

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

Notes *(continued)*

4. Risk management *(continued)*

c) Financial risks

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

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

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.

A credit risk policy setting out the assessment and determination of what constitutes credit risk for the Company has been established and policies and procedures are in place to mitigate the Company's exposure to credit risk:

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 balance sheet 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 reinsure's and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers.

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

Notes (continued)

4 Risk management (continued)

c) Financial risks (continued)

i) Credit risk (continued)

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	
	2008	2007	2008	2007	2008	2007
	AED	AED	AED	AED	AED	AED
Carrying amount	107,895,595	169,072,440	104,318,553	137,281,611	104,465,268	80,904,272
<i>Concentration by sector</i>						
- Financial institution	70,089,380	62,373,919	-	-	104,465,268	80,904,272
- Banks	17,398,554	56,455,465	8,073,489	9,921,904	-	-
- Real estate	13,176,843	29,904,449	-	-	-	-
- Service	3,276,900	7,648,157	-	-	-	-
- Others	3,953,918	12,690,450	96,245,064	127,359,707	-	-
Total carrying amount	107,895,595	169,072,440	104,318,553	137,281,611	104,465,268	80,904,272
<i>Concentration by location</i>						
- UAE	107,895,595	169,072,440	97,374,420	119,317,829	-	-
- GCC	-	-	-	-	-	-
- Other Arab Countries	-	-	-	-	-	-
- Others	-	-	6,944,133	17,963,782	104,465,826	80,904,272
Total carrying amount	107,895,595	169,072,440	104,318,553	137,281,611	104,465,268	80,904,272

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.

Sensitivities

The general insurance claims provision is sensitive to the above key assumptions. The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant showing the impact on liabilities and net profit.

31 December 2008

	Change in Assumption	Impact on liabilities AED	Impact on net profit* AED
Current claims	+10%	+16,179,914	+12,090,694
	-10%	-16,179,914	-12,090,694

31 December 2007

	Change in Assumption	Impact on liabilities AED	Impact on net profit* AED
Incurred claims	+ 10%	+ 13,901,362	-8,097,422
	- 10%	- 13,901,362	+8,097,422

* Net of reinsurance

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

Notes (continued)

4 Risk management (continued)

c) Financial risks (continued)

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 summarizes the maturity profile of the financial assets and 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.

31 December 2008	Less than 180 days AED	180 days to 1 year AED	1-5 Year AED	Over 5 Year AED	Total AED
Assets					
Investments available-for-sale	-	9,236,211	55,457,848	-	64,694,059
Investments fair value through profit or loss	43,201,536	-	-	-	43,201,536
Insurance and other receivables	104,318,553	-	-	-	104,318,553
Due from related party	8,073,489	-	-	-	8,073,489
Reinsurers' share of outstanding claims	-	104,465,268	-	-	104,465,268
Cash in hand and at bank	135,723,509	-	-	-	135,723,509
Total assets	291,317,087	113,701,479	55,457,848	-	460,476,414
	=====	=====	=====	=====	=====
Liabilities					
Insurance and other payables	146,105,257	-	-	-	146,105,257
Outstanding claim reserve	-	140,905,103	-	-	140,905,103
Total liabilities	146,105,257	140,905,103	-	-	287,010,360
	=====	=====	=====	=====	=====

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

Notes (continued)

4. Risk management (continued)

c) Financial risks (continued)

ii) Liquidity risk (continued)

31 December 2007	Less than 180 days AED	180 days to 1 year AED	1-5 Year AED	Over 5 Year AED	Total AED
Assets					
Investments held-to-maturity	3,656,295	-	-	-	3,656,295
Investments available-for-sale	25,000,000	-	35,105,900	-	60,105,900
Investments fair value through profit or loss	105,310,245	-	-	-	105,310,245
Insurance and other receivables	127,748,314	-	-	-	127,748,314
Due from related party	9,533,297	-	-	-	9,533,297
Reinsurers' share of outstanding claims	-	80,904,272	-	-	80,904,272
Cash in hand and at bank	147,002,929	-	-	-	147,002,929
Total assets	418,251,080	80,904,272	35,105,900	-	534,261,252
	=====	=====	=====	=====	=====
Liabilities					
Insurance and other payables	103,648,611	-	-	-	103,648,611
Outstanding claim reserve	-	108,553,924	-	-	108,553,924
Total liabilities	103,648,611	108,553,924	-	-	212,202,535
	=====	=====	=====	=====	=====

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 US Dollar, which is pegged with AED since November 1980 and the Company's exposure to currency risk is limited to that extent. Since almost all reinsurance arrangements are denominated in US\$.

