

Al Ain Ahlia Insurance Co.



Annual Report 2011

**Al Ain Ahlia Insurance Company -
Public Shareholding Company**

**BOARD OF DIRECTORS REPORT AND
FINANCIAL STATEMENTS**

31 DECEMBER 2011

**Al Ain Ahlia Insurance Company –
Public Shareholding Company**

BOARD OF DIRECTORS REPORT

31 DECEMBER 2011

Board of Directors

Mr. Mohammed Bin Juan Al Badi	Chairman
Mr. Khalid Mohammed Bin Juan Al Badi	Dy. Chairman
Mr. Mohammed Saad Al Ahabbi (Representative of Abu Dhabi Investment Council)	Member
Mr. Ahmed Ghanoum Al Hameli	Member
Mr. Mohammed Al Fandi Al Mazroui	Member
Mr. Gaith Bin Hamil Al Gaith Al Qubaisi	Member
Mr. Saeed Ali Saleh Ahmed Al Kuwaiti	Member
Mr. Mohammed Mazhar Hamadeh	General Manager

BOARD OF DIRECTORS REPORT FOR 2011

We are pleased to present our Thirty Sixth Annual Report on the company's business activities for 2011 together with the audited financial statements for the year ended 31st December, 2011.

The worldwide recession and continued negative pressure on the financial markets has resulted in the economic position remaining largely unchanged during 2011 and the prospects of any immediate recovery are unrealistic. We have witnessed a turbulent economic background since 2008 and the business environment has suffered as a result of this downturn in activity which has also impacted our gross premium income. The challenges created by this environment are many and whilst these factors continue to influence our business it is the unparalleled competition in the local market that remains the major factor in the current soft market conditions. We have resisted this market pressure and continue to maintain our conservative approach which has been a consistent feature of our underwriting strategy. Despite the challenges we face in these difficult trading conditions we are pleased to report that our long term strategy continues to produce positive technical results and we will continue to maintain our conservative approach. We are encouraged by the support of our reinsurers who remain aware of the current market conditions and share our view that underwriting standards must be maintained over the pursuit of top line growth regardless of the consequences.

The Gross premium income for 2011 amounted to Dh.503,783,005 compared to Dh.593,708,561 in 2010 and net underwriting profit for 2011 amounted to Dh.70,660,014 compared to Dh.84,312,459 in 2010.

Reserves for unearned premium amounted to Dh.69,356,802 compared to Dh.90,475,032 in 2010 and the net profit achieved by the Company amounted to Dh.53,288,016 compared to Dh.61,733,959 in 2010.

The results for each class of business are summarized as follows:

MARINE AND AVIATION

The total premium written amounted to Dh.38,802,132 compared to Dh.33,530,839 in 2010. The company's share in paid and outstanding claims amounted to Dh.562,976 compared to Dh.316,495 in 2010 and reserves for unearned premiums amounted to Dh.867,449 compared to Dh.873,325 in 2010.

NON-MARINE

The total premium written amounted to Dh.464,980,872 compared to Dh.560,177,721 in 2010. The company's share in paid and outstanding claims amounted to Dh.154,278,197 compared to Dh.145,133,295 in 2010 and reserves for unearned premiums amounted to Dh.68,489,353 compared to Dh.89,601,707 in 2010.

INVESTMENTS AND OTHER INCOME

Investment income for the year amounted to Dh.23,734,821 compared to Dh.26,333,595 in 2010.

APPROPRIATION OF PROFIT

After the deduction of the required provision for unearned premiums and outstanding claims, the profit of the Company which is available for appropriation amounted to Dh.136,109,257. We suggest that it should be appropriated as follows:

	<u>Dirham.</u>
Dividend at the rate of 30% per share	45,000,000
Director's remuneration	4,578,802
Retained profit to be carried forward for 2012	86,530,455

	136,109,257
	=====

In view of the foregoing the Board of Directors would like to recommend for your approval of the following;-

1. Hearing of Board of Directors report regarding the activities of the company, its financial position during the year 2011 and their approval.
2. Hearing of Auditor's report for the year ended 31-12-2011 and their approval.
3. Discussion of the balance sheet of the company for 2011, Profit & Loss accounts and their approval.
4. Appointing Auditors for the year 2012 and fixing their fees.
5. Examine the Board of Directors' suggestions regarding profit distribution for the year 2011 i.e., 30% of nominal value of each share, amounting to Dhs. 45,000,000/- and approval of Board of Directors' fees.

6. Discharge the Board of Directors and Auditors against the financial year ended 31-12-2011.
7. Election of Board of Directors.

The Board of Directors, on behalf of the Company, would like to express their gratitude and appreciation to His Highness Sheikh Khalif Bin Zayed Al Nahyan, President of the United Arab Emirates and the Ruler of Abu Dhabi and His Highness Sheikh Mohammed Bin Zayed Al Nahyan, the Crown Prince for their assistance to the national Companies.

The Board of Directors also thanks all persons and organizations dealing with the Company within and outside the country and wishes to express their appreciation to the Management and Employees of the Company for their genuine efforts which contributed largely to this year's achievements.

The Board of Directors

A handwritten signature in black ink, consisting of several overlapping loops and strokes, positioned below the text 'The Board of Directors'.

Abu Dhabi

24 January, 2012

**Al Ain Ahlia Insurance Company –
Public Shareholding Company**

FINANCIAL STATEMENTS

31 DECEMBER 2011

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
AL AIN AHLIA INSURANCE COMPANY - PUBLIC SHAREHOLDING COMPANY**

Report on the Financial Statements

We have audited the accompanying financial statements of Al Ain Ahlia Insurance Company - Public Shareholding Company ('the Company'), which comprise the statement of financial position as at 31 December 2011, statement of income, 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 notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of the Company and the UAE Commercial Companies Law of 1984 (as amended), and for such internal control as management determines is necessary to enable preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 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

We also confirm that, in our opinion, the financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended) and the articles of association of the Company; proper books of account have been kept by the Company; and the contents of the report of the Board of Directors relating to these financial statements are consistent with the books of account. We have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Law of 1984 (as amended) or of the articles of association of the Company have occurred during the year which would have had a material effect on the business of the Company or on its financial position.

