Financial Accounting Standard No. (12)

General Presentation and Disclosure in the Financial Statements of Islamic Insurance Companies

Contents

Subject	Para.	Page
General Presentation and Disclosure in the Financial Statements of Islamic Insurance Companies		
Preface		435
Statement of the Standard	(1-78)	437
1. Scope of the Standard	(1)	437
2. General Provisions	(2-6)	437
2/1 The complete set of financial statements	(2)	437
2/2 Comparative amounts in the financial statements	(3)	437
2/3 The form and classifications of the financial statements and the terminology used therein	(4)	438
2/4 Numbering of pages and notes	(5)	438
2/5 Notes are an integral part of the financial statements	(6)	438
3. General Disclosures in the Financial Statements	(7-32)	438
3/1 Adequate disclosure of material information	(7)	438
3/2 Disclosure of basic information	(8)	439
3/3 Disclosure of currency used for accounting easurement	(9-10)	440
3/4 Disclosure of significant accounting policies	(11-13)	440
3/5 Disclosure of unusual supervisory restrictions	(14)	441
3/6 Disclosure of earnings or expenditure prohibited by Shari'a	(15)	441
3/7 Disclosure of concentrations of asset risks	(16)	442
3/8 Disclosure of risk associated with assets and liabilities which are denominated in foreign currency	(17)	442
3/9 Disclosure of amounts recoverable from reinsurance or other parties	(18)	442
3/10 Disclosure of contingencies not recognized in the statement of financial position	(19)	442

3/11 Disclosure of outstanding financial commitments as of the statement of financial position date	(20)	442
3/12 Disclosure of significant subsequent events	(21)	443
3/13 Disclosure of restricted assets or assets pledged as security	(22)	443
3/14 Disclosure of accounting changes	(23-25)	443
3/15 Disclosure of the party that manages the insurance operations and the consideration it receives	(26)	444
3/16 Disclosure of the party that invests the funds of both policyholders and owners' equity, and the bases of allocating the profit generated from investing these funds	(27)	444
3/17 Disclosure of the basis for allocating among the policyholders the surplus of insurance operations and investment profits	(28)	444
3/18 Disclosure of related party transactions	(29-30)	445
3/19 Disclosure of transactions with external auditors and members of Shari'a supervisory board	(31)	446
3/20 Disclosure of the concentration of insurance and reinsurance risks	(32)	446
4. Presentation and Disclosure in Each Statement	(33-66)	446
4/1 Statement of financial position	(33-43)	446
4/2 Statement of policyholders' revenues and expenses	(44-47)	449
4/3 Income statement	(48-54)	450
4/4 Statement of cash flows	(55-58)	451
4/5 Statement of changes in owners' equity	(59-60)	451
4/6 Statement of the policyholders' surplus (or deficit)	(61-62)	452
4/7 Statement of sources and uses of funds in the Zakah and Charity fund	(63-66)	452
5. Treatment of Changes in Accounting Policies	(67-74)	452
6. Treatment of Changes in Accounting Estimates	(75-76)	454
7. Treatment of a Correction of an Error in Prior Period Financial Statements	(77-78)	454
8. Effective Date	(79)	454

Adoption of the Standard.. 455
Appendix (a): Brief History of the Preparation of the Standard.. 456
Appendix (b): Juristic rules for General presentation and disclosure In the financial statement of Islamic insurance companies........................... 458
Appendix (c): Reasons for the Standard................................. 461
Appendix (d): Basis for Conclusions....................................... 463
Appendix (e): Definitions... 467
Appendix (f): Example of Financial Statements and Disclosures Therein.. 469

Preface

The emergence of Islamic insurance companies[1] as relatively new organizations and the great challenge they face to successfully serve the societies in which they operate, have led them, together with specialists in Shari'a and in accounting, to seek the most appropriate means through which accounting standards could be developed and implemented in order to present adequate, reliable, and relevant information to users of the financial statements of such organization. The presentation of such information is critical to the economic decision making process by parties who deal with the companies and would also have a significant effect on the distribution of economic resources for the benefit of society.

The principles of Shari'a strike a balance between the interest of the individual and society. It is known that the insurance system provides a reasonable limit of security and peace of mind for the individual as well as for the business units against certain perils such as fire, theft and public liability. Those perils do exit as a result of individuals and business units performing their daily activities. Hence, by making use of the insurance system, people's reluctance to establish business projects would be reduced, and individuals would be able to pursue their daily life with less anxiety. In other words, the insurance system is considered the most appropriate means to cater for the loss that is suffered by individuals and business units. No doubt the insurance system has had a great impact on the flourishing of international trade and on the success of the mass production approach and the economic surpluses which have resulted from such approach. Islam is concerned to provide security and peace of mind for individuals as Allah, the Almighty, said: ***{"So let them worship (Allah) the Lord of this House (the Kab'ah in Makkah). (He) Who has fed them against hunger, and has***

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(1) Referred to hereafter as company or companies. Islamic Insurance companies are also called *Takaful* companies.

made them safe from fear"}.(2) Also Islam does encourage cooperation as Allah, the Almighty, said: ***{"...Help you one another in Al-Birr and At-Taqwa (virtue, righteousness and piety)..."}.***(3)

In order for individuals to realize peace of mind, it is essential that such individuals develop a trust in the ability of the companies to realize their objectives. In the absence of trust in the ability of the companies to provide insurance services efficiently and in full compliance with Shari'a, many individuals may refrain from dealing with the companies. One of the prerequisites for the development of such trust is the availability of information that assures policyholders, investors and other parties that deal with the companies of the ability of the companies to achieve their objectives. Among the important sources of such information are the financial reports of the companies which are prepared in accordance with standards that are applicable to the companies.

This standard defines the financial statements that should be periodically published by the companies to satisfy the common information needs of users of financial reports. This standard also establishes the general principles for the presentation of information and defines certain information that should be disclosed in the financial statements of the companies in order to achieve the objectives of accounting and financial reports within the mechanism of financial accounting.

(2) [Quraysh (The Tribe of Quraysh) : 3-4].
(3) [Al-Ma`idah (The Table): 24].

Statement of the Standard

1. Scope of the Standard

This standard is applicable to the financial statements prepared by the company to meet the common information needs of the main users of such statements. This standard is applicable to all companies regardless of their legal forms, countries of incorporation, or sizes. Should the requirements of this standard conflict with the company's charter or the laws and regulations of the country in which it operates a disclosure should be made of the conflict and the impact on the relevant elements of the financial statements, wherever possible. (para. 1)

2. General Provisions

2/1 The complete set of financial statements

The complete set of financial statements that should be prepared by the company should consist of the following:

a) A statement of financial position (the balance sheet).
b) A statement of policyholders' revenues and expenses.
c) An income statement.
d) A statement of cash flows.
e) A statement of changes in owners' equity (the shareholders).
f) A statement of policyholders' surplus (or deficit).
g) A statement of sources and uses of funds in the Zakah and charity fund.
h) Notes to the financial statements.
i) Any statements, reports and other data which assist in providing information required by users of financial statements if required by the profession provided they do not contradict Shari'a rules and principles. (para. 2)

2/2 Comparative amounts in the financial statements

The company should, as a minimum, include comparative amounts in the financial statements. The presentation methods and disclosures in the financial statements should enable the user to differentiate between actual changes in the company's financial position, its results of operations, changes in owners equity, surplus and deficit of policyholders, its cash flows, and the sources and uses of funds in the Zakah and charity fund, from accounting changes during the periods covered by the financial statements. (para. 3)

2/3 The form and classifications of the financial statements and the terminology used therein

The form of and the classifications used in the financial statements should ensure a clear presentation of their contents. In addition, the terminology used to express the contents of the financial statements should enable their users to understand and comprehend the information contained therein. (para. 4)

2/4 Numbering of pages and notes

Pages containing the financial statements and the related notes should be numbered consecutively. Notes to the financial statements should be given clear and distinct titles and should be cross referenced to the related items in the financial statements. (para. 5)

2/5 Notes are an integral part of the financial statements

The following statement should appear on the bottom of every page containing a financial statement:

"Notes to the financial statements from number (-) to number (-) are an integral part of these financial statements".

