

ALLIANCE INSURANCE P.S.C.
DUBAI - UNITED ARAB EMIRATES

Financial Statements
For the year ended December 31, 2013

ALLIANCE INSURANCE P.S.C.
Dubai - United Arab Emirates

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Board of Directors' Report For the Year Ended December 31, 2013.

Dear Shareholders,

On behalf of the board of Directors and myself, it gives me a great pleasure to welcome you to the Annual General Meeting, to present before you the financial report for the year 2013 along with the financial statements as well as the Auditor's report for the year ended 31st December 2013.

The UAE insurance market continued to face key challenges caused by the aftershocks of the global economic meltdown along with an over-crowded industry that continue to compete in unreasonable and unacceptable manner in terms deteriorating insurance rates offered. This practice will no doubt affect us all in a negative way.

But we believe that the winning of Expo 2020 will pave the way for further large scale infrastructure projects, real estate investments opportunities and the large influx of expat workers moving into the UAE boosting the overall insurance industry. The year 2013 has experienced an increased in both non-life and life portfolios. The increasing trend in life insurance segment can be attributed to an increase of product awareness among consumers and revival of consumer confidence with interest in long term investments. Whereas, the increase in non-life insurance segment can be attributed to the growing affluence of locals, boosting their investments in real estate and large scale infrastructure projects both of which require insurance coverage.

With regards to Alliance, we continue to be steadfast with our philosophy of being conservative in our strategy and approach, capitalizing carefully on this change in financial environment, by a strong focus on good bottom-line results through proper planning, careful analysis of the market conditions and proper risk selection to ensure results continue to remain healthy. By adapting this conservative approach, we have managed to continue our climb to better positions in improved financial results, increasing company reserves and continued to stand out as a reputable company, to withstand more challenges that may arise. Alliance, for the last seven consecutive years, has maintained its A.M. Best rating of (A-Excellent). Moving forward, we have currently started a number of initiatives that will definitely enhance our position furthermore even with tougher market conditions.

The overall performance of the company during 2013 was very good. The Cash position along with bank deposits have increased from AED 699,619,208 as of 31st December, 2012 to AED 740,179,242 as 31st December, 2013 and the net assets increased to AED 393,020,329 in 2013 compared to AED 352,828,810 in 2012. The total assets at the end of 2013 amounted to AED 1,166,439,482 against AED 1,074,422,579 in 2012. Premium of AED 307,606,337 produced in the year 2013 compared with AED 287,727,798 in 2012. Total claims paid in 2013 reached an amount of AED 36,860,919 compared with AED 34,269,075 in 2012.

The net profit for the year 2013 after technical reserves and doubtful debts stands at AED 44,260,332 compared to 40,662,205 in 2012.

In light of the results for the financial year ended December 31, 2013, the Board of Directors presents for your consideration the following recommendations:

1. The approval of the Directors' report and the Auditors' report for the year 2013.
2. The approval of the financial statements for the year ended December 31, 2013.
3. To approve the recommendation of the Board for the distribution of profits for the year 2013 and the retained earnings of the year 2012, after transferring 10% to the Legal Reserve and 10% to the Regular Reserve as well as the Directors' remunerations, as per Company statute, as follows:
 - a. Allocation of AED 25,000,000 being 25% of the Company's paid-up capital as dividends to be paid in cash to shareholders,
 - b. Transfer of AED 5,000,000 to the General Reserve,
 - c. Carry forward AED 5,359,715 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, 2013.
5. To appoint or re-appoint the Auditors for the year 2014 and determine their fees.

In conclusion, the Board of Directors would like to take this opportunity to extend their sincere appreciation and gratitude 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 their Highnesses, the brothers Sheikhs, members of the Supreme Council of the Union for their continuous support of national companies.

We also take this opportunity to express our appreciation to all our reinsurance partners who continue to support us and to our clients for their trust in our company as well as the management and staff for their dedication, hard work and loyalty. In the end, we ask God Almighty to bless and protect our country.

Chairman of the Board

February 19, 2014

Independent auditor's report

**To the Shareholders of
Alliance Insurance P.S.C.
Dubai, United Arab Emirates**

Report on the Financial Statements

Public Accountants
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Sheikh Zayed Road
P.O. Box 1620
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Tel: +971 (4) 388 9925
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We have audited the accompanying financial statements of Alliance Insurance P.S.C. (the "Company"), which comprise the statement of financial position as at December 31, 2013, the statement of comprehensive income, the statement of underwriting results – General, the long- term business (Life) account, the statement of underwriting results – Life, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2013, 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 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
(Registration no: 86)
Dubai, United Arab Emirates
February 19, 2014

ALLIANCE INSURANCE P.S.C.
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Statement of financial position
As at December 31, 2013

	Notes	2013 AED	2012 AED (Restated)	2011 AED (Restated)
Assets				
Non-current assets				
Investment property	5	179,669,600	180,619,600	181,244,600
Financial assets - deposits	6	70,121,074	-	109,131,389
Statutory deposit	7	10,000,000	10,000,000	10,000,000
Policyholders' loans	8	47,334,317	45,446,443	47,460,908
Property and equipment	9	3,234,011	3,153,033	2,842,251
		<u>310,359,002</u>	<u>239,219,076</u>	<u>350,679,148</u>
Current assets				
Short-term deposits	6	681,074,365	688,126,353	538,288,738
Financial assets - equities and funds	6	32,255,892	24,534,655	17,032,761
Insurance and other receivables	10	64,877,142	39,357,283	38,488,750
Reinsurance contract assets	11	51,201,963	66,306,820	68,908,502
Cash and cash equivalents	12	26,671,117	16,878,392	12,090,249
		<u>856,080,479</u>	<u>835,203,503</u>	<u>674,809,000</u>
TOTAL ASSETS		<u><u>1,166,439,481</u></u>	<u><u>1,074,422,579</u></u>	<u><u>1,025,488,148</u></u>
EQUITY AND LIABILITIES				
Equity				
Share capital	13	100,000,000	100,000,000	100,000,000
Statutory reserve	14	56,742,450	52,316,417	48,240,824
Regular reserve	15	47,153,250	42,727,217	38,651,624
General reserve	16	160,000,000	140,000,000	120,000,000
Fair value reserve		(6,235,086)	(18,012,687)	(25,514,581)
Retained earnings		35,359,714	35,797,863	38,838,940
		<u>393,020,328</u>	<u>352,828,810</u>	<u>320,216,807</u>
LIABILITIES				
Non-current liabilities				
Employees' end-of-service benefits	19	4,826,891	4,773,097	4,990,921
Policyholders' funds	20	577,807,552	549,891,995	535,963,262
		<u>582,634,443</u>	<u>554,665,092</u>	<u>540,954,183</u>
Current				
Insurance contract liabilities	11	76,534,754	92,870,479	96,126,950
Insurance and other payables	17	47,165,537	34,691,892	38,147,572
Due to other insurers and reinsurers	18	67,084,419	39,366,306	30,042,636
		<u>190,784,710</u>	<u>166,928,677</u>	<u>164,317,158</u>
Total liabilities		<u>773,419,153</u>	<u>721,593,769</u>	<u>705,271,341</u>
TOTAL EQUITY AND LIABILITIES		<u><u>1,166,439,481</u></u>	<u><u>1,074,422,579</u></u>	<u><u>1,025,488,148</u></u>

The accompanying notes from 1 to 36 form an integral part of these financial statements.

These financial statements were approved by the Board on February 19, 2014 and signed on their behalf by:

Sheikh Ahmed Bin Saeed Al Maktoum
Chairman

Juma Saif Rashid Bin Bakhit
Vice-Chairman

Aimen Saba Azara
Director & G.M.

ALLIANCE INSURANCE P.S.C.
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Statement of comprehensive income
for the year ended December 31, 2013

	Notes	2013 AED	2012 AED (Restated)
Net underwriting income - General		6,770,690	7,632,314
Interest income on deposits - General		9,661,334	8,333,873
Income from investment property (net)	21	4,369,088	4,291,113
Profit from investment activities	22	884,822	536,171
Other income	23	2,815,527	2,367,292
Profit from general insurance business		24,501,461	23,160,763
Surplus transferred from long-term business (Life) account	20	19,758,871	17,501,442
Net income for the year		44,260,332	40,662,205
		=====	=====
Earnings per share - basic and diluted	25	44.26	40.66
		=====	=====
Other comprehensive income			
Unrealised gain on financial assets at fair value through other comprehensive income		11,594,275	7,501,894
Realised gain on financial assets at fair value through other comprehensive income		183,326	-
Total comprehensive income		56,037,933	48,164,099
		=====	=====

The accompanying notes from 1 to 36 form an integral part of these financial statements.

