AL DHAFRA INSURANCE COMPANY P.S.C.

Reports and financial statements for the year ended 31 December 2011

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Reports and financial statements
for the year ended 31 December 2011

BOARD OF DIRECTORS

Chairman	**H.E. Sheikh Mohamed Bin Sultan Al Dhahiry**
Directors	**Mr. Saif Saeed Bin Ahmed Ghobash**
	Mr. Hamad Bin Abdullah Al Shamsi
	Mr. Rashid Bin Mohamed Al Mazroi
	Mr. Saif Bin Mubarak Al Riamy
	Mr. Saleh Bin Rashid Al Dhahiry
	Mr. Sayah Bin Mohamed Mousa Al Qubeisy
	Mr. Obeid Bin Khalifa Al Jaber
	Mr. Yousef Bin Mohamad Ali Al Nowais
General Manager	**Mr. Kamal Sartawi**
Auditors	**Deloitte & Touche (M.E.)**

BOARD OF DIRECTORS (continued)

HEAD OFFICE

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THE BOARD OF DIRECTORS' 32ND ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

Dear Shareholders,

The Board of Directors have the pleasure to welcome you to the Ordinary General Assembly of the Company and present to you the 32nd Annual Report regarding the business activities and financial position of the Company during the year 2011 as financial statements for the year ended 31 December 2011 along with Auditor's Report.

Introduction:

Year 2011 witnessed a wide range of natural disasters, breaking the record of disasters, both in terms of number and economic consequences. The worst natural disaster was the devastating earthquake that struck Japan on 11 March 2011 and the flood that swept through Bangkok on 27 October 2011. The preliminary estimates of the cost of the natural disasters in 2011 was around USD 350 Billion and the impact on the insurance industry around the world was more than USD 100 Billion, which was double the loss of insurance and reinsurance industry from the natural disasters of 2010.

The series of disasters have taken place at a time when the negative impact of the global financial crisis continues to ravage the economies of the world, both individuals and institutions. Situation worsened further with the sovereign debt crisis of a number of European countries, especially Greece.

Despite all the challenges and the impact of the economic crisis dominating since last three years on economies of countries around the world, our Company has continued the outstanding performance for the fifth consecutive year. It is worthy to mention that this is the result of focusing all efforts towards achieving better operational results instead of just concentrating on mere volume of business and carefully avoiding getting into unhealthy competition which is ignoring even the basic technical principles of insurance.

Here below is a summary of certain important figures appearing in the income statement:

1. An increase in Gross premium income to AED 288,480,964 from AED 282,748,947
2. An increase in Gross Technical Profit to AED 65,407,189 from AED 63,351,573
3. An increase in Net Technical profit to AED 39,303,773 from AED 38,646,333
4. Reduction in investment income to AED 5,600,152 from AED 14,822,442
5. Reduction in Net Profit to AED 44,903,925 from AED 53,468,775

Total & Net Premiums:

The Gross Insurance Premium written by the Company during the year under review reached AED 288,480,964 against AED 282,748,947 achieved during the year 2010, recording an increase of 2%.

The premiums retained by the Company for its own account during the year under review reached AED 144,589,322 against AED 128,527,678 for the year 2010, that is, an increase of 13%.

Gross paid claims

The gross claims paid by the Company to its customers during the year under report reached AED 167,439,353 against AED 122,090,250 an increase of 37%.

Technical Reserves:

The technical reserves at the end of the year under review reached AED 122,406,154 against AED 123,404,473 in the last year. It may be noted that the technical reserves are now equal to 85% of the retained premiums.

Figures relating to Different classes of Insurance

Gross written Premium	2011 (AED)	2010 (AED)
Marine & Aviation Insurance	29,354,163	25,956,125
Fire & General Accidents Insurance	259,126,801	256,792,822
Total	**288,480,964**	**282,748,947**

Gross Paid Claims	2011 (AED)	2010 (AED)
Marine & Aviation Insurance	23,881,238	5,161,049
Fire & General Accidents Insurance	143,558,115	116,929,201
Total	**167,439,353**	**122,090,250**

Technical Reserves	2011 (AED)	2010 (AED)
Marine & Aviation Insurance	896,194	843,659
Fire & General Accidents Insurance	121,509,957	122,560,814
Total	**122,406,151**	**123,404,473**

Investments:

The total investments of the Company increased to an amount of AED 217,380,514 at the end of 2011 from AED 190,804,125 at the end of 2010 showing an increase of 14%.

The investment income reduced to AED 5,600,152 from AED 14,822,442 in the last year, showing a decrease of 62%.

It is worth mentioning that most of the investments of the Company are within the U.A.E. The Company has no investments in U.S.A. or in Europe and all of its available cash is deposited in Banks within the U.A.E.

General & Administrative Expenses:

The General and Administrative Expenses during the year under review reached an amount of AED 26,103,416 against an amount of AED 24,705,240 in the last year, that is, an increase of 6%.

Net Profits:

The net profits achieved by the Company from insurance and investment activities for the year under review is AED 44,903,925 against an amount of AED 53,468,775 achieved last year, that is, a decrease of 16%.

Technical profit contributes to 88% of the net profit of the Company underscoring the technical strength of Company's operational side.

THE BOARD OF DIRECTORS' 32ND ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

Company Braches and Offices:

There are no changes in the number of Branches and Point of Sales of the Company since we have expanded during the last few years and now we have branches and point of sales in most residential areas and service centers in Abu Dhabi, Al Ain, Baniyas, Al Rahba, Musaffah and in Traffic Dept offices and also in Dubai and Sharjah.

Profit Distribution:

The net profit of AED 44,903,925 achieved by the Company during the year together with the retained profit of AED 86,337,656 from the previous year amounted to a distributable income of AED 131,241,581.

We recommend appropriation of the above profit as follows:

Amount (AED)	Details of appropriation
4,490,393	To be transferred to Legal Reserve
36,000,000	To be distributed among shareholders as dividends
10,000,000	To be issued to the Shareholders as Bonus Shares
3,000,000	Remuneration for the Chairman and Members of the Board of Directors
77,751,188	To be carried forward to the subsequent year

Plans for 2012

We are continuing our prudent business strategy of concentrating on healthy business aiming at achieving better operational results which has helped us in continuously recording growth in consecutive 5th year. Underwriting income constitutes 73% of the capital of the Company and 88% of the net profit. We are also exploring opportunity and feasibility to open branches outside U.A.E, in G.C.C. Countries, especially in Qatar and Kingdom of Saudi Arabia.

Recommendations of Board of Directors to Shareholders:

The Board of Directors is pleased to present the following recommendations to the Ordinary General Assembly of the Shareholders of the Company for their approval.

1. To approve the report of the Board of Directors for 2011.
2. To approve the Auditor's Report for 2011.
3. To approve the statement of financial position of the Company as at 31 December 2011 and the financial statements for the year ended 31 December 2011.
4. To approve the reserves and distribution of dividends as proposed by the Board.
5. To increase the share capital of the Company from AED 90 Million to AED 100 Million by distribution of bonus shares among the shareholders.
6. To discharge the Chairman and Members of the Board of Directors and External Auditor from liabilities related to the performance of their duties for the year ended 31 December 2011.
7. To appoint external auditors for the year 2012 or re-appointing the present auditors and determine their fees.

Conclusion

The Board of Directors would like to conclude the report by expressing its appreciation and utmost respect to His Highness Sheikh Khalifa Bin Zayed Al Nahyan, the President of the United Arab Emirates and His Brothers, the Rulers of other Emirates and His Highness Sheikh Mohamad Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi for their continuous support and patronage for National institutions and Companies.

The Board of Directors would also like to praise the persistent efforts of the management and staff of the Company who did their best to serve the Company and its clients and to promote its relations with Insurance, Reinsurance Companies and brokers locally and internationally

On behalf of the Board of Directors

Chairman
14 February 2012

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Al Dhafra Insurance Company P.S.C.
Abu Dhabi, UAE

Report on the financial statements

We have audited the accompanying financial statements of Al Dhafra Insurance Company P.S.C. (the "Company"), which comprise the statement of financial position as at 31 December 2011, and the income statement, statement of comprehensive income, statement of changes in 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 judgment, 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.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (Continued)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position Al Dhafra Insurance Company P.S.C. at 31 December 2011, and 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

Also, in our opinion, proper books of account are maintained by the Company, and the financial information included in the Board of Directors' report is in agreement with the books of account. We have obtained all the information which we considered necessary for the purpose of our audit. According to the information available to us, there were no contraventions during the year of the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended), the UAE Federal Law No. (6) of 2007 concerning the formation of Insurance Authority of UAE or the Articles of Association of the Company which might have a material effect on the financial position of the Company or on the results of its financial performance for the year.

