

National General Insurance Co. (P.S.C.)

Financial statements

31 December 2014

National General Insurance Co. (P.S.C.)

Financial Statements

31 December 2014

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Report of the Board of Directors

Dear Shareholders,

The Board of Directors have the pleasure to welcome you to the Fourteenth Annual General Meeting and present their report together with the audited financial statements for the year ended 31 December 2014.

FINANCIAL RESULTS

1. The Company reported a net profit of AED 79.6 million for the year 2014 against AED 125.1 million for 2013 a decrease of 36.4%
2. Gross premiums is AED 450.8 million in 2014 compared to AED 445.7 million in 2013 and the retained premiums increased from AED 305.6 million in 2013 to AED 317.6 million in 2014.
3. The gross claims paid by the Company during the year 2014 amounted to AED 322.5 million compared with AED 323.8 million in 2013 and the net incurred claims are AED 249.4 million compared to AED 215.1 million in 2013.
4. Underwriting profit decreased from AED 38.4 million in 2013 to AED 20.1 million in 2014 a decrease of 47.7%.
5. Net investment income was AED 73.7 million in 2014 compared to AED 96.8 million in 2013 a decrease of 23.8%.
6. General and Management expenses including expenses directly attributable to underwriting activities for the year 2014 is AED 54.6 million compared to AED 48.3 million in 2013, an increase of 13%.
7. Investment fund comprising of investment properties, securities, cash and bank balances was AED 669.5 million at the end of 2014 compared with AED 651.2 million in 2013 an increase of 3%.
8. The Technical Reserves (i.e. net unearned premium reserve, and net provision for outstanding claims) at the end of year 2014 amounted to AED 182.9 million compared with AED 189.8 million in 2013. Included in the above is Life Assurance Fund of AED 58 million as at end 2014 compared to AED 52.3 in 2013.

RECOMMENDATIONS OF THE BOARD OF DIRECTORS

The Board of Directors has the pleasure in presenting the following recommendations to the shareholders:

1. Consider, discuss and approve the Board of Directors' report.
2. Consider, discuss and approve the Auditors' report.
3. Consider, discuss and approve the Financial Statements for the year ended 31 December 2014.
4. Absolve the Chairman and Members of the Board from all responsibilities for acts and decisions made by them in fulfilling their functions during the year ended 31 December 2014.
5. Approve the proposed appropriation of the profits as follows:

AED

Profit brought forward	135,964,239
Add comprehensive profit for the year 2014	<u>81,303,517</u>
Total available for distribution	217,267,756
Less	
a) Transfer to Legal reserve - 10% of the profit	7,963,253
b) Transfer to General reserve - 10% of the profit	7,963,253
c) Director's remuneration	3,653,540
d) Proposed Dividend --- Cash - 25%	<u>37,488,528</u>
Profit carried forward	160,199,182

6. Appoint or re-appoint Auditors for the financial year 2015 and determine their fees. KPMG being eligible for re-appointment have expressed their willingness to continue in office.

The Board of Directors takes the pleasure in extending, on your behalf, their sincere thanks and appreciation to H.H Sheikh Khalifa Bin Zayed Al Nahyan, the President and H.H Sheikh Mohammed Bin Rashid Al Maktoum, Vice President, Prime Minister and Ruler of Dubai, for their kind support to the national companies and institutions, which benefited immensely from their wise economic and social policies.

The Directors also appreciate the fruitful co-operation of all clients/customers who had the major role in the progress of the company.

The Directors take this opportunity to express their sincere appreciation and thanks to the Company's executive administration and staff for their loyalty, diligence and hard work. We also thank our treaty leader Messrs Hannover Re and all the Reinsurers for their continued support to the Company.

On behalf of the Board

Hamad Mubarak Buamim
Chairman

04 FEB 2015

NATIONAL GENERAL INSURANCE CO. (PSC)

TRUST | SECURITY | COMMITMENT

الشركة الوطنية للتأمينات العامة (ش.م.ع.)

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Dubai Investment Park
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Bur Dubai Branch:
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Tel: 04 354 8222
Fax: 04 370 9646

Qusais Branch:
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(Dubai Education Zone)
Al Qusais 2
(Next to Al Tiwar Center)
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Abu Dhabi Branch:
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Mashreq Bank Building
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Tel: 02 622 0223
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Al Ain Branch:
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Al Markhania
Al Ain, U.A.E.
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ENBD Building
Office # 302, 3rd floor
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Independent auditors' report

The Shareholders
National General Insurance Co. (P.S.C.)

Report on the Financial Statements

We have audited the accompanying financial statements of National General Insurance Co. (P.S.C.) ("the Company"), which comprise the statement of financial position as at 31 December 2014, the statement of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising 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.

Auditors' 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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider 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 present fairly, in all material respect, the financial position of the Company as at 31 December 2014, and 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 UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit; the financial statements comply, in all material respects, with the applicable requirements of the UAE Federal Law (8) of 1984 (as amended) and the Articles of Association of the Company; that proper financial records have been kept by the Company; and the contents of the Directors' report which relate to these financial statements are in agreement with the Company's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2014, which may have had a material adverse effect on the business of the Company or its financial position.

KPMG Lower Gulf Limited
Muhammad Tariq
Registration No: 793

04 FEB 2015

National General Insurance Co. (P.S.C.)

Statement of financial position

As at 31 December 2014

		2014 AED	2013 AED
ASSETS			
Property and equipment	8	34,455,304	33,210,278
Intangible assets	8.2	1,861,723	1,206,438
Investment properties	9	225,931,292	221,631,292
Investments securities	10	247,749,525	293,494,816
Reinsurance assets	13	139,821,666	147,110,941
Insurance and other receivables	11	124,422,854	107,671,712
Cash and bank balances	12	195,789,347	136,099,485
Total assets		970,031,711	940,424,962
LIABILITIES			
Insurance contract provisions	13	322,746,323	336,929,634
Insurance and other payables	14	119,929,880	126,069,302
Payable to policyholders of unit linked products	24	41,990,988	38,744,863
Total liabilities		484,667,191	501,743,799
EQUITY			
Share capital	15	149,954,112	149,954,112
Legal reserve	15	67,949,507	59,986,254
General reserve	15	67,333,521	59,370,268
Fair value reserve	15	229,233	(1,213,870)
Retained earnings		199,898,147	170,584,399
Total equity		485,364,520	438,681,163
Total liabilities and equity		970,031,711	940,424,962

The notes on pages 10 to 46 form an integral part of these financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on **04 FEB 2015** and signed on their behalf by:



HE Hamad Mubarak Buamim
Chairman



Dr. Abdul Zahra A. Ali
CEO

Independent auditor's report is set out on page 3 - 4.

National General Insurance Co. (P.S.C.)

Statement of profit or loss

For the year ended 31 December 2014

	Note	2014 AED	2013 AED
Gross written premiums	22	450,829,392	445,709,782
Reinsurance ceded		(133,272,264)	(140,125,906)
Net premiums		317,557,128	305,583,876
Change in unearned premium provision and payable to policyholders of unit linked product		2,166,168	(15,113,550)
Net earned premiums		319,723,296	290,470,326
Reinsurance commission earned		36,183,373	37,792,500
Total underwriting income		355,906,669	328,262,826
Claims paid	13	(322,497,700)	(323,816,125)
Reinsurance share of claims paid	13	65,970,181	117,677,623
Net claims paid		(256,527,519)	(206,138,502)
Change in outstanding claims provision		7,122,341	(8,994,570)
Net incurred claims	22	(249,405,178)	(215,133,072)
Commission paid	22	(41,707,636)	(32,957,039)
Administrative expenses	19	(40,408,159)	(38,248,541)
Net underwriting expenses		(331,520,973)	(286,338,652)
Net movement in life assurance fund	22	(5,640,598)	(1,931,109)
Increase/ (decrease) in fair value of investments held for unit linked products	24	1,355,109	(1,595,029)
Total underwriting expense		(335,806,462)	(289,864,790)
Underwriting profit	22	20,100,207	38,398,036
Interest and other income		4,838,159	2,549,618
Net rental income	9	3,585,367	4,053,847
Net income from investments	18	54,956,180	87,783,139
Fair value gain on investment properties- net	9	10,362,364	2,416,953
Net gain from investment portfolio		73,742,070	96,803,557
General and administrative expenses	19	(14,209,751)	(10,096,014)
Profit for the year		79,632,526	125,105,579
Basic and diluted earnings per share	23	0.53	0.83

The notes on pages 10 to 46 form an integral part of these financial statements.

Independent auditor's report is set out on page 3 - 4.

National General Insurance Co. (P.S.C.)