ALLIANCE INSURANCE P.S.C.
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Statement of underwriting results - General
for the year ended December 31, 2013

	Notes	2013 AED	2012 AED (Restated)
Underwriting income			
Gross premiums written		161,852,241	144,763,456
Reinsurance premiums ceded		<u>(146,173,863)</u>	<u>(126,941,874)</u>
Net premiums written		15,678,378	17,821,582
Movement in UPR	11 (a)	<u>(279,274)</u>	795,880
Net premiums earned		15,399,104	18,617,462
Commission income from reinsurers		11,259,674	9,376,138
Movement in deferred acquisition cost	11 (d)	<u>316,535</u>	<u>(93,725)</u>
Total underwriting income		<u>26,975,313</u>	<u>27,899,875</u>
Underwriting expenses			
Gross claims paid		10,660,041	11,253,367
Reinsurance recoveries		<u>(3,864,127)</u>	<u>(3,813,299)</u>
Net claims paid		6,795,914	7,440,068
Movement in outstanding claims	11(e)	538,897	508,461
Movement in IBNR	11(g)	<u>(268,841)</u>	<u>(180,981)</u>
Net claims incurred		7,065,970	7,767,548
Commission paid to agents and brokers		<u>1,287,848</u>	<u>1,192,069</u>
Total underwriting expenses		<u>8,353,818</u>	<u>8,959,617</u>
Underwriting surplus		18,621,495	18,940,258
Management expenses	24	<u>(11,850,805)</u>	<u>(11,307,944)</u>
Net underwriting income		<u>6,770,690</u>	<u>7,632,314</u>

The accompanying notes from 1 to 36 form an integral part of these financial statements.

ALLIANCE INSURANCE P.S.C.
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Long-term business (Life) account
for the year ended December 31, 2013

	Notes	2013 AED	2012 AED (Restated)
Net underwriting income/(loss) - Life		14,412,526	(561,444)
Income from investment property (net)	21	7,641,030	7,509,960
Profit from investment activities	22	3,703,013	3,019,665
Interest income		21,116,289	19,613,685
Other income	23	801,570	1,848,309
Profit before fund movement		47,674,428	31,430,175
Funds as at January 1,	20	549,891,995	535,963,262
Surplus transferred to statement of comprehensive income	20	(19,758,871)	(17,501,442)
Funds as at December 31,		577,807,552	549,891,995

The accompanying notes from 1 to 36 form an integral part of these financial statements.

ALLIANCE INSURANCE P.S.C.
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Statement of underwriting results - Life
for the year ended December 31, 2013

	Notes	2013 AED	2012 AED (Restated)
Gross premiums written		145,754,096	142,964,342
Reinsurance premiums ceded		(21,594,166)	(21,087,075)
Net premiums written		124,159,930	121,877,267
Movement in UPR		(74,695)	(673,507)
Commission income		2,406,121	905,356
Total underwriting income		126,491,356	122,109,116
Underwriting expenses:			
Gross claims paid		26,200,878	23,015,708
Reinsurance recoveries		(17,046,498)	(15,011,550)
Net claims paid		9,154,380	8,004,158
Movement in outstanding claims	11 (f)	(1,498,662)	(373,703)
Movement in IBNR	11 (h)	(39,696)	(579,917)
Net claims incurred		7,616,022	7,050,538
Commission for field staff and agents		9,374,265	9,075,529
Policies surrendered		6,378,748	11,254,045
Bonus paid to policyholders		13,981,807	17,909,931
Maturity payments		59,507,799	63,268,357
Other underwriting expenses		2,646,711	2,195,512
Total underwriting expenses		99,505,352	110,753,912
Underwriting surplus		26,986,004	11,355,204
Management expenses	24	(12,573,478)	(11,916,648)
Net underwriting income		14,412,526	(561,444)

The accompanying notes from 1 to 36 form an integral part of these financial statements.

ALLIANCE INSURANCE P.S.C.
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Statement of changes in equity
for the year ended December 31, 2013

	Notes	Share capital AED	Statutory reserve AED	Regular reserve AED	General reserve AED	Fair value reserve on financial assets at fair value through other comprehensive income AED	Retained earnings AED	Total equity AED
As at December 31, 2011		100,000,000	48,240,824	38,651,624	120,000,000	(25,514,581)	41,488,604	322,866,471
Effect of change in accounting policy (note 36)		-	-	-	-	-	(2,649,664)	(2,649,664)
Balance as at December 31, 2011-(Restated)		<u>100,000,000</u>	<u>48,240,824</u>	<u>38,651,624</u>	<u>120,000,000</u>	<u>(25,514,581)</u>	<u>38,838,940</u>	<u>320,216,807</u>
Directors' remuneration		-	-	-	-	-	(552,096)	(552,096)
Dividends paid		-	-	-	-	-	(15,000,000)	(15,000,000)
Transfer to legal reserve	14	-	4,075,593	-	-	-	(4,075,593)	-
Transfer to regular reserve	15	-	-	4,075,593	-	-	(4,075,593)	-
Transfer to general reserve	16	-	-	-	20,000,000	-	(20,000,000)	-
Transactions with owners		-	4,075,593	4,075,593	20,000,000	-	(43,703,282)	(15,552,096)
Net income for the year		-	-	-	-	-	40,662,205	40,662,205
<i>Other comprehensive income:</i>								
Net unrealised gain on investments		-	-	-	-	7,501,894	-	7,501,894
Total comprehensive income for the year		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,501,894</u>	<u>40,662,205</u>	<u>48,164,099</u>
As at December 31, 2012 - (Restated)		<u>100,000,000</u>	<u>52,316,417</u>	<u>42,727,217</u>	<u>140,000,000</u>	<u>(18,012,687)</u>	<u>35,797,863</u>	<u>352,828,810</u>
Directors' remuneration		-	-	-	-	-	(608,166)	(608,166)
Dividends paid		-	-	-	-	-	(15,000,000)	(15,000,000)
Transfer to legal reserve	14	-	4,426,033	-	-	-	(4,426,033)	-
Transfer to regular reserve	15	-	-	4,426,033	-	-	(4,426,033)	-
Transfer to general reserve	16	-	-	-	20,000,000	-	(20,000,000)	-
Transactions with owners		-	4,426,033	4,426,033	20,000,000	-	(44,460,232)	(15,608,166)
Net income for the year		-	-	-	-	-	44,260,332	44,260,332
<i>Other comprehensive income:</i>								
Transfer to retained earnings on disposal of investments		-	-	-	-	238,249	(238,249)	-
Net unrealised gain on investments		-	-	-	-	11,356,026	-	11,356,026
Net realised gain on investments		-	-	-	-	183,326	-	183,326
Total comprehensive income for the year		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,777,601</u>	<u>44,022,083</u>	<u>55,799,684</u>
As at December 31, 2013		<u><u>100,000,000</u></u>	<u><u>56,742,450</u></u>	<u><u>47,153,250</u></u>	<u><u>160,000,000</u></u>	<u><u>(6,235,086)</u></u>	<u><u>35,359,714</u></u>	<u><u>393,020,328</u></u>

The accompanying notes from I to 36 form an integral part of these financial statements.