In addition, notes should be set forth immediately after the last page containing a financial statement. (para. 6)

3. General Disclosures in the Financial Statements

3/1 Adequate disclosure of material information

The financial statements should disclose all material information that is necessary to make those financial statements adequate, relevant and reliable for their users. (para. 7)

3/2 Disclosure of basic information

The financial statements should disclose, to the extent applicable, the following information about the company:

a) The name of the company
b) The country of incorporation
c) Formation date and legal form
d) Location of headquarters and number of branches in each country where the company operates.
e) The nature of the activities the company is authorized to carry out and the major insurance services it provides.
f) The names of the company's subsidiaries whose financial statements are consolidated with those of the company, the countries of their incorporation, the company's ownership percentage in each subsidiary and the nature of their activities.
g) The names of the company's subsidiaries whose financial statements are not consolidated with those of the company's, the countries of their incorporation, the company's ownership percentage in each subsidiary, the nature of their activities, and the reasons for excluding their financial statements from the consolidated financial statements of the company.
h) The name of the holding company and the names of other affiliates.
i) The role of the Shari'a supervisory board in supervising the company's activities, and the nature of the board's authority in accordance with the company's by-laws and in actual practice.
j) The authority responsible for supervising the company's activities and the authority responsible for supervising the holding company.
k) The tax treatment in the country of incorporation and in other countries where the company has operating branches. If the company enjoys a tax holiday in the country of incorporation and in other countries, the period of the tax holiday and the remaining period thereof. (para. 8)

3/3 Disclosure of the currency used for accounting measurement

a) The financial statements should disclose the currency used for accounting measurement, if not otherwise evident from the contents of the financial statements. (para. 9)

b) The financial statements should disclose the accounting method used for translating foreign currency balances and transactions. (para. 10)

3/4 Disclosure of significant accounting policies

3/4/1 Definition of accounting policies

Accounting policies refer to the accounting principles, bases, rules and methods which have been adopted by the company's management for the preparation and publication of the financial statements. (para. 11)

3/4/2 Method of disclosing significant accounting policies

Significant accounting policies should be disclosed in one note. (para. 12)

3/4/3 The accounting policies that should be disclosed

The financial statements must contain a clear and precise description of the significant accounting policies used for the preparation and publication of the financial statements. This disclosure should include, as a minimum, the significant policies in the following circumstances:

a) The accounting policies adopted by the company to recognize earned contributions.

b) The accounting policies adopted by the company to recognize outstanding claims and claims incurred but not reported.

c) The accounting policies adopted by the company to recognize unearned contributions.

d) The accounting policies adopted by the company to recognize insurance business acquisition cost.

e) The accounting policies adopted by the company to recognize commission earned from the reinsurers.

f) The accounting policies adopted by the company to translate in local currency assets and liabilities denominated in foreign currency.

g) The accounting policies adopted by the company to amortize development costs.

h) The accounting policies adopted by the company to consolidate its subsidiaries, if any.

i) The accounting policies that present a choice of acceptable alternatives, (e.g., the depreciation method of an asset that is subject to depreciation).

j) The accounting policies adopted by the company, which are not consistent with the relevant objectives, concepts or standards of financial accounting issued by the Accounting and Auditing Organization for Islamic Financial Institutions.

k) The accounting policies adopted by the company to recognize other material revenues, gains and losses.

l) The policies, bases and methods adopted by the company for revaluation, if applicable. (para. 13)

3/5 Disclosure of unusual supervisory restrictions

The financial statements should disclose any unusual supervisory restrictions imposed on the company by any regulatory or supervisory agency after due consideration of any regulations regarding the disclosure of such restrictions. A supervisory restriction should be considered unusual if it either restricts management's ability to make decisions necessary to manage the company, or if it prevents the company from carrying out some of the activities it has been authorized to carry out by its charter. (para. 14)

3/6 Disclosure of earnings or expenditure prohibited by Shari'a

The financial statements should disclose the amount and nature of earnings that have been realized from sources or by means which are not permitted by Shari'a. Likewise, disclosures should be made of the amount and nature of expenditures for purposes not permitted by Shari'a. The company should also disclose how it intends to dispose of the assets generated by the prohibited earnings or acquired through prohibited expenditure. (para. 15)

3/7 Disclosures of concentrations of asset risks

Disclosure should be made in the financial statements of the magnitude of assets invested or deposited in any of the following concentrations:

a) An economic sector (e.g., the agriculture sector, the service sector, the manufacturing sector, the real estate sector);
b) A customer, including an Islamic bank or a financial institution without stating the customer's name.
c) A domestic geographical area with unique economic characteristics;
d) Each foreign country. (para. 16)

3/8 Disclosure of risk associated with assets and liabilities which are denominated in foreign currency

Disclosure should be made in the financial statements of the net assets (net liabilities) by type of foreign currency, as of the statement of financial position date. (para. 17)

3/9 Disclosure of amounts recoverable from reinsurance or other parties

Disclosure should be made in the financial statements of the material amounts recoverable from reinsurers or other parties related to the claims or others. (para. 18)

3/10 Disclosure of contingencies not recognized in the statement of financial position

Disclosure should be made in the financial statements of the amounts and nature of material contingencies existing as of the date of the statement of financial position whose amounts are not defined and not recognized therein. (para. 19)

3/11 Disclosure of outstanding financial commitments as of the statement of financial position date

Disclosure should be made in the financial statements of the amounts and nature of outstanding material financial commitments as of the statement of financial position date, which the company cannot cancel without significant cost or penalty. (para. 20)

3/12 Disclosure of significant subsequent events

Disclosure should be made in the financial statements of any event subsequent to the date of the statement of financial position which might have a significant effect on the company's financial position or results of operations, including those events which may cause significant change in the company's activities or size, or which may restrict management's ability to take action. Such disclosure should be made after due consideration to regulatory requirements imposed by the supervisory agencies. (para. 21)

3/13 Disclosure of restricted assets or assets mortgaged as security

Disclosure should be made in the financial statements of the nature and amounts of any assets, which are restricted for a particular use or used as a collateral for the company's obligations. (para. 22)

3/14 Disclosure of accounting changes

Disclosure should be made in the financial statements of the nature and effects of the following accounting changes:

3/14/1 Change in an accounting policy

Disclosure of a change in an accounting policy should include the following:

a) Description of the change and its justification.
b) The effect of that change on:
i. Policyholders' surplus or deficit;
ii. Net income or net losses of owners' equity for the current financial period, and prior financial periods presented for comparative purposes;
iii. Policyholders' surplus or deficit brought forward; and
iv. Retained earnings as of the beginning of the first period presented for comparative purposes. (para. 23)

3/14/2 Change in an accounting estimate

Disclosure of a change in an accounting estimate should include the following:

a) Description of the change and the reasons for it.
b) The effect of the change on policyholders' surplus or deficit and net income or net loss for the current financial period. (para. 24)

