstanding during the year	<u>500,000</u>	<u>500,000</u>
Earnings per share	<u>7.19</u>	<u>2.65</u>

# Islamic Arab Insurance Co. (PSC)

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

### 8 INVESTMENT DEPOSITS

Investment deposits include AED 4,500,000 (2003: AED 4,500,000) with Dubai Islamic Bank PJSC representing the amounts that cannot be withdrawn without the prior approval of the Ministry of Economy and Planning in accordance with Article 41 of the Federal Law No. 9 of 1984. The remaining deposit is also under lien against bank guarantees (note 25).

### 9 AVAILABLE-FOR-SALE INVESTMENTS

	<i>2004</i> <i>AED</i>	<i>2003</i> <i>AED</i>
Unquoted equity investments in related parties at cost:		
Islamic Arab Insurance Company- Al Khaleej (under formation) (a)	11,838,864	-
Tajeer Company (b)	10,356,243	16,089,164
RUSD Investment Bank Inc. (c)	6,766,419	1,049,660
	<u>28,961,526</u>	<u>17,138,824</u>

(a) The company has purchased a 8% interest in Islamic Arab Insurance Company- Al Khaleej (under formation), representing 160,000 shares with a par value of AED 7,920,000.

(b) The investment amounting to AED 10,356,243 (2003: AED 16,089,164) is registered in the name of a related party which has confirmed that it is holding the investment in trust for and on behalf of the Company. An investment with a carrying value of AED 5,732,921 was sold to a related party during the year at carrying value.

(c) The proceeds from the sale as noted in (b) above have been used to purchase investment in another related party.

### 10 INVESTMENT PROPERTIES

Investment properties represent the carrying value of land and building acquired by the Company in Dubai in 1997. The property is being carried at the valuation performed by an independent real estate consultant in 2003. In the opinion of the management, the current fair value of the property is not likely to be materially different from its carrying value.

### 11 MUDARABA INVESTMENT

The Mudaraba investment through RUSD Investment Bank Inc., a related party matured during the year. The amount receivable on maturity of the above investment has been settled as shown below:

	<i>2004</i> <i>AED</i>
Mudaraba investment	41,800,000
Accrued profit since placement	4,075,500
	<u>45,875,500</u>
Investment in shares of Islamic Arab Insurance Company- Al Khaleej (note 9)	(11,838,864)
Balance due as on 31 December	<u>34,036,636</u>

Subsequent to the year end, the entire amount of AED 34 million has been received.

Islamic Arab Insurance Co. (PSC)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

12 PREMIUMS AND INSURANCE BALANCES RECEIVABLE

	2004 AED	2003 AED
Insurance premiums receivable	3,234,541	1,908,343
Due from insurance companies	6,101,112	8,806,963
Recoverable from reinsurers in connection with claims payable (note 18)	1,739,339	3,502,681
	<u>11,074,992</u>	<u>14,217,987</u>
Provisions for doubtful debts:		
Insurance premiums receivable	322,145	322,145
Due from insurance companies	2,000,000	1,000,000
	<u>2,322,145</u>	<u>1,322,145</u>
	<u>8,752,847</u>	<u>12,895,842</u>

13 EQUIPMENT AND VEHICLES

	<i>Furniture and fixtures AED</i>	<i>Motor vehicles AED</i>	<i>Total AED</i>
Cost:			
At 1 January 2004	2,948,584	695,675	3,644,259
Additions	189,190	88,500	277,690
Disposals	(221,518)	(84,000)	(305,518)
At 31 December 2004	<u>2,916,256</u>	<u>700,175</u>	<u>3,616,431</u>
Depreciation:			
At 1 January 2004	1,342,911	420,828	1,763,739
Provided during the year	477,387	127,467	604,854
Relating to disposals	(61,471)	(84,000)	(145,471)
At 31 December 2004	<u>1,758,827</u>	<u>464,295</u>	<u>2,223,122</u>
Net carrying amount:			
At 31 December 2004	<u>1,157,429</u>	<u>235,880</u>	<u>1,393,309</u>
At 31 December 2003	<u>1,605,673</u>	<u>274,847</u>	<u>1,880,520</u>

Motor vehicles with cost amounting to AED 479,670 (2003: AED 391,170) are mortgaged to a local bank against loans taken by the Company to finance the purchase of motor vehicles (note 21).