Ernst & Young

Signed by
Mohammad Mobin Khan
Partner
Ernst & Young
Registration No. 532

24 January 2012
Abu Dhabi

Al Ain Ahlia Insurance Company - Public Shareholding Company

STATEMENT OF INCOME

Year ended 31 December 2011

	<i>Notes</i>	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
UNDERWRITING INCOME			
Gross premiums written		503,783	593,709
Less: reinsurance premium ceded		<u>(320,673)</u>	<u>(388,743)</u>
Net premiums written	13	183,110	204,966
Net movement in provision for unearned premiums		<u>21,118</u>	<u>7,206</u>
Net premiums earned	13	<u>204,228</u>	<u>212,172</u>
UNDERWRITING EXPENSES			
Gross claims paid		271,006	273,295
Less: claims recovered from reinsurers		<u>(114,250)</u>	<u>(95,873)</u>
Net movement in provision for outstanding claims	13	156,756	177,422
		<u>(1,914)</u>	<u>(31,972)</u>
Net claims incurred	13	<u>154,842</u>	<u>145,450</u>
Net commission earned		<u>21,273</u>	<u>17,590</u>
NET UNDERWRITING PROFIT	23	<u>70,659</u>	<u>84,312</u>
Net investment and other income	16	23,735	26,334
Administrative expenses		<u>(37,804)</u>	<u>(37,520)</u>
Provision relating to impaired receivables		<u>(2,500)</u>	<u>(9,516)</u>
Depreciation	7	<u>(803)</u>	<u>(950)</u>
Changes in fair value of investment properties	8	<u>-</u>	<u>(926)</u>
PROFIT FOR THE YEAR	17 & 23	<u>53,287</u>	<u>61,734</u>
Basic and diluted earnings per share (<i>AED</i>)	18	<u>3.55</u>	<u>4.12</u>

The attached notes 1 to 24 form part of these financial statements.

Al Ain Ahlia Insurance Company - Public Shareholding Company

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Profit for the year	53,287	61,734
Other comprehensive loss		
Realized gain on sale of available for sale investments	-	94
Changes in fair value relating to investments carried at fair value through other comprehensive income, net	<u>(22,721)</u>	<u>(27,622)</u>
Other comprehensive loss for the year	<u>(22,721)</u>	<u>(27,528)</u>
Total comprehensive income for the year	<u>30,566</u>	<u>34,206</u>

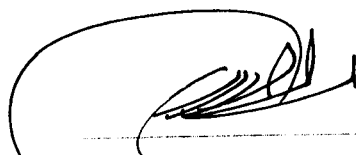
The attached notes 1 to 24 form part of these financial statements.

Al Ain Ahlia Insurance Company - Public Shareholding Company

STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	2011 AED '000	2010 AED '000
ASSETS			
Cash and bank balances	3	331,837	378,647
Investments carried at fair value through other comprehensive income	4	248,976	269,348
Investment in an associate	5	628	-
Accounts receivable and prepayments	6	200,952	200,724
Reinsurers' share in unearned premiums	12 & 13	130,318	144,933
Reinsurers' share in outstanding claims	12 & 13	276,933	277,932
Property, furniture and equipment	7	2,802	3,176
Investment properties	8	<u>437,327</u>	<u>437,327</u>
TOTAL ASSETS		<u>1,629,773</u>	<u>1,712,087</u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital	9	150,000	150,000
Legal reserve	10	75,000	75,000
General reserve	10	600,000	600,000
Technical reserve	10	8,083	8,083
Cumulative changes in fair value of investments carried at fair value through other comprehensive income		(1,863)	20,858
Retained earnings		86,529	82,821
Proposed dividends	11	<u>45,000</u>	<u>75,000</u>
Total equity		<u>962,749</u>	<u>1,011,762</u>
LIABILITIES			
Liabilities arising from insurance contracts:			
Gross unearned premiums	12 & 13	199,675	235,408
Gross outstanding claims	12 & 13	<u>317,993</u>	<u>320,906</u>
		517,668	556,314
Accounts payable and accruals	14	125,179	121,892
Employees' end of service benefits	15	<u>24,177</u>	<u>22,119</u>
Total liabilities		<u>667,024</u>	<u>700,325</u>
TOTAL EQUITY AND LIABILITIES		<u>1,629,773</u>	<u>1,712,087</u>



CHAIRMAN



GENERAL MANAGER

The attached notes 1 to 24 form part of these financial statements.

Al Ain Ahlia Insurance Company - Public Shareholding Company

STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	<i>Notes</i>	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
OPERATING ACTIVITIES			
Profit for the year		53,287	61,734
Adjustments for:			
Unearned premiums		(21,118)	(7,206)
Outstanding claims		(1,914)	(31,972)
Depreciation	7	803	950
Provision for employees' end of service benefits	15	2,420	2,508
Gain on sale of property, furniture and equipment		(163)	-
Changes in fair value of investment properties	8	-	926
Provision relating to impaired receivables		2,500	9,516
Interest and dividend income	16	<u>(18,612)</u>	<u>(21,241)</u>
		17,203	15,215
Working capital changes:			
Accounts receivable and prepayments		(3,642)	68,622
Accounts payable and accruals		<u>(1,292)</u>	<u>(83,314)</u>
Cash from operations		12,269	523
Employees' end of service benefits paid	15	<u>(362)</u>	<u>(1,403)</u>
Net cash from (used in) operating activities		<u>11,907</u>	<u>(880)</u>
INVESTING ACTIVITIES			
Purchase of property, furniture and equipment	7	(429)	(218)
Purchase of investments carried at fair value through other comprehensive income	4	(1,435)	(13,870)
Investment in an associate	5	(628)	-
Interest and dividend income received		18,612	21,241
Proceeds from sale of property, furniture and equipment		163	-
Proceeds from sale of investments carried at fair value through other comprehensive income		<u>-</u>	<u>179</u>
Net cash from investing activities		<u>16,283</u>	<u>7,332</u>
FINANCING ACTIVITY			
Dividends paid		<u>(75,000)</u>	<u>(112,500)</u>
Cash used in financing activity		<u>(75,000)</u>	<u>(112,500)</u>
DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at 1 January		<u>371,147</u>	<u>477,195</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	3	<u>324,337</u>	<u>371,147</u>

For the purpose of the statement of cash flows the following significant non-cash transactions have been excluded:

Board of Directors remuneration		4,579	5,799
Net movement in fair value of investments carried at fair value through other comprehensive income	4	(22,721)	(27,622)
Transfer of investment carried at fair value through other comprehensive income from accounts receivable and prepayments		914	-

The attached notes 1 to 24 form part of these financial statements.

