

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C)
DUBAI - UNITED ARAB EMIRATES

AUDITOR'S REPORT AND FINANCIAL STATEMENTS
DECEMBER 31, 2010

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)
Dubai - United Arab Emirates

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for the year ended December 31, 2010

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Directors' Report

I have the pleasure of inviting you to this Ordinary General Assembly of Dubai National Insurance & Reinsurance PSC, on behalf of the Board of Directors, and to present its nineteenth annual report and accounts for the financial year 2010.

2010 was a year of consolidation for your company. Driven by the market our focus has changed to rely more on stable, renewable clients and a cautious approach to new business without a track record.

Your company was faced with the need for fundamental change to the business model in 2010. Margins in insurance have been under pressure in the UAE, clients have benefitted, but companies have had to adjust. A number of initiatives have strengthened our market position with on-line insurance now being offered to brokers and clients.

Companies that follow the market trends closely will find opportunities and niches even in a declining market. Assets will always need to be protected. Your company has developed products, which respond to the economic reality, e.g. stand still covers for the construction industry. The consumer needs to prioritize economic stability, and your company has responded to that need by launching products, which protects the clients' for their liability where a gap between the asset and a loan value exists.

The gross written premium during the year 2010 is AED 131.047 Million and the underwriting income for the year 2010 is AED 17.003 Million.

The net profit for the year 2010 before appropriation amounted to AED 21.751 Million. The Board is pleased to recommend to the shareholders the following appropriations

Transfer to Legal Reserve	AED 2.175 Million
Transfer to Obligatory Reserve	AED 2.175 Million
Cash Dividend @ 20%	AED 22.000 Million



The following recommendations are placed for your approval & ratification:

- 1) To approve the Board of Directors' and Auditors' Report for 2010.
- 2) To ratify the company's financial statements for the year ended 31st December 2010
- 3) To approve the Board of Directors' proposal relating to appropriation of profit and retained earnings.
- 4) To release the Chairman, the Members of the Board and the auditors from any liabilities related to the performance of their duties during the year under review.
- 5) To appoint statutory auditors for the year 2011.

KHALAF AHMED AL HABTOOR
Chairman of the Board of Directors

**Independent Auditor's Report
To the Shareholders of
DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)
Dubai, United Arab Emirates**

Public Accountants
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Warba Centre
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Report on the Financial Statements

We have audited the accompanying financial statements of DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.) (the "Company"), which comprise the statement of financial position as at December 31, 2010, and the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

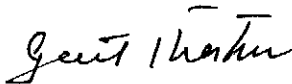
In our opinion, these financial statements fairly present in all material respects the financial position of the Company as at December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to note 27 to the financial statements which describe legal claims being made by and against the Company. Our opinion is not qualified in respect of these matters.

Report on Other Legal and Regulatory Requirements

As required by the UAE Federal Law No. 6 of 2007 regarding Establishment of the Insurance Authority and Organization of its Operations & Executive Regulations of 2010 and UAE Federal Law No. 8 of 1984 (as amended), we also confirm that we have obtained all the information and explanations necessary for our audit, proper books of account have been kept by the Company and the contents of the Directors' report which relate to the financial statements are in agreement with the Company's books of account. To the best of our knowledge and belief, no violations of above mentioned laws and regulations or of the Articles of Association of the Company have occurred during the year which would have had a material effect on the business of the Company or on its financial position.



GRANT THORNTON

Farouk Mohamed

Insurance Registration No. 54

Dubai, United Arab Emirates

February 24, 2011

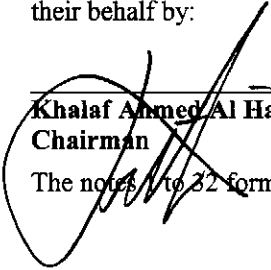
DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

Dubai - United Arab Emirates

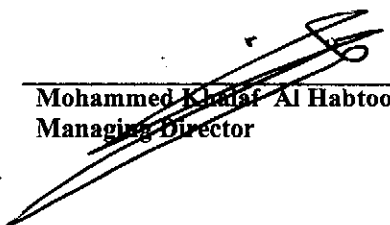
Statement of financial position as at December 31, 2010

	Notes	2010 AED '000	2009 AED '000
ASSETS			
Non-current			
Statutory deposits	3	10,268	13,194
Property and equipment	4	2,281	2,481
Investment property	5	90,688	92,535
		<u>103,237</u>	<u>108,210</u>
Current			
Financial assets	6	101,295	109,683
Insurance receivables	7	46,445	50,327
Other receivables	8	1,097	1,328
Due from related parties	9	14,128	13,646
Re-insurers' share of outstanding claims	10	310,767	308,088
Cash and cash equivalents	11	42,205	55,979
		<u>515,937</u>	<u>539,051</u>
TOTAL ASSETS		<u>619,174</u>	<u>647,261</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	12	110,000	100,000
Legal reserve	13	52,175	50,000
Obligatory reserve	14	27,175	25,000
General reserve	15	220,000	220,000
Retained earnings		23,643	46,835
Fair value reserve on available for sale investments		(270,304)	(261,916)
Total equity		<u>162,689</u>	<u>179,919</u>
Liabilities			
Non-current			
Employees' end of service benefits	16	1,571	1,288
Current			
Outstanding claims provision	10	329,322	338,665
Technical provisions	17	35,443	45,774
Insurance payables	18	62,991	65,295
Other payables	19	15,594	16,232
Due to related parties	9	11,564	88
		<u>454,914</u>	<u>466,054</u>
Total liabilities		<u>456,485</u>	<u>467,342</u>
TOTAL EQUITY AND LIABILITIES		<u>619,174</u>	<u>647,261</u>

These financial statements were approved by the Board of Directors on ... February 24, 2011 and signed on their behalf by:


Khalaf Ahmed Al Habtoor
Chairman

The notes 1 to 32 form an integral part of these financial statements.


