

ALLIANCE INSURANCE (PSC)

DUBAI - UNITED ARAB EMIRATES

AUDITORS' REPORT AND FINANCIAL STATEMENTS

DECEMBER 31, 2006

ALLIANCE INSURANCE (PSC)
Dubai - United Arab Emirates

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for the year ended December 31, 2006

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BOARD OF DIRECTOR'S REPORT
For the year ended December 2006

Dear Shareholders,

On behalf of the Board of Director's and myself, may I have the pleasure in welcoming you to the Annual General Meeting and present to you the result of the companies operation for the year 2006 with the Financial Statements for the year ended December 2006 as well as the Auditor's Report.

In our 2005 report, we mention our concern regarding those insurance companies using trading in securities as the main source of their income and the possible negative impact of such policy on the 2006 profit.

Our statement proves to be true as many companies suffered losses in 2006 as a result of investing heavily in the stock markets.

We believe that the competition in 2007 will be very fierce as many companies will be in bad need of liquidity which will result in war price to a level unacceptable technically.

We wish and hope that the companies will consider the technical side when offering prices to their clients and the competition should be in offering better services and the use of well-reputed re-insurer when proposing prices to their clients to avoid a situation leading to an appropriate cover resulting in a big risk and additional responsibilities for meeting claims for those companies providing direct cover for the policyholders. Hence, it is in the interest of insurance companies and its clients to use technical standard to protect their interest.

The year 2006 was difficult year for the insurance industry in a market with a very keen competition and all insurers are competing to provide reduced rates and provide insurance covers not acceptable by reputable re-insurer.

In spite of such environment, and with respect to our company, we have continued in implementing our policy which focuses on the insurance core business and hence we have achieved better technical operating result which enhanced our financial position.



The year 2006 was a good year in general for the company as the cash in hand, banks and long term deposit as at December 2006 was increased from AED 295,987,000/- in 2005 to AED 346,118,000/- in 2006.

The net assets of the company increased from AED 523,417,000/- in 2005 to AED 572,092,000/- in 2006 and the total assets of the company increased from AED 661,320,000/- in 2005 to AED 699,056,000/- in 2006.

Claim paid during 2005 where AED 47,516,000/- compared with AED 59,578,000/- for the year 2006.

The net profit after allocation of all technical reserves and provision for doubtful debts is AED 33,587,000/- for 2006 against AED 55,528,000/- .

In light of the result for 2006 the Board of Director's present for you consideration the following recommendation:

- 1) To approve the Director's report, Balance Sheet and Auditor's Report for the year 2006.
- 2) To approve the company's Financial Statements for the year 2006.
- 3) To approve the appropriation of the profit as recommended by the board for the year 2006 amounting to AED 33,578,000/- plus the Retained Profit from 2005 amounting to AED 4,827,000/- bringing total profit available for appropriation to AED 38,414,000/- distributable as follows:
 - a) AED 3,359,000/- to be transferred to the Legal Reserve as 10% for net profit of 2006.
 - b) AED 3,359,000/- to be transferred to Regular Reserve as 10% for net profit of 2006.
 - c) 20% of paid-up capital (AED 10,000,000/-) Cash Dividends to shareholder.
 - d) To grant 20% bonus shares that is one share for each five shares which is equal to AED 10,000,000/- to increase the current paid-up capital from AED 50,000,000/- to be AED 60,000,000/-.
 - e) AED 234,000/- Director's remuneration.
 - f) AED 6 Million to be transferred to General Reserve.
 - g) AED 5,453,000/- Retained Earnings carried forward for next year.
- 4) To discharge the Chairman, Board of Directors and Auditors from their responsibility for the year ended 2006.
- 5) To appoint or re-appoint the Auditors for the year 2007 and determine their fees.



In conclusion, the Board of Directors take this opportunity to extend their appreciation to His Highness Sheikh Khalifa Bin Zayed Bin Sultan Al Nahyan, The President of U.A.E and his Highness Sheikh Mohamed Bin Rashid Al Maktoum, Vice President, Prime Minister of U.A.E and Ruler of Dubai and to their highnesses the sheikhs and their brothers, the Members of Supreme Council of the Union for their continuous support of the national companies.

Also, I would like to extend our thanks to the Ministry of Economy & Planning in U.A.E for their support and guidance rendered by them to encourage the insurance companies to play an effective role as an important sector in the economy of U.A.E.

We would also like to express our gratitude and appreciation to all the company's clients for their support and to the management and staff of the company for their efforts.

Chairman of the Board

Report of Independent Auditors

**To the Shareholders of
Alliance Insurance (PSC)
Dubai, United Arab Emirates**

We have audited the accompanying balance sheet of the ALLIANCE INSURANCE (PSC) (the "Company") as of December 31, 2006, and the related statements of Income, shareholders' equity, and cash flows for the year then ended as set out on pages 5 to 39.

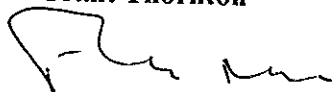
These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements, present fairly, in all material respects, the financial position of the Company as of December 31, 2006 and the results of its operations, statement of changes in shareholders' equity and its cash flows for the year then ended, in accordance with International Financial Reporting Standards promulgated by International Accounting Standards Board (IASB) and comply, where appropriate, with the UAE Commercial Companies Law No. (8) of 1984 (as amended) and Federal Law No.(9) of 1984 (as amended) concerning insurance companies and agents.