Al Ain Ahlia Insurance Company - Public Shareholding Company

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

					<i>Cumulative changes in fair value of</i>			
	<i>Share capital</i>	<i>Legal reserve</i>	<i>General reserve</i>	<i>Technical reserve</i>	<i>investments securities</i>	<i>Retained earnings</i>	<i>Proposed dividends</i>	<i>Total</i>
<i>Note</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>
Balance at 1 January 2011	150,000	75,000	600,000	8,083	20,858	82,821	75,000	1,011,762
Profit for the year	-	-	-	-	-	53,287	-	53,287
Other comprehensive loss	-	-	-	-	(22,721)	-	-	(22,721)
Total comprehensive income	-	-	-	-	(22,721)	53,287	-	30,566
Dividends paid	-	-	-	-	-	-	(75,000)	(75,000)
Dividends proposed	11	-	-	-	-	(45,000)	45,000	-
Board of directors' remuneration	-	-	-	-	-	(4,579)	-	(4,579)
Balance at 31 December 2011	<u>150,000</u>	<u>75,000</u>	<u>600,000</u>	<u>8,083</u>	<u>(1,863)</u>	<u>86,529</u>	<u>45,000</u>	<u>962,749</u>
Balance at 1 January 2010	150,000	75,000	600,000	8,083	48,386	101,886	112,500	1,095,855
Profit for the year	-	-	-	-	-	61,734	-	61,734
Other comprehensive loss	-	-	-	-	(27,528)	-	-	(27,528)
Total comprehensive income	-	-	-	-	(27,528)	61,734	-	34,206
Dividend paid	-	-	-	-	-	-	(112,500)	(112,500)
Dividend proposed	11	-	-	-	-	(75,000)	75,000	-
Board of directors' remuneration	-	-	-	-	-	(5,799)	-	(5,799)
Balance at 31 December 2010	<u>150,000</u>	<u>75,000</u>	<u>600,000</u>	<u>8,083</u>	<u>20,858</u>	<u>82,821</u>	<u>75,000</u>	<u>1,011,762</u>

The attached notes 1 to 24 form part of these financial statements.

Al Ain Ahlia Insurance Company - Public Shareholding Company

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

1 ACTIVITIES

Al Ain Ahlia Insurance Company – Public Shareholding Company (the “Company”) is incorporated in Abu Dhabi with limited liability by Law No. (18) of 1975, with its principal activity being underwriting of all classes of insurance in accordance with the provisions of the U.A.E. Federal Law No. (6) of 2007 relating to the establishment of insurance authority and organization of its operations.

The Company is registered as a public shareholding company in accordance with the Federal Law No. (8) of 1984 (as amended). Its head office is located in Abu Dhabi, United Arab Emirates (P O Box 3077, Abu Dhabi, United Arab Emirates).

The financial statements of Al Ain Ahlia Insurance Company - PSC for the year ended 31 December 2011 have been authorised for issue in accordance with a resolution of the Board of Directors on 24 January 2012.

2.1 BASIS OF PREPARATION

The financial statements are prepared under the historical cost convention as modified for re-measurement of investment securities and investment properties at fair value.

The financial statements have been prepared in accordance with the International Financial Reporting Standards and applicable requirements of UAE Commercial Companies Law (as amended).

The financial statements are presented in United Arab Emirates Dirhams (AED) being the functional currency of the Company.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legal enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses will not be offset unless required or permitted by any accounting standard or interpretation.

The Company presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position (current) and more than 12 months after the statement of financial position date (non-current) is presented in the notes.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

- IAS 24 Related Party Disclosures (amendment) effective 1 January 2011;
- IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010;
- IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011; and
- Improvements to IFRSs (May 2010).

The adoption of the standards or interpretations is described below:

IAS 24 Related Party Transactions (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Company.

Al Ain Ahlia Insurance Company - Public Shareholding Company

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES continued

IAS 32 Financial Instruments: Presentation (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Company because the Company does not have these type of instruments.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The amendment of the interpretation has no effect on the financial position nor performance of the Company.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Company.

- *IFRS 3 Business Combinations:* The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.
- The amendments to IFRS 3 are effective for annual periods beginning on or after 1 July 2011.
- *IFRS 7 Financial Instruments – Disclosures:* The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.
- *IAS 1 Presentation of Financial Statements:* The amendment clarifies that an entity may present an analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. There have been no items subject to reclassification.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Company.

- *IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))*
- *IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)*
- *IAS 27 Consolidated and Separate Financial Statements*
- *IAS 34 Interim Financial Statements*

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Company:

- *IFRIC 13 Customer Loyalty Programmes (determining the fair value of award credits)*
- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*

Al Ain Ahlia Insurance Company - Public Shareholding Company

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

2.3 SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash in hand, bank balances, and short-term deposits with original maturity of three months or less.

Investment carried at fair value through other comprehensive income

Investments carried at fair value through other comprehensive income are initially recorded at cost and subsequently measured at fair value. Subsequent changes in fair value and gains or losses arising on disposal are recognised in other comprehensive income and dividend income is credited to statement of income when the right to receive the dividend is established.

Property, furniture and equipment

Property, furniture and equipment are stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated. Depreciation is calculated on a straight-line basis over the estimated useful life of assets, as follows:

Buildings	15 years
Office decoration	4 years
Furniture and equipment	4 years
Motor vehicles	3 years

The carrying values of property, furniture and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount being the higher of their fair values less costs to sell and their values in use. Impairment losses are recognised in the statement of income.

Expenditure incurred to replace a component of an item of property, furniture and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property, plant and equipment. All other expenditure is recognised in the statement of income as the expense is incurred.

Investment properties

Investment properties are held for the generation of income or capital appreciation and are initially measured at cost including transaction costs. Subsequent to initial recognition investment properties (including those under construction) are stated at fair value. Gains and losses arising from changes in fair values of investment properties are included in the statement of income in the year in which they arise.

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

Transfers are made to or from investment property only when there is a change in use evidenced by the end of owner-occupation or commencement of an operating lease to another.

Investment in an associate

The Company's investment in associates is accounted for under the equity method of accounting. This is an entity over which the Company exercises significant influence and which is neither a subsidiary nor a joint venture. Investment in associate is carried in the statement of financial position at cost, plus post-acquisition changes in the Company's share of net assets of the associate, less any impairment in value. The statement of income reflects the Company's share of the results of its associate.

Al Ain Ahlia Insurance Company - Public Shareholding Company

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

2.3 SIGNIFICANT ACCOUNTING POLICIES continued

Impairment and uncollectibility of financial assets

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

Impairment is determined as follows:

- a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of income.
- b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the original effective rate of return for a similar financial asset.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- ▶ The rights to receive cash flows from the asset have expired;
- ▶ The Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement;
- ▶ The Company has transferred its rights to receive cash flows from the asset and either:
 - has transferred substantially all the risks and rewards of the assets; or
 - has neither transferred nor retained substantially all the risk and rewards of the assets, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that, in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Underwriting income

Insurance contract

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Premiums earned

Premiums written are taken into income over the terms of the policies to which they relate on a pro-rata basis. Unearned premiums represent the portion of premiums written relating to the unexpired periods of coverage. These are calculated on the gross premiums less the amount reinsured at the following percentages:

Marine cargo	25%
All other business	40%

Commissions earned

Profit commission is accounted for as and when received while other commissions are accounted for when earned.

