

**Arab Misr Insurance Group**  
**An Egyptian Joint Stock Company**  
**Notes to the Financial Statements**  
**For the year ended June 30, 2005**

**1- Company background**

Arab Misr Insurance Group was established under the name of United Investors Company for Insurance (S.A.E) pursuant to law No. 159/1981 by virtue of Minister of Economy's decree No. 437/1993 published in the official gazette under No. 291 on 25/12/1993.

The company was registered in Cairo Commercial register under No. 280614 on 25/12/1993.

Purpose of the company is undertaking all individual and corporate insurance operations against the following risks:

- Fire and related risks.
- Land, river, maritime, and air transportation risks and related liabilities.
- Insurance on aircraft parts, engines, and related liabilities.
- Insurance against the risk of casualties and related liabilities.
- Insurance on cars and related liabilities.
- Other insurance operations.

The company's financial year starts on July 1<sup>st</sup> and ends on June 30 of each year. The Extraordinary General assembly held on 29/6/2000 decided to amend the name of the company to become "Arab Misr Insurance Group.

**2- Basis of presentation**

The financial statements are prepared in accordance with the Egyptian Accounting Standards for insurance and reinsurance companies, and applicable insurance laws (No. 10 of 1981 amended by law No. 91 of 1995) and its executive regulations and according to the rules issued by Egyptian Insurance Supervisory Authority.

**2/1 Foreign currencies translation**

The company maintains its books of accounts in Egyptian pounds. Transactions in currencies other than Egyptian pounds are translated using the exchange rates prevailing at that date. Monetary assets and liabilities in currencies other than Egyptian pounds at the year end are revaluated at the exchange rates prevailing on that date. Gains and losses arising from such revaluation are transferred to the income statement.

## **2/2 Investments**

### **Investments in securities available for sale**

Investment in securities available for sale are stated at the lower of cost or market value. A provision shall be formed for impairment of the market value or imputed historical cost based on each separate group of homogenous securities.

### **Investments in securities held till maturity**

Investments in securities held till maturity are stated at historical cost and in case of impairment in the market or imputed value according to studies made in this concern, the book value shall be amended by the amount of impairment which shall be charged to the income statement.

### **Real Estate Investments**

Real estate Investments are measured at historical cost less accumulated depreciation. These investments are depreciated using the straight line method over the useful life of each property estimated at fifty years from the date of construction

## **2/3 Provision for doubtful debts**

The necessary provisions for doubtful debts are provided in case of uncertainty from repayments of all or part of these balances. The provision is calculated on balances outstanding at the balance date, in the light of detailed studies made concerning this issue. The debit balances of insurance and reinsurance companies, receivable from policyholders, debtors and other debit balances are presented in the balance sheet at their net value after deducting the provision of doubtful debts balances.

## **2/4 Fixed assets**

Fixed assets are valued at cost and presented in the balance sheet net of accumulated depreciation. Fixed assets are depreciated on the straight-line method over the estimated useful life of each category of asset as follows:

<b><u>Description</u></b>	<b><u>Estimated useful life</u></b>
Vehicles	5 years
Furniture and Machinery	5-10 years
Computers	5 years
Other Assets	3 years

## **2/5 Provision for unearned premiums**

A provision for unearned premiums is provided to meet the Company's liabilities resulting from insurance transactions concluded before the year end and still valid after that date. This provision is calculated as follows:

- For marine cargo, 25% of direct business premiums retention and accepted reinsurance premium retention.
  
- For all other branches 40% except for the motor compulsory it is calculated at the percentage of 47% in addition to the suspended amounts from the long term policies premiums at the end of the year by 100% from the amounts of these premiums (if found) Which is also charged to the provision of unearned premiums, in addition to the provision formed from the branches premiums which their ratio of loss exceeds 100%.

## **2/6 Provision for outstanding claims**

The company computes this provision for each separate case according to the best data available. This provision is supported by the amounts required to face causality claims during the financial year which have not been reported to the company till the date of preparing the balance sheet (IBNR) according to the regular study prepared by the company for the financial year.