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

Grant Thornton



Farouk Mohamed

Insurance Registration no.: 54
Dubai, United Arab Emirates

Date : 8 February 2007

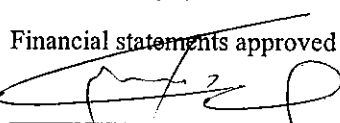
ALLIANCE INSURANCE (PSC)
Dubai - United Arab Emirates

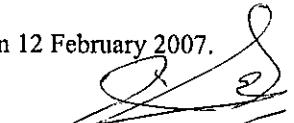
Balance sheet at December 31, 2006

	Notes	2006 AED'000	2005 AED'000
Assets employed:			
Non-current assets			
Investment property	3	187,096	185,845
Investments held to maturity	4	6,092	7,927
Long term deposits		12,700	18,207
Statutory deposit	5	7,500	7,500
Policyholders' loans	6	42,644	36,830
Property and equipment	7	3,610	3,396
		<u>259,642</u>	<u>259,705</u>
Current assets			
Investments fair valued through profit & loss	8	32,241	49,099
Trade and other receivables and due from insurers	9	51,417	30,080
Due from related parties	10	37	85
Outstanding claims recoverable from reinsurers	11	22,301	44,580
Cash in hand and at banks	29	333,418	277,771
Total current assets		<u>439,414</u>	<u>401,615</u>
Current liabilities			
Technical provisions	11	53,450	73,747
Trade and other payables	12	37,565	42,504
Due to other insurers and reinsurers	13	32,711	18,674
Total current liabilities		<u>123,726</u>	<u>134,925</u>
Net current assets		<u>315,688</u>	<u>266,690</u>
Total assets less current liabilities		<u>575,330</u>	<u>526,395</u>
Employees' end-of-service benefits	14	(3,238)	(2,978)
Net assets		<u><u>572,092</u></u>	<u><u>523,417</u></u>
Shareholders' equity			
Share capital	15	50,000	50,000
Legal reserve	16	25,990	22,631
Regular reserve	17	16,402	13,043
General reserve	18	70,000	64,000
Proposed dividend		20,000	10,000
Retained earnings		5,453	4,827
Total Shareholders' equity		<u>187,845</u>	<u>164,501</u>
Policyholders' funds	19	<u>384,247</u>	<u>358,916</u>
		<u><u>572,092</u></u>	<u><u>523,417</u></u>

The notes on pages 12 to 39 form an integral part of these financial statements.

Financial statements approved by the Board on 12 February 2007.


Sheikh Ahmed Bin Saeed Al Maktoum
Chairman


Juma Saif Rashid Bin Bakhit
Vice Chairman


Wisam Al Haimus
Member of Board
of Directors and
Chief Executive

ALLIANCE INSURANCE (PSC)
Dubai - United Arab Emirates

Income statement
for the year ended December 31, 2006

		2006	2005
		AED'000	AED'000
Net underwriting profit			
General (page 8)		12,584	4,107
Interest income on deposits-General		2,712	1,320
Income from investment property (net)	20	5,131	6,987
Profit/Loss from investment activities	21	(18,343)	19,480
Other income	22	139	307
Gross income		<u>2,223</u>	<u>32,201</u>
Provision for fluctuation in investments		<u>2,334</u>	<u>(5,800)</u>
Profit from general insurance business		4,557	26,401
Surplus transferred from			
long-term business (life) account (page 9)		29,030	29,127
Net profit for the year		<u>33,587</u>	<u>55,528</u>
Basic earnings per share	24	<u>67.17</u>	<u>111.06</u>

The notes on pages 12 to 39 form an integral part of these financial statements.

ALLIANCE INSURANCE (PSC)
Dubai - United Arab Emirates

Statement of underwriting results - General
for the year ended December 31, 2006

	Notes	2006 AED'000	2005 AED'000
Underwriting income			
Gross premiums written		106,663	79,952
Reinsurance premiums ceded		(78,293)	(54,917)
Net premiums written		28,370	25,035
Provision for unearned premiums at 1 January		9,810	8,847
Provision for unearned premiums at 31 December	11a	(11,083)	(9,810)
Net earned premiums		27,097	24,072
Commission received from reinsurers		9,440	7,573
Total underwriting income		36,537	31,645
Underwriting expenses			
Gross claims paid		42,106	24,329
Reinsurance recoveries		(28,048)	(10,037)
Net claims paid		14,058	14,292
Outstanding claims at 1 January		(12,331)	(11,926)
Outstanding claims at 31 December		9,573	12,331
Net claims incurred		11,300	14,697
Commission paid to agents and brokers		2,981	2,116
Total underwriting expenses		14,281	16,813
Underwriting surplus		22,256	14,832
Management expenses (note 23)		(9,672)	(10,725)
Net underwriting profit		12,584	4,107

The notes on pages 12 to 39 form an integral part of these financial statements.

ALLIANCE INSURANCE (PSC)
Dubai - United Arab Emirates

Long-term business (life) account
for the year ended December 31, 2006

	Notes	2006 AED'000	2005 AED'000
Net underwriting profit - Life (page 10)		25,781	25,726
Income from investment property (net)	20	6,132	10,119
Profit from investment activities	21	3,687	20,167
Interest income		13,761	8,387
Other income	22	1,000	862
Gross income		<u>50,361</u>	<u>65,261</u>
Provision for fluctuation in investments		4,000	1,199
Profit before fund movement		54,361	66,460
Funds at 1 January		358,916	321,583
Surplus transferred to income statement	19	(29,030)	(29,127)
Funds at 31 December		<u><u>384,247</u></u>	<u><u>358,916</u></u>

The notes on pages 12 to 39 form an integral part of these financial statements.