Al Ain Ahlia Insurance Company - Public Shareholding Company

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

2.3 SIGNIFICANT ACCOUNTING POLICIES continued

Claims

Claims comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, are charged to income as incurred. Claims comprise the estimated amounts payable, in respect of claims reported to the Company.

The Company generally estimates its claims based on previous experience. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Any difference between the provisions at the statement of financial position date and settlements and provisions for the following year is included in the underwriting account for that year.

The Company does not discount its liability for unpaid claims as these are expected to be settled within one year of reporting date.

Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income.

Reinsurance contracts held

In order to minimise financial exposure from large claims the Company enters into agreements with other parties for reinsurance purposes. Claims receivable from reinsurers are estimated in a manner consistent with the claim liability and in accordance with the reinsurance contract. These amounts are shown as "reinsurers' share of outstanding claims" in the statement of financial position until the claim is paid by the Company. Once the claim is paid the amount due from the reinsurer in connection with the paid claim is transferred to receivables arising from insurance and reinsurance companies which is included within accounts receivable and prepayments.

At each reporting date, the Company assesses whether there is any indication that a reinsurance asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of recoverable amount. Where the carrying amount of a reinsurance asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policy holders.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire when the contract is transferred to another party.

Reinsurance commissions

Commissions receivable on outward reinsurance contracts are deferred and amortised on a straight line basis over the term of the expected premiums payable.

Interest revenue

Interest revenue is recognised as the interest accrues using the effective interest method, under which the rate used exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Dividend income

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

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the statement of income.

Al Ain Ahlia Insurance Company - Public Shareholding Company

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

2.3 SIGNIFICANT ACCOUNTING POLICIES continued

Employees' end of service benefits

The Company provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, the Company makes contributions to the Abu Dhabi Pension and Retirement Fund calculated as a percentage of the employees' salaries. The Company's obligations are limited to these contributions, which are expensed when due.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Fair values of financial instruments

For investments traded in an active market, fair value is determined by reference to quoted market bid prices. Fair values of financial instruments where there is not an active market are estimated using methods such as net present values of future cash flows.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the financial statements.

Classification of investments

Management decides on acquisition of an equity investment whether it should be classified as carried at fair value through profit or loss or through other comprehensive income.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Provision for outstanding claims

Considerable judgement by management is required in the estimation of amounts due to contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possibly significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. The Company generally estimates its claims based on previous experience. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters along with the Company's internal legal counsel normally estimate such claims. Management reviews its provisions for claims incurred on a quarterly basis.

The carrying value at the statement of financial position date of insurance contract liabilities (net of related reinsurance receivables) is AED 110.4 million (2010: AED 133.4 million). Further, the Company has made a provision of AED 16.5 million (2010: AED 10.7 million) in respect of claims requiring court or arbitration decisions.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimation uncertainty continued

Reinsurance

The Company is exposed to disputes with, and possibility of defaults by its reinsurers. The Company monitors on a quarterly basis the evolution of disputes with and the strength of its reinsurers.

Impairment of accounts receivable

An estimate of the collectible amount of policyholders balances is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates. At the statement of financial position date, gross policyholders and insurance and reinsurance balances were AED 205.3 million (2010: AED 197.6 million), and the provision for doubtful debts was AED 15 million (2010: AED 12.5 million). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the statement of income.

2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of the issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become applicable.

- IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income Effective date: 1 July 2012.
- IAS 12 Income Taxes – Recovery of Underlying Assets Effective date: 1 January 2012.
- IAS 19 Employee Benefits (Amendment) Effective date: 1 January 2013.
- IAS 27 Separate Financial Statements (as revised in 2011) Effective date: 1 January 2013.
- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011) Effective date: 1 January 2013.
- IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements Effective date: 1 July 2011.
- IFRS 10 Consolidated Financial Statements Effective date: 1 January 2013.
- IFRS 11 Joint Arrangements Effective date: 1 January 2013.
- IFRS 12 Disclosure of Involvement with Other Entities Effective date: 1 January 2013.
- IFRS 13 Fair Value Measurement Effective date: 1 January 2013.

The Company however, expects no impact from the adoption of the amendments on its financial position or performance.

Al Ain Ahlia Insurance Company - Public Shareholding Company

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts:

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Current bank accounts and cash	22,187	25,903
Time deposits	<u>309,650</u>	<u>352,744</u>
Cash and bank balances	331,837	378,647
Statutory deposits	<u>(7,500)</u>	<u>(7,500)</u>
Cash and cash equivalents	<u>324,337</u>	<u>371,147</u>

Statutory deposits represent fixed deposits held as guarantee deposits in favour of the Ministry of Economy and Commerce in accordance with law no. 6 of 2007.

The time deposits at 31 December 2011 and 2010 are all held in UAE and are subject to an average variable interest rate of 2.94% (2010: 3.94%) and have original maturities of three months or less.

4 INVESTMENTS CARRIED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Quoted shares	235,905	258,001
Unquoted shares	<u>13,071</u>	<u>11,347</u>
	<u>248,976</u>	<u>269,348</u>

Geographical concentration of investments is as follows:

Within UAE	246,397	268,817
Outside UAE	<u>2,579</u>	<u>531</u>
	<u>248,976</u>	<u>269,348</u>

The movement in investments during the year was as follows:

At 1 January	269,348	283,185
Purchases	2,349	13,870
Disposals	-	(85)
Changes in fair value	<u>(22,721)</u>	<u>(27,622)</u>
At 31 December	<u>248,976</u>	<u>269,348</u>

Al Ain Ahlia Insurance Company - Public Shareholding Company

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

5 INVESTMENT IN AN ASSOCIATE

During the year, the Company invested AED 628 thousand (2010: AED nil) in Al Ain International Insurance Company for a 20% equity interest and voting power. The associate is incorporated in Kurdistan, Iraq and its principal activity being underwriting of various classes of insurance. The associate is in pre-operating phase at 31 December 2011.