ALLIANCE INSURANCE P.S.C.
Dubai - United Arab Emirates
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Statement of cash flows
for the year ended December 31, 2013

		2013	2012
	Notes	AED	Restated AED
Operating activities			
Net income for the year		44,260,332	40,662,205
Increase in life fund (long term business)		27,915,557	13,928,733
Decrease in provision for insurance contract liabilities		(16,335,725)	(3,256,471)
Fair value adjustments to investment property	5	950,000	625,000
Provision for employees' end of service benefits	19	669,224	726,427
Depreciation on property and equipment	9	254,394	228,048
Directors' remuneration		(608,166)	(552,096)
Gain on disposal of property and equipment	23	(299)	(64,026)
		<u>57,105,317</u>	<u>52,297,820</u>
Changes in working capital			
Increase in insurance and other receivables		(25,519,859)	(868,533)
Decrease in reinsurance contract assets		15,104,857	2,601,682
Increase/(decrease) in insurance and other payables		12,473,645	(3,455,680)
Increase in due to other insurers and reinsurers		27,718,113	9,323,670
		<u>86,882,073</u>	<u>59,898,959</u>
Employees' end of service benefits paid	19	(615,430)	(944,251)
Net cash from operating activities		<u>86,266,643</u>	<u>58,954,708</u>
Investing activities			
Increase in short term and long term deposits		(63,069,086)	(40,706,226)
Net increase in loans to policyholders		(1,887,874)	2,014,465
Purchase of property and equipment	9	(335,372)	(590,614)
Proceeds on sale of financial assets		3,818,115	-
Proceeds from disposals of property and equipment		299	115,810
Net cash used in investing activities		<u>(61,473,918)</u>	<u>(39,166,565)</u>
Financing activity			
Dividends paid		(15,000,000)	(15,000,000)
Net cash used in financing activity		<u>(15,000,000)</u>	<u>(15,000,000)</u>
Net increase in cash and cash equivalents		9,792,725	4,788,143
Cash and cash equivalents as at January 1,		16,878,392	12,090,249
Cash and cash equivalents as at December 31	12	<u><u>26,671,117</u></u>	<u><u>16,878,392</u></u>

The notes from 1 to 36 form an integral part of these financial statements.

**Alliance Insurance PSC
Dubai – United Arab Emirates
Financial Statements**

**Notes to the financial statements (continued)
for the year ended December 31, 2013**

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 businesses 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, United Arab Emirates (UAE).

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 except specifically stated.

3 Standards, interpretations and amendments to existing standards

3.1 Standards, interpretations and amendments to existing standards that are effective in 2013

Following relevant revisions and amendments to existing standards were issued by the IASB, which are effective for the accounting period on or after January 1, 2013 and have been adopted by the Company:

Standard number	Title	Effective date
IAS 1	Presentation of Financial Statements – Amendment	July 1, 2012
IFRS 7	Financial Instruments: Disclosures – Amendment	January 1, 2013
IFRS 13	Fair Value Measurement – New	January 1, 2013

**Alliance Insurance PSC
Dubai – United Arab Emirates
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**Notes to the financial statements (continued)
for the year ended December 31, 2013**

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

3.1 Standards, interpretations and amendments to existing standards that are effective in 2013 (continued)

Annual Improvements 2009 – 2011

IAS 1	Presentation of Financial Statements - Amendment	January 1, 2013
IAS 16	Property, Plant and Equipment – Amendment	January 1, 2013
IAS 32	Financial Instruments: Presentation – Amendment	January 1, 2013
IAS 34	Interim Financial Reporting – Amendment	January 1, 2013

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

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

Standard number	Title	Effective date
IAS 32	Financial Instruments: Presentation – Amendment	January 1, 2014
IAS 36	Impairment of Assets – Amendment	January 1, 2014
IAS 39	Financial Instruments: Recognition and Measurement – Amendment	January 1, 2014
IFRS 10, IFRS 12 and IAS 27	Consolidated Financial Statements, Disclosure of Interests in Other Entities and Separate Financial Statements - Amendments	January 1, 2014
IFRIC 21	Levies – New	January 1, 2014
IAS 19	Defined Benefit Plans	30 June 2015
<u>Annual Improvements 2010 – 2012</u>		
IFRS 13	Fair Value Measurement	July 1, 2014
IAS 24	Related Party Disclosures	July 1, 2014
<u>Annual Improvements 2011 – 2013</u>		
IFRS 13	Fair Value Measurement	July 1, 2014

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**Notes to the financial statements (continued)
for the year ended December 31, 2013**

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 adopted early by the Company (continued)

Management anticipates that all of the relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on the relevant new standards, amendments and interpretations that are not yet effective have been provided below. The Company's management has yet to assess the impact of these new and revised standards on the Company's financial statements.

IAS 32 Financial Instruments: Presentation - Amendment (effective for accounting period on or after January 1, 2014)

The Amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities in the following two areas:

- the meaning of 'currently has a legally enforceable right of set-off'; and
- the application of simultaneous realisation and settlement.

The Amendments are required to be applied retrospectively.

IAS 36 Impairment of Assets - Amendment (effective for accounting period on or after January 1, 2014)

These amendments reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

**Alliance Insurance PSC
Dubai – United Arab Emirates
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**Notes to the financial statements (continued)
for the year ended December 31, 2013**

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 adopted early by the Company (continued)

Annual Improvements 2010 – 2012

IFRS 13 Fair Value Measurement (effective for accounting periods beginning on or after July 1, 2014)

Clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.

IAS 24 Related Party Disclosures (effective for accounting periods beginning on or after July 1, 2014)

Clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

Annual Improvements 2011 – 2013

IFRS 13 Fair Value Measurement (effective for accounting periods beginning on or after July 1, 2014)

Clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32.

**Alliance Insurance PSC
Dubai – United Arab Emirates
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**Notes to the financial statements (continued)
for the year ended December 31, 2013**

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 Revenue

Premiums

Premiums on individual life business are accounted for when they become payable by the contract holders 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 period 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.

Premiums written under general business are taken into income over the period of the policies to which they relate to, on a pro-rata basis. At the year end, a proportion of unearned premiums of the general insurance business is provided on linear method (pro rata temporis basis calendar year from the date of risk inception), to cover portions of risks which have not expired as at the reporting date, except for Marine business which is calculated on 25%.

Unearned premium reserve

The unearned premium reserve for medical and health insurance business and group life business is classified under current liability, medical and health insurance policies are for one year.

**Alliance Insurance PSC
Dubai – United Arab Emirates
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**Notes to the financial statements (continued)
for the year ended December 31, 2013**

4 Summary of significant accounting policies (continued)

4.2 Revenue (continued)

Unearned premium reserve (continued)

Change in accounting estimate

Previously, unearned premiums reserve related to general insurance business was calculated at the following percentages:

Marine	25%
All other businesses	40%

During the year management has changed the method of measurement of this reserve from the above mentioned fixed ratios to pro rata basis. This change has been treated as change in estimate in line with the requirements of IAS 8. The reason for change was to achieve more accurate estimate in line with the nature of this reserve. Had there been no change in the estimate then profit for the year would have been lower by AED 960,468.

These reserves are stated at gross values with re-insurance portion being shown separately under current assets.

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.

Commission income

Commission income is recognised when the reinsurance premium is ceded based on the terms and percentages agreed with the reinsurers.

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
Dubai – United Arab Emirates
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**Notes to the financial statements (continued)
for the year ended December 31, 2013**

4 Summary of significant accounting policies (continued)

4.3 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 reporting date on the basis of management estimates. The method used by the Company to calculate claims incurred but not reported takes into account certain ratios based on historical data, past estimates and details of reinsurance programmes to assess the quantum of reinsurance recoveries.

4.4 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 comprehensive income by establishing a provision for losses arising from liability adequacy tests.

4.5 Life assurance fund

The fund is determined by independent actuarial valuation of future policy benefits at the end of each reporting period. Actuarial assumptions include a margin for adverse deviation and generally vary by type of policy, year of issue and policy duration. Mortality and withdrawal rate assumptions are based on experience and industry mortality table. Adjustments to the balance of fund are affected by charging to profit or loss.

For unit linked policies, liability is equal to the policy account values. The account value is the number of units times the bid price.

**Alliance Insurance PSC
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**Notes to the financial statements (continued)
for the year ended December 31, 2013**

4 Summary of significant accounting policies (continued)

4.6 Deferred acquisition costs

Costs associated with obtaining and recording general insurance contracts are referred to as acquisition costs. These costs include commission or brokerage fee paid to agents or brokers.

Acquisition costs are deferred, where they relate to unearned premium. The deferred acquisition costs are amortised on the same basis as the earning pattern of insurance premiums over the life of the related insurance contract.

Change in accounting policy

Previously, the Company recorded full amount of commission expense and income in the year when the policy was written or ceded. During the year, the Company changed its accounting policy to defer the commission expense and income in line with the related life of the policies. The change has been made retrospectively, please refer note 36.

4.7 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 except for those carried at fair value through profit or loss, which are measured initially at fair value. 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.

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

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.

