

ALLIANCE INSURANCE (PSC)
DUBAI - UNITED ARAB EMIRATES

AUDITOR'S REPORT AND FINANCIAL STATEMENTS
DECEMBER 31, 2011

ALLIANCE INSURANCE (PSC)
Dubai - United Arab Emirates

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for the year ended December 31, 2011

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Board of Directors' Report For the Year Ended December 31, 2011

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 2011 financial year together with the financial statements and the Auditor's report for the year ended December 31, 2011.

The year 2011 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 interest rates on deposits dropped in 2011 and we believe that the decline to continue in the current year 2012. We would also like to emphasise 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 performance and we request and hope for the intervention of the Insurance Commission to regulate the market and curtail the licensing of new companies who should provide new basic insurance covers that are not provided by existing insurance companies.

As for the Company we have maintained a conservative policy with respect to accepting insurance risks and our goal remains to achieve good results for the shareholders and preserve the rights of the policyholders. With the help of Almighty God, we have achieved good results which have improved the financial position and increased the Company's reserves, thereby strengthening the Company's ability to face the future.

The Company also maintained its ranking (A- Excellent) for the fifth year in a row as per the ranking provided by A.M. Best, while few other companies have obtained such rating.

The Company's business in 2011 was not easy but good in general. The cash in hand and at banks, and bank deposits increased from AED 607,310,184 as at December 31, 2010 to AED 658,362,114 as at December 31, 2011 and the net assets increased to AED 322,866,471 in 2011 compared to AED 301,065,660 in 2010. The total assets at the end of 2011 amounted to AED 972,165,979 against AED 931,925,043 in 2010. Total claims paid in 2011 reached an amount of AED 51,021,602 compared with AED 63,096,631 in 2010.

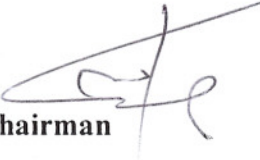
The Company's net profit for the year 2011 after the technical reserves and doubtful debts was AED 41,611,054 compared to AED 45,103,549 in 2010.

In light of the results for the financial year ended December 31, 2011 the Board of Directors presents for your consideration the following recommendations:

1. To approve the Directors' report and the Auditor's report for the year 2011;
2. To approve the financial statements for the year ended December 31, 2011;
3. To approve the recommendation of the Board relating to the distribution of profits for the year 2011 and the retained earnings of the year 2010 as follows, after transferring 10% to the Legal Reserve and 10% to the Regular Reserve, as well as the Directors' Remuneration as per the Company's statute.
 - a. Allocation of AED 15,000,000 being 15% of the Company's paid-up capital as dividends to be paid in cash to shareholders;
 - b. Transfer of AED 20,000,000 to the General Reserve; and
 - c. Carry forward AED 6,488,609 to Retained Earnings for the next year.
4. To discharge the Chairman, Board of Directors and Auditors from their responsibility for the year ended December 31, 2011; and
5. To appoint or re-appoint the Auditors for the year 2012 and to determine their fees.

In conclusion, the Board of Directors take this opportunity to extend their appreciation to His Highness Sheikh Khalifa Bin Zayed Bin Sultan Al Nahyan, the president of the United Arab Emirates, His Highness Sheikh Mohamed Bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai, and to their Highnesses, their brothers the Sheiks, 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 reinsurers for their support and to all the clients who grant their constant trust to the Company, as well as to the Management and staff for their dedicated efforts and loyalty, and ask God to bestow what is best and beneficial to the country.


Chairman

March 7, 2012

Report of the Independent Auditor

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

Report on the Financial Statements**Public Accountants**

P.O. Box 1620
Warba Centre
Deira-Abu Baker Al Siddique Road
Dubai, United Arab Emirates
Tel. : 971 (4) 2688070
Fax. : 971 (4) 2694599
E-mail : info@ae.gt.com
Website : www.gtuae.net

We have audited the accompanying financial statements of Alliance Insurance (PSC) (the "Company"), which comprise the statement of financial position as at December 31, 2011, the statement of comprehensive income, statement of underwriting results – General, long term business (Life) account, statement of underwriting results – Life, 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.

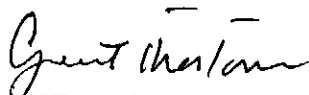
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2011, 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 the above mentioned Laws or of the Articles of Association of the Company have occurred during the year which would have had a material effect on the business of the Company or on its financial position.



GRANT THORNTON

Farouk Mohamed

Insurance Registration no: 54

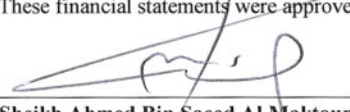
Dubai, United Arab Emirates

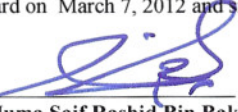
March 7, 2012

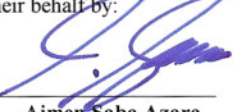
ALLIANCE INSURANCE (PSC)**Dubai - United Arab Emirates****Statement of financial position as at December 31, 2011**

	Notes	2011 AED	2010 AED
Assets			
Non-current			
Investment property	5	181,244,600	182,769,600
Financial assets - deposits	6	109,131,389	-
Statutory deposit	7	10,000,000	10,000,000
Policyholders' loans	8	47,460,908	43,672,136
Property and equipment	9	2,842,251	2,977,530
Non-current assets		<u>350,679,148</u>	<u>239,419,266</u>
Current			
Financial assets - deposits	6	538,288,738	598,436,105
Financial assets - equities and funds	6	17,032,761	21,277,227
Insurance and other receivables	10	39,377,587	44,073,595
Reinsurance contract assets	11	14,697,496	17,331,246
Cash and cash equivalents	12	12,090,249	11,387,604
Current assets		<u>621,486,831</u>	<u>692,505,777</u>
Total assets		<u><u>972,165,979</u></u>	<u><u>931,925,043</u></u>
Equity and liabilities			
Equity			
Share capital	13	100,000,000	100,000,000
Legal reserve	14	48,240,824	44,079,719
Regular reserve	15	38,651,624	34,490,519
General reserve	16	120,000,000	100,000,000
Fair value reserve		(25,514,581)	(21,270,114)
Retained earnings		<u>41,488,604</u>	<u>43,765,536</u>
Total equity		<u>322,866,471</u>	<u>301,065,660</u>
Liabilities			
Non-current			
Employees' end-of-service benefits	19	4,990,921	4,618,357
Policyholders' funds	20	<u>540,527,641</u>	<u>509,975,758</u>
Non-current liabilities		<u>545,518,562</u>	<u>514,594,115</u>
Current			
Insurance contract liabilities	11	35,590,738	42,682,738
Insurance and other payables	17	38,147,572	41,770,010
Due to other insurers and reinsurers	18	<u>30,042,636</u>	<u>31,812,520</u>
Current liabilities		<u>103,780,946</u>	<u>116,265,268</u>
Total liabilities		<u>649,299,508</u>	<u>630,859,383</u>
Total equity and liabilities		<u><u>972,165,979</u></u>	<u><u>931,925,043</u></u>