14 OTHER ASSETS

	2004 AED	2003 AED
Income receivable on investment deposits	202,733	218,832
Accrued income on Mudaraba investment	-	836,000
Other receivables	415,372	337,759
Prepaid expenses	227,666	213,941
	<u>845,771</u>	<u>1,606,532</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

**15 SHARE CAPITAL**

	<i>2004</i> <i>AED</i>	<i>2003</i> <i>AED</i>
Issued and fully paid – 500,000 shares of AED 100 each	<u>50,000,000</u>	<u>50,000,000</u>

**16 STATUTORY RESERVE**

As required by The Commercial Companies' Law of 1984 (as amended) and the Company's articles of association, 10% of the net profit for the year is required to be transferred to statutory reserve until such reserve equals 50% of the paid-up share capital. The reserve is not available for distribution except in the circumstances stipulated by the law.

**17 POLICYHOLDERS' FUND**

	<i>2004</i> <i>AED</i>	<i>2003</i> <i>AED</i>
Balance at the 1 January	(18,778,122)	(18,559,340)
Net surplus (deficit) attributable to policyholders	<u>1,588,539</u>	<u>(218,782)</u>
Balance at 31 December	<u>(17,189,583)</u>	<u>(18,778,122)</u>

The shareholders have financed the policyholders' deficit in accordance with the company's policy through loans. Full provision is maintained against such loans. Accordingly, the accumulated deficit consists of:

	<i>2004</i> <i>AED</i>	<i>2003</i> <i>AED</i>
Provision made against loans to policyholders	(17,189,583)	(18,778,122)
Other earnings attributable to the shareholders	<u>4,791,322</u>	<u>3,140,439</u>
Balance at 31 December	<u>(12,398,261)</u>	<u>(15,637,683)</u>

**18 OUTSTANDING CLAIMS**

Details of the Company's outstanding claims are as follows:

	<i>2004</i> <i>AED</i>	<i>2003</i> <i>AED</i>
Gross outstanding claims	15,975,862	21,472,617
Due from reinsurers (note 12)	<u>(1,739,339)</u>	<u>(3,502,681)</u>
	<u>14,236,523</u>	<u>17,969,936</u>

During the year, management performed an extensive review of estimated liabilities in respect of outstanding claims resulting in a reduction of approximately AED 2.8 million.

Islamic Arab Insurance Co. (PSC)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

19 INSURANCE BALANCES PAYABLE

	<i>2004</i> <i>AED</i>	<i>2003</i> <i>AED</i>
Insurance companies	3,664,807	3,957,311
Customers and others	450,749	1,870,754
	<u>4,115,556</u>	<u>5,828,065</u>

20 OTHER PAYABLES AND ACCRUALS

	<i>2004</i> <i>AED</i>	<i>2003</i> <i>AED</i>
Payables to garages and brokers	8,625,163	10,950,909
Post dated cheques	3,499,009	2,211,470
Other payables	908,163	42,419
Accrued expenses	436,162	820,898
	<u>13,468,497</u>	<u>14,025,696</u>

21 VEHICLES LOANS

	<i>2004</i> <i>AED</i>	<i>2003</i> <i>AED</i>
Non current portion	111,700	142,500
Short term portion	112,200	90,000
	<u>223,900</u>	<u>232,500</u>

The loans were taken to finance the purchase of motor vehicles. The loans are secured by mortgage of the motor vehicles purchased (note 13).

22 RELATED PARTY TRANSACTIONS

These represent transactions with related parties, i.e. shareholders, directors and senior management of the Company and companies of which they are principal owners. Pricing policies and terms of these transactions are approved by the Company's management.

Investment transactions with related parties are disclosed in notes 9 and 11. The following transactions are included in the income statement:

	<i>2004</i> <i>AED</i>	<i>2003</i> <i>AED</i>
Profit on Modaraba investment	<u>1,567,500</u>	<u>1,254,000</u>
General and administration expenses	<u>414,863</u>	<u>328,463</u>

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

**22 RELATED PARTY TRANSACTIONS-continued**

Amounts due from related parties consist of:

	<i>2004</i> <i>AED</i>	<i>2003</i> <i>AED</i>
Receivable against sale of investment	1,703,682	2,042,342
Profit receivable	-	1,254,000
Receivable against maturity of Mudaraba investment (note 11)	34,036,636	-
	<u>35,740,318</u>	<u>3,296,342</u>

Subsequent to the year end, the amount due against maturity of Mudaraba investment has been received.

**23 SEGMENTAL INFORMATION****Primary segment information**

For management purposes the Company is organised into one major operating segment which is general insurance.