3/14/3 Correction of material errors in prior period financial statements

Disclosure of a correction of material errors in prior period financial statements should include the following:

a) Nature of the error and the prior period affected by the error.
b) The effect of the error correction on the company's results of operations related to either policyholders' or owners' equity for the prior financial period affected by the error and the current financial period. (para. 25)

3/15 Disclosure of the party that manages the insurance operations and the consideration it receives

Disclosure should be made in the financial statements of the party that manages insurance operations and the consideration it receives. (para. 26)

3/16 Disclosure of the party that invests the funds of both policyholders and owners' equity, and the bases of allocating the profit generated from investing these funds

Disclosure should be made in the financial statements of the party that invests the funds of both policyholders and owners' equity. Disclosure should also be made of the bases adopted for allocating the profit generated from investing these funds. (para. 27)

3/17 Disclosure of the basis for allocating among the policyholders the surplus of insurance operations and investment profits

Disclosure should be made in the financial statements of the basis adopted by the company to allocate the surplus of insurance operations and investment profits among the policyholders. (para. 28)

3/18 Disclosure of related party transactions

3/18/1 Definition of Related Parties

Related parties mean the following:

a) Members of the company's board of directors, general manager and his deputies and equivalent.
b) Relatives of those mentioned in (a) above to the second degree provided there is vested financial interest between the two parties.
c) Any natural person or entity which directly or indirectly owns a percentage (to be determined by the company) of the company's voting ownership units and relatives of the natural person to the second degree provided there is vested financial interest between the two parties. The company should use such a percentage in a consistent manner and any changes in the percentage used should be disclosed.
d) Any entity in which any person in (a), (b) or (c) above either directly or indirectly owns the percentage referred to in (c) above of its voting ownership units or is a member of its board of directors.
e) Subsidiaries and other affiliates of the company.
f) Any entity in which the company directly or indirectly owns a sufficient percentage of its voting ownership units to enable the company to influence its operations. (para. 29)

3/18/2 Contents of the disclosure of related party transactions

Disclosure of related party material transactions should include the following:

a) The nature of the relationship between the company and the related party.

b) The nature of the transaction(s) consummated with the related party during the financial period, its terms and conditions if they differ from the prevailing practice, the total amount of the claims paid, and the contribution rate offered to the related parties.

c) Balances due from or due to the related party as of the statement of financial position date. (para. 30)

3/19 Disclosure of transactions with external auditors and/or members of Shari'a supervisory board

Disclosure should be made in the notes of the financial statements of material transactions carried out during the financial period with the external auditor and/or members of the Shari'a supervisory board. (para. 31)

3/20 Disclosure of the concentration of insurance and reinsurance risks

Disclosure should be made in the financial statements of the magnitude of insurance and reinsurance in any of the following concentrations:

a) A geographical area.
b) An economic sector.
c) Reinsurance companies whether operating domestically or abroad. (para. 32)

4. Presentation and Disclosure in Each Statement

4/1 Statement of financial position

The date of the statement of financial position should be disclosed. (para. 33)

The statement of financial position should include the company's assets, its liabilities, owners' equity and policyholders' equity. (para. 34)

Assets should not be set-off against liabilities and liabilities should not be set-off against assets unless there is a shar'i, legal right or practice requirement for the set-off. (para. 35)

Significant items of assets, liabilities, policyholders' equity or owners' equity should not be combined on the face of the statement of financial position without disclosure. (para. 36)

Disclosure should be made in the financial statements of the assets and liabilities related to insurance operations that are combined with the assets and liabilities related to owners' equity, wherever possible. (para. 37)

Assets and liabilities should be combined into groups in accordance with their nature and those groupings should be presented in the statement of financial position in the order of the relative liquidity of each group. The statement of financial position should present separate totals for assets, liabilities, owners' equity and policyholders' equity.

Assets and liabilities in the statement of financial position should not be classified as current groupings and noncurrent groupings. (para. 38)

Disclosure should be made on the face of the statement of financial position of the following assets with separate disclosures in the notes to the financial statements of assets jointly financed by the owners' equity and policyholders' equity and those exclusively financed by each of them wherever possible:

a) Cash and cash equivalents.
b) Contributions receivable.
c) Reinsurance receivables.
d) Deferred sales receivables.
   - Murabaha.
   - Salam (goods sold using Salam contract).
   - Istisna'a.
e) Investment securities.
f) Mudaraba financing.
g) Musharaka financing.
h) Investments in other entities' capital.
i) Investment in real estate.
j) Assets acquired for leasing.
k) Fixed assets, with disclosure of significant types and related accumulated depreciation.

l) Other assets, with disclosure of significant types. (para. 39)

Disclosure should be made on the face of the financial statements or on the notes to the financial statements of the following liabilities:

a) Unearned contributions.
b) Outstanding claims.
c) Claims incurred but not reported.
d) Other provisions.
e) Reinsurers and other parties share of outstanding claims.
f) Reinsurance credit balances:
   - Insurance cash balances.
   - Retained unearned contributions/premium.
   - Retained outstanding claims.
g) Declared but undistributed profits attributable to owners' equity.
h) Zakah and taxes payable.
i) Other liabilities. (para. 40)

Policyholders' equity should be disclosed and presented in the statement of financial position as a separate item between liabilities and owners' equity. (para. 41)

A consolidated statement of financial position should disclose the minority interest (pertaining to companies whose financial statements are consolidated with those of the company) and that interest should be shown on the statement as a separate item between policyholders' equity and owner's equity. (para. 42)

Disclosure should be made in the statement of financial position, and/or the statement of changes in owner's equity, and/or notes to the financial statements, as appropriate, of the following items of owners' equity:

a) Authorized, subscribed and paid-in capital.
b) Number of authorized ownership units (shares), number of issued ownership units, number of outstanding ownership units, par value per unit and premiums on issued units.
c) Legal reserve and discretionary reserves at the beginning and at the end of the period and changes therein during the period.

d) Retained earnings at the beginning and the end of the financial period and amount of retained earnings (or losses) resulting from the revaluation of assets and liabilities to their cash equivalent values, where applicable, and changes therein during the period including distribution to owners and transfers to or from reserves and retained earnings.
e) Other changes in owners' equity during the financial period. (para. 43)

4/2 Statement of policyholders' revenues and expenses

The financial period covered by the statement of policyholders' revenues and expenses should be disclosed. (para. 44)

To the extent applicable the following information should be disclosed on the face of the statement of policyholders' revenue and expenses, or on the notes to the financial statements:

a) Gross contributions.
b) Reinsurance share of contributions.
c) Changes in unearned contributions.
d) Earned contributions for the financial period.
e) Commission earned from reinsurance for the financial period.
f) Reinsurance profit sharing commission of the previous financial periods.
g) Gross claims paid.
h) Reinsurance share of gross claims paid.
i) Other parties share of gross claims paid.
j) Insurance business acquisition cost.
k) Changes in outstanding claims.
l) Changes in reinsurance share of outstanding claims.
m) Provisions for outstanding court cases or any other matters.
n) Any other expenses.
o) Investment income.
p) Remuneration of the party managing insurance operations.
q) Remuneration of the party managing policyholders' funds and owners' equity funds.

r) Surplus or deficit resulting from technical operations. (para. 45)

The nature of material revenue, expenses, gains and losses from other activities should be disclosed. (para. 46)

Where applicable, estimated gains and losses from the revaluation of assets and liabilities to their cash equivalent value should be disclosed including the general principles used by the company in the revaluation of assets and liabilities. (para. 47)