**Alliance Insurance PSC
Dubai – United Arab Emirates
Financial Statements**

**Notes to the financial statements (continued)
for the year ended December 31, 2013**

4 Summary of significant accounting policies (continued)

4.7 Financial instruments (continued)

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.

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 and directly taken 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.

Financial assets at amortised cost

Investments in financial instruments which comprise of short and long term deposits and most other receivables are measured at amortised cost using the effective interest method. These instruments comprise of short and long term deposits placed with various banks. Discounting is omitted where the effect of discounting is immaterial.

**Alliance Insurance PSC
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**Notes to the financial statements (continued)
for the year ended December 31, 2013**

4 Summary of significant accounting policies (continued)

4.7 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 an objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the profit and loss. 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 comprise insurance contract liabilities, policy holders' fund, insurance and other payables, and due to other insurers and reinsurers.

Financial liabilities are measured subsequently at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

4.8 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 fair values determined by the independent valuer. 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' on net basis.

**Alliance Insurance PSC
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**Notes to the financial statements (continued)
for the year ended December 31, 2013**

4 Summary of significant accounting policies (continued)

4.9 Insurance and other receivables

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

4.10 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 their fair value.

4.11 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, if any. Depreciation is charged on straight-line basis over the estimated useful lives of the property and equipment.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

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

4.12 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.

**Alliance Insurance PSC
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**Notes to the financial statements (continued)
for the year ended December 31, 2013**

4 Summary of significant accounting policies (continued)

4.12 Impairment testing of property and equipment (continued)

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.

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.

4.13 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.

4.14 Employees' end of service benefits

Short-term employee benefits

The cost of short-term employee benefits (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.

**Alliance Insurance PSC
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**Notes to the financial statements (continued)
for the year ended December 31, 2013**

4 Summary of significant accounting policies (continued)

4.14 Employees' end of service benefits (continued)

Provision for employees' end of service benefits

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.

Provisions are made annually to cover obligation for gratuity calculated by the Company's management covering all eligible employees completing the minimum qualifying period of service.

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.

4.15 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 re-measurement 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.

**Alliance Insurance PSC
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**Notes to the financial statements (continued)
for the year ended December 31, 2013**

4 Summary of significant accounting policies (continued)

4.16 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.

4.17 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.

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.

**Alliance Insurance PSC
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**Notes to the financial statements (continued)
for the year ended December 31, 2013**

4 Summary of significant accounting policies (continued)

4.18 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 4.19.

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 estimating the liability that the Company may have to ultimately pay for such estimates. The Company estimates for reported and unreported losses and establishes resulting provisions. Related reinsurance recoverability 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 portion in the property is not significant and is classified accordingly as investment property at fair value.

4.19 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.

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.

**Alliance Insurance PSC
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**Notes to the financial statements (continued)
for the year ended December 31, 2013**

4 Summary of significant accounting policies (continued)

4.19 Estimation uncertainty (continued)

Impairment

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.

The ultimate liability arising from claims made under insurance contracts

The estimation of ultimate liability arising from the claims made under insurance contracts is the Company's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Company will eventually pay for such claims. Estimates have to be made at the end of the reporting period for both the expected ultimate cost of claims reported and for the expected ultimate cost of claims incurred but not reported ("IBNR"). Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Company and management estimates based on past claims settlement trends for the claims incurred but not reported. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

Actuarial valuation of life assurance fund

Mortality and withdrawal rate assumptions used in actuarial valuation of life fund are based on experience and the most current industry standard mortality table.

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.

Provisions

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

4.20 Reinsurance assets

Insurance contracts entered into by the Company under which the contract holder is another insurer are included with insurance contracts. The benefits to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance contract assets. Amounts recoverable under reinsurance contracts are assessed for impairment as at each year end date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

**Alliance Insurance PSC
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**Notes to the financial statements (continued)
for the year ended December 31, 2013**

4 Summary of significant accounting policies (continued)

4.21 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 14, 15 and 16 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.

4.22 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

5 Investment property

	2013	2012
	AED	AED
Beginning balance	180,619,600	181,244,600
Fair value adjustment	(950,000)	(625,000)
Ending balance	179,669,600	180,619,600

Investment property comprises two commercial buildings in Dubai, United Arab Emirates.

An independent valuer Technical and Loss Adjusting Services Company LLC estimated the fair market value of the investment properties at the year end to be AED 179,669,600 (2012: 180,619,600). Fair value represents the price that would be received to sell this asset in an orderly transaction between market participants at the measurement date.

The Company occupies part of these properties for use in its own business. The Directors consider it appropriate for fairer presentation to include all properties under Investment Property rather than a part as 'owner occupied properties' under property and equipment as the Company occupies in 2013 and 2012 an insignificant area (10.63%) of the property for business use.

**Alliance Insurance PSC
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**Notes to the financial statements (continued)
for the year ended December 31, 2013**

6 Financial assets

	2013	2012
At amortized cost	AED	AED
Financial assets		
Short-term deposits – local deposits (a)	670,503,125	672,740,816
Accrued interest	10,571,240	15,385,537
	<u>681,074,365</u>	<u>688,126,353</u>
Long-term deposits – local deposits (b)	<u>33,005,000</u>	-
Long-term deposits – Notes (c)	36,070,067	-
Accrued interest	1,046,007	-
	<u>70,121,074</u>	-
	<u>751,195,439</u>	<u>688,126,353</u>
Accrued interest		
Accrued interest - short-term deposits	10,571,240	15,385,537
Accrued interest – long term deposits	1,046,007	-
	<u>11,617,247</u>	<u>15,385,537</u>
At fair value through other comprehensive income		
Financial assets – equities and funds		
Quoted investments		
Equities and funds – local	8,479,927	8,479,927
Fair value adjustment (d)	13,579,251	2,520,652
	<u>22,059,178</u>	<u>11,000,579</u>
Equities and funds – foreign	<u>12,600,702</u>	14,927,648
Fair value adjustment (d)	(2,403,988)	(1,393,572)
	<u>10,196,714</u>	<u>13,534,076</u>
	<u>32,255,892</u>	<u>24,534,655</u>

**Alliance Insurance PSC
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**Notes to the financial statements (continued)
for the year ended December 31, 2013**

6 Financial assets (continued)

- a) Short term deposits comprise of fixed deposits with various banks bearing annual interest rates ranging from 1.2% to 4.50% p.a. (2012: from 1.5% to 4.50% p.a.). The maturity of these deposits falls within one year.
- b) Long term deposits comprise of fixed deposits with United Arab Bank and Emirates Investment bank bearing annual interest rates ranging from 2.5% to 5.25% p.a. respectively. (2012: Nil). The maturity of these deposits falls in 2016 and 2018.
- c) The term of the Note is 10 years, however Emirates NBD (issuer) has the right to call the Note at the end of five years and return the investor the full amount. The Note pays a fixed semi annually coupon of 5% per annum and if the note is not called then a new fixed semi annually coupon will be paid for the remaining 5 years. This new coupon will be equal to the 5Y USD Mid Swap rate on the reset date + 3.5%. The issuer has A+ credit rating. None of these assets had been past due or impaired at the end of the reporting period.
- d) The net movement in fair value of quoted investments in the current year was an increase in value of AED 11,175,263 (2012: increase of AED 7,501,894) which has been carried to the fair value reserve in equity.

7 Statutory deposit

A deposit of AED 10,000,000 (2012: 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. 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 of 3.00% p.a. (2012: from 2.50% to 3.50% p.a.).

8 Policyholders' loans

	2013	2012
	AED	AED
Balance as at January 1,	47,639,677	49,633,992
Loans sanctioned during the year	24,066,021	24,835,498
Repayment during the year	(22,085,409)	(26,829,813)
Balance as at December 31,	<u>49,620,289</u>	<u>47,639,677</u>
Accrued interest on loan balances	(2,285,972)	(2,193,234)
	<u><u>47,334,317</u></u>	<u><u>45,446,443</u></u>

The interest on policyholders' loan for the current year is 8% (2012: 8%).