Deloitte & Touche (M.E.)

Abu Dhabi- U.A.E.
P.O.Box : 990
Deloitte & Touche

Saba Y. Sindaha
Registration Number 410
14 February 2012

Statement of financial position as at 31 December 2011

	Notes	2011 AED	2010 AED
ASSETS			
Non-current assets			
Property and equipment	5	2,605,048	3,050,815
Investment properties	6	80,100,000	81,000,000
Intangible assets	7	2,995,703	982,925
Investments designated at fair value through other comprehensive income (FVTOCI)	8.2	65,656,343	65,726,546
Investments at amortised cost	8.2	21,524,400	9,914,400
Statutory deposit	9	10,000,000	10,000,000
Total non-current assets		182,881,494	170,674,686
Current assets			
Investments designated at fair value through profit or loss (FVTPL)	8.2	50,099,771	16,553,179
Investments at amortised cost	8.2	-	17,610,000
Reinsurance contract assets	10	133,222,830	205,476,042
Trade and other receivables	12	100,920,358	91,538,866
Prepayments		1,664,807	1,671,911
Bank balances and cash	22	235,385,945	275,006,671
Total current assets		521,293,711	607,856,669
Total assets		704,175,205	778,531,355

Statement of financial position
as at 31 December 2011 (continued)

	Notes	2011 AED	2010 AED
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	13	**90,000,000**	75,000,000
Legal reserve	14	**41,990,393**	37,500,000
General reserve	15	**145,000,000**	145,000,000
Investment revaluation reserve		**(105,970,180)**	(94 [illegible]37,786)
Retained earnings		**123,581,300**	138,837,656
Total shareholders' equity		**294,601,513**	301,999,870
Non-current liability			
Provision for end of service benefits	17	**5,258,079**	5,139,415
Current liabilities			
Insurance contract liabilities	10	**255,628,981**	328,880,515
Trade and other payables	18	**148,686,632**	142,511,555
Total current liabilities		**404,315,613**	471,392,070
Total liabilities		**409,573,692**	476,531,485
Total equity and liabilities		**704,175,205**	778,531,355

....
Chairman

....
Director

The accompanying notes form an integral part of these financial statements.

Income statement
for the year ended 31 December 2011

	Notes	2011 AED	2010 AED
Gross written premium		288,480,964	282,748,947
Change in unearned premium		(1,286,595)	(17,826,416)
Insurance premium revenue		287,194,369	264,922,531
Reinsurance premium ceded		(143,891,642)	(154,221,269)
Change in reinsurance portion of unearned premium		(4,769,990)	6,996,714
Net reinsurance premium ceded		(148,661,632)	(147,224,555)
Net insurance premium revenue		138,532,737	117,697,976
Gross claims paid		(167,439,353)	(122,090,250)
Change in outstanding claims provision		74,538,129	(36,223,201)
Net claims incurred		(92,901,224)	(158,313,451)
Reinsurance share of claims paid		76,557,210	55,295,323
Change in reinsurance share of outstanding claims		(67,483,222)	31,815,159
Reinsurance share of claims incurred		9,073,988	87,110,482
Net claims incurred		(83,827,236)	(71,202,969)
Gross commission earned		25,123,775	34,096,663
Less: commission incurred		(14,422,087)	(17,240,097)
Net commission earned		10,701,688	16,856,566
Net underwriting income		65,407,189	63,351,573
Administrative expenses		(20,612,342)	(19,299,982)
Other operating expenses		(5,491,074)	(5,405,258)
Net investment and other income	19	5,600,152	14,822,442
Profit for the year	20	44,903,925	53,468,775
Basic earnings per share	21	0.50	0.59

The accompanying notes form an integral part of these financial statements.

Statement of comprehensive income
for the year ended 31 December 2011

	Notes	2011 AED	2010 AED
Profit for the year		**44,903,925**	53,468,775
Other comprehensive (loss)/income			
Loss on disposal of investments at FVTOCI	**8.2**	**(519,888)**	-
(Decrease)/increase in fair value of Investments at FVTOCI	**8.2**	**(10,282,394)**	1,471,105
Directors' remuneration	**11**	**(4,000,000)**	(2,000,000)
Total other comprehensive loss		**(14,802,282)**	(528,895)
Total comprehensive income for the year		**30,101,643**	52,939,880

The accompanying notes form an integral part of these financial statements.

AL DHAFRA INSURANCE COMPANY P.S.C.

Statement of changes in equity for the year ended 31 December 2011

	Share capital AED	Legal reserve AED	General reserve AED	Investment revaluation reserve AED	Retained earnings AED	Total AED
Balance at 31 December 2009	75,000,000	37,500,000	145,000,000	(95,808,891)	124,868,881	286,559,990
Profit for the year	-	-	-	-	53,468,775	53,468,775
Other comprehensive loss for the year	-	-	-	1,471,105	(2,000,000)	(528,895)
Total comprehensive income for the year	-	-	-	1,471,105	51,468,775	52,939,880
Dividends paid	-	-	-	-	(37,500,000)	(37,500,000)
Balance at 31 December 2010	75,000,000	37,500,000	145,000,000	(94,337,786)	138,837,656	301,999,870
Profit for the year	-	-	-	-	44,903,925	44,903,925
Other comprehensive loss for the year	-	-	-	(10,282,394)	(4,519,888)	(14,802,282)
Total comprehensive income for the year	-	-	-	(10,282,394)	40,384,037	30,101,643
Dividends paid					(37,500,000)	(37,500,000)
Bonus shares issued	15,000,000	-	-	-	(15,000,000)	-
Transfer to legal reserve	-	4,490,393	-	-	(4,490,393)	-
Transfer to retained earnings on disposal of investments at FVTOCI	-	-	-	(1,350,000)	1,350,000	-
Balance at 31 December 2011	**90,000,000**	**41,990,393**	**145,000,000**	**(105,970,180)**	**123,581,300**	**294,601,513**

The accompanying notes form an integral part of these financial statements.

Statement of cash flows
for the year ended 31 December 2011

	Notes	2011 AED	2010 AED
Operating activities			
Profit for the year		44,903,925	53,468,775
Adjustments for:			
Depreciation of property and equipment	5	871,541	888,838
Decrease in fair value of investment property	6	900,000	-
Amortisation of intangible assets	7	988,156	385,095
Investment income		(5,809,264)	(13,924,750)
Loss/(gain) on disposal of property and equipment	19	13,808	(29,715)
Provision for end of service benefits	17	478,880	558,188
Operating cash flows before movements in working capital		42,347,046	41,346,431
Decrease/(increase) in reinsurance contract assets		72,253,212	(38,811,873)
(Decrease)/increase in insurance contract liabilities		(73,251,534)	54,049,617
Increase in trade and other receivables		(8,789,960)	(27,252,057)
Decrease/(increase) in prepayments		7,104	(92,875)
Increase in trade and other payables		5,175,077	20,951,816
Cash from operating activities		37,740,945	50,191,059
End of service benefits paid	17	(360,216)	(448,942)
Net cash from operating activities		37,380,729	49,742,117
Investing activities			
Proceeds from disposal of:			
Investments designated at FVTOCI	8.2	1,860,161	-
Investments designated at FVTPL	8.2	10,871,983	-
Investments at amortised cost	8.2	-	19,287,000
Property and equipment		13,238	33,887
Interest received		7,950,107	12,239,299
Dividends received	19	2,803,496	1,111,764
Rental income received	19	3,501,722	3,278,983
Purchase of:			
Investments at FVTOCI	8.2	(12,592,240)	(62,500)
Investments at FVTPL	8.2	(47,301,107)	-
Property and equipment	5	(1,066,439)	(2,086,928)
Intangible assets	7	(2,387,315)	(403,694)
Payment of investment expenses	19	(155,061)	(174,809)
Movement in bank deposits with original maturities of greater than three months		11,581,461	(16,102,686)
Net cash (used in)/from investing activities		(24,919,994)	17,120,316
Financing activities			
Dividends paid		(37,500,000)	(37,500,000)
Directors' remuneration paid		(3,000,000)	-
Net cash used in investing activities		(40,500,000)	(37,500,000)
(Decrease)/increase in cash and cash equivalents		(28,039,265)	29,362,433
Cash and cash equivalents at the beginning of the year		42,663,305	13,300,872
Cash and cash equivalents at the end of year	22	14,624,040	42,663,305

The accompanying notes form an integral part of these financial statements.

