



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

AUDITOR'S REPORT AND FINANCIAL STATEMENTS
DECEMBER 31, 2011

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

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for the year ended December 31, 2011

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Directors' Report

On behalf of the Board of Directors, I am pleased to welcome you to this Ordinary General Assembly of Dubai National Insurance & Reinsurance PSC, and to present its twentieth annual report and accounts for the financial year 2011.

The year 2011 saw an unprecedented level of price competition in the UAE insurance market. This has made the risk selection process the key factor in achieving a good insurance result. Your company has managed to accomplish that, albeit by temporarily sacrificing some loss making accounts, which has limited the growth of revenue.

Your company has changed the mix of its business portfolio in 2011. To counter unhealthy competition, the focus is now on high margin products with low claims frequency such as property and engineering.

The long term policy of raising the quality of our reinsurance partners has continued in 2011. Your company is now backed in all classes by A-rated reinsurance security. This is an investment in the future, which will secure access to large insurances from discerning and professional customers, who can now have total peace of mind in choosing your company as their partner.

The gross written premium during the year 2011 is AED 114.770 Million which is evenly distributed over the various lines of business.

The underwriting income improved to AED 22.185 Million in the year 2011, an increase of 30% over the previous year.

The net profit for the year 2011 before appropriation amounted to AED 23.620 Million.

The Board is pleased to recommend to the shareholders the following appropriations

Transfer to Legal Reserve	AED 2.362 Million
Transfer to Obligatory Reserve	AED 0.325 Million
Cash Dividend @ 15%	AED. 16.500 Million

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

The following recommendations are placed for your approval & ratification:

- 1) To approve the Board of Directors' and Auditors' Report for 2011.
- 2) To ratify the company's financial statements for the year ended 31st December 2011.
- 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 new Board of Director for the coming period.
- 6) To appoint statutory auditors for the year 2012.



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**

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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, 2011, and the income statement, statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 a true and fair view of financial position of the Company as at December 31, 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the UAE Federal Law No. 6 of 2007 on Establishment of the Insurance Authority and Organization of the Insurance 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

GRANT THORNTON

Farouk Mohamed
Insurance Registration No. 54
Dubai, United Arab Emirates
March 5, 2012



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

Dubai - United Arab Emirates

Statement of financial position as at December 31, 2011

	Notes	2011 AED '000	2010 AED '000
ASSETS			
Non-current			
Statutory deposits	3	10,268	10,268
Property and equipment	4	1,764	2,281
Investment property	5	88,841	90,688
		<u>100,873</u>	<u>103,237</u>
Current			
Financial assets	6	105,077	101,295
Insurance receivables	7	46,393	46,445
Other receivables	8	1,091	1,097
Due from related parties	9	11,327	14,128
Re-insurers' share of outstanding claims	10	67,666	310,767
Cash and cash equivalents	11	11,223	42,205
		<u>242,777</u>	<u>515,937</u>
TOTAL ASSETS		<u>343,650</u>	<u>619,174</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	12	110,000	110,000
Legal reserve	13	54,537	52,175
Obligatory reserve	14	27,500	27,175
General reserve	15	220,000	220,000
Retained earnings		28,927	23,643
Fair value reserve on financial assets at fair value through other comprehensive income		(274,417)	(270,304)
Total equity		<u>166,547</u>	<u>162,689</u>
Liabilities			
Non-current			
Employees' end of service benefits	16	1,761	1,571
Current			
Outstanding claims provision	10	83,775	329,322
Technical provisions	17	27,151	35,443
Insurance payables	18	35,102	62,991
Other payables	19	12,968	15,594
Due to related parties	9	16,346	11,564
		<u>175,342</u>	<u>454,914</u>
Total liabilities		<u>177,103</u>	<u>456,485</u>
TOTAL EQUITY AND LIABILITIES		<u>343,650</u>	<u>619,174</u>

These financial statements were approved by the Board of Directors on March 5, 2012 and signed on their behalf by:


Mohammad Khalaf Al Habtoor
 Managing Director


Sultan Ahmed Al Habtoor
 Vice Chairman

The notes from 1 to 33 form an integral part of these financial statements.

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

Dubai - United Arab Emirates

Income statement

for the year ended December 31, 2011

	Notes	2011 AED '000	2010 AED '000
Gross premium		114,770	131,047
Reinsurance share of premium		(70,776)	(91,759)
Net premium		<u>43,994</u>	<u>39,288</u>
Net transfer (to)/from unearned premium reserve		(1,318)	8,324
Net premium earned		<u>42,676</u>	<u>47,612</u>
Commission earned		11,567	10,985
Commission paid		(8,955)	(14,087)
Other		4,374	660
Gross underwriting income		<u>49,662</u>	<u>45,170</u>
 Gross claims paid		 225,207	 112,109
Reinsurance share		(185,672)	(69,914)
Net claims paid		<u>39,535</u>	<u>42,195</u>
Provision for outstanding claims and technical provisions		(255,158)	(11,349)
Reinsurance share of outstanding claims		243,100	(2,679)
Net claims incurred		<u>27,477</u>	<u>28,167</u>
 Net underwriting income		 22,185	 17,003
 Income from investments - net	20	 6,399	 7,367
Income from investment property - net	21	11,962	13,484
Other income	22	199	228
Gross income		<u>40,745</u>	<u>38,082</u>
General and administrative expenses	23	(17,125)	(16,331)
Net profit for the year		<u><u>23,620</u></u>	<u><u>21,751</u></u>
Earnings per share:			
 Basic and diluted	24	 <u>0.21</u>	 <u>0.20</u>

