

ALLIANCE INSURANCE (PSC)

DUBAI - UNITED ARAB EMIRATES

AUDITORS' REPORT AND FINANCIAL STATEMENTS

DECEMBER 31, 2007

ALLIANCE INSURANCE (PSC)

**ALLIANCE INSURANCE (PSC)
Dubai - United Arab Emirates**

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for the year ended December 31, 2007**

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**Board of Directors Report
for the year ended December 31, 2007**

Dear Shareholders,

On behalf of the Board of Directors and myself, I have pleasure in welcoming you to the Annual General Meeting and present to you the results of the Company's operation for the year 2007, with the financial statements for the year ended 31st December, 2007 and the Auditors' report.

Most of the insurance companies relying on generating profits on returns in investing / trading heavily in the stocks due to that we see the profits of the companies are not sustainable. It is up or down according to the performance of the stocks up or down. Neglecting in the same time the technical issues leading to low rates and wide covers.

We hope and wish the concerned authorities and the regulators to determine the way the companies should invest their funds to protect the interest of shareholders and policyholders, in addition to that, not granting new licenses as this will lead to more deterioration in the rates. To protect the interest of both shareholders and policyholders, we hope all parties in general and companies in particular to act in professional way. With respect to our company we continue our focusing on the underwriting technical standards due to that we enhanced our financial position, increased our reserves and capital which will strengthen its capability to face the future.

The year 2007 was a good year in general for the Company as the cash in hand, banks and long term deposit as at December, 2007 was increased from AED.346,118,000/= in 2006 to AED.415,554,000/= in 2007.



The net assets of the Company increased from AED.572,092,000/= in 2006 to AED.651,520,000/= in 2007 and the total assets of the Company increased from AED.669,056,000/= in 2006 to AED.776,209,000/= in 2007.

Claim paid during 2007 were AED.51,061,000/= compared with AED.59,578,000/= for the year 2006.

The net profit after allocation of technical reserves and provision for doubtful debts is AED.51,318,000/= for 2007 against AED.33,587,000/= for the year 2006.

In light of the result for 2007 the Board of Directors present for your consideration the following recommendations:

- 1) To approve the Directors' report, Balance sheet and Auditors Report for the year 2007.
- 2) To approve the company's financial statements for the year 2007.
- 3) To approve the appropriation of the profit as recommended by the Board for the year 2007 amounting to AED.51,318,000/= plus the Retained Profit from 2006 amounting to AED.5,453,000/= bringing total profit available for appropriation to AED.56,771,000/= distributable as follows:
 - a) AED.5,132,000/= to be transferred to the Legal Reserve as 10% for net profit of 2007.
 - b) AED.5,132,000/= to be transferred to Regular Reserve as 10% for net profit of 2007.
 - c) 20% of paid-up capital (AED.12,000,000) cash dividends to shareholders.
 - d) To grant 25% bonus shares that is one share for each four shares which is equal to AED.15,000,000/= to increase the current paid-up capital from AED.60,000,000/= to be AED.75,000,000/=
 - e) AED.381,000/= Directors remuneration
 - f) AED.15,000,000/= to be transferred to General Reserve
 - g) AED.4,126,000/= Retained Earnings carried forward for next year.
- 4) To Discharging the Chairman, Board of Directors and Auditors from their responsibility for the year ended 2007.



- 5) To appoint or re-appoint of Auditors for the year 2008 and determining their fees.

On behalf of the shareholders, we would like to extend our thanks and appreciation to the re-insurance companies for their continuous support to the Company.

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 the UAE and His Highness Sheikh Mohamed Bin Rashid Al Maktoum, Vice President and Prime Minister of UAE and Ruler of Dubai and to their Highnesses, the Sheikhs and their brothers, the members of the Supreme Council of the Union, for their continuous support of the national companies.

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 dedicated efforts and loyalty.

Chairman of the Board

Report of Independent Auditor

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

Report on the Financial Statements

We have audited the accompanying financial statements of Alliance Insurance (PSC) (the "Company"), which comprise the balance sheet as at December 31, 2007, the income statement, statement of changes in shareholders' equity and cash flow statement 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

ALLIANCE INSURANCE (PSC)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply 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.