6 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2011 AED '000	2010 AED '000
Policyholders	90,738	112,514
Insurance and reinsurance companies	114,514	85,100
Provision for impairment	<u>(15,000)</u>	<u>(12,500)</u>
	190,252	185,114
Amounts due from related parties (note 19)	3,447	3,466
Other receivables	5,890	10,057
Prepaid expenses	<u>1,363</u>	<u>2,087</u>
	<u>200,952</u>	<u>200,724</u>

Amounts due from policyholders and insurance and reinsurance companies' balances consist of a large number of customers and insurance and reinsurance companies. The Company's terms of business require amounts to be paid in accordance with arrangements reached with the policy holders and insurance and reinsurance companies.

As at 31 December 2011, amounts due from policyholders and insurance and reinsurance companies at nominal value of AED 15 million (2010: AED 12.5 million) were impaired and fully provided for.

As at 31 December, the ageing of unimpaired policy holders and insurance and reinsurance companies is as follows:

	<i>Past due but not impaired</i>					
	<i>Neither past due nor impaired</i>	<i>Past due but not impaired</i>				<i>Over 365 days</i>
<i>Total</i>	<i>Total</i>	<i>91 - 120 days</i>	<i>121 - 180 days</i>	<i>181 - 365 days</i>	<i>Over 365 days</i>	<i>Over 365 days</i>
	AED	AED	AED	AED	AED	AED
31 December 2011						
Policyholders	88,197	61,245	2,054	8,411	11,760	4,727
Insurance and reinsurance companies	<u>91,275</u>	<u>53,862</u>	<u>11,179</u>	<u>9,566</u>	<u>15,027</u>	<u>1,641</u>
Total	<u>179,472</u>	<u>115,107</u>	<u>13,233</u>	<u>17,977</u>	<u>26,787</u>	<u>6,368</u>
31 December 2010						
Policyholders	108,266	76,606	2,689	6,303	16,863	5,805
Insurance and reinsurance companies	<u>57,079</u>	<u>43,387</u>	<u>3,538</u>	<u>3,698</u>	<u>5,158</u>	<u>1,298</u>
Total	<u>165,345</u>	<u>119,993</u>	<u>6,227</u>	<u>10,001</u>	<u>22,021</u>	<u>7,103</u>

Ageing of policyholders and insurance and reinsurance companies is stated at gross amounts and does not include premiums deferred and premium deposits retained amounting to AED 1.4 million (2010: AED 2.2 million) and AED 13 million (2010: AED 21.9 million) respectively.

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and the vast majority are, therefore, unsecured.

Al Ain Ahlia Insurance Company - Public Shareholding Company

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

7 PROPERTY, FURNITURE AND EQUIPMENT

	<i>Land</i> <i>AED '000</i>	<i>Buildings</i> <i>AED '000</i>	<i>Office</i> <i>decoration</i> <i>AED '000</i>	<i>Furniture</i> <i>and</i> <i>equipment</i> <i>AED '000</i>	<i>Motor</i> <i>vehicles</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
2011						
Cost:						
At 1 January 2011	2,000	10,546	251	4,038	3,630	20,465
Additions	-	-	69	201	159	429
Disposals	-	-	-	(7)	(727)	(734)
At 31 December 2011	<u>2,000</u>	<u>10,546</u>	<u>320</u>	<u>4,232</u>	<u>3,062</u>	<u>20,160</u>
Depreciation:						
At 1 January 2011	-	10,546	241	3,520	2,982	17,289
Charge for the year	-	-	5	299	499	803
Disposals	-	-	-	(7)	(727)	(734)
At 31 December 2011	-	<u>10,546</u>	<u>246</u>	<u>3,812</u>	<u>2,754</u>	<u>17,358</u>
Net carrying amount						
At 31 December 2011	<u>2,000</u>	<u>-</u>	<u>74</u>	<u>420</u>	<u>308</u>	<u>2,802</u>
2010						
Cost:						
At 1 January 2010	2,000	10,546	243	3,919	3,645	20,353
Additions	-	-	8	121	89	218
Disposals	-	-	-	(2)	(104)	(106)
At 31 December 2010	<u>2,000</u>	<u>10,546</u>	<u>251</u>	<u>4,038</u>	<u>3,630</u>	<u>20,465</u>
Depreciation:						
At 1 January 2010	-	10,251	233	3,167	2,794	16,445
Charge for the year	-	295	8	355	292	950
Disposals	-	-	-	(2)	(104)	(106)
At 31 December 2010	-	<u>10,546</u>	<u>241</u>	<u>3,520</u>	<u>2,982</u>	<u>17,289</u>
Net carrying amount						
At 31 December 2010	<u>2,000</u>	<u>-</u>	<u>10</u>	<u>518</u>	<u>648</u>	<u>3,176</u>

8 INVESTMENT PROPERTIES

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Fair value:		
At 1 January	437,327	438,253
Changes in fair of investment properties	-	(926)
At 31 December	<u>437,327</u>	<u>437,327</u>

Al Ain Ahlia Insurance Company - Public Shareholding Company

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

8 INVESTMENT PROPERTIES continued

Investment properties are stated at fair value, which has been determined based on valuations performed by an independent consultant. The fair value of investment properties has been reached at using the open market value approach. The fair value as defined by the open market value approach means "the best price at which the sale of an interest in the property would have been completed unconditionally for cash consideration on the date of valuation, assuming, a willing seller; that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale; that the state of the market, level of values and other circumstances were, on any earlier assumed dated of exchange of contracts, the same as on the date of valuation; that no account is taken of any additional bid by a purchaser with a special interest; and that both parties to the transaction had acted knowledgeably, prudently and without compulsion".

Investment properties are held for generation of rental income and capital appreciation and they represent the following:

- (i) Two buildings located in Abu Dhabi and Al Ain with fair values of AED 78.3 million (2010: AED 78.3 million). The rental income for the year net of operating expenses from each building amounted to AED 2,541,565 (2010: AED 2,377,793) and AED 590,344 (2010: AED 561,947) respectively.
- (ii) A warehouse in Mussafah with a fair value of AED 13.6 million (2010: AED 13.6 million). The warehouse was constructed in 2005. The rental income for the year net of operating expenses from the warehouse amounted to AED 371,598 (2010: AED 261,509).
- (iii) Two plots of land in Dubai with a fair value of AED 294.3 million (2010: AED 294.3 million). The plots are held for capital appreciation and use by the Company for future investment opportunities.
- (iv) Two plots of land in Dubai with a fair value of AED 51.1 million (2010: AED 51.1 million). The plots are held for capital appreciation and use by the Company for future investment opportunities.

9 SHARE CAPITAL

	2011		2010	
	Shares	AED '000	Shares	AED '000
Authorised, issued and fully paid ordinary nominal shares of AED 10 each	<u>15,000,000</u>	<u>150,000</u>	<u>15,000,000</u>	<u>150,000</u>

The Board of Directors resolved on 15 May 2011 to buy back 10% of the Company's own shares.