4/3 Income statement

The period covered by the income statement should be disclosed. (para. 48)

Investment revenues, expenses, gains and losses should be disclosed by type. (para. 49)

The nature of material revenues, expenses, gains and losses from other activities should be disclosed. (para. 50)

Where applicable, estimated gains and losses from the revaluation of assets and liabilities to their cash equivalent values should be disclosed including the general principles used by the company in the revaluation of assets and liabilities. (para. 51)

To the extent applicable, the following information should be disclosed in the income statement or on the notes to the financial statement of income:

a) Revenues and gains from investments.
b) Expenses and losses from investments.
c) Net income (loss) from investments.
d) Remuneration of the party managing insurance operations.
e) Mudarib share of the party that manages investment operations.
f) Other revenues, expenses, gains and losses.
g) General and administrative expenses.
h) Net income (loss) before Zakah and taxes.
i) Zakah and taxes (to be separately disclosed).
j) Net income (loss). (para. 52)

The Zakah base should be disclosed wherever the company is obligated to pay Zakah. (para. 53)

The minority interest (pertaining to companies whose financial statements are consolidated with those of the company), if material, in net income (loss) should be disclosed in the consolidated statement of income as a separate item before net income (loss). (para. 54)

4/4 Statement of cash flows

The financial period covered by the statement of cash flows should be disclosed. (para. 55)

The statement of cash flows should differentiate between cash flows from operations activities, cash flows from investing activities and cash flows from financing activities. In addition, the statement or the notes to the financial statements should disclose the main components of each category of cash flows. (para. 56)

The statement of cash flows should disclose the net increase (or decrease) in cash and cash equivalent during the financial period and the balance of cash and cash equivalent at the beginning and at the end of the period. (para. 57)

Transactions and other transfers that do not require the payment of or do not result in the receipt of cash and cash equivalent should be disclosed, for example the acquisition of assets in exchange for shares in the equity of the company or the occurrence of a liability in exchange for another liability. (para. 58)

4/5 Statement of changes in owners' equity

The financial period covered by the statement of changes in owners' equity should be disclosed. (para. 59)

The statement of changes in owners' equity should disclose the following:

a) Paid-in-capital, legal and discretionary reserves separately, and retained earnings as of the beginning of the period, with separate disclosure of the amount of estimated earnings resulting from the revaluation of assets and liabilities to their cash equivalent values, where applicable.

b) Capital contribution by owners during the period.
c) Net income (loss) for the period.
d) Distributions to owners during the period.
e) Increase (decrease) in legal and discretionary reserves during the financial period.
f) Other appropriations (para. 60)

4/6 Statement of the policyholders' surplus (or deficit)

The period covered by the statement of policyholders' surplus (or deficit) should be disclosed. (para. 61)

Disclosure should be made in the face of the statement of policyholders' surplus (or deficit) of the following:

a) Surplus or deficit balance at the beginning of the period.
b) Surplus or deficit for the period.
c) Gross surplus or deficit.
d) Distributions to policyholders during the period.
e) Balance of surplus or deficit at the end of the financial period. (para. 62)

4/7 Statement of sources and uses of funds in the Zakah and charity fund

The period covered by the statement of sources and uses of funds in the Zakah and charity fund should be disclosed. (para. 63)

Disclosure should be made of the company's responsibility for the payment of Zakah on behalf of the owners and whether the company collects and pays Zakah on behalf of the policyholders. (para. 64)

Other sources of funds in the Zakah and charity fund should be disclosed. (para. 65)

Disclosure should be made of the funds paid by the company from the Zakah and charity fund during the period and of funds available in the fund at the end of the period. (para. 66)

5. Treatment of Changes in Accounting Policies

The following are not considered changes in accounting policies:

a) The adoption of a new accounting policy because of a clear difference in the substance of certain transactions and events compared to similar transactions and events in the past.
b) The adoption of a new accounting policy because of transactions or events that are occurring for the first time or have occurred in the past but were immaterial.
c) Changes in the classification of items in the financial statements of the current financial period compared to their classification in prior period financial statements. However, items in prior period financial statements, when presented for comparative purposes, should be reclassified to conform to their current classifications.
d) The implementation of accounting standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions. (para. 67)

If the management of the company decides to change an accounting policy, the new policy should be applied retroactively by restating the financial statements for the last period presented unless it is not practicable to obtain the data necessary for the restatement. (para. 68)

If the data necessary for restating one or more of the prior periods' financial statements are not available or not practicable to obtain, the balance of policyholders' surplus and retained earnings as of the beginning of the current or a prior period, as appropriate, should be restated to reflect the cumulative effect of the change in the accounting policy on the prior periods which are not restated. The amount of that cumulative effect should be disclosed. (para. 69)

The balance of policyholders' surplus and retained earnings at the beginning of the first period presented should be adjusted to reflect the cumulative effect of the change on the prior periods which are not presented. That cumulative effect should be disclosed. (para. 70)

Disclosure should be made as to whether prior periods presented have been restated to reflect the effect of the change. (para. 71)

The effect of change in an accounting policy on the policyholders' share of surplus or deficit resulting from insurance operations and investment profit (or loss) as well as on net income (loss) for the current period and for each prior period presented should be disclosed. (para. 72)

The effects of multiple material changes in accounting policies should be disclosed separately and should not be netted. It is not adequate to only disclose the net effects of such changes. (para. 73)

A change in accounting policy should be disclosed even when its effect is not material either in the current or prior periods when it is expected to have a material effect on future periods. (para. 74)

6. Treatment of Changes in Accounting Estimates

The effect of a change in an accounting estimate should be reflected in:

a) The financial period of change if the effect of change is limited to the result of operations of that period.
b) The financial period of change and future periods if the change affects the results of operations of current and future periods. (para. 75)

The effect of change in an accounting estimate on the results of insurance operations and policyholders' share of investment profit (or loss), and net income (loss) for the current period should be separately disclosed. (para. 76)

7. Treatment of a Correction of an Error in Prior Period Financial Statements

An error in prior period financial statements should be corrected retroactively by restating the financial statements for all prior periods presented which have been affected by the error. Disclosure should be made as to whether such an error affects the rights and obligations of the company towards others. (para. 77)

Policyholders' equity and retained earnings at the beginning of the first period presented should be adjusted to reflect the cumulative effect of the correction of the error on the periods which are not presented but which were affected by the error. That cumulative effect should be disclosed. (para. 78)

8. Effective Date

This Standard shall be effective for financial statements for financial periods beginning 1 Muharram 1421 A.H. or 1 January 2000 A.D. (para. 79)

Adoption of the standard

The General Presentation and Disclosure in the Financial Statements of Islamic Insurance Companies standard was adopted by the Accounting and Auditing Standards Board in its meeting No. (17) held on 29 Safar – 1 Rabi' I, 1420 A.H., corresponding to 13-14 June 1999 A.D.

Members of the Board

1. Abdul-Malik Yousef Al-Hamar — Chairman
2. Noorur-Rahman Abid — Deputy Chairman
3. Dr. Abdul-Sattar Abu Ghoddah
4. Dr. Sayed Musa Al-Habshi
5. Jamal Al-Hazeem
6. Dr. Abdul-Samad Bin Hj. Alias
7. Dr. Khalid Mohammed Boudi
8. Jamil Darras
9. Ibrahim Adam Habib
10. Nabil Naseif
11. Anwar Khalifa Sadah
12. Musa Abdel-Aziz Shehadeh
13. Mohammed Alawi Thiban

Appendix (A)
Brief History of the Preparation of the Standard

In its meeting No. (14) held in Jeddah in Saudi Arabia on 12-13 Ramadan 1418 A.H., corresponding to 10-12 January 1998 A.D., the Accounting and Auditing Standards Board decided to give priority to the preparation of a Standard on General Presentation and Disclosure in the Financial Statements of Islamic Insurance Companies.