Report on Other Legal and Regulatory Requirements

As required by the Implementing Regulations No. 1 of 1999 issued pursuant to Dubai Local Law No. 2 of 1986 and 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 the above mentioned Laws or of the Implementing Regulations or of the Articles of Association of the Company have occurred during the year which would have had a material effect on the business of the Company or on its financial position.



GRANT THORNTON

Farouk Mohamed

Insurance Registration no: 54

Dubai, United Arab Emirates

Date: 4 March 2008

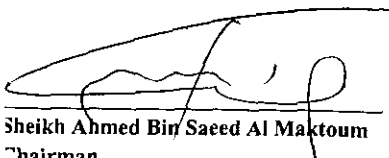
ALLIANCE INSURANCE (PSC)
Dubai - United Arab Emirates

Balance sheet at December 31, 2007

	Notes	2007 AED'000	Restated 2006 AED'000
ASSETS			
Non-current assets			
Investment property	3	200,000	187,096
Investments held to maturity	4	6,092	6,092
Long term deposits		-	12,700
Statutory deposit	5	7,500	7,500
Policyholders' loans	6	42,749	42,644
Property and equipments	7	3,508	3,610
		<u>259,849</u>	<u>259,642</u>
Current assets			
Investments fair valued through profit and loss	8	41,694	32,241
Insurance and other receivables	9	36,224	51,454
Reinsurance contract assets	10	22,888	22,301
Cash in hand and at banks	11	415,554	333,418
Total current assets		<u>516,360</u>	<u>439,414</u>
		<u>776,209</u>	<u>699,056</u>
SHAREHOLDERS' EQUITY & LIABILITIES			
Share capital	12	60,000	50,000
Legal reserve	13	31,122	25,990
Regular reserve	14	21,534	16,402
General reserve	15	85,000	70,000
Retained earnings		31,126	25,453
Total shareholders' equity		<u>228,782</u>	<u>187,845</u>
Current liabilities			
Insurance contract liabilities	10	54,596	53,450
Insurance and other payables	16	45,272	37,565
Due to other insurers and reinsurers	17	21,485	32,711
Total current liabilities		<u>121,353</u>	<u>123,726</u>
Employees' end-of-service benefits	18	3,336	3,238
Total liabilities		<u>124,689</u>	<u>126,964</u>
Total shareholders' equity and liabilities		<u>353,471</u>	<u>314,809</u>
Policyholders' funds	19	422,738	384,247
		<u>776,209</u>	<u>699,056</u>

The notes on pages 13 to 37 form an integral part of these financial statements.

Financial statements approved by the Board on 4 March 2008 and signed on their behalf by:


Sheikh Ahmed Bin Saeed Al Maktoum
Chairman


Juma Saif Rashid Bin Bakhit
Vice Chairman


Wisam Al Halmus
Member of Board
of Directors and
Chief Executive

ALLIANCE INSURANCE (PSC)
Dubai - United Arab Emirates

Income statement
for the year ended December 31, 2007

		2007	Restated
		AED'000	2006
			AED'000
Net underwriting profit -			
General (page 8)		7,634	12,584
Interest income on deposits - General		4,265	2,712
Income from investment property (net)	20	10,010	5,131
Profit/loss from investment activities	21	9,614	(18,343)
Other income	22	576	139
Gross income		<u>32,099</u>	<u>2,223</u>
Provision for fluctuation in investments		-	2,334
Profit from general insurance business		<u>32,099</u>	<u>4,557</u>
Surplus transferred from			
long-term business (Life) account		<u>19,219</u>	<u>29,030</u>
Net income for the year		<u><u>51,318</u></u>	<u><u>33,587</u></u>
Earnings per share - basic and diluted	24	<u><u>85.53</u></u>	<u><u>55.98</u></u>

The notes on pages 13 to 37 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, 2007

	2007	2006
	AED'000	AED'000
Underwriting income		
Gross premiums written	102,913	106,663
Reinsurance premiums ceded	(71,133)	(78,293)
Net premiums written	31,780	28,370
Provision for unearned premiums as at January 1,	11,083	9,810
Provision for unearned premiums as at December 31,	(12,463)	(11,083)
Net earned premiums	30,400	27,097
Commission received from reinsurers	9,395	9,440
Total underwriting income	39,795	36,537
Underwriting expenses		
Gross claims paid	21,559	42,106
Reinsurance recoveries	(4,908)	(28,048)
Net claims paid	16,651	14,058
Outstanding claims at January 1,	(9,573)	(12,331)
Outstanding claims at December 31,	11,762	9,573
Net claims incurred	18,840	11,300
Commission paid to agents and brokers	2,668	2,981
Total underwriting expenses	21,508	14,281
Underwriting surplus	18,287	22,256
Management expenses (note 23)	(10,653)	(9,672)
Net underwriting income	7,634	12,584