These financial statements were approved by the Board on March 7, 2012 and signed on their behalf by:


Sheikh Ahmed Bin Saeed Al Maktoum
 Chairman


Juma Saif Rashid Bin Bakhit
 Vice Chairman


Aimen Saba Azara
 General Manager

The notes from 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, 2011

	Notes	2011 AED	2010 AED
Net underwriting income - General		10,374,724	11,764,219
Interest income on deposits - General		8,930,983	8,557,706
Income from investment property (net)	21	3,358,658	4,246,588
Profit from investment activities	22	672,962	647,642
Other income	23	2,193,055	941,965
Profit from general insurance business		25,530,382	26,158,120
Surplus transferred from long-term business (Life) account	20	16,080,672	18,945,429
Net income for the year		41,611,054	45,103,549
		=====	=====
Earnings per share - basic and diluted	25	41.61	45.10
		=====	=====
Other comprehensive income			
Unrealised loss on financial assets at fair value through other comprehensive income		(4,244,467)	(661,118)
Total comprehensive income		37,366,587	44,442,431
		=====	=====

The notes from 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, 2011

	Notes	2011 AED	2010 AED
Underwriting income			
Gross premiums written		140,809,012	122,984,101
Reinsurance premiums ceded		(120,938,788)	(98,911,961)
Net premiums written		19,870,224	24,072,140
Provision for unearned premiums net of reinsurance assets as at January 1		9,488,682	11,726,766
Provision for unearned premiums net of reinsurance assets as at December 31	11	(7,822,641)	(9,488,682)
Net premiums earned		21,536,265	26,310,224
Commission received from reinsurers		9,702,148	7,431,782
Total underwriting income		31,238,413	33,742,006
Underwriting expenses			
Gross claims paid		13,116,386	22,385,035
Reinsurance recoveries		(3,796,345)	(10,123,053)
Net claims paid		9,320,041	12,261,982
Outstanding claims at January 1		(7,946,693)	(11,632,223)
Outstanding claims at December 31		6,771,073	7,946,693
Net claims incurred		8,144,421	8,576,452
Commission paid to agents and brokers		1,334,121	1,259,962
Total underwriting expenses		9,478,542	9,836,414
Underwriting surplus		21,759,871	23,905,592
Management expenses	24	(11,385,147)	(12,141,373)
Net underwriting income		10,374,724	11,764,219

The notes from 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, 2011

	Notes	2011 AED	2010 AED
Net underwriting income - Life		8,860,305	11,431,530
Income from investment property (net)	21	6,842,884	6,292,602
Profit from investment activities	22	2,904,521	2,922,664
Interest income		24,173,827	25,258,928
Other income	23	3,851,018	2,631,305
Profit before fund movement		46,632,555	48,537,029
Funds at January 1		509,975,758	480,384,158
Surplus transferred to statement of comprehensive income	20	(16,080,672)	(18,945,429)
Funds at December 31		540,527,641	509,975,758

The notes from 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, 2011

	Notes	2011 AED	2010 AED
Gross premiums written		139,332,187	163,495,308
Reinsurance premium ceded		(19,441,750)	(30,239,580)
Net written premium		<u>119,890,437</u>	<u>133,255,728</u>
Commission received		659,559	1,894,917
Total underwriting income		<u>120,549,996</u>	<u>135,150,645</u>
Underwriting expenses:			
Gross claims paid		37,905,216	40,711,596
Reinsurance recovery		(24,585,987)	(29,147,300)
Net claims paid		<u>13,319,229</u>	<u>11,564,296</u>
Outstanding claims at January 1		(6,969,681)	(6,314,276)
Outstanding claims at December 31		5,410,691	6,969,681
Net claims incurred		<u>11,760,239</u>	<u>12,219,701</u>
Commission for field staff and agents		8,913,511	13,076,666
Policies surrendered		13,297,491	17,446,352
Bonus paid to policyholders		13,239,510	12,552,158
Maturity payments		50,059,370	51,783,917
Other underwriting expenses		2,325,531	3,486,763
Total underwriting expenses		<u>99,595,652</u>	<u>110,565,557</u>
Underwriting surplus		<u>20,954,344</u>	<u>24,585,088</u>
Management expenses	24	(12,094,039)	(13,153,558)
Net underwriting income		<u><u>8,860,305</u></u>	<u><u>11,431,530</u></u>

The notes from 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, 2011

					Fair value reserve on financial assets at fair value through other comprehensive income	Retained earnings	Total
	Notes	Share capital AED	Legal reserve AED	Regular reserve AED	General reserve AED	AED	AED
As at January 1, 2010		75,000,000	39,569,364	29,980,164	100,000,000	(20,608,996)	268,494,899
Issuance of bonus shares		25,000,000	-	-	-	(25,000,000)	-
Transfer to legal reserve	14	-	4,510,355	-	-	(4,510,355)	-
Transfer to regular reserve	15	-	-	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:							
Net unrealized loss on investments		-	-	-	-	(661,118)	(661,118)
Total comprehensive income for the year		-	-	-	-	(661,118)	44,442,431
As at December 31, 2010		100,000,000	44,079,719	34,490,519	100,000,000	(21,270,114)	301,065,660
Issuance of bonus shares		-	-	-	-	-	-
Transfer to legal reserve	14	-	4,161,105	-	-	(4,161,105)	-
Transfer to regular reserve	15	-	-	4,161,105	-	(4,161,105)	-
Transfer to general reserve	16	-	-	-	20,000,000	(20,000,000)	-
Directors' remuneration		-	-	-	-	(565,776)	(565,776)
Dividends paid		-	-	-	-	(15,000,000)	(15,000,000)
Transactions with owners		-	4,161,105	4,161,105	20,000,000	(43,887,986)	(15,565,776)
Net income for the year		-	-	-	-	41,611,054	41,611,054
Other comprehensive income:							
Net unrealized loss on investments		-	-	-	-	(4,244,467)	(4,244,467)
Total comprehensive income for the year		-	-	-	-	(4,244,467)	37,366,587
As at December 31, 2011		100,000,000	48,240,824	38,651,624	120,000,000	(25,514,581)	322,866,471