On 28 Ramadan 1418 A.H., corresponding to 26 January 1998 A.D., a consultant was commissioned to prepare a preliminary study on the accounting aspects of the standard. Another consultant was commissioned to study the juristic aspects of the standard.

In its meeting No. (15) held in Bahrain on 13-14 Muharram 1419 A.H., corresponding to 10-11 May 1998 A.D., the Accounting Standards Committee discussed the accounting study and took note of the study of the juristic aspects of the standard. The Committee also discussed the revised accounting study and the exposure draft of the standard in its meeting No. (16) held in Bahrain on 22-23 Jumada I, 1419 A.H., corresponding to 13-14 September 1998 A.D., and asked the consultants to make the necessary amendments in light of the comments made by the members.

The revised exposure draft of the standard was discussed by the Committee in its meeting No. (17) held in Bahrain on 16-17 Jumada II, 1419 A.H., corresponding to 6-7 October 1998 A.D., and necessary amendments were made.

The exposure draft of the standard was discussed by the Shari'a Committee in its meeting No. (10) held in Bahrain on 30 Rajab - 2 Sha'ban 1419 A.H., corresponding to 19-21 November 1998 A.D., and the amendments which it deemed necessary were made.

The amended exposure draft was discussed in the Accounting Standards Board meeting No. (16) held on 7-8 Ramadan 1419 A.H., corresponding to 27-28 December 1998 A.D., in Jeddah, Saudi Arabia. The Accounting Standards Board made further amendments to the exposure draft and decided that it should be distributed to specialists and interested parties to obtain their comments on the exposure draft in order to discuss them in a listening session.

Two listening sessions were held, one in Sudan on 18-19 Dhul-Hajjah 1419 A.H., corresponding to 4-5 April 1999 A.D., and the other in Bahrain on 24-25 Dhul-Hajjah 1419 A.H., corresponding to 10-11 April 1999 A.D. The listening sessions were attended by more than nineteen participants representing central banks, Islamic banks, accounting firms, Shari'a scholars, academics and others who are interested in this field. Members of the Accounting Standards Committee responded in the listening sessions as well as to the oral comments that were expressed in the listening sessions.

The Accounting Standards Committee held a meeting on 25 Dhul-Hajjah 1419 A.H., corresponding to 11 April 1999 A.D., to discuss the comments made about the exposure draft. The Committee made the necessary amendments, which it deemed necessary in light of the discussions that took place in the two listening sessions.

The revised exposure draft was reviewed and approved by the Shari'a Committee for Standards in its meeting No. (11) which was held on 2-3 Safar 1420 A.H., corresponding to 17-18 May 1999 A.D., after making some changes to the draft.

The Accounting and Auditing Standards Board adopted the proposed standard in its meeting No. (17) held on 29 Safar – 1 Rabi' I, 1420 A.H., corresponding to 13-14 June 1999 A.D.

Appendix (B)
Juristic Rules for General Presentation and Disclosure in the Financial Statements of Islamic Insurance Companies

Islamic insurance aims at providing the service offered by conventional insurance to the insured (the policyholder) but in a legitimate cooperative manner free of any Gharar (uncertainty), Riba (interest) and other prohibitions that render the contract voidable. In Islamic insurance, the insured pays contributions that are wholly or partially donated to form an insurance portfolio from which indemnity is paid when the insured risk occurs. Any surplus funds left, after payment of indemnities and expenses and after transfer to reserves, is distributed among the insured (the policyholders).

Gharar is the uncertainty of whether or not the risk will occur for either party of the contract; i.e., the company or the policyholders. Islamic insurance also includes Gharar; however, whilst Gharar is permissible for donations, it renders (business) transactions void.(4) This is because the fact of not receiving a donation does not constitute damage from an Islamic juristic point of view. It should be noted that Gharar in Islamic insurance takes place between the insureds themselves who constitute one entity with the aim of achieving a common interest, whereas in conventional insurance (excluding mutual insurance) Gharar exists between the insured and the insurer whose interests are not the same.

(4) This is in accordance with the Maliki school, but contrary to the opinion of the majority of Fuqaha, see: Dr. Al-Siddiq Muhammad Al-Amin Al-Darir, *"Al-Gharar Wa Atharahu Fi Al-'Uqud Fi Al-Fiqh Al-Islami"*, Salih Kamil Doctorate Series in Islamic Economic, 1410 A.H., corresponding to 1990 A.D.

The execution of an Islamic insurance contract on the basis of donation is evident from the insured waiving all, or some of, the instalment provided by him for the benefit of the group of policyholders, each according to his needs. Donation may be tied to a condition, whether for its type or amount. If the indemnity does not require the entire amount of contributions and a surplus is realised, then the surplus is allocated among the policyholders. Hence, in this case the policyholders would have contributed only part of their donations. Donation in this case is contingent upon the conditions specified in the insurance system, whereby the benefit derived from the donation is confined to the policyholders. Therefore it is an exchange of good deeds and cooperation in righteousness. Payment of indemnity depends on the availability of proceeds in the insurance portfolio. However, loans may be extended to this insurance portfolio, which may be repaid from the surplus of subsequent years. The common practice is that the company or any other party undertakes to extend such loans instead of asking the policyholders to increase their contributions, because cases of shortage are usually temporary.

The relationship between the insured and the conventional insurance company, as regulated by the insurance contract, is that of a probable financial exchange between the insured, who undertakes to pay premiums, and the company which undertakes to pay indemnity. The insured's right to be paid indemnity is confined to the existence of the cause, with the company having an absolute right to receive premiums without the insured's interference in investing the premiums or his right to any surplus. However, in Islamic insurance the relationship between the policyholders and the company is a relationship warranted by procedural circumstances as a result of legal inability to establish the insurance portfolio as a separate corporate body. Hence, the establishment of the company is meant to provide a legal entity licensed to conduct business activities in insurance. The contributions and the return on investment thereof remains a common property of the policyholders, wherein their rights, and basis for entitlement to compensation and the realized insurance surplus are specified according to the insurance system.

The management of insurance operations is provided as a service in return for a specific consideration. The insurance assets are invested in return for a share in profits. These two activities are either undertaken by the shareholders, the policyholders or both.

There are other differences between the conventional insurance and Islamic insurance in respect of the means by which the company's funds are developed. Islamic insurance company undertakes to invest the contributions of the policyholders using financial instruments that are in compliance with Shari'a. On the other hand, should the pool of contributions paid by the policyholders fall short of the amount of losses incurred, it is permissible to borrow from the company (the shareholders) to meet the deficit, but for no consideration. This also applies to the specification of risk, where Islamic insurance companies are restricted to what is approved by Shari'a. Conventional insurance companies are not obliged to comply with any religious guidelines in investing the premiums they receive, or in the funds they borrow, or in the ceiling of the indemnity paid, so long as this is reflected in the amount of premiums, or in the specification of risk provided this serves the material interest of the conventional insurance company without any consideration for the religious aspects of the subject matter.