Mohammed Khalaf Al Habtoor
Managing Director



DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

Dubai - United Arab Emirates

**Income statement
for the year ended December 31, 2010**

	Notes	2010 AED '000	2009 AED '000
Gross premium		131,047	191,584
Reinsurance share of premium		(91,759)	(130,439)
Net premium		39,288	61,145
Net transfer from/(to) unearned premium reserve		8,324	(801)
Net premium earned		47,612	60,344
Commission earned		10,985	19,907
Commission paid		(14,087)	(19,390)
Other		660	1,392
Gross underwriting income		45,170	62,253
 Gross claims paid		 112,109	 69,193
Reinsurance share		(69,914)	(46,488)
Net claims paid		42,195	22,705
Provision for outstanding claims and technical provisions		(11,349)	266,976
Reinsurance share of outstanding claims		(2,679)	(261,642)
Net claims incurred		28,167	28,039
 Net underwriting income		 17,003	 34,214
Income from investments - net	20	7,367	7,862
Income from investment property	21	13,484	16,725
Other income/ (loss)	22	228	(841)
Gross income		38,082	57,960
General and administrative expenses	23	(16,331)	(12,645)
Net profit for the year		<u>21,751</u>	<u>45,315</u>
Earnings per share:			
 Basic and diluted	 24	 <u>0.20</u>	 <u>0.41</u>

The notes 1 to 32 form an integral part of these financial statements.

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

Dubai - United Arab Emirates

**Statement of comprehensive income
for the year ended December 31, 2010**

	2010	2009
	AED '000	AED '000
Net profit for the year	21,751	45,315
Other comprehensive income		
Net unrealized (loss)/ profit on investments	(8,388)	22,422
Adjustment arising on translation of operating assets and liabilities of overseas branch	2	(3)
Total comprehensive income for the year	<u>13,365</u>	<u>67,734</u>

The notes 1 to 32 form an integral part of these financial statements.

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C)
Dubai - United Arab Emirates

**Statement of changes in shareholders' equity
for the year ended December 31, 2010**

	Share capital AED'000	Legal reserve AED'000	Obligatory reserve AED'000	General reserve AED'000	Fair value reserve on investments available for sale AED'000	Retained earnings AED'000	Total AED'000
Balance as at January 1, 2009	100,000	50,000	25,000	220,000	(284,338)	43,539	154,201
Dividend paid	-	-	-	-	-	(40,000)	(40,000)
Directors' remuneration	-	-	-	-	-	(2,016)	(2,016)
Transactions with owners	-	-	-	-	-	(42,016)	(42,016)
Profit for the year	-	-	-	-	-	45,315	45,315
Other comprehensive income :							
Net unrealized profit on investments	-	-	-	-	22,422	-	22,422
Adjustment arising on translation of operating assets and liabilities of overseas branch	-	-	-	-	-	(3)	(3)
Balance as at December 31, 2009	100,000	50,000	25,000	220,000	(261,916)	46,835	179,919
Dividend paid	-	-	-	-	-	(30,000)	(30,000)
Bonus share issue	10,000	-	-	-	-	(10,000)	-
Directors' remuneration	-	-	-	-	-	(595)	(595)
Transfer to Legal Reserve	-	2,175	-	-	-	(2,175)	-
Transfer to Obligatory Reserve	-	-	2,175	-	-	(2,175)	-
Transactions with owners	10,000	2,175	2,175	-	-	(44,945)	(30,595)
Profit for the year	-	-	-	-	-	21,751	21,751
Other comprehensive income :							
Net unrealized loss on investments	-	-	-	-	(8,388)	-	(8,388)
Adjustment arising on translation of operating assets and liabilities of overseas branch	-	-	-	-	-	2	2
Balance as at December 31, 2010	110,000	52,175	27,175	220,000	(270,304)	23,643	162,689

The notes 1 to 32 form an integral part of these financial statements.

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

Dubai - United Arab Emirates

**Statement of cash flows
for the year ended December 31, 2010**

	Notes	2010 AED '000	2009 AED '000
Operating activities			
Net profit for the year		21,751	45,315
<i>Adjustments for:</i>			
Depreciation on property and equipment	4	851	629
Depreciation on investment property	5	1,847	1,847
(Profit)/loss on disposal of property and equipment	22	(65)	841
Net transfer to employees' end-of-service benefits		283	34
Net transfer to technical provisions		(10,331)	1,392
Provision for outstanding claims		(9,343)	266,385
Reinsurer share of outstanding claims		(2,679)	(261,642)
Dividend and interest on long-term deposits	20	(7,367)	(7,862)
Directors remuneration	19	(595)	(2,016)
Income from investment property - net	21	(15,331)	(18,572)
Operating (loss)/profit before changes in working capital		(20,979)	26,351
Changes in working capital			
Insurance receivables		3,882	(16,362)
Other receivables		231	734
Insurance payables		(2,304)	11,905
Other payables		(638)	(1,545)
Due from/(to) related parties-net		10,994	7,720
Cash flow from operating activities		(8,814)	28,803
Investing activities			
Net investments		-	(69)
Purchase of property and equipment	4	(702)	(1,968)
Proceeds from disposals of property and equipment		116	51
Decrease in statutory deposits		2,926	4,781
Dividend and interest on long-term deposits		7,367	7,862
Income from investment property - net	21	15,331	18,572
Cash flow from investing activities		25,038	29,229
Financing activities			
Dividends paid		(30,000)	(40,000)
Cash flow from financing activities		(30,000)	(40,000)
Net (decrease) / increase in cash and cash equivalents		(13,776)	18,032
Cash and cash equivalents at January 1		55,979	37,947
Exchange differences on cash and cash equivalents		2	-
Cash and cash equivalents at December 31	11	42,205	55,979

The notes 1 to 32 form an integral part of these financial statements.

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

Dubai – United Arab Emirates

Notes to the financial statements for the year ended December 31, 2010

1 Legal status and activities

Dubai National Insurance & Reinsurance (P.S.C.) (the “Company”) is a public shareholding company incorporated in Dubai on 6 January 1992 with an overseas branch in Beirut, Lebanon.

The Company is engaged in insurance and reinsurance of all classes of business in accordance with the provisions of the UAE Federal Law No. 6 of 2007 relating to insurance companies and insurance agents.

The registered address of the Company is at Floor 7 & 9, Dubai National Insurance Building, Port Saeed, P.O Box 1806, Dubai, U A E.

The total number of staff employed by the Company as at December 31, 2010 was 95 (2009: 88).

The overseas branch in Beirut is in the process of being wound down. Accordingly, the related license as required by local regulations has been terminated. The related guarantee is blocked with the Ministry of Economic & Commerce, Insurance Affairs Department in Lebanon until it meets all its obligations, as published in the official gazette dated April 2004.

2 Significant Accounting Policies

a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) promulgated by International Accounting Standards Board (IASB) and interpretations thereof issued by the International Financial Reporting Interpretation Committee and applicable requirements of UAE Federal Law No. 8 of 1984 (as amended) relating to commercial companies, and of UAE Federal Law No. 6 of 2007 (as amended), concerning insurance companies and agents.