1 General information

Al Dhafra Insurance Company P.S.C. (the "Company") is a public shareholding company incorporated in Abu Dhabi by Emiri Decree No. 8 of 1979.

The Company is domiciled in the United Arab Emirates and its registered office address is PO Box 319, Abu Dhabi.

The Company's ordinary shares are listed on the Abu Dhabi Securities Exchange.

The Company is engaged in insurance and reinsurance of all classes of business with the exception of endowments and annuities.

2 Adoption of new and revised International Financial Reporting Standards (IFRSs)

2.1 New and revised IFRSs applied with no material effect on the financial statements

The following new and revised IFRSs have been adopted in these financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

New and revised IFRSs	Summary of requirement
Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters*	The amendments give first time adopts first time adopters the same transition provisions that Amendments to IFRS 7 provides to current IFRS preparers.
Amendments to IFRS 3 *Business Combinations*	The amendments clarify the measurement choice regarding non-controlling interests at the date of acquisition and regarding the accounting for share-based payment awards held by acquiree's employees.
Amendments to IAS 1 *Presentation of Financial Statements*	The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements.
IAS 24 *Related Party Disclosures (as revised in 2009)*	IAS 24 (revised in 2009) has been revised on the following two aspects: definition of a related party and the introduction of a partial exemption from the disclosure requirements for government-related entities.

2 Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.1 New and revised IFRSs applied with no material effect on the financial statements (continued)

New and revised IFRSs	Summary of requirement
Amendment to IAS 32 *Classification of Rights Issues*	The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments.
Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*	The amendments address when refunds or reductions in future contributions should be regarded as available; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of a prepaid minimum funding contribution.
Amendment to IFRS 7 Financial Instruments: Disclosures relating to transition to IFRS 9 (or otherwise when IFRS 9 is first applied)	This has been early adopted with no impact as the Company has adopted IFRS 9 in 2009
IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*	The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments.
Improvements to *IFRSs* issued in 2010	The application of *Improvements to IFRSs* issued in 2010 which amended IFRS1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13.

2 Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2 New and revised IFRSs in issue but not yet effective

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
Amendment to IFRS 7 *Financial Instruments: Disclosures,* relating to Disclosures on Transfers of Financial Assets	1 July 2011
Amendment to IFRS 1 *Removal of Fixed Dates for First-time Adopters*	1 July 2011
Amendment to IFRS 1 *Severe Hyperinflation*	1 July 2011
Amendment to IAS 12 *Income Taxes* relating to Deferred Tax – Recovery of Underlying Assets	1 January 2012
Amendment to IAS 1 *Presentation of Financial Statements* relating to presentation of items of other comprehensive income	1 July 2012
IAS 19 *Employee Benefits* (as revised in 2011)	1 January 2013
IAS 27 *Separate Financial Statements* (as revised in 2011)	1 January 2013
IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011)	1 January 2013
IFRS 10 *Consolidated Financial Statements*	1 January 2013
IFRS 11 *Joint Arrangements*	1 January 2013
IFRS 12 *Disclosure of Interests in Other Entities*	1 January 2013
IFRS 13 *Fair Value Measurement*	1 January 2013
Amendment to IFRS 7 *Financial Instruments: Disclosures* relating to offsetting of financial assets and financial liabilities	1 January 2013
IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*	1 January 2013
Amendment to IAS 32 *Financial Instruments: Presentation* relating to offsetting of financial assets and financial liabilities	1 January 2014

Management anticipates that these amendments will be adopted in the financial statements for the initial period when they become effective. Management has not yet had the opportunity to consider the potential impact of the adoption of these amendments.

3 Summary of significant accounting policies

3.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates (UAE) Federal Law No. 8 of 1984 (as amended) and Federal Law No. 6 of 2007, concerning the formation of Insurance Authority of UAE.

3.2 Basis of preparation

The financial statements have been prepared on the historical cost basis except for the revaluation of investment properties and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

3.3 Insurance contracts

<u>Definition</u>

The Company issues contracts that transfer insurance risk. Insurance contracts are those contracts that transfer significant insurance risk. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrance of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

<u>Recognition and measurement</u>

Insurance contracts are classified into two main categories, depending on the duration of risk and whether or not the terms and conditions are fixed.

These contracts are casualty and property insurance contracts.

Casualty insurance contracts protect the Company's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers liability) and for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

Property insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

For all these insurance contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability. Premiums are shown in the profit and loss before deduction of commission.

Claims and loss adjustment expenses are charged to the profit or loss as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders.

3 Summary of significant accounting policies (continued)

3.3 Insurance contracts (continued)

Reinsurance contracts held

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer are included with insurance contracts. The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance contract assets. The Company assesses its reinsurance contract assets for impairment on a regular basis. If there is objective evidence that the reinsurance contract asset is impaired, the Company reduces the carrying amount of the reinsurance contract assets to its recoverable amount and recognises that impairment loss in the profit or loss. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

Insurance contract liabilities

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Company and still unpaid at the end of the reporting period, in addition for claims incurred but not reported. The unearned premium considered in the insurance contract liabilities comprise the estimated proportion of the gross premiums written which relates to the periods of insurance subsequent to the end of the reporting period. This provision is calculated at 40% of the annual premiums written for all insurance classes except marine which are calculated at 25% and Motor at 45%.

The reinsurers' portion towards the above outstanding claims, claims incurred but not reported and unearned premium is classified as reinsurance contract assets in the financial statements.

Deferred policy acquisition costs

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are amortised over the terms of the policies as premium is earned.

Salvage and subrogation reimbursements

Estimates of salvage and subrogation reimbursements are considered as an allowance in the measurement of the insurance liability for claims.

3 Summary of significant accounting policies (continued)

3.3 Insurance contracts (continued)

Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred policy acquisition costs. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the profit or loss initially by writing off the deferred policy acquisition costs and by subsequently establishing a provision for losses arising from liability adequacy tests.

Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the profit or loss.

3.4 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable in the normal course of business.

Insurance contract income

Revenue from insurance contracts is measured under revenue recognition criteria stated under insurance contracts in these financial statements (see above 3.3)

Commission income and expenses

Commission income is recognised when re-insurance is entered into and commission expenses are recognised when the policies are issued based on the terms and percentages agreed with other insurance companies and/or brokers.

Rental, dividend and interest income

Rental income from investment properties is recognised on a straight-line basis over the term of the relevant lease and is stated net of related property expenses. Dividend income is recognised when the Company's right to receive the payment has been established. Interest income is accrued on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable. For investments held until maturity which have variable rates of return, the minimum guaranteed return is recognised in the profit or loss using the effective interest rate method. Returns in excess of the minimum guaranteed return, if any, are recognised on maturity.

3 Summary of significant accounting policies (continued)

3.5 Foreign currencies

For the purpose of these financial statements UAE Dirhams (AED) is the functional and the presentation currency of the Company.

Transactions in currencies other than AED (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the profit or loss in the period in which they arise.

3.6 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the profit or loss in the period in which they are incurred.

Depreciation is calculated so as to write off the cost of property and equipment on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Furniture and fittings	25
Motor vehicles	33.33
Computer equipment and accessories	20

The estimated useful lives, residual values and depreciation method reviewed at the end of each annual reporting period with the effect of any changes accounted for on a prospective basis.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

3 Summary of significant accounting policies (continued)

3.7 Capital work in progress

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. When the asset is ready for its intended use and is commissioned, capital work in progress is transferred to the appropriate property, plant and equipment or intangible asset category and is depreciated or amortised on the same basis as other assets in accordance with Company's policies.

3.8 Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes), are measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment properties are included in the profit or loss for the period in which they arise.

3.9 Intangible assets

Intangible assets acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Cost includes purchase cost, together with any incidental expenses of acquisition. The amortisation charge is calculated so as to write off the cost of the intangible asset on a straight-line basis over the expected useful economic life of 6 years. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period with the effect of any changes in estimation accounted for on a prospective basis.

3.10 Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

3 Summary of significant accounting policies (continued)

3.10 Impairment of non-financial assets (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.11 Provisions

Provisions are recognised when the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

3.12 Employee benefits

Accrual is made for the full amount of end of service benefits due to non-UAE national employees in accordance with UAE Labour Law, for their period of service up to the end of the reporting period.

Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (2), 2000 for Pension and Social Security. Such contributions are charged to the profit or loss during the employees' period of service.

3.13 Financial assets

All financial assets are recognised and derecognised on trade date when the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss (FVTPL), which are initially measured at fair value.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value.