## **2/7 Provisions for retrograde fluctuations**

This provision is formed according to item 2, part (d) from article No. 37 according to the law of control and supervision on insurance in Egypt No. 10 for the year 1981 amended by law no. 91 for the year 1995 and its executive regulation.

## **2/8 Distribution of net income from investments**

Return on investment of funds designated for the rights of policy – holders shall be recorded in the account of revenues and expenses of each insurance branch at the percentage of average funds invested during the financial year to the technical provisions including the provision for unearned premiums, the provision for outstanding claims, the provision for retrograde fluctuations and the funds retained from reinsurers for the issued agreements of the company provided that interests paid for the amounts retained from reinsurers in respect of the issued agreements of the company shall be deducted from the return on investments. The return on free fund investments representing shareholders' equity shall be recorded in the income statement.

## **2/9 Distribution of commissions and production costs**

The revenues and expenses accounts of each branch of the insurance branches shall be charged with the value of direct basic commissions and allowances in addition to the commissions due on the premiums not collected till the date of the balance sheet. The direct production cost shall be distributed over insurance branches.

The indirect production cost shall be distributed at the percentage of the due and paid commissions and allowance of each branch of the insurance branches after excluding 50 % of the indirect production cost of the company's branches and charging them to the general and administrative expenses.

## **2/10 Distribution of general and administrative expenses**

Direct general and administrative expenses including salaries, wages and other direct expenses of insurance branches are charged to the accounts of revenues and expenses of the general insurance branches. While indirect expenses are distributed at the percentage of 90% as indirect general and administrative expenses and 10% as indirect investment expenses and then the percentage of 90% is distributed on insurance branches as one third of these expenses are distributed as the percentage of direct wages and two third as the percentage of direct premiums.

## **2/11 Distribution of Investment expenses**

Investment expenses are charged with the direct investment expenses in addition to the 10 % of the indirect general and administration expenses and the expenses of the geographical branches.

Expenses of investments designated from the equity of policy – holders shall be recorded in the accumulated account of revenues and expenses according to the percentage of designated funds to total investments while the expenses of free investments from the shareholders' equity shall be recorded in the income statement at the percentage of free funds to total investments.

## **2/12 Revenue recognition**

- The revenue is recognized according to the accrual basis. Premium is recorded in the revenues and expenses statement. Unearned Premium is provided for at year-end.
- Net income from investments is recorded after deducting its related investment expenditures.
- Cash dividends are recorded when declared by the general assembly of the investee companies and interest on investments is recorded according to the period related to this interest.

### **2/13 Cash flow statement**

For the purpose of preparing the cash flow statement, cash and cash equivalents include cash on hand, current account and deposits at banks, treasury bills, discountable government bonds and other securities which mature within 3 months or less from the date of issuance (if applicable).

### **2/14 Corporate profit tax**

Since the company is established pursuant to the provisions of law No. 159 of 1981 therefore it shall be subjected to the tax laws and duties prevailing in Egypt. The income statement shall be charged with its share of taxes due to Tax Authority for each financial year, and necessary provision shall be formed to cover such tax differences based on tax inspection results and the assessment of the said tax according to Tax Authority rules in practice.

### **3- Cash at banks**

	<b><u>30/6/2005</u></b>	<b><u>30/6/2004</u></b>
	<b><u>L.E.</u></b>	<b><u>L.E.</u></b>
Current accounts	5 337 785	4 852 450
	<u>5 337 785</u>	<u>4 852 450</u>

### **4- Investments**

#### **4/1 Financial investments**

##### **4/1/1 Time deposits at banks**

	<b><u>30/6/2005</u></b>	<b><u>30/6/2004</u></b>
	<b><u>L.E.</u></b>	<b><u>L.E.</u></b>
Time deposits at banks (designated)	28 951 847	27 355 693
Time deposits at banks (undesignated)	10 122 757	17 480 958
	<u>39 074 604</u>	<u>44 836 651</u>