The financial statements are prepared in UAE Dirhams (“AED”), rounded off to the nearest thousand.

b) Adoption of new and revised standards and interpretations

2.1 Standards, interpretations and amendments to existing standards that are effective in 2010

The following revisions and amendments to existing standards were issued by the IASB, which are effective for the accounting period on or after January 1, 2010:

Relevant to the Company’s financial statements

Annual Improvements 2009	IFRS 8 'Operating Segments', IAS 7 'Statement of Cash Flows', IAS 36 'Impairment of Assets', IAS 1 'Presentation of Financial Statements', IAS 17 'Leases' and IAS 39 'Financial Instruments: Recognition and Measurement' (effective for accounting period on or after January 1, 2010).
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DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

2 Significant accounting policies (continued)

b) Adoption of new and revised standards and interpretations (continued)

2.1 Standards, interpretations and amendments to existing standards that are effective in 2010 (continued)

Not relevant to the Company's financial statements

IAS 39	Financial Instruments: Recognition and Measurement - Eligible Hedged Items (effective for accounting period on or after July 1, 2009).
IFRS 2	Share-based Payment: Group Cash-settled Share-based Payment Transactions (effective for accounting period on or after January 1, 2010).
IFRS 3 and IAS 27	Business Combinations (Revised) and Consolidated and Separate Financial Statements (Amended) including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39 (effective for accounting period on or after July 1, 2009).
IFRIC 17	Distributions of Non-cash Assets to Owners effective (effective for accounting period on or after July 1, 2009).
IFRIC 18	Transfers of Assets from Customers (effective for accounting period on or after July 1, 2009).
Annual Improvements 2008	IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' (effective for accounting period on or after July 1, 2009).
Annual Improvements 2009	IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', IFRS 2 'Share-based Payment', IAS 38 'Intangible Assets', IFRIC 9 'Reassessment of Embedded Derivatives' and IFRIC 16 'Hedge of a Net Investment in a Foreign Operation' (effective for accounting period on or after July 1, 2009).

2.2 Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorisation of these financial statements, certain new standards, interpretations and amendments to existing standards have been published but are not yet effective, and have not been adopted early by the Company.

Management anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are not yet effective have been provided below and are not expected to have a material impact on the Company's financial statements, except stated specifically.

2 Significant accounting policies (continued)

b) Adoption of new and revised standards and interpretations (continued)

2.2 Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Company (continued)

- **IAS 24 Related Party Disclosures (effective for accounting period on or after January 1, 2011)**

The amendment clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

- **IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for accounting period on or after February 1, 2010)**

The definition of a financial liability is amended in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

- **IFRS 9 Financial Instruments (effective for accounting period on or after January 1, 2013)**

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. The replacement standard (IFRS 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and de-recognition of financial assets and liabilities have been issued. These chapters are effective for the accounting period on or after January 1, 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed. Management have yet to assess the impact that this amendment is likely to have on the financial statements of the Company. However, they do not expect to implement the amendments until all chapters of IFRS 9 have been published and they can comprehensively assess the impact of all changes.

- **IFRIC 14 Prepayments of a minimum funding requirement (effective for accounting period on or after January 1, 2011)**

The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for accounting period on or after July 1, 2010)

The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss.

- **IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for accounting period on or after July 1, 2010)**

The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss.

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

2 Significant accounting policies (continued)

b) Adoption of new and revised standards and interpretations (continued)

2.2 Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Company (continued)

• Annual Improvements 2010 (effective for accounting period on or after July 1, 2010)

a) IAS 27 Consolidated and Separate Financial Statements:

The amendment clarifies that the consequential amendments from IAS 27 made to IAS 21, 'The effect of changes in foreign exchange rates', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', apply prospectively for the accounting period on or after July 1, 2009, or earlier when IAS 27 is applied earlier.

b) IFRS 3 Business Combinations:

- It clarifies that the amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 32, 'Financial instruments: Presentation', and IAS 39, 'Financial instruments: Recognition and measurement', that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).
- The choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by IFRS.
- The application guidance in IFRS 3 applies to all share-based payment transactions that are part of a business combination, including unreplaced and voluntarily replaced share-based payment awards.

• Annual Improvements 2010 (effective for accounting period on or after January 1, 2011)

a) IAS 1 Presentation of Financial Statements:

The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements

b) IAS 34 Interim Financial Reporting:

The amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around:

- The circumstances likely to affect fair values of financial instruments and their classification;
- Transfers of financial instruments between different levels of the fair value hierarchy;
- Changes in classification of financial assets; and
- Changes in contingent liabilities and assets.

c) IFRS 7 Financial Instruments: Disclosures:

The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

2 Significant accounting policies (continued)

b) Adoption of new and revised standards and interpretations (continued)

2.2 Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Company (continued)

- **Annual Improvements 2010 (effective for accounting period on or after January 1, 2011) (continued)**

d) IFRIC 13 Customer Loyalty Programmes:

The meaning of 'fair value' is clarified in the context of measuring award credits under customer loyalty programmes.

The Company's preliminary assessments indicate that the 2010 Improvements will not have a material impact on the Company's financial statements.

The significant accounting policies followed by the Company are as follows and are consistent with those used in the previous year.

c) Accounting convention

The financial statements are prepared under the historical cost convention except for quoted investments available-for-sale, which are stated at their fair value and insurance liabilities and assets which are stated at their estimated value (note 2(g), 2(h) and 2(j)).

d) Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and any impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives of the property and equipment.

The rates of depreciation used are based on the following estimated useful lives of the assets.

	Years
Furniture and fixtures	4-11
Motor vehicles	3
Computer equipment	25
Buildings	40

e) Investment property

Investment property is measured at cost and are carried net of accumulated depreciation. Depreciation is determined on a straight-line basis over the estimated useful life of the property which is considered to be 40 years.

No depreciation is charged on freehold land.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

Fair value of investment properties are determined by open market values based on valuations performed by independent surveyor.

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

2 Significant accounting policies (continued)

f) Revenue recognition

Gross premium

Gross premium and policy fees are recognised as income when insurance policies are issued to the insured, consequent to the acceptance of the risk.

Commission on reinsurance

Commission is recognised at the time the policies are written excluding profit commission which is recognised at the time of settlement.

Interest income

Interest income is recognised on accrual basis taking into account effective interest rates on the instrument, on a time proportionate basis.

Investment income

Investment income is recognized at the time the securities are liquidated and the proceeds are realised or realisable.

Fair value gains and losses are recognized in accordance with specific policies for different classes of financial instruments.

Rental income

Rental income from investment property is recognised on a straight line basis over the term of the lease.