The notes on pages 13 to 37 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, 2007

	Notes	2007 AED'000	2006 AED'000
Net underwriting profit - Life		20,515	25,781
Income from investment property (net)	20	14,886	6,132
Profit from investment activities	21	2,858	3,687
Interest income		18,010	13,761
Other income	22	1,441	1,000
Gross income		<u>57,710</u>	<u>50,361</u>
Provision for fluctuation in investments		<u>-</u>	<u>4,000</u>
Profit before fund movement		57,710	54,361
Funds at January 1,		384,247	358,916
Surplus transferred to income statement	19	(19,219)	(29,030)
Funds at December 31,		<u><u>422,738</u></u>	<u><u>384,247</u></u>

The notes on pages 13 to 37 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, 2007

	2007	2006
	AED'000	AED'000
Gross premium written	160,526	136,122
Reinsurance premium ceded	(29,282)	(20,263)
Net earned premium	131,244	115,859
Commission received	1,652	1,721
Total underwriting income	132,896	117,580
Underwriting expenses		
Gross claims paid	29,502	17,472
Reinsurance recovery	(19,592)	(10,683)
Net claims paid	9,910	6,789
Outstanding claims at January 1,	(6,848)	(6,132)
Outstanding claims at December 31,	6,308	6,848
Net claims incurred	9,370	7,505
Commission to field staff and agents	15,710	14,385
Policies surrendered	19,769	19,789
Bonus to policyholders	7,759	5,987
Maturity payments	44,637	30,656
Other underwriting expenses	2,866	1,775
Total underwriting expenses	100,111	80,097
Underwriting surplus	32,785	37,483
Management expenses (note 23)	(12,270)	(11,702)
Net underwriting income	20,515	25,781

The notes on pages 13 to 37 form an integral part of these financial statements.

ALLIANCE INSURANCE (PSC)
Dubai - United Arab Emirates
Statement of changes in shareholders' equity
for the year ended December 31, 2007

	Share capital AED'000	Legal reserve AED'000	Regular reserve AED'000	General reserve AED'000	Restated Retained earnings AED'000	Total AED'000
As at January 1, 2006 (as previously reported)	50,000	22,631	13,043	64,000	4,827	154,501
Change of accounting policy (note 1(c))	-	-	-	-	10,000	10,000
As at January 1, 2006 as restated	50,000	22,631	13,043	64,000	14,827	164,501
Net income for the year	-	-	-	-	33,587	33,587
Transfer to legal reserve (note 13)	-	3,359	-	-	(3,359)	-
Transfer to regular reserve (note 14)	-	-	3,359	-	(3,359)	-
Transfer to general reserve (note 15)	-	-	-	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 as previously reported	50,000	25,990	16,402	70,000	5,453	167,845
Change of accounting policy (note 1(c))	-	-	-	-	20,000	20,000
As at 31 December 2006 as restated	50,000	25,990	16,402	70,000	25,453	187,845
Net income for the year	-	-	-	-	51,318	51,318
Transfer to legal reserve (note 13)	-	5,132	-	-	(5,132)	-
Transfer to regular reserve (note 14)	-	-	5,132	-	(5,132)	-
Transfer to general reserve (note 15)	-	-	-	15,000	(15,000)	-
Directors' remuneration	-	-	-	-	(381)	(381)
Dividend paid	-	-	-	-	(10,000)	(10,000)
Bonus share issue	10,000	-	-	-	(10,000)	-
	<u>60,000</u>	<u>31,122</u>	<u>21,534</u>	<u>85,000</u>	<u>31,126</u>	<u>228,782</u>

At the Annual General Meeting held in March 2007, the shareholders approved cash dividend of AED 10,000,000 as 20 % from share capital relating to 2006. The Directors have proposed a cash dividend of 20% from the share capital amounting to AED 12,000,000, and a bonus share issue of AED 15,000,000 which amounts to 25% of the share capital.