**Secondary segment information**

The Company's business is mainly conducted within the United Arab Emirates. The assets and liabilities are located as follows:

	<i>2004</i> <i>AED</i>	<i>2003</i> <i>AED</i>
<b>Assets</b>		
In U.A.E.	30,941,705	35,943,632
Outside U.A.E.	64,388,344	62,235,166
	<u>95,330,049</u>	<u>98,178,798</u>
<b>Liabilities in U.A.E</b>	<u>51,237,698</u>	<u>58,372,305</u>
<b>Equity</b>	<u>44,092,351</u>	<u>39,806,493</u>

**24 RISK MANAGEMENT****Reinsurance risk**

In common with other insurance companies, in order to minimise financial exposure arising from large insurance claims, a related party acting on behalf of the Company, in the normal course of business, enters into arrangements with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is effected under treaty, facultative and excess of loss reinsurance contracts.

To minimise its exposure to significant losses from reinsurer insolvencies, the related party, on behalf of 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 and as a result the Company remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements. The maximum theoretical credit risk exposure in this connection is mainly in Europe and the Middle East. There was no significant credit exposure at 31 December 2004.

**24 RISK MANAGEMENT**-continued

**Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Management believes that there is minimal risk of significant losses due to exchange rate fluctuations and consequently the Company does not hedge foreign currency exposure.

Other than balances in United States Dollars, to which the UAE Dirham is pegged, there are no other foreign currency financial assets.

**Profit margin risk on investment deposits**

The return on investment deposits is based on the principle of the Mudaraba contract by which the Company agrees to share the profit or loss made by the bank over a given period. Any change in the market profit margin rates will determine both the profit margins the bank is able to charge on its assets and the returns on investment deposits. The company limits profit margin by monitoring changes in market profit margin rates.

Deposit certificates with the bank are denominated in UAE Dirhams and had an original maturity of one year.

**Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. For all classes of financial assets held by the Company, other than those relating to reinsurance contracts as described in reinsurance risk above, the maximum credit risk exposure to the Company is the carrying value as disclosed in the balance sheet.

The Company seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables. Premiums and insurance balances receivable comprise a large number of customers and insurance companies mainly within UAE as well as reinsurance companies mainly in Europe and the Middle East.

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

The five largest receivables account for 36% of the insurance premiums receivable at 31 December 2004 (2003: 80%).

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its commitments associated with financial liabilities when they fall due.

Liquidity requirements are monitored on a monthly basis and management ensures that sufficient funds are available to meet any commitments as they arise.

The Company's terms of business require amounts to be paid within 60 to 90 days of the date of the transactions. Arrangements with reinsurers normally require quarterly settlement of the balance. The Company's principal investments are unquoted equity investments in related parties.

**Market price risk**

Market price 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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2004

25 CONTINGENT LIABILITIES

As of 31 December 2004, the Company had contingent liabilities in respect of bank guarantees amounting to AED 7,204,063 (2003: AED 4,789,273). The bank is holding a lien on investment deposits against these guarantees (note 8).

In the normal course of insurance business, legal claims are made against the Company. Provisions have been made in respect of these claims which, in the opinion of management, are adequate to cover the expected settlement amounts.

26 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of bank balances and cash, investment deposits with banks, investments, premium and insurance balances receivable, due from related parties and other receivables. Financial liabilities consist of outstanding claims and payables.

The fair values of the financial assets and liabilities with the exception of unquoted investment which is carried at cost (note 9) are not materially different from their carrying values.

27 CHANGE IN ACCOUNTING POLICY

For a fairer presentation of the results for the year and the amount available for distribution among the shareholders, the Company has adopted during the year a policy of maintaining a full provision against loans to finance deficit in the policyholders' funds. The new policy has been applied with retrospective effect to all periods presented in these financial statements.

Accordingly, the following adjustments have been recorded to the previously reported amounts:

	<i>(Accumulated deficit)/ retained earnings</i>		<i>Statutory reserve</i>		<i>Net profit for the year 2003 AED</i>
	<i>1 January 2003 AED</i>	<i>31 December 2003 AED</i>	<i>1 January 2003 AED</i>	<i>31 December 2003 AED</i>	
Balances previously reported	1,554,878	2,945,796	5,484,272	5,638,819	1,545,465
Prior year adjustments:					
Provision required at 1 January 2003	(18,559,340)	(18,559,340)	-	-	-
Provision for 2003	-	(218,782)	-	-	(218,782)
Transfer to statutory reserve reversed as no longer required	172,764	194,643	(172,764)	(194,643)	-
	<u>(18,386,576)</u>	<u>(18,583,479)</u>	<u>(172,764)</u>	<u>(194,643)</u>	<u>(218,782)</u>
Balance as restated	<u>(16,831,698)</u>	<u>(15,637,683)</u>	<u>5,311,508</u>	<u>5,444,176</u>	<u>1,326,683</u>