Dividend income

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

g) Claims

Claims incurred comprise actual claims and other related costs paid and incurred in the year and movement in outstanding claims. Claim handling costs are recognised at the time of registering the claims.

On account of uncertainties involved in non-motor claim recoveries, salvage and subrogation rights are recognised only at the time of actual recovery. For motor claim recoveries, salvage is accounted at the time of registering the claims.

Provision for outstanding claims represents the estimated settlement values of all claims notified, but not settled at the statement of financial position date on the basis of individual case estimates.

The reinsurers' portion towards the above outstanding claims is classified as reinsurance's share of outstanding claims and it is showed as current assets in the financial statements.

h) Provision for IBNR

In addition to outstanding claims a provision for Incurred But Not Reported claims ("IBNR") is made at the statement of financial position date based on management estimates of net claims. The method used by the Company to calculate the provisions takes into account past estimates and details of reinsurance programmes to assess the expected size of reinsurance recoveries.

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

2 Significant accounting policies (continued)

i) Liability adequacy test

All recognised insurance liabilities including provision for outstanding claims are subject to liability adequacy test at each reporting date. This involves comparison of current estimates of all contractual cash flows attached to these liabilities with their carrying amounts. Estimates of contractual cash flows include expected claim handling costs as also recoveries from third parties. Any deficiency in carrying amounts is charged to the income statement by establishing a provision for losses arising from liability adequacy test.

j) Unearned Premium Reserve

The Unearned Premium Reserve (UPR) represents that portion of premiums earned net of reinsurance, which relate to the period of insurance subsequent to the statement of financial position date and computed on percentages equal to minimum percentage stipulated in the UAE Insurance Companies Law.

For periods up to one year, the provision is calculated at a minimum of 40% of the annual premiums earned for all categories, except for marine, which is calculated at a minimum of 25%. For periods of more than one year, the provision is calculated on a proportionate basis.

k) Reinsurance premium

Ceded reinsurance premiums are accounted for in the same accounting periods as the premiums for the related direct insurance, and are calculated in accordance with reinsurance arrangements in place.

l) Reinsurance assets

Amounts recoverable under reinsurance contracts are assessed for impairment at each statement of financial position date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

m) Financial assets

The Company classifies its investments into financial assets as available-for-sale investments. The classification depends on the nature of these investments.

Recognition

The company recognises financial assets on the date it commits to purchase the assets. From this date any gains and losses arising from changes in fair value of the assets are recognised.

Available-for-sale investments

Investments in securities are classified as available for sale. They are initially recognised at fair value, which is equivalent to consideration given and acquisition charges associated with the investment.

After initial recognition, quoted securities are measured at fair value, with unrealised gains or losses reported through the fair value reserve, and shown as part of shareholders' equity until the investment is derecognised.

2 Significant accounting policies (continued)

m) Financial assets (continued)

Available-for-sale investments (continued)

On de-recognition, the cumulative gain or loss previously reported in equity is included in the income statement for that period.

Fair values cannot reliably be measured for unquoted securities. Such investments are measured at cost less provision for impairment, if any. At the time of de-recognition, the provision, if any, relating to the securities is recognised as income.

Fair value measurement

For investments traded in organised financial markets, fair value is determined by reference to stock exchange quoted prices at the close of business on the statement of financial position date.

Gains and losses on subsequent measurement

Gain and loss arises from change in fair value of available for sale investments are recognised in other comprehensive income and reported within the fair value reserve for available for sale investments within equity, except for impairment losses and foreign exchange differences on monetary assets, which are recognised in income statement. When the asset is disposed of or is determined to be impaired the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to income statement and presented as a reclassification adjustment within other comprehensive income.

De-recognition

A financial asset is derecognised when the company loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expired or surrendered. A financial liability is derecognised when it is extinguished. The company uses the specific identification method to determine the gains or losses on de-recognition.

Impairment and uncollectability of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the income statement. Impairment is determined as follows:

- a) For assets other than available for sale investments carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the income statement;
- b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

2 Significant accounting policies (continued)

n) Receivables and payables related to insurance contracts

Receivables and payables are recognized when due. These include amounts due to and from insurance brokers, re-insurers and insurance contract holders.

If there is objective evidence that the insurance receivables are impaired, the Company reduces the carrying amount of the insurance receivables accordingly and realizes the impairment loss in the income statement.

o) End of service benefits

In compliance with UAE Labour Law, the Company has gratuity benefits covering all of its non-national employees who have been with the Company for more than one year. The provision for staff terminal benefits is based on the liability that would arise if the employment of all the employees was terminated at the statement of financial position date.

Under Federal Labour Law No. 7 of 1999 for pension and social security employers are required to contribute 12.5% of the 'contribution calculation salary' (basic salary plus allowances) of those employees who are UAE nationals. These employees are also required to contribute 5% of the 'contribution calculation salary' to the scheme. The Company's contribution is recognised as an expense in the income statement as incurred. The employees and employers' contribution, to the extent remaining unpaid at the statement of financial position date, are shown under provisions.

p) Foreign currency transactions

Transactions in foreign currencies are translated to UAE Dirhams ('AED') at the foreign exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to AED at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

q) Impairment

The carrying amounts of the Company's assets are reviewed at each statement of financial position date or whenever there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The impairment losses are recognised in the income statement.

r) Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease.

2 Significant accounting policies (continued)

s) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits, current accounts and fixed deposits balances with original maturities of less than 3 months and free from lien. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of cash flows.

t) Critical accounting estimates and judgements in applying accounting policy

The Company makes estimates and assumption that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Outstanding claims and technical provisions

The estimation of the ultimate liability (both technical and outstanding claims) arising from claims made under insurance contracts is the Company's most critical accounting estimate. These estimates are continually reviewed and updated, and adjustments resulting from this review are reflected in income statement. The process relies upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis for predicting future events.

Impairment of financial assets

The Company follows the guidance of IAS 39 'Financial Instruments: Recognition and Measurement' to determine when an available for sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If all of the declines in fair value below cost were considered significant or prolonged, the Company would incur impairment loss in the financial statements, being the transfer of the accumulated fair value reserve on available for sale financial assets recognised in equity on the impaired available for sale financial assets to the income statement.

Classification of investment property

The Company makes judgement to determine whether a property qualifies as investment property and follows the guidance of IAS 40 'Investment Property' to consider whether any owner occupied property is not significant and is classified accordingly as investment property.

Provision for doubtful debts

Management reviews the provision for doubtful debts at each reporting date by assessing the recoverability of insurance and reinsurance receivables.