The notes on pages 13 to 37 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, 2007

	2007 AED'000	2006 AED'000
Operating activities		
Net income for the year	51,318	33,587
<i>Adjustments for:</i>		
Depreciation on property and equipments	455	358
Fair value adjustments to investment property	(12,904)	(1,251)
Investments held to maturity	-	1,835
Fair value adjustments to investments	(9,453)	17,882
Profit on sale of property and equipment	(29)	(38)
Increase in Life fund (long term business)	38,491	25,331
Provision for gratuity	526	611
Increase/(decrease) in insurance contract liabilities	1,146	(20,297)
(Increase)/decrease in claims recoverable from reinsurers	(587)	22,279
	<u>68,963</u>	<u>80,297</u>
Changes in working capital		
Increase/(decrease) in insurance and other receivables	15,230	(21,289)
Increase/(decrease) in insurance and other payables	7,707	(4,939)
(Decrease)/increase in due to other insurers and reinsurers	(11,226)	14,037
	<u>80,674</u>	<u>68,106</u>
Gratuity paid	(428)	(351)
Directors' remuneration	(381)	(243)
Net cash from operating activities	<u>79,865</u>	<u>67,512</u>
Investing activities		
Purchase of investments	-	(1,755)
Net sales of investments	-	731
Net increase in loans to policyholders	(105)	(5,814)
Purchase of property and equipment	(354)	(572)
Proceeds from disposals of property and equipment	30	38
Long term deposits	12,700	5,507
Net cash surplus/(deficit) from investing activities	<u>12,271</u>	<u>(1,865)</u>
Financing activities		
Dividend paid	(10,000)	(10,000)
Net increase in cash and cash equivalents	82,136	55,647
Cash and cash equivalents as at January 1	333,418	277,771
Cash and cash equivalents as at December 31 (note 11)	<u><u>415,554</u></u>	<u><u>333,418</u></u>

The notes on pages 13 to 37 form an integral part of these financial statements.

ALLIANCE INSURANCE (PSC)

Alliance Insurance (PSC) Dubai - United Arab Emirates

Notes to the financial statements for the year ended December 31, 2007

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 Warba Centre, P.O. Box 5501, Dubai, UAE.

The total number of staff employed by the Company as at 31 December 2007 was 162 (2006: 157).

2 Summary of significant accounting policies

a) Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) promulgated by International Accounting Standards Board and applicable requirement of U.A.E Federal Law No.9 of 1984 as amended, concerning Insurance Companies and Agents.

The principal accounting policies applied in the preparation of these financial statements are set out as below. These policies have been consistently applied to all the years presented unless otherwise stated.

b) 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.

2 Summary of significant accounting policies (continued)

- (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.
- (iii) IFRS 7 "Financial Instruments : Disclosures" and the complementary amended IAS 1, presentation of the financial statements – Capital Disclosures introduced new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Company's financial instruments.

c) Change in accounting policy

The Company changed its accounting policy for the recognition of dividend payable to shareholders. Previously, company recognized the dividend on the proposed basis, but due to revisions to IAS 10 "Event after Balance Sheet" the dividend is now on "paid" basis. The change in accounting policy has retrospective effect and therefore comparative statements for 2006 have been restated. The effect of the change on 2006 is tabulated below. Opening retained earnings for 2006 have been increased by AED 10,000,000, which is the amount of adjustment relating to periods prior to 2006.

	2007 AED'000
Effect on 2006	
Decrease in dividend	(20,000)
Increase in income	20,000
	<u> </u> -
Effect on periods prior to 2006	
Decrease in dividend	(10,000)
Increase in income	10,000
	<u> </u> -

d) Revenue

Premiums

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

2 Summary of significant accounting policies (continued)

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 as 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 20).

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 as 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.

Interest income

Interest income is accrued on a time proportionate basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income

Dividend income from investment is recognized when the shareholders' right to receive payment has been established.

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.

e) Claims

Claims paid

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

2 Summary of significant accounting policies (continued)

Outstanding claims and IBNR provision

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 December 31, 2007 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) 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.

g) 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.

2 Summary of significant accounting policies (continued)

- Originated loans and receivables are loans and receivables created by the company by providing money and services to debtors. 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 on the day they are delivered to the counter party.