**Alliance Insurance PSC
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**Notes to the financial statements (continued)
for the year ended December 31, 2013**

9 Property and equipment

	Land	Furniture and fixtures	Office equipment	Motor vehicles	Capital work-in- progress	Total
Cost						
As at January 1, 2012	2,470,555	6,537,075	5,148,153	1,130,850	-	15,286,633
Additions	-	9,852	308,262	272,500	-	590,614
Disposals	-	(434,467)	(1,397,048)	(519,900)	-	(2,351,415)
As at December 31, 2012	2,470,555	6,112,460	4,059,367	883,450		13,525,832
Additions		-	264,744	6,500	64,128	335,372
Disposals		(637,491)	(393,102)	(4,150)		(1,034,743)
As at December 31, 2013	2,470,555	5,474,969	3,931,009	885,800	64,128	12,826,461
Accumulated depreciation						
As at January 1, 2012	-	6,081,378	5,325,918	1,037,087	-	12,444,383
Charge for the year	-	10,912	141,185	75,951	-	228,048
Disposals	-	(103,408)	(1,726,326)	(469,898)	-	(2,299,632)
As at December 31, 2012	-	5,988,882	3,740,777	643,140	-	10,372,799
Charge for the year		9,720	163,726	80,948		254,394
Disposals		(637,491)	(393,102)	(4,150)		(1,034,743)
As at December 31, 2013	-	5,361,111	3,511,401	719,938	-	9,592,450
Net book value						
As at December 31, 2013	2,470,555	113,858	419,608	165,862	64,128	3,234,011
As at December 31, 2012	2,470,555	123,578	318,590	240,310	-	3,153,033

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**Notes to the financial statements (continued)
for the year ended December 31, 2013**

9 Property and equipment (continued)

Depreciation is allocated as follows:

	2013 AED	2012 AED
Management expenses (note 24)	203,387	165,142
Maintenance expenses	51,007	63,366
	<u>254,394</u>	<u>228,048</u>
	=====	=====

The gross carrying amount of fully depreciated property and equipment still in use as at December 31, 2013 is AED 9,052,525 (2012: AED 10,099,933).

10 Insurance and other receivables

	2013 AED	2012 AED
Trade		
Due from policy holders	52,148,281	23,793,731
Due from brokers and agents	964,575	7,621,854
Due from insurers for insurance operations	3,556,501	2,229,159
	<u>56,669,357</u>	<u>33,644,744</u>
Less: provision for doubtful debts	(1,383,277)	(1,254,742)
	<u>55,286,080</u>	<u>32,390,002</u>
Others		
Prepayments and other receivables	7,291,597	6,422,544
Rents receivable	350,210	293,911
Accrued interest	356,792	210,208
Due from related parties	1,719,847	168,002
	<u>65,004,526</u>	<u>39,484,667</u>
Less: provision for doubtful debts	(127,384)	(127,384)
	<u>64,877,142</u>	<u>39,357,283</u>
	=====	=====

Receivables amounting to AED 30,616,647 (2012: AED 13,162,764) are outstanding for more than 120 days. Out of this amount, the Company provided AED 1,383,277 (2012: AED 1,254,742) as doubtful debts.

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Notes to the financial statements (continued)
For the year ended December 31, 2013

11 Insurance contract liabilities and reinsurance contract assets

	2013			2012			2011		
				Restated			Restated		
	Gross insurance contract liabilities AED	Reinsurance contract assets AED	Net insurance contract liabilities AED	Gross insurance contract liabilities AED	Reinsurance contract assets AED	Net insurance contract liabilities AED	Gross insurance contract liabilities AED	Reinsurance contract assets AED	Net insurance contract liabilities AED
<u>Provision for unearned premium</u>									
General Division	43,408,984	(36,102,949)	7,306,035	56,649,665	(49,622,904)	7,026,761	54,855,290	(47,032,649)	7,822,641
Medical	10,451,567	(7,316,097)	3,135,470	10,270,803	(7,189,562)	3,081,241	7,970,834	(5,579,583)	2,391,251
Group	1,193,640	(716,365)	477,275	1,142,019	(685,210)	456,809	1,183,230	(709,937)	473,293
	55,054,191	(44,135,411)	10,918,780	68,062,487	(57,497,676)	10,564,811	64,009,354	(53,322,169)	10,687,185
<u>Deferred acquisition costs</u>	2,426,854	-	2,426,854	2,743,389	-	2,743,389	2,649,664	-	2,649,664
<u>Provision for Outstanding Claims</u>									
General Division	8,500,005	(2,985,923)	5,514,082	10,524,749	(5,549,564)	4,975,185	15,582,371	(11,115,647)	4,466,724
Life Division	7,618,955	(4,080,629)	3,538,326	8,296,568	(3,259,580)	5,036,988	9,881,377	(4,470,686)	5,410,691
	16,118,960	(7,066,552)	9,052,408	18,821,317	(8,809,144)	10,012,173	25,463,748	(15,586,333)	9,877,415
<u>Provision for IBNR</u>									
General Division	1,854,526	-	1,854,526	2,123,367	-	2,123,367	2,304,348	-	2,304,348
Life Division	1,080,223	-	1,080,223	1,119,919	-	1,119,919	1,699,836	-	1,699,836
	2,934,749	-	2,934,749	3,243,286	-	3,243,286	4,004,184	-	4,004,184
Closing balance	76,534,754	(51,201,963)	25,332,791	92,870,479	(66,306,820)	26,563,659	96,126,950	(68,908,502)	27,218,448

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For the year ended December 31, 2013

a) Provision for unearned premium (General Division)

	2013			2012			2011		
	Reinsurance			Reinsurance			Reinsurance		
	Gross AED	share AED	Net AED	Gross AED	share AED	Net AED	Gross AED	share AED	Net AED
Balance as at January 1,	56,649,665	(49,622,904)	7,026,761	54,855,290	(47,032,649)	7,822,641	47,558,095	(38,069,413)	9,488,682
Movement during the year	(13,240,681)	13,519,955	279,274	1,794,375	(2,590,255)	(795,880)	7,297,195	(8,963,236)	(1,666,041)
Balance as at December 31,	43,408,984	(36,102,949)	7,306,035	56,649,665	(49,622,904)	7,026,761	54,855,290	(47,032,649)	7,822,641

b) Provision for unearned premium (Medical)

	2013			2012			2011		
	Reinsurance			Reinsurance			Reinsurance		
	Gross AED	share AED	Net AED	Gross AED	share AED	Net AED	Gross AED	share AED	Net AED
Balance as at January 1,	10,270,803	(7,189,562)	3,081,241	7,970,833	(5,579,583)	2,391,250	13,975,393	(9,782,774)	4,192,619
Movement during the year	180,764	(126,535)	54,229	2,299,970	(1,609,979)	689,991	(6,004,559)	4,203,191	(1,801,368)
Balance as at December 31,	10,451,567	(7,316,097)	3,135,470	10,270,803	(7,189,562)	3,081,241	7,970,834	(5,579,583)	2,391,251

c) Provision for unearned premium (Group Life)

	2013			2012			2011		
	Reinsurance			Reinsurance			Reinsurance		
	Gross AED	share AED	Net AED	Gross AED	share AED	Net AED	Gross AED	share AED	Net AED
Balance as at January 1,	1,142,019	(685,210)	456,809	1,183,230	(709,937)	473,293	1,491,117	(864,669)	626,448
Movement during the year	51,621	(31,155)	20,466	(41,211)	24,727	(16,484)	(307,887)	154,732	(153,155)
Balance as at December 31,	1,193,640	(716,365)	477,275	1,142,019	(685,210)	456,809	1,183,230	(709,937)	473,293

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Notes to the financial statements (continued)
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d) **Deferred acquisition costs (General Division)**