Statement of other comprehensive income

For the year ended 31 December 2014

	2014	2013
	AED	AED
Profit for the year	79,632,526	125,105,579
Other comprehensive income		
<i>Items that will not be classified to profit or loss:</i>		
Net change in fair value of investments at fair value through other comprehensive income	1,670,991	712,987
<i>Items that are or may be reclassified subsequently to profit or loss</i>	-	-
Total other comprehensive income for the year	1,670,991	712,987
Total comprehensive income for the year	81,303,517	125,818,566

The notes on pages 10 to 46 form an integral part of these financial statements.

Independent auditor's report is set out on page 3 - 4.

National General Insurance Co. (P.S.C.)

Statement of cash flows

For the year ended 31 December 2014

	Note	2014 AED	2013 AED
Cash flows from operating activities			
Profit for the year		79,632,526	125,105,579
<i>Adjustment for:</i>			
Depreciation and amortisation	8.3	3,776,493	2,657,694
Unrealised losses/ (gains) on investments fair valued through profit or loss	18	6,764,228	(58,828,119)
Realised gains on investment	18	(53,221,309)	(22,769,933)
Realised loss/ (gain) on sale of property, plant and equipment		1,124	(5,288)
Dividend income	18	(9,133,589)	(6,185,087)
Unrealised gains on fair value of investment properties	9	-	(12,520,893)
Change in unearned premium reserve and life assurance fund		228,304	17,430,126
Reversal of provision	9.1	(10,103,940)	-
Provision for gratuity - net of repayment		1,344,415	1,280,067
		19,288,252	46,164,146
Change in insurance and other receivables		(16,751,142)	(11,735,669)
Change in insurance and other payables		2,620,103	25,898,851
Change in net outstanding claims		(7,122,341)	8,994,571
Director's remuneration		(4,629,338)	(2,962,265)
<i>Net cash (used in)/ generated from operating activities</i>		(6,594,466)	66,359,634
Cash flows from investing activities			
Change in investments at fair value through profit or loss (net)		95,695,305	(42,726,977)
Dividend income		9,133,589	6,185,087
Change in property and equipment (net)		(5,673,508)	(1,017,152)
Change in investment at amortised cost (net)		-	6,154,036
Change in investment properties		(4,300,000)	-
Change in investments at fair value through OCI (net)		1,419,764	10,853,617
Decrease / (increase) in bank deposits		46,780,487	(20,136,783)
<i>Net cash generated from/ (used in) investing activities</i>		143,055,637	(40,688,172)
Cash flows from financing activities			
Dividends paid		(29,990,822)	(29,990,822)
<i>Net cash used in financing activities</i>		(29,990,822)	(29,990,822)
Net increase/ (decrease) in cash and cash equivalents		106,470,349	(4,319,360)
Cash and cash equivalents at 1 January	12	74,318,998	78,638,358
Cash and cash equivalents at 31 December	12	180,789,347	74,318,998

The notes on pages 10 to 46 form an integral part of these financial statements.

Independent auditor's report is set out on page 3 - 4.

National General Insurance Co. (P.S.C.)
Statement of changes in shareholders' equity
For the year ended 31 December 2014

	Attributable to the equity holders of the Company					
	Share capital AED	Legal reserve AED	General reserve AED	Fair value reserve AED	Retained earnings AED	Total AED
As at 1 January 2013	149,954,112	47,475,696	46,859,710	(1,721,044)	103,247,210	345,815,684
Total comprehensive income for the year						
Profit for the year	-	-	-	-	125,105,579	125,105,579
Other comprehensive income for the year						
Net change in fair value of investments FVTOCI	-	-	-	712,987	-	712,987
Net change in fair value of investments FVTOCI transferred to retained earnings	-	-	-	(205,813)	205,813	-
Total other comprehensive income for the year	-	-	-	507,174	205,813	712,987
Total comprehensive income for the year	-	-	-	507,174	125,311,392	125,818,566
<i>Transaction with owners directly recorded in equity</i>						
Directors' remuneration (Note 17)	-	-	-	-	(2,962,265)	(2,962,265)
Transfer to legal reserve	-	12,510,558	-	-	(12,510,558)	-
Transfer to general reserve	-	-	12,510,558	-	(12,510,558)	-
Dividends paid (Note 16)	-	-	-	-	(29,990,822)	(29,990,822)
As at 31 December 2013	149,954,112	59,986,254	59,370,268	(1,213,870)	170,584,399	438,681,163
Balance at 1 January 2014	149,954,112	59,986,254	59,370,268	(1,213,870)	170,584,399	438,681,163
Total Comprehensive income for the year						
Profit for the year	-	-	-	-	79,632,526	79,632,526
Other comprehensive income for the year						
Net change in fair value of investment: FVTOCI	-	-	-	1,670,991	-	1,670,991
Net change in fair value of investments FVTOCI transferred to retained earnings	-	-	-	(227,888)	227,888	-
Total other comprehensive income for the year	-	-	-	1,443,103	227,888	1,670,991
Total comprehensive income for the year	-	-	-	1,443,103	79,860,414	81,303,517
<i>Transaction with owners directly recorded in equity</i>						
Directors' remuneration (Note 17)	-	-	-	-	(4,629,338)	(4,629,338)
Transfer to legal reserve	-	7,963,253	-	-	(7,963,253)	-
Transfer to general reserve	-	-	7,963,253	-	(7,963,253)	-
Dividends paid (Note 16)	-	-	-	-	(29,990,822)	(29,990,822)
As at 31 December 2014	149,954,112	67,949,507	67,333,521	229,233	199,898,147	485,364,520

The notes on pages 10 to 46 form an integral part of these financial statements.

Independent auditor's report is set out on page 3 - 4.

National General Insurance Co. (P.S.C.)

Notes

(forming part of the financial statements)

1. Reporting entity

National General Insurance Co. (P.S.C) ("the Company") is a Public Shareholding Company registered under UAE Federal Law No. (8) of 1984 as amended, in the Emirate of Dubai with effect from 12 September 2001.

The Company was originally incorporated as a Private Limited Liability Company, registered under UAE Federal Law No. (8) of 1984, as amended, in the Emirate of Dubai.

The Company underwrites all classes of life and general insurance business as well as certain reinsurance business in accordance with the provisions of the UAE Federal Law no. 6 of 2007 relating to establishment of insurance authority and UAE Federal law no. 9 of 1984 relating to insurance companies and brokers.

The registered office of the Company is at the NGI House, P.O. Box 154, Dubai, UAE.

2. Basis of preparation

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by International Accounting Standard Board ('IASB') and applicable requirements of UAE Law.

b) Changes in accounting policy

In the current year, the Company has adopted a number of amendments to IFRSs and new Interpretation's issued by the International Accounting Standards Board (IASB) that are effective for an accounting period that begins on or after 1 January 2014.

- Offsetting Financial Assets and Financial Liabilities (Amendment to IAS 32).
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36).
- IFRIC 21 Levies.

The nature and effects of changes are explained below.

National General Insurance Co. (P.S.C.)

Notes (continued)

2. Basis of preparation (continued)

b) Changes in accounting policy (continued)

a) Offsetting financial assets and financial liabilities (Amendment to IAS 32)

The amendments to IAS 32 clarify the requirements relating to offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The change had no impact on the disclosures or the amounts recognised in the Company's financial statements.

b) Recoverable amount disclosures for non-financial assets (Amendments to IAS 36)

The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendment introduce additional disclosure requirement applicable to when the recoverable amount of an asset or a CGU is measured at fair value less cost of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurement.

These amendments had no material impact on the disclosures in the Company's financial statements.

c) IFRIC 21-Levies

IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognises a liability for a levy when - and only when - the triggering event specified in the legislation occurs. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of the financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The application of this interpretation had no material impact on the disclosures or on the amounts recognised in the Company's financial statements.

c) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following which are stated at fair value :

- i) financial instruments at fair value through profit or loss ("FVTPL");
- ii) financial instruments at fair value through other comprehensive income ("FVTOCI"); and
- iii) investment properties.

The methods used to measure fair values are discussed in note 3(j).

National General Insurance Co. (P.S.C.)

Notes (continued)

2. Basis of preparation (continued)

d) Functional and presentation currency

These financial statements are presented in U.A.E. Dirhams ("AED"), which is the Company's functional currency. Financial information presented has been rounded to the nearest Dirham.

e) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 5.

National General Insurance Co. (P.S.C.)

Notes (continued)

3. Significant accounting policies

Except for change in accounting policy stated in Note 2 (b), the accounting policy set out below have been applied consistently to all periods presented in these financial statements.

a) Insurance contracts

i) Classification

The Company issues contracts that transfer either insurance risk or both insurance and financial risks.

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts. Insurance risk is significant if an insured event could cause the Company to pay significant additional benefits due to happening of the insured event compared to its non happening.