Measurement

- Financial instruments are measured initially at cost, including transaction costs. Subsequent to initial recognition, all assets with the exception of held to maturity 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 as 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 as at the balance sheet date.

2 Summary of significant accounting policies (continued)

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.

h) 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 are equity and debt investments, held for trading. Movements in the fair value are recognised in the income statement.

i) Investment property

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

j) Insurance and other receivables

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

k) Insurance and other payables

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.

2 Summary of significant accounting policies (continued)

l) 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 equipments.

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

	Years
Furniture and fixtures	4
Office equipments	4
Motor vehicles	4
Land (is not depreciated)	

m) 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. 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. Receivables 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.

2 Summary of significant accounting policies (continued)

n) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits, current accounts and short term deposits balances with original maturities of three months or less. 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.

o) 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 as at the balance sheet date.

UAE nationals – Pension and social security

The UAE Government 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.

p) 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 as at the balance sheet date are translated to UAE Dirhams at the foreign exchange rate ruling as 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 as at the date of the transaction.

q) 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.

2 Summary of significant accounting policies (continued)

r) 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.

s) 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.

t) Reinsurance assets

Amounts recoverable under reinsurance contracts are assessed for impairment as 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

	2007 AED'000	2006 AED'000
Balance as at 1 January	187,096	185,845
Fair value adjustments	12,904	1,251
Balance as at 31 December	<u>200,000</u>	<u>187,096</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 2007, The Technical and Loss Adjusting Services Company LLC estimated the open market value of the investment properties at AED 200,000,000 (2006: 187,096,000). 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 appropriate for fairer presentation to include all properties under investment property rather than a part as 'owner occupied properties' under property and equipments as the Company occupies an insignificant area of the property for business use.

4 Investments – held to maturity

	2007 AED'000	2006 AED'000
Quoted investments		
Government Bonds	5,725	5,725
Ordinary Bonds	367	367
	<u>6,092</u>	<u>6,092</u>

The investment in Government bonds represents 6,000 bonds purchased in 2003 from the Government of Oman bearing interest rate of 5.25% p.a. payable semi-annually and maturing on November 1, 2010. The market value of investment is AED 100.3 per bond.

The investment in ordinary bonds represents 100,000 bonds purchased in 1999 from Man-IP 220 Plus Limited. The bonds have a maturity date of November 30, 2009 at which date they will be redeemed at a value equal to the greater of their net asset value or the USD 1 face value. The market value of investment is AED 2.0172 per bond.

ALLIANCE INSURANCE (PSC)

5 Statutory deposit

A deposit of AED 7,500,000 has been placed with one of 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 for the same amount. These deposits cannot be withdrawn without prior approval from the Ministry of Economy.

6 Policyholders' loans

	2007 AED'000	2006 AED'000
Balance as at 1 January	44,389	37,048
Loans given during the year	19,285	19,091
Repayment made	(19,072)	(11,750)
Balance as at 31 December	44,602	44,389
Accrued interest on loan	(1,853)	(1,745)
	<u>42,749</u>	<u>42,644</u>

7 Property and equipments

	Land AED'000	Furniture and fixtures AED'000	Office equipment AED'000	Motor vehicles AED'000	Total AED'000
Cost					
As at 1 January	2,471	6,346	4,573	1,200	14,590
Additions	-	25	175	154	354
Disposals	-	-	(1)	(173)	(174)
As at 31 December	2,471	6,371	4,747	1,181	14,770
Depreciation					
As at 1 January	-	6,056	4,311	613	10,980
Charge for the year	-	93	95	267	455
For disposals	-	-	-	(173)	(173)
As at 31 December	-	6,149	4,406	707	11,262
Net book value					
As At 31 December 31, 2007	2,471	222	341	474	3,508
As At 31 December 31, 2006	2,471	290	262	587	3,610

ALLIANCE INSURANCE (PSC)

7 Property and equipment (cont.)

	2007 AED'000	2006 AED'000
Depreciation is allocated as follows		
Management expenses (note 23)	380	322
Maintenance expenses (note 20)	75	36
	<u>455</u>	<u>358</u>
	<u><u>455</u></u>	<u><u>358</u></u>

The gross carrying amount of fully depreciated property and equipment still in use as at December 31, 2007 is AED 10,358,000 K (2006: AED 10,315,000).