3.13.1 Classification of financial assets

The Company had the following financial assets as at 31 December 2011: 'cash and cash equivalents', 'loans and receivables', 'investments at amortised costs', 'financial assets at fair value through profit or loss (FVTPL)', and 'financial assets at fair value through other comperehensive income (FVTOCI)'.

3 Summary of significant accounting policies (continued)

3.13 Financial assets (continued)

3.13.2 Financial assets at amortised cost and the effective interest method

Cash and cash equivalents

Cash and cash equivalents which include cash on hand and deposits held at call with banks with original maturities of three months or less, are classified as financial assets at amortised cost.

Insurance receivables

Insurance receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as financial assets at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Investments at amortised cost

Debt instruments are measured at amortised cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments meeting these criteria are measured initially at fair value plus transaction costs (except if they are designated as at FVTPL – see note 3.13.3 below). They are subsequently measured at amortised cost using the effective interest method less any impairment (see note 3.13.5 below).

Subsequent to initial recognition, the Company is required to reclassify debt instruments from amortised cost to FVTPL if the objective of the business model changes so that the amortised cost criteria are no longer met.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

The Company may irrevocably elect at initial recognition to classify a debt instrument that meets the amortised cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortised cost.

3 Summary of significant accounting policies (continued)

3.13 Financial assets (continued)

3.13.3 Financial assets at FVTPL

Debt instrument financial assets that do not meet the amortised cost criteria described in note 3.13.2, or that meet the criteria but the entity has chosen to designate as at FVTPL at initial recognition, are measured at FVTPL. The Company has not designated a debt instrument financial asset as at FVTPL.

Subsequent to initial recognition, the Company is required to reclassify debt instruments from FVTPL to amortised cost if the objective of the business model changes so that the amortised cost criteria starts to be met and the instrument's contractual cash flows meet the amortised cost criteria. Reclassification of debt instruments designated as at FVTPL at initial recognition (see note 3.13.2) is not permitted.

Investments in equity instruments are mandatorily classified as at FVTPL, unless the Company designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) at initial recognition as described in note 3.13.4 below.

Financial assets at FVTPL are measured at fair value, with any gains or losses arising on re-measurement recognised in profit or loss.

3.13.4 Financial assets at FVTOCI

At initial recognition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has evidence of a recent actual pattern of short-term profit-taking; or

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is reclassified to retained earnings.

3 Summary of significant accounting policies (continued)

3.13 Financial assets (continued)

3.13.5 Impairment of financial assets at amortised cost

Financial assets that are measured at amortised cost are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in local economic conditions that correlate with default on receivables.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

3.13.6 Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset.

3 Summary of significant accounting policies (continued)

3.14 Financial liabilities and equity instruments issued by the Company

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

3.14.1 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

3.14.2 Financial liabilities

Financial liabilities comprise insurance payables and other liabilities, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis, except for short-term liabilities when the recognition of interest would be immaterial.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

3.14.3 Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

3.15 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

4 Critical accounting judgments and key sources of estimation of uncertainty

While applying the accounting policies as stated in Note 3, management of the Company has made certain judgments, estimates and assumptions that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period of the revision in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The significant judgments and estimate made by management, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

4.1 Classification of investments

Management designates at the time of acquisition of securities whether these should be classified as at FVTOCI, FVTPL or amortised cost. In judging whether investments in securities are as at FVTOCI, FVTPL or amortised cost, Management has considered the detailed criteria for determination of such classification as set out IFRS 9 *Financial Instruments*. Management is satisfied that its investments in securities are appropriately classified.

4.2 Impairment of amounts due from insurance and reinsurance companies

Management regularly reviews the collectability of amounts due from insurance and reinsurance companies. The majority of these receivables are due from reputable local and international insurance and reinsurance companies. Such balances are regularly reconciled by both parties and are settled by on account payments on a regular basis. Based on the above evaluation, Management is satisfied that no impairment is necessary on receivables from insurance and re-insurance companies.

4.3 Impairment of amounts due from policy holders

An estimate of the collectible amounts from policyholders is made when collection of the full amount is no longer probable. This determination of whether the insurance receivables are impaired entails the Management's evaluation of the specific credit and liquidity position of the policy holders and their historical recovery rates including detailed investigations carried out during 2011 and feedback received from the legal department. Impairment allowance balance of amounts due from policy holders at 31 December 2011 is AED 6,291,017 (2010 - AED 6,291,017).

4.4 Impairment of investments at amortised cost

Management regularly reviews indicators of impairment for investments at amortised cost and considers the criteria as set out in IFRS 9 *Financial Instruments*. Management evaluated the basis, particularly instances of default or delinquency in interest or principal payments. Management assessed that the impairment of investments at amortised cost for 2011 is AED 6,000,000 (2010 – AED 750,000).

4 Critical accounting judgments and key sources of estimation of uncertainty (continued)

4.5 Estimate of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Company determined the amount within a range of reasonable fair value estimates. In making its judgment, the Company considered recent prices of similar properties in the same location and similar conditions, which adjustments to reflect any changes in the nature, location or economic conditions since the date of the transactions that occurred at those prices. Such estimation is based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

4.6 The ultimate liability arising from claims made under insurance contracts

The estimation of ultimate liability arising from the claims made under insurance contracts is the Company's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Company will eventually pay for such claims. Estimates have to be made at the end of the reporting period for both the expected ultimate cost of claims reported and for the expected ultimate cost of claims incurred but not reported ("IBNR"). Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Company and management estimates based on past claims settlement trends for the claims incurred but not reported. At the end of each annual reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

4.7 Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities. The Company makes use of the best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities in evaluating the adequacy of the liability. Any deficiency is immediately charged to the profit or loss.

AL DHAFRA INSURANCE COMPANY P.S.C.

Notes to the financial statements
for the year ended 31 December 2011 (continued)

5 Property and equipment

	Furniture and fittings AED	Motor vehicles AED	Computer equipment and accessories AED	Capital work in progress AED	Total AED
Cost					
1 January 2010	3,053,078	680,600	1,156,413	182,679	5,072,770
Additions	303,457	136,000	158,898	1,488,573	2,086,928
Disposals	(185,181)	(75,000)	(13,481)	-	(273,662)
Transfer	40,990	-	-	(40,990)	-
Transfer to intangible assets (note 7)	-	-	-	(12,845)	(12,845)
31 December 2010	3,212,344	741,600	1,301,830	1,617,417	6,873,191
Additions	129,231	30,500	341,780	564,928	1,066,439
Disposals	(313,047)	-	(8,020)	-	(321,067)
Transfer to intangible assets (note 7)	16,027	-	(528)	(629,118)	(613,619)
31 December 2011	**3,044,555**	**772,100**	**1,635,062**	**1,553,227**	**7,004,944**
Accumulated depreciation					
1 January 2010	1,941,038	418,023	843,967	-	3,203,028
Charge for the year	622,229	178,740	87,869	-	888,838
Disposals	(181,009)	(75,000)	(13,481)	-	(269,490)
31 December 2010	2,382,258	521,763	918,355	-	3,822,376
Charge for the year	514,663	179,150	177,728	-	871,541
Disposals	(286,001)	-	(8,020)	-	(294,021)
31 December 2011	**2,610,920**	**700,913**	**1,088,063**	-	**4,399,896**
Carrying amount					
31 December 2011	**433,635**	**71,187**	**546,999**	**1,553,227**	**2,605,048**
31 December 2010	830,086	219,837	383,475	1,617,417	3,050,815

Capital work in progress represents the costs incurred in the renovation of the office premises. All property and equipment are located in the UAE.

Notes to the financial statements
for the year ended 31 December 2011 (continued)

6 Investment properties

	Land AED	Abu Dhabi building AED	Al Ain building AED	Total AED
Fair value as at 31 December 2010	**56,600,000**	**20,400,000**	**4,000,000**	**81,000,000**
Increase/(decrease) in fair value during the year 2011	(4,250,000)	4,350,000	(1,000,000)	(900,000)
Fair values as at 31 December 2011	**52,350,000**	**24,750,000**	**3,000,000**	**80,100,000**

The fair values of Company's investment properties at 31 December 2011 were estimated by the Management. Management has considered recent prices for similar properties in the same location and similar condition and also the prevailing situation of Real Estate properties in UAE. This is as per valuation report from Technical and Loss Adjusting Services LLC who have determined the fair values of the land and buildings to be AED 80,100,000.

The plots of land in Abu Dhabi and Al Ain on which investment properties are constructed were awarded to the Company free of cost by the Executive Council of the Government of Abu Dhabi on 21 June 1981 and 27 August 1983, respectively. The fair values of the plots of land in Abu Dhabi and Al Ain as at 31 December 2011 amounted to AED 43,000,000 and AED 9,350,000, respectively.