The notes from 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, 2011**

	Notes	2011 AED	2010 AED
Operating activities			
Net income for the year		41,611,054	45,103,549
<i>Adjustments for:</i>			
Increase in Life fund (long term business)		30,551,883	29,591,600
Decrease in provision for insurance contract liabilities		(7,092,000)	(21,429,535)
Fair value adjustments to investment property	5	1,525,000	2,750,000
Provision for employees' end of service benefits	19	534,057	563,840
Depreciation on property and equipment	9	256,465	386,708
Gain on disposal of property and equipment	23	(19,369)	(16,174)
		<u>67,367,090</u>	<u>56,949,988</u>
Changes in working capital			
Decrease in insurance and other receivables		4,696,009	16,475,845
Decrease in claims recoverable from reinsurers		2,633,750	15,571,441
Decrease in insurance and other payables		(3,622,438)	(5,857,156)
Decrease in due to other insurers and reinsurers		(1,769,884)	(12,995,120)
		<u>69,304,527</u>	<u>70,144,998</u>
Employees' end of service benefits paid	19	(161,493)	(51,731)
Directors' remuneration		(565,776)	(621,670)
Cash from operating activities		<u>68,577,258</u>	<u>69,471,597</u>
Investing activities			
Increase in financial assets at amortized cost		(48,984,022)	(58,906,233)
Net increase in loans to policyholders		(3,788,772)	(493,309)
Purchase of property and equipment	9	(124,237)	(203,546)
Proceeds from disposals of property and equipment		22,418	16,174
Cash used in investing activities		<u>(52,874,613)</u>	<u>(59,586,914)</u>
Financing activities			
Dividends paid		(15,000,000)	(11,250,000)
Cash used in financing activities		<u>(15,000,000)</u>	<u>(11,250,000)</u>
Net increase / (decrease) in cash and cash equivalents		702,645	(1,365,317)
Cash and cash equivalents as at January 1		<u>11,387,604</u>	<u>12,752,921</u>
Cash and cash equivalents as at December 31	12	<u><u>12,090,249</u></u>	<u><u>11,387,604</u></u>

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

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

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 regarding Establishment of the Insurance Authority and Organization of its Operations & Executive Regulations of 2010.

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

2 Statement of compliance with IFRS

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the 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.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

3 Standards, interpretations and amendments to existing standards

3.1 Standards, interpretations and amendments to existing standards that are effective in 2011

The following revisions and amendments to existing standards were issued by the International Accounting Standards Board, which are effective for the accounting period on or after January 1, 2011:

Relevant to the Company's financial statements

IAS 24 (Revised 2009)	Related Party Disclosures (effective for accounting period on or after January 1, 2011).
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Annual Improvements 2010	IAS 1 'Presentation of Financial Statements', IAS 34 'Interim Financial Reporting', and IFRS 7 'Financial Instruments: Disclosures'.
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Not relevant to the Company's financial statements

IFRS 1 (Amendment)	First-time adoption of IFRS – Limited exemption from comparative IFRS 7 disclosures for first-time adopters (effective for accounting period on or after July 1, 2010).
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IAS 32 (Amendment)	Financial Instruments: Presentation – Classification of Rights Issues (effective for accounting period on or after February 1, 2010).
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IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments (effective for accounting period on or after July 1, 2010).
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Annual Improvements 2010	IAS 27 'Consolidated and Separate Financial Statements' and IFRS 3 'Business Combinations' (effective for accounting period on or after July 1, 2010).
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IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement - 'IAS 19 – The limit on a defined benefit assets, minimum funding requirements and their interaction (effective for accounting period on or after January 1, 2011).
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ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

3 Standards, interpretations and amendments to existing standards (continued)

3.2 Standards, interpretations and amendments to existing standards that are not yet effective and have not been early adopted by the Company

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 early adopted by the Company.

The Management anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning on or after the effective date of the pronouncements. 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 where stated specifically.

a) IFRS 1 First-time Adoption of International Financial Reporting Standards – Amendment (effective for accounting period on or after July 1, 2011):

These amendments include two changes to IFRS 1 “First-time adoption of International Financial Reporting Standards”. The first replaces references to a fixed date of 1 January 2004 with ‘the date of transition to IFRSs’, thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.

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

b) IFRS 7 Financial Instruments: Disclosures – Amendment (effective for accounting period on or after July 1, 2011):

This amendment will promote transparency in the reporting of transfer transactions and improve users’ understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity’s financial position, particularly those involving securitisation of financial assets.

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

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

3 Standards, interpretations and amendments to existing standards (continued)

3.2 Standards, interpretations and amendments to existing standards that are not yet effective and have not been early adopted by the Company (continued)

c) IAS 12 Income Taxes – Amendment (effective for accounting period on or after January 1, 2012):

IAS 12 “Income taxes” currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or sale when the asset is measured using the fair value model in IAS 40 “Investment property”. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21 “Income taxes - recovery of revalued non-depreciable assets” will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.

The Company's preliminary assessments indicate that the amendment will not have any impact on the Company's financial statements.

d) IAS 1 Presentation of Financial Statements – Amendment (effective for accounting period on or after July 1, 2012):

The amendments require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs:

- will not be reclassified subsequently to profit or loss; and
- will be reclassified subsequently to profit or loss when specific conditions are met.

