



Grant Thornton

**ALLIANCE INSURANCE (PSC)
DUBAI - UNITED ARAB EMIRATES**

**AUDITOR'S REPORT AND FINANCIAL STATEMENTS
DECEMBER 31, 2010**

ALLIANCE INSURANCE (PSC)
Dubai - United Arab Emirates

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for the year ended December 31, 2010

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**Board of Director's Report
For the Year Ended December 31, 2010**

On behalf of the Board of Directors and myself, I have the pleasure of welcoming you to the Annual General Meeting and present to you the report for the 2010 financial year together with the financial statements and the Auditor's report for the year ended December 31, 2010.

Year 2010 was difficult in many aspects across the board in most parts of the globe and the economy continued to suffer in many countries. Locally we did not see an improvement in investment in real estate and in the equities market, which are the two major channels of investment. In addition there were indications of dropping interest rates on deposits in the fourth quarter of 2010 and we expect the decline to continue in the current year 2011.

We would like to also emphasise repeatedly the difficulties facing the insurance industry which has seen the deterioration of technical prices to unprecedented levels! This has been compounded by the flooding of the insurance industry in the country, where there are more than 60 companies, leading to stiffer competition and possibly winding down of some companies. All of this will reflect negatively on the performance and request and hope for the intervention by the Insurance Commission to regulate the market and curtail the licensing of new companies who should provide new basic insurance covers that not provided by existing insurance companies.

We have warned repeatedly to avoid what has become a reality and we expect many of the companies will announce results reflecting negative or low profits for the year 2010 with no prospects for improvement in 2011.

As for the company we have maintained a conservative policy and our goal remains to achieve good results for the shareholders. With the help of Almighty God we have achieved good results which have strengthened the financial position and increased the reserves, which makes the Company strong to face the future. The Company also maintained its ranking (A-Excellent) for the fourth years in a row and few companies have achieved such rating.

The Company's business in 2010 was not easy but good in general. The cash in hand and at banks, and deposits increased to AED 607,310,184 as of December 31, 2010 compared to AED 544,045,088 as of December 31, 2009.

The net assets increased from AED 268,494,899 in 2009 to AED 301,065,660 in 2010. The total assets for 2010 were AED 931,925,043 compared to AED 909,532,384 in 2009. The total claims paid in 2010 were AED 63,096,631 compared with AED 74,067,818 in 2009. The net profit of the Company for 2010 after the technical reserves and doubtful debts was AED 45,103,549 in 2010 against AED 41,999,696 in 2009.

In light of the results for the financial year ended December 31, 2010 the Board of Directors presents for your consideration the following recommendations:

1. To approve the Director's report, Statement of Financial Position and the Auditor's report for the year 2010;
2. To approve the Financial statements for the year;
3. To approve the appropriation of the profit as recommended by the Board amounting to AED 45,103,549 plus the Retained Earnings from 2009 amounting to AED 8,304,367 bringing total profit available for distribution to AED 53,407,916. The proposed distribution is as follows:
 - a) AED 4,510,355 to be transferred to the Legal Reserve as 10% of the net profit for the year;
 - b) AED 4,510,355 to be transferred to Regular Reserve as 10% of the net profit for the year;
 - c) AED 15,000,000 (15% of paid-up capital) as cash dividend to shareholders;
 - d) AED 20,000,000 to be transferred to the General Reserve;
 - e) AED 621, 670 as Director's Remuneration; and
 - f) AED 8,765,536 as Retained Earnings carried forward to next year.
4. To discharge the Chairman, Board of Directors and Auditors from their responsibility for the year ended December 31, 2010; and
5. To appoint or re-appoint the Auditors for the year ending December 31, 2011 and to determine their fees.

On behalf of the shareholders, I 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 to their Highnesses, their brothers the Sheiks, the members of the Supreme Council of the Union, for their continuous support to 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, and ask God to guide us to the good and benefit of the country.

Chairman

March 14, 2011

Report of the Independent Auditor

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

Public Accountants

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Warba Centre
Deira-Abu Baker Al Siddique Road
Dubai, United Arab Emirates
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Report on the Financial Statements

We have audited the accompanying financial statements of Alliance Insurance (PSC) (the "Company"), which comprise the statement of financial position as at December 31, 2010, the statement of comprehensive income, the statement of underwriting results – General, the long term business (Life) account, the statement of underwriting results – Life, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. 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.

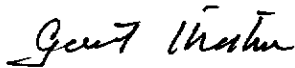
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the U.A.E. Federal Law No. 6 of 2007 regarding Establishment of the Insurance Authority and Organization of its Operations & Executive Regulations of 2010 and U.A.E. 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 Law 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

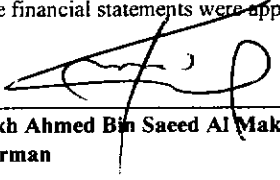
March 14, 2011

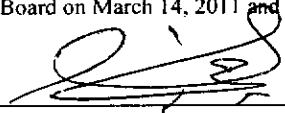
ALLIANCE INSURANCE (PSC)
Dubai - United Arab Emirates

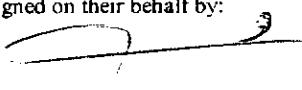
Statement of financial position as at December 31, 2010