	2013			2012			2011		
	Reinsurance			Reinsurance			Reinsurance		
	Gross AED	share AED	Net AED	Gross AED	share AED	Net AED	Gross AED	share AED	Net AED
Balance as at January 1,	2,743,389	-	2,743,389	2,649,664	-	2,649,664	-	-	-
Movement during the year	(316,535)	-	(316,535)	93,725	-	93,725	2,649,664	-	2,649,664
Balance as at December 31,	2,426,854	-	2,426,854	2,743,389	-	2,743,389	2,649,664	-	2,649,664

e) **Movement in outstanding claims (General Division)**

	2013			2012			2011		
	Reinsurance			Reinsurance			Reinsurance		
	Gross AED	share AED	Net AED	Gross AED	share AED	Net AED	Gross AED	share AED	Net AED
Balance as at January 1,	10,524,749	(5,549,564)	4,975,185	15,582,371	(11,115,647)	4,466,724	17,567,798	(12,403,344)	5,164,454
Movement during the year	(2,024,744)	2,563,641	538,897	(5,057,622)	5,566,083	508,461	(1,985,427)	1,287,697	(697,730)
Balance as at December 31,	8,500,005	(2,985,923)	5,514,082	10,524,749	(5,549,564)	4,975,185	15,582,371	(11,115,647)	4,466,724

f) **Movement in outstanding claims (Life Division)**

	2013			2012			2011		
	Reinsurance			Reinsurance			Reinsurance		
	Gross AED	share AED	Net AED	Gross AED	share AED	Net AED	Gross AED	share AED	Net AED
Balance as at January 1,	8,296,568	(3,259,580)	5,036,988	9,881,377	(4,470,686)	5,410,691	12,844,019	(5,874,338)	6,969,681
Movement during the year	(677,613)	(821,049)	(1,498,662)	(1,584,809)	1,211,106	(373,703)	(2,962,642)	1,403,652	(1,558,990)
Balance as at December 31,	7,618,955	(4,080,629)	3,538,326	8,296,568	(3,259,580)	5,036,988	9,881,377	(4,470,686)	5,410,691

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Notes to the financial statements (continued)
For the year ended December 31, 2013

g) Provision for IBNR (General Division)

	2013			2012			2011		
	Gross AED	Reinsurance share AED	Net AED	Gross AED	Reinsurance share AED	Net AED	Gross AED	Reinsurance share AED	Net AED
Balance as at January 1,	2,123,367	-	2,123,367	2,304,348	-	2,304,348	2,782,239	-	2,782,239
Movement during the year	(268,841)	-	(268,841)	(180,981)	-	(180,981)	(477,891)	-	(477,891)
Balance as at December 31,	1,854,526	-	1,854,526	2,123,367	-	2,123,367	2,304,348	-	2,304,348

h) Provision for IBNR (Life Division)

	2013			2012			2011		
	Gross AED	Reinsurance share AED	Net AED	Gross AED	Reinsurance share AED	Net AED	Gross AED	Reinsurance share AED	Net AED
Balance as at January 1,	1,119,919	-	1,119,919	1,699,836	-	1,699,836	1,069,614	-	1,069,614
Movement during the year	(39,696)	-	(39,696)	(579,917)	-	(579,917)	630,222	-	630,222
Balance as at December 31,	1,080,223	-	1,080,223	1,119,919	-	1,119,919	1,699,836	-	1,699,836

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**Notes to the financial statements (continued)
for the year ended December 31, 2013**

11 Insurance contract liabilities and reinsurance contract assets (continued)

i) Claims incurred

Assumptions and sensitivities

Process used to determine the assumptions

The process used to determine the assumptions for calculating the provision for outstanding claims 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 regularly reviewed and updated based on latest available information.

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 were used for assessing the IBNR for the accident years 2012 and 2013.

Where variables are considered to be immaterial, no impact is 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.

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**Notes to the financial statements (continued)
for the year ended December 31, 2013**

12 Cash and cash equivalents

	2013	2012
	AED	AED
Cash at banks – current accounts	25,784,627	15,276,310
Cash on hand	886,490	1,602,082
	<u>26,671,117</u>	<u>16,878,392</u>
	=====	=====

13 Share capital

Authorised, issued and fully paid:

1,000,000 ordinary shares of AED 100 each	100,000,000	100,000,000
	=====	=====

14 Statutory reserve

In accordance with the Company's Articles of Association and Article 192 of the U.A.E. Commercial Companies Law No. 8 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 4,426,033 (2012: AED 4,075,593) (10% of the net income for the year) was transferred to the statutory reserve on December 31, 2013.

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. 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 4,426,033 (2012: AED 4,075,593) (10% of the net income for the year) was transferred to the statutory reserve on December 31, 2013.

16 General reserve

The Board of Directors approved the transfer of AED 20,000,000 in 2013 (2012: AED 20,000,000) to a general reserve which can be utilised for any purpose approved by the shareholders as per the Articles of Association of the Company.

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**Notes to the financial statements (continued)
for the year ended December 31, 2013**

17 Insurance and other payables

	2013	2012
	AED	AED
Insurance customer payables	18,922,292	14,743,618
Accruals and provisions	8,550,965	9,076,861
Premiums received in advance	7,990,289	6,813,116
Rent received in advance	5,923,539	1,265,231
Other payables	5,778,452	2,793,066
	<u>47,165,537</u>	<u>34,691,892</u>
	=====	=====

18 Due to other insurers and reinsurers

	2013	2012
	AED	AED
Due to other insurers and reinsurers for insurance operations	67,084,419	39,366,306
	<u>67,084,419</u>	<u>39,366,306</u>
	=====	=====

19 Employees' end of service benefits

The movement is as follows:

	2013	2012
	AED	AED
Balance as at January 1,	4,773,097	4,990,921
Charge for the year	669,224	726,427
Payments during the year	(615,430)	(944,251)
Balance as at December 31,	<u>4,826,891</u>	<u>4,773,097</u>
	=====	=====

20 Policyholders' funds

	2013	2012
	AED	AED
Balance as at January 1,	549,891,995	535,963,262
Excess of income over expenditure for the year in the long-term business	47,674,428	31,430,175
Surplus transferred to statement of comprehensive income	(19,758,871)	(17,501,442)
Balance as at December 31,	<u>577,807,552</u>	<u>549,891,995</u>
	=====	=====

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**Notes to the financial statements (continued)
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20 Policyholders' funds (continued)

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, 2013.

The consulting actuaries assessed a surplus of AED 15,128,891 in the individual Life business, whereas the surplus transferred from the Group and Medical business is AED 4,629,980. In total a surplus of AED 19,758,871 is assessed in Life Insurance Fund as at December 31, 2013 (2012: AED 17,501,442).

The Company's consulting actuaries during the year were M/s. Sidat Hyder Morshed Associates Limited. In their report for the year ended December 31, 2013, 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:

	2013	2012
	AED	AED
Net liabilities under insurance policies	412,128,466	391,272,331
Provision for terminal bonus to policy holders	165,679,086	158,619,664
	<u>577,807,552</u>	<u>549,891,995</u>
	<u><u>577,807,552</u></u>	<u><u>549,891,995</u></u>

21 Income from investment property - Net

	2013			2012		
	General	Life	Total	General	Life	Total
	AED	AED	AED	AED	AED	AED
Rental income	6,676,345	10,243,866	16,920,211	6,420,818	10,102,044	16,522,862
Fair value adjustment to investment property (a) (note 5)	(261,000)	(689,000)	(950,000)	(45,000)	(580,000)	(625,000)
Maintenance expenses	(2,046,257)	(1,913,836)	(3,960,093)	(2,084,705)	(2,012,084)	(4,096,789)
Net income	<u>4,369,088</u>	<u>7,641,030</u>	<u>12,010,118</u>	4,291,113	7,509,960	11,801,073
	<u><u>4,369,088</u></u>	<u><u>7,641,030</u></u>	<u><u>12,010,118</u></u>	<u><u>4,291,113</u></u>	<u><u>7,509,960</u></u>	<u><u>11,801,073</u></u>

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Notes to the financial statements (continued)
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21 Income from investment property – Net (continued)

Rental income includes notional rent of AED 1,392,575 (2012: AED 1,519,375) relating to the portion of investment properties occupied by the Company. A corresponding charge is included under management expenses (note 24).