Insurance contracts may also transfer some financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Contracts where insurance risk is not significant are classified as investment contracts.

Once a contract is classified as an insurance contract it remains classified as an insurance contract until all rights and obligations are extinguished or expired.

ii) Recognition and measurement

Premiums

Gross premiums written reflect business incepted during the year, and exclude any fees and other amounts collected with and calculated based on premiums. These are recognised when underwriting process is complete and policies are issued.

The earned position of premium is recognised as an income. Premiums are earned from the date of attachment of risk over the indemnity period and unearned premium is calculated using the basis described below:

Unearned premium provision

Unearned premiums, other than individual life business, are computed using statistical models to spread premium written evenly over period of coverage. Unearned premiums for individual life business are considered by the Company's actuary in the calculation for life reserve fund.

National General Insurance Co. (P.S.C.)

Notes (continued)

3. Significant accounting policies (Continued)

a) Insurance contracts (Continued)

iii) Claims

Claims incurred comprise the settlement and the internal and external handling costs paid and changes in the provisions for outstanding claims arising from events occurring during the financial period. Where applicable, deductions are made for salvage and their recoveries.

Claims outstanding comprise provisions for the Company's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expense reduced by expected salvage and other recoveries. Claims outstanding are assessed by reviewing individual reported claims. Provisions for claims outstanding are not discounted. Adjustments to claims provisions established in prior periods are reflected in the financial statements of the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly. Provision is also made for any claims incurred but not reported ("IBNR") at the date of statement of financial position on the basis of management estimates. The basis of estimating outstanding claims and IBNR are detailed in note 13.

iv) Provision for premium deficiency / liability adequacy test

Provision is made for premium deficiency arising from general insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date exceeds the unearned premiums provision and already recorded claim liabilities in relation to such policies. The provision for premium deficiency is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premiums and claims provisions.

National General Insurance Co. (P.S.C.)

Notes (continued)

3. Significant accounting policies (continued)

a) Insurance contracts (continued)

v) Reinsurance

The Company cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

Amounts due to and from reinsurers are accounted for in a manner consistent with the related insurance policies and in accordance with the relevant reinsurance contracts. Reinsurance premiums are deferred and expensed using the same basis as used to calculate unearned premium reserves for related insurance policies. The deferred portion of ceded reinsurance premiums is included in reinsurance assets.

Reinsurance assets are assessed for impairment at each reporting date. A reinsurance asset is 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 event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. Impairment losses on reinsurance assets are recognised in statement of profit or loss in the period in which they are incurred.

Profit commission in respect of reinsurance contracts is recognised on an accrual basis and reinsurance commission is recognised on the basis stated in note 3(b).

vi) Deferred acquisition cost

For general insurance contracts, the deferred acquisition cost asset represents the position of acquisition costs which corresponds to the proportion of gross premiums written that is unearned at the reporting date.

vii) Insurance receivables and payables

Amounts due from and to policyholders, agents and reinsurers are financial instruments and are included in insurance receivables and payables, and not in insurance contract provisions or reinsurance assets.

viii) Life assurance fund

The fund is determined by the independent actuarial valuation of future policy benefits. 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. Adjustments to the balance of fund are affected by charges or credits to income. Certain generated returns are accrued and provided for in the life fund.

ix) Insurance contract provision and reinsurance assets

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Company and still unpaid at the statement of financial position date, in addition for claims incurred but not reported and Life assurance fund. The unearned premium considered in the insurance contract liabilities comprise the estimated proportion of the gross premiums written which relates to the periods of insurance subsequent to the statement of financial position date.

The reinsurers' portion towards the above outstanding claims, claims incurred but not reported and unearned premium is classified as reinsurance contract assets in the financial statements.

National General Insurance Co. (P.S.C.)

Notes (continued)

3. Significant accounting policies (continued)

b) Revenue (other than insurance revenue)

Revenue (other than insurance revenue) comprises the following:

i) Fee and commission income

Fee and commissions received or receivable which do not require the Company to render further service are recognised as revenue by the Company on the effective commencement or renewal dates of the related policies.

ii) Investment income

Investment income comprises income from financial assets, rental income from investment properties, realised and unrealised fair value gains on investment property and financial assets at FVTPL.

Income from financial assets comprises interest and dividend income, net gains/losses on financial assets classified at fair value through profit or loss (FVTPL), and realised gains/losses on other financial assets.

Interest income is recognised on a time proportion basis using effective interest rate method. Dividend income is recognised when the right to receive dividend is established. Usually this is the ex-dividend date for equity securities. Basis of recognition of net gains/losses on financial assets classified at fair value through profit or loss and realised gains on other financial assets is described in note 3 (g).

Fair value gains/losses on investment property are included in the statement of profit or loss in the period these gains/losses are determined.

c) Operating leases

Leases of assets under which the lessor effectively retains all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases for office premises equipments are recognised in statement of profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

d) Property and equipment

i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Where parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognised net within other income/other expenses in profit or loss. When revalued assets are sold, any related amount included in the revaluation reserve is transferred to retained earnings.

ii) Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in statement of profit or loss as incurred.

National General Insurance Co. (P.S.C.)

Notes (continued)

3. Significant accounting policies (continued)

d) Property and equipment (continued)

iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in statement of profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

Depreciation methods, useful lives and residual values are reassessed at the reporting date and adjusted if appropriate. No depreciation is charged on freehold land and capital-work-in-progress. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

The estimated useful lives with their capabilities for various categories of property and equipment is as follows :

Office Building	30 years
Furniture and Fixtures	4 years
Office Equipment	4 years
Motor Vehicles	4 years
Computer Equipment	4 years

e) Intangible assets (Software)

Software acquired by the Company is measured at cost less accumulated amortisation and any accumulated impairment losses. Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight line basis in statement of profit or loss over its estimated useful life, from the date that it is available for use. The estimated useful life of software for the current and comparative periods are four years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

f) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, used in providing for services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in the statement of profit or loss.

The Company determines fair value on the basis of valuation provided by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

National General Insurance Co. (P.S.C.)

Notes (continued)

3. Significant accounting policies (continued)

g) Non-derivative financial assets

The Company had adopted IFRS 9, Financial instruments in 2011 in advance of its effective date. The Company had chosen 1 January 2011 as its date of initial application.

Recognition

The Company initially recognises loans and advances and deposits on the date at which they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Company becomes party to the contractual provision of the instrument.

A financial asset or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value.

Classification

At inception a financial asset is classified as measured at amortised cost or fair value.

A financial asset qualifies for amortised cost measurement only if it meets both of the following two conditions :

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principle and interest on the principle amount outstanding.

If a financial asset does not meet both of these conditions, then it is measured at fair value.

The Company makes an assessment of a business model at portfolio level as this reflect the best way the business is managed and information is provided to the management.

In making an assessment of whether an asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the Company considers:

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focus on earning contractual interest revenue;
- the degree of frequency of any expected asset sales;
- the reason of any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

Financial assets held for trading are not held within a business model whose objective is to hold the asset in order to collect contractual cash flows.

The Company has designated certain financial assets at fair value through profit or loss because designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

National General Insurance Co. (P.S.C.)

Notes (continued)

3. Significant accounting policies (continued)

g) Non-derivative financial assets (continued)

Classification (continued)

Financial assets at FVTOCI

At initial recognition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in certain equity instruments as at FVTOCI (fair value through other comprehensive income). Designation to FVTOCI is not permitted if the equity instrument is held for trading.

Dividend in these investments in equity instruments are recognised in the income statement when the Company's right to receive the dividends is established, unless the dividends clearly represents a recovery of part of the cost of the investment.

Gains and losses on such equity instruments are never reclassified to income statement and no impairment is recognised in profit or loss.

Financial assets are not reclassified subsequent to their initial recognition, except when the Company changes its business model for managing financial assets.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise of cash balances and call deposits with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

h) Impairment

Impairment of non-derivative financial assets carried at amortised cost

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets carried at amortised cost are impaired. A financial asset or group of financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows relating to the asset that can be estimated reliably. The Company considers evidence of impairment at both a specific and collective level.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of an amount due to the Company on terms that the Company would not otherwise consider, indication that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a Company of assets such as adverse change in the payment status of borrowers or issuers, or economic conditions that correlate with defaults in the Company.

Impairment of loans and receivables

The Company considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by companying together loans and receivables with similar risk characteristics.

National General Insurance Co. (P.S.C.)

Notes (continued)

3. Significant accounting policies (continued)

h) Impairment (continued)

Impairment of loans and receivables (continued)

At each reporting date, the Company assesses on a case-by-case basis whether there is any objective evidence that a asset is impaired. Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off and/or any event resulting in a reduction in impairment loss, decreases the amount of the provision for loan impairment in the income statement.