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

2 Significant accounting policies (continued)

u) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

3 Statutory deposits

	2010	2009
	AED '000	AED '000
i) Deposit with a local bank in Dubai, UAE held under a lien in favour of the Ministry of Economy and Planning in accordance with Article 42 of Federal Law No. (6) of 2007 (as amended) relating to insurance companies and brokers. The deposit cannot be withdrawn without prior approval from the Ministry of Economy and Planning.	10,000	10,000
(ii) Restricted fixed deposit in favour of the Ministry of Economy & Commerce, Government of Lebanon, as per law no. 31/91 of Insurance companies held under lien by bank against guarantee issued deposit in LL 110 million (2009: LL 1,310 million)	268	3,194
	<u>10,268</u>	<u>13,194</u>

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

4 Property and equipment

	Furniture and fixtures AED'000	Motor vehicles AED'000	Computer equipment AED'000	Land and buildings AED'000	Total AED'000
Cost					
At January 1, 2010	1,317	547	2,222	101	4,187
Additions	410	51	241	-	702
Disposals	(63)	(98)	-	-	(161)
At December 31, 2010	1,664	500	2,463	101	4,728
Accumulated Depreciation					
At January 1, 2010	485	440	781	-	1,706
Charge for the year	328	81	442	-	851
Disposals	(12)	(98)	-	-	(110)
At December 31, 2010	801	423	1,223	-	2,447
Net book value	863	77	1,240	101	2,281
At December 31, 2010					
At 31 December 2009	832	107	1,441	101	2,481
Cost					
At January 1, 2009	1,963	547	787	101	3,398
Additions	533	-	1,435	-	1,968
Disposals	(1,179)	-	-	-	(1,179)
At December 31, 2009	1,317	547	2,222	101	4,187
Accumulated Depreciation					
At January 1, 2009	453	301	611	-	1,365
Charge for the year	320	139	170	-	629
Disposals	(288)	-	-	-	(288)
At December 31, 2009	485	440	781	-	1,706
Net book value	832	107	1,441	101	2,481
At December 31, 2009					
At December 31, 2008	1,510	246	176	101	2,033

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

5 Investment property

	2010	2009
	AED '000	AED'000
Cost		
At January 1	105,721	105,721
Accumulated Depreciation		
At January 1	13,186	11,339
Charge for the year (note 21)	1,847	1,847
At December 31	<u>15,033</u>	<u>13,186</u>
Net book value		
At December 31	<u><u>90,688</u></u>	<u><u>92,535</u></u>

On December 31, 2010, Asteco, independent professional valuers estimated the open market value of the investment properties at AED 163 million (2009: AED 187 million) as per their valuation report.

6 Financial assets

	2010	2009
	AED '000	AED'000
Available for sale		
Quoted securities, at cost	361,057	361,057
Cumulative changes in fair value transferred to equity	(270,304)	(261,916)
	<u>90,753</u>	<u>99,141</u>
Unquoted securities *	18,437	18,437
Less: provision for diminution in value	(7,895)	(7,895)
	<u><u>101,295</u></u>	<u><u>109,683</u></u>

* The title of the unquoted securities is held by related parties for the beneficial interest of the Company.

Movement in cost of quoted securities and funds:

Opening balance	361,057	358,991
Purchased during the year	-	2,066
Closing balance	<u><u>361,057</u></u>	<u><u>361,057</u></u>

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)**7 Insurance receivables**

	2010	2009
	AED '000	AED'000
Due from policy holders	11,349	25,168
Due from insurance companies	6,990	3,757
Due from reinsurance companies	5,243	1,031
Due from insurance brokers	25,896	22,729
	<u>49,478</u>	<u>52,685</u>
Provision for doubtful debts	(3,033)	(2,358)
	<u>46,445</u>	<u>50,327</u>

The average credit period is 90 days. Insurance receivables outstanding over one year are fully provided and outstanding balances less than one year are provided based on management's estimates.

8 Other receivables

	2010	2009
	AED '000	AED'000
Prepayments	465	644
Accrued interest	373	552
Other receivables	259	132
	<u>1,097</u>	<u>1,328</u>

9 Related party balances

Details of related parties' balances are as follows:

Amounts due from related parties**Due from investor:**

Al Habtoor Motors Co L.L.C	-	2,868
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Others:

Diamond Lease L.L.C	8,864	8,286
Al Habtoor Engineering Enterprises Co L.L.C	4,128	1,157
Other Habtoor Group companies	1,136	1,335
	<u>14,128</u>	<u>13,646</u>

Amounts due to related parties**Due to investor:**

Al Habtoor Motors Co L.L.C	11,500	-
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Other:

Al Habtoor Group of companies	64	88
	<u>11,564</u>	<u>88</u>

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

9 Related party balances (continued)

Related party transactions

The Company, in the normal course of business, collects premiums from and settles claims of other businesses that fall within the definition of related parties as contained in IFRS. Management believes that the terms of such transactions are not significantly different from those that could have been obtained from third parties.

The following are the details of significant transactions with related parties:

	2010 AED '000	2009 AED'000
Premiums written	45,427	50,473
Claims paid	23,328	8,125
Commission paid	206	1,291
Agency repairs	1,840	613
Purchases of vehicles	100	-
Key management remuneration	2,266	1,313
10 Outstanding claims		
Opening balance	338,665	72,280
Provision for the year	102,766	335,577
Claims paid during the year	(112,109)	(69,192)
Balance at 31 December **	329,322	338,665

** This includes AED 217 million provided towards Al Habtoor Motors Co L.L.C, a related party (note 27).

Assumptions and sensitivities

The process used to determine assumptions for assessing claims provisions is reviewed and updated to be consistent with observable market practices and other reliable information to result in most likely expected outcome.

However, considering the nature of business it cannot be predicted with certainty the likely outcome and the actual cost of the claim. But each claim is assessed on a case to case basis depending upon information available and past trends.

An analysis of sensitivity is carried out for various claims which are an indication for establishing the adequacy of the estimation process. The management believes that the liability for claims reported in the statement of financial position is adequate.