On 25 May 2011, the Company received an approval from the Securities and Commodities Authority of the United Arab Emirates to buy back 10% of its own shares amounting to 1.5 million shares. No shares have been bought back as of 31 December 2011.

Al Ain Ahlia Insurance Company - Public Shareholding Company

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

10 RESERVES

Legal reserve

As required by the U.A.E. Commercial Companies Law of 1984 (as amended), 10% of the profit for the year must be transferred to the legal reserve. The Company has resolved to discontinue such annual transfers as the reserve has reached 50% of the share capital. This reserve is not available for distribution.

General reserve

General reserve is established to enhance the capital base of the Company.

Technical reserve

The technical reserve is established to cover unforeseen future risks, which may arise from general insurance risks.

11 DIVIDENDS

For the year ended 31 December 2011, the Board of Directors has proposed to pay a cash dividend of AED 3 per share (2010: AED 5 per share) amounting to AED 45,000,000 (2010: AED 75,000,000) subject to the approval of the shareholders at the Annual General Meeting.

During the year, the Company paid dividend amounting to AED 75 million (2010: AED 112.5 million).

12 INSURANCE CONTRACT LIABILITIES

	2011			2010		
	<i>Gross</i> AED '000	<i>Reinsurers' share</i> AED '000	<i>Net</i> AED '000	<i>Gross</i> AED '000	<i>Reinsurers' share</i> AED '000	<i>Net</i> AED '000
Outstanding claims provision	317,993	(276,933)	41,060	320,906	(277,932)	42,974
Provision for unearned premiums	<u>199,675</u>	<u>(130,318)</u>	<u>69,357</u>	<u>235,408</u>	<u>(144,933)</u>	<u>90,475</u>
Total liabilities as of 31 December	<u>517,668</u>	<u>(407,251)</u>	<u>110,417</u>	<u>556,314</u>	<u>(422,865)</u>	<u>133,449</u>

13.1 UNEARNED PREMIUMS

The movement in the unearned premiums, and the related reinsurers share, was as follows:

	2011			2010		
	<i>Gross</i> AED '000	<i>Reinsurers' share</i> AED '000	<i>Net</i> AED '000	<i>Gross</i> AED '000	<i>Reinsurers' share</i> AED '000	<i>Net</i> AED '000
Unearned Premiums						
At 1 January	235,408	(144,933)	90,475	240,163	(142,482)	97,681
Earned during the year	(539,516)	335,288	(204,228)	(598,464)	386,292	(212,172)
Written during the year	<u>503,783</u>	<u>(320,673)</u>	<u>183,110</u>	<u>593,709</u>	<u>(388,743)</u>	<u>204,966</u>
At 31 December	<u>199,675</u>	<u>(130,318)</u>	<u>69,357</u>	<u>235,408</u>	<u>(144,933)</u>	<u>90,475</u>

The movement between opening and closing unearned premiums amounting to AED 21.1 million (2010: AED 7.2 million) is disclosed on the face of the statement of income.

Al Ain Ahlia Insurance Company - Public Shareholding Company

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

13.2 OUTSTANDING CLAIMS

The movement in the provision for outstanding claims, and the related reinsurers share, was as follows:

	2011			2010		
	<i>Gross</i> <i>AED '000</i>	<i>Reinsurers'</i> <i>share</i> <i>AED '000</i>	<i>Net</i> <i>AED '000</i>	<i>Gross</i> <i>AED '000</i>	<i>Reinsurers'</i> <i>share</i> <i>AED '000</i>	<i>Net</i> <i>AED '000</i>
Outstanding claims						
At 1 January	320,906	(277,932)	42,974	319,823	(244,877)	74,946
Insurance claims paid during the year	(271,006)	114,250	(156,756)	(273,295)	95,873	(177,422)
Provided during the year	<u>268,093</u>	<u>(113,251)</u>	<u>154,842</u>	<u>274,378</u>	<u>(128,928)</u>	<u>145,450</u>
At 31 December (note 21)	<u>317,993</u>	<u>(276,933)</u>	<u>41,060</u>	<u>320,906</u>	<u>(277,932)</u>	<u>42,974</u>

Amounts due from reinsurers are normally settled on a quarterly basis.

The movement between opening and closing outstanding claims amounting to AED 1.9 million (2010: AED 31.9 million) is disclosed on the face of the statement of income.

14 ACCOUNTS PAYABLE AND ACCRUALS

	2011 <i>AED '000</i>	2010 <i>AED '000</i>
Reinsurance balances payable	75,212	82,583
Accounts payable	20,290	2,542
Accrued expenses and other payables	<u>29,677</u>	<u>36,767</u>
	<u>125,179</u>	<u>121,892</u>

Accounts payable and accruals are due in less than one year. Accounts payable are non-interest bearing and are normally settled on 60-90 day terms.

15 EMPLOYEES' END OF SERVICE BENEFITS

The Company provides for employees' end of service benefits for its expatriate employees in accordance with the employees contracts of employment.

The movement on the provision was as follows:

	2011 <i>AED '000</i>	2010 <i>AED '000</i>
Balance at 1 January	22,119	21,014
Provided during the year	2,420	2,508
Paid during the year	<u>(362)</u>	<u>(1,403)</u>
Balance at 31 December	<u>24,177</u>	<u>22,119</u>

Al Ain Ahlia Insurance Company - Public Shareholding Company

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

16 NET INVESTMENT AND OTHER INCOME

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Income from investment properties	3,504	3,201
Net interest and dividend income	18,612	21,241
Other income	<u>1,619</u>	<u>1,892</u>
	<u><u>23,735</u></u>	<u><u>26,334</u></u>

17 PROFIT FOR THE YEAR

The profit for the year is stated after charging:

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Staff costs	<u>28,185</u>	<u>27,386</u>
Committee fees	<u>189</u>	<u>100</u>

18 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share amounts for the year are calculated by dividing profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of dilutive instruments.

The following reflects the income and share data used in the earnings per share computations:

	<i>2011</i>	<i>2010</i>
Profit for the year (AED '000)	<u>53,287</u>	<u>61,734</u>
Weighted average number of shares subscribed and paid during the year (as adjusted for the issue of bonus shares)	<u>15,000,000</u>	<u>15,000,000</u>
Basic and diluted earnings per share (AED)	<u>3.55</u>	<u>4.12</u>

As of 31 December 2011, and 31 December 2010, the Company has not issued any instrument which would have a dilutive impact on earnings per share when converted or exercised.