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

22 Profit from investment activities

	2013			2012		
	General AED	Life AED	Total AED	General AED	Life AED	Total AED
Dividend income	828,339	494,515	1,322,854	536,171	18,412	554,583
Interest income on policyholders' loans	-	3,076,705	3,076,705	-	3,001,253	3,001,253
Interest on notes	56,483	131,793	188,276	-	-	-
Total profit	884,822	3,703,013	4,587,835	536,171	3,019,665	3,555,836

23 Other income

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

	2013			2012		
	General AED	Life AED	Total AED	General AED	Life AED	Total AED
Gain on disposal of non-current assets	299	-	299	59,326	4,700	64,026
Miscellaneous	2,815,228	801,570	3,616,798	2,307,966	1,843,609	4,151,575
	2,815,527	801,570	3,617,097	2,367,292	1,848,309	4,215,601

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**Notes to the financial statements (continued)
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24 Management expenses

	2013			2012		
	General AED	Life AED	Total AED	General AED	Life AED	Total AED
Staff costs	8,749,511	5,581,290	14,330,801	8,284,547	5,021,736	13,306,283
Short-term benefits	500,000	2,250,000	2,750,000	500,000	2,250,000	2,750,000
Rent (a)	834,890	1,009,640	1,844,530	884,846	1,189,963	2,074,809
Branch overheads	-	1,187,748	1,187,748	-	1,185,471	1,185,471
Bank charges	84,883	1,184,515	1,269,398	45,849	1,024,604	1,070,453
Communication expenses	257,038	180,772	437,810	297,869	169,397	467,266
Depreciation on property & equipment (refer note 9)	154,359	49,028	203,387	100,842	64,300	165,142
Travel and conveyance	57,647	46,346	103,993	3,275	29,178	32,453
Other expenses	1,212,477	1,084,139	2,296,616	1,190,716	981,999	2,172,715
	11,850,805	12,573,478	24,424,283	11,307,944	11,916,648	23,224,592

(a) Rent expense includes a notional rent of AED 1,392,575 (2012: AED 1,519,375) relating to the portion of investment properties occupied by the Company. The segregation of said rent to General division and Life division is AED 608,300 (2012: 620,175) and AED 784,275 (2012: 899,200) respectively.

25 Earnings per share - basic and diluted

	2013 AED	2012 AED Restated
Net income for the year	44,260,332	40,662,205
Number of shares outstanding during the year	1,000,000	1,000,000
Earnings per share – basic	44.26	40.66

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**Notes to the financial statements (continued)
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26 Contingent liabilities and commitments

Commitments

	2013 AED	2012 AED
Letters of guarantee	11,127,018 =====	11,419,212 =====

Capital commitments

As at the year end, there were no major capital commitments (2012: nil).

Contingencies

As at the year end date, there were certain legal cases pending in different court of laws against the Company claiming AED 1,164,980 (2012: AED 723,542) 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. 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.

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**Notes to the financial statements (continued)
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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.

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**Notes to the financial statements (continued)
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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 2013 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)

	2008	2009	2010	2011	2012	2013
	AED	AED	AED	AED	AED	AED
Estimate of cumulative claims- General						
At end of underwriting year	14,733,962	7,373,140	2,834,451	3,275,759	3,282,661	3,604,325
One year earlier	9,018,973	10,598,545	5,526,182	2,365,311	3,328,787	2,155,229
Two years earlier	5,478,897	3,593,201	3,702,402	4,593,166	795,684	534,773
Three years earlier	2,018,107	4,226,145	2,014,986	2,872,768	2,735,709	866,472
Four years earlier	2,444,587	706,125	3,000,710	923,719	228,767	194,942
Five years earlier	1,453,063	11,138,067	489,065	1,551,648	19,224	185,741
Six years earlier	-	-	-	-	133,917	958,523
Gross outstanding liabilities	35,147,589	37,635,223	17,567,796	15,582,371	10,524,749	8,500,005

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

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**Notes to the financial statements (continued)
for the year ended December 31, 2013**

29 Capital management

The Company's capital management objectives are:

- to ensure the Company's ability to continue as a going concern; and
- 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..

The Company is financed by its shareholders. The Company's structure is regularly reviewed to ensure that it remains relevant to the business and its plans for growth. Management has a reasonable expectation that the Company has adequate resources to continue operating in the foreseeable future.

The capital structure of the Company consists of the following:

	2013	2012
	AED	AED
Policyholders' funds	577,807,552	549,891,995
	=====	=====
Short term deposits	681,074,365	688,126,353
	=====	=====
Cash and cash equivalents	26,671,117	16,878,392
	=====	=====
Equity attributable to the shareholders	393,020,328	352,828,810
	=====	=====

30 Financial instruments risks

The financial assets of the Company include cash at bank and in hand, policy holders' loan, 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 reinsurers and policyholders' liabilities.

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30 Financial instruments risks (continued)

Credit risk

All of the Company's underwriting activities are carried out in the UAE. Management believes that all the banks where deposits have been placed have 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 30,616,647 (2012: AED 13,162,764) are considered to be past due. The management estimates that out of this total, a balance of AED 1,383,277 (2012: AED 1,254,742) is impaired as at the reporting date and related provision has already been made.

Some of the unimpaired trade receivables are past due as at the reporting date. Financial assets past due but not impaired can be shown as follows:

	2013	2012
	AED	AED
Not more than 120 days	25,674,766	19,737,654
More than 121 days but not more than 180 days	8,780,360	3,233,746
More than 180 days	22,214,231	10,673,344
	<u>56,669,357</u>	<u>33,644,744</u>

The balances of past due receivables over 180 days includes the receivables in respect of fronting policies amounting to AED 15,057,785 on which the Company has no credit risk.

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.

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**Notes to the financial statements (continued)
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30 Financial instruments risks (continued)

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

All the Company's short term and long term deposits are on fixed rates therefore no sensitivity analysis is required. Further the Company has no borrowings during the year.

Liquidity risk

Liquidity risk is that the Company might be unable to meet its obligations. The Company manages its liquidity needs by forecasting cash inflows and outflows due in day-to-day business.

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.

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30 Financial instruments risks (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 shares and funds.

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 investments through OCI and policyholders' funds, approximates their carrying amounts. Investments through OCI 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)
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Notes to the financial statements
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30 Financial instruments (continued)

	2013										
	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 amortised cost	1.2 to 4.25	58,102,865	48,426,418	116,898,808	457,646,274	-	681,074,365	-	-	-	681,074,365
Investments held to maturity	5	-	-	-	-	-	-	-	-	-	-
Long-term deposits	5.25	-	-	-	-	70,121,074	70,121,074	-	-	-	70,121,074
Statutory deposit	2.5	-	-	-	-	10,000,000	10,000,000	-	-	-	10,000,000
Policyholders' loans	8.0	-	-	-	-	47,334,317	47,334,317	-	-	-	47,334,317
Financial assets at fair value through other comprehensive income		-	-	-	-	-	-	32,255,892	-	32,255,892	32,255,892
Insurance and other receivables		-	-	-	-	-	-	57,585,545	-	57,585,545	57,585,545
Reinsurance contract assets		-	-	-	-	-	-	7,066,552	-	7,066,552	7,066,552
Cash and cash equivalents		-	-	-	-	-	-	26,671,117	-	26,671,117	26,671,117
		<u>58,102,865</u>	<u>48,426,418</u>	<u>116,898,808</u>	<u>457,646,274</u>	<u>127,455,391</u>	<u>808,529,756</u>	<u>123,579,106</u>	<u>-</u>	<u>123,579,106</u>	<u>932,108,862</u>
Financial Liabilities											
Insurance contract liabilities		-	-	-	-	-	-	19,053,709	-	19,053,709	19,053,709
Insurance and other payables		-	-	-	-	-	-	33,251,709	-	33,251,709	33,251,709
Due to other insurers and reinsurers		-	-	-	-	-	-	67,084,419	-	67,084,419	67,084,419
Policyholders' funds		-	-	-	-	-	-	-	577,807,552	577,807,552	577,807,552
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>119,389,837</u>	<u>577,807,552</u>	<u>697,197,389</u>	<u>697,197,389</u>
On-balance sheet sensitivity gap		<u>58,102,865</u>	<u>48,426,418</u>	<u>116,898,808</u>	<u>457,646,274</u>	<u>127,455,391</u>	<u>808,529,756</u>				
Total yield / interest rate risk sensitivity gap		<u>58,102,865</u>	<u>48,426,418</u>	<u>116,898,808</u>	<u>457,646,274</u>	<u>127,455,391</u>	<u>808,529,756</u>				