Impairment losses are recognised in the income statement and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement.

i) De-recognition of financial assets

The Company derecognises a financial asset when the contractual right to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risk and rewards of the ownership are transferred or in which the Company neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control on the financial asset. Any interest in transferred financial assets that qualify for derecognition that is carried or retained by the Company is recognised as separate asset or liability in the statement of financial position. On derecognition of financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in income statement.

The Company enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the financial assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

Transfer of assets with retention of all or substantially all risks and rewards include, securities lending and repurchase transactions.

In transactions in which the Company neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Company retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the services.

National General Insurance Co. (P.S.C.)

Notes (continued)

3. Significant accounting policies (continued)

j) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Company measures the fair value of an instrument using the quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in the income statement on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Company on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Company recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

k) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

l) Foreign currency transactions

Transactions denominated in foreign currencies are translated to AED at the foreign exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to AED at the foreign exchange rates ruling at the reporting date. Non monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to AED at the foreign exchange rate ruling at the date of the transaction. Realised and unrealised exchange gains and losses have been dealt with in the statement of profit or loss.

National General Insurance Co. (P.S.C.)

Notes (continued)

3. Significant accounting policies (continued)

m) Employee terminal benefits

Defined benefit plan

Provision is made for employee terminal benefits in accordance with the Company's policy, which meets the requirements of the UAE Federal Labour Law applicable to an employee's accumulated period of service at the reporting date. The management considers that the difference between the liability as calculated using an actuarial method would not be materially different from the provision carried in the financial statements.

Defined contribution plan

The Company pays its obligations regarding UAE citizens into a Social Security and UAE Pension Fund in accordance with the UAE Federal Law No. 7 of 1999 for Pension and Social Security.

n) Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss for the year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

o) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the Company's CEO to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

p) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when, and only when, the Company has a legally enforceable right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or of gains and losses arising from a group of similar transactions such as in the Company's trading activity.

q) Directors remuneration

In accordance with the Ministry of Economy and Commerce Interpretation of Article 118 of Federal Law No. 8 of 1984 (as amended), directors' remuneration of the Company has been treated as an appropriation from equity and presented under statement of changes in equity.

National General Insurance Co. (P.S.C.)

Notes (continued)

3. Significant accounting policies (continued)

r) Investment securities

Investment securities are initially measured at fair value plus in case of investment securities not at fair value through profit or loss, incremental direct transaction cost. Subsequent to initial recognition investment securities are accounted for depending upon their classification as either amortised cost, fair value through profit or loss or fair value through other comprehensive income.

Investment securities are measured at amortised cost using the effective interest method, if:

- they are held within a business model with an objective to hold assets in order to collect contractual cash flow and the contractual terms of financial assets give rise, on specific dates, to cash flows that are solely payments of principal and interest; and
- they have not been designated previously as measured at fair value through profit or loss.

The Company elects to present changes in fair value of certain investments in equity instruments held for strategic purpose in other comprehensive income. The election is irrevocable and is made on an instrument-by-instrument basis at initial recognition.

Gains and losses on such equity instruments are never reclassified to income statement and no impairment is recognised in the income statement.

s) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014 and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company does not have plans to adopt these standards early.

Accounting Standard	Description	Effective date
IFRS 15	Revenue from Contracts with Customers	(effective 1 January 2017)
IFRS 9	Financial instruments (2014)	(effective 1 January 2018)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The Company is in the process of evaluating the potential impact of this standard on its financial statement resulting from application of this IFRS 15.

IFRS 9 Financial Instruments

The Company has adopted IFRS 9 (2009) which sets out guidelines for the classification and measurement of financial assets.

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

The Company has commenced the process of evaluating the potential effect of this standard. Given the nature of the Company's operations, this standard is expected to have a limited pervasive impact on the Company's consolidated financial statements.

National General Insurance Co. (P.S.C.)

Notes (continued)

4. Risk management

The Company issues contracts that transfer either insurance risk or both insurance and financial risks. The Company does not issue contracts that transfer only financial risks. This section summarises these risk and the way the Company manages them:

i) Governance framework

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of the set financial performance objectives. Management recognises the critical importance of having efficient and effective risk management systems in place.

ii) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

iii) Capital management framework

The Company has an internal risk management framework for identifying risks to which each of its business units and the Company as a whole is exposed, quantifying their impact on economic capital.

iv) Regulatory framework

Regulators are primarily interested in protecting the rights of the policyholders and shareholders and monitor closely to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

The operations of the Company are also subject to regulatory requirements within the UAE. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

v) Asset liability management ("ALM")

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The main risk that the Company faces due to the nature of its investments and liabilities is interest rate risk and equity price risk. The Company manages these positions within an ALM frame work that has been developed by management to achieve long-term investment returns in excess of its obligations under insurance and investment contracts.

The Company's ALM is also integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance and investment liabilities.

The Company's ALM also forms an integral part of the insurance risk management policy, to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance.

National General Insurance Co. (P.S.C.)

Notes (continued)

4. Risk management (continued)

v) Asset liability management (“ALM”) - (continued)

a) Insurance risks

The Company accepts insurance risk through its written insurance contracts. The Company is exposed to uncertainty surrounding the timing, frequency and severity of claims under these contracts.

The Company writes the following types of general insurance and life insurance contracts:

General insurance contracts

- Liability insurance
- Property insurance
- Motor insurance
- Fire insurance
- Health insurance
- Marine Insurance
- Engineering Insurance

Life insurance contracts

- Group life insurance
- Individual life insurance

Two key elements of the Company’s insurance risk management framework are its underwriting strategy and reinsurance strategy, as discussed below.

Underwriting strategy

General insurance

The Company’s underwriting strategy is to build balanced portfolios based on a large number of similar risks. This reduces the variability of the portfolios outcome.

The underwriting strategy is set out by the Company that establishes the classes of business to be written, the territories in which business is to be written and the industry sectors in which the Company is prepared to underwrite. This strategy is cascaded by the business units to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business, territory and industry in order to ensure appropriate risk selection within the portfolio. All general insurance contracts except marine, are annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

Medical selection is part of the Company’s underwriting procedures, whereby premiums are charged to reflect the health condition and family medical history of the applicants. Pricing is based on assumptions, such as mortality and persistency, which consider past experience and current trends. Contracts including specific risks and guarantees are tested for profitability according to predefined procedures before approval.

National General Insurance Co. (P.S.C.)

Notes (continued)

4. Risk management (continued)

v) Asset liability management (“ALM”) - (continued)

a) Insurance risks (continued)

Life insurance

Underwriting is managed at each business unit through a dedicated underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff. The underwriting policy is clearly documented, setting out risks which are unacceptable and the terms applicable for non-standard risks.

Products are reviewed by the business units on an annual basis to confirm, or otherwise, that pricing assumptions remain appropriate. Analysis is performed on earnings and liability movements to understand the source of any material variation in actual results from what was expected. This confirms the appropriateness of assumptions used in underwriting and pricing.

Reinsurance strategy

The Company reinsures a portion of the insurance risks it underwrites in order to control its exposure to losses and protect capital resources.

Ceded reinsurance contains credit risk, as discussed in the financial risk management note. The Company has a Reinsurance department that is responsible for setting the minimum security criteria for acceptable reinsurance and monitoring the purchase of reinsurance by the business units against those criteria. The department monitors developments in the reinsurance programme and its ongoing adequacy.

The Company buys a combination of proportionate and non-proportionate reinsurance treaties to reduce the net exposure to the Company. In addition, underwriters are allowed to buy facultative reinsurance in certain specified circumstances. All purchases of facultative reinsurance are subject to business unit pre-approval and the total expenditure on facultative reinsurance is monitored regularly by reinsurance department.

b) Financial risks

The Company has exposure to the following primary risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

This note presents information about the Company’s exposure to each of the above risks, the Company’s objectives, policies and processes for measuring and managing risk, and the Company’s management of capital. Further quantitative disclosures are included throughout these financial statements.

National General Insurance Co. (P.S.C.)

Notes (continued)

4. Risk management (continued)

b) Financial risks (continued)

i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

Compliance with the policy is monitored and exposures and breaches are regularly reviewed for pertinence and for changes in the risk environment.

For all classes of financial assets held by the Company the maximum credit risk exposure to the Company is the carrying value as disclosed in the financial statements at the reporting date.

Reinsurance is placed with reinsurers' approved by the management, which are generally international reputed companies.

To minimize its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurer's and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers.

At each reporting date, management performs an assessment of creditworthiness of reinsurers' and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment if required.