##### **4/1/2 Available - for - sale securities**

	<b><u>30/6/2005</u></b>	<b><u>30/6/2004</u></b>
	<b><u>L.E.</u></b>	<b><u>L.E.</u></b>
Mutual fund certificate Arab Misr Insurance Group	4 847 296	1 850 296
<b><u>Less:</u></b>		
Provision for available – for – sale securities (4/1/4)	(27 789)	(891 199)
	<u>4 819 507</u>	<u>959 097</u>

#### 4/1/3 Governmental securities

	<u>30/6/2005</u> <u>L.E.</u>	<u>30/6/2004</u> <u>L.E.</u>
Egyptian treasury bonds	21 593 000	21 593 000
	<u>21 593 000</u>	<u>21 593 000</u>

The market value of the investment certificates amounted to 4 819 507 on 30/6/2005 against 959 097 on 30/6/2004 and they are not listed in the stock exchange.

On August 17, 1998 such certificates were designated to cover the company's obligations towards the policy – holders.

Egyptian treasury bonds 2005/2006/2007/2009 are designated to cover the company's obligations towards the policy – holders.

#### 4/1/4 Provision for Available - for - sale securities

	<u>30/6/2005</u> <u>L.E.</u>	<u>30/6/2004</u> <u>L.E.</u>
Balance at the beginning of the year	891 199	781 734
Provision (used) provided during the year	(863 410)	109 465
	<u>27 789</u>	<u>891 199</u>

#### 4/1/5 Held to maturity investments

	<u>30/6/2005</u> <u>L.E.</u>	<u>30/6/2004</u> <u>L.E.</u>
Mutual fund certificate Arab Misr Insurance Group	2 801 100	3 120 800
<b><u>Add :(less)</u></b>		
Increase (decrease) in The book value of the securities held to maturity	2 198 900	(319 700)
	<u>5 000 000</u>	<u>2 801 100</u>

Pursuant the provisions of the Capital Market Authority Law No. 95/1992 the Mutual Fund Investment Certificates of the Arab Misr Insurance Group represents the certificates that the company should held till end of the fund since the company is the founder of the fund.

#### **4/2 Real estates (net)**

	<b><u>30/6/2005</u></b>	<b><u>30/6/2004</u></b>
	<b><u>L.E.</u></b>	<b><u>L.E.</u></b>
Real estates building (designated)	14 345 131	14 345 131
<b>Less accumulated depreciation</b>	<b>(1 831 062)</b>	<b>(1 572 850)</b>
Net real estates building (designated)	<u>12 514 069</u>	<u>12 772 281</u>
Real estates building (undesignated)	10 984 855	10 984 855
<b>Less accumulated depreciation</b>	<b>(442 199)</b>	<b>(244 472)</b>
Real estate revelation differences	<u>(580 044)</u>	<u>(306 903)</u>
Net real estates building (undesignated)	<u>9 962 612</u>	<u>10 433 480</u>
Net real estates investments	<u><u>22 476 681</u></u>	<u><u>23 205 761</u></u>

The (designated) real estate buildings and the free real estate buildings include an amount of L.E 14 161 281 and L.E 1 735 850 respectively representing the value of the real estate used by the company to practice its activity.

The unregistered real estates amounted to L.E 871 657, and the company is in the process of undertaking all the procedures to register such real estates.

#### **5- Receivables from policy holders (net)**

	<b><u>30/6/2005</u></b>	<b><u>30/6/2004</u></b>
	<b><u>L.E.</u></b>	<b><u>L.E.</u></b>
Premiums receivable	9 704 668	11 580 405
Notes receivable	8 707 545	9 940 821
	<u>18 412 213</u>	<u>21 521 226</u>
<b><u>Less:</u></b>		
Provision for receivable from policy holders	<u>(6 923 260)</u>	<u>(8 399 014)</u>
	<u>11 488 953</u>	<u>13 122 212</u>