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

Notes (continued)

4. Risk management (continued)

c) Financial risks (continued)

iii) Market risk (continued)

(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 earlier of contractual repayment or repricing is as follows:

31 December 2008	Less than 180 days AED	180 days to 1 year AED	1-5 Year AED	Over 5 Year AED	Total AED
Assets					
Investments held-to-maturity	-	-	-	-	-
Investments available for sale	-	-	17,041,038	-	17,041,038
Cash at bank	131,815,001	-	-	-	131,815,001
	-----	-----	-----	-----	-----
Total assets	131,815,001	-	17,041,038	-	148,856,039
	=====	=====	=====	=====	=====
Liabilities					
	-	-	-	-	-
	-----	-----	-----	-----	-----
	131,815,001	-	17,041,038	-	148,856,039
	=====	=====	=====	=====	=====

31 December 2007	Less than 180 days AED	180 days to 1 year AED	1-5 Year AED	Over 5 Year AED	Total AED
Assets					
Investments held-to-maturity	3,656,295	-	-	-	3,656,295
Investments available-for-sale	25,000,000	-	35,102,900	-	60,102,900
Cash at bank	143,454,124	-	-	-	143,454,124
	-----	-----	-----	-----	-----
Total assets	172,110,419	-	35,102,900	-	207,213,319
	=====	=====	=====	=====	=====
Liabilities					
	-	-	-	-	-
	-----	-----	-----	-----	-----
	172,110,419	-	35,102,900	-	207,213,319
	=====	=====	=====	=====	=====

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

Notes (continued)

4. Risk management (continued)

c) Financial risks (continued)

iii) Market risk (continued)

(b) Interest rate risk

Profile

At the reporting date the interest rate profile of the Company's interest bearing financial instruments was:

	Carrying value (AED)	
	2008	2007
Fixed rate instruments		
Financial assets	16,632,139	41,004,070
Financial liabilities	-	-
	-----	-----
	16,632,139	41,004,070
	=====	=====
Variable rate instruments		
Financial assets	132,223,901	166,209,249
Financial liabilities	-	-
	-----	-----
	132,223,901	166,209,249
	=====	=====

Cash flow sensitivity analysis for fixed and variable rate instruments

A change of 100 basis point 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 2007.

	Profit or loss (AED)		Equity (AED)	
	100 bp increase	100 bp Decrease	100 bp increase	100 bp Decrease
31 December 2008				
Fixed rate Instruments				
Financial assets	-	-	166,321	(166,321)
Financial liabilities	-	-	-	-
	-----	-----	-----	-----
Cash flow sensitivity (net)	-	-	166,321	(166,321)
	=====	=====	=====	=====
Variable rate instruments				
Financial assets	1,322,239	(1,322,239)	4,089	(4,089)
Financial liabilities	-	-	-	-
	-----	-----	-----	-----
Cash flow sensitivity (net)	1,322,239	(1,322,239)	4,089	(4,089)
	=====	=====	=====	=====

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

Notes (continued)

4. Risk management (continued)

c) Financial risks (continued)

iii) Market risk (continued)

(b) Interest rate risk

	Profit or loss (AED)		Equity (AED)	
	100 bp increase	100 bp Decrease	100 bp increase	100 bp Decrease
31 December 2007				
Fixed rate Instruments				
Financial assets	-	-	410,040	(410,040)
Financial liabilities	-	-	-	-
	-----	-----	-----	-----
Cash flow sensitivity (net)	-	-	410,040	(410,040)
	=====	=====	=====	=====
Variables rate instruments				
Financial assets	1,434,541	(1,434,541)	227,551	(227,551)
Financial liabilities	-	-	-	-
	-----	-----	-----	-----
Cash flow sensitivity (net)	1,434,541	(1,434,541)	227,551	(227,551)
	=====	=====	=====	=====

(c) Equity price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument 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 price risk policy requires it 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 equity price risk factors arising from the impact of the changes in these factors on the Company's investments:

	10% increase in equity price		10% decrease in equity price	
	Profit or loss	Equity	Profit or loss	Equity
	AED	AED	AED	AED
31 December 2008				
Available-for-sale	-	6,469,405	-	(6,469,405)
Fair value through profit or loss	4,320,153	-	(4,320,153)	-
Held-to-maturity	-	-	-	-
31 December 2007				
Available-for-sale	-	6,010,590	-	(6,010,590)
Fair value through profit or loss	10,531,024	-	(10,531,024)	-
Held-to-maturity	-	365,629	-	(365,629)

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

Notes (continued)

4. Risk management (continued)

c) Financial risks (continued)

vi) Operational risks

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.