The same basis, guidelines and methods apply to Islamic reinsurance when the insurance company plays the role of the insured and the reinsurer plays the role of the insurer. Because they are relatively new and have limited resources- and in the absence of Islamic reinsurance companies- Islamic insurance companies resort to conventional insurance companies to reinsure their insurance operations. However, transactions that are prohibited by Shari'a should be excluded including illegitimate earnings that are received by the company, which should be spent on charitable causes.

Appendix (C)
Reasons for the Standard

The investor in the Islamic world has started to move away from the western insurance instruments towards the Islamic insurance instruments, which are based on *Takaful* (solidarity) and are free of Gharar on which the traditional western insurance is built. In many countries this move is due to the adherence of a Muslim to the Islamic values, his aspiration to get rid of the traditional western insurance instruments and the availability and development of the Islamic alternatives that are offered in the market place and which are sought by the Islamic investor.

For a Muslim, whether a shareholder or policyholder, the decision to deal with a company in preference to another company tends to be based on his trust in the performance of the company and in its ability to achieve his economic objectives in accordance with the rules and principles of Shari'a. However, such a trust comes only out of a number of factors, at the top of which is the disclosure of adequate information that enables users to evaluate the performance of the company and its ability to achieve its economic objectives.

A Muslim evaluates the efficiency of a company mainly by comparing its performance with that of other similar companies. No doubt, the ability to compare the performance of various companies depends to a large extent on the adequate disclosure of information in its published financial statements, the easiness of the methods of presenting the information in these statements, and the clarity of the information disclosed in the financial statements.

The increase in the number of companies on the one hand, and the lack in this industry of uniform accounting standards that regulate the recognition, measurement, presentation and disclosure of transactions in published financial statements, on the other hand, has triggered the preparation of accounting standards for the companies. Accordingly, the Accounting and Auditing Standards Board has decided to prepare this standard.

The preliminary study has shown that there were differences in the methods of presentation and adequacy of disclosure in the financial statements of the companies. The study also confirmed the need to disclose in the financial statements of the companies additional important information related to matters that may affect the way users of financial statements of the companies make use of such statements as a basis for decision in a manner that would benefit them in accordance with the rules and principles of Shari'a.

Appendix (D)
Basis for Conclusions

The conclusions reached by this standard mainly emanate from the application of the objectives of financial reports and the concepts of financial accounting for Islamic financial institutions on the companies to the extent applicable. Such objectives are geared to the needs of the categories of the users of such reports as are specified in the previous Statement of Financial Accounting No. (1): Objectives of Financial Accounting for Islamic Banks and Financial Institutions, and the Statement of Financial Accounting No. (2): Concepts of Financial Accounting for Islamic Banks and Financial Institutions (referred to hereafter as the Statement of Objectives and the Statement of Concepts, respectively).

The previous Statement of Objectives states that financial reports should provide information about the company's compliance with the precepts of Shari'a in its dealings and operations and should also provide information to assist in separating earnings and expenditures prohibited by Shari'a, if any, and in verifying that prohibited earnings are spent on charitable purposes. Accordingly, the standard requires that the financial statements should disclose the nature of activities carried out by the company, the major insurance services it renders, the role of the Shari'a Supervisory Board in supervising the operations of the company and the nature of the powers vested in the Shari'a Supervisory Board or Shari'a advisor supervising these operations. The standard also requires the disclosure of any gains generated from sources or methods prohibited by Shari'a, expenditures on activities prohibited by Shari'a, and how the company disposes of the funds generated from earnings prohibited by Shari'a.

The previous Statement of Objectives states that financial reports should provide information to assist in the determination of Zakah on the company's funds and where it will be spent. Accordingly, the standard requires that financial statements should disclose the company's responsibility of paying and distributing Zakah on behalf of shareholders and policyholders. The standard also requires that the full set of published financial statements should include a statement of sources and uses of the funds of the Zakah and charity fund and to disclose the Zakah base, the Zakah due for the financial period, and the declared Zakah but not yet distributed.

The previous Statement of Objectives states that financial reports should disclose information that assists in evaluating the ability of the company to treat deficit and bear business risks, assessing the inherent risk in the insurance and reinsurance operations and investments. Accordingly, the standard requires that financial statements should disclose owners' equity and to separate it from the equity of policyholders, changes in owners' equity, changes in policyholders' equity, the concentration of risks in both assets and the distributions of those assets in accordance with their respective periods to maturity or the estimated periods to actual conversion to cash, the risk of reinsurance, the amount recoverable from reinsurers and other parties, the party that manages the insurance operation and its remuneration, the party that invests the funds of both policyholders and owners' equity and the bases of allocating the profit generated from investing these funds, the methods of allocating surplus, foreign currency risks, unrecorded contingencies in the statement of financial position, outstanding financial commitments, subsequent events, unusual supervisory restrictions imposed on the activities of the company. This standard also requires the grouping of assets and liabilities in accordance with their nature and the presentation of these groupings in the order of their relative liquidity.

The previous Statement of Objectives states that financial reports should provide information that assists in estimating cash flows that might be realized from dealing with the company, the timing of those cash flows, the risks associated with their realization, the adequacy of such cash flows for the company's operations including the distribution of the insurance operation surplus to the policyholders and the allocation of the investment returns between the owners' equity and the policyholders. In addition to the requirements provided for in the latter paragraph, the standard also requires that insurance companies should publish comparative financial statements and that such statements should disclose cash flows and distinguish between cash flows according to the activities which generated them; i.e., operations, investment or financing. The standard requires a number of disclosures relating to the revaluation of the company's assets and liabilities at their cash equivalent value, if applicable.

The previous Statement of Objectives states that financial reports should provide information to assist in evaluating the company's capability to invest the available funds at a reasonable rates of return, and information about investments' rates of return and the rates of return distributed to shareholders and policyholders. In addition to the above, the standard also requires the disclosure of revenues and expenses of insurance operations and investments, the material revenues, expenses, gains and losses from other activities. According to the previous Statement of Objectives, in order to determinate the rights and obligations of all the parties concerned, the standard requires the preparation of the statement of revenues and expenses of policyholders, which shows the surplus (or deficit) of policyholders as well as the preparation of the statement of income, which shows the profits losses) attributable to owners' equity.

The previous Statement of Objectives and the Statement of Concepts refer to the role of the company in fulfilling its responsibility towards society. The previous Statement of Objectives states that financial reports should provide information about the company's discharge of its social responsibilities. Accordingly, the standard requires that financial statements should disclose the uses of the funds of Zakah and charity fund. The standard also requires that financial statements should disclose the distribution of the company's assets between domestic and foreign investments according to the economic sectors in which the investments are made and the nature of the investments. Such disclosures serve a number of purposes, including indicators, though indirect, about the company's discharge of its duties towards society. There is no doubt that there may be other indicators of the discharge of the company's social responsibilities which may not be appropriate for inclusion in the General Presentation and Disclosure Standard because this may entail accounting measurements which are outside the scope of this standard.

In order to facilitate comparison by the user of financial statements of the company's performance over a period of time and with similar companies, the standard includes a number of provisions which are aimed mainly at assisting users of financial statements to distinguish between the real changes and accounting changes in the company's financial position and the results of its operations and in differentiating, on the other hand, between significant and insignificant changes in the performance of the company in relation to other companies. Therefore, the standard requires that financial statements should disclose a number of basic pieces of information about the company, the currency used for accounting purposes, significant accounting policies, and accounting changes and their effects. The standard also includes provisions to standardize the accounting treatment of accounting changes.