Al Ain Ahlia Insurance Company - Public Shareholding Company

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

19 RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, directors and key management personnel of the Company, and the companies of which they are principal owners and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

Compensation of key management personnel of the Company

Compensation of key management personnel of the Company, consisting of salaries and benefits, was AED 9.3 million (2010: AED 9.4 million) made up as follows:

	<i>2011</i> <i>AED '000</i>	<i>2010</i> <i>AED '000</i>
Short term benefits	7,751	7,883
Employees' end of service benefits	<u>1,562</u>	<u>1,527</u>
	<u><u>9,313</u></u>	<u><u>9,410</u></u>

Other related party transactions

These include premiums written, claims paid and other expenses. These represent small proportions of the value of similar types of transaction entered into by the Company during the year.

Amounts due from related parties are disclosed in note 6 of the financial statements, and represent receivables from related parties (other than major shareholders).

20 RISK MANAGEMENT

(a) Governance framework

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

The Company's risk management function is carried out by the board of directors, with its associated committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to the General Manager and senior managers.

(b) Capital management objectives, policies and approach

The Company has established the following capital management objectives, policies and approach to managing the risks that affect its capital position.

The capital management objectives are:

- To maintain the required level of stability of the Company thereby providing a degree of security to policyholders,
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its shareholders,
- To retain financial flexibility by maintaining strong liquidity,
- To align the profile of assets and liabilities taking account of risks inherent in the business,
- To hold sufficient capital to cover the statutory requirements,
- To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders, and
- To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximise shareholders value.

The operations of the Company are also subject to regulatory requirements within the United Arab Emirates where it operates.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

20 RISK MANAGEMENT continued

Approach to capital management

The Company seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders.

The Company's approach to managing capital involves managing assets, liabilities and risks in a co-ordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Company in the light of changes in economic conditions and risk characteristics.

The primary source of capital used by the Company is equity shareholders' funds.

The Company has had no significant changes in its policies and processes relating to its capital structure during the past year from previous years.

Capital management

No changes were made in the objectives, policies or processes during the years ended 31 December 2011 and 31 December 2010. Capital comprises share capital, legal reserve, general reserve, technical reserve and retained earnings, and is measured at AED 920 million as at 31 December 2011 (2010: AED 916 million).

(c) Regulatory framework

Regulators are primarily interested in protecting the rights of policyholders and monitor them closely to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, regulators are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

The operations of the Company are subject to regulatory requirements within the jurisdictions in which it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions to minimise the risk of default and insolvency on the part of insurance companies to meet unforeseen liabilities as these arise.

The Directors believe all regulatory matters have been complied with.

21 INSURANCE AND FINANCIAL RISK

(a) Insurance risk

Insurance risk is the risk that actual claims payable to contract holders in respect of insured events exceed the carrying amount of insurance liabilities. This could occur because the frequency or amounts of claims are more than expected.

The above risk exposure is mitigated by diversification across a portfolio of insurance contracts. The variability of risks is also improved by careful use of reinsurance arrangements.

Frequency and amounts of claims

The frequency and amounts of claims can be affected by several factors. The Company underwrites mainly fire and general accident, and marine and aviation risks. These are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

21 INSURANCE AND FINANCIAL RISK continued

(a) Insurance risk continued

Fire and general accident

Property

For property insurance contracts the main risks are fire and business interruption.

These contracts are underwritten by reference to the replacement value of the properties and contents insured. The cost of rebuilding properties and obtaining replacement contents and the time taken to restart operations which leads to business interruptions are the main factors that influence the level of claims. The Company has obtained necessary reinsurance covers to limit losses from individual claims.

Motor

For motor contracts the main risks are claims for death and bodily injury and the replacement or repair of vehicles. The Company has reinsurance cover for such claims to limit losses for any individual claim to AED 250,000.

The level of court awards for deaths and to injured parties and the replacement costs of, and repairs to motor vehicles are the key factors that influence the level of claims.

Marine and aviation

For marine and aviation insurance the main risks are loss or damage to marine hull, aviation craft and accidents resulting in the total or partial loss of cargoes.

The underwriting strategy for the marine and aviation class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered. The Company has obtained necessary reinsurance covers to limit losses from individual claims.

Concentration of insurance risk

The Company does not have any single insurance contract or a small number of related contracts that cover low frequency, high severity risks such as earthquakes, or insurance contracts covering risks for single incidents that expose the Company to multiple insurance risks. The Company has adequately reinsured for insurance risk that may involve significant litigation. The segmental concentration of insurance risk is set out in note 23.

Managing reinsurance risk

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 arrangements with other parties for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the reinsurance is effected under treaty, facultative and excess of loss reinsurance contracts.

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.

Al Ain Ahlia Insurance Company - Public Shareholding Company

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

21 INSURANCE AND FINANCIAL RISK continued

(b) Financial risk

The Company's principal financial instruments are available-for-sale investments, receivables arising from insurance and reinsurance contracts and cash and cash equivalents.

The Company does not enter into derivative transactions.

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk, credit risk, market price risk and liquidity risk. Senior management reviews and agrees policies for managing each of these risks.

Credit risk

For all classes of financial instruments held by the Company, other than those relating to reinsurance contracts as described above, the credit risk exposure to the Company approximates the carrying value as disclosed in the financial statements at the statement of financial position date. The Company seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables.

Its 5 largest customers account for 36% of outstanding accounts receivable at 31 December 2011 (2010: 29%).

With respect to credit risk arising from the other financial assets of the Company, including cash and cash equivalents, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Company manages credit risk on its cash deposits and investments by ensuring that counter parties have a good credit rating. The Company does not have an internal credit rating of counter parties and consider all counter parties with which the Company deals to be of the same high credit quality.

Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the board of directors and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.

Equity price risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Company is exposed to market risk with respect to its investment securities. The Company limits market risks 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 the market movements, including analysis of the operational and financial performance of investees.

Equity price risk is the risk that the fair values of equities change as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Company's investment portfolio.

Al Ain Ahlia Insurance Company - Public Shareholding Company

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

21 INSURANCE AND FINANCIAL RISK continued

(b) Financial risk continued

Equity price risk continued

The following table estimates the sensitivity to a possible change in equity markets on the Company's comprehensive income for the year, with all other variables held constant. The effect of decreases in equity prices is expected to be equal and opposite to the effect of the increases shown.

		<i>31 December 2011</i>	<i>31 December 2010</i>
	<i>Change in variables</i>	<i>Impact on comprehensive income AED '000</i>	<i>Impact on comprehensive income AED '000</i>
Market index			
Abu Dhabi Securities Market Index	5%	9,246	10,342
Dubai Financial Market Index	5%	2,549	3,098

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Company is not excessively exposed to interest rate risk as its interest sensitive assets are repriced frequently.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit based on the floating rate financial assets held at 31 December.