5. Use of estimates and judgements

Management discussed with the Board the development, selection and disclosure of the Company's critical accounting policies and estimates, and the application of these policies and estimates.

Key sources of estimation uncertainty

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.

Critical accounting judgements in applying the Company's accounting policies

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 11.

Insurance contract classification

Contracts are classified as insurance contracts where they transfer significant insurance risk from the holder of the contract to the Company. The Company's accounting policy for the classification of insurance is discussed in more detail in note 3(a).

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.

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Notes (continued)

5. Use of estimates and judgements

Medial and group life insurance

The assumptions used in the actuarial valuations for unearned premium reserves for medical and group life business are based on experience.

Provision for outstanding claims, whether reported or not

Considerable judgement 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 judgement 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 balance sheet date and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the balance sheet date. 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.

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.

Classification of financial instruments

The Company's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances:

- i. In classifying financial assets or liabilities as "trading", the Company has determined that it meets the description of trading assets and liabilities set out in accounting policy 3(f).
- ii. In designating financial assets or liabilities at fair value through profit or loss, the Company has determined that it has met one of the criteria for this designation set out in accounting policy 3(f)
- iii. In classifying financial assets as held-to-maturity, the Company has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy 3(f)

Details of the Company's classification of financial assets and liabilities are given in note 3(f).

Determining fair values

The determination of fair value for financial assets and liabilities is based on quoted market price in an active market. The fair value of investment properties is based on accounting policy stated in note 3(e).

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Notes (continued)

6. Property and equipment

	Furniture and fixtures AED	Office equipment AED	Motor vehicles AED	Computer equipment AED	Total AED
Cost					
At 1 January 2007	2,075,228	689,590	159,000	3,475,983	6,399,801
Additions	188,324	45,420	131,150	107,929	472,823
Disposals	-	-	(38,000)	-	(38,000)
	-----	-----	-----	-----	-----
At 31 December 2007	2,263,552	735,010	252,150	3,583,912	6,834,624
	-----	-----	-----	-----	-----
At 1 January 2008	2,263,552	735,010	252,150	3,583,912	6,834,624
Additions	69,092	35,543	-	627,157	731,792
Disposals	-	-	(38,000)	-	(38,000)
	-----	-----	-----	-----	-----
At 31 December 2008	2,332,644	770,553	214,150	4,211,069	7,528,416
	-----	-----	-----	-----	-----
Depreciation					
At 1 January 2007	1,613,140	424,554	82,213	2,144,423	4,264,330
Charge	212,084	104,151	36,425	498,379	851,039
On disposals	-	-	(38,000)	-	(37,999)
	-----	-----	-----	-----	-----
At 31 December 2007	1,825,224	528,705	80,638	2,642,802	5,077,370
	-----	-----	-----	-----	-----
At 1 January 2008	1,825,224	528,705	80,639	2,642,802	5,077,370
Charge	202,874	94,300	47,788	512,161	857,123
On disposals	-	-	(3,563)	-	(3,563)
	-----	-----	-----	-----	-----
At 31 December 2008	2,028,098	623,005	124,864	3,154,963	5,930,930
	-----	-----	-----	-----	-----
Carrying amounts					
Balance 1 January 2007	462,088	265,036	76,787	1,331,560	2,135,471
	=====	=====	=====	=====	=====
Balance 31 December 2007	438,328	206,305	171,512	941,110	1,757,255
	=====	=====	=====	=====	=====
Balance 31 December 2008	304,546	147,548	89,286	1,056,106	1,597,486
	=====	=====	=====	=====	=====

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

Notes (continued)

7. Investment properties (within UAE)

	2008 AED	2007 AED
At 1 January	86,000,000	66,579,000
Additions – at cost	101,039,400	-
Disposal – carrying amount (Note 7.1)	(26,000,000)	-
Change in fair values	53,679,800	19,421,000
	-----	-----
At 31 December	214,719,200	86,000,000
	=====	=====

Investment property comprises freehold land (2007: freehold land and constructed villas). Freehold land include a plot of land for which payments have been made upto 70%. The Company has issued post dated cheques for the remaining 30% to the master developer. The title of land will be transferred in the name of the Company upon the payment of the remaining amount. However, the significant risk and rewards relating to the ownership of land has been transferred to the Company.