The notes from 1 to 33 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, 2011**

	2011	2010
	AED '000	AED '000
Net profit for the year	23,620	21,751
Other comprehensive income		
Net unrealized loss on investments	(4,113)	(8,388)
Adjustment arising on translation of operating assets and liabilities of overseas branch	-	2
Total comprehensive income for the year	<u>19,507</u>	<u>13,365</u>

The notes from 1 to 33 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, 2011

	Share capital AED'000	Legal reserve AED'000	Obligatory reserve AED'000	General reserve AED'000	Fair value reserve on financial assets at fair value through other comprehensive income AED'000	Retained earnings AED'000	Total AED'000
Balance as at January 1, 2010	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 :	-	-	-	-	(8,388)	-	(8,388)
Net unrealized loss on investments	-	-	-	-	-	-	-
Adjustment arising on translation of operating assets and liabilities of over:	-	-	-	-	-	2	2
Balance as at December 31, 2010	110,000	52,175	27,175	220,000	(270,304)	23,643	162,689
Effect of reclassification of unquoted equity investments to Financial assets at fair value through other comprehensive income	-	-	-	-	-	7,895	7,895
Balance as at January 1, 2011	110,000	52,175	27,175	220,000	(270,304)	31,538	170,584
Dividend paid	-	-	-	-	-	(22,000)	(22,000)
Directors' remuneration	-	-	-	-	-	(1,544)	(1,544)
Transfer to Legal Reserve	-	2,362	-	-	-	(2,362)	-
Transfer to Obligatory Reserve	-	-	325	-	-	(325)	-
Transactions with owners	-	2,362	325	-	-	(26,231)	(23,544)
Profit for the year	-	-	-	-	-	23,620	23,620
Other comprehensive income :	-	-	-	-	(4,113)	-	(4,113)
Net unrealized loss on investments	-	-	-	-	(274,417)	28,927	166,547
Balance as at December 31, 2011	110,000	54,537	27,500	220,000	(274,417)	28,927	166,547

The notes from 1 to 33 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, 2011**

	Notes	2011 AED '000	2010 AED '000
Operating activities			
Net profit for the year		23,620	21,751
<i>Adjustments for:</i>			
Depreciation on property and equipment	4	1,039	851
Depreciation on investment property	5	1,847	1,847
Profit on disposal of property and equipment	22	(199)	(65)
Net transfer to employees' end-of-service benefits		190	283
Net transfer to technical provisions		(8,292)	(10,331)
Provision for outstanding claims		(245,547)	(9,343)
Reinsurer share of outstanding claims		243,101	(2,679)
Dividend and interest on long-term deposits	20	(6,399)	(7,367)
Directors remuneration	19	(1,544)	(595)
Income from investment property - net		(13,809)	(15,331)
Operating loss before changes in working capital		(5,993)	(20,979)
Changes in working capital			
Insurance receivables		52	3,882
Other receivables		6	231
Insurance payables		(27,889)	(2,304)
Other payables		(2,626)	(638)
Due from related parties-net		7,583	10,994
Cash flow from operating activities		(28,867)	(8,814)
Investing activities			
Purchase of property and equipment	4	(699)	(702)
Proceeds from disposals of property and equipment		376	116
Decrease in statutory deposits		-	2,926
Dividend and interest on long-term deposits		6,399	7,367
Income from investment property - net		13,809	15,331
Cash flow from investing activities		19,885	25,038
Financing activities			
Dividends paid	26	(22,000)	(30,000)
Cash flow from financing activities		(22,000)	(30,000)
Net decrease in cash and cash equivalents		(30,982)	(13,776)
Cash and cash equivalents at January 1,		42,205	55,979
Exchange differences on cash and cash equivalents		-	2
Cash and cash equivalents at December 31,	11	11,223	42,205

The notes from 1 to 33 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, 2011**

1 Legal status and activities

Dubai National Insurance & Reinsurance (P.S.C.) (the "Company") is a public shareholding company incorporated in Dubai on January 6, 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 on Establishment of the Insurance Authority and Organization of the Insurance Operations 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, 2011 was 87 (2010: 95).

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. The branch has no operations and the total expenses and assets of the branch are not material to these financial statements. Hence, these financial statements do not separately disclose the expenses, assets, liabilities and cash flows for the discontinued operations of the branch.