	Notes	2010 AED	2009 AED
Assets			
Non-current			
Investment property	3	182,769,600	185,519,600
Statutory deposit	5	10,000,000	10,000,000
Policyholders' loans	6	43,672,136	43,178,827
Property and equipment	7	2,977,530	3,160,692
Non-current assets		<u>239,419,266</u>	<u>241,859,119</u>
Current			
Investments and deposits-held to maturity	4	585,922,580	527,016,347
Available-for-sale financial assets	8	21,277,227	21,938,345
Insurance and other receivables	9	56,587,120	73,062,965
Reinsurance contract assets	10	17,331,246	32,902,687
Cash and cash equivalents	11	11,387,604	12,752,921
Current assets		<u>692,505,777</u>	<u>667,673,265</u>
Total assets		<u><u>931,925,043</u></u>	<u><u>909,532,384</u></u>
Equity and liabilities			
Equity			
Share capital	12	100,000,000	75,000,000
Legal reserve	13	44,079,719	39,569,364
Regular reserve	14	34,490,519	29,980,164
General reserve	15	100,000,000	100,000,000
Available-for-sale financial assets		(21,270,114)	(20,608,996)
Retained earnings		43,765,536	44,554,367
Total equity		<u>301,065,660</u>	<u>268,494,899</u>
Liabilities			
Non-current			
Employees' end-of-service benefits	18	4,618,357	4,106,248
Policyholders' funds	19	509,975,758	480,384,158
Current liabilities		<u>514,594,115</u>	<u>484,490,406</u>
Current			
Insurance contract liabilities	10	42,682,738	64,112,273
Insurance and other payables	16	41,770,010	47,627,166
Due to other insurers and reinsurers	17	31,812,520	44,807,640
Non-current liabilities		<u>116,265,268</u>	<u>156,547,079</u>
Total liabilities		<u>630,859,383</u>	<u>641,037,485</u>
Total equity and liabilities		<u><u>931,925,043</u></u>	<u><u>909,532,384</u></u>

These financial statements were approved by the Board on March 14, 2011 and signed on their behalf by:


Sheikh Ahmed Bin Saeed Al Maktoum
Chairman


Juma Saif Rashid Bin Bakhit
Vice Chairman


Wisam Al Haimus
Member of the Board
of Directors and
Chief Executive Officer

The notes 1 to 34 form an integral part of these financial statements.

ALLIANCE INSURANCE (PSC)
Dubai - United Arab Emirates

Statement of comprehensive income
for the year ended December 31, 2010

	Notes	2010 AED	2009 AED
Net underwriting income - General		11,764,219	9,519,576
Interest income on deposits - General		8,557,706	7,464,491
Income from investment property (net)	20	4,246,588	3,932,800
Profit from investment activities	21	647,642	326,267
Other income	22	941,965	671,253
Profit from general insurance business		<u>26,158,120</u>	<u>21,914,387</u>
Surplus transferred from long-term business (Life) account	19	<u>18,945,429</u>	<u>20,085,309</u>
Net income for the year		<u><u>45,103,549</u></u>	<u><u>41,999,696</u></u>
 Earnings per share - basic and diluted	 24	 <u><u>45.10</u></u>	 <u><u>42.00</u></u>
 Other comprehensive income			
Unrealised (loss)/gain on available-for-sale financial assets		<u>(661,118)</u>	<u>838,652</u>
 Total comprehensive income		<u><u>44,442,431</u></u>	<u><u>42,838,348</u></u>

The notes 1 to 34 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, 2010

	Notes	2010 AED	2009 AED
Underwriting income			
Gross premiums written		122,984,101	135,358,860
Reinsurance premiums ceded		(98,911,961)	(105,631,019)
Net premiums written		24,072,140	29,727,841
Provision for unearned premiums as at January 1		11,726,766	13,414,387
Provision for unearned premiums as at December 31	10	(9,488,682)	(11,726,766)
Net earned premiums		26,310,224	31,415,462
Commission received from reinsurers		7,431,782	8,613,746
Total underwriting income		33,742,006	40,029,208
Underwriting expenses			
Gross claims paid		22,385,035	30,730,312
Reinsurance recoveries		(10,123,053)	(11,380,879)
Net claims paid		12,261,982	19,349,433
Outstanding claims at January 1		(11,632,223)	(13,319,287)
Outstanding claims at December 31		7,946,693	11,632,223
Net claims incurred		8,576,452	17,662,369
Commission paid to agents and brokers		1,259,962	2,260,613
Total underwriting expenses		9,836,414	19,922,982
Underwriting surplus		23,905,592	20,106,226
Management expenses	23	(12,141,373)	(10,586,650)
Net underwriting income		11,764,219	9,519,576

The notes 1 to 34 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, 2010

	Notes	2010 AED	2009 AED
Net underwriting income - Life		11,431,530	14,883,803
Income from investment property (net)	20	6,292,602	6,031,366
Profit from investment activities	21	2,922,664	1,549,474
Interest income		25,258,928	23,726,330
Other income	22	2,631,305	1,986,109
Profit before fund movement		<u>48,537,029</u>	<u>48,177,082</u>
Funds at January 1		480,384,158	452,292,385
Surplus transferred to statement of comprehensive income	19	(18,945,429)	(20,085,309)
Funds at December 31		<u><u>509,975,758</u></u>	<u><u>480,384,158</u></u>

The notes 1 to 34 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, 2010

	Notes	2010 AED	2009 AED
Gross premiums written		163,495,308	166,586,316
Reinsurance premium ceded		(30,239,580)	(30,544,436)
Net written premium		<u>133,255,728</u>	<u>136,041,879</u>
Commission received		1,894,917	1,859,743
Total underwriting income		<u>135,150,645</u>	<u>137,901,622</u>
Underwriting expenses:			
Gross claims paid		40,711,596	43,337,507
Reinsurance recovery		(29,147,300)	(28,078,548)
Net claims paid		<u>11,564,296</u>	<u>15,258,959</u>
Outstanding claims at January 1		(6,314,276)	(7,831,126)
Outstanding claims at December 31		6,969,681	6,314,276
Net claims incurred		<u>12,219,701</u>	<u>13,742,109</u>
Commission for field staff and agents		13,076,666	15,344,092
Policies surrendered		17,446,352	18,395,296
Bonus paid to policyholders		12,552,158	10,786,303
Maturity payments		51,783,917	47,495,502
Other underwriting expenses		3,486,763	4,103,548
Total underwriting expenses		<u>110,565,557</u>	<u>109,866,850</u>
Underwriting surplus		24,585,088	28,034,772
Management expenses	23	(13,153,558)	(13,150,969)
Net underwriting income		<u><u>11,431,530</u></u>	<u><u>14,883,803</u></u>