The Company's management has yet to assess the impact of this revised standard on the Company's financial statements.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

3 Standards, interpretations and amendments to existing standards (continued)

3.2 Standards, interpretations and amendments to existing standards that are not yet effective and have not been early adopted by the Company (continued)

e) IAS 19 Employee Benefits - Amendment (effective for accounting period on or after January 1, 2013):

The amendments include a number of targeted improvements throughout the standard. The main changes relate to defined benefit plans. They:

- eliminate the ‘corridor method’, requiring entities to recognise all gains and losses arising in the reporting period
- streamline the presentation of changes in plan assets and liabilities
- enhance the disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

The Company’s management has yet to assess the impact of this revised standard on the Company’s financial statements.

f) Annual Improvements May 2011

IFRS 10 Consolidated Financial Statements – New (effective for accounting period on or after January 1, 2013):

This standard supersedes IAS 27 “Consolidated and Separate Financial Statements” and SIC 12 “Consolidation – Special Purpose Entities”. It revised the definition of control together with accompanying guidance to identify an interest in a subsidiary. However, the requirements and mechanics of consolidation and the accounting for any non-controlling interests and changes in control remain the same.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

3 Standards, interpretations and amendments to existing standards (continued)

3.2 Standards, interpretations and amendments to existing standards that are not yet effective and have not been early adopted by the Company (continued)

f) Annual Improvements May 2011 (continued)

IFRS 11 Joint Arrangements – New (effective for accounting period on or after January 1, 2013):

This standard supersedes IAS 31 “Interests in Joint Ventures”. It aligns more closely the accounting by the investors with their rights and obligations relating to the joint arrangement. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. In addition, IAS 31’s option of using proportionate consolidation for joint ventures has been eliminated. IFRS 11 now requires the use of the equity accounting method, which is currently used for investments in associates.

IFRS 12 Disclosure of Interests in Other Entities – New (effective for accounting period on or after January 1, 2013):

This standard integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

IFRS 13 Fair Value Measurement – New (effective for accounting period on or after January 1, 2013):

This standard does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements.

IAS 27 Separate Financial Statements - Revised 2011 (effective for accounting period on or after January 1, 2013):

This standard has been revised and its name has been changed from “Consolidated and Separate Financial Statements” to “Separate Financial Statements”. This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

3 Standards, interpretations and amendments to existing standards (continued)

3.2 Standards, interpretations and amendments to existing standards that are not yet effective and have not been early adopted by the Company (continued)

IAS 28 Investments in Associates and Joint Ventures - Revised 2011 (effective for accounting period on or after January 1, 2013):

The standard has been reissued and its name has been changed from “Investments in Associates” to “Investments in Associates and Joint Ventures”. This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

The Company’s management has yet to assess the impact of these new and revised standards on the Company’s financial statements.

3.3 Standards, interpretations and amendments to existing standards that are not yet effective and have been early adopted by the Company

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

The Company has early adopted IFRS 9 with effect from January 1, 2011. Refer to 4.2 for the impact of the early adoption.

4 Summary of significant accounting policies

4.1 Overall considerations

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

These financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

4.2 Change in accounting policy

The Company adopted IFRS 9 ‘Financial Instruments’ (‘IFRS 9’) on January 1, 2011 in advance of its effective date as allowed by the standard. The Company has chosen October 1, 2011 as its date of initial application as this is the first reporting period in which the Company adopted IFRS 9 after December 31, 2010.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

4 Summary of significant accounting policies (continued)

4.2 Change in accounting policy (continued)

IFRS 9 specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified in their entirety on the basis of the company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are now measured either at amortised cost or fair value.

If the financial asset is a debt instrument, or does not meet the definition of an equity instrument in its entirety, management should consider whether both the following tests are met:

- i) The objective of the Company's business model is to hold the asset to collect the contractual cash flows; or
- ii) The asset's contractual cash flows represent only payments of principal and interest. Interest is consideration for the time value of money and the credit risk associated with the principal amount during a particular period of time.

If both tests are met, the financial asset falls into the amortised cost measurement category. If the financial asset does not pass either of the above tests, or only one of the above tests, it is measured at fair value through profit or loss ('FVTPL'). Even if both tests are met, management also has the ability to designate a financial asset at FVTPL if doing so reduces or eliminates a measurement or recognition inconsistency. The Company can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity investments at fair value through other comprehensive income ('FVTOCI'). Designation at FVTOCI is not permitted if the equity investment is held for trading.

Only financial assets that are classified as measured at amortised cost are tested for impairment.

The Directors reviewed and assessed all of the Company's existing financial assets as at the date of initial application of IFRS 9. As a result:

- The Company's investment in debt instruments meeting the required criteria are measured at amortised costs; and
- The Company's investments in equity instruments not held for trading were designated as FVTOCI.

As the Company has adopted this IFRS for reporting periods beginning before January 1, 2012, the Company need not restate prior periods. As required under IFRS 9 if, an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening retained earnings (or other component of equity, as appropriate) of the reporting period that includes the date of initial application. For more information and detail on the new classification refer to note 6.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

4 Summary of significant accounting policies (continued)

4.3 Revenue

Premiums

Premiums on individual life business are accounted for on a “cash” basis after deducting premiums received in advance.

For medical and health insurance business, personal accident, and group life business, premiums written are taken into income over the term of the policies to which they relate to, 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 to, on a pro-rata basis. At the end of each year, a proportion of net retained premiums of the general insurance business is 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%

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 reported on an accrual basis using the effective interest method.

Dividend income

Dividend income is recognised when the 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.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

4 Summary of significant accounting policies (continued)

4.4 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.

4.5 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.

4.6 Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value plus transactions costs. Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Company commits to purchase or sell the asset.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

4 Summary of significant accounting policies (continued)

4.6 Financial instruments (continued)

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured subsequently as described below.

Classification and subsequent measurement of financial assets

The Company classifies its financial assets as investments at 'fair value through other comprehensive income' ('FVTOCI') and 'loans and receivables' at amortised cost. The classification depends on the nature of these investments.

Investments at fair value through other comprehensive income ('FVTOCI')

Investments in equity securities are classified as FVTOCI. At initial recognition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity investments at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading. They are initially recognised at fair value plus transaction costs.

Fair value measurement

For investments traded in organised financial markets, fair value is determined by reference to stock exchange quoted prices at the close of business on the statement of financial position date. Investments in unquoted securities are measured at fair value, except in the limited circumstances where cost may be an appropriate estimate of fair value. This may be the case if insufficient more recent information is available to determine fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

Gains and losses on subsequent measurement

Gain and loss arises from change in fair value of investments at FVTOCI are recognised in other comprehensive income and reported within the fair value reserve for investments at FVTOCI within equity. When the asset is disposed of, the cumulative gain or loss recognised in other comprehensive income is not reclassified from the equity reserve to income statement, but is reclassified to retained earnings.

De-recognition

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 de-recognition.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

4 Summary of significant accounting policies (continued)

4.6 Financial instruments (continued)

Impairment and un-collectability of financial assets at amortised cost

An assessment is made for financial assets at amortised costs at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the income statement. The amount of the impairment loss recognized is the difference between the asset's carrying value and the present value of future cash flows, reflecting the impact of collateral guarantees, discounted at the financial asset's original effective interest rate.