2 Summary of 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 on Establishment of the Insurance Authority and Organization of the Insurance Operations (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

Standards, interpretations and amendments to existing standards that are effective in 2011

The following revisions and amendments to existing standards were issued by the International Accounting Standards Board, which are effective for the accounting period on or after January 1, 2011:

Relevant to the Company's financial statements

IAS 24 (Revised 2009)	Related Party Disclosures (effective for accounting period on or after January 1, 2011).
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DUBAI NATIONAL INSURANCE & REINSURANCE (P.S.C.)

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

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

Standards, interpretations and amendments to existing standards that are effective in 2011 (continued)

IAS 32 (Amendment)	Financial Instruments: Presentation – Classification of Rights Issues (effective for accounting period on or after February 1, 2010).
Annual Improvements 2010	IAS 1 'Presentation of Financial Statements', IAS 34 'Interim Financial Reporting' and IFRS 7 'Financial Instruments: Disclosures' (effective for accounting period on or after January 1, 2011).

Not relevant to the Company's financial statements

IFRS 1 (Amendment)	First-time adoption of IFRS – Limited exemption from comparative IFRS 7 disclosures for first-time adopters (effective for accounting period on or after July 1, 2010).
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement - 'IAS 19 – The limit on a defined benefit assets, minimum funding requirements and their interaction (effective for accounting period on or after January 1, 2011).
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments (effective for accounting period on or after July 1, 2010).
Annual Improvements 2010	IAS 27 'Consolidated and Separate Financial Statements' and IFRS 3 'Business Combinations' (effective for accounting period on or after July 1, 2010) and IFRIC 13 'Customer Loyalty Programmes' (effective for accounting period on or after January 1, 2011).

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.

a) IFRS 1: First-time Adoption of International Financial Reporting Standards – Amendment (effective for accounting period on or after July 1, 2011)

These amendments include two changes to IFRS 1 "First-time adoption of International Financial Reporting Standards". The first replaces references to a fixed date of January 1, 2004 with 'the date of transition to IFRSs', thus eliminating the need for entities adopting IFRSs for the first time to restate de-recognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.

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

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

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

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

a) IFRS 1: First-time Adoption of International Financial Reporting Standards – Amendment (effective for accounting period on or after July 1, 2011) (continued)

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

b) IFRS 7: Financial Instruments: Disclosures – Amendment (effective for accounting period on or after July 1, 2011)

This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets.

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

c) IAS 12: Income Taxes – Amendment (effective for accounting period on or after January 1, 2012)

IAS 12 "Income taxes" currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 "Investment property". This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21 "Income taxes - recovery of revalued non-depreciable assets" will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.

The Company's preliminary assessments indicate that the amendment will not have any impact on the Company's financial statements.

d) IAS 1: Presentation of Financial Statements – Amendment (effective for accounting period on or after July 1, 2012)

The amendments require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs:

- will not be reclassified subsequently to profit or loss; and
- will be reclassified subsequently to profit or loss when specific conditions are met.

The Company's management has yet to assess the impact of this revised standard on the Company's financial statements

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

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

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

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

e) IAS 19: Employee Benefits - Amendment (effective for accounting period on or after January 1, 2013)

The amendments include a number of targeted improvements throughout the standard. The main changes relate to defined benefit plans. They:

- eliminate the 'corridor method', requiring entities to recognise all gains and losses arising in the reporting period
- streamline the presentation of changes in plan assets and liabilities
- enhance the disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

The Company's management has yet to assess the impact of this revised standard on the Company's financial statements.

f) Annual Improvements May 2011

IFRS 10: Consolidated Financial Statements – New (effective for accounting period on or after January 1, 2013)

This standard supersedes IAS 27 "Consolidated and Separate Financial Statements" and SIC 12 "Consolidation – Special Purpose Entities". It revised the definition of control together with accompanying guidance to identify an interest in a subsidiary. However, the requirements and mechanics of consolidation and the accounting for any non-controlling interests and changes in control remain the same.

IFRS 11: Joint Arrangements – New (effective for accounting period on or after January 1, 2013)

This standard supersedes IAS 31 "Interests in Joint Ventures". It aligns more closely the accounting by the investors with their rights and obligations relating to the joint arrangement. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. In addition, IAS 31's option of using proportionate consolidation for joint ventures has been eliminated. IFRS 11 now requires the use of the equity accounting method, which is currently used for investments in associates.

IFRS 12: Disclosure of Interests in Other Entities – New (effective for accounting period on or after January 1, 2013)

This standard integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

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

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

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

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

f) Annual Improvements May 2011 (continued)

IFRS 13: Fair Value Measurement – New (effective for accounting period on or after January 1, 2013)

This standard does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements.