The notes 1 to 34 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, 2010

	Notes	Share capital AED	Legal reserve AED	Regular reserve AED	General reserve AED	Available-for-sale financial assets AED	Retained earnings AED	Total AED
As at January 1, 2009		75,000,000	35,369,394	25,780,194	90,000,000	(21,447,648)	32,801,604	237,503,544
Transfer to legal reserve	13	-	4,199,970	-	-	-	(4,199,970)	-
Transfer to regular reserve	14	-	-	4,199,970	-	-	(4,199,970)	-
Transfer to general reserve	15	-	-	-	10,000,000	-	(10,000,000)	-
Directors' remuneration		-	-	-	-	-	(596,993)	(596,993)
Dividends paid		-	-	-	-	-	(11,250,000)	(11,250,000)
Transactions with owners		-	4,199,970	4,199,970	10,000,000	-	(30,246,933)	(11,846,993)
Net income for the year		-	-	-	-	-	41,999,696	41,999,696
Other comprehensive income:								
Available-for-sale financial assets								
-current year gains		-	-	-	-	838,652	-	838,652
Total comprehensive income for the year		-	-	-	-	838,652	-	838,652
As at December 31, 2009		75,000,000	39,569,364	29,980,164	100,000,000	(20,608,996)	44,554,367	268,494,899
Issuance of bonus shares		25,000,000	-	-	-	-	(25,000,000)	-
Transfer to legal reserve	13	-	4,510,355	-	-	-	(4,510,355)	-
Transfer to regular reserve	14	-	-	4,510,355	-	-	(4,510,355)	-
Directors' remuneration		-	-	-	-	-	(621,670)	(621,670)
Dividends paid		-	-	-	-	-	(11,250,000)	(11,250,000)
Transactions with owners		25,000,000	4,510,355	4,510,355	-	-	(45,892,380)	(11,871,670)
Net income for the year		-	-	-	-	-	45,103,549	45,103,549
Other comprehensive income:								
Available-for-sale financial assets								
-current year losses		-	-	-	-	(661,118)	-	(661,118)
Total comprehensive income for the year		-	-	-	-	(661,118)	-	(661,118)
As at December 31, 2010		100,000,000	44,079,719	34,490,519	100,000,000	(21,270,114)	43,765,536	301,065,660

The notes 1 to 34 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, 2010

		2010	2009
	Notes	AED	AED
Operating activities			
Net income for the year		45,103,549	41,999,696
<i>Adjustments for:</i>			
Increase in Life fund (long term business)		29,591,600	28,091,773
Decrease in provision for insurance contract liabilities		(21,429,535)	(7,978,750)
Fair value adjustments to investment property	3	2,750,000	3,000,000
Provision for employees' end of service benefits	18	563,840	435,492
Depreciation on property and equipment	7	386,708	445,266
Gain on disposal of property and equipment		(16,174)	(72,188)
		<u>56,949,988</u>	<u>65,921,289</u>
Changes in working capital			
Decrease / (increase) in insurance and other receivables		16,475,845	(12,389,530)
Increase in claims recoverable from reinsurers		15,571,441	3,472,171
(Decrease) / increase in insurance and other payables		(5,857,156)	5,081,411
Increase/(decrease) in due to other insurers and reinsurers		(12,995,120)	5,663,890
		<u>70,144,998</u>	<u>67,749,231</u>
Employees' end of service benefits paid	18	(51,731)	(228,259)
Directors' remuneration		(621,670)	(596,993)
		<u>69,471,597</u>	<u>66,923,979</u>
Cash flow from operating activities			
Investing activities			
Increase in investments and deposits-held to maturity		(58,906,233)	(57,987,305)
Net increase in loans to policyholders	6	(493,309)	1,790,294
Purchase of property and equipment	7	(203,546)	(311,665)
Proceeds from disposals of property and equipment		16,174	84,957
		<u>(59,586,914)</u>	<u>(56,423,719)</u>
Cash flow from investing activities			
Financing activities			
Dividend paid		(11,250,000)	(11,250,000)
		<u>(11,250,000)</u>	<u>(11,250,000)</u>
Cash flow from financing activities			
Net decrease in cash and cash equivalents		(1,365,317)	(749,740)
Cash and cash equivalents as at January 1		<u>12,752,921</u>	<u>13,502,661</u>
Cash and cash equivalents as at December 31	11	<u><u>11,387,604</u></u>	<u><u>12,752,921</u></u>

The notes 1 to 34 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, 2010

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 July 1, 1975 under the name of Credit and Commerce Insurance Company. The Company was subsequently incorporated in Dubai with limited liability on January 6, 1982 under an Emiri Decree. The Company became a PSC in January 1995, in accordance with the U.A.E. 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 U.A.E. Federal Law No. 6 of 2007 relating to Insurance Companies and Insurance Agents.

The registered address of the Company is Warba Centre, P.O. Box 5501, Dubai, U.A.E.

2. Summary of significant accounting policies

2.1 Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) promulgated by International Accounting Standards Board (IASB) and applicable requirements of U.A.E Federal Law No. 6 of 2007 regarding Establishment of the Insurance Authority and Organization of its Operations & Executive Regulations of 2010 and U.A.E. Federal Law No. 8 of 1984 (as amended).

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

2.2 Basis of preparation

The financial statements are presented in U.A.E. Dirhams ("AED"). These are prepared on the historical cost basis except for investment properties and available-for-sale financial assets which are stated at fair value. Held-to-maturity investments are stated at amortised cost.

In their most recent report, the actuaries state that their valuation of the fund surplus is based among other things, the accurate valuation of all the assets and liabilities. In particular, they highlight that their actuarial valuation is dependent on the value of the Company's investment properties.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2010

2 Summary of significant accounting policies (continued)

2.3 Adoption of new and revised standards and interpretations

Standards, interpretations and amendments to existing standards that are effective in 2010

The following revisions and amendments to existing standards were issued by the International Accounting Standards Board (IASB), which are not relevant to but effective for the Company's financial statements for the annual period beginning January 1, 2010:

- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for accounting period on or after July 1, 2009).
- IFRS 3 and IAS 27 Business Combinations (Revised) and Consolidated and Separate Financial Statements (Amended) including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39 (effective for accounting period on or after July 1, 2009).
- IFRIC 17 Distributions of Non-cash Assets to Owners effective (effective for accounting period on or after July 1, 2009).
- Annual Improvements 2009 IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', IFRS 8 'Operating Segments', IAS 7 'Statement of Cash Flows', IAS 36 'Impairment of Assets', IFRS 2 'Share-based Payment', IAS 1 'Presentation of Financial Statements', IAS 17 'Leases' and IAS 39 'Financial Instruments: Recognition and Measurement' (effective for accounting period on or after January 1, 2010).