Appendix (E)
Definitions

Islamic Insurance

Islamic insurance is a system through which the participants donate part or all of their contributions which are used to pay claims for damages suffered by some of the participants. The company's role is restricted to managing the insurance operations and investing the insurance contributions.

Reinsurance

Reinsurance is a contractual arrangement under which the reinsurer will be liable for part or all of the risks which the insurer has insured. In return the insurer will pay a specific amount of the contributions to the reinsurer. The insured legal right will not be affected by the reinsurance arrangement and the insurer is liable to the insured for paying claims as per the insurance policy terms and conditions.

Outstanding Claims

Outstanding claims are claims that have occurred during the current financial period and have been reported in the same period, but have not yet settled up to the date of the statement of the financial position.

Claims Incurred But Not Reported

Incurred but not reported are claims that have occurred during the current financial period, but have not been reported up to the date of the statement of the financial position.

Unearned Contributions

Unearned contributions are amounts deducted from the contributions paid by policyholders because they relate to next financial period and are therefore not recognized as revenue for the current financial period in which the insurance policy has been issued; i.e., they are prepayment by policyholders whose periods of cover straddles the company's financial period. The deducted amount is used to cover the risk of the policy which is extended beyond the current financial period.

Cash and Cash Equivalents

Cash and cash equivalents include local and foreign currency and deposits with banks which the company can withdraw in full on demand. Cash and cash equivalents do not include gold, silver or other precious metals. This is because the purpose of this statement is to report sources and uses of cash and cash equivalent items that are available immediately as a means of transacting business.

Appendix (F) Example of Financial Statements and Disclosures Therein

Note:

The purpose of this example is to illustrate the application of some of the provisions of the standard. The example is not intended to illustrate the only acceptable methods for the presentation of or the disclosure in the financial statements. Furthermore, the example does not reflect all the requirements of the standard.

(Name of Company)
Statement of Financial Position
as at xxx*** year xxx ***(last year)

	Note	xxx (year) Monetary Unit	xxx (last year) Monetary Unit
Assets			
Cash & cash equivalents	(8)	13 ,720	—
Investments	(9)	65,680	—
Contributions receivables		6,000	—
Fixed assets (net)	(10)	4,500	—
Development cost	(11)	800	—
Total assets		**90,700**	—
Liabilities, policyholders' equity and owners' equity			
Liabilities			
Outstanding claims	(12)	4500	—
Unearned contributions	(13)	21,600	—
Reinsurance balances	-	-	—
Dividends payable		840	—
Other liabilities		500	—
Zakah payable		1,350	—
Taxes payable		1,140	—
Total liabilities		**29,930**	—
Policyholders' equity		**9,900**	—
Owners' equity			—
Authorized & paid-up capital	(14)	50,000	—
Legal reserves	(15)	320	—
Retained earnings		450	—
Total owners' equity		**50,870**	—
Total liabilities, policyholders' equity and owners' equity		**90,700**	—

(*) The attached notes from No. ( ) to No. ( ) form an integral part of the financial statements.

(Name of Company)
Statement of Policyholders' Revenues and Expenses(5)
for financial year ended on ***(year) and ***(last year)

	xxx (year) monetary unit	xxx (last year) monetary unit
Insurance revenues		
Gross contributions	180,000	—
Less Reinsurers' shares	(126,000)	—
Net retained contributions	54,000	
Less changes in unearned contributions	(21,600)	—
Earned contributions	32,400	—
Reinsurance commissions	37,800	—
Total insurance revenues	**70,200**	
Insurance expenses		
Paid claims	15,000	—
Recovered claims from reinsurers and other parties	(11,400)	—
Net paid claims	3,600	—
Outstanding claims at end of financial period	21,000	—
Less recoverable outstanding claims from reinsurers and other parties	16,500	—
Net outstanding claims Remuneration of owners' equity for managing	4,500	—
Insurance operations	45,000	—
Acquisition cost	9,000	—
Total insurance expenses	**62,100**	—
Net surplus from insurance operations	**8,100**	—
Investment income		—
Total investment income	2,000	—
Less owners' equity share for the management of Investment portfolio	(200)	—
Net investment income	**1.800**	—
Surplus of revenues over expenses	**9,900**	—

(*) The attached notes from No. ( ) to No. ( ) form an integral part of the financial statements.

(5) Assuming that owners' equity are the managing party of the insurance operations and investments.

(Name of Company)
Statement of Policyholders' Surplus (or Deficit)
for financial year ended on ***(year) and ***(last year)

	xxx (year) monetary unit	**xxx (last year) monetary unit**
Surplus balance at beginning of period	000	—
Surplus for the current financial period	9,900	—
Total surplus at end of the period	9,900	—
Distribution to policyholders	2,600	—
Balance of retained surplus at end of period	**7,300**	—

(*) The attached notes from No. ( ) to No. ( ) form an integral part of the financial statements.

(Name of Company)
Income Statement
for financial year ended on ***(year) and ***(last year)

	Note	xxx (year) Monetary Unit	xxx (last year) Monetary Unit
Revenues			
Investment revenues		3,000	—
Owners' equity remuneration for managing insurance operations	(19)	45,680	—
Owners' equity share for managing investment portfolio	(19)	200	—
Total revenues		**48,200**	—
Expenses			
General expenses		43,800	
Development costs	(6)	200	—
Total expenses		**44,000**	—
Income before Zakah		4,200	—
Zakah payable		(1,350)	—
Income before Tax		2,850	—
Tax		(1,140)	—
Net Income		**1,710**	—

(*) The attached notes from No. ( ) to No. ( ) form an integral part of the financial statements.

(Company Name)
Cash Flow Statement
for the years ended ***(year) and ***(Last year)

	xxx (year) Monetary Unit	xxx (last year) Monetary Unit
Cash flow from operation		
Net income	1,710	—
Policyholders' surplus of revenue	9,900	—
Depreciation of fixed assets	500	—
Development costs	200	—
Net income before changes in operating capital	12,310	
Increase in fixed assets	(5,000)	—
Increase in development costs	(1,000)	—
Increase in contribution receivable	(6,000)	—
Increase in other payable	500	—
Increase in outstanding claims	4,500	—
Increase in unearned contribution	21,600	—
Increase in Zakah payable	1,350	—
Increase in taxes payable	1,140	—
Net cash from operations	**29,400**	—
Cash flow from Investment		
Increase in investment	65,980	—
Increase (or decrease) in cash and cash equivalent	(36,280)	—
Cash and cash equivalent at beginning of period	50,000	—
Cash and cash equivalent at end of period	13,720	—

(*) The attached notes from No. ( ) to No. ( ) form an integral part of the financial statements.

(Company Name)
Statement of Changes in Owners' Equity
for the years ended on ***(year) and ***(last year)

Description	Paid-up Capital (Note 14)	Reserves (Note 15)		Retained Earnings	Total
		Legal	General		
	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit
Balance as at beginning of xxx (last year)					
Issue of ( ) shares					
Net Income					
Distributed profits					
Transfer to reserves					
Balance as at beginning of current year	50,000				50,000
Net Income				1,710	1,710
Distributed profits				(840)	(840)
Transfer to reserves		(420)	-	(420)	-
Balance as at end of xxx (current year)	**50,000**	**420**	-	**450**	**50,870**

(*) The attached notes from No. ( ) to No. ( ) form an integral part of the financial statements.