The Company monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

	Non-trading investments		Insurance and other receivables		Reinsurance assets	
	2014	2013	2014	2013	2014	2013
	AED	AED	AED	AED	AED	AED
Carrying amount	15,408,900	15,408,900	128,117,609	111,491,644	78,559,120	85,332,500
Concentration by sector						
- Financial institution / Reinsurance companies	-	-	38,834,186	38,679,738	78,559,120	85,332,500
- Banks	15,408,900	15,408,900	1,753,986	4,069,986	-	-
- Real estate	-	-	2,879,300	5,284,183	-	-
- Service	-	-	-	-	-	-
- Others	-	-	84,650,137	63,457,737	-	-
Total carrying amount	15,408,900	15,408,900	128,117,609	111,491,644	78,559,120	85,332,500
Concentration by location						
- UAE	15,408,900	15,408,900	89,283,423	72,811,906	-	-
- GCC	-	-	-	-	-	-
- Other Arab Countries	-	-	-	-	-	-
- European Countries	-	-	38,834,186	38,679,738	78,559,120	85,332,500
- Others	-	-	-	-	-	-
Total carrying amount	15,408,900	15,408,900	128,117,609	111,491,644	78,559,120	85,332,500

National General Insurance Co. (P.S.C.)

Notes (continued)

4. Risk management (continued)

b) Financial risks (continued)

i) Credit risk (continued)

The above class of financial instruments provide the best representation for the Company's maximum exposure to credit risk at the end of the year.

The concentrations by location for insurance and other receivables and reinsurance assets are measured based on the residential status of the counter parties. The concentration by location for non-trading investments is measured based on the location of the issuer of the security.

The age analysis of insurance and other receivables (except prepayment) are as follows

	Gross 2014 AED	Impairment provision AED	Gross 2013 AED	Impairment provision AED
Neither past due not impaired	51,983,361	-	38,902,357	-
Past due 0-30 days	17,984,403	-	12,395,853	-
Past due 31-120 days	10,718,872	-	13,529,516	-
Past due 120-365 days	30,860,699	-	29,268,389	-
More than 365 days	16,570,274	(6,000,000)	17,395,529	(6,000,000)
	<u>128,117,609</u>	<u>(6,000,000)</u>	<u>111,491,644</u>	<u>(6,000,000)</u>

ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements are monitored on a daily basis and management ensures that sufficient funds are available to meet any commitments as they arise.

Maturity profiles

The table below summarises the maturity profile of the liabilities of the Company based on remaining undiscounted contractual obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

Contractual cash flows					
	Gross Carrying Value AED	contractual cash flow AED	Less than 180 days AED	180 days to 1 year AED	1-5 Year AED
31 December 2014					
Liabilities					
Insurance and other payables	<u>109,968,391</u>	<u>(109,968,391)</u>	<u>(109,968,391)</u>	<u>-</u>	<u>-</u>
		Gross			
	Carrying Value	contractual	Less than 180	180 days to 1	1-5 Year
	AED	cash flow	days	year	AED
31 December 2013					
Liabilities					
Insurance and other payables	<u>117,452,228</u>	<u>(117,452,228)</u>	<u>(117,452,228)</u>	<u>-</u>	<u>-</u>

National General Insurance Co. (P.S.C.)

Notes (continued)

4. Risk management (continued)

b) Financial risks (continued)

iii) 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 limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in local equity and bond markets. In addition, the Company actively monitors the key factors that affect stock and bond market movements, including analysis of the operational and financial performance of investees.

a) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Company's functional currency is the UAE Dirham.

The Company's major exposures are in USD, including reinsurance arrangements which is pegged with AED and the Company's exposure to currency risk is limited to that extent.

b) Interest rate risk

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

The Company invests in securities and has deposits that are subject to interest rate risk. Interest rate risk to the Company is the risk of changes in market interest rates reducing the overall return on its interest bearing securities.

The Company's interest risk policy requires to manage interest risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities.

The Company limits interest rate risk by monitoring changes in interest rates in the currencies in which its cash and investments are denominated and has no significant concentration of interest rate risk.

A summary of the Company's interest rate gap position on the non-trading portfolio based on contractual repayment is as follows:

31 December 2014

	Variable AED	Fixed AED
Financial assets		
Investments at FVTOCI	36,469,741	-
Investments at amortised cost	-	15,408,900
Cash at bank	-	40,208,585
Total financial assets	36,469,741	55,617,485
Financial liabilities	-	-
Net financial instruments	36,469,741	55,617,485

National General Insurance Co. (P.S.C.)

Notes (continued)

4. Risk management (continued)

b) Financial risks (continued)

iii) Market risk (continued)

b) Interest rate risk (continued)

31 December 2013

Financial assets	Variable AED	Fixed AED
Investment at FVTOCI	34,336,982	-
Investment at amortised cost	-	15,408,900
Cash at bank	-	106,929,227
Total financial assets	34,336,982	122,338,127
Financial liabilities	-	-
Net financial instruments	34,336,982	122,338,127

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2013.

31 December 2014	Profit or loss (AED) 100 bp	
Financial instruments	Increase	Decrease
Financial assets	364,697	(364,697)
31 December 2013	Profit or loss (AED) 100 bp	
Financial instruments	Increase	Decrease
Financial assets	343,370	(343,370)

Fair value sensitivity analysis for fixed rate instruments

Fixed rate interest bearing financial assets, which are carried at cost are not exposed to interest rate risk.

National General Insurance Co. (P.S.C.)

Notes (continued)

4. Risk management (continued)

b) Financial risks (continued)

iii) Market risk (continued)

c) Equity price risk

Equity price risk is the risk that the fair value of a financial instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices.

The Company's equity price risk policy requires is to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, sector and market. The fair values of financial assets are not different from their carrying values.

Sensitivities

The table below shows the results of sensitivity testing on the Company's profit or loss and equity by type of business. The sensitivity analysis indicates the effect of changes in price risk factors arising from the impact of the changes in these factors on the Company's investments:

	10% increase in price		10% decrease in price	
	Profit or loss	OCI	Profit or loss	OCI
	AED	AED	AED	AED
31 December 2014				
Fair value through OCI	-	3,646,974	-	(3,646,974)
Fair value through profit or loss	19,587,088	-	(19,587,088)	-
31 December 2013				
Fair value through OCI	-	3,620,942	-	(3,620,942)
Fair value through profit or loss	24,187,650	-	(24,187,650)	-

iv) Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss.

The Company cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks.

The Company has detailed systems and procedures manuals with effective segregation of duties, access controls, authorization and reconciliation procedures, staff training and assessment processes etc. with a compliance and internal audit framework. Business risks such as changes in environment, technology and the industry are monitored through the Company's strategic planning and budgeting process.

National General Insurance Co. (P.S.C.)

Notes (continued)

5. Use of estimates and judgements

The areas of the Company's business containing key sources of estimation uncertainty include the measurement of insurance contract provisions and the determination of the fair values of financial instruments.

Measurement of insurance contract provisions

The Company's accounting policy in respect of insurance contract accounting is discussed in more detail in note 3(a). The key assumptions made in respect of insurance contract liabilities are included in Note 13.

Insurance contract classification

Contracts are classified as insurance contracts where they transfer significant insurance risk from the holder of the contract to the Company.

There are a number of contracts sold where the Company exercises judgement about the level of insurance risk transferred. The level of insurance risk is assessed by considering whether there are any scenarios with commercial substance in which the Company is required to pay significant additional benefits. These benefits are those which exceed the amounts payable if no insured event were to occur. These additional amounts include claims liability and assessment costs, but exclude the loss of the ability to charge the holder of the contract for future services.

Individual life insurance

The assumptions used in the actuarial valuations for life fund are consistently applied and these assumptions are based on mortality and withdrawal rate assumptions. Also refer 3(a)(viii).

Provision for outstanding claims, whether reported or not

Considerable judgment by the management is required in the estimation of amounts due to the contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the date of statement of financial position and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the date of statement of financial position. The primary technique adopted by the management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends and are presented in Note 13.

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred and IBNR claims regularly.

National General Insurance Co. (P.S.C.)

Notes (continued)

5. Use of estimates and judgements (continued)

Classification of financial instruments

Impairment of insurance receivables

An estimate of the collectible amount of insurance receivables is made when collection of the full amount is no longer probable. This determination of whether the insurance receivables are impaired, entails the Company evaluating the credit and liquidity position of the policy holders and the insurance and reinsurance companies, historical recovery rates including detailed investigations carried out during 2014 and feedback received from the legal department. The difference between the estimated collectible amount and the book amount is recognised as an expense in the profit or loss. Any difference between the amounts actually collected in the future periods and the amounts expected will be recognised in the profit or loss at the time of collection.

Details of provision against doubtful accounts are stated in Note 11.

Liability Adequacy Test

At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities. The Company makes use of the best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities in evaluating the adequacy of the liability. Any deficiency is immediately charged to the profit or loss.