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

10 Outstanding claims (continued)

Claims development

For all classes of business underwritten by the Company the uncertainty is typically resolved generally within one year except for Motor Insurance where the uncertainty is generally resolved within three years. Claims development over the last five years is analysed below, as required by IFRS 4 'Insurance Contracts':

Underwriting year	2006 & prior AED'000	2007 AED'000	2008 AED'000	2009 AED'000	2010 AED'000	Total AED'000
Estimate of cumulative claims						
At the end of underwriting year	594,297	22,362	36,927	298,773	67,934	
One year later	402,574	30,182	60,714	342,442	-	
Two years later	403,338	41,006	58,084	-	-	
Three years later	401,121	46,316	-	-	-	
Four years later	385,202	-	-	-	-	
Estimate of cumulative claims	385,202	46,316	58,084	342,442	67,934	899,978
Cumulative payments to date	349,435	25,337	43,649	94,240	57,995	570,656
Provision for outstanding claims as on December 31, 2010	35,767	20,979	14,435	248,202	9,939	329,322
IBNR and other reserves as on December 31, 2010	-	-	-	-	22,467	22,467
Gross outstanding claims as on December 31, 2010	35,767	20,979	14,435	248,202	32,406	351,789
Reinsurer's share of outstanding claims as on December 31, 2010	25,973	19,347	11,586	245,328	8,533	310,767
Net outstanding claims as on December 31, 2010	9,794	1,632	2,849	2,874	23,873	41,022
Provision for outstanding claims as on December 31, 2009	49,562	15,955	21,870	251,278	-	338,665
Reinsurer's share of outstanding claims as on December 31, 2009	32,588	12,975	18,358	244,167	-	308,088

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

11 Cash and cash equivalents

	2010 AED '000	2009 AED'000
Cash in hand and at banks	<u>42,205</u>	<u>55,979</u>

(a) Cash at banks includes approximately AED 0.3 million (2009: AED 3.4 million) in converted Lebanese Lira (LL).

(b) Cash and bank includes short term deposits with local banks carrying interest ranging from 3%-4.5% (2009: 3% - 4.5%).

12 Share capital

The authorised and issued share capital comprises 110,000,000 fully paid-up shares of AED 1 each (Previous year 100,000,000 fully paid-up share of AED 1 each):

	2010 No of shares	2010 AED'000	2009 No of shares	2009 AED'000
Balance at December 31	<u>110,000,000</u>	<u>110,000</u>	<u>100,000,000</u>	<u>100,000</u>

13 Legal reserve

In accordance with the Company's Articles of Association and Articles 192 of the UAE Federal Law No. 8 of 1984 (as amended), a minimum of 10% of the Company's annual net profits must be transferred to a non-distributable legal reserve. As per the Company's Articles of Association, such transfers are required until the balance on the legal reserve equals 50% of the Company's paid-up share capital. During the year the Company has transferred AED 2. 175 million, being 10% of the net profits to the Legal Reserve.

14 Obligatory reserve

In accordance with the Company's Articles of Association, at least 10% of the Company's annual net profits (before directors' fees) must be transferred to a non-distributable obligatory reserve. Such transfers are required until the balance on this reserve equals 25% of the Company's paid-up share capital, or until the transfer is suspended by resolution of the shareholders. During the year the Company has transferred AED 2. 175 million, being 10% of the net profits to the Obligatory Reserve.

15 General reserve

This reserve is established by appropriations from net profits, as proposed by the Board of Directors and is subject to approval by the General Assembly.

16 Employees' end of service benefits

	2010 AED '000	2009 AED'000
Balance at January 1	1,288	1,254
Charge for the year	384	450
Payments during the year	(101)	(416)
Balance at December 31	<u>1,571</u>	<u>1,288</u>

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)**17 Technical provisions**

	2010	2009
	AED '000	AED'000
Unearned premium reserve	12,976	21,301
Provision for IBNR and other reserves	22,467	24,473
	<u>35,443</u>	<u>45,774</u>

Movement during the year for:

Unearned premium reserve

Balance at January 1	21,301	20,500
Added during the year	12,976	21,301
Released during the year	(21,301)	(20,500)
Balance at December 31	<u>12,976</u>	<u>21,301</u>

Movement during the year for:

Provision for IBNR and other reserves

Balance at January 1	24,473	23,882
Added during the year	22,467	24,473
Released during the year	(24,473)	(23,882)
Balance at December 31	<u>22,467</u>	<u>24,473</u>

18 Insurance payables

Trade creditors	4,535	4,382
Insurance companies	9,009	2,735
Re-insurance companies	40,134	47,256
Brokers payable	3,105	4,498
Premium reserve withheld	6,208	6,424
	<u>62,991</u>	<u>65,295</u>

19 Other payables

Accrued expenses	1,226	472
Provision for staff benefits	1,569	1,582
Directors' remuneration *	595	2,016
Other payables	12,204	12,162
	<u>15,594</u>	<u>16,232</u>

* Directors' remuneration is an appropriation of net profit for the year in accordance with Article 118 of UAE Commercial Companies Law of 1984 (as amended), by The Ministry of Economy and Planning and also as per the Articles of Association of the Company.

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

20 Income from investments - net

	2010 AED '000	2009 AED'000
Dividend income	5,530	5,045
Interest income – net	1,837	2,817
	<u>7,367</u>	<u>7,862</u>

21 Income from investment property

Gross rental income	18,397	21,963
Maintenance expenses	(3,066)	(3,391)
Depreciation (note 5)	(1,847)	(1,847)
	<u>13,484</u>	<u>16,725</u>

22 Other income/ (loss)

Profit/ (loss) on disposal of property and equipment	65	(841)
Other income	163	-
	<u>228</u>	<u>(841)</u>

23 General and administrative expenses

Personnel costs	11,007	9,100
Other operational expenses	5,324	3,545
	<u>16,331</u>	<u>12,645</u>

24 Earnings per share

Basic and diluted

Net profit for the year AED '000'	21,751	45,315
Weighted average number of shares outstanding (note 12)	110,000,000	110,000,000
Earnings per share (AED)		
Basis and diluted	<u>0.20</u>	<u>0.41</u>

The Company does not have potentially diluted shares and accordingly, diluted earnings per share equals basic earnings per share. Earnings per share for 2009 was adjusted for 10% bonus shares issued in 2010 as approved by the shareholders at the Annual General Meeting held on April 14, 2010.

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

25 Segment reporting

The Company operates two main business segments: General Insurance and Life & Health Insurance.

	AED'000		
	General business	Life & Health	Total
2010			
Gross premiums written	65,235	65,812	131,047
Gross underwriting income	30,734	14,436	45,170
Net claims incurred	17,194	10,973	28,167
Net Underwriting income	13,541	3,462	17,003
2009			
Gross premiums written	126,536	65,048	191,584
Gross underwriting income	43,514	18,739	62,253
Net claims incurred	17,113	10,926	28,039
Net Underwriting income	26,400	7,814	34,214

26 Proposed dividend and bonus issue

The Board has proposed cash dividend of 20% of paid up capital, AED 22 million (AED 0.20 per share) for the year ended December 31, 2010.