	<i>Effect on profit AED '000</i>
2011	
100 decrease in basis points	(3,097)
100 increase in basis points	3,097
2010	
100 decrease in basis points	(3,527)
100 increase in basis points	3,527

Currency risk

Foreign currency risk is the risk that financial instrument will fluctuate due to change in foreign exchange rates. Assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures. Management believes that there is a minimal risk of significant loss due to exchange rate fluctuations and consequently the Company does not hedge its foreign currency exposure.

The Company's major transactions in foreign currencies are in US Dollars. As the exchange rates of the UAE Dirham is pegged to the US Dollar, the Company is not subject to significant currency risk.

Liquidity risk

Liquidity risk is the risk that Company will not be able to meet its commitments associated with insurance contracts and financial liabilities as they fall due.

Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

Al Ain Ahlia Insurance Company - Public Shareholding Company

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

22 INSURANCE AND FINANCIAL RISK continued

(b) Financial risk continued

Liquidity risk continued

The Company limits its liquidity risk by ensuring bank facilities are available.

The table below summarises the maturities of the Company's undiscounted financial liabilities at 31 December 2011 and 31 December 2010, based on contractual payment dates and current market interest rates.

	<i>Current Up to 1 year AED '000</i>	<i>Non-current >1 year AED '000</i>	<i>Total AED '000</i>
31 December 2011			
Gross unearned premiums	199,675	-	199,675
Gross outstanding claims	317,993	-	317,993
Accounts and reinsurance balance payable	<u>95,502</u>	<u>-</u>	<u>95,502</u>
Total	<u>613,170</u>	<u>-</u>	<u>613,170</u>
31 December 2010			
Gross unearned premiums	235,408	-	235,408
Gross outstanding claims	320,906	-	320,906
Accounts and reinsurance balance payable	<u>85,125</u>	<u>-</u>	<u>85,125</u>
Total	<u>641,439</u>	<u>-</u>	<u>641,439</u>

The maturity profile of the assets at 31 December 2011 and 2010 was as follows:

	<i>Current AED '000</i>	<i>Non-current AED '000</i>	<i>Total AED '000</i>
31 December 2011			
Cash and bank balances	331,837	-	331,837
Investment securities carried at fair value through other comprehensive income	-	248,976	248,976
Accounts receivable and prepayments	200,952	-	200,952
Reinsurer's share of unearned premiums	130,318	-	130,318
Reinsurer's share of outstanding claims	276,933	-	276,933
Property, furniture and equipment	-	2,802	2,802
Investment properties	-	437,327	437,327
Investment in an associate	<u>-</u>	<u>628</u>	<u>628</u>
	<u>940,040</u>	<u>689,733</u>	<u>1,629,773</u>
31 December 2010			
Cash and bank balances	378,647	-	378,647
Investment securities carried at fair value through other comprehensive income	-	269,348	269,348
Accounts receivable and prepayments	200,724	-	200,724
Reinsurer's share of unearned premiums	144,933	-	144,933
Reinsurer's share of outstanding claims	277,932	-	277,932
Property, furniture and equipment	-	3,176	3,176
Investment properties	<u>-</u>	<u>437,327</u>	<u>437,327</u>
	<u>1,002,236</u>	<u>709,851</u>	<u>1,712,087</u>

Operational risks

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Company cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access controls, authorisation and reconciliation procedures, staff education and assessment processes.

Al Ain Ahlia Insurance Company - Public Shareholding Company

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

22 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and bank balances, investments carried at fair value through other comprehensive income, receivables, reinsurer's share of unearned premiums and reinsurer's share of outstanding claims. Financial liabilities consist of accounts payable and accruals and gross outstanding claims.

The fair values of financial instruments, are not materially different from their carrying values.

23 SEGMENTAL INFORMATION

For management purposes the Company is organised into departments based on the classes of insured risks. The reportable operating segments of the Company are fire and general accident, and marine and aviation.

Management monitors the underwriting results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on underwriting profit. The following table presents disclosure of segment revenues, measurement of segment profit for the year and their reconciliation to the Company's income and profit for the year.

	<i>Marine and Aviation</i>		<i>Fire and General Accident</i>		<i>Total</i>	
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>
Gross premiums written	38,802	33,531	464,981	560,178	503,783	593,709
Less: reinsurance premiums ceded	(36,540)	(31,260)	(284,133)	(357,483)	(320,673)	(388,743)
Net premiums written	2,262	2,271	180,848	202,695	183,110	204,966
Unearned premiums (net of reinsurers' share):						
At the end of the year	(868)	(874)	(68,489)	(89,601)	(69,357)	(90,475)
At the beginning of the year	874	570	89,601	97,111	90,475	97,681
Net earned premiums	2,268	1,967	201,960	210,205	204,228	212,172
Gross claims paid	(5,939)	(14,209)	(265,067)	(259,086)	(271,006)	(273,295)
Less: claims recovered from reinsurers	5,418	13,815	108,832	82,058	114,250	95,873
	(521)	(394)	(156,235)	(177,028)	(156,756)	(177,422)
Provision for outstanding claims (net of reinsurers' share):						
At the end of the year	(1,162)	(1,120)	(39,898)	(41,854)	(41,060)	(42,974)
At the beginning of the year	1,120	1,197	41,854	73,749	42,974	74,946
Net claims incurred	(563)	(317)	(154,279)	(145,133)	(154,842)	(145,450)
Net commissions earned	5,822	6,294	15,451	11,296	21,273	17,590
Net underwriting profit	7,527	7,944	63,132	76,368	70,659	84,312
Unallocated income					23,735	26,334
Unallocated expenses					(41,107)	(48,912)
Profit for the year					53,287	61,734

As the Company's activities are carried out on an integrated basis, an analysis of assets and liabilities between segments would not be meaningful.

All of the Company's business is conducted in the UAE.

Al Ain Ahlia Insurance Company - Public Shareholding Company

NOTES TO THE FINANCIAL STATEMENTS

31 December 2011

24 COMMITMENTS AND CONTINGENT LIABILITIES

Contingent liabilities

The Company's bankers have issued in the normal course of business letters of guarantee in favour of third parties amounting to AED 15 million (2010: AED 14.2 million).

Legal claims

The Company, in common with the significant majority of insurers, is subject to litigation in the normal course of the business. The management, based on advice from independent loss adjusters and internal legal counsel, has made a provision of AED 16.5 million (2010: AED 10.7 million) representing amounts expected to result in a probable outflow of economic resources.