IAS 27: Separate Financial Statements - Revised 2011 (effective for accounting period on or after January 1, 2013)

This standard has been revised and its name has changed from “Consolidated and Separate Financial Statements” to “Separate Financial Statements”. This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

IAS 28: Investments in Associates and Joint Ventures - Revised 2011 (effective for accounting period on or after January 1, 2013)

The standard has been reissued and its name has changed from “Investments in Associates” to “Investments in Associates and Joint Ventures”. This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

The Company’s management has yet to assess the impact of these new and revised standards on the Company’s financial statements.

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

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

The Company has early adopted IFRS 9 with effect from January 1, 2011. Refer 2(c) for the impact of the early adoption.

c) Change in accounting policy

The Company adopted IFRS 9 ‘Financial Instruments’ (‘IFRS 9’) on January 1, 2011 in advance of its effective date as allowed by the standard. The Company has chosen October 1, 2011 as its date of initial application as this is the first reporting period in which the Company adopted IFRS 9 after December 31, 2010.

IFRS 9 specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified in their entirety on the basis of the company’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are now measured either at amortised cost or fair value.

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

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

c) Change in accounting policy (continued)

If the financial asset is a debt instrument, or does not meet the definition of an equity instrument in its entirety, management should consider whether both the following tests are met:

- i) The objective of the Company's business model is to hold the asset to collect the contractual cash flows; or
- ii) The asset's contractual cash flows represent only payments of principal and interest. Interest is consideration for the time value of money and the credit risk associated with the principal amount during a particular period of time.

If both tests are met, the financial asset falls into the amortised cost measurement category. If the financial asset does not pass either of the above tests, or only one of the above tests, it is measured at fair value through profit or loss ('FVTPL'). Even if both tests are met, management also has the ability to designate a financial asset at FVTPL if doing so reduces or eliminates a measurement or recognition inconsistency. The Company can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity investments at fair value through other comprehensive income ('FVTOCI'). Designation at FVTOCI is not permitted if the equity investment is held for trading.

Only financial assets that are classified as measured at amortised cost are tested for impairment.

The Directors reviewed and assessed all of the Company's existing financial assets as at the date of initial application of IFRS 9. As a result:

- The Company's investment in debt instruments meeting the required criteria are measured at amortised costs; and
- The Company's equity instruments not held for trading were designated as FVTOCI.

As the Company has adopted this IFRS for reporting periods beginning before January 1, 2012, the Company need not restate prior periods. As required under IFRS 9 if, an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening retained earnings (or other component of equity, as appropriate) of the reporting period that includes the date of initial application.

For more information and detail on the new classification refer note 6.

d) Accounting convention

The financial statements are prepared under the historical cost convention except for quoted investments classified as at fair value through other comprehensive income, which are stated at their fair value and insurance liabilities and assets which are stated at their estimated value (note 2(h), 2(i) and 2(k)).

e) 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.

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

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

e) Property and equipment (continued)

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

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

f) 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 values of investment properties are determined considering open market values based on valuations performed by independent surveyor.

g) 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.

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

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

h) 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.

i) 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.

j) 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.

k) 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.

l) 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.

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

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

m) 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.

n) Financial assets

Recognition, initial measurement and derecognition

Financial assets are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value plus transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Company commits to purchase or sell the asset.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

Classification and subsequent measurement of financial assets

The Company classifies its financial assets as investments at 'fair value through other comprehensive income' ('FVTOCI') and 'loans and receivables' at amortised cost. The classification depends on the nature of these investments.

Investments at fair value through other comprehensive income ('FVTOCI')

Investments in equity securities are classified as FVTOCI. At initial recognition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity investments at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading. They are initially recognised at fair value plus transaction costs.

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. Investments in unquoted securities are measured at fair value, except in the limited circumstances where cost may be an appropriate estimate of fair value. This may be the case if insufficient more recent information is available to determine fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

Gains and losses on subsequent measurement

Gain and loss arises from change in fair value of investments at FVTOCI are recognised in other comprehensive income and reported within the fair value reserve for investments at FVTOCI within equity. When the asset is disposed of, the cumulative gain or loss recognised in other comprehensive income is not reclassified from the equity reserve to income statement, but is reclassified to retained earnings.

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

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

n) Financial assets (continued)

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 un-collectability of financial assets at amortised cost

An assessment is made for financial assets at amortised costs 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. The amount of the impairment loss recognised is the difference between the asset's carrying value and the present value of future cash flows, reflecting the impact of collateral and guarantees, discounted at the financial asset's original effective interest rate.

o) 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.

p) 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.

q) 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.

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

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

r)/ 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.

s) 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.

t) 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.

u) 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 covering IBNR and outstanding claims) arising from claims made under insurance contracts is the Company's most critical accounting estimate. These estimates are continuously 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.

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.)

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

v) Segment reporting

In identifying its operating segments, management generally follows the Company's lines of business. Each of these operating segments is managed separately as each of these business lines requires different resources as well as marketing approaches.

Under IFRS 8 "Operating Segments", reported segment profits are based on internal management reporting information that is regularly reviewed by the chief operating decision maker. The measurement policies used by the Company for segment reporting under IFRS 8 are same as those used in its financial statements.