8 Investments – fair value through profit & loss

	2007 AED'000	2006 AED'000
Unquoted equity	509	1,490
Repayment	-	(235)
	<u>509</u>	<u>1,255</u>
Impairment write-down	(509)	(509)
	<u>-</u>	<u>746</u>
Quoted equities and funds	22,555	21,808
Fair value adjustment	19,139	9,687
	<u>41,694</u>	<u>32,241</u>
	<u><u>41,694</u></u>	<u><u>32,241</u></u>

ALLIANCE INSURANCE (PSC)

9 Insurance and other receivables

	2007 AED'000	2006 AED'000
<i>Trade</i>		
Due from policy holders	16,489	34,612
Due from brokers and agents	4,879	1,820
Due from insurers for insurance operations	1,553	2,240
	<u>22,921</u>	<u>38,672</u>
Less: Provision for doubtful debts	(2,894)	(2,919)
	<u>20,027</u>	<u>35,753</u>
<i>Other</i>		
Accrued interest	9,533	7,929
Rents receivable	4,712	4,325
Due from a related party	34	37
Prepayments and other receivables	4,522	3,544
	<u>18,801</u>	<u>15,835</u>
Less: Provision for doubtful debts	(3,778)	(3,780)
	<u>35,050</u>	<u>47,808</u>
Recoverable from other insurers	<u>1,174</u>	<u>3,646</u>
	<u>36,224</u>	<u>51,454</u>

10 Insurance contract liabilities and Reinsurance contract assets

	2007 AED'000	2006 AED'000
Provision for unearned premiums (refer to (a) below)	12,463	11,083
Provision for outstanding claims - gross(refer to (b) below)	42,133	42,367
	<u>54,596</u>	<u>53,450</u>

a) Provision for unearned premiums (net of reinsurance)

	2007 AED'000	2006 AED'000
Balance as at 1 January	11,083	9,810
Net transfer of unearned premiums	1,380	1,273
	<u>12,463</u>	<u>11,083</u>

ALLIANCE INSURANCE (PSC)

10 Insurance contract liabilities and reinsurance contract assets (cont.)

b) Provision for outstanding claims

	2007 AED'000	2006 AED'000
Provision for claims reported	38,083	38,317
Provision for claims incurred but not reported	4,050	4,050
Provision for outstanding claims (gross)	42,133	42,367
Less: Reinsurance share	(22,888)	(22,301)
	<u>19,245</u>	<u>20,066</u>

Movements in provision for outstanding claims are as follows:

	2007			2006		
	Gross AED'000	Reinsurance AED'000	Net AED'000	Gross AED'000	Reinsurance AED'000	Net AED'000
Claims						
Balance as at 1 January	42,367	(22,301)	20,066	63,937	(44,580)	19,357
Paid during the year	(51,061)	24,500	(26,561)	(59,578)	38,731	(20,847)
Incurred claims during the year	50,827	(25,087)	25,740	38,008	(16,452)	21,556
Balance as at 31 December	<u>42,133</u>	<u>(22,888)</u>	<u>19,245</u>	<u>42,367</u>	<u>(22,301)</u>	<u>20,066</u>

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.

ALLIANCE INSURANCE (PSC)

10 Insurance contract liabilities and reinsurance contract assets (cont.)

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 2006 and 2007.

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.

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.

11 Cash and cash equivalents

	2007 AED'000	2006 AED'000
Cash in hand and at banks	11,619	9,502
Short term deposits	403,935	323,916
	<u>415,554</u>	<u>333,418</u>

Deposits of AED 8,986,000 (2006: AED 9,731,000) were held under lien with various banks for facilities granted to the Company. However, these facilities were not utilised as at the balance sheet

12 Share capital

	2007 AED'000	2006 AED'000
<i>Authorised, issued and fully paid:</i>		
600,000 ordinary shares of AED 100 each	60,000	50,000

During the year the company increased its paid up share capital by AED 10,000,000 through a bonus share issue.

ALLIANCE INSURANCE (PSC)

13 Legal reserve

In accordance with the Company's Articles of Association and Article 192 of the UAE Commercial Companies Law of 1984 (as amended), a minimum of 10% of the Company's annual net income 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 5,132,000 (10% of the net income for the year) has been transferred to the statutory reserve on 31 December 2007 (2006: AED 3,359,000).