Standards, amendments and interpretations to existing standards that are not yet effective

At the date of authorisation of these financial statements, certain new standards, interpretations and amendments to existing standards have been published but are not yet effective, and have not been adopted early by the Company.

Management anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are not yet effective have been provided below and are not expected to have a material impact on the Company's financial statements, except stated specifically.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2010

2 Summary of significant accounting policies (continued)

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

Standards, amendments and interpretations to existing standards that are not yet effective (continued)

- **IAS 24 Related Party Disclosures (effective for accounting period on or after January 1, 2011)**

The amendment clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

- **IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for accounting period on or after February 1, 2010)**

The definition of a financial liability is amended in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

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

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. The replacement standard (IFRS 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for the accounting period on or after January 1, 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Management have yet to assess the impact that this amendment is likely to have on the financial statements of the Company. However, they do not expect to implement the amendments until all chapters of IFRS 9 have been published and they can comprehensively assess the impact of all changes.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2010

2 Summary of significant accounting policies (continued)

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

Standards, amendments and interpretations to existing standards that are not yet effective (continued)

- **IFRIC 14 Prepayments of a minimum funding requirement (effective for accounting period on or after January 1, 2011)**

The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

- **IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for accounting period on or after July 1, 2010)**

The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss.

- **Annual Improvements 2010 (effective for accounting period on or after January 1, 2011)**

a) IAS 1 Presentation of Financial Statements

The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements

b) IAS 34 Interim Financial Reporting

The amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around:

- The circumstances likely to affect fair values of financial instruments and their classification;
- Transfers of financial instruments between different levels of the fair value hierarchy;
- Changes in classification of financial assets; and
- Changes in contingent liabilities and assets.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2010

2 Summary of significant accounting policies (continued)

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

- **Annual Improvements 2010 (effective for accounting period on or after January 1, 2011) (continued)**

c) IFRS 7 Financial Instruments: Disclosures

The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.

d) IFRIC 13 Customer Loyalty Programmes

The meaning of 'fair value' is clarified in the context of measuring award credits under customer loyalty programmes.

The Company's preliminary assessments indicate that the 2010 Improvements will not have a material impact on the Company's financial statements.

2.4 Revenue

Premiums

Premiums on individual life business are accounted for on a "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.

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 year end 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.

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 reporting date, at the following percentages;

Marine	25%
All other businesses	40%

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2010

2 Summary of significant accounting policies (continued)

2.4 Revenue (continued)

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.

2.5 Claims

Claims paid

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

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 the year end date 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 year end 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.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2010

2 Summary of significant accounting policies (continued)

2.6 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 include 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.

2.7 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 statement of financial position are financial instruments except investment property, property and equipment, employees' end of service benefits 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 making. 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 debtors. Originated loans and receivables comprise trade receivables, due from related parties, recoverable from other insurers and policy holders' loans.
- Held-to-maturity financial assets are 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 available-for-sale financial assets 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 in equity.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2010

2 Summary of significant accounting policies (continued)

2.7 Financial instruments (continued)

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 and loans and receivables are measured at fair value.

Held-to-maturity assets and loans and receivables are measured at amortised costs less impairment losses. Amortised cost is calculated on the effective interest rate method. Discounting is omitted if immaterial.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price as at the year end 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 year end date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures as at the year end date.

Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of available-for-sale financial assets are recognised in the equity unless realized.

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)
Notes to the financial statements
For the year ended December 31, 2010

2 Summary of significant accounting policies (continued)

2.7 Financial instruments (continued)

Financial liabilities

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognised in profit or loss. Discounting is omitted if immaterial.

2.8 Investments

Held to maturity

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 and loss

Fair value through profit and loss investments are equity and debt investments that are held for trading. Movements in the fair value are recognised in profit or loss.

Available-for-sale

Available-for-sale investments are measured at fair value, with unrealised gains or losses shown as part of equity until the investment is derecognised. On de-recognition, the cumulative gain or loss previously reported in equity is included in the statement of comprehensive income for the year.

2.9 Investment property

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

2.10 Insurance and other receivables

Trade and other receivables are stated at their cost less provision for doubtful debts, which approximates their fair value.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2010

2 Summary of significant accounting policies (continued)

2.11 Insurance and other payables

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

2.12 Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and impairment losses, except land which is recorded at cost less impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives of the property and equipment.

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

2.13 Impairment losses

The carrying amount of the Company's assets is reviewed at each year end 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 statement of comprehensive income.

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.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2010

2.14 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.

2.15 Employees' end of service benefits

Staff terminal benefits

In compliance with U.A.E. 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 year end date.

U.A.E. nationals – pension and social security

The U.A.E. 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 U.A.E. 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 statement of comprehensive income as incurred. The employees' and employers' contribution, to the extent remaining unpaid at the year end date, has been shown as liability.

2.16 Foreign currency transactions

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

2.17 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.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2010

2 Summary of significant accounting policies (continued)

2.18 Provisions

A provision is recognised in the statement of financial position 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.

2.19 Critical accounting estimates and judgements

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, claims incurred but not reported and unearned premium under insurance contracts are the Company's most critical accounting estimates. 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 statement of comprehensive income. 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.

Certain estimates like current market conditions and prices for the similar properties were used by the valuer for the fair valuation of the investment property at the year end date.

Management reviews the useful lives and impairment of depreciable assets at each reporting date, based on the expected utility of the assets to the Company.

2.20 Reinsurance assets

Insurance contracts entered into by the Company under which the contract holder is another insurer are included with insurance contracts. The benefits to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance contract assets. Amounts recoverable under reinsurance contracts are assessed for impairment as at each year end 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)
Notes to the financial statements
For the year ended December 31, 2010

2 Summary of significant accounting policies (continued)

2.21 Equity, reserves and dividend payments

Share capital

Share capital represents the nominal value of shares that have been issued.

Reserves

Accounting policies and other details for reserves are mentioned in notes 13, 14 and 15 to the financial statements.