ALLIANCE INSURANCE (PSC)**Dubai - United Arab Emirates****Statement of underwriting results - Life
for the year ended December 31, 2006**

	2006	2005
	AED'000	AED'000
Gross premium written	136,122	125,086
Reinsurance premium ceded	(20,263)	(16,093)
Net earned premium	115,859	108,993
Commission received	1,721	1,356
Total underwriting income	117,580	110,349
Underwriting expenses		
Gross claims paid	17,472	23,187
Reinsurance recovery	(10,683)	(15,263)
Net claims paid	6,789	7,924
Outstanding claims at 1 January	(6,132)	(5,666)
Outstanding claims at 31 December	6,848	6,132
Net claims incurred	7,505	8,390
Commission to field staff and agents	14,385	14,814
Policies surrendered	19,789	19,204
Bonus to policyholders	5,987	5,080
Maturity payments	30,656	24,892
Other underwriting expenses	1,775	988
Total underwriting expenses	80,097	73,368
Underwriting surplus	37,483	36,981
Management expenses (note 23)	(11,702)	(11,255)
Net underwriting profit	25,781	25,726

The notes on pages 12 to 39 form an integral part of these financial statements.

ALLIANCE INSURANCE (PSC)
Dubai - United Arab Emirates
Statement of changes in equity
for the year ended December 31, 2006

	Share capital AED'000	Legal reserve AED'000	Regular reserve AED'000	General reserve AED'000	Retained earnings AED'000	*Proposed dividend AED'000	Total AED'000
As at 1 January 2005	50,000	17,078	7,490	31,500	3,324	10,000	119,392
Net profit for the year	-	-	-	-	55,528	-	55,528
Transfer to legal reserve (note 16)	-	5,553	-	-	(5,553)	-	-
Transfer to regular reserve (note 17)	-	-	5,553	-	(5,553)	-	-
Transfer to general reserve (note 18)	-	-	-	32,500	(32,500)	-	-
Directors' remuneration	-	-	-	-	(419)	-	(419)
Dividend paid	-	-	-	-	-	(10,000)	(10,000)
Proposed dividend	-	-	-	-	(10,000)	10,000	-
As at 31 December 2005	50,000	22,631	13,043	64,000	4,827	10,000	164,501
Net profit for the year	-	-	-	-	33,587	-	33,587
Transfer to legal reserve (note 16)	-	3,359	-	-	(3,359)	-	-
Transfer to regular reserve (note 17)	-	-	3,359	-	(3,359)	-	-
Transfer to general reserve (note 18)	-	-	-	6,000	(6,000)	-	-
Directors' remuneration	-	-	-	-	(243)	-	(243)
Dividend paid	-	-	-	-	-	(10,000)	(10,000)
Proposed dividend *	-	-	-	-	(10,000)	10,000	-
Proposed bonus share issue	-	-	-	-	(10,000)	10,000	-
As at 31 December 2006	50,000	25,990	16,402	70,000	5,453	20,000	187,845

*At Annual General Meeting held in March 2006, the shareholders approved cash dividend of AED 10,000,000 as 20% from share capital relating to 2005 (2004: AED 10,000,000). At the forthcoming Annual General Meeting, the Directors are proposing cash dividend of 20% from the share capital amounting to AED 10,000,000, and a bonus share issue of AED 10,000,000 which also amounts to 20% of the share capital.

The notes on pages 12 to 39 form an integral part of these financial statements.

ALLIANCE INSURANCE (PSC)
Dubai - United Arab Emirates

Statement of cash flows
for the year ended December 31, 2006

	2006	2005
	AED'000	AED'000
Operating activities		
Net profit for the year	33,587	55,528
<i>Adjustments for:</i>		
Depreciation on property and equipment	358	274
Fair value adjustments to investment property	(1,251)	(8,334)
Investments held to maturity	1,835	-
Fair value adjustments to investments	17,882	(19,524)
Profit on sale of property and equipment	(38)	(66)
Increase in life fund (long term business)	25,331	37,333
Directors remuneration	(243)	(419)
Net transfer to employees' end-of-service gratuity	260	189
(Decrease)/Increase in technical provisions	(20,297)	21,631
Increase/(decrease) in claims recoverable from reinsurers	22,279	(19,776)
Operating profit before changes in working capital	79,703	66,836
Changes in working capital		
(Decrease) in trade and other receivables and due from insurers	(21,337)	(3,693)
Increase in trade and other payables	(4,939)	6,244
Increase in due to other insurers and reinsurers	14,037	4,629
Increase/(decrease) in due from related parties	48	(54)
Net cash flow provided from operating activities	67,512	73,962
Investing activities		
Purchase of investments	(1,755)	(637)
Net sales of investments	731	19,133
Net increase in loans to policyholders	(5,814)	(1,926)
Purchase of property and equipment	(572)	(3,089)
Proceeds from disposals of property and equipment	38	72
Long term deposits	5,507	53,935
Net cash (used in)/provided from investing activities	(1,865)	67,488
Financing activities		
Dividends paid	(10,000)	(10,000)
Net cash used in financing activities	(10,000)	(10,000)
Net increase in cash and cash equivalents	55,647	131,450
Cash and cash equivalents at 1 January	277,771	146,321
Cash and cash equivalents at 31 December (note 29)	333,418	277,771
	=====	=====

The notes on pages 12 to 39 form an integral part of these financial statements.

Alliance Insurance (PSC)
Dubai - United Arab Emirates

Notes to the financial statements
for the year ended December 31, 2006

1 Legal status and activities

Alliance Insurance (PSC) ("the Company") is a Public Shareholding Company ('PSC'), which was originally established in Dubai with limited liability on 1 July 1975 under the name of Credit and Commerce Insurance Company. The Company was subsequently incorporated in Dubai with limited liability on 6 January 1982 under an Emiri Decree. The Company became a PSC in January 1995, in accordance with the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended).

The Company underwrites all classes of general insurance, life assurance and health insurance business in accordance with the provisions of the UAE Federal Law No. 9 of 1984 (as amended) relating to insurance companies and insurance agents.