The construction of the Abu Dhabi head office building was completed during 1992. The Company occupies three floors of the building for its Head Office with the remaining fourteen floors available for letting to third parties.

The construction of the Al Ain office building was completed in 1993. The Company is utilizing the first and mezzanine floors for housing its Al Ain Branch office with the remaining space available for letting to third parties.

7 Intangible assets

	Computer software AED
Cost	
1 January 2010	2,412,454
Additions	403,694
Transfer from capital work in progress (note 5)	12,845
31 December 2010	2,828,993
Additions	2,387,315
Disposals	(457,156)
Transfer from capital work in progress (note 5)	613,619
31 December 2011	**5,372,771**
Accumulated amortisation	
1 January 2010	1,460,973
Charge for the year	385,095
31 December 2010	1,846,068
Charge for the year	988,156
Disposals	(457,156)
31 December 2011	**2,377,068**
Carrying amount	
31 December 2011	**2,995,703**
31 December 2010	982,925

8 Investments

8.1 Composition of investments

The Company's investments at the end of reporting date are detailed below.

	2011 AED	2010 AED
Investments at FVTOCI		
Quoted UAE equity securities	**65,656,343**	65,726,546
Investments at FVTPL		
Investment funds	**50,099,771**	16,553,179
Investments at amortised cost		
Investment funds	**11,610,000**	17,610,000
Bonds	**9,914,400**	9,914,400
	21,524,400	27,524,400
Current	-	17,610,000
Non-current	**21,524,400**	9,914,400
	21,524,400	27,524,400

Investment funds included in investments at FVTPL comprise various mutual funds in the UAE.

Included in the investment funds at amortised cost is an investment of US$ 5 million in Arabian Real Estate Fund, which management determined to be impaired by AED 6,750,000 as at 31 December 2011 (2010: AED 750,000). During the year, the maturity of this investment was extended to 2013.

Bonds at amortised cost comprise of five-year investment amounting to US$ 2.7 million in Aldar Bonds which bears a fixed interest of 9.1%. Interest is payable semi-annually on 14 May and 14 November.

8 Investments (continued)

8.1 Composition of investments (continued)

The geographical distribution of investments is as follows:

	2011 AED	2010 AED
Within UAE	137,280,514	109,804,125
Outside UAE	-	-
	137,280,514	109,804,125

8.2 Movement in investments

The movement in investment during the year is as follows:

Investments at fair value	at FVTOCI AED	at FVTPL AED	Total AED
Fair value at 1 January 2010	64,192,941	17,484,910	81,677,851
Additions during the year	62,500	-	62,500
Increase/(decrease) in fair value taken to:			
Profit or loss (note 19)	-	(931,731)	(931,731)
Other comprehensive income	1,471,105	-	1,471,105
Fair value at 1 January 2011	65,726,546	16,553,179	82,279,725
Additions during the year	12,592,240	47,301,107	59,893,347
Proceeds from disposals during the year	(1,860,161)	(10,871,983)	(12,732,144)
Loss on disposal during the year	(519,888)	-	(519,888)
Decrease in fair value taken to:			
Profit or loss (note 19)	-	(2,882,532)	(2,882,532)
Other comprehensive income	(10,282,394)	-	(10,282,394)
Fair value at 31 December 2011	65,656,343	50,099,771	115,756,114

Notes to the financial statements
for the year ended 31 December 2011 (continued)

8 Investments (continued)

8.2 Movement in investments (continued)

	2011 AED	2010 AED
Investments at amortised cost		
Amortised cost at 1 January	**27,524,400**	47,561,400
Purchases during the year	-	-
Proceeds from maturity	-	(19,287,000)
Provision for impairment	**(6,000,000)**	(750,000)
Amortised cost at 31 December	**21,524,400**	27,524,400

9 Statutory deposit

In accordance with the requirements of Federal Law No. 6 of 2007 concerning the formation of Insurance Authority of UAE, the Company maintains a bank deposit of AED 10,000,000 (2010 - AED 10,000,000) which cannot be utilised without the consent of the UAE Insurance Authority.

10 Insurance contract liabilities and reinsurance contract assets

	2011 AED	2010 AED
Insurance liabilities		
Reported claims	**134,406,538**	204,380,146
Claims incurred but not reported	**4,456,913**	9,021,434
Unearned premiums	**116,765,530**	115,478,935
	255,628,981	328,880,515
Recoverable from reinsurers		
Reported claims	**78,716,499**	142,180,269
Claims incurred but not reported	**880,583**	4,900,035
Unearned premiums	**53,625,748**	58,395,738
	133,222,830	205,476,042
Insurance liabilities – Net		
Reported claims	**55,690,039**	62,199,877
Claims incurred but not reported	**3,576,330**	4,121,399
Unearned premiums	**63,139,782**	57,083,197
	122,406,151	123,404,473

AL DHAFRA INSURANCE COMPANY P.S.C.

Notes to the financial statements
for the year ended 31 December 2011 (continued)

10 Insurance contract liabilities and reinsurance contract assets (continued)

Movement in the insurance contract liabilities and reinsurance contract assets during the year is as follows:

	Year ended 31 December 2011			Year ended 31 December 2010		
	Gross AED	Reinsurance AED	Net AED	Gross AED	Reinsurance AED	Net AED
CLAIMS						
Notified claims	204,380,146	142,180,269	62,199,877	169,590,977	111,594,345	57,996,632
Incurred but not reported	9,021,434	4,900,035	4,121,399	7,587,402	3,670,800	3,916,602
Total at 1 January	213,401,580	147,080,304	66,321,276	177,178,379	115,265,145	61,913,234
Claims settled	(167,439,353)	(76,557,210)	(90,882,143)	(122,090,250)	(55,295,323)	(66,794,927)
Increase in liabilities	92,901,224	9,073,988	83,827,236	158,313,451	87,110,482	71,202,969
Total at 31 December	138,863,451	79,597,082	59,266,369	213,401,580	147,080,304	66,321,276
Notified claims	134,406,538	78,716,499	55,690,039	204,380,146	142,180,269	62,199,877
Incurred but not reported	4,456,913	880,583	3,576,330	9,021,434	4,900,035	4,121,399
Total at 31 December	138,863,451	79,597,082	59,266,369	213,401,580	147,080,304	66,321,276
UNEARNED PREMIUM						
Total at 1 January	115,478,935	58,395,738	57,083,197	97,652,519	51,399,024	46,253,495
Increase during the year	116,765,530	53,625,748	63,139,782	115,478,935	58,395,738	57,083,197
Release during the year	(115,478,935)	(58,395,738)	(57,083,197)	(97,652,519)	(51,399,024)	(46,253,495)
Net increase/(decrease) during the year	1,286,595	(4,769,990)	6,056,585	17,826,416	6,996,714	10,829,702
Total at 31 December	116,765,530	53,625,748	63,139,782	115,478,935	58,395,738	57,083,197

11 Related parties

Related parties comprise the Directors and major Shareholders of the Company and those entities in which they have the ability to control or exercise significant influence in financial and operational decisions. The Company maintains significant balances with these related parties which arise from commercial transactions as follows:

	2011 AED	2010 AED
Premiums written	**11,602,894**	16,733,052
Due from related party policyholders (note 12)	**10,604,726**	17,800,824
Claims paid	**5,727,635**	2,610,616
Directors' remuneration	**4,000,000**	2,000,000
Remuneration of key management	**5,915,477**	5,601,361

The remuneration of Directors is accrued and paid as an appropriation out of the profits of the year in accordance with the Federal Law No. 8 applicable to Commercial Companies operating in UAE.

The remuneration of key management personnel is based on the remuneration agreed in their employment contracts as approved by the Board of Directors.

12 Trade and other receivables

	2011 AED	2010 AED
Due from external policyholders	**63,664,431**	57,890,960
Due from related party policyholders (note 11)	**10,604,726**	17,800,824
Less: allowance for doubtful debts	**(6,291,017)**	(6,291,017)
Net due from policyholders	**67,978,140**	69,400,767
Due from insurance companies	**26,495,726**	12,887,526
Due from reinsurance companies	**2,480,946**	5,842,970
Interest receivable	**3,314,514**	2,722,982
Other receivables	**651,032**	684,621
	100,920,358	91,538,866

The average credit period on due from policy holders is 90 to 180 days. No interest is charged and no collateral is taken on trade and other receivables.