Retained earnings

Retained earnings include all current and prior year retained profits.

Dividend

Dividend distribution payable to equity shareholders is included in other liabilities after approval in shareholders' general meeting.

3 Investment property

	2010	2009
	AED	AED
Beginning balance	185,519,600	188,519,600
Fair value adjustment (note 20)	(2,750,000)	(3,000,000)
Ending balance	<u>182,769,600</u>	<u>185,519,600</u>

Investment property comprises two commercial buildings in Dubai.

The Technical and Loss Adjusting Services Company LLC estimated the open market value of the investment properties at the year end to be AED 182,769,600 (2009: 185,519,600). A qualified Chartered Engineer carried out the valuation.

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 equipment as the Company occupies an insignificant area (11.89%) of the property for business use.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2010

4 Investments and deposits - held to maturity

	2010	2009
	AED	AED
Short-term deposits – local	585,922,580	521,292,167
Government bond	-	5,724,180
	<u>585,922,580</u>	<u>527,016,347</u>

Short term deposits comprise of fixed deposits with various banks bearing annual interest rate of 3.5% to 6.25% p.a. (2009: 3.0% to 7.5% p.a.). The maturity of these deposits falls within one year.

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 which matured and collected on November 1, 2010. The market value of investment was AED 983.31 per bond as at December 31, 2009.

5 Statutory deposit

A deposit of AED 10,000,000 (2009: AED 10,000,000) has been placed with one of the Company's bankers, in accordance with Article 42 of Federal Law No. (6) of 2007 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 Insurance Authority for the same amount. This deposit cannot be withdrawn without prior approval of the Insurance Authority and bearing interest rate of 4.5% p.a. (2009: between 5.75% to 6.25% p.a.).

6 Policyholders' loans

Balance as at January 1	44,407,831	47,021,471
Loans given during the year	26,547,558	24,228,082
Repayment	(25,556,049)	(26,841,722)
	<u>45,399,340</u>	<u>44,407,831</u>
Balance as at December 31	(1,727,204)	(1,229,004)
Accrued interest on loan balances	<u>43,672,136</u>	<u>43,178,827</u>

The interest on policyholders' loan is 8% (2009: 8%).

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2010

7 Property and equipment

	Land	Furniture and fixtures	Office equipment	Motor vehicles	Total
Cost					
As at January 1, 2009	2,470,555	6,373,137	4,959,944	1,173,850	14,977,486
Additions	-	100,400	1,265	210,000	311,665
Disposals	-	-	-	(205,000)	(205,000)
As at December 31, 2009	<u>2,470,555</u>	<u>6,473,537</u>	<u>4,961,209</u>	<u>1,178,850</u>	<u>15,084,151</u>
Additions	-	76,885	79,161	47,500	203,546
Disposals	-	(175)	-	(47,000)	(47,175)
As at December 31, 2010	<u>2,470,555</u>	<u>6,550,247</u>	<u>5,040,370</u>	<u>1,179,350</u>	<u>15,240,522</u>
Depreciation					
As at January 1, 2009	-	6,243,162	4,531,970	895,291	11,670,423
Charge for the year	-	101,557	169,198	174,511	445,266
Disposals	-	-	-	(192,230)	(192,230)
As at December 31, 2009	<u>-</u>	<u>6,344,719</u>	<u>4,701,168</u>	<u>877,572</u>	<u>11,923,459</u>
Charge for the year	-	87,401	133,731	165,576	386,708
Disposals	-	(175)	-	(47,000)	(47,175)
As at December 31, 2010	<u>-</u>	<u>6,431,945</u>	<u>4,834,899</u>	<u>996,148</u>	<u>12,262,992</u>
Net book value					
As at December 31, 2010	<u>2,470,555</u>	<u>118,302</u>	<u>205,471</u>	<u>183,202</u>	<u>2,977,530</u>
As at December 31, 2009	<u>2,470,555</u>	<u>128,818</u>	<u>260,041</u>	<u>301,278</u>	<u>3,160,692</u>

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2010

7 Property and equipment (continued)

Depreciation is allocated as follows:

	2010	2009
	AED	AED
Management expenses (note 23)	315,411	358,164
Maintenance expenses (note 20)	71,297	87,102
	<u>386,708</u>	<u>445,266</u>

The gross carrying amount of fully depreciated property and equipment still in use as at December 31, 2010 is AED 11,708,863 (2009: AED 11,064,456).

8 Available-for-sale financial assets

Quoted equity		
Equities and funds – local	8,479,927	8,479,927
Fair value adjustment	2,670,084	5,081,013
	<u>11,150,011</u>	<u>13,560,940</u>
Equities and funds – foreign	14,927,648	14,927,648
Fair value adjustment	(4,800,432)	(6,550,243)
	<u>10,127,216</u>	<u>8,377,405</u>
	<u>21,277,227</u>	<u>21,938,345</u>

The net movement in fair value in the current year was a decrease in value of AED 661,118 (2009: 838,652 increase) which has been carried to the fair value reserve in equity.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2010

9 Insurance and other receivables

	2010	2009
	AED	AED
Trade		
Due from policy holders	24,718,497	38,368,619
Due from brokers and agents	9,062,820	10,824,757
Due from insurers for insurance operations	3,909,501	3,543,812
	<u>37,690,818</u>	<u>52,737,188</u>
Less: provision for doubtful debts	(1,768,916)	(1,723,501)
	<u>35,921,902</u>	<u>51,013,687</u>
Others		
Accrued interest	12,774,775	13,406,105
Prepayments and other receivables	4,666,493	4,817,416
Rents receivable	2,239,353	4,734,918
Recoverable from other insurers	946,436	1,536,321
Due from a related party	77,192	58,580
	<u>56,626,151</u>	<u>75,567,027</u>
Less: provision for doubtful debts	(39,031)	(2,504,062)
	<u>56,587,120</u>	<u>73,062,965</u>

Receivables amounting to AED 11,438,079 (2009: AED 24,211,938) are outstanding for more than 120 days. Out of this amounts, the Company provided AED 1,768,916 (2009: AED 1,723,501) as provision for bad debts.