The registered address of the Company is at Warba Centre, P.O. Box 5501, Dubai, UAE.

The total number of staff employed by the Company as at 31 December 2006 was 157 (2005: 162).

2 Significant accounting policies

Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) promulgated by International Accounting Standards Board

The following accounting policies have been applied consistently in dealing with the items that are considered material in relation to the Company's financial statements.

ALLIANCE INSURANCE (PSC)

2 Significant accounting policies (cont.)

The significant accounting policies adopted in the preparation of these financial statements are as follows:

a) Basis of preparation

- (i) The financial statements are presented in UAE Dirhams ("AED"), rounded to the nearest thousand. They are prepared on the historical cost basis except for investment properties and investments fair value through profit & loss for sale which are stated at fair value.
- (ii) In their most recent report, the actuaries state that their valuation of the surplus is based among other things, upon the accurate valuation of all the assets and liabilities. In particular, they highlight that their actuarial valuation is particularly dependent on the value of the company's investment properties.

b) Insurance contracts

Contracts under which the Company accepts significant insurance risk from another party (the policy holder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured) adversely affects the policy holder or other beneficiary are classified as insurance contracts.

c) Classification of income

The underwriting account includes results of motor, marine, fire and general miscellaneous business.

The long-term business account includes results of individual life, group life, personal accident, and medical and health insurance business.

ALLIANCE INSURANCE (PSC)

2 Significant accounting policies (cont.)

d) Revenue

Premiums

Premiums on individual life business are accounted for on a cash basis after deducting premiums received in advance. Premium income on group life, personal accident and medical and health insurance businesses has been accounted for on an accruals basis.

For medical and health insurance business and group life business, premiums written are taken into income over the term of the policies to which they relate on a pro-rata basis. An unearned premium reserve is established to cover the portions of the risks which have not expired at the balance sheet date. The unearned premium reserve for medical and health insurance business and group life business has been valued by the actuaries and is included as part of net liabilities under life assurance (refer to note 19).

Premiums written under general business are taken into income over the terms of the policies to which they relate on a pro-rata basis. At the end of each year, a proportion of net-retained premiums of the general insurance business are provided to cover portions of risks which have not expired at the balance sheet date, at the following percentages;

Marine	25%
All other businesses	40%

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

e) Claims

Claims paid

Claims paid during the year are charged against the year's income on the basis of actual settlements made

Outstanding claims and IBNR provision

ALLIANCE INSURANCE (PSC)

2 Significant accounting policies (cont.)

e) Claims (cont.)

On an on-going basis, provisions are made for all known and reported claims, including handling costs, for all classes of business which have not been paid as at 31 December 2006, and are stated gross with the reinsurance portion being shown separately under current assets. An additional provision is also made for any claims incurred but not reported (IBNR) at the balance sheet date on the basis of management estimates. The method used by the company to calculate claims incurred but not reported takes into account historical data, past estimates and details of reinsurance programmes to assess the expected size of reinsurance recoveries.

f) Interest income

Interest income is recognised in the income statement on an accruals basis taking into account the effective yield on the related interest bearing assets.

g) Rental income

Rental income from investment properties is recognised on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

h) Liability adequacy test

All recognised insurance liabilities, including outstanding claims, are subject to a liability adequacy test at each reporting date. This involves comparison of current estimates of all contractual cash flows attached to these liabilities with their carrying amounts. Estimates of contractual cash flows includes expected claims handling costs and recoveries from third parties.

Any deficiency in carrying amounts is immediately charged to the statement of insurance operations by establishing a provision for losses arising from liability adequacy tests.

ALLIANCE INSURANCE (PSC)

2 Significant accounting policies (cont.)

i) Dividend income

Dividend income is recognised in the income statement when received.

j) Financial instruments

Classification

A financial instrument is any contract that gives rise to both a financial asset for the company and a financial liability or equity instrument of another party. All assets and liabilities in the balance sheet are financial instruments except investment property, property and equipment and shareholders' equity.

Financial instruments are categorised as follows:

- Fair valued instruments through profit and loss are those that the company principally holds for the purpose of short-term profit taking. These include money market placements and certain debt and equity investments.
- Originated loans and receivables are loans and receivables created by the company by providing money and services to a debtor. Originated loans and receivables comprise trade receivables, due from related parties, recoverables from other insurers and policy holders' loans.
- Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the company has the intent and ability to hold to maturity. These include certain debts and equity investments.

Recognition

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

Originated loans and receivables are recognised the day they are delivered to the counter party.

ALLIANCE INSURANCE (PSC)

2. Significant accounting policies (cont.)

j) Financial instruments (cont.)

Measurement

- Financial instruments are measured initially at cost, including transaction costs. Subsequent to initial recognition all assets are measured at fair value.
- Held-to-maturity assets are measured at amortised costs less impairment losses. Amortised cost is calculated on the effective interest rate method.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques, as applicable.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of "fair value through profit & loss" financial assets are recognised in the income statement, whether realized or not.

Derecognition

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

ALLIANCE INSURANCE (PSC)

2. Significant accounting policies (cont.)

k) Investments

Held-to-maturity investments

Held-to-maturity investments, which are debt investments with fixed payments and maturity that the company has the intent and ability to hold to maturity are stated at amortised historical cost less impairment losses.

Fair value through profit & loss

Fair value through profit & loss, which are equity and debt investments, held for trading. Movements in the fair value are recognised in the income statement.

l) Investment property

Investment properties are measured by applying the fair value model and gains or losses from fair value adjustments are recognised in the income statement.

m) Trade and other receivables

Trade and other receivables are stated at their cost less provision for doubtful debts.

n) Payables and accruals

Liabilities are recognised for amounts to be paid in future for goods or services received, whether billed or not billed to the company. Trade and other payables are stated at their cost.

o) Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and impairment losses (see note 7). Depreciation is charged on a straight-line basis over the estimated useful lives of the property and equipment.