12 Trade and other receivables (continued)

The Company has adopted a policy of only dealing with creditworthy counterparties. Adequate credit assessment is made before accepting an insurance contract from any counterparty. At the end of year, AED 42,719,334 (2010: AED 25,535,484) is due from the Company's largest policy holders. The Company considers these customers to be reputable and creditworthy.

Included in the Company's total due from policy holders are balances amounting to AED 23,162,880 (2010: AED 25,086,503) which are past due at the reporting date for which no allowance has been provided for, as there was no significant change in credit quality of these policy holders and the amounts are still considered recoverable.

Ageing of trade receivables	2011 AED	2010 AED
Not past due	**44,815,260**	44,314,264
Past due but not impaired		
181 to 365 days	**17,503,871**	19,704,558
More than 365 days	**5,659,009**	5,381,945
	23,162,880	25,086,503
Past due and impaired		
181 to 365 days	**-**	278,583
More than 1 year but less than 2 years	**725,774**	1,119,260
More than 2 years but less than 3 years	**116,674**	474,860
More than 3 years	**5,448,569**	4,418,314
	6,291,017	6,291,017
Total due from policy holders	**74,269,157**	75,691,784

Movement in the allowance for doubtful debts:

	2011 AED	2010 AED
Balance at beginning of the year	**6,291,017**	5,991,017
Impairment losses recognised on receivables	**-**	300,000
Amounts written off as uncollectible	**-**	-
Balance at end of the year	**6,291,017**	6,291,017

The Company has provided for certain receivables above 181 days based on estimated irrecoverable amounts, determined after review of specific credit quality of customers and past default experience. In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the customer from the date credit was initially granted up to the reporting date. Accordingly, management believes that there is no further provision required in excess of the allowance for doubtful debts.

13 Share capital

	2011 AED	2010 AED
Authorised:		
90,000,000 (2010: 75,000,000) ordinary shares of AED 1 each	**90,000,000**	75,000,000
Issued and fully paid:		
90,000,000 (2010: 75,000,000) ordinary shares of AED 1 each	**90,000,000**	75,000,000

The Company has completed the registration formalities with the concerned authorities in relation to the capital increase during the year.

14 Legal reserve

In accordance with the UAE Federal Law number (8) of 1984 (as amended) concerning Commercial Companies and the Company's Articles of Association, 10% of net profit is to be transferred to a non-distributable legal reserve until the balance of the legal reserve equals 50% of the Company's paid up share capital. This reserve is not available for dividend distribution.

15 General reserve

Transfers to and from the general reserve are made at the discretion of the Board of Directors and approved by the shareholders. This reserve may be used for such purposes as they deem fit.

16 Proposed dividends

For the year ended 31 December 2011, the Board of Directors has proposed a cash dividend of AED 36,000,000 and a bonus shares issue of 10,000,000 shares amounting to AED 10,000,000. The cash dividend and bonus shares are subject to approval by the Shareholders at the Annual General Meeting.

Dividends, amounting to AED 37,500,000 and bonus shares of AED 15,000,000 for the year ended 31 December 2010, were approved by the Shareholders at the Annual General Meeting held on 15 March 2011.

17 Provision for end of service benefits

	2011 AED	2010 AED
Balance at the beginning of the year	**5,139,415**	5,030,169
Charge for the year	**478,880**	558,188
Paid during the year	**(360,216)**	(448,942)
Balance at the end of the year	**5,258,079**	5,139,415

AL DHAFRA INSURANCE COMPANY P.S.C.

Notes to the financial statements
for the year ended 31 December 2011 (continued)

18 Trade and other payables

	2011 AED	2010 AED
Due to policy holders	**17,458,182**	12,310,482
Due to insurance companies	**33,902,694**	25,520,164
Due to reinsurance companies	**38,210,492**	44,554,174
Premium reserve withheld	**20,054,258**	22,131,742
Commissions payable	**17,500,000**	17,500,000
Deferred income	**8,402,481**	8,102,431
Directors' remuneration payable (note 11)	**3,000,000**	2,000,000
Other payables	**10,158,525**	10,392,562
	148,686,632	142,511,555

The average credit period is 60 to 90 days. The Company has financial risk management policies in place to ensure that all payables are paid within credit time frame.

19 Net investment and other income

	2011 AED	2010 AED
Net rental income (a)	**3,501,722**	3,278,983
Net interest income (b)	**8,541,639**	11,390,543
Dividend income (c)	**2,803,496**	1,111,764
Investment expenses	**(155,061)**	(174,809)
Impairment loss on investments at amortised cost (note 8.2)	**(6,000,000)**	(750,000)
Decrease in fair value of investments at FVTPL (note 8.2)	**(2,882,532)**	(931,731)
Decrease in fair value of investment property (note 6)	**(900,000)**	-
(Loss)/gain on disposal of property and equipment	**(13,808)**	29,715
Other income	**704,696**	867,977
	5,600,152	14,822,442

Details of major investment income are as follows:

	2011	2010
Net rental income:		
Gross rental income	**4,076,727**	3,887,216
Less: building expenses	**(575,005)**	(608,233)
Net rental income (a)	**3,501,722**	3,278,983

Notes to the financial statements
for the year ended 31 December 2011 (continued)

19 Net investment and other income (continued)

Details of major investment income are as follows (continued):

	2011 AED	2010 AED
Net interest income on:		
Bank deposits	**7,479,210**	9,435,049
Investments at amortised cost	**1,062,429**	1,955,494
Net interest income (b)	**8,541,639**	11,390,543

Dividend income on:		
Investments at FVTOCI	**1,938,268**	1,111,764
Investments at FVTPL	**865,228**	-
Dividend income (c)	**2,803,496**	1,111,764

20 Profit for the year

Profit for the year is stated after charging:

	2011 AED	2010 AED
Staff costs	**17,627,833**	16,545,135
Depreciation of property and equipment (note 5)	**871,541**	888,838
Amortisation of intangible assets (note 7)	**988,156**	385,095
Foreign exchange loss	**15,084**	95,835

21 Basic earnings per share

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

	2011	2010
Profit for the year (AED)	**44,903,925**	53,468,775
Weighted average number of ordinary shares in issue throughout the year	**90,000,000**	90,000,000
Basic earnings per share (AED)	**0.50**	0.59

The earnings per share for the year were adjusted for the bonus shares issued during 2011. As of 31 December 2011, the Company has not issued any instruments that have an impact on earnings per share when exercised.

22 Cash and cash equivalents

	2011 AED	2010 AED
Cash on hand	**19,250**	19,250
Call accounts	**14,604,790**	23,427,582
Term deposits	**220,761,905**	251,559,839
Bank balances and cash	**235,385,945**	275,006,671
Less: deposits with original maturities of greater than three months	**(220,761,905)**	(232,343,366)
	14,624,040	42,663,305

The interest rate on fixed deposits and call accounts with banks ranges between 0.55% and 4% (2010: 0.55% and 4.55%) per annum. All bank deposits are held in local banks in the United Arab Emirates.

23 Segment information

The Company has adopted IFRS 8 "Operating Segments" with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (IAS 14 *Segment Reporting*) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments. This has not resulted in any significant change to the reportable segments presented by the Company as the segments reported by the Company was consistent with the internal reports provided to the Chief Operating Decision Maker.

For operating purposes, the Company is organised into two main business segments:

Underwriting of general insurance business – incorporating all classes of general insurance such as fire, marine, motor, general accident and miscellaneous.

Investments – incorporating investments in marketable equity securities and investment funds, development bonds, term deposits with banks and investment properties and other securities.

Information regarding the Company's reportable segments is presented below.

AL DHAFRA INSURANCE COMPANY P.S.C.

Notes to the financial statements
for the year ended 31 December 2011 (continued)

23 Segment information (continued)

23.1 Segment revenue and results

	Year ended 31 December 2011			Year ended 31 December 2010		
	Underwriting AED	**Investments AED**	**Total AED**	Underwriting AED	Investments AED	Total AED
Direct revenues	**313,604,739**	**15,643,320**	**329,248,059**	316,845,610	16,667,299	333,512,909
Direct costs	**(248,197,550)**	**(951,524)**	**(249,149,074)**	(253,494,037)	(1,060,818)	(254,554,855)
Administrative expenses	**(20,612,342)**	**-**	**(20,612,342)**	(19,299,982)	-	(19,299,982)
Depreciation expense	**(871,541)**	**-**	**(871,541)**	(888,838)	-	(888,838)
Amortisation expense	**(988,156)**	**-**	**(988,156)**	(385,095)	-	(385,095)
Other (expenses)/income	**(3,631,377)**	**-**	**(3,631,377)**	(4,131,325)	-	(4,131,325)
Non-cash investment						
Losses	**-**	**(9,782,532)**	**(9,782,532)**	-	(1,681,731)	(1,681,731)
Gains	**-**	**-**	**-**	-	-	-
Segment profit	**39,303,773**	**4,909,264**	**44,213,037**	38,646,333	13,924,750	52,571,083
Other income	**-**	**-**	**690,888**	-	-	897,692
Profit for the year	**39,303,773**	**4,909,264**	**44,903,925**	38,646,333	13,924,750	53,468,775

Revenue reported above represents revenue generated from external customers and third parties. There were no inter-segment revenues in the year (2010: AED nil).