10 Insurance contract liabilities and reinsurance contract assets

Provision for unearned premiums - (refer to (a) below)	9,488,682	11,726,766
Provision for outstanding claims - gross (refer to (b) below)	33,194,069	52,385,507
	<u>42,682,751</u>	<u>64,112,273</u>

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2010

10 Insurance contract liabilities and reinsurance contract assets (continued)

a) Provision for unearned premiums (net of reinsurance)

	2010	2009
	AED	AED
Balance as at January 1	11,726,766	13,414,387
Net transfer of unearned premiums	(2,238,084)	(1,687,621)
	<u>9,488,682</u>	<u>11,726,766</u>

b) Provision for outstanding claims

Provision for claims reported	30,411,817	49,007,201
Provision for claims incurred but not reported	2,782,252	3,378,306
	<u>33,194,069</u>	<u>52,385,507</u>
Provision for outstanding claims (gross)	(17,331,246)	(32,902,687)
Less: Insurance contract assets	<u>15,862,823</u>	<u>19,482,820</u>

Movements in provision for outstanding claims are as follows:

	2010			2009		
	Gross AED	Reinsurance AED	Net AED	Gross AED	Reinsurance AED	Net AED
Beginning balance	52,385,507	(32,903,687)	19,481,820	58,676,632	(36,373,857)	22,302,775
Paid during the year	(63,096,631)	39,270,353	(23,826,278)	(74,067,818)	39,459,427	(34,608,391)
Incurred during the year	43,905,193	(23,697,912)	20,207,281	67,776,693	(35,988,257)	31,788,436
Closing balance	<u>33,194,069</u>	<u>(17,331,246)</u>	<u>15,862,823</u>	<u>52,385,507</u>	<u>(32,902,687)</u>	<u>19,482,820</u>

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2010

10 Insurance contract liabilities and reinsurance contract assets (continued)

b) Provision for outstanding claims (continued)

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 2009 and 2010.

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 statement of financial position is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims arise.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2010

11 Cash and cash equivalents

	2010	2009
	AED	AED
Cash at banks – current accounts	10,145,840	11,258,559
Cash in hand	1,241,764	1,494,362
	<u>11,387,604</u>	<u>12,752,921</u>

12 Share capital

Authorised, issued and fully paid:

1,000,000 ordinary shares of AED 100 each	<u>100,000,000</u>	<u>75,000,000</u>
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13 Legal reserve

In accordance with the Company's Articles of Association and Article 192 of the U.A.E. 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 4,510,355 (2009: AED 4,199,970) (10% of the net income for the year) was transferred to the statutory reserve on December 31, 2010.

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 4,510,355 (2009: AED 4,199,970) (10% of the net income for the year) was transferred to the statutory reserve on December 31, 2010.

15 General reserve

The Board of Directors approved the transfer of AED 10,000,000 in 2009 to a general reserve which can be utilised for any purpose approved by the shareholders.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
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16 Insurance and other payables

	2010	2009
	AED	AED
Insurance customer payables	18,109,363	20,209,659
Accruals and provisions	11,705,222	9,278,657
Premiums received in advance	6,412,034	6,964,048
Rent received in advance	2,836,235	8,049,471
Other payables	2,707,156	3,125,331
	<u>41,770,010</u>	<u>47,627,166</u>

17 Due to other insurers and reinsurers

Due to insurers and reinsurers for insurance operations	<u>31,812,520</u>	<u>44,807,640</u>
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18 Employees' end of service benefits

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

Balance as at January 1	4,106,248	3,899,966
Charge for the year	563,840	434,541
Payments during the year	(51,731)	(228,259)
Balance as at December 31	<u>4,618,357</u>	<u>4,106,248</u>

19 Policyholders' funds

Balance as at January 1	480,384,158	452,292,385
Excess of income over expenditure for the year in the long-term business	48,537,029	48,177,082
Surplus transferred to statement of comprehensive income	(18,945,429)	(20,085,309)
Balance as at December 31	<u>509,975,758</u>	<u>480,384,158</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 December 31, 2010.

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19 Policyholders' funds (continued)

The Company's consulting actuaries during the year were M/s Nauman Associates. In their report for the year 2010, 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:

	2010	2009
	AED	AED
Net liabilities under life assurance policies	365,762,269	353,165,262
Provision for terminal bonus to policy holders	144,213,489	127,218,896
	<u>509,975,758</u>	<u>480,384,158</u>

The consulting actuaries assessed a surplus of AED 18,945,429 (2009: AED 20,085,309) in the life assurance fund as at December 31, 2010 as follows:

Net life assurance assets as at December 31	528,921,187	500,469,467
Less: total liabilities under policies	(509,975,758)	(480,384,158)
Surplus as at December 31	<u>18,945,429</u>	<u>20,085,309</u>

20 Income from investment property (net)

	2010			2009		
	General AED	Life AED	Total AED	General AED	Life AED	Total AED
Rental income	6,611,469	10,268,222	16,879,691	6,887,378	10,049,576	16,936,954
Provision for doubtful rent	-	-	-	-	22,136	22,136
Fair value adjustment to investment property (a)						
(note 3)	(540,000)	(2,210,000)	(2,750,000)	(960,000)	(2,040,000)	(3,000,000)
Maintenance expenses	(1,824,881)	(1,765,620)	(3,590,501)	(1,994,578)	(2,000,346)	(3,994,924)
Net income	<u>4,246,588</u>	<u>6,292,602</u>	<u>10,539,190</u>	<u>3,932,800</u>	<u>6,031,366</u>	<u>9,964,166</u>

Rental income includes notional rent of AED 1,519,375 (2009: AED 1,519,375) relating to the portion of investment properties occupied by the Company. A corresponding charge is included under management expenses (note 23).

(a) Represents the unrealised loss from the revaluation of investment property.