ALLIANCE INSURANCE (PSC)

2. Significant accounting policies (cont.)

o) Property and equipment (cont.)

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

	Years
Furniture and fixtures	4
Office equipment	4
Motor vehicles	4
Land is not depreciated	

p) Impairment losses

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

Calculation of recoverable amount

The recoverable amount of the Company's investments in held-to-maturity securities and receivables, if significant, is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivable with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

q) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits, current accounts and short term deposits balances. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of cash flows.

ALLIANCE INSURANCE (PSC)

2. Significant accounting policies (cont.)

r) End of service benefits

Staff terminal benefits

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

UAE nationals – Pension and social security

The UAE Government has introduced Federal Labour Law NO. 7 of 1999 for pension and social security. Under this law employers are required to contribute 12.5% of the 'contribution calculation salary' of those employees who are UAE nationals. These employees are also required to contribute 5% of the 'contribution calculation salary' to the scheme. The Company's contribution is recognised as an expense in the income statement as incurred. The employees and employers' contribution, to the extent remaining unpaid at the balance sheet date, has been shown under provisions.

s) Foreign currency transactions

Transactions in foreign currencies are translated to UAE Dirhams at the foreign exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to UAE Dirhams at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to UAE Dirhams at the foreign exchange rate ruling at the date of the transaction.

t) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expenses.

u) Provisions

A provision is recognised in the balance sheet when the company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

ALLIANCE INSURANCE (PSC)

2. Significant accounting policies (cont.)

v) Critical accounting estimates and judgments in applying

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

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such estimates. The Company estimates for reported and unreported losses and establishing resulting provisions and related reinsurance recoverable is continually reviewed and updated, and adjustments resulting from this review are reflected in income statement. The process relies upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis for predicting future events.

w) Reinsurance assets

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

ALLIANCE INSURANCE (PSC)

3 Investment property

	2006 AED'000	2005 AED'000
Balance at 1 January	185,845	177,511
Fair value adjustments	1,251	8,334
Balance at 31 December	<u>187,096</u>	<u>185,845</u>

Investment property comprises two commercial buildings in Dubai. With effect from 1 January 2001, the company adopted IAS 40, whereby accounting for investment property is at fair value.

In December 2006, The Technical and Loss Adjusting Services Company LLC estimated the open market value of the investment properties at AED 187,096K (2005: AED 185,845K). The qualification of the person carrying out the valuation was a Chartered Engineer.

The Company occupies part of these properties for use in its own business. The Directors consider it is a fairer presentation to include all properties under investment property rather than a part as owner occupied properties under property and equipment.

4 Investments – held to maturity

	2006 AED'000	2005 AED'000
Quoted investment	6,092	6,092
Unquoted investment	-	1,835
	<u>6,092</u>	<u>7,927</u>

The quoted investment security is stated at amortised cost less impairment losses. The investment had a market value as at 31 December 2006 of AED 6,092K (2005: AED 6,092K).

The unquoted investment which was a non-negotiable and non-transferable note, issued and guaranteed by a local bank, matured on 24 June 2006.

ALLIANCE INSURANCE (PSC)

5 Statutory deposit

A deposit of AED 7,500,000 has been placed with the company's bankers, in accordance with Article 41 of Federal Law No. (9) of 1984 (as amended) relating to insurance companies. This deposit has been pledged to the bank as security against a guarantee issued by the bank in favour of the Ministry of Economy and Planning for the same amount. These deposits cannot be withdrawn without prior approval from the Ministry of Economy and Planning.

6 Policyholders' loans

	2006 AED'000	2005 AED'000
Balance at 31 December	42,644	36,830

7 Property and equipment

	Land AED'000	Furniture and fixtures AED'000	Office equipment AED'000	Motor vehicles AED'000	Total AED'000
Cost					
At 1 January 2006	2,471	6,163	4,371	1,130	14,135
Additions	-	200	202	170	572
Disposals	-	(17)	-	(100)	(117)
At 31 December 2006	2,471	6,346	4,573	1,200	14,590
Depreciation					
At 1 January 2006	-	6,021	4,197	521	10,739
Charge for the year	-	52	114	192	358
For disposals	-	(17)	-	(100)	(117)
At 31 December 2006	-	6,056	4,311	613	10,980
Net book value					
At 31 December 2006	2,471	290	262	587	3,610
At 31 December 2005	2,471	142	174	609	3,396

Depreciation is allocated as follows

	2006 AED'000	2005 AED'000
Management expenses (note 23)	322	274
Maintenance expenses (note 20)	36	-
	358	274

ALLIANCE INSURANCE (PSC)

7 Property and equipment (cont.)

The gross carrying amount of fully depreciated property and equipment still in use at 31 December 2006 is AED 10,315K (2005: AED 10,357K).

In the opinion of the management, there has been no impairment in the net book value of the company's property and equipment as of 31 December 2006.