The carrying amount of investment property is the fair value of the property as determined by an external independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair values were determined on 27 July 2008 based on the market transactions for similar properties in the same location as the Company's investment properties. The Company adjusted the fair values of investment properties externally and internally at 31 December 2008 to reflect the current market conditions as at the reporting date. Changes in fair values are recorded in the statement of income.

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

	2008 AED	2007 AED
Gross rental income	250,333	1,392,390
Less: Direct operating expenses	(36,448)	(139,195)
	-----	-----
Net rental income	213,885	1,253,195
Fair value gain on investment properties	53,679,800	19,421,000
Capital gain on sale of investment property (Note 6.1)	5,749,653	-
	-----	-----
	59,643,338	20,674,195
	=====	=====

- 7.1 Constructed villas having a carrying value of AED 26 million were sold for AED 31.7 million during the year.

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

Notes (continued)

8. Investment securities (within UAE)

	2008 AED	2007 AED
Investments securities fair valued through profit or loss	43,201,536	105,310,245
Investments held-to-maturity, at amortised cost	-	3,656,295
Investments available-for-sale	64,694,059	60,105,900
	-----	-----
	107,895,595	169,072,440
	=====	=====

Investments fair valued through profit or loss

	2008 AED	2007 AED
Equity investments – Quoted	43,201,536	105,310,245
	=====	=====

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

Shares amounting to AED 3.3 million (2007: AED 6.3 million) are held in the name of a Director for the beneficial interest of the Company.

Investments held-to-maturity, at amortised cost

	2008 AED	2007 AED
Sukuk Bond	-	3,656,295
	=====	=====

Investments available-for-sale

	2008 AED	2007 AED
Externally managed funds – Unquoted	47,650,020	45,000,000
Equity investments – Quoted	3,000	3,000
– Unquoted	-	-
Structured notes – Unquoted	17,041,039	15,102,900
	-----	-----
	64,694,059	60,105,900
	=====	=====

Structured notes pay a fixed interest rate. At the reporting date the available-for-sale financial assets were neither overdue nor impaired.

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Notes (continued)

9. Insurance and other receivables

	2008 AED	2007 AED
Premium receivable	64,150,394	39,104,369
Insurance companies	7,384,709	5,115,692
Reinsurance companies	6,944,133	17,963,783
Insurance agents and brokers	23,309,703	23,085,649
Accrual of interest and other income	674,657	3,571,142
Advances and prepayments	1,971,904	32,576,511
Staff receivables	426,812	227,442
Deferred reinsurance premiums	387,956	6,830,299
Other receivables	538,300	263,442
	-----	-----
	105,788,568	128,738,329
Less: Provision for doubtful receivables (note 8.1)	(1,470,015)	(990,015)
	-----	-----
	104,318,553	127,748,314
	=====	=====

Advances and prepayments include a sum of AED nil (2007: AED 30.311 million) paid as advance towards acquisition of land.

9.1 Provision for doubtful receivables

	2008 AED	2007 AED
Balance 1 January	990,105	631,185
Charge for the year	479,910	358,830
	-----	-----
Balance 31 December	1,470,015	990,105
	=====	=====

The age analysis of insurance and other receivables are as under:

	Gross 2008 AED	Impairment 2008 AED	Gross 2007 AED	Impairment 2007 AED
Not past due	23,404,534	-	19,606,185	-
Past due 0-30 days	41,655,088	-	64,894,834	-
Past due 31-120 days	25,011,069	-	20,951,994	-
More than 120 days	15,717,877	1,470,015	23,285,316	990,105
	-----	-----	-----	-----
Total	105,788,568	1,470,015	128,738,329	990,105
	=====	=====	=====	=====

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Notes (continued)

10. Cash and cash equivalent

	2008 AED	2007 AED
Cash in hand	3,908,508	3,548,805
Cash at bank	11,295,237	10,175,001
Short term deposits	120,519,764	133,279,123
	-----	-----
	135,723,509	147,002,929
	=====	=====

Included in short term deposits with banks operating in the U.A.E., is a deposit amounting to AED 10,000,000 (2007: AED 10,000,000) held under lien as collateral for bank guarantees issued in favour of Ministry of Economy and Trade for carrying out commercial activities.