The accounting policies of the reportable segments are the same as the Company's accounting policies described in note 3.

23 Segment information (continued)

23.2 Segment assets and liabilities

	As at 31 December 2011			As at 31 December 2010		
	Underwriting AED	Investments AED	Total AED	Underwriting AED	Investments AED	Total AED
Segment assets	241,408,746	448,142,419	689,551,165	302,720,559	452,363,964	755,084,523
Unallocated assets	-	-	14,624,040	-	-	23,446,832
Total assets	241,408,746	448,142,419	704,175,205	302,720,559	452,363,964	778,531,355
Segment liabilities	399,351,841	1,443,403	400,795,244	467,656,179	1,465,094	469,121,273
Unallocated liabilities	-	-	8,778,448	-	-	7,410,212
Total liabilities	399,351,841	1,443,403	409,573,692	467,656,179	1,465,094	476,531,485
Capital expenditure	3,453,754	-	-	2,490,622	-	2,490,622

Notes to the financial statements
for the year ended 31 December 2011 (continued)

23 Segment information (continued)

23.3 Revenue from underwriting departments

The following is an analysis of the Company's revenues classified by major underwriting departments.

	Revenue 2011 AED	Revenue 2010 AED
Motor	**103,236,786**	119,120,964
Engineering	**26,886,641**	39,333,873
Medical	**88,325,912**	61,108,460
Fire	**15,793,061**	19,205,753
Workmen's compensation and third party Liability	**14,077,456**	17,545,382
Others	**65,284,883**	60,531,178
	313,604,739	316,845,610

23.4 Geographical information

The Company's underwriting business is based entirely within the UAE and other GCC countries, except for some treaty reinsurance arrangements with companies based in Europe. All the investments of the Company are held in the UAE and other GCC countries.

Total revenues and total assets of the underwriting and investment segments by geographical location are detailed below:

	Revenue 2011 AED	Revenue 2010 AED	**Total assets 2011 AED**	Total assets 2010 AED
United Arab Emirates	**301,651,264**	296,225,797	**698,422,612**	775,363,985
Other GCC countries	**11,003,719**	18,015,768	**3,478,326**	2,248,103
Others	**16,593,076**	19,271,344	**2,274,267**	919,267
	329,248,059	333,512,909	**704,175,205**	778,531,355

24 Contingent liabilities

	2011 AED	2010 AED
Bank guarantees	**14,217,643**	16,177,822

The above bank guarantees were issued in the normal course of business.

25 Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the nature of an insurance contract, this risk is random and therefore unpredictable. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the estimated amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The Company manages risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography. Underwriting limits are in place to enforce appropriate risk selection criteria.

Frequency and severity of claims

The Company has the right not to renew individual policies, re-price the risk, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle the Company to pursue third parties for payment of some or all costs (for example, subrogation). Furthermore, the Company's strategy limits the total exposure to any one territory and the exposure to any one industry.

Property insurance contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claim payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies. Property insurance contracts are subdivided into four risk categories: fire, business interruption, weather damage and theft. The insurance risk arising from these contracts is not concentrated in any of the territories in which the Company operates, and there is a balance between commercial and personal properties in the overall portfolio of insured buildings.

25 Insurance risk (continued)

Frequency and severity of claims (continued)

The reinsurance arrangements include excess and catastrophe coverage. The effect of such reinsurance arrangements is that the Company should not suffer net insurance losses of a set minimum limit of AED 250,000 in any one event. The Company has survey units dealing with the mitigation of risks surrounding claims. This unit investigates and recommends ways to improve risk claims. The risks are reviewed individually at least once in 3 years and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Company actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

Sources of uncertainty in the estimation of future claim payments

Claims on insurance contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and element of the claims provision includes incurred but not reported claims (IBNR). The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims. For some insurance contracts, the IBNR proportion of the total liability is high and will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities. In estimating the liability for the cost of reported claims not yet paid, the Company considers information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The amount of insurance claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. Insurance contracts are also subject to the emergence of new types of latent claims, but no allowance is included for this at the end of the reporting period.

Where possible, the Company adopts multiple techniques to estimate the required level of provisions. This provides a greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

25 Insurance risk (continued)

Sources of uncertainty in the estimation of future claim payments (continued)

In calculating the estimated cost of unpaid claims (both reported and not), the Company's estimation techniques are a combination of loss-ratio-based estimates and an estimate based upon actual claims experience using predetermined formulae where greater weight is given to actual claims experience as time passes. The initial loss-ratio estimate is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claims inflation.

The initial estimate of the loss ratios used for the current year before and after reinsurance are analysed below by type of risk where the insured operates for current and prior year premiums earned.

	Year ended 31 December 2011		Year ended 31 December 2010	
Type of risk	**Gross Loss Ratio**	**Net Loss Ratio**	Gross Loss Ratio	Net Loss Ratio
Motor	**83%**	**78%**	70%	66%
Non-Motor	**45%**	**48%**	27%	36%

Process used to decide on assumptions

The risks associated with the insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. Internal data is derived mostly from the Company's quarterly claims reports and screening of the actual insurance contracts carried out at the end of the reporting period to derive data for the contracts held. The Company uses assumptions based on a mixture of internal and market data to measure its claims liabilities. The Company has reviewed the individual contracts and in particular the industries in which the insured companies operate and the actual exposure years of claims. This information is used to develop scenarios related to the latency of claims that are used for the projections of the ultimate number of claims.

The choice of selected results for each accident year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combinations of techniques have been selected for individual accident years or Company's of accident years within the same class of business.

25 Insurance risk (continued)

Claims development process

The following schedules reflect the actual claims (based on year end estimates including IBNR) compared to the previous estimates for the last five years on an underwriting year basis for motor and non-motor:

Underwriting year	2007 AED'000	2008 AED'000	2009 AED'000	2010 AED'000	2011 AED'000	Total AED'000
Motor - Gross:						
At the end of the underwriting year	45,315	42,033	35,494	26,432	45,774	-
One year later	83,865	90,790	84,176	62,403	-	-
Two years later	84,642	95,283	84,408	-	-	-
Three years later	82,045	96,303	-	-	-	-
Four years later	76,055	-	-	-	-	-
Current estimate of cumulative claims	76,055	96,303	84,408	62,403	45,774	364,943
Cumulative payments to date	(59,866)	(85,405)	(70,754)	(48,164)	(42,527)	(306,716)
Liability recognised in the statement of financial position	**16,189**	**10,898**	**13,654**	**14,239**	**3,247**	**58,227**
Non-motor - Gross:						
At the end of the underwriting year	124,731	22,249	30,996	29,991	46,484	-
One year later	137,723	29,848	52,725	38,718	-	-
Two years later	131,274	34,950	52,181	-	-	-
Three years later	155,756	27,925	-	-	-	-
Four years later	124,009	-	-	-	-	-
Current estimate of cumulative claims	124,009	27,925	52,181	38,718	46,484	289,317
Cumulative payments to date	(86,177)	(23,898)	(40,004)	(22,889)	(35,713)	(208,681)
Liability recognized in the statement of financial position	**37,832**	**4,027**	**12,177**	**15,829**	**10,771**	**80,636**

25 Insurance risk (continued)

Concentration of insurance risk

The Company's underwriting business is based entirely within the UAE and other GCC countries, except for some treaty reinsurance arrangements with companies based in Europe and Asia.

In common with other insurance companies, in order to minimise financial exposure arising from large insurance claims, the Company, in the normal course of business, enters into arrangement with other parties for reinsurance purposes.

To minimise its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers. Reinsurance ceded contracts do not relieve the Company from its obligations to policyholders. 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 agreements.