#### **6- Insurance and reinsurance companies (net)**

	<b><u>30/6/2005</u></b>	<b><u>30/6/2004</u></b>
	<b><u>L.E.</u></b>	<b><u>L.E.</u></b>
Local companies	4 342 195	2 166 996
Foreign companies	1 072 575	2 519 363
Reserves retained by reinsures	3 493 678	2 847 253
	<u>8 908 448</u>	<u>7 533 612</u>
<b><u>Less:</u></b>		
Provision for doubtful debts	<u>(369 858)</u>	<u>(46 400)</u>
	<u><u>8 538 590</u></u>	<u><u>7 487 212</u></u>

**7- Debtors and other debit balances( net)**

	<u>30/6/2005</u>	<u>30/6/2004</u>
	<u>L.E.</u>	<u>L.E.</u>
Interest receivable	800 616	805 560
Producers and agents current account.	381 652	433 423
Deposits for others	206 187	132 057
Notes receivable resulting from selling real estates	2 065 625	2 857 625
Prepaid expenses	526 172	165 933
Mutual fund current account Arab Misr Insurance Group - Company	474 655	474 655
GMC company current account	1 654 609	1 654 609
Shareholders' current account	565 517	551 581
imprests	333 756	336 082
Sundry debtors	155 284	172 962
Notes receivable against disposal of assets reverted to the company against loans.	222 280	222 280
	<u>7 386 353</u>	<u>7 806 767</u>
<b>Less:</b>		
Provision for doubtful debts	(4 171 423)	(4 145 383)
	<u>3 214 930</u>	<u>3 661 384</u>

**8- Provisions for receivables from policyholders and doubtful debts**

	<u>30/6/2005</u> <u>Receivables</u> <u>from</u> <u>policyholders</u>	<u>30/6/2005</u> <u>Other</u> <u>receivables</u>	<u>30/6/2004</u> <u>Receivables</u> <u>from</u> <u>policyholder</u>	<u>30/6/2004</u> <u>Other</u> <u>receivables</u>
	<u>L.E.</u>	<u>L.E</u>	<u>₪</u> <u>L.E</u>	<u>L.E</u>
Balance at the beginning of the year	8 399 014	4 145 383	9 497 260	4 686 990
Provided during the year	-	26 040	-	-
	<u>8 399 014</u>	<u>4 171 423</u>	<u>9 497 260</u>	<u>4 686 990</u>
Provision used during the year	-	-	-	-
Provision (not required)	(1 475 754)	-	(1 098 246)	(541 607)
Balance at 30/6/2005	<u>6 923 260</u>	<u>4 171 423</u>	<u>8 399 014</u>	<u>4 145 383</u>



## 9- Fixed assets (net)

<u>Description</u>	<u>furniture and office equipment</u>	<u>Computers</u>	<u>Vehicles</u>	<u>Other assets</u>	<u>Other assets</u>	<u>Total</u>
	<u>L.E.</u>	<u>L.E.</u>	<u>L.E.</u>	<u>L.E.</u>	<u>L.E.</u>	<u>L.E.</u>
Cost at 1/7/2004	3 403 786	2 039 782	462 250	1 043 439	1 911 240	8 860 497
Additions	85 756	287 708	330 600	-	-	704 064
Disposals	(166 097)	(44 707)	-	-	-	(210 804)
Balance at 30/6/2005	3 323 445	2 282 783	792 850	1 043 439	1 911 240	9 353 757
Accumulated depreciation at 1/7/2004	2 758 440	868 828	369 054	986 966	-	4 983 288
Accumulated depreciation for disposals	(163 415)	(42 811)	-	-	-	(206 226)
Depreciation	249 876	619 859	87 113	53 653	-	1 010 501
Accumulated depreciation at 30/6/2005	2 844 901	1 445 876	456 167	1 040 619	-	5 787 563
<b>Net at 30/6/2005</b>	478 544	836 907	336 683	2 820	1 911 240	3 566 194
<b>Net at 30/6/2004</b>	645 346	1 170 954	93 196	56 473	1 911 240	3 877 209

The item of fixed assets in the balance sheet includes other assets under construction amounting to L.E 1 911 240 equivalent to U.S. \$ 336 000 at that date.