8 Investments – fair value through profit & loss

	2006 AED'000	2005 AED'000
Unquoted equity	1,490	800
Less: Repayment	(235)	(56)
	<u>1,255</u>	<u>744</u>
Fair value adjustment	(509)	(744)
	<u>746</u>	<u>-</u>
	<u> </u>	<u> </u>
Quoted equities and funds	21,808	30,356
Fair value adjustment	9,687	18,743
	<u>31,495</u>	<u>49,099</u>
	<u> </u>	<u> </u>
Total	<u><u>32,241</u></u>	<u><u>49,099</u></u>

ALLIANCE INSURANCE (PSC)

9 Trade and other receivables and due from insurers

	2006 AED'000	2005 AED'000
Accounts receivable	31,540	15,085
Due from insurers for insurance operations	2,240	3,546
	<u>33,780</u>	<u>18,631</u>
Less: Provisions for doubtful debts	(2,973)	(2,984)
	<u>30,807</u>	<u>15,647</u>
Accrued interest	<u>7,929</u>	<u>8,630</u>
Rents receivable	4,325	4,090
Prepayments and other receivables	8,436	4,457
	<u>20,690</u>	<u>17,177</u>
Less: Provision for doubtful debts	(3,726)	(3,638)
	<u>16,964</u>	<u>13,539</u>
Recoverable from other insurers	<u>3,646</u>	<u>1,183</u>
Less: Provision	-	(289)
	<u>3,646</u>	<u>894</u>
Total	<u><u>51,417</u></u>	<u><u>30,080</u></u>

Accounts receivable consist mainly of a large number of policy holders and insurance brokers, mostly within the UAE. The 5 largest receivables account for 60% of premiums due from policy holders and the 5 largest receivables account for 94% of the premiums due from insurance brokers at 31 December 2006. Of the amounts due from other insurers for insurance operations, 5 accounts represent 74% of the amount outstanding.

ALLIANCE INSURANCE (PSC)

10 Related party transactions

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

	2006 AED'000	2005 AED'000
Premiums written	52	54
Claims paid	-	-
Details of related party balances are as follows;		
Amounts due from related party	37	85

11 Technical provisions

Provision for unearned premiums (refer (a) below)	11,083	9,810
Provision for outstanding claims – gross [refer (b) below]	42,367	63,937
Balance at 31 December	53,450	73,747

a) Provision for unearned premiums (net of reinsurance)

Balance at 1 January	9,810	8,847
Net transfer of unearned premiums	1,273	963
Balance at 31 December	11,083	9,810

ALLIANCE INSURANCE (PSC)

11 Technical provisions (cont.)

b) Provision for outstanding claims

	2006 AED'000	2005 AED'000
Provision for claims reported	38,317	59,887
Provision for claims incurred but not reported	4,050	4,050
Provision for outstanding claims (gross)	42,367	63,937
Less: Reinsurance share	(22,301)	(44,580)
	<u>20,066</u>	<u>19,357</u>

Movements in provision for outstanding claims are as follows:

	2006 Gross AED'000	2006 Reinsurance AED'000	Net AED'000
Balance as at 1 January	63,937	(44,580)	19,357
Less: Paid during the year	(59,578)	38,731	(20,847)
Add: Incurred claims during the year	38,008	(16,452)	21,556
Balance as at 31 December	<u>42,367</u>	<u>(22,301)</u>	<u>20,066</u>

	2005 Gross AED'000	2005 Reinsurance AED'000	Net AED'000
Balance as at 1 January	46,771	(24,804)	21,967
Less: Paid during the year	(42,532)	20,315	(22,217)
Add: Provision made during the year	59,698	(40,091)	19,607
Balance as at 31 December	<u>63,937</u>	<u>(44,580)</u>	<u>19,357</u>

11 Technical provisions (cont.)

Assumptions and sensitivities

Process used to determine the assumptions

The process used to determine the assumptions for calculating the outstanding claims provision is intended to result in neutral estimates of the most likely or expected outcome. The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case by case basis with due regard to the claim circumstances, information available from loss adjusters and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises.

The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments or if catastrophic events occur. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate.

The provision estimation difficulties also differ by class of business due to differences in the underlying insurance contract, claim complexity, the volume of claims and the individual severity of claims, determining the occurrence date of a claim, and reporting lags.

Incurred but not reported (IBNR) provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries. The method used by the Company takes into account historical data, past estimates and details of the reinsurance programme, to assess the expected size of reinsurance recoveries.

Assumptions and sensitivities to changes in key variables

The assumptions that have the greatest effect on the measurement of insurance contract provisions are the expected loss ratios for the most recent accident years for accident and liabilities. These are used for assessing the IBNR for the accident years 2005 and 2006.

Where variables are considered to be immaterial, no impact has been assessed for insignificant changes to these variables. Particular variables may not be considered material at present. However, should the materiality level of an individual variable change, assessment of changes to that variable in the future may be required.

ALLIANCE INSURANCE (PSC)

11 Technical provisions (cont.)

Analysis of sensitivity around various scenarios provides an indication of the adequacy of the Company's estimation process. The Company believes that the liability for claims reported in the balance sheet is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims arise.

12 Trade and other payables

	2006 AED'000	2005 AED'000
Trade payables	4,479	768
Rent received in advance	6,282	5,399
Premiums received in advance	2,913	4,959
Accruals and provisions	18,293	24,678
Other payables	5,598	6,700
	<u>37,565</u>	<u>42,504</u>

13 Due to other insurers and reinsurers

Due to insurers and reinsurers for insurance operations	<u>32,711</u>	<u>18,674</u>
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14 Employees' end of service benefits

The movement in this account during the year was as follows:

Balance at 1 January	2,978	2,789
Charge for the year	611	406
Payments during the year	(351)	(217)
Balance at 31 December	<u>3,238</u>	<u>2,978</u>

ALLIANCE INSURANCE (PSC)

15 Share capital

	2006 AED'000	2005 AED'000
<i>Authorised, issued and fully paid:</i>		
500,000 ordinary shares of AED 100 each	50,000	50,000

16 Legal reserve

In accordance with the Company's Articles of Association and Articles 192 of the UAE Commercial Companies Law of 1984 (as amended), a minimum of 10% of the Company's annual net profits should be transferred to a non-distributable statutory reserve. As per the Company's Articles of Association, such transfers are required until the balance on the statutory reserve equals 100% of the Company's paid-up share capital. Accordingly, AED 3,359K (10% of the net profit for the year) has been transferred to the statutory reserve at 31 December 2006 (2005: AED 5,553K).