14 Regular reserve

In accordance with the Company's Articles of Association, at least 10% of the Company's annual net income 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 5,132,000 (10% of the net profit for the year) has been transferred to this reserve on 31 December 2007 (2006 : AED 3,359,000).

15 General reserve

The Board of Directors has approved the transfer of AED 15,000,000 to a general reserve which can be utilised for any purpose approved by the shareholders (2006: AED 6,000,000)

16 Insurance and other payables

	2007 AED'000	2006 AED'000
Insurance customer payables	13,709	13,474
Rent received in advance	6,861	2,913
Premiums received in advance	7,634	6,288
Accruals and provisions	13,988	12,276
Other payables	3,080	2,614
	<u>45,272</u>	<u>37,565</u>

17 Due to other insurers and reinsurers

Due to insurers and reinsurers for insurance operations	<u>21,485</u>	<u>32,711</u>
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ALLIANCE INSURANCE (PSC)

18 Employees' end of service benefits

	2007 AED'000	2006 AED'000
The movement in this account during the year was as follows:		
Balance as at 1 January	3,238	2,978
Charge for the year	526	611
Payments during the year	(428)	(351)
Balance as at 31 December	<u>3,336</u>	<u>3,238</u>

19 Policyholders' funds

	2007 AED'000	2006 AED'000
Balance as at 1 January	384,247	358,916
Excess of income over expenditure for the year in the long-term business	57,710	54,361
Surplus transferred to income statement	(19,219)	(29,030)
Balance as at 31 December	<u>422,738</u>	<u>384,247</u>

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 as at 31 December 2007.

The company's consulting actuaries during the year were M/s Nauman Associates. In their report for the year 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:

	2007 AED'000	2006 AED'000
Net liabilities under life assurance policies	325,213	300,268
Provision for terminal bonus to policy holders	97,525	83,979
	<u>422,738</u>	<u>384,247</u>

The consulting actuaries assessed a surplus of AED 19,219,000 in the life assurance fund as at 31 December 2007 (2006: AED 29,030,000) as follows:

	2007 AED'000	2006 AED'000
Net life assurance assets as at 31 December	441,957	413,277
Less: total liabilities under policies	(422,738)	(384,247)
Surplus as at 31 December	<u>19,219</u>	<u>29,030</u>

ALLIANCE INSURANCE (PSC)

20 Income from investment property (net)

	2007			2006		
	General	Life	Total	General	Life	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Rental income	6,227	8,687	14,914	5,650	7,911	13,561
Provision for doubtful rents	-	-	-	-	(35)	(35)
Fair value adjustment to investment property*	5,229	7,675	12,904	924	327	1,251
Maintenance expenses	(1,446)	(1,476)	(2,922)	(1,443)	(2,071)	(3,514)
	<u>10,010</u>	<u>14,886</u>	<u>24,896</u>	<u>5,131</u>	<u>6,132</u>	<u>11,263</u>

Rental income includes notional rent of AED 1,564,000 (2006: AED 1,512,000) 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.

21 Profit from investment activities

	2007			2006		
	General	Life	Total	General	Life	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Unrealised (loss)/profit on investments	8,887	567	9,454	(18,343)	199	(18,144)
Dividend income	727	632	1,359	-	641	641
Interest on policyholders' loans	-	1,659	1,659	-	2,847	2,847
	<u>9,614</u>	<u>2,858</u>	<u>12,472</u>	<u>(18,343)</u>	<u>3,687</u>	<u>(14,656)</u>

22 Other income

Other income included in the income statement consists of:

	2007			2006		
	General	Life	Total	General	Life	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Profit on sale of property and equipments	21	8	29	38	-	38
Miscellaneous	555	1,433	1,988	101	1,000	1,101
	<u>576</u>	<u>1,441</u>	<u>2,017</u>	<u>139</u>	<u>1,000</u>	<u>1,139</u>

ALLIANCE INSURANCE (PSC)

23 Management Expenses

	General	Life	2007 Total	General	Life	2006 Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Staff costs	6,734	4,758	11,492	6,411	4,434	10,845
Branch overheads	-	314	314	-	263	263
Depreciation on property and equipment	248	132	380	215	107	322
Rent	874	1,193	2,067	896	1,218	2,114
Communication expenses	263	487	750	226	412	638
Travel and conveyance	44	20	64	42	29	71
Other office expenses	2,408	4,566	6,974	1,811	4,514	6,325
Finance charges	82	800	882	71	725	796
	<u>10,653</u>	<u>12,270</u>	<u>22,923</u>	<u>9,672</u>	<u>11,702</u>	<u>21,374</u>