3 Statutory deposits

	2011 AED '000	2010 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 on Establishment of the Insurance Authority and Organization of the Insurance Operations, 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 (2010: LL 110 million)	268	268
	<u>10,268</u>	<u>10,268</u>

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

Notes to the financial statements (continued)

4 Property and equipment

	Land and buildings AED'000	Furniture and fixtures AED'000	Motor vehicles AED'000	Computer equipment AED'000	Total AED'000
Cost					
At January 1, 2011	101	1,664	500	2,463	4,728
Additions	-	93	395	211	699
Disposals	(101)	(14)	(192)	(30)	(337)
At December 31, 2011	-	1,743	703	2,644	5,090
Accumulated depreciation					
At January 1, 2011	-	801	423	1,223	2,447
Charge for the year	-	376	173	490	1,039
Disposals	-	(10)	(141)	(9)	(160)
At December 31, 2011	-	1,167	455	1,704	3,326
Net book value At December 31, 2011	-	576	248	940	1,764
At 31 December 2010	101	863	77	1,240	2,281
Cost					
At January 1, 2010	101	1,317	547	2,222	4,187
Additions	-	410	51	241	702
Disposals	-	(63)	(98)	-	(161)
At December 31, 2010	101	1,664	500	2,463	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 At December 31, 2010	101	863	77	1,240	2,281
At 31 December 2009	101	832	107	1,441	2,481

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

Notes to the financial statements (continued)

5 Investment property

	2011 AED '000	2010 AED '000
Cost		
At January 1,	105,721	105,721
Accumulated depreciation		
At January 1,	15,033	13,186
Charge for the year (note 21)	1,847	1,847
At December 31,	<u>16,880</u>	<u>15,033</u>
Net book value		
At December 31,	<u><u>88,841</u></u>	<u><u>90,688</u></u>

On December 31, 2011, Asteco, independent professional valuers estimated the open market value of the investment properties at AED 160.4 million (2010: AED 163 million) as per their valuation report. These properties are held for capital appreciation and for rental purposes.

6 Financial assets

	2011 AED '000	2010 AED '000
Investments at FVTOCI		
Reclassification adjustment upon initial application of IFRS 9		
Investments in quoted securities	90,753	-
Investments in unquoted securities*	18,437	-
Changes in fair value transferred to equity	(4,113)	-
	<u>105,077</u>	<u>-</u>
Available-for-sale financial assets		
Opening balance of quoted securities, at cost	361,057	361,057
Cumulative changes in fair value transferred to equity as at December 31, 2010	(270,304)	(270,304)
Less: Reclassification adjustment upon initial application of IFRS 9 to FVTOCI as at January 1, 2011	(90,753)	-
	<u>-</u>	<u>90,753</u>
Opening balance of unquoted securities *	18,437	18,437
Less: Provision for diminution in value (reversed asat December 31, 2011	-	(7,895)
Less: Reclassification adjustment upon initial application of IFRS 9 as at December 31, 2011	(18,437)	-
	<u><u>-</u></u>	<u><u>101,295</u></u>

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

Notes to the financial statements (continued)

6 Financial assets (continued)

* The title of the unquoted securities is held by related parties for the beneficial interest of the Company. Unquoted securities as at December 31, 2011 were fair valued by an independent valuer based on the Net Assets Value as of the latest available financial statements of the investee's (December 31, 2010). Management and the independent valuer believe that there was no significant deterioration in the value of the unquoted investments during the year.

Reclassification of investments at the date of initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets under IFRS 9 and IAS 39 at the date of initial application of October 1, 2011.

Type of investment	Original measurement category (IAS 39)	New measurement category (IFRS 9)
Equity securities- Quoted investments	Available-for-sale financial assets	Investments in equity instruments designated at FVTOCI
Equity securities- Unquoted investments	Available-for-sale financial assets	Investments in equity instruments designated at FVTOCI

7 Insurance receivables

	2011 AED '000	2010 AED '000
Due from policy holders	3,094	11,349
Due from insurance companies	10,849	6,990
Due from reinsurance companies	11,342	5,243
Due from insurance brokers	24,141	25,896
	<u>49,426</u>	<u>49,478</u>
Provision for doubtful debts	(3,033)	(3,033)
	<u>46,393</u>	<u>46,445</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

	2011 AED '000	2010 AED '000
Prepayments	686	465
Accrued interest	72	373
Other receivables	333	259
	<u>1,091</u>	<u>1,097</u>

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

Notes to the financial statements (continued)

9 Related parties

Details of related party balances are as follows:

Due from related parties

	2011 AED '000	2010 AED '000
Diamond Lease L.L.C	7,133	8,864
Al Habtoor Leighton LLC (Formally Al Habtoor Engineering Enterprises Co. LLC)	2,889	4,128
Other companies of Al Habtoor Group	1,305	1,136
	<u>11,327</u>	<u>14,128</u>

Due to related parties

Due to investor:

Al Habtoor Motors Co L.L.C	16,297	11,500
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Other:

Other companies of Al Habtoor Group	49	64
	<u>16,346</u>	<u>11,564</u>

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:

	2011 AED '000	2010 AED '000
Premiums written	53,606	45,427
Claims paid	159,345	15,029
Commission paid	2,066	1,806
Agency repairs	14,850	19,484
Purchases of vehicles	-	100
Key management remuneration		
Short term benefits	2,443	2,266
Post employment benefits	498	376
	<u>2,941</u>	<u>2,642</u>

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

Notes to the financial statements (continued)

10 Outstanding claims

	2011	2010
	AED '000	AED '000
Opening balance	329,322	338,665
(Reversal)/provision for the year	(20,340)	102,766
Claims paid during the year	(225,207)	(112,109)
Balance at December 31,	<u>83,775</u>	<u>329,322</u>

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. Management believes that the liability for claims reported in the statement of financial position is adequate.

Al Habtoor Motors Co. L.L.C ("AHM", a related party) had commenced legal proceedings in the English courts in 2009 against the Company in respect of claim of AED 217 million for damage to vehicles as a result of a hailstorm which occurred on 25 and 26 March 2009. The Company in turn initiated proceedings in the English courts against its facultative reinsurers.

In April 2011, all parties involved in the litigation (AHM, the Company and the facultative reinsurers) agreed to refer the dispute to mediation and have successfully resolved the matter out of court. The Company has settled the AHM claim and the facultative reinsurers have also reached settlement of the Company's claims as per settlement agreements with respective parties. All claims and counter claims relating to the English proceedings have now come to a conclusion and the English court has been notified accordingly. This had no adverse financial impact on the Company's income statement as the Company had maintained adequate reserves in this regard.

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:

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

Notes to the financial statements (continued)

10. Outstanding claims (continued)

Underwriting year	2007 & prior AED'000	2008 AED'000	2009 AED'000	2010 AED'000	2011 AED'000	Total AED'000
Estimate of cumulative claims						
At the end of underwriting year	425,301	36,927	298,773	67,934	68,554	-
One year later	424,706	60,714	342,442	83,323	-	-
Two years later	437,722	58,084	260,242	-	-	-
Three years later	431,455	61,935	-	-	-	-
Four years later	405,583	-	-	-	-	-
Estimate of cumulative claims	405,583	61,935	260,242	83,323	68,554	879,637
Cumulative payments to date	377,834	46,001	246,617	69,989	55,421	795,862
Provision for outstanding claims as at December 31, 2011	27,749	15,934	13,625	13,334	13,133	83,775
IBNR and other reserves as on December 31, 2011	-	-	-	-	12,857	12,857
Gross outstanding claims as at December 31, 2011	27,749	15,934	13,625	13,334	25,990	96,632
Reinsurer's share of outstanding claims as on December 31, 2011	23,289	15,027	12,173	10,832	6,345	67,666
Net outstanding claims as on December 31, 2011	4,460	907	1,452	2,502	19,645	28,966
Provision for outstanding claims as on December 31, 2010	56,746	14,435	248,202	9,939	-	329,322
Reinsurer's share of outstanding claims as on December 31, 2010	45,320	11,586	245,328	8,533	-	310,767

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

Notes to the financial statements (continued)

11 Cash and cash equivalents

	2011 AED '000	2010 AED'000
Cash in hand and at banks	<u>11,223</u>	<u>42,205</u>

- (a) Cash at banks includes approximately AED 0.3 million (2010: AED 0.3 million) in converted Lebanese Lira (LL).
- (b) Cash at banks includes short term deposits with local banks carrying interest ranging from 1% - 2.5% (2010: 3% - 4.5%).

12 Share capital

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

	2011 No of shares	2011 AED'000	2010 No of shares	2010 AED'000
Balance at December 31	<u>110,000,000</u>	<u>110,000</u>	<u>110,000,000</u>	<u>110,000</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 2.362 million (2010: 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 0.325 million (2010: AED 2.175 million). After the transfer of this amount the balance on this reserve equalled 25% of the Company's paid-up-share capital.

15 General reserve

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

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

Notes to the financial statements (continued)

16 Employees' end of service benefits

	2011	2010
	AED '000	AED '000
Balance at January 1,	1,571	1,288
Charge for the year	500	384
Payments during the year	(310)	(101)
Balance at December 31,	<u>1,761</u>	<u>1,571</u>

17 Technical provisions

Unearned premium reserve	14,294	12,976
Provision for IBNR and other reserves	12,857	22,467
	<u>27,151</u>	<u>35,443</u>

Movement during the year for:

Unearned premium reserve

Balance at January 1,	12,976	21,301
Added during the year	14,294	12,976
Released during the year	(12,976)	(21,301)
Balance at December 31,	<u>14,294</u>	<u>12,976</u>

Movement during the year for:

Provision for IBNR and other reserves

Balance at January 1,	22,467	24,473
Added during the year	12,857	22,467
Released during the year	(22,467)	(24,473)
Balance at December 31,	<u>12,857</u>	<u>22,467</u>

18 Insurance payables

Trade creditors	5,671	4,535
Insurance companies	13,003	9,009
Re-insurance companies	12,550	40,134
Brokers payable	1,202	3,105
Premium reserve withheld	2,676	6,208
	<u>35,102</u>	<u>62,991</u>

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

Notes to the financial statements (continued)

19 Other payables

	2011	2010
	AED '000	AED '000
Accrued expenses	1,578	1,226
Provision for staff benefits	1,521	1,569
Directors' remuneration *	1,544	595
Other payables	8,325	12,204
	<u>12,968</u>	<u>15,594</u>

* Directors' remuneration is an appropriation of net profit for the year in accordance with Article 118 of UAE Commercial Companies Law No. 8 of 1984 (as amended), by The Ministry of Economy and Planning and also as per the Articles of Association of the Company.

20 Income from investments - net

	2011	2010
	AED '000	AED '000
Dividend income	5,541	5,530
Interest income – net	858	1,837
	<u>6,399</u>	<u>7,367</u>

21 Income from investment property - net

Gross rental income	17,581	18,397
Maintenance expenses	(3,772)	(3,066)
Depreciation (note 5)	(1,847)	(1,847)
	<u>11,962</u>	<u>13,484</u>

22 Other income

Profit on disposal of property and equipment	199	65
Other income	-	163
	<u>199</u>	<u>228</u>

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

Notes to the financial statements (continued)

23 General and administrative expenses

	2011 AED '000	2010 AED '000
Personnel costs	12,473	11,007
Other operational expenses	4,652	5,324
	<u>17,125</u>	<u>16,331</u>

24 Earnings per share

Basic and diluted

Net profit for the year AED '000'	23,620	21,751
Weighted average number of shares outstanding (note 12)	<u>110,000,000</u>	<u>110,000,000</u>
Earnings per share (AED)		
Basis and diluted	<u>0.21</u>	<u>0.20</u>

The Company does not have potentially diluted shares and accordingly, diluted earnings per share equals basic earnings per share.

25 Segment reporting

The Company operates two main business segments: Underwriting and Investments.

Underwriting segment is further classified into General Insurance and Life & Health Insurance. Investments segment comprises Investment Property and Financial Assets. The Life insurance provided by the Company is for a period of 12 months and does not include any investment portion.

	2011 AED '000			2010 AED '000		
	Underwriting	Investments	Total	Underwriting	Investments	Total
Segment revenue	114,770		<u>114,770</u>	131,047		<u>131,047</u>
Segment result	22,385	18,360	40,745	17,231	20,851	38,082
Unallocated administrative cost			(17,125)			(16,331)
Net profit for the year			<u>23,620</u>			<u>21,751</u>
Segment assets	128,241	193,918	322,159	374,718	191,983	566,701
Unallocated assets			21,491			52,473
Total assets			<u>343,650</u>			<u>619,174</u>
Segment liabilities	173,766	2,565	176,331	453,272	3,213	456,485
Unallocated liabilities			167,319			162,689
Total liabilities			<u>343,650</u>			<u>619,174</u>

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

Notes to the financial statements (continued)

25 Segment reporting (continued)

Underwriting results are further classified as follows:

	AED'000		
	General business	Life & Health	Total
2011			
Gross premiums written	75,222	39,548	114,770
Gross underwriting income	32,770	16,892	49,662
Net claims incurred	14,730	12,747	27,477
Net Underwriting income	18,040	4,145	22,185
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

26 Proposed dividend and bonus issue

The Board has proposed cash dividend of 15% of paid up capital, AED 16.5 million (AED 0.15 per share) for the year ended December 31, 2011. This is treated as non-adjusting subsequent event.

During the previous year, the Board proposed a cash dividend of AED 22 million (AED 0.20 per share) representing 20% of the paid up capital as at December 31, 2010. This was approved at the Annual General Meeting held on March 30, 2011 and paid off during the year.

27 Commitments and contingencies

	2011 AED '000	2010 AED'000
Financial guarantee	268	268

Guarantees of AED 0.3 million (2010: AED 0.3 million) issued by banks are secured by way of deposits held.

28 Operating lease

Leases as a lessor

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

Operating lease rentals receivable are:

	2011 AED '000	2010 AED '000
Due within one year	10,018	16,991
Due within two to five years	277	5,210

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

Notes to the financial statements (continued)

28 Operating lease (continued)

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 (2010: 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 balanced 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.

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.