11. Insurance contract provisions and reinsurance assets

Outstanding claims reserve

	2008 AED	2007 AED
Reserve for outstanding claims	127,548,014	97,285,715
Reserve for incurred but not reported claims	13,357,089	11,268,209
	-----	-----
	140,905,103	108,553,924
Life assurance fund	33,879,905	21,378,807
Unearned premium reserve	84,342,203	72,548,289
	-----	-----
	259,127,211	202,481,020
Less: Reinsurance assets	(104,465,268)	(80,904,272)
	-----	-----
	154,661,943	121,576,748
	=====	=====

Movements in outstanding claims reserve and reinsurance assets:

	2008		
	Gross AED	Reinsurance AED	Net AED
Total at beginning of the year	108,553,924	(80,904,272)	27,649,652
Less: Settled during the year	(36,442,859)	11,768,788	(24,674,071)
Add: Provision made during the year	68,794,038	(35,329,784)	33,464,254
Total at end of the year	140,905,103	104,465,268	36,439,835
	2007		
	Gross AED	Reinsurance AED	Net AED
Total at beginning of the year	44,635,545	(24,679,251)	19,956,294
Less: Settled during the year	(13,793,890)	5,517,556	(8,276,334)
Add: Provision made during the year	77,712,269	(61,742,577)	15,969,692
	-----	-----	-----
Total at end of the year	108,553,924	(80,904,272)	27,649,652
	=====	=====	=====

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

Notes (continued)

11. Insurance contract provisions and reinsurance assets (continued)

Movements in unearned premium reserve:

	2008 AED	2007 AED
Total at beginning of the year	72,548,289	48,508,227
Increase in provision during the year	11,793,914	24,040,062

Total at end of the year	84,342,203	72,548,289
	=====	=====

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.

IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries. The method used by the Company takes into account historical data, past estimates and details of the reinsurance programme, to assess the expected size of reinsurance recoveries.

Assumptions and sensitivities to changes in key variables

The assumptions that have the greatest effect on the measurement of insurance contract provisions are the expected loss ratios for the most recent accident years.

Where variables are considered to be immaterial, no impact has been assessed for insignificant changes to these variables. Particular variables may not be considered material at present. However, should the materiality level of an individual variable change, assessment of changes to that variable in the future may be required.

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 balance sheet 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.

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

Notes (continued)

12. Insurance and other payables

	2008 AED	2007 AED
Payable against purchase of investment property	30,311,820	-
Creditors	26,242,390	19,718,328
Insurance companies	22,056,958	13,390,115
Reinsurance companies	18,648,252	24,068,283
Premium reserve withheld	17,341,051	12,572,393
Accrued expenses	11,768,662	7,618,720
Employee terminal benefits	2,422,472	1,682,372
Other payable balances	4,184,307	16,839,784
Deferred premium income	13,129,345	7,758,616
	-----	-----
	146,105,257	103,648,611
	=====	=====

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

Notes (continued)

13. Share capital and reserves

The Company's issued and fully paid share capital comprises 121,716,000 shares of AED 1.0 each.

	2008		2007	
	No. of Shares	AED	No. of Shares	AED
Balance, beginning of the year	121,716,000	121,716,000	101,430,000	101,430,000
Issue of bonus shares	-	-	20,286,000	20,286,000
Balance at year end	121,716,000	121,716,000	121,716,000	121,716,000

In accordance with the Company's Articles of Association and Article (82) of Union Law No. 10 of 1980, 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, maybe 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 utilized for the purposes determined by the Ordinary General Meeting upon recommendations of the Board of Director. The movement in reserves is as follows:

	Legal reserve AED	General reserve AED	Revaluation reserve AED
Balance at 1 January 2008	29,272,467	28,656,481	-
Change in fair-value of investment	-	-	(15,778,054)
Transfer to reserve	2,013,621	2,013,621	-
Balance at 31 December 2008	31,286,088	30,670,102	(15,778,054)

The revaluation reserve comprises the cumulative net change in fair value of available-for-sale financial assets.

14. Proposed cash dividend

The Board of Directors proposes a cash dividend AED 12.1 million and bonus issue of AED 12.1 million for the year ended 31 December 2008 (2007: AED 48.686 million for the year ended 2007).

15. Proposed directors' fees

In accordance with the Ministry of Economy & Planning interpretation of Article 118 of Commercial Companies Law No. 8 of 1984, the proposed Directors' remuneration of AED 2.4 million (2007: AED 3.5 million) has been treated as an appropriation from equity and is included in retained earnings.