24 Earnings per share - basic and diluted

	2007 AED'000	2006 AED'000
Net income for the year	51,318	33,587
Average number of shares outstanding during the year	600	500
For Earnings per share - effect of bonus issue	600	600
Earnings per share	85.53	55.98

25 Contingent liabilities and capital commitments

Contingent liabilities

	2007 AED'000	2006 AED'000
Letters of Guarantee	8,558	9,581

Capital commitments

As at the balance sheet date, there were no major capital commitments.(2006: None)

26 Insurance risk management

Risk management objectives and policies for mitigating insurance risks

The primary insurance activity carried out by the Company assumes the risk of loss from persons or organisations that are directly subject to the risks. 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 risks 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.

ALLIANCE INSURANCE (PSC)

Risk management objectives and policies for mitigating insurance risk(cont.)

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 also 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.

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 turn 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.

ALLIANCE INSURANCE (PSC)

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 2007 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.

Analysis of claims development (gross – General)

	2002	2003	2004	2005	2006	2007
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
<i>Estimate of cumulative claims:</i>						
General						
At end of underwriting year	13,408	6,704	3,655	1,643	392	7,819
One year later	15,391	13,204	8,434	1,782	847	6,004
Two years later	-	9,106	4,684	2,280	1,743	4,754
Three years later	-	-	8,927	29,918	1,821	1,223
Four years later	-	-	-	6,671	6,291	821
Five years later	-	-	-	-	8,793	121
Gross outstanding liabilities	28,799	29,014	25,700	42,294	19,887	20,742

The above table does not include cumulative claims for life.

ALLIANCE INSURANCE (PSC)

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 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 these 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.

Interest rate risk

The Company's borrowings are made at normal commercial rates. Interest-bearing investments carry a fixed rate of interest.

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.

ALLIANCE INSURANCE (PSC)

28 Financial instruments (cont.)

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)

29 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2007 AED'000	2006 AED'000
Less than one year	2,067	2,114
	=====	=====

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 2,067,000 (2006: AED 2,411,000) was recognised as an expense in the income statement, which includes AED 1,564,000 (2006: AED 1,633,000) relating to internal rent.

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:

	2007 AED'000	2006 AED'000
Less than one year	14,520	13,281
	=====	=====

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

During the current year AED 14,914,000 (2006: AED 13,561,000) was recognised as rental income in the income statement in respect of operating leases, which includes AED 1,564,000 (2006: AED 1,633,000) relating to internal rent.

ALLIANCE INSURANCE (PSC)

30 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:

	2007 AED'000	2006 AED'000
Premiums written	56	55
Amount recovered against outstanding balances	59	102

Details of related party balances are as follows;

Amounts due from related party	34	37
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Compensation of key management personnels

Short term benefits	2,966	2,065
Board of Director remuneration	381	243

31 Business Segment

	2007			2006		
	Life Bussiness	General Bussiness	Total	Life Bussiness	General Bussiness	Total
	AED	AED	AED	AED	AED	AED
Insurance revenue	132,896	39,795	172,691	117,580	36,537	154,117
Insurance cost	(100,111)	(21,508)	(121,619)	(80,097)	(14,281)	(94,378)
General and Administrative Expenses	(12,270)	(10,653)	(22,923)	(11,702)	(9,672)	(21,374)
Segment results	20,515	7,634	28,149	25,781	12,584	38,365
Segment assets	546,010	230,199	776,209	491,293	207,763	699,056
Segment liabilities	66,585	58,104	124,689	54,981	71,983	126,964

32 Reclassification

Reclassified to	Reclassified from	AED'000
Insurance customer payables	Other payables	5,259
Insurance customer payables	Accruals and provisions	6,742
Accruals and provisions	Other payables	380
Premium in advance	Other payables	6
Other payables	Other receivables	15
Due to insurer and reinsurer	Other receivables	460
Insurance customer recievables	Other receivables	2,772

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33 Comparative figures

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

34 General

Figures are rounded off to nearest thousands of dirham.