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

Notes to the financial statements (continued)

30 Insurance risk management (continued)

Terms and conditions of insurance contracts

Insurance contracts are based on uncertainty. As such the terms and conditions of Insurance contracts vary 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 22.185 million for the year ended December 31, 2011 (2010: AED 17.003 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, 2011 is 38% (2010: 30%). The Company has initiated series of enterprise-wide risk management measures which includes acceptance and transfer of risks. Appropriate Excess of Loss protections have been designed and placed. Consequently, the overall retention levels have been enhanced to optimum levels to 38% in 2011 as compared to 31% in 2010. The insurance liabilities of the Company are being adequately covered by Treaty/Facultative arrangements with rated reinsurance companies and Excess of Loss reinsurance programs to safeguard against any major financial impact.
- The Company's commissions earned from reinsurance placements are consistent and remain a comfortable source of income.
- Because of the low 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.)

Notes to the financial statements (continued)

31 Financial instruments (continued)

Categories of financial instruments

Year- 2011

Assets	Loans and receivables at amortised cost AED'000	Other 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	-	-	67,666	67,666
Cash in hand and at banks including deposits	-	11,223	-	11,223
Financial assets	-	105,077	-	105,077
Insurance receivables	-	-	46,393	46,393
Other receivables	405	-	-	405
Due from related parties	11,327	-	-	11,327
Total financial assets	22,000	116,300	114,059	252,359

Year- 2011

Liabilities	At amortised cost	Insurance contracts	Total AED'000
Outstanding claims provision	-	83,775	83,775
Technical provisions	-	27,151	27,151
Insurance and other payables	48,070	-	48,070
Due to related parties	16,346	-	16,346
Total liabilities	64,416	110,926	175,342

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

Notes to the financial statements (continued)

31 Financial instruments (continued)

Categories of financial instruments

Year- 2010

Assets	Loans and receivables at amortised cost AED'000	Other 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	632	-	-	632
Due from related parties	14,128	-	-	14,128
Total financial assets	71,473	143,500	310,767	525,740

Year- 2010

Liabilities	At cost	Insurance contracts	Total AED'000
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	90,149	364,765	454,914

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

Notes to the financial statements (continued)

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 on Establishment of the Insurance Authority and Organization of the Insurance Operations 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 100,000,000/- (2010: 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, 2011 and December 31, 2010.

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:

	2011 AED'000	2010 AED'000
Total equity held	166,547	162,689
Minimum Regulatory Capital	100,000	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.)

Notes to the financial statements (continued)

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	Past due but not impaired			Total	Past due and impaired	Total
		<120 days	120-180 days	>180 days			
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
December 31, 2011	<u>14,702</u>	<u>5,821</u>	<u>4,086</u>	<u>24,817</u>	<u>49,426</u>	<u>(3,033)</u>	<u>46,393</u>
December 31, 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>

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 -2011

	Less than 30 days	30-90 days	90-180 days	After 180 days	Total AED'000
Statutory deposits	-	-	-	10,268	10,268
Financial assets	-	-	-	105,077	105,077
Insurance receivables	8,101	21,014	13,526	3,752	46,393
Other receivables	251	666	174	-	1,091
Due from related parties	982	6,428	3,322	595	11,327
Cash in hand and at banks including deposits:					
Interest bearing	-	11,211	-	-	11,211
Non-interest bearing	12	-	-	-	12
	<u>9,346</u>	<u>39,319</u>	<u>17,022</u>	<u>119,692</u>	<u>185,379</u>

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

Notes to the financial statements (continued)

31 Financial instruments (continued)

Liquidity risk (continued)

Year -2011	Less than 30 days	30-90 days	90-180 days	After 180 days	Total AED'000
Liabilities					
Insurance and other payables	5,538	22,168	11,124	9,240	48,070
Due to related parties	329	3,555	4,588	7,874	16,346
	<u>5,867</u>	<u>25,723</u>	<u>15,712</u>	<u>17,114</u>	<u>64,416</u>

Year -2010

	Less than 30 days	30-90 days	90-180 Days	After 180 days	Total AED'000
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>
Liabilities					
Insurance and other payables	595	27,893	9,831	40,266	78,585
Due to related parties	64	-	-	11,500	11,564
	<u>659</u>	<u>27,893</u>	<u>9,831</u>	<u>51,766</u>	<u>90,149</u>

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

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

Notes to the financial statements (continued)

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 variable 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

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 December 31, 2011 would have been unaffected as the equity investments are classified as at fair value through other comprehensive income and no investments were disposed of during the year; and
- equity reserve for investments at fair value through other comprehensive income would increase/decrease by AED 7.934 million (2010: increase/decrease by AED 9.075 million) as a result of the changes in fair value of shares at fair value through other comprehensive income.

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

Notes to the financial statements (continued)

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 prior year.

33 Post-reporting date events

Except for the proposed cash dividend of 15% of paid up capital for the year ended December 31, 2011(note 26) there are no adjusting or significant non-adjusting events which have occurred between the reporting date and the date of authorisation of these financial statements.

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جرانت ثورنتون 

دبي الوطنية للتأمين وإعادة التأمين ش.م.ع.
دبي - الإمارات العربية المتحدة

تقرير مراقب الحسابات والقوائم المالية
٣١ ديسمبر ٢٠١١