Valuation of investment property

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Company's investment property portfolio annually.

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment properties, as well as the significant unobservable inputs used.

The Company has taken the highest and best use fair values for the fair value measurement of its investment properties.

Valuation technique	Significant unobservable inputs	Interrelationship between key unobservable inputs and fair value
1) Income valuation approach	-Expected market rental growth rate	The estimated fair value increase/decrease if: -Expected market rental growth rate were higher
2) Sales comparative valuation approach	-Risk adjusted discount rates	-The risk adjusted discount rates were lower/higher
3) Market value approach	-Free hold property	-The property is not free hold
	-Free of covenants , third party rights and obligations	-The property is subject to any covenants, rights and obligations
	-Statutory and legal validity	-The property is subject to any adverse legal notices / judgment
	-Condition of the property	-The property is subject to any defect / damages
	-Sales value of comparable properties	-The property is subject to sales value fluctuations of surrounding properties in the area.

National General Insurance Co. (P.S.C.)

Notes (continued)

6 Accounting classification of financial assets and financial liabilities

The table below shows a reconciliation between line items in the statement of financial position and categories of financial instruments.

At 31 December 2014	FVTPL AED	FVTOCI AED	Amortised cost AED	Total carrying amount AED
<u>Financial assets</u>				
Insurance and other receivables	-	-	122,117,609	122,117,609
Investment securities	195,870,884	36,469,741	15,408,900	247,749,525
Cash and bank balances	-	-	195,789,347	195,789,347
	<u>195,870,884</u>	<u>36,469,741</u>	<u>333,315,856</u>	<u>565,656,481</u>
<u>Financial liabilities</u>				
Insurance and other payables	-	-	109,968,391	109,968,391
Payable to policyholders of unit linked products	-	-	41,990,988	41,990,988
	<u>-</u>	<u>-</u>	<u>151,959,379</u>	<u>151,959,379</u>
At 31 December 2013	FVTPL AED	FVTOCI AED	Amortised cost AED	Total carrying amount AED
<u>Financial assets</u>				
Insurance and other receivables	-	-	105,491,644	105,491,644
Investment securities	241,876,497	36,209,419	15,408,900	293,494,816
Cash and bank balances	-	-	136,099,485	136,099,485
	<u>241,876,497</u>	<u>36,209,419</u>	<u>257,000,029</u>	<u>535,085,945</u>
<u>Financial liabilities</u>				
Insurance and other payables	-	-	117,452,228	117,452,228
Payable to policyholders of unit linked products	-	-	38,744,863	38,744,863
	<u>-</u>	<u>-</u>	<u>156,197,091</u>	<u>156,197,091</u>

National General Insurance Co. (P.S.C.)

Notes (continued)

7 Fair value of financial instrument

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Company determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

a) Fair value hierarchy of assets/liabilities measured at fair value

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

As at 31 December 2014

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
Financial assets				
FVTPL - Quoted equities	195,870,884	-	-	195,870,884
FVTOCI - financial assets	36,469,741	-	-	36,469,741
Non financial assets				
Investment properties	-	-	225,931,292	225,931,292
	<u>232,340,625</u>	<u>-</u>	<u>225,931,292</u>	<u>458,271,917</u>

As at 31 December 2013

Financial assets				
FVTPL - Quoted equities	241,876,497	-	-	241,876,497
FVTOCI - financial assets	34,336,982	1,872,437	-	36,209,419
Non financial assets				
Investment property	-	-	221,631,292	221,631,292
	<u>276,213,479</u>	<u>1,872,437</u>	<u>221,631,292</u>	<u>499,717,208</u>

National General Insurance Co. (P.S.C.)

Notes (continued)

7 Fair value of financial instrument (continued)

b) Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised

As at 31 December 2014

	Level 1 AED	Level 2 AED	Level 3 AED	Total carrying amount AED
Financial assets				
Cash and cash equivalents	-	195,789,347	-	195,789,347
Insurance and other receivables	-	122,117,609	-	122,117,609
Investments securities	-	15,408,900	-	15,408,900
Financial liabilities				
Insurance and other payables	-	109,968,391	-	109,968,391
Payable to policyholders of unit linked products	-	41,990,988	-	41,990,988
	-	485,275,235	-	485,275,235

As at 31 December 2013

Financial assets				
Cash and cash equivalents	-	136,099,485	-	136,099,485
Insurance and other receivables	-	105,491,644	-	105,491,644
Investments securities	-	15,408,900	-	15,408,900
Financial liabilities				
Insurance and other payables	-	117,452,228	-	117,452,228
Payable to policyholders of unit linked products	-	38,744,863	-	38,744,863
	-	413,197,120	-	413,197,120

The fair value of financial assets and liabilities is not significantly different from their carrying values.

- In respect of those financial assets and financial liabilities measured at amortised cost, which are of short term nature (up to 1 year), management believes that carrying amount is equivalent to its fair value.
- In respect of investments in bonds, management has used the quoted price when available to assess fair value or used a Discounted Cash Flow (DCF) methodology based on market observable inputs.
- Fair values of deposits with banks and customers is estimated using DCF methodology, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is considered to be the amount payable at the reporting date.

8. Property and equipment

	Note	2014 AED	2013 AED
Operating assets	8.3	32,358,304	33,118,441
Capital work in progress	8.1	2,097,000	91,837
At 31 December		34,455,304	33,210,278

- 8.1 Capital work in progress includes amount of AED 1.7 million towards the equipment related to media, which would be installed on the head office building.

National General Insurance Co. (P.S.C.)

Notes (continued)

8.2 Intangible Assets

		2014 AED	2013 AED
Software	8.3	<u>1,861,723</u>	<u>1,206,438</u>

8.3 Operating assets

	Office Building AED	Furniture and fixtures AED	Office equipment AED	Motor vehicles AED	Computer equipment AED	Total tangible operating assets AED	Intangible Assets AED
Cost							
At 1 January 2013	30,889,601	6,134,439	1,080,933	324,650	3,403,916	41,833,539	3,867,581
Additions	-	510,220	66,252	13,200	255,630	845,302	1,050,712
Disposals	-	-	-	(47,800)	-	(47,800)	(780,216)
At 31 December 2013	30,889,601	6,644,659	1,147,185	290,050	3,659,546	42,631,041	4,138,077
At 1 January 2014	30,889,601	6,644,659	1,147,185	290,050	3,659,546	42,631,041	4,138,077
Additions	-	1,697,325	166,503	33,250	622,279	2,519,357	1,337,919
Disposals / write off	-	(174,135)	-	(11,500)	-	(185,635)	-
At 31 December 2014	30,889,601	8,167,849	1,313,688	311,800	4,281,825	44,964,763	5,475,996
Depreciation & Amortisation							
At 1 January 2013	1,029,653	2,055,811	878,528	215,246	2,439,174	6,618,412	3,168,133
Charge for the year	1,029,653	1,413,488	76,965	48,274	372,334	2,940,714	543,713
On disposals / write off	-	-	-	(46,526)	-	(46,526)	(780,207)
At 31 December 2013	2,059,306	3,469,299	955,493	216,994	2,811,508	9,512,600	2,931,639
At 1 January 2014	2,059,306	3,469,299	955,493	216,994	2,811,508	9,512,600	2,931,639
Charge for the year	1,029,653	1,628,147	97,723	57,384	466,580	3,279,487	682,634
On disposals / write off	-	(174,129)	-	(11,499)	-	(185,628)	-
At 31 December 2014	3,088,959	4,923,317	1,053,216	262,879	3,278,088	12,606,459	3,614,273
Carrying amounts							
At 31 December 2013	<u>28,830,295</u>	<u>3,175,360</u>	<u>191,692</u>	<u>73,056</u>	<u>848,038</u>	<u>33,118,441</u>	<u>1,206,438</u>
At 31 December 2014	<u>27,800,642</u>	<u>3,244,532</u>	<u>260,472</u>	<u>48,921</u>	<u>1,003,737</u>	<u>32,358,304</u>	<u>1,861,723</u>

9. Investment properties (within UAE)

	2014 AED	2013 AED
At 1 January	221,631,292	209,110,399
Capital expenditure/ changes in fair value	4,300,000	12,520,893
At 31 December	<u>225,931,292</u>	<u>221,631,292</u>

National General Insurance Co. (P.S.C.)

Notes (continued)

9. Investment properties (within UAE) (continued)

	2014 AED		2013 AED	
	Cost	Fair Value	Cost	Fair Value
Land	119,627,060	138,300,000	119,627,060	134,000,000
Office building	63,156,439	87,631,292	63,156,439	87,631,292
Total	<u>182,783,499</u>	<u>225,931,292</u>	<u>182,783,499</u>	<u>221,631,292</u>

Investment property includes two plots of land, and rented out portion of a commercial building. An increase of AED 4.3 million was due to administration charges paid to acquire title deeds for Land at Meydan.