During the previous year, the Board proposed a cash dividend of AED 30 million (AED 0.30 per share) and 10,000,000 bonus shares representing 30% and 10% of the paid up capital respectively as at December 31, 2009. This was approved at the Annual General Meeting held on April 14, 2010.

27 Commitments and contingencies

	2010 AED '000	2009 AED'000
a) Financial Guarantee	268	3,194

Guarantees of AED 0.3 million (2009: AED 3.2 million) issued by banks are secured by way of deposits held.

b) Al Habtoor Motors (A related party) commenced legal proceedings in 2009 against the Company in respect of the claim of AED 217 million for the damages of vehicles as a result of the hailstorm that happened on 25th and 26th March 2009 (note 10). Although there is a legal dispute with some reinsurers who have commenced declaratory proceedings seeking a decision on scope of cover under their reinsurance contracts, management continues to believe that the Company's recovery rights are protected as the Company has adequate reinsurance contracts to cover its insurance position. As of year end there has not been any significant change regarding the progress of the proceedings.

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

28 Operating lease

Leases as a lessor

The Company has leased out its investment properties under various operating leases.

Operating lease rentals receivable are:

	2010 AED '000	2009 AED '000
Due within one year	16,991	16,780
Due within two to five years	5,210	13,874
	<u> </u>	<u> </u>

Leases as a lessee

At the statement of financial position date, there were no major outstanding commitments under non-cancellable operating leases.

29 Capital commitments

At the statement of financial position date, there were no major capital commitments (2009: nil).

30 Insurance risk management

Risk management objectives and policies for mitigating insurance risk

The primary insurance activity carried out by the Company assumes the risk of loss from persons or organisations that are directly subject to the risk. Such risks may relate to property, liability, life, accident health, financial or other perils that may arise from an insurable event. The Company also has exposure to market risk through its insurance and investment activities. The Company manages the risk through well laid out procedures and delegation levels for both underwriting and settlement of claims.

The Company has structured policies for acceptance and pricing risks. Experienced and qualified professionals undertake the assessment of risks and pricing, with a conservative and cautious approach. Survey, risk measurement, sensitivity analysis, reinsurance term etc., are followed meticulously before acceptance of risk. Apart from these study of portfolio, probability, market trend, past history are all considered for pricing.

Underwriting strategy

This involves the Company's own risk assessment procedures and is based on balance portfolio. It is set out in terms of industry, type of exposures, limits for each class, and quality of risks with acceptance levels. This is percolated down to the lower levels of the underwriting sections with the authorities specified along with their limits. Risk selection is set out as per the company's risk management policies.

Managing reinsurance risk

The Company carries reinsurance cover to minimise exposure to potential losses arising from large insurance claims and consequently in the normal course of business enters into arrangements with other parties for reinsurance purposes. Reinsurance ceded contracts do not relieve the Company from its obligations to policyholders. The Company remains liable to its policyholders for the portion reinsured to the extent that any reinsurer does not meet the obligations assumed under the reinsurance arrangements.

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

30 Insurance risk management (continued)

Managing reinsurance risk (continued)

This reinsurance is through proportional treaty and facultative reinsurance contracts. The reinsurers are selected based on their standing in the market, rating, relationship experience and length of association.

Reinsurance recoverable is monitored on a regular basis and through exchange of statements which are duly reconciled.

Terms and conditions of insurance contracts

Insurance contracts are based on uncertainty. As such the terms and conditions of Insurance contracts varies but are generally based on norms as applied in the Insurance Market.

Sensitivity of Underwriting Profits and Losses

The contribution from insurance operations to the profit of the Company amounts to AED 17.003 million for the year ended December 31, 2010 (2009: AED 34.214 million)

The Company does not foresee any major impact from insurance operations on account of the following:

- The overall risk retention level of the Company in the year ended December 31, 2010 is 30% (2009: 32%). The insurance liabilities of the Company are adequately covered by reinsurance programs to safeguard against major financial impact.
- The Company's commissions earned from reinsurance placements are consistent and remain a comfortable source of income.
- Because of the risk retention in all classes of business, the Company does not foresee any serious financial impact in the insurance net profits due to changes in the loss ratios.

31 Financial instruments

The financial assets of the Company include cash at bank and in hand, insurance receivables, other receivables, due from related parties and investments. Financial liabilities include insurance payables, other payable and due to related parties. Accounting policies for each class of financial assets and liabilities are set out in note 2.

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

31 Financial instruments (continued)

Categories of financial instruments

Year- 2010

Assets	Loans and Receivables AED'000	Financial Instruments AED'000	Insurance Contracts AED'000	Total AED'000
Financial instruments				
Statutory deposits	10,268	-	-	10,268
Re-insurer's share of outstanding claims	-	-	310,767	310,767
Cash in hand and at banks including deposits	-	42,205	-	42,205
Financial assets	-	101,295	-	101,295
Insurance receivables	46,445	-	-	46,445
Other receivables	1,097	-	-	1,097
Due from related parties	14,128	-	-	14,128
Total financial assets	71,938	143,500	310,767	526,205

Year - 2010

Liabilities	At cost	Insurance Contracts	Total AED'000
End of service benefits	1,571	-	1,571
Outstanding claims provision	-	329,322	329,322
Technical provisions		35,443	35,443
Insurance and other payables	78,585	-	78,585
Due to related parties	11,564	-	11,564
Total liabilities	91,720	364,765	456,485

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

31 Financial instruments (continued)

Year- 2009

Assets	Loans and Receivables AED'000	Financial instruments AED'000	Insurance Contracts AED'000	Total AED'000
Financial instruments				
Statutory deposits	13,194	-	-	13,194
Re-insurer's share of outstanding claims	-	-	308,088	308,088
Cash in hand and at banks including deposits	-	55,979	-	55,979
Financial assets	-	109,683	-	109,683
Insurance receivables	50,327	-	-	50,327
Other receivables	1,328	-	-	1,328
Due from related parties	13,646	-	-	13,646
Total assets	78,495	165,662	308,088	552,245

Year- 2009

Liabilities	At cost	Insurance Contracts	Total AED'000
End of service benefits	1,288	-	1,288
Outstanding claims provision	-	338,665	338,665
Technical provisions	-	45,774	45,774
Insurance and other payables	81,527	-	81,527
Due to related parties	88	-	88
Total liabilities	82,903	384,439	467,342

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

31 Financial instruments (continued)

Capital management

The Company's objective when managing capital risks are:

- 1) To comply with the Insurance Capital Requirements required by the UAE Federal Law No. 6 of 2007 concerning Insurance Companies and Agents. The minimum regulatory capital for Insurance Companies which must be maintained at all times throughout the year as per UAE Law is AED 50,000,000/-
- 2) To safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns to the shareholders.
- 3) To provide an adequate rate of return to shareholders by pricing products and services commensurately with the level of risk.