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

	2012						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 amortised cost	1.5 to 6.0	55,977,593	37,301,340	137,555,000	457,292,420	-	688,126,353	-	-	-	688,126,353
Statutory deposit	2.5 to 4.25	-	-	-	-	10,000,000	10,000,000	-	-	-	10,000,000
Policyholders' loans	8.0	-	-	-	-	45,446,443	45,446,443	-	-	-	45,446,443
Financial assets at fair value through other comprehensive income		-	-	-	-	-	-	24,534,655	-	24,534,655	24,534,655
Insurance and other receivables		-	-	-	-	-	-	32,934,739	-	32,934,739	32,934,739
Reinsurance contract assets		-	-	-	-	-	-	8,809,144	-	8,809,144	8,809,144
Cash and cash equivalents		-	-	-	-	-	-	16,878,392	-	16,878,392	16,878,392
		<u>55,977,593</u>	<u>37,301,340</u>	<u>137,555,000</u>	<u>457,292,420</u>	<u>55,446,443</u>	<u>743,572,796</u>	<u>83,156,930</u>	<u>-</u>	<u>83,156,930</u>	<u>826,729,726</u>
Financial Liabilities											
Insurance contract liabilities		-	-	-	-	-	-	22,064,603	-	22,064,603	22,064,603
Insurance and other payables		-	-	-	-	-	-	26,613,545	-	26,613,545	26,613,545
Due to other insurers and reinsurers		-	-	-	-	-	-	39,366,306	-	39,366,306	39,366,306
Policyholders' funds		-	-	-	-	-	-	-	549,891,995	549,891,995	549,891,995
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>88,044,454</u>	<u>549,891,995</u>	<u>637,936,449</u>	<u>637,936,449</u>
On-balance sheet sensitivity gap		<u>55,977,593</u>	<u>37,301,340</u>	<u>137,555,000</u>	<u>457,292,420</u>	<u>55,446,443</u>	<u>743,572,796</u>				
Total yield / interest rate risk sensitivity gap		<u>55,977,593</u>	<u>37,301,340</u>	<u>137,555,000</u>	<u>457,292,420</u>	<u>55,446,443</u>	<u>743,572,796</u>				

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**Notes to the financial statements (continued)
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31 Financial instruments measured at fair value

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of fair value hierarchy. This grouping is determined based on the lowest level of significant inputs used in fair value measurement, as follows:

- level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows the Levels within the hierarchy of financial assets measured at fair value on a recurring basis at December 31, 2013 and December 31, 2012:

2013	Note	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
FVTOCI investments	(a)	32,255,892	-	-	32,255,892
2012					
FVTOCI investments	(a)	24,534,655	-	-	24,534,655

There have been no significant transfers between levels 1 and 2 in the reporting period.

31.1 Fair value measurement of financial instruments

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

a) Listed securities

All the listed equity securities are stated in AED and are publicly traded in AED and US. Fair values have been determined by reference to their quoted bid prices at the reporting date.

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**Notes to the financial statements (continued)
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31 Fair value measurement of financial instruments (continued)

31.2 Fair value measurement of non-financial instruments

The following table shows the levels within the hierarchy of non-financial assets measured at fair value on a recurring basis as at December 31, 2013:

2013	Note	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
Investment property					
- Land and building		-	-	179,669,600	179,669,600
2012					
Investment property					
- Land and building		-	-	180,619,600	180,619,600

(a) Land and building (Level 3)

The fair value of the buildings was determined using the cost approach that reflects the cost to a market participant to construct assets of comparable utility and age, adjusted for obsolescence, depreciation and inflation. There has been no change to the valuation technique during the year. Following financial aspects have been considered to arrive at a reasonable reflection of the present value of the properties.

- Financing cost, licenses and consultancy fee.
- Differential of replacement of historical cost
- Rental value
- Value of land

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**Notes to the financial statements (continued)
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31 Fair value measurement of financial instruments (continued)

31.2 Fair value measurement of non-financial instruments (continued)

The reconciliation of the carrying amounts of non-financial assets classified within Level 3 is as follows:

	<u>Land and Building</u>
	AED
Balance at January 1, 2013	180,619,600
Loss recognised in profit or loss:	
- decrease in fair value of investment property	(950,000)
Balance at December 31, 2013	<u>179,669,600</u>

32 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are as follows:

	2013	2012
	AED	AED
Less than one year	373,189	357,597
	=====	=====

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.

Leases as lessor

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

Non-cancellable operating lease rentals receivable are as follows:

	2013	2012
	AED	AED
Less than one year (note 17)	5,923,539	1,265,231
	=====	=====

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

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**Notes to the financial statements (continued)
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32 Operating leases (continued)

During the current year AED 16,920,211 (2012: AED 16,522,862) was recognised as rental income in the statement of comprehensive income in respect of operating leases, which includes AED 1,392,575 (2012: AED 1,519,375) relating to internal rent.

33 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:

	2013 AED	2012 AED
Premium written	5,340,129	4,624,197

Details of related party balances are as follows

	2013 AED	2012 AED
Amount due from related parties	1,719,847	168,002
Amount due to related parties	(9,269)	(107,074)

Details of related parties

Name	Relationship
Mr. Juma Saif Rashid bin Bakhit	Vice Chairman
Mr. Ahmed Saif Rashid bin Bakhit	Director
Mr. Khalifa Salim Humaid Al Meshwi	Director
Other corporate entities	Common directorship

Compensation of key management personnel

	2013 AED	2012 AED
Short – term benefits	2,920,387	3,380,237
Directors’ remuneration	608,166	552,096

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34 Subsequent events

The Board has proposed a cash dividend of 25% of paid up capital, AED 25 million (AED 25 per share) for the year ended December 31, 2013. This is treated as a non-adjusting subsequent event. Further, the Board has proposed a transfer of AED 5 million to the General Reserve.

35 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 require 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.

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.

	2013			2012		
	Life Division	General Division	Total	Life Division	General Division	Total
Net underwriting income/(loss)	14,412,525	6,770,690	21,183,215	(561,444)	7,632,314	7,070,870
Interest income	21,116,290	9,661,334	30,777,624	19,613,685	8,333,873	27,947,558
Income from investment property (net)	7,641,030	4,369,088	12,010,118	7,509,960	4,291,113	11,801,073
Profit from investment activities	3,703,013	884,822	4,587,835	3,019,665	536,171	3,555,836
Other income	801,570	2,815,527	3,617,097	1,848,309	2,367,292	4,215,601
	47,674,428	24,501,461	72,175,889	31,430,175	23,160,763	54,590,938
Surplus transferred to policy holders' fund	(27,915,557)	-	(27,915,557)	(13,928,733)	-	(13,928,733)
Net surplus (life) / net income (general)	19,758,871	24,501,461	44,260,332	17,501,442	23,160,763	40,662,205
Segment assets	648,003,842	518,435,640	1,166,439,482	628,412,342	446,010,237	1,074,422,579
Segment liabilities	648,003,842	125,415,311	773,419,153	610,910,900	110,682,869	721,593,769

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**Notes to the financial statements (continued)
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36 Reconciliation of restatement of financial statements due to change in accounting policy and reclassification

Previously, the Company used to record full amount of commission expense and income in the year when the policy was written or ceded. During the year, the Company changed its accounting policy to defer the commission expense and income in line with the related life of the policies. The reason for change in accounting policy was to improve the measurement basis in line with the nature of acquisition cost. The change has been made retrospectively in line with requirements of IAS 8 refer note 4.6. The related balances in the statement of financial position as at December 31, 2012, the balances in the statement of financial position as at December 31, 2011 as well as the amounts in the Statement of comprehensive income for the year ended December 31, 2012 have been restated. Reconciliation of the restated balances and amounts with those previously reported is as follows:

Further, comparative figures have been reclassified in order to conform with current year's presentation and improve the quality of information presented.

December 31, 2012

Financial statement line item/ balance affected	Notes	2012 Previously reported AED	Effect of change in accounting policy AED	Effect of reclassification AED	2012 Restated AED
Statement of financial position					
Retained earnings		38,541,252	(2,743,389)	-	35,797,863
Insurance contract assets	11	58,432,048	-	7,874,772	66,306,820
Insurance contract liabilities	11	77,594,349	2,743,389	12,532,741	92,870,479
Policyholders' fund	20	554,549,964	-	(4,657,969)	549,891,995
Statement of comprehensive income					
Net underwriting income – General		7,726,039	(93,725)	-	7,632,314

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36 Reconciliation of restatement of financial statements due to change in accounting policy and reclassification (continued)

December 31, 2011

Financial statement line item/ balance affected	Notes	2011 Previously reported AED	Effect of change in policy AED	Effect of reclassification AED	2011 Restated AED
Statement of financial position					
Retained earnings		41,488,604	(2,649,664)	-	38,838,940
Insurance contract assets		62,618,982	-	6,289,520	68,908,502
Insurance contract liabilities		82,623,387	2,649,664	10,853,899	96,126,950
Policyholders' fund		540,527,641	-	(4,564,379)	535,963,262