17 Regular reserve

In accordance with the Company's Articles of Association, at least 10% of the Company's annual net profits must be transferred to a regular reserve which was previously called general reserve. Such transfers are required until the balance on this reserve equals 100% of the Company's paid-up share capital, or until the transfer is suspended by resolution of the shareholders. Accordingly, AED 3,359K (10% of the net profit for the year) has been transferred to this reserve at 31 December 2006 (2005 : AED 5,553K).

18 General reserve

The Board of Directors has approved the transfer of AED 6,000K to a general reserve which can be utilised for any purpose approved by the shareholders (2005: AED 32,500K).

19 Policyholders' funds

	2006 AED'000	2005 AED'000
Balance at 1 January	358,916	321,583
Excess of income over expenditure for the year in the long-term business account	54,361	66,460
Surplus transferred to income statement	(29,030)	(29,127)
Balance at 31 December	384,247	358,916

Policyholders' funds represent amounts set aside to meet the aggregate amount of the liabilities of the company in relation to its long-term (life) business at 31 December 2006.

ALLIANCE INSURANCE (PSC)

19 Policyholders' funds (cont.)

The company's consulting actuaries during the year were M/s Nauman Associates. In their report dated 15 January 2007 the company's consulting actuaries determined the liability arising out of the actuarial valuation of individual life, group life and personal accident policies and medical and health insurance business (life assurance fund) to be as follows:

	2006 AED'000	2005 AED'000
Net liabilities under life assurance policies	300,268	284,488
Provision for terminal bonus to policy holders	83,979	74,428
	<u>384,247</u>	<u>358,916</u>

The consulting actuaries assessed a surplus of AED 29,030K in the life assurance fund at 31 December 2006 (2005: AED 29,127K) as follows:

Net life assurance assets at 31 December	413,277	388,043
Less: Total liabilities under policies	(384,247)	(358,916)
Surplus at 31 December	<u>29,030</u>	<u>29,127</u>

20 Income from investment property (net)

	2006			2005		
	General AED'000	Life AED'000	Total AED'000	General AED'000	Life AED'000	Total AED'000
Rental income	5,650	7,911	13,561	4,898	7,303	12,201
Reversal/(provision) for doubtful rents	-	(35)	(35)	32	21	53
Fair value adjustment to investment property*	924	327	1,251	3,490	4,844	8,334
Maintenance expenses	(1,443)	(2,071)	(3,514)	(1,433)	(2,049)	(3,482)
	<u>5,131</u>	<u>6,132</u>	<u>11,263</u>	<u>6,987</u>	<u>10,119</u>	<u>17,106</u>

Rental income includes notional rent of AED 1,512K (2005: AED 1,494K) relating to the portion of investment properties occupied by the Company. A corresponding charge is included under management expenses (note 23).

* Representing the unrealised gain from the revaluation of the investment property.

ALLIANCE INSURANCE (PSC)

21 Profit from investment activities

	2006			2005		
	General AED'000	Life AED'000	Total AED'000	General AED'000	Life AED'000	Total AED'000
Unrealised (loss)/profit on investments	(18,343)	199	(18,144)	18,398	1,126	19,524
Dividend income	-	641	641	-	812	812
Interest on policy holders' loans	-	2,847	2,847	-	2,399	2,399
Profit on sale of shares	-	-	-	1,082	15,830	16,912
	<u>(18,343)</u>	<u>3,687</u>	<u>(14,656)</u>	<u>19,480</u>	<u>20,167</u>	<u>39,647</u>

22 Other income

Other income included in the income statement consists of:

	2006			2005		
	General AED'000	Life AED'000	Total AED'000	General AED'000	Life AED'000	Total AED'000
Profit on sale of property and equipment	38	-	38	66	-	66
Miscellaneous	101	1,000	1,101	241	862	1,103
	<u>139</u>	<u>1,000</u>	<u>1,139</u>	<u>307</u>	<u>862</u>	<u>1,169</u>

ALLIANCE INSURANCE (PSC)

23 Management expenses

	2006			2005		
	General AED'000	Life AED'000	Total AED'000	General AED'000	Life AED'000	Total AED'000
Staff costs	6,411	4,434	10,845	6,331	4,304	10,635
Branch overheads	-	263	263	-	305	305
Depreciation on property and equipment	215	107	322	181	93	274
Rent	896	1,218	2,114	826	1,101	1,927
Communication expenses	226	412	638	240	368	608
Travel and conveyance	42	29	71	24	13	37
Other office expenses	1,811	4,514	6,325	2,623	4,450	7,073
Provision for doubtful debts	-	-	-	500	-	500
Finance charges	71	725	796	-	621	621
	<u>9,672</u>	<u>11,702</u>	<u>21,374</u>	<u>10,725</u>	<u>11,255</u>	<u>21,980</u>
	=====	=====	=====	=====	=====	=====

24 Earnings per share

	2006	2005
Net profit for the year in AED	33,587,000	55,528,000
	=====	=====
Average number of shares outstanding during the year	500,000	500,000
	=====	=====
Earnings per share in AED	67.17	111.06
	=====	=====

25 Contingent liabilities and capital commitments

i) Contingent liabilities

	2006 AED'000	2005 AED'000
Guarantees	9,581	8,483
	=====	=====

ii) Capital commitments

At the balance sheet date, there were no major capital commitments.