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to the shareholders or issue new shares.

There were no changes made in the objectives, policies or processes during the years ended December 31, 2010 and December 31, 2009.

The table below summarises the minimum regulatory capital of the Company and the actual equity held by the Company at the end of the year:

	2010 AED'000	2009 AED'000
Total equity held	162,689	179,919
Minimum Regulatory Capital	50,000	50,000

The main risks arising from the Company's financial instruments are credit risk, interest rate risk, liquidity risk, foreign exchange risk and market risk. The broad review and agreed policies for management of these risks are summarized below:

Credit risk

Credit risk is the risk that one party to a contract underlying a financial instrument will fail to discharge its obligations causing the other party to incur a financial loss.

All of the Company's underwriting activities are carried out in the United Arab Emirates. Cash is placed with a group of banks with good credit ratings. Credit risk on account receivables is spread, as they are due from a large number of customers. Credit risk with respect to 'due from insurers' and due from brokers is diversified due to the dispersion of amounts recoverable over a large number of insurers.

Credit risk with respect to reinsurers is mitigated by placement only with those Companies having an acceptable rating.

Credit risk is limited to the carrying values of financial assets in the statement of financial position.

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

31 Financial instruments (continued)

Credit risk (continued)

The following table provides an age analysis of receivables arising from insurance past due but not impaired.

	Neither Past due nor impaired AED'000	Past due but not impaired			Total AED'000	Past due and impaired AED'000	Total AED'000
		<120 days	120-180 days	>180 days			
		AED'000	AED'000	AED'000			
31 December 2010	<u>23,761</u>	<u>2,921</u>	<u>8,597</u>	<u>14,199</u>	<u>49,478</u>	<u>(3,033)</u>	<u>46,445</u>
31 December 2009	<u>33,651</u>	<u>4,611</u>	<u>7,766</u>	<u>6,657</u>	<u>52,685</u>	<u>(2,358)</u>	<u>50,327</u>

Liquidity risk

Liquidity risk is the risk that the Company faces in meeting its present and future financial obligations in a timely manner. Solvency risk refers to the excess of assets over liabilities, and hence, to the adequacy of the Company's capital. The Company is required to maintain an adequate level of liquidity by the regulatory requirements currently in force in the UAE.

Liquidity requirements are monitored by the management to ensure sufficient funds are available to meet commitments as they arise. The table below summarized the contractual maturity of various financial instruments:

Year -2010

	Less than		90-180 days	After 180 days	Total AED'000
	30 days	30-90 days			
Statutory deposits	-	-	-	10,268	10,268
Financial assets	-	-	-	101,295	101,295
Insurance receivables	3,936	19,825	11,517	11,167	46,445
Other receivables	91	374	-	167	632
Due from related parties	244	9,253	1,626	3,005	14,128
Cash in hand and at banks including deposits:					
Interest bearing	-	42,195	-	-	42,195
Non-interest bearing	10	-	-	-	10
	<u>4,281</u>	<u>71,647</u>	<u>13,143</u>	<u>125,902</u>	<u>214,973</u>

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

31 Financial instruments (continued)

Liquidity risk (continued)

Liabilities

Insurance and other payables	-	27,893	9,831	25,267	62,991
Due to related parties	64	-	-	11,500	11,564
	<u>64</u>	<u>27,893</u>	<u>9,831</u>	<u>36,767</u>	<u>74,555</u>

Provisions have been excluded due to the uncertainty of timing of payments.

Year -2009

	Less than		90-180	After	Total
	30 days	30-90 days	days	180 days	AED'000
Statutory deposits	-	-	-	13,194	13,194
Financial assets	-	-	-	109,683	109,683
Insurance receivables	7,631	26,019	12,378	4,299	50,327
Other receivables	-	256	296	132	684
Due from related parties	1,056	10,340	1,737	513	13,646
Cash in hand and at banks including deposits:					
Interest bearing	7,783	45,720	-	2,464	55,967
Non-interest bearing	12	-	-	-	12
	<u>16,482</u>	<u>82,335</u>	<u>14,411</u>	<u>130,285</u>	<u>243,513</u>

Liabilities

Insurance and other payables	2,490	24,978	9,068	29,542	66,078
Due to related parties	-	88	-	-	88
	<u>2,490</u>	<u>25,066</u>	<u>9,068</u>	<u>29,542</u>	<u>66,166</u>

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

31 Financial instruments (continued)

Interest rate risk

The interest risk is the risk that the value of future cash flows of financial instruments will fluctuate because of changes in market interest rates. The Company has interest bearing deposit in commercial banks having effective interest rate (3% - 4.5%). The interest rate is floating in nature. However, the Company does not foresee any material impacts due to interest rate fluctuations in the foreseeable future.

Exchange risk

A major portion of the Company's liabilities and assets are denominated in AED or US Dollars, barring Beirut Branch which is in Lebanese Lira. However since the US Dollar is effectively pegged to AED, there is minimal risk. Moreover assets and liabilities in Beirut branch are not considered to be significant to adversely result in significant exchange loss.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market.

The Company is exposed to market risk with respect to its investments in quoted shares.

The Company limits market risks by maintaining a diversified portfolio and by continuous monitoring of developments in stock markets. In addition, the company actively monitors the key factors that affect stock movements, including analysis of the operational and financial performance of investee.

All the Company's investments are within the United Arab Emirates.

Sensitivity of equity prices of available-for-sale investments

The Company is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Company does not actively trade these investments.

The sensitivity analysis below has been determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 10% higher/lower:

- net profit for the year ended 31 December 2010 would have been unaffected as the equity investments are classified as available-for-sale and no investments were disposed of during the year; and
- equity reserve for available-for-sale investments would increase/decrease by AED 9.075 million (2009: increase/decrease by AED 9.915 million) as a result of the changes in fair value of available-for-sale shares.

DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

31 Financial instruments (continued)

Sensitivity of equity prices (continued)

Method and assumptions for sensitivity analysis

- As at the statement of financial position date if the equity prices are 10% higher/lower on the market value uniformly for all equities while all other variables are held constant, the impact on equity has been shown above.
- A 10% change in equity prices has been used to give a realistic assessment as a plausible event.

32 Comparatives

Prior year figures have been reclassified in certain instances; however there has been no material impact to the total comprehensive income for the year.