ALLIANCE INSURANCE (PSC)
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21 Profit from investment activities

	2010			2009		
	General AED	Life AED	Total AED	General AED	Life AED	Total AED
Dividend income	647,642	656,049	1,303,691	326,267	681,388	1,007,655
Interest on policyholders' loans	-	2,266,615	2,266,615	-	868,086	868,086
Total profit	647,642	2,922,664	3,570,306	326,267	1,549,474	1,875,741

22 Other income

Other income included in the statement of comprehensive income consists of:

	2010			2009		
	General AED	Life AED	Total AED	General AED	Life AED	Total AED
Gain on disposal of property and equipment	16,174	-	16,174	72,188	-	72,188
Miscellaneous	925,791	2,631,305	3,557,096	599,065	1,986,109	2,585,174
	941,965	2,631,305	3,573,270	671,253	1,986,109	2,657,362

23 Management expenses

	2010			2009		
	General AED	Life AED	Total AED	General AED	Life AED	Total AED
Staff costs	7,966,893	5,101,134	13,068,027	7,499,121	4,715,710	12,214,831
Rent	867,512	1,201,429	2,068,941	840,491	1,213,957	2,054,448
Branch overheads	-	1,200,721	1,200,721	-	1,193,909	1,193,909
Finance charges	112,714	984,443	1,097,157	113,551	932,261	1,045,812
Communication expenses	286,494	181,438	467,932	290,889	208,628	499,517
Depreciation on property and equipment	163,712	151,699	315,411	185,511	172,653	358,164
Travel and conveyance	10,068	15,024	25,092	9,389	8,524	17,913
Other office expenses	2,733,980	4,317,670	7,051,650	1,647,698	4,705,327	6,353,025
	12,141,373	13,153,558	25,294,931	10,586,650	13,150,969	23,737,619

ALLIANCE INSURANCE (PSC)
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24 Earnings per share - basic and diluted

	2010	2009
	AED	AED
Net income for the year	45,103,549	41,999,696
Average number of shares outstanding during the year	1,000,000	1,000,000
Earnings per share	<u>45.10</u>	<u>42.00</u>

25 Contingent liabilities and commitments

Commitments

Letters of Guarantee	<u>10,753,156</u>	<u>12,076,000</u>
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Capital commitments

As at the year end, there were no major capital commitments (2009: nil).

Legal cases

As at the year end date, there were certain legal cases pending in different court of laws against the Company claiming AED 1,168,000 (2009: AED 9,014,702) in total. The legal counsel is confident that these legal cases will be judged in favour of the Company.

26 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.

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.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
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**26 Risk management objectives and policies for mitigating insurance risks
(continued)**

Underwriting strategy

This 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 reinsurances 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 receivables are monitored on regular basis and exchanges of reconciliation are done with complete control over the receivables.

Terms and conditions of insurance contracts

Insurance per se is based on uncertainty of event. As such the terms and conditions of Insurance contracts vary 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 term 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 anticipated claims. These are based on historical data and experience of the respective class with a foresight.

ALLIANCE INSURANCE (PSC)
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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 table highlights the Company's ability to provide an estimate 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 estimates of total claims outstanding as of the end of 2010 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)

	2005	2006	2007	2008	2009	2010
	AED	AED	AED	AED	AED	AED
Estimate of cumulative claims- General						
At end of underwriting year	6,671,085	8,792,690	7,818,725	14,733,962	7,373,140	2,834,451
One year earlier	29,918,225	6,291,118	6,004,225	9,018,973	10,598,545	5,526,182
Two years earlier	2,280,018	1,821,302	4,754,099	5,478,897	3,593,201	3,702,402
Three years earlier	1,782,099	1,743,055	1,223,105	2,018,107	4,226,145	2,014,986
Four years earlier	1,643,050	847,000	821,332	2,444,587	706,125	3,000,710
Five years earlier	-	392,200	388,003	1,453,063	11,138,067	489,065
Gross outstanding liabilities	<u>42,294,477</u>	<u>19,887,365</u>	<u>21,009,489</u>	<u>35,147,589</u>	<u>37,635,223</u>	<u>17,567,796</u>

The above table does not include cumulative claims for life insurance.

28 Capital management

The Company's capital management objectives are to ensure that the Company maintains a strong credit rating and healthy ratios in order to support its business and maximise shareholders' and policyholders' value.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2010

28 Capital management (continued)

The capital structure of the Company consists of the following:

	2010	2009
	AED	AED
Policyholders' funds	509,975,758	480,384,158
Investments and deposits-held to maturity	585,922,580	527,016,347
Equity attributable to the shareholders	301,065,660	268,494,899

29 Financial instruments

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

The total due from policyholders and brokers which are outstanding for more than 120 days amounts to AED 11,438,079 (2009: AED 24,211,938). The management estimates that the balance of AED 1,786,916 (2009: AED 1,723,501) is impaired as of the reporting date and related provision has already been made.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
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29 Financial instruments (continued)

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 and the interest rate risk arises from the possibility that the changes in interest rates will affect future profitability or the fair values of financial instruments. The risk is managed by the Company by maintaining an approximate mix between fixed and floating rate short term deposits. Exposure to interest rate risk, based on the earlier of contractual repricing or maturity date as at December 31, 2010 is disclosed in the financial instruments table.

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 manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

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 U.A.E. 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 U.A.E. Dirhams. However, since the Dirham is pegged to US Dollar, the exchange risk is minimal. Moreover, the Company has foreign currency deposits with banks which are insignificant in terms of amount and hence exchange risk related to these deposits is minimal.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
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29 Financial instruments (continued)

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 statement of comprehensive income. The fair value of policyholders' liabilities has been determined by the consulting actuaries (see note 19).