Classification and subsequent measurement of financial liabilities

Financial liabilities insurance contract liabilities, insurance and other payables, and due to other insurers and reinsurers.

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

4.7 Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation.

Subsequent to initial recognition, investment properties are accounted for using the fair value model.

Investment properties are revalued annually and are included in the statement of financial position at their open market values. These are determined by external professional valuers with sufficient experience with respect to both the location and the nature of the investment property and supported by market evidence.

Any gain or loss resulting from either a change in the fair value or the sale of an investment property is immediately recognised in profit or loss within 'Income from investment property'.

Rental income and operating expenses from investment property are reported in 'Income from investment property'.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

4 Summary of significant accounting policies (continued)

4.8 Insurance and other receivables

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

4.9 Insurance and other payables

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

4.10 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

4.11 Impairment testing of property and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles, such as market and asset-specific risks factors.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

4 Summary of significant accounting policies (continued)

4.11 Impairment testing of property and equipment (continued)

All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

4.12 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.

4.13 Employees' end of service benefits

Short-term employee benefits

The cost of short-term employee benefit (those payable within 12 months after the service is rendered such as paid vacation leave and sick leave, bonuses and non-monetary benefits such as medical care) are recognized in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognized as an expense when the employee renders services that increase their entitlement or, in the case of non-accumulating absences, when the absences occur.

Defined benefit plan

A provision for employees' end of service benefits is made for the full amount due to employees for their periods of service up to the reporting date in accordance with the U.A.E. Labour Law and is reported as separate line item under non-current liabilities.

The Company operates an unfunded defined benefit plan for gratuity covering all eligible employees completing the minimum qualifying period of service. Provisions are made annually to cover obligation for gratuity calculated by the Company's management, which takes into consideration the projected unit credit method (PUCM).

The UAE Government has introduced Federal 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' (basic salary plus allowances) 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 statement of comprehensive income as incurred. The employees and employer's contribution, to the extent remaining unpaid at the reporting date, are shown under provisions.

The provision for staff terminal benefit is based on the liability that would arise if the employment of all the employees was terminated at the end of the reporting period.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

4 Summary of significant accounting policies (continued)

4.14 Foreign currency transactions

Functional and presentation currency

These financial statements are presented in Arab Emirates Dirham (AED), which is the Company's functional and presentation currency.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognised in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

4.15 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 statement of comprehensive income as an integral part of the total lease expenses.

4.16 Provisions, contingent liabilities and contingent assets

Provisions are recognised when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, product warranties granted, legal disputes or onerous contracts.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

4 Summary of significant accounting policies (continued)

4.16 Provisions, contingent liabilities and contingent assets (continued)

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised, unless it was assumed in the course of a business combination.

Possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets.

4.17 Significant management judgement in applying accounting policies

When preparing the financial statements, management undertakes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

The following are significant management judgements in applying the accounting policies of the Company that have the most significant effect on the financial statements. Critical estimation uncertainties are described in note 4.18.

Insurance liabilities

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.

Classification of investment property

The Company makes judgement to determine whether a property qualifies as investment property and follows the guidance of IAS 40 'Investment Property' to consider whether any owner occupied property is not significant and is classified accordingly as investment property.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

4 Summary of significant accounting policies (continued)

4.18 Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Impairment

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances.

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

Useful lives of depreciable assets

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

Fair value of financial instruments

Management apply valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Provisions

The Company is currently defending certain lawsuits where the actual outcome may vary from the amount recognised in the financial statements.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

4 Summary of significant accounting policies (continued)

4.19 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.

4.20 Equity, reserves and dividend payments

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

Accounting policies and other details for reserves are mentioned in notes 15, 16 and 17 to the financial statements.

Retained earnings include all current and prior year retained profits.

Dividend distribution payable to equity shareholders is included in other liabilities when the dividends have been approved in a general meeting prior to the reporting date.

4.21 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

5 Investment property

	2011	2010
	AED	AED
Beginning balance	182,769,600	185,519,600
Fair value adjustment (note 21)	(1,525,000)	(2,750,000)
Ending balance	<u>181,244,600</u>	<u>182,769,600</u>

Investment property comprises two commercial buildings in Dubai.

Technical and Loss Adjusting Services Company LLC estimated the open market value of the investment properties at the year end to be AED 181,244,600 (2010: 182,769,600). 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 occupied in 2011 and 2010 an insignificant area (11.89%) of the property for business use.

6 Financial assets

	2011	2010
	At amortized	Held-to-
	cost	maturity
	AED	AED
Financial assets - deposits		
Short-term deposits - local	527,271,865	585,922,580
Long-term deposit - local	109,000,000	-
Accrued interest	11,148,262	12,513,525
	<u>647,420,127</u>	<u>598,436,105</u>

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

6 Financial assets (continued)

	2011	2010
	At fair value through other comprehensive income	Available- for-sale
	AED	AED
Financial assets – equities and funds		
Quoted equity		
Equities and funds – local	8,479,927	8,479,927
Fair value adjustment	640,590	2,670,084
	<u>9,120,517</u>	<u>11,150,011</u>
Equities and funds – foreign	<u>14,927,648</u>	<u>14,927,648</u>
Fair value adjustment	(7,015,404)	(4,800,432)
	<u>7,912,244</u>	<u>10,127,216</u>
	<u>17,032,761</u>	<u>21,277,227</u>
	<u>=====</u>	<u>=====</u>

Short term deposits comprise of fixed deposits with various banks bearing annual interest rates ranging from 1.5% to 6.0% p.a. (2010: from 3.5% to 6.25% p.a.). The maturity of these deposits falls within one year.

Long term deposits comprise of fixed deposits with various banks bearing annual interest rate of 4.0% p.a. (2010: Nil).

The net movement in fair value in the current year was a decrease in value of AED 4,244,467 (2010: AED 661,118) which has been carried to the fair value reserve in equity.

Reclassification of investments at the date of initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets under IFRS 9 and IAS 39 at the date of initial application of October 1, 2011.

Type of investment	Original measurement category (IAS 39)	New measurement category (IFRS 9)
Equity securities- Quoted investments	Available-for-sale financial assets	Investments in equity instruments designated at FVTOCI
Short term deposits	Held-to-maturity	Investments at amortized cost

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

7 Statutory deposit

A deposit of AED 10,000,000 (2010: 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 regarding Establishment of the Insurance Authority and Organization of its Operations & Executive Regulations of 2010. 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 bears an interest rate between 2.5% and 4.25% p.a. (2010: 4.5% p.a.).