(Name of Company)
Notes

1. Incorporation and Activities

The (name of the company) was established as a (joint stock public or closed) company in (company's country of incorporation) on (date of incorporation) in pursuance of the (State reference.........) of (date of the reference...........). (Reference...........) authorized the company to carry out all insurance activities, (property, liability and persons) in conformity with the precepts of Shari'a. The company may, in particular, carry out the following business activities:

a) Conducting all direct insurance activities as well as whatever is customary considered as a line of insurance.
b) Investing its funds in accordance with Shari'a in whatever channels suitable to Islamic insurance business.
c) Conducting transactions, including contracts, and performing all necessary legal acts that are important and necessary to achieve its objectives.
d) Practicing insurance consultancy.

The company carries out its business activities through its Head Office in (name of city) and its branches totaling (number of branches) in (name of the domicile country) and (number of branches in other countries, if any) and the following affiliated companies:

Company's Name	Country of Incorporation	Equity Percentage	Nature of Business
.... Company	XXX	60%	Marine Insurance

2. Major Accounting Policies

a) General

The company uses the historical cost concept and accrual basis in recording its assets, liabilities, revenues and expenses. The accounting records are generally maintained in a way that guaranties the separation of policyholders' accounts and the accounts of owners' equity.

b) Recognition of revenues

The gross contributions issued by the different insurance departments for the insurance policies issued during the financial period are recognized (.....*)

The profits and losses which result from Murabaha transaction (including long-term, local and international Murabaha) are recognized (...... *).

Profits and losses from Salam contracts are recognized (...... *).

Profits and losses from Istisna'a contracts are recognized (.......*).

Revenues from the lease of buildings, real estate and other property are recognized (...*)

The company's share in the dividends of companies in which the company has invested its funds including the affiliated companies whose financial statements have not been consolidated with those of the company is recognized (...... *).

Profits and losses resulting from Mudaraba contracts are recognized (......*).

Profits and losses resulting from Musharaka contracts are recognized (.....*).

Profits and losses resulting from participation are recognized (......*).

Profits and losses resulting from investment securities are recognized (.....*).

c) Receivables and investments

Receivables are shown in the statements of financial position net of any provision for doubtful receivables and the deferred gains. Short-term investments are shown in the statement of financial position less provision for the decline in investment value. Long-term investments are shown in the statement of financial position less provision for permanent decline in its value.

d) Transactions and balances in foreign currencies

Transactions in foreign currencies are recognized (in local currency) at the prevailing exchange rate at the date of the transaction. Assets

(*) State the accounting policy adopted by the company.

and liabilities in foreign currency are converted at the date of the statement of financial position to (the local currency) at the prevailing exchange rate at the date of statement of financial position. All gains (or losses) resulting from conversion of foreign currencies relating to policyholders are recognized as profits or losses in the statement of policyholders' surplus (or deficit). All gains and losses resulting from conversion of foreign currencies relating to owners' equity are recognized as profits or losses in the income statement.

e) **Unearned contributions**

At the end of the financial period a proportion of net retained contribution is provided to cover the portion of the risks which were not expired at the date of the statement of financial position on the basis of .....% of the net retained contributions of motor, fire, engineering, general accident and marine hull and ....% of net retained contribution in case of …marine cargo.

f) **Outstanding claims**

At the date of the statement of the financial position the outstanding claims are determined on the basis of (. . . .).

g) **Depreciation**

Fixed assets held by the company for its use are depreciated on (specify method) and over the following estimated useful lives:

Building	Years	(specify estimated useful lives)
Furniture	Years	
Stationary	Years	
Vehicles	Years	
Computers	Years	
—		
—		
—		

Buildings, machinery and equipment owned by the company for leasing purposes are also depreciated on (specify method) over their estimated useful lives (state estimated useful lives).

h) **Employees end of service benefits**

The company provides for employees end of services benefits on the basis of .... which have been approved by .... in accordance with ....

i) **Development costs**

(The method of how development costs are treated should be disclosed).

j) **Cash and cash equivalent**

The elements of cash and cash equivalent are determined on the basis of the balance in cash and with banks both in local and foreign currencies.

3. Changes in Accounting Policies

The accounting policy regarding (state the accounting policy which was changed if any) has been changed. As a result, (state the impact on the elements of the financial statements which were changed).

4. Supervision of the Regulatory Agency

The company's business activities are subject to ....…... (state the regulatory laws for supervision to which the company is subjected).

5. Shari'a Supervisory Board

The company's business activities are subject to the supervision of a Shari'a board consisting of (number of the Shari'a supervisory board members) appointed by the general assembly for a period of (specify period). The Shari'a supervisory board has the power.... (state the powers and responsibilities of the Shari'a supervisory board).

6. Zakah And Tax Treatment

The company is subject to the Zakah and tax treatment prescribed by (state the rules and regulations that govern the Zakah and tax treatment).

7. Zakah Base

The Zakah base and Zakah due from the company as a legal entity for the years ended xxx xxx consists of the following:

	xxx (year) Monetary Unit	**xxx (last year) Monetary Unit**
	—	—
	—	—
	—	—
	—	—
	—	—
	—	—

8. Cash And Cash Equivalent

	xxx (last year) Monetary Unit	**xxx (last year) Monetary Unit**
Details should be stated according to materiality of items	—	—
	—	—
	—	—

9. Investment

	xxx (year) Monetary Unit
Policyholders' investment	xxx
Owners' equity investment	xxx
—	xxx
	xxx
—	
Total	

10. Net Fixed Assets

	xxx (Years			xxx (years)		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit	Monetary Unit
Details should be stated According to materiality of items	—	(—)	—		(—)	—
	—	(—)	—	—	(—)	—
	—	(—)	—	—	(—)	—
	—	(—)	—	—	(—)	—
	—	(—)	—	—	(—)	—
	—	(—)	—	—	(—)	—
Total						

11. Development Costs

	xxx (year)	xxx (last year)
	Monetary Unit	Monetary Unit
Balance at beginning of period	—	—
Less amortised during the year	—	—
Balance at end of period	—	—

12. Outstanding Claims

	Monetary Unit	Monetary Unit
Motor vehicles	—	—
Marine & aviation	—	—
General accident, fire and engineering	—	—
Total	—	—

13. Unearned Contributions

Motor vehicles	—	—
Marine & aviation	—	—
General accident, fire and engineering	—	—
Total	—	—

14. Authorized and Paid-up Capital

	xxx (year) Monetary Unit	xxx (last year) Monetary Unit
Authorized and paid up capital 50,000 ordinary shares. Each share valued 1 (monetary unit) issued and fully paid-up	50,000	50,000
Total	50,000	50,000

15. Legal Reserves

In accordance with (state the legal reference), ...% of the net income every year must be transferred to (name the reserve) until its balance reaches the percentage of the paid-up capital as prescribed by (state the legal reference determine what is to be done with the reserve). As for other kinds of reserves (state other reserves and their regulations).

16. Comparative Figures

Part of the comparative figures have been reclassified in order to be comparable with the presentation of the financial statements of the current period.

17. Disclosure of Significant Subsequent Events

After the end of the year (mention any significant event which took place after the end of the year) and resulted in (state the financial effect on the company as a result of the event).

18. Earnings and Expenditures Prohibited by Shari'a (if any)

Earnings realized during the year from transactions which are not permitted by Shari'a amounted to (state transactions and their amounts).

The balance at the beginning of the year was (state amount) and the amount spent during the year totaled (state how the amounts were). The remaining balance at the end of year is (state amount).

19. The company manages the insurance operation for the favour of the policyholders (participants) on the basis of .... and charges a percentage of .... from .... also the company manages the policyholders funds on the basis of .... and charges a percentage of ..... from ....