ALLIANCE INSURANCE (PSC)
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29. Financial instruments (continued)

							2010				
	Effective yield % p.a.	Interest bearing					Non-interest bearing				
		0 > 1 month	1 > 3 months	3 > 6 months	6 months > 1 year	> 1 year	Sub total	0 > 1 year	> 1 year	Sub total	Total
Financial Assets											
Investments and deposits - held to maturity	3.5 to 7.5	148,100,000	109,400,099	126,572,481	201,850,000	-	585,922,580	-	-	-	585,922,580
Statutory deposit	4.5	-	-	7,500,000	2,500,000	-	10,000,000	-	-	-	10,000,000
Policyholders' loans	8.0	-	-	-	-	43,672,136	43,672,136	-	-	-	43,672,136
Available-for-sale financial assets		-	-	-	-	-	-	21,277,227	-	21,277,227	21,277,227
Insurance and other receivables		-	-	-	-	-	-	51,920,627	-	51,920,627	51,920,627
Reinsurance contract assets		-	-	-	-	-	-	17,331,246	-	17,331,246	17,331,246
Cash and cash equivalents		-	-	-	-	-	-	11,387,604	-	11,387,604	11,387,604
		148,100,000	109,400,099	134,072,481	204,350,000	43,672,136	639,594,716	101,916,704	-	101,916,704	741,511,420
Financial Liabilities											
Insurance contract liabilities		-	-	-	-	-	-	42,682,738	-	42,682,738	42,682,738
Insurance and other payables		-	-	-	-	-	-	32,521,741	-	32,521,741	32,521,741
Due to other insurers and reinsurers		-	-	-	-	-	-	31,812,520	-	31,812,520	31,812,520
Policyholders' funds		-	-	-	-	-	-	509,975,758	-	509,975,758	509,975,758
		-	-	-	-	-	-	616,992,757	-	616,992,757	616,992,757
On-balance sheet sensitivity gap		148,100,000	109,400,099	134,072,481	204,350,000	43,672,136	639,594,716				
Total yield / interest rate risk sensitivity gap		148,100,000	109,400,099	134,072,481	204,350,000	43,672,136	639,594,716				

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2010

29. Financial instruments (continued)

2009

		Interest bearing						Non-interest bearing			
	Effective yield % p.a.	0 > 1 month	1 > 3 months	3 > 6 months	6 months > 1 year	> 1 year	Sub total	0 > 1 year	> 1 year	Sub total	Total
Financial Assets											
Investments and deposits - held to maturity	3.0 to 7.5	38,112,858	32,418,716	122,413,997	332,419,943	1,650,833	527,016,347	-	-	-	527,016,347
Statutory deposit	5.7 to 6.25	-	-	-	7,500,000	2,500,000	10,000,000	-	-	-	10,000,000
Policyholders' loans	8.0	-	-	-	-	43,178,827	43,178,827	-	-	-	43,178,827
Available-for-sale financial assets		-	-	-	-	-	-	21,938,345	-	21,938,345	21,938,345
Insurance and other receivables		-	-	-	-	-	-	68,245,549	-	68,245,549	68,245,549
Reinsurance contract assets		-	-	-	-	-	-	32,902,687	-	32,902,687	32,902,687
Cash and cash equivalents		-	-	-	-	-	-	12,752,921	-	12,752,921	12,752,921
		38,112,858	32,418,716	122,413,997	339,919,943	47,329,660	580,195,174	135,839,502	-	135,839,502	716,034,676
Financial Liabilities											
Insurance contract liabilities		-	-	-	-	-	-	64,112,273	-	64,112,273	64,112,273
Insurance and other payables		-	-	-	-	-	-	32,613,647	-	32,613,647	32,613,647
Due to other insurers and reinsurers		-	-	-	-	-	-	44,807,640	-	44,807,640	44,807,640
Policyholders' funds		-	-	-	-	-	-	480,384,158	-	480,384,158	480,384,158
		-	-	-	-	-	-	621,917,718	-	621,917,718	621,917,718
On-balance sheet sensitivity gap		38,112,858	32,418,716	122,413,997	339,919,943	47,329,660	580,195,174				
Total yield / interest rate risk sensitivity gap		38,112,858	32,418,716	122,413,997	339,919,943	47,329,660	580,195,174				

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
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30 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are as follows:

	2010	2009
	AED	AED
Less than one year	102,716	160,825
	<u> </u>	<u> </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 2,068,941 (2009: AED 2,054,448) was recognised as an expense in the statement of comprehensive income, which includes AED 1,519,375 (2009: AED 1,519,375) 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:

Less than one year	2,239,353	2,269,887
	<u> </u>	<u> </u>

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

During the current year AED 16,879,691 (2009: AED 16,936,954) was recognised as rental income in the statement of comprehensive income in respect of operating leases, which includes AED 1,519,375 (2009: AED 1,519,375) relating to internal rent.

ALLIANCE INSURANCE (PSC)
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31 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:

	2010	2009
	AED	AED
Premium written	88,862	73,270
	<u>=====</u>	<u>=====</u>

Details of related party balances are as follows

Amount due from related party	77,192	58,580
	<u>=====</u>	<u>=====</u>

Details of related party

Name: Juma Saif Rashid Bin Bakhit
Relationship: Vice Chairman

Compensation of key management personnel

Short – term benefits	4,500,000	3,750,000
	<u>=====</u>	<u>=====</u>
Board of Director remuneration	621,670	596,993
	<u>=====</u>	<u>=====</u>

32 Segment analysis

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

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

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
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32 Segment analysis (continued)

The Company operates two main business segments: General Insurance and Life Insurance. The main source of revenue for these operating segments is from underwriting all classes of general insurance and life insurance policies.

	Life Business	2010 General Business	Total	Life Business	2009 General Business	Total
Net underwriting income	11,431,530	11,764,219	23,195,749	14,883,803	9,519,576	24,403,379
Interest income	25,258,928	8,557,706	33,816,634	23,726,331	7,464,491	31,190,822
Income / (loss) from investment property (net)	6,292,602	4,246,588	10,539,190	6,031,366	3,932,800	9,964,166
Profit from investment activities	2,922,664	647,642	3,570,306	1,549,474	326,267	1,875,741
Other income	2,631,305	941,965	3,573,270	1,986,109	671,253	2,657,362
	48,537,029	26,158,120	74,695,149	48,177,083	21,914,387	70,091,470
Surplus transferred to policy holders' fund	(29,591,600)	-	(29,591,600)	(28,091,774)	-	(28,091,774)
Net surplus (Life) / net income (General)	18,945,429	26,158,120	45,103,549	20,085,309	21,914,387	41,999,696
Segment Assets	587,710,675	344,214,368	931,925,043	600,690,560	308,841,815	909,532,375
Segment Liabilities	569,386,929	61,472,454	630,859,383	543,629,835	97,407,650	641,037,485

33 Subsequent events

There were no adjusting or non adjusting events from the year end to the date of the audit report.

34 Comparatives

No reclassification has been made in the comparatives.