8 Policyholders' loans

	2011 AED	2010 AED
Balance as at January 1	45,399,340	44,407,831
Loans given during the year	28,449,591	26,547,558
Repayment of loans	(24,214,939)	(25,556,049)
Balance as at December 31	<u>49,633,992</u>	<u>45,399,340</u>
Accrued interest on loan balances	(2,173,084)	(1,727,204)
	<u><u>47,460,908</u></u>	<u><u>43,672,136</u></u>

The interest on policyholders' loan for the current year is 8% (2010: 8%).

9 Property and equipment

	Land	Furniture and fixtures	Office equipment	Motor vehicles	Total
Cost					
As at January 1, 2010	2,470,555	6,473,537	4,961,209	1,178,850	15,084,151
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>
Additions	-	16,500	107,737	-	124,237
Disposals	-	-	(29,672)	(48,500)	(78,172)
As at December 31, 2011	<u><u>2,470,555</u></u>	<u><u>6,566,747</u></u>	<u><u>5,118,435</u></u>	<u><u>1,178,350</u></u>	<u><u>15,286,587</u></u>

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

9 Property and equipment (continued)

	Land	Furniture and fixtures	Office equipment	Motor vehicles	Total
Accumulated depreciation					
As at January 1, 2010	-	6,344,719	4,701,168	877,572	11,923,459
Charge for the year	-	87,401	133,731	165,576	386,708
Disposals	-	(175)	-	(47,000)	(47,175)
As at December 31, 2010	-	6,431,945	4,834,899	996,148	12,262,992
Charge for the year	-	10,209	159,895	86,361	256,465
Disposals	-	-	(29,652)	(45,469)	(75,121)
As at December 31, 2011	-	6,442,154	4,965,142	1,037,040	12,444,336
Net book value					
As at December 31, 2011	2,470,555	124,593	153,293	141,310	2,842,251
As at December 31, 2010	2,470,555	118,302	205,471	183,202	2,977,530

Depreciation is allocated as follows:

	2011 AED	2010 AED
Management expenses (note 24)	213,731	315,411
Maintenance expenses	42,734	71,297
	<u>256,465</u>	<u>386,708</u>

The gross carrying amount of fully depreciated property and equipment still in use as at December 31, 2011 is AED 11,847,426 (2010: AED 11,708,863).

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

10 Insurance and other receivables

	2011	2010
	AED	AED
Trade		
Due from policy holders	23,639,674	24,718,497
Due from brokers and agents	7,986,493	9,062,820
Due from insurers for insurance operations	2,382,615	3,909,501
	<u>34,008,782</u>	<u>37,690,818</u>
Less: provision for doubtful debts	(1,690,058)	(1,768,916)
	<u>32,318,724</u>	<u>35,921,902</u>
Others		
Prepayments and other receivables	5,623,508	4,666,493
Rents receivable	398,065	2,239,353
Recoverable from other insurers	888,837	946,436
Accrued interest	247,414	261,250
Due from a related party	105,070	77,192
	<u>39,581,618</u>	<u>44,112,626</u>
Less: provision for doubtful debts	(204,031)	(39,031)
	<u>39,377,587</u>	<u>44,073,595</u>

Receivables amounting to AED 13,277,941 (2010: AED 11,438,079) are outstanding for more than 120 days. Out of this amount, the Company provided AED 1,690,058 (2010: AED 1,768,916) as doubtful debts.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

11 Insurance contract liabilities and reinsurance contract assets

	2011	2010
	AED	AED
Provision for unearned premiums – net (refer to (a) below)	7,822,641	9,488,682
Provision for outstanding claims and IBNR- gross (refer to (b) below)	27,768,097	33,194,056
	<u>35,590,738</u>	<u>42,682,738</u>

a) Provision for unearned premiums

	2011	2010
	AED	AED
Balance as at January 1	9,488,682	11,726,766
Net transfer of unearned premiums	(1,666,041)	(2,238,084)
	<u>7,822,641</u>	<u>9,488,682</u>

b) Provision for outstanding claims and IBNR

Provision for claims reported	25,463,748	30,411,817
Provision for claims incurred but not reported (IBNR)	2,304,349	2,782,239
	<u>27,768,097</u>	<u>33,194,056</u>
Provision for outstanding claims (gross)	27,768,097	33,194,056
Less: Insurance contract assets	(14,697,496)	(17,331,246)
	<u>13,070,601</u>	<u>15,862,810</u>

The movement in the provision for claims incurred net of reinsurance assets is as follows:

	2011			2010		
	Gross AED	Reinsurance AED	Net AED	Gross AED	Reinsurance AED	Net AED
Beginning balance	33,194,056	(17,331,246)	15,862,810	52,385,507	(32,903,687)	19,481,820
Paid during the year	(51,021,602)	28,382,332	(22,639,270)	(63,096,631)	39,270,353	(23,826,278)
Incurred during the year	45,595,643	(25,748,582)	19,847,061	43,905,180	(23,697,912)	20,207,268
Closing balance	<u>27,768,097</u>	<u>(14,697,496)</u>	<u>13,070,601</u>	<u>33,194,056</u>	<u>(17,331,246)</u>	<u>15,862,810</u>

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

11 Insurance contract liabilities and reinsurance contract assets (continued)

a) Claims incurred (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.

The method used by the Company to calculate the provision for Incurred but not reported (IBNR) 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 2010 and 2011.

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, 2011

12 Cash and cash equivalents

	2011 AED	2010 AED
Cash at banks – current accounts	9,307,596	10,145,840
Cash in hand	2,782,653	1,241,764
	<u>12,090,249</u>	<u>11,387,604</u>

13 Share capital

Authorised, issued and fully paid:

1,000,000 ordinary shares of AED 100 each	<u>100,000,000</u>	<u>100,000,000</u>
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14 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 4,161,105 (2010: AED 4,510,355) (10% of the net income for the year) was transferred to the statutory reserve on December 31, 2011.

15 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 4,161,105 (2010: AED 4,510,355) (10% of the net income for the year) was transferred to the statutory reserve on December 31, 2011.