These assets are represented in the amounts charged by virtue of a contract for supply and operation of software to the Group of Arama Company for Computers in Bahrain by virtue of our agreement concluded in this regard during year 2001 and the contract signed in the beginning of year 2003. Currently, setup and operation of these software are being in process and completion is completion is expected during the financial year 2005/2006, accordingly, the group – shall gain economic benefits from these software.

The I.T Department reported the current status of automations process in the group as follows:

### **- Technical Departments:**

All outstanding works in the technical departments have been completed and the system shall be affected starting from 1/9/2005, and the system is currently used to print policy tables and deliver them to customers.

**- Claims:**

All problem related to entry have been resolved except for some points currently being resolved as agreed with Ariama Company.

**- Collection:**

Several meetings have been held to investigate barriers using the system in the collection department, however, after experimenting the system on agreement was reached to resolve some problems in the collection department in order to be able to use the system.

**- Reinsurance and production:**

All related observations have been sent and a meeting shall be held with representatives of Ariama Company on 25/9/2005 to discuss all points and reach an agreement in respect of the remaining points.

**- Reports:**

Co-ordination is being in process with the representatives of Arama Company to complete all reports required by all departments.

**10- Policy holders' rights**

	<u>Balance at</u> <u>1/7/2004</u>	<u>Provision</u> <u>provided</u> <u>during the</u> <u>year</u>	<u>(used)</u> <u>during</u> <u>the year</u>	<u>Balance at</u> <u>30/6/2005</u>
	<u>L.E.</u>	<u>L.E.</u>	<u>L.E.</u>	<u>L.E.</u>
Provision for unearned premium	18 169 903	-	368 488	17 801 415
Provision for outstanding claims	8 991 153	1 197 049	-	10 188 202
Provision for retrograde fluctuations	5 875 560	1 033 318	-	6 908 878
Total policy holders' rights	<u>33 036 616</u>	<u>2 230 367</u>	<u>368 488</u>	<u>34 898 495</u>

**11- Insurance and reinsurance companies (credit balances)**

	<u>30/6/2005</u> <u>L.E.</u>	<u>30/6/2004</u> <u>L.E.</u>
Local companies	4 621 146	1 765 204
Foreign companies	6 470 970	5 016 998
Reserves retained from companies for outward business	13 863 607	13 919 466
	<u>24 955 723</u>	<u>20 701 668</u>

## 12- Creditors and other credit balances

	<u>30/6/2005</u>	<u>30/6/2004</u>
	<u>L.E.</u>	<u>L.E.</u>
Accrued expenses and commissions	1 369 396	1 761 454
Deposits from others	45 872	45 872
Deposits from contractors	23 143	23 143
Creditors of purchased real estate properties	772 586	772 586
Current account of agencies and producers	1 334 163	1 228 046
Sundry creditors	11 728 213	22 378 741
	<u>15 273 373</u>	<u>26 209 842</u>

## 13- Other provisions

	<u>Balance at</u> <u>1/7/2004</u>	<u>Provision</u> <u>provided</u> <u>(used)</u> <u>during the</u> <u>year</u>	<u>Balance at</u> <u>30/6/2005</u>
	<u>L.E.</u>	<u>L.E.</u>	<u>L.E.</u>
Provision for real estate	580 044	(580 044)	-
Provision for contingencies	500 000	-	500 000
	<u>1 080 044</u>	<u>(580 044)</u>	<u>500 000</u>

During the current year, the company reclassified the provision for differences of reconciliations and selling real from the item of other provisions to be deducted from the item of real estate investments on 30/6/2005.

## 14- Shareholders' Equity

### 14/1 Paid – up capital

The Company's authorized share capital is L.E. 500 000 000 and its issued and subscribed and paid-in share capital is L.E. 60 000 000 represented by 600 000 shares of L.E. 100 par sheer.