The carrying amount of investment property is the fair value of the property as determined by an independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued and is reviewed by the Board of Directors on a yearly/annual basis. Fair values were determined based on income valuation approach, sales comparative approach and open market value basis. Significant assumption taken by the valuer are mentioned on Note 5.

The rental income and operating expenses relating to these properties are as follows:

	2014 AED	2013 AED
Fair value gain on investment properties - net Note 9.1	<u>10,362,364</u>	<u>2,416,953</u>
Rental income	5,519,766	5,851,959
Operating expenses	<u>(1,934,399)</u>	<u>(1,798,112)</u>
Net rental income	<u>3,585,367</u>	<u>4,053,847</u>

- 9.1 In prior year, the management had set aside an amount of AED 10.1 million by way of provision, as it was likely that the Company would not benefit from a discount on purchase price granted earlier by the master developer. During the year, the provision is no longer required as the master developer has agreed and granted the discount and hence this provision has been reversed in the statement of profit of loss.

10. Investment securities

	2014 AED	2013 AED
Financial assets at fair value through profit or loss	195,870,884	241,876,497
Financial assets at fair value through other comprehensive income	36,469,741	36,209,419
Financial assets at amortised costs	15,408,900	15,408,900
At 31 December	<u>247,749,525</u>	<u>293,494,816</u>

10.1 Investments at fair valued through profit or loss

	2014 AED	2013 AED
Investments held on behalf of policyholders of unit linked products (Note 24)	41,990,988	38,744,863
Equity and fixed income investments – Quoted	153,879,896	203,131,634
At 31 December	<u>195,870,884</u>	<u>241,876,497</u>

Equity investments classified at fair value through profit or loss are designated in this category upon the initial recognition.

National General Insurance Co. (P.S.C.)

Notes (continued)

10 Investment securities (continued)

10.2	2014 AED	2013 AED
Investments made		
- Within UAE	247,749,525	292,240,994
- Outside UAE	-	1,253,822
At 31 December	<u>247,749,525</u>	<u>293,494,816</u>

11. Insurance and other receivables

	2014 AED	2013 AED
Premium receivable	60,698,913	53,328,766
Reinsurance companies	42,372,903	38,679,738
Insurance agents and brokers	1,385,309	-
Due from related parties (Refer note 20)	14,358,561	13,749,064
Accrual of interest and other income	4,378,629	1,604,229
Prepayments	2,305,245	2,180,068
Other receivables	4,923,294	4,129,847
	<u>130,422,854</u>	<u>113,671,712</u>
Less: provision for doubtful receivables (note 11.1)	<u>(6,000,000)</u>	<u>(6,000,000)</u>
At 31 December	<u>124,422,854</u>	<u>107,671,712</u>

11.1 Provision for doubtful receivables

	2014 AED	2013 AED
Balance 1 January	6,000,000	6,000,000
Reversal during the year	-	-
At 31 December	<u>6,000,000</u>	<u>6,000,000</u>

12. Cash and bank balances (within UAE)

	2014 AED	2013 AED
Cash in hand	207,250	123,852
Cash at bank	155,373,512	29,046,406
Short term deposits	40,208,585	106,929,227
	<u>195,789,347</u>	<u>136,099,485</u>
Less : deposits with original maturities of greater than three months	<u>(15,000,000)</u>	<u>(61,780,487)</u>
Cash and cash equivalents at 31 December	<u>180,789,347</u>	<u>74,318,998</u>

Included in short term deposits with banks operating in the U.A.E., is a deposit amounting to AED 11.6 million (2013: AED 10 million) and AED 3.4 million (2013: AED 4.5 million) held under lien as collateral in the name of the company for the Ministry of Economy and Trade of the United Arab Emirates, as required by the Federal Law number (6) of 2007 relating to Insurance Authority and other performance guarantees respectively.

National General Insurance Co. (P.S.C.)

Notes (continued)

13. Insurance contract provisions and reinsurance assets

Outstanding claims reserve

	2014 AED	2013 AED
Reserve for outstanding claims	93,443,586	105,664,914
Reserve for incurred but not reported claims (IBNR)	18,385,000	20,059,393
	<u>111,828,586</u>	<u>125,724,307</u>
Life assurance fund	57,981,877	52,341,279
Unearned premium reserve	152,935,860	158,864,048
Insurance contract provisions	322,746,323	336,929,634
Less: Reinsurance assets		
Reinsurer share of outstanding claims	(78,559,120)	(85,332,500)
Unamortised reinsurance premium reserve	(61,262,546)	(61,778,441)
Reinsurance assets	(139,821,666)	(147,110,941)
Net insurance contract provision as at 31 December	<u>182,924,657</u>	<u>189,818,693</u>

Movements in outstanding claims and reinsurance assets

	2014		
	Gross AED	Reinsurance AED	Net AED
Total at the beginning of the year	125,724,307	(85,332,500)	40,391,807
Less: settled during the year	(322,497,700)	65,970,181	(256,527,519)
Add: provision made during the year	308,601,979	(59,196,801)	249,405,178
At 31 December	<u>111,828,586</u>	<u>(78,559,120)</u>	<u>33,269,466</u>

	2013		
	Gross AED	Reinsurance AED	Net AED
Total at the beginning of the year	187,468,426	(156,071,190)	31,397,236
Less: settled during the year	(323,816,125)	117,677,623	(206,138,502)
Add: provision made during the year	262,072,006	(46,938,933)	215,133,073
At 31 December	<u>125,724,307</u>	<u>(85,332,500)</u>	<u>40,391,807</u>

Movements in unearned premium reserve

	2014		
	Gross AED	Reinsurance AED	Net AED
Balance at 1 January	158,864,048	(61,778,441)	97,085,607
Provision made during the year	152,935,860	(61,262,546)	91,673,314
Provision released during the year	(158,864,048)	61,778,441	(97,085,607)
At 31 December	<u>152,935,860</u>	<u>(61,262,546)</u>	<u>91,673,314</u>

	2013		
	Gross AED	Reinsurance AED	Net AED
Balance at 1 January	145,221,675	(63,635,085)	81,586,590
Provision made during the year	158,864,048	(61,778,441)	97,085,607
Provision released during the year	(145,221,675)	63,635,085	(81,586,590)
At 31 December	<u>158,864,048</u>	<u>(61,778,441)</u>	<u>97,085,607</u>

National General Insurance Co. (P.S.C.)

Notes (continued)

13. Insurance contract provisions and reinsurance assets (continued)

Assumptions and sensitivities

Process used to determine the assumptions

The process used to determine the assumptions for calculating the outstanding claim reserve is intended to result in neutral estimates of the most likely or expected outcome. The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out annually. The assumptions are checked to ensure that they are consistent with observable market practices or other published information.

The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case by case basis with due regard to the claim circumstances, information available from loss adjusters and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises.

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

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

The method used by the Company for provision of IBNR takes into account historical data, past estimates and details of the reinsurance programme, to assess the expected size of reinsurance recoveries.

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.

An 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 are finally settled.

Claim movement table

Year of loss	Provision at the beginning of the year		Claims provided for first time or reopened during the year	Part payment on claims during the year	Payment on claims finally settled during the year	Claims closed without payments	Provision at the end of the year	
	Outstanding claims	IBNR					Outstanding claims	IBNR
	AED	AED	AED	AED	AED	AED	AED	AED
Current year	31,309,529	20,059,393	174,837,196	-	210,752,037	1,717,389	8,351,692	18,385,000
First preceding year	28,829,508	-	74,111,850	-	80,589,692	146,765	22,204,901	-
Second preceding year	29,280,482	-	33,680,541	-	6,160,007	1,961	43,799,055	-
Third preceding year	5,766,321	-	14,457,213	-	12,540,183	-	7,683,351	-
Fourth preceding year	1,673,109	-	6,242,794	-	1,486,840	328	6,428,735	-
Fifth and earlier preceding year	8,805,965	-	7,138,828	-	10,968,941	-	4,975,852	-
Total all years	105,664,914	20,059,393	310,468,422	-	322,497,700	1,866,443	93,443,586	18,385,000

National General Insurance Co. (P.S.C.)

Notes (continued)

14. Insurance and other payables

	2014 AED	2013 AED
Creditors	36,188,320	29,905,196
Reinsurance companies	32,245,234	36,292,986
Premium reserve withheld	17,821,165	14,612,082
Due to related parties	285,623	2,298,163
Accrued expenses	14,318,525	15,941,969
Employee terminal benefits	9,961,489	8,617,074
Commission payable	6,220,854	5,946,361
Other payable balances	2,888,670	12,455,471
At 31 December	<u>119,929,880</u>	<u>126,069,302</u>

15. Share capital and reserves

The Company's issued and fully paid share capital comprises 149,954,112 shares of AED 1.0 each.