16 General reserve

The Board of Directors approved the transfer of AED 20,000,000 in 2011 to a general reserve which can be utilised for any purpose approved by the shareholders.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

17 Insurance and other payables

	2011 AED	2010 AED
Insurance customer payables	17,767,194	18,109,363
Accruals and provisions	10,244,082	11,705,222
Premiums received in advance	6,136,135	6,412,034
Rent received in advance	1,288,651	2,836,235
Other payables	2,711,510	2,707,156
	<u>38,147,572</u>	<u>41,770,010</u>

18 Due to other insurers and reinsurers

Due to other insurers and reinsurers for insurance operations	30,042,636	31,812,520
	<u>30,042,636</u>	<u>31,812,520</u>

19 Employees' end of service benefits

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

Balance as at January 1	4,618,357	4,106,248
Charge for the year	534,057	563,840
Payments during the year	(161,493)	(51,731)
Balance as at December 31	<u>4,990,921</u>	<u>4,618,357</u>

20 Policyholders' funds

Balance as at January 1	509,975,758	480,384,158
Excess of income over expenditure for the year in the long-term business	46,632,555	48,537,029
Surplus transferred to statement of comprehensive income	(16,080,672)	(18,945,429)
Balance as at December 31	<u>540,527,641</u>	<u>509,975,758</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, 2011.

The consulting actuaries assessed a surplus of AED 16,080,672 in the life assurance fund as at December 31, 2011 (2010: AED 18,945,429).

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

20 Policyholders' funds (continued)

The Company's consulting actuaries during the year were M/s Nauman Associates. In their report for the year 2011, 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:

	2011 AED	2010 AED
Net liabilities under insurance policies	384,234,564	365,762,269
Provision for terminal bonus to policy holders	156,293,077	144,213,489
	<u>540,527,641</u>	<u>509,975,758</u>

21 Income from investment property - Net

	2011			2010		
	General AED	Life AED	Total AED	General AED	Life AED	Total AED
Rental income	6,228,244	9,872,251	16,100,495	6,611,469	10,268,222	16,879,691
Fair value adjustment to investment property (a) (note 5)	(615,000)	(910,000)	(1,525,000)	(540,000)	(2,210,000)	(2,750,000)
Maintenance expenses	(2,254,586)	(2,119,367)	(4,373,953)	(1,824,881)	(1,765,620)	(3,590,501)
Net income	<u>3,358,658</u>	<u>6,842,884</u>	<u>10,201,542</u>	<u>4,246,588</u>	<u>6,292,602</u>	<u>10,539,190</u>

Rental income includes notional rent of AED 1,519,375 (2010: AED 1,519,375) relating to the portion of investment properties occupied by the Company. A corresponding charge is included under management expenses (note 25).

(a) This amount represents the unrealised loss from the revaluation of investment property.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

22 Profit from investment activities

	2011			2010		
	General AED	Life AED	Total AED	General AED	Life AED	Total AED
Dividend income	672,962	173,541	846,503	647,642	656,049	1,303,691
Interest on policyholders' loans	-	2,730,980	2,730,980	-	2,266,615	2,266,615
Total profit	672,962	2,904,521	3,577,483	647,642	2,922,664	3,570,306

23 Other income

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

	2011			2010		
	General AED	Life AED	Total AED	General AED	Life AED	Total AED
Gain on disposal of property and equipment	19,369	-	19,369	16,174	-	16,174
Miscellaneous	2,173,686	3,851,018	6,024,704	925,791	2,631,305	3,557,096
	2,193,055	3,851,018	6,044,073	941,965	2,631,305	3,573,270

24 Management expenses

	2011			2010		
	General AED	Life AED	Total AED	General AED	Life AED	Total AED
Staff costs	8,047,099	4,955,979	13,003,078	7,966,893	5,101,134	13,068,027
Bonus and other benefits	750,000	2,250,000	3,000,000	1,500,000	3,000,000	4,500,000
Rent	848,811	1,211,883	2,060,694	867,512	1,201,429	2,068,941
Branch overheads	-	1,180,887	1,180,887	-	1,200,721	1,200,721
Finance charges	123,125	944,247	1,067,372	112,714	984,443	1,097,157
Communication expenses	292,521	191,022	483,543	286,494	181,438	467,932
Depreciation on property and equipment (note 9)	130,626	83,105	213,731	163,712	151,699	315,411
Travel and conveyance	8,117	26,942	35,059	10,068	15,024	25,092
Other expenses	1,184,848	1,249,974	2,434,822	1,233,980	1,317,670	2,551,650
	11,385,147	12,094,039	23,479,186	12,141,373	13,153,558	25,294,931

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

25 Earnings per share - basic and diluted

	2011	2010
	AED	AED
Net income for the year	41,611,054	45,103,549
Average number of shares outstanding during the year	1,000,000	1,000,000
Earnings per share	41.61	45.10

26 Contingent liabilities and commitments

Commitments

Letters of Guarantees	11,306,181	10,753,156
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Capital commitments

As at the year end, there were no major capital commitments (2010: nil).

Contingencies

As at the year end date, there were certain legal cases pending in different court of laws against the Company claiming AED 1,544,980 (2010: AED 1,168,000) in total. The legal counsel is confident that these legal cases will be judged in favour of the Company.

27 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 while pricing.

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
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**27 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 a regular basis and exchanges of reconciliation are done with complete control over the receivables.

Terms and conditions of insurance contracts

Insurance is based on uncertainty of an 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)
Notes to the financial statements
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28 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 2011 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)

	2006	2007	2008	2009	2010	2011
	AED	AED	AED	AED	AED	AED
Estimate of cumulative claims- General						
At end of underwriting year	8,792,690	7,818,725	14,733,962	7,373,140	2,834,451	3,275,759
One year earlier	6,291,118	6,004,225	9,018,973	10,598,545	5,526,182	2,365,311
Two years earlier	1,821,302	4,754,099	5,478,897	3,593,201	3,702,402	4,593,166
Three years earlier	1,743,055	1,223,105	2,018,107	4,226,145	2,014,986	2,872,768
Four years earlier	847,000	821,332	2,444,587	706,125	3,000,710	923,719
Five years earlier	392,200	388,003	1,453,063	11,138,067	489,065	1,551,648
Gross outstanding liabilities	<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>	<u>15,582,371</u>

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

29 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, 2011

29 Capital management (continued)

The capital structure of the Company consists of the following:

	2011	2010
	AED	AED
Policyholders' funds	540,527,641	509,975,758
	<u>=====</u>	<u>=====</u>
Financial assets at amortized cost	647,420,127	-
Financial assets held-to-maturity	-	598,436,105
Cash and cash equivalents	12,090,249	11,387,604
	<u>=====</u>	<u>=====</u>
Equity attributable to the shareholders	322,866,471	301,065,660
	<u>=====</u>	<u>=====</u>

30 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 carried at amortized costs and at fair value through other comprehensive income. 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 amounting to AED 13,277,941 (2010: AED 11,438,079) are considered to be past due. The management estimates that out of this total, a balance of AED 1,690,058 (2010: AED 1,786,916) 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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30 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, 2011 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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30 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 20).