The concentration of insurance risk before and after reinsurance by territory in relation to the type of insurance risk accepted is summarised below:

Type of risk	Year ended 31 December 2011 Gross AED	Year ended 31 December 2011 Net AED	Year ended 31 December 2010 Gross AED	Year ended 31 December 2010 Net AED
Motor				
UAE	**2,787,227,170**	**2,786,477,170**	2,273,020,379	2,269,201,448
Non-Motor				
UAE	**52,552,296,895**	**1,207,281,532**	60,817,996,562	1,309,036,178
GCC countries	**1,111,916,817**	**9,286,849**	1,155,835,604	13,715,941
Others	**1,073,472,350**	**73,513,961**	604,082,723	71,040,530
	54,737,686,062	**1,290,082,342**	62,577,914,889	1,393,792,649
Grand Total	**57,524,913,232**	**4,076,559,512**	64,850,935,268	3,662,994,097

25 Insurance risk (continued)

Sensitivity of underwriting profit and losses

The contribution by the insurance operations to the net profit of the Company stood at 87.52% for the year ended 31 December 2011 (2010 – 72.28%). The Company does not foresee any adverse change in the contribution of insurance profit due to the following reasons:

- The Company has an overall risk retention level in the region of 7.09% (2010 – 6%) and this is mainly due to low retention levels in Engineering and Fire and Accident lines. However, for other lines of business the Company is adequately covered by excess of loss reinsurance programs to guard against major financial impact.

- The Company has net commission earnings of around 16% (2010 – 27%) of the underwriting income predominantly from the reinsurance placement which remains as a comfortable source of income.

Because of low risk retention of 71% (2010 – 57%) of the volume of the business and limited exposure in high retention areas like Motor, the Company is comfortable to maintain an overall net loss ratio in the region of 60.51% (2010 – 60.50%) and does not foresee any serious financial impact in the insurance net profit.

26 Financial instruments

The Company is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that in the long-term, its investment proceeds are not sufficient to fund the obligations arising from its insurance and investment contracts. The risks that the Company primarily faces due to the nature of its investments and underwriting business are interest rate risk, foreign currency risk, and market price risk, credit risk and liquidity risk.

26.1 Capital risk management

The Company's objectives when managing capital are:

- to comply with the insurance capital requirements required by UAE Federal Law No. (6) of 2007 concerning the formation of Insurance Authority of UAE
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

26 Financial instruments (continued)

26.1 Capital risk management (continued)

In the UAE, the local insurance regulator specifies the minimum amount and type of capital that must be held by the Company in addition to its insurance liabilities. The minimum required capital (presented in the table below) must be maintained at all times throughout the year. The Company is subject to local insurance solvency regulations with which it has complied with during the year. The Company has incorporated in its policies and procedures the necessary tests to ensure continuous and full compliance with such regulations.

	2011 AED	2010 AED
Minimum regulatory capital (a)	**100,000,000**	100,000,000
Share capital	**90,000,000**	75,000,000
Total equity	**294,601,513**	301,999,870

(a) The UAE Insurance Authority has issued resolution no. 42 for 2009 setting the minimum subscribed or paid up capital of AED 100 million for establishing insurance firm and AED 250 million for re-insurance firm. The resolution also stipulates that at least 75 percent of the capital of the insurance companies established in the UAE should be owned by UAE or GCC national individuals or corporate bodies. The resolution allows for compliance with the minimum capital requirements up to a period of 3 years until 2012.

The Company has initiated a plan to increase the capital in order to comply with the above requirements (note 16).

26.2 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the financial statements.

26 Financial instruments (continued)

26.3 Categories of financial instruments

	2011 AED	2010 AED
Financial assets		
Investments designated at FVTOCI	**65,656,343**	65,726,546
Investments designated at FVTPL	**50,099,771**	16,553,179
Investments at amortised cost	**21,524,400**	27,524,400
Statutory deposits	**10,000,000**	10,000,000
Trade and other receivables	**100,920,358**	91,538,866
Bank balances and cash	**235,385,945**	275,006,671
Total	**483,586,817**	486,349,662
Financial liabilities		
Trade and other payables	**148,686,632**	142,511,555

26.4 Interest rate risk management

Interest rate risk arises from the possibility that changes in interest rates will affect the finance income or finance cost of the Company. The Company is exposed to interest rate risk on its investment in bonds and term deposits that carry both fixed and floating interest rates which are detailed in Notes 8 and 22, respectively.

The Company generally tries to minimise the interest rate risk by closely monitoring the market interest rates and investing in those financial assets in which such risk is expected to be minimal.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for interest-bearing financial assets assuming the amount of assets at the end of the reporting period were outstanding for the whole year.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Company's profit for the year ended 31 December 2011 would increase/decrease by AED 2.3 million (2010 – AED 2.6 million). The Company's sensitivity to interest rates had decreased mainly due to lower bank deposits during the current year.

26 Financial instruments (continued)

26.5 Foreign currency risk management

The Company could incur foreign currency risk on transactions that are denominated in a currency other than AED.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2011 AED	2010 AED	**2011 AED**	2010 AED
US Dollars	**5,011,573**	4,381,486	**13,130,890**	12,394,640
Oman Riyals	**186**	186	**3,481**	3,481
Pound Sterling	**131,989**	125,351	**1,446,347**	1,172,288
Euro	**48,660**	67,255	**291,490**	237,037
	5,192,408	4,574,278	**14,872,208**	13,807,446

There is no impact on US Dollar balances as the AED is pegged to the US Dollar. Based on the sensitivity analysis to a 20% increase/decrease in the AED against the relevant foreign currencies (assumed outstanding for the whole year):

(a) there is AED 659 (2010 – AED 659) net revaluation gain/loss on the Omani Riyal outstanding balances.
(b) there is AED 263 thousand (2010 – AED 209 thousand) net revaluation gain/loss on the Pound Sterling outstanding balances.
(c) there is AED 49 thousand (2010 – AED 34 thousand) net revaluation gain/loss on the Euro outstanding balances.

Management believes that the possible loss due to exchange rate fluctuation is minimal and consequently this risk is not hedged.

26.6 Market price risk management

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Company is exposed to market price risk with respect to its quoted investments. The Company limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in the market. In addition, the Company actively monitors the key factors that affect stock and market movements, including analysis of the operational and financial performance of investees.

26 Financial instruments (continued)

26.7 Credit risk management

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Company.

Key areas where the Company is exposed to credit risk are:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries; and
- amounts due from banks for its bank balances and fixed deposits

The Company has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management annually.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

The Company maintains records of the payment history for significant contract holders with whom it conducts regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Company. Management information reported to the Company includes details of provisions for impairment on insurance receivables and subsequent write-offs. Exposures to individual policyholders and groups of policyholders are mitigated by ongoing credit evaluation of their financial condition. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for reinsurers is carried out by the Company. Details on concentration of amounts due from policyholders is disclosed in Note 12. Management believes that the concentration of credit risk is mitigated by high credit rating and financial stability of its policy holders.

At 31 December 2011 and 2010, virtually all of the deposits were placed with 4 banks. Management is confident that this concentration of liquid assets at year end does not result in any credit risk to the Company as the banks are major banks operating in the UAE and are highly regulated by the Central Bank.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk for such receivables and liquid funds.

Notes to the financial statements
for the year ended 31 December 2011 (continued)

26 Financial instruments (continued)

26.8 Liquidity risk management

Liquidity risk is the risk that the Company will be unable to meet its funding requirements. Bank facilities, the policy holders and the reinsurers, are the major sources of funding for the Company and the liquidity risk for the Company is assessed to be low.

The table below summarises the maturity profile of the Company's financial liabilities with maturities determined on the basis of the remaining period from the end of the reporting period to the contractual maturity/repayment date. The maturity profile is monitored by Management to ensure adequate liquidity is maintained.

	Carrying amount AED	0-180 days AED	181-365 days AED
Financial liabilities at 31 December 2011			
Trade and other payables	**148,686,632**	**148,686,632**	-
Financial liabilities at 31 December 2010			
Trade and other payables	142,511,555	142,511,555	-

26.9 Fair value of financial assets and liabilities

Management considers that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

Following the amendment to IFRS 7, all financial instruments that are required to be measured at fair value (subsequent to initial recognition) should disclosed in a fair value hierarchy or grouping into 3 levels (Levels 1 to 3) based on the degree to which the fair value is observable.

Level 1 fair values are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 fair value measurements are derived from inputs other than quoted prices, and Level 3 are those that are derived from valuation techniques using unobservable inputs.

As at 31 December 2011, all of the Company's financial assets that are stated at fair value are grouped in Level 1. The Company does not carry financial liabilities at fair value.

There were no transfers between Level 1 and 2 during the year.

27 Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors in their meeting of 14 February 2012.