	2014		2013	
	No. of Shares	AED	No. of Shares	AED
At 31 December	<u>149,954,112</u>	<u>149,954,112</u>	<u>149,954,112</u>	<u>149,954,112</u>

In accordance with the Company's Articles of Association and United Arab Emirates Federal Companies law number 8 of 1984, the Company transfers 10% of annual net profits, if any, to the legal reserve until it equals 50% of the share capital. Also, in accordance with its Articles of Association, 10% of annual net profits, if any, may be transferred to a general reserve until it is suspended by an Ordinary General Meeting upon a proposal by the Board of Directors. The General reserve can be utilised for the purposes determined by the Ordinary General Meeting upon recommendations of the Board of Director.

The fair value reserve comprises the cumulative net change in fair value of financial assets designated as fair value through other comprehensive income.

16. Proposed cash dividend

The Board of Directors proposes a cash dividend of AED 37.5 million (2013: AED 29.9 million).

17. Proposed directors' fees

In accordance with the Ministry of Economy & Planning interpretation of Article 118 of Commercial Companies Law No. 8 of 1984, the Board of Directors has proposed remuneration of AED 3.6 million (2013: AED 2.9 million).

18. Net income from investments

	For the year ended 31 December	
	2014 AED	2013 AED
Dividend income	9,133,589	6,185,087
Realised gains on investments	53,221,309	22,769,933
Unrealised gains on investments fair value through profit or loss	(7,024,303)	58,828,119
Expenses/ charges on securities	(374,415)	-
	<u>54,956,180</u>	<u>87,783,139</u>

19. General and administrative expenses

	For the year ended 31 December	
	2014 AED	2013 AED
General and administrative expenses for underwriting operations	40,408,159	38,248,541
Others- for investments and centralised operation	14,209,751	10,096,014
Total	<u>54,617,910</u>	<u>48,344,555</u>

National General Insurance Co. (P.S.C.)

Notes (continued)

19. General and administrative expenses (continued)

The above general and administration expenses include the following costs:

	2014 AED	2013 AED
Staff costs	33,499,081	31,521,205
Rent	2,070,423	1,374,822
Depreciation	3,962,121	3,484,427
Others	15,086,285	11,964,101
Total	54,617,910	48,344,555
Average number of employees at 31 December	316	304

20. Related party transactions

The Company, in the normal course of business, collects premiums, settles claims and enters into transactions with other business enterprises that fall within the definition of a related party as defined by International Accounting Standard 24 (Revised). The Company's management believes that the terms of such transactions are not significantly different from those that could have been obtained from third parties.

a) The following are the details of transactions with related parties

	2014 AED	2013 AED
Premiums written	103,984,496	190,395,101
Claims paid	91,110,047	84,366,758
Directors' and key management personnel (remuneration including benefits)	7,939,500	7,551,618
Interest income	1,199,325	580,187
Dividend paid	13,704,357	13,704,357
Management expenses (net)	-	180,000
Sale of externally managed funds- unquoted	-	25,342,812

b) Due from related parties

	2014 AED	2013 AED
Insurance premium receivable (included in receivables)	14,358,561	13,749,064

c) Due to related parties

Payable to a related party	285,623	2,298,163
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d) Investments at fair value through other comprehensive income

	2014 AED	2013 AED
Externally managed funds - unquoted	-	1,872,437

National General Insurance Co. (P.S.C.)

Notes (continued)

20. Related party transactions (continued)**e) Cash and cash equivalents**

	2014	2013
	AED	AED
Cash at bank	<u>30,621,662</u>	<u>11,990,993</u>
Short term deposit	<u>15,073,585</u>	<u>75,648,740</u>

21. Contingent liabilities and commitments**Leases as a lessee**

Non cancellable operating lease rentals are payable as follows:

	2014	2013
	AED	AED
Less than one year	<u>367,427</u>	<u>309,457</u>
At 31 December	<u>367,427</u>	<u>309,457</u>

The Company leases office premises under operating lease. 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 / decreased annually to reflect the market rentals. During the year, AED 3.6 million (2013: AED 4 million) was recognised as gross rental income in respect of operating leases.

Capital commitments

Capital commitments as at 31 December 2014 amounted to nil (2013: nil).

Guarantees

	2014	2013
	AED	AED
Letters of guarantees	<u>9,066,368</u>	<u>8,215,083</u>

Fixed deposit amounting to AED 15 million (2013: AED 14.83 million) are under lien as collateral in respect of above guarantees (refer note 12). Guarantees includes an amount of AED 7.5 million (2013: AED 7.5 million) favoring the Ministry of Economy.

Contingent liabilities

The Company, in common with other insurance companies, is involved as defendant in a number of legal cases in respect of its underwriting activities. A provision is made in respect of each individual case where it is probable that the outcome would result in a loss to the Company in terms of an outflow of economic resources and a reliable estimate of the amount of outflow can be made.

National General Insurance Co. (P.S.C.)

Notes (continued)

22. Segment information

Operating segment information

For management purposes the Company is organised into two operating segments, general insurance and life assurance. These segments are the basis on which Company reports its primary segment information

	General insurance		Life assurance		Total	
	2014	2013	2014	2013	2014	2013
	AED	AED	AED	AED	AED	AED
UNDERWRITING INCOME						
Gross written premium	398,476,386	371,398,124	52,353,006	74,311,658	450,829,392	445,709,782
Reinsurance ceded	(113,965,524)	(97,770,485)	(19,306,740)	(42,355,421)	(133,272,264)	(140,125,906)
Net earned premium	284,510,862	273,627,639	33,046,266	31,956,237	317,557,128	305,583,876
Change in unearned premium provision and payable to policyholders of unit linked products	4,829,116	(15,663,312)	(2,662,948)	549,762	2,166,168	(15,113,550)
Reinsurance commission earned	27,576,086	24,334,668	8,607,287	13,457,832	36,183,373	37,792,500
Total underwriting income	316,916,064	282,298,995	38,990,605	45,963,831	355,906,669	328,262,826
UNDERWRITING EXPENSES						
Net claims incurred	(227,997,565)	(192,659,601)	(21,407,613)	(22,473,471)	(249,405,178)	(215,133,072)
Commission paid	(37,244,418)	(30,476,082)	(4,463,218)	(2,480,957)	(41,707,636)	(32,957,039)
Administrative expenses	(34,539,649)	(30,005,491)	(5,868,510)	(8,243,050)	(40,408,159)	(38,248,541)
Total underwriting expenses	(299,781,632)	(253,141,174)	(31,739,341)	(33,197,478)	(331,520,973)	(286,338,652)
Profit before movement in life assurance fund	17,134,432	29,157,821	7,251,264	12,766,353	24,385,696	41,924,174
Net movement in life assurance fund	-	-	(5,640,598)	(1,931,109)	(5,640,598)	(1,931,109)
Increase/ (decrease) in fair value of investment held for unit linked products	-	-	1,355,109	(1,595,029)	1,355,109	(1,595,029)
Total underwriting profit	17,134,432	29,157,821	2,965,775	9,240,215	20,100,207	38,398,036
Profit from investments, interest and rental income					73,742,070	96,803,557
Unallocated expenses					(14,209,751)	(10,096,014)
Profit for the year					79,632,526	125,105,579

Segmental information based on assets and liabilities is not presented due to unavailability.

National General Insurance Co. (P.S.C.)
Notes (continued)

23. Earnings per share

Basic earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding after adjusting for the issue of bonus shares during the year as set out below:

	2014	2013
	AED	AED
Net profit for the year	<u>79,632,526</u>	<u>125,105,579</u>
Weighted average number of shares outstanding during the year (after adjusting for issue of bonus shares)	<u>149,954,112</u>	<u>149,954,112</u>
Basic earnings per share	<u>0.53</u>	<u>0.83</u>

There is no dilution effect to the basic earnings per share.

24. Payable to policyholders of unit linked products - at FVTPL

During the year, the Company acquired an insurance portfolio of unit linked policies from AVIVA Limited.

Movement during the year :

	2014	2013
	AED	AED
As at 1 January	38,744,863	39,130,330
Amount invested by policyholders	12,583,316	7,733,753
Amount withdrawn at redemption/ lapse / surrender by policyholder	(10,692,300)	(6,524,191)
Change in fair value	<u>1,355,109</u>	<u>(1,595,029)</u>
At 31 December (Note 10.1)	<u>41,990,988</u>	<u>38,744,863</u>

25. Comparative figures

Certain comparatives have been reclassified / regrouped to conform to the presentation adopted in the financial statements.