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

30 Financial instruments (continued)

		2011									
		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											
Financial assets at amortized cost	1.5 to 6.0	49,211,550	30,400,000	142,950,000	304,710,315	109,000,000	636,271,865	11,016,873	131,389	11,148,262	647,420,127
Statutory deposit	2.5 to 4.25	-	-	-	-	10,000,000	10,000,000	-	-	-	10,000,000
Policyholders' loans	8.0	-	-	-	-	47,460,908	47,460,908	-	-	-	47,460,908
Financial assets at fair value through other comprehensive income		-	-	-	-	-	-	17,032,761	-	17,032,761	17,032,761
Insurance and other receivables		-	-	-	-	-	-	33,754,079	-	33,754,079	33,754,079
Reinsurance contract assets		-	-	-	-	-	-	14,697,496	-	14,697,496	14,697,496
Cash and cash equivalents		-	-	-	-	-	-	12,090,249	-	12,090,249	12,090,249
		<u>49,211,550</u>	<u>30,400,000</u>	<u>142,950,000</u>	<u>304,710,315</u>	<u>166,460,908</u>	<u>693,732,773</u>	<u>88,591,458</u>	<u>131,389</u>	<u>88,722,847</u>	<u>782,455,619</u>
Financial Liabilities											
Insurance contract liabilities		-	-	-	-	-	-	35,590,738	-	35,590,738	35,590,738
Insurance and other payables		-	-	-	-	-	-	30,722,786	-	30,722,786	30,722,786
Due to other insurers and reinsurers		-	-	-	-	-	-	30,042,636	-	30,042,636	30,042,636
Policyholders' funds		-	-	-	-	-	-	-	540,527,641	540,527,641	540,527,641
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>96,356,160</u>	<u>540,527,641</u>	<u>636,883,801</u>	<u>636,883,801</u>
On-balance sheet sensitivity gap		<u>49,211,550</u>	<u>30,400,000</u>	<u>142,950,000</u>	<u>304,710,315</u>	<u>166,460,908</u>	<u>693,732,773</u>				
Total yield / interest rate risk sensitivity gap		<u>49,211,550</u>	<u>30,400,000</u>	<u>142,950,000</u>	<u>304,710,315</u>	<u>166,460,908</u>	<u>693,732,773</u>				

ALLIANCE INSURANCE (PSC)
Notes to the financial statements
For the year ended December 31, 2011

30 Financial instruments (continued)

2010											
	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											
Financial assets - held to maturity	3.5 to 6.25	148,100,000	109,400,099	126,572,481	201,850,000	-	585,922,580	12,513,525	-	12,513,525	598,436,105
Statutory deposit	4.5	-	-	-	-	10,000,000	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		-	-	-	-	-	-	39,407,102	-	39,407,102	39,407,102
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	126,572,481	201,850,000	53,672,136	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
		-	-	-	-	-	-	107,016,999	509,975,758	616,992,757	616,992,757
On-balance sheet sensitivity gap		148,100,000	109,400,099	126,572,481	201,850,000	53,672,136	639,594,716				
Total yield / interest rate risk sensitivity gap		148,100,000	109,400,099	126,572,481	201,850,000	53,672,136	639,594,716				

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31 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are as follows:

	2011	2010
	AED	AED
Less than one year	107,852	102,716
	=====	=====

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 2,060,694 (2010: AED 2,068,941) was recognised as an expense in the statement of comprehensive income, which includes AED 1,519,375 (2010: AED 1,519,375) relating to internal rent.

Leases as lessor

The Company leases out its investment properties under operating leases (see note 5).

Non-cancellable operating lease rentals are receivable as follows:

	2011	2010
	AED	AED
Less than one year	1,288,651	2,239,353
	=====	=====

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

During the current year AED 16,100,495 (2010: AED 16,879,691) was recognised as rental income in the statement of comprehensive income in respect of operating leases, which includes AED 1,519,375 (2010: AED 1,519,375) relating to internal rent.

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32 Related parties

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:

	2011	2010
	AED	AED
Premium written	160,520	88,862
	<u>=====</u>	<u>=====</u>

Details of related party balances are as follows

Amount due from a related party	105,070	77,192
	<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	4,300,000	4,500,000
	<u>=====</u>	<u>=====</u>
Board of Directors remuneration	565,776	621,670
	<u>=====</u>	<u>=====</u>

33 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.

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33 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	2011 General Business	Total	Life Business	2010 General Business	Total
Net underwriting income	8,860,305	10,374,724	19,235,029	11,431,530	11,764,219	23,195,749
Interest income	24,173,827	8,930,983	33,104,810	25,258,928	8,557,706	33,816,634
Income from investment property (net)	6,842,884	3,358,658	10,201,542	6,292,602	4,246,588	10,539,190
Profit from investment activities	2,904,521	672,962	3,577,483	2,922,664	647,642	3,570,306
Other income	3,851,018	2,193,055	6,044,073	2,631,305	941,965	3,573,270
	<u>46,632,555</u>	<u>25,530,382</u>	<u>72,162,937</u>	<u>48,537,029</u>	<u>26,158,120</u>	<u>74,695,149</u>
Surplus transferred to policy holders' fund	(30,551,883)	-	(30,551,883)	(29,591,600)	-	(29,591,600)
Net surplus (Life) / net income (General)	<u>16,080,672</u>	<u>25,530,382</u>	<u>41,611,054</u>	<u>18,945,429</u>	<u>26,158,120</u>	<u>45,103,549</u>
Segment Assets	<u>603,675,925</u>	<u>368,490,054</u>	<u>972,165,979</u>	<u>587,710,675</u>	<u>344,214,368</u>	<u>931,925,043</u>
Segment Liabilities	<u>587,595,254</u>	<u>61,704,254</u>	<u>649,299,508</u>	<u>569,386,929</u>	<u>61,472,454</u>	<u>630,859,383</u>

34 Subsequent events

The Board has proposed cash dividend of 15% of paid up capital, AED 15 million (AED 15 per share) for the year ended December 31, 2011. This is treated as non-adjusting subsequent event.