### 14/2 Reserves

The item of reserves include the legal reserve amounting to L.E 59 904 representing the 5 % deducted from the net annual profits till the balance sheet date. Deduction ceases when the legal reserve amounts to 50 % of the issued capital as stated in the company's Articles of Association.

## 15- Surplus of insurance activities

	<u>30/6/2005</u>	<u>30/6/2004</u>
	<u>L.E.</u>	<u>L.E.</u>
<b><u>Property and casualty</u></b>		
Fire	890 635	1 867 143
Marin	357 631	1 013 201
Inland	357 037	196 582
Hull	437 791	632 391
Aviation	(252 610)	(5 253)
Motor comprehensive	460 504	396 730
Motor compulsory	(2 134)	(21 632)
Engineering	278 870	9 187
Accident	626 506	1 375 178
Medical	(134 228)	(621 428)
<b>Surplus</b>	<u>3 020 002</u>	<u>4 842 099</u>

## 16- Net income from investments

	<u>Undesignated investments</u>		<u>Designated investment</u>	
	<u>30/6/2005</u>	<u>30/6/2004</u>	<u>30/6/2005</u>	<u>30/6/2004</u>
	<u>L.E.</u>	<u>L.E.</u>	<u>L.E.</u>	<u>L.E.</u>
Interest of time deposits	325 074	306 418	1 905 225	1 689 666
Income from securities	58 593	521 022	2 237 211	2 144 980
Investments expenses	(273 086)	(324 546)	(704 034)	(738 924)
Net profit from securities	110 581	502 894	3 438 402	3 095 722
Current account interest	49 242	46 618	-	-
Net profit from investments	159 823	549 512	3 438 402	3 095 722
<b><u>Real estate</u></b>				
Interest of real estate investmtes	-	10 355	-	-
<b><u>Return on retained capital</u></b>				
Interest paid on retained capital from reinsures	-	-	(346 826)	(310 525)
Net profit from investments	<u>159 823</u>	<u>559 867</u>	<u>3 091 576</u>	<u>2 785 197</u>

**17- Other income**

	<b><u>30/6/2005</u></b>	<b><u>30/6/2004</u></b>
	<b><u>L.E.</u></b>	<b><u>L.E.</u></b>
Gain on sale of fixed Assets	18 640	-
Foreign exchange differences	-	92 069
Deferred income from selling real estate	38 103	-
	<u>56 743</u>	<u>92 069</u>

**18- Other expenses**

	<b><u>30/6/2005</u></b>	<b><u>30/6/2004</u></b>
	<b><u>L.E.</u></b>	<b><u>L.E.</u></b>
Decrease in the book value of securities held to maturity	-	319 700
Foreign exchange differences	69 897	-
	<u>69 897</u>	<u>319 700</u>

**19- Cost of production**

	<b><u>30/6/2005</u></b>	<b><u>30/6/2004</u></b>
	<b><u>L.E.</u></b>	<b><u>L.E.</u></b>
Wages and salaries	226 795	282 887
The company's share in the proportional stamp tax.	3 974 235	4 994 624
Survey fees.	133 567	135 528
Advertising and promotion	678 525	762 600
Production services and transportation expenses	2 747 895	2 767 381
Collection expenses	1 892 191	1 805 703
Other expenses	122 840	205 795
	<u>9 776 048</u>	<u>10 954 518</u>
50% from indirect cost of production	<u>(409 870)</u>	<u>(441 218)</u>
	<u>9 366 178</u>	<u>10 513 300</u>

**20- General and administrative expenses**

	<u>30/6/2005</u> <u>L.E.</u>	<u>30/6/2004</u> <u>L.E.</u>
Wages and salaries	6 462 443	6 875 286
General expenses	3 184 561	3 277 485
	<hr/> 9 647 004	<hr/> 10 152 771
<b><u>Add:</u></b>		
50% from branches expenses	409 870	441 218
<b><u>Less:</u></b>		
10% from indirect expenses	(896 706)	(960 463)
	<hr/> 9 160 168	<hr/> 9 633 526