26 Insurance risk management

Risk management objectives and policies for mitigating insurance risk

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

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

Underwriting strategy

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

Reinsurance strategy

In parlance with other insurance companies to minimise and control the net exposure, the Company enters into reinsurance arrangements. This provides for additional capacity, better diversification of business and better management control on losses from any large risk.

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

Reinsurance recoverable are monitored on regular basis and exchanges of reconciliation's are done with complete control over the receivables.

ALLIANCE INSURANCE (PSC)

26 Insurance risk management (cont.)

Terms and conditions of insurance contracts

Insurance perse is based in uncertainty of event. As such the terms and conditions of Insurance contracts varies but are normally based on the international guidance and policy wordings as followed by all Insurance Companies in the market.

Normally an Insurance contract contains the coverage of the subject of insurance, the exclusions and obligations of the insured and the insurers. Deviations are reported forthwith to the insurer by the insured and any accident event to be reported immediately. Long tail business is generally those, which, prolong for the long period of time to finalise and settle claims (those of marine/ construction and liability contracts).

Insurance companies normally provide for 'IBNR' claims as a matter of abundant precaution to take care of any such claims forthcoming. These are based on historical data and experience of the respective class with a foresight.

27 Claims development

Claims development tables are disclosed in order to put the unpaid claims estimates included in the financial statements into a context, allowing comparison of the development claims provisions with those seen in previous years.

In effect, the tables highlight the Company's ability to provide an estimates of the total value of claims. This table provides a review of current estimates of cumulative claims and demonstrates how the estimated claims have changed at subsequent reporting or accident year ends. The estimate is increased or decreased as losses are paid and more information becomes known about the frequency and severity of unpaid claims. Data in the table related to acquired businesses is included from the acquisition date onwards.

The Company believes that the estimated of total claims outstanding as of the end of 2006 are adequate. However, due to the inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

ALLIANCE INSURANCE (PSC)

27 Claims development (cont.)

Analysis of claims development (gross – General)

	2001 AED'000	2002 AED'000	2003 AED'000	2004 AED'000	2005 AED'000	2006 AED'000
Estimate of cumulative claims:						
General						
At end of underwriting year	46,493	13,408	6,704	3,655	1,643	392
One year later	-	15,391	13,204	8,434	1,782	847
Two years later	-	-	9,106	4,684	2,280	1,743
Three years later	-	-	-	8,927	29,918	1,821
Four years later	-	-	-	-	6,671	6,291
Five years later	-	-	-	-	-	8,793
Gross outstanding liabilities	<u>46,493</u>	<u>28,799</u>	<u>29,014</u>	<u>25,700</u>	<u>42,294</u>	<u>19,887</u>

The above table does not include cumulative claims for life.

28 Financial instruments

The financial assets of the Company include cash at bank and in hand, trade receivables, due from other insurers, due from related parties and investments held to maturity and available for sale. Financial liabilities include bank overdraft, trade payables, due to other insurers, and policyholders liabilities.

Credit risk

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

Credit risk with respect to reinsurers is mitigated by placement only with those companies having an acceptable rating. Credit risk with respect to policyholders loans is limited as they are secured by the cash value of the policies.

Managing reinsurance risk

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

ALLIANCE INSURANCE (PSC)

28 Financial instruments (cont.)

Interest rate risk

The Company's borrowings are made at normal commercial rates. Interest-bearing investments carry a fixed rate of interest.28 Financial instruments (cont.)

Liquidity risk

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

Exchange risk

A major portion of the Company's liabilities associated with conventional life policies are denominated in US Dollars whereas the major portion of its assets are denominated in UAE Dirhams. This creates a risk for the Company due to the guaranteed nature of the conventional life policies where the liabilities are guaranteed in US Dollars but the assets backing the liabilities are mostly denominated in UAE Dirhams. However, since the Dirham is pegged to US\$, the exchange risk is minimal.

Market risk

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

The company is exposed to market risk with respect to its investments in quoted and unquoted shares.

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

Most of the company's investments are within the United Arab Emirates.

Fair value

The fair value of the Company's financial instruments, except for short-term investments and policyholders funds, approximates their carrying amounts. Short-term investments are stated at market value, with any resultant gain or loss recognised in the income statement. The fair value of policyholders liabilities has been determined by the consulting actuaries (see note 19).

ALLIANCE INSURANCE (PSC)

29 Cash and cash equivalents

	2006 AED'000	2005 AED'000
Cash in hand and at banks	9,502	9,448
Short term deposits	323,916	268,323
	<u>333,418</u>	<u>277,771</u>

Deposits of AED 9,731K (2005: AED 46,750K) were held under lien with various banks for facilities granted to the Company. However, these facilities were not utilised at the balance sheet date.

30 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2006 AED'000	2005 AED'000
Less than one year	<u>2,114</u>	<u>1,983</u>

The Company leases their office and retail premises under operating leases. The leases typically run for a period of one year, with an option to renew the lease after that date. Lease rentals are usually increased periodically to reflect market rentals. During the current year, an amount of AED 2,015K (2005: AED 1,927K) was recognised as an expense in the income statement, which includes AED 1,633K (2005: AED 1,494K) relating to internal rent.

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30 Operating leases (cont.)

Leases as lessor

The Company leases out its investment properties under operating leases (see note 3).

Non-cancellable operating lease rentals are receivable as follows:

	2006 AED'000	2005 AED'000
Less than one year	13,281	11,974
1-5 years	2,430	9,864

The rental income receivable in less than one year includes operating lease rentals relating to internal rents.

During the current year AED 13,561K (2005: AED 12,201K) was recognised as rental income in the income statement in respect of operating leases, which includes AED 1,658K (2005: AED 1,443K) relating to internal rent.

31 Comparative figures

Certain comparative figures have been re-classified in order to conform with current year's presentation.