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

Notes (continued)

16. Net (loss)/income from investments

	2008 AED	2007 AED
Dividend income	2,294,377	2,916,621
Realised gains on sale of investments	2,480,561	13,125,464
Unrealised (losses)/gains on investments fair value through profit or loss	(111,529,424)	23,632,059
	-----	-----
	(106,754,486)	39,674,144
	=====	=====

17. General and administrative expenses

	2008 AED	2007 AED
Total general and administration expenses	31,018,930	26,534,958
	=====	=====
Less: Allocated to insurance operations		
- Accident and liabilities	(20,392,788)	(17,422,523)
- Marine	(586,999)	(479,238)
- Fire	(1,141,422)	(880,136)
- Group and individual life	(6,100,001)	(5,647,173)
	-----	-----
	28,221,210	24,429,070
	-----	-----
Unallocated management expenses	(2,797,720)	2,105,888
	=====	=====

The above general and administration expenses include the following costs:

	2008 AED	2007 AED
Staff costs	21,380,286	13,100,063
Rent	1,998,479	1,757,909
Depreciation	857,123	851,039
	=====	=====
Number of employees at 31 December	154	147
	===	==

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

Notes (continued)

18. 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. 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.

The following are the details of transactions with related parties:

	2008 AED	2007 AED
Premiums written on behalf of related parties	71,181,103 =====	48,380,844 =====
Claims paid to related parties	30,960,431 =====	21,673,183 =====
Management expenses (net)	193,000 =====	174,000 =====
Directors' and key management personnel (remuneration including benefits)	2,454,915 =====	6,613,950 =====
Interest income	2,746,258 =====	6,005,483 =====
Interest expense	47,568 =====	4,109 =====
Due from a related party		
	2008 AED	2007 AED
Insurance premium receivables	8,073,489 =====	9,533,297 =====
Available-for-sale investments		
	2008 AED	2007 AED
Externally managed funds - Unquoted	38,413,810 =====	45,000,000 =====
Cash and cash equivalents		
	2008 AED	2007 AED
Cash at bank	8,609,714 =====	9,676,001 =====
Short term deposits	100,350,396 =====	114,130,410 =====

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

Notes (continued)

19. Contingent liabilities and commitments

Leases as a lessee

Non cancellable operating lease rentals are payable as follows:

	2008 AED	2007 AED
Less than one year	441,700	501,996
	=====	=====

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.

Leases as a lessor

The Company leases out its investment properties under operating leases.

Non-cancellable operating leases rentals receivable are as follows:

	2008 AED	2007 AED
Less than one year		751,161
More than one year but less than five years	-	-
	-----	-----
	-	751,161
	=====	=====

During the year, AED nil (2007: AED 1,253,195) was recognised as gross rental income in respect of operating leases.

Capital commitments

Capital commitments as at 31 December 2008 amounted to AED nil (2007: nil).

Guarantees

	2008 AED	2007 AED
Letters of guarantees	7,745,000	7,745,000
	=====	=====

Fixed deposit amounting to AED 10 million (2007: AED 10 million) are under lien as collateral in respect of above guarantees (refer note 10).

Guarantees includes an amount of AED 7.5 million (2007: AED 7.5 million) favouring 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)

20. Segment information

Primary segment information

For management purposes the Company is organised into three business segments, general insurance, life assurance and investment. The general insurance segment comprises of accident and liabilities, marine and fire. The life assurance segment includes group life and individual life. Investment comprises investment securities, investment properties and deposits with banks. These segments are the basis on which Company reports its primary segment information.

	General insurance		Life assurance		Total	
	2008	2007	2008	2007	2008	2007
	AED	AED	AED	AED	AED	AED
UNDERWRITING INCOME						
Gross written premium	287,693,280	234,374,385	77,737,242	56,044,542	365,430,522	290,418,927
Reinsurance ceded and UPR	(93,083,422)	(92,308,516)	(52,120,785)	(36,608,193)	(145,204,207)	(128,916,709)
Net premium earned	194,609,858	142,065,869	25,616,457	19,436,349	220,226,315	161,502,218
Commission income	17,735,907	14,294,225	25,159,556	8,565,110	42,895,463	22,859,335
Total income	212,345,765	156,360,094	50,776,013	28,001,459	263,121,778	184,361,553
UNDERWRITING EXPENSE						
Claims	(125,193,940)	(84,997,757)	(4,503,181)	(3,670,022)	(129,697,121)	(88,667,779)
Commission	(18,684,844)	(14,695,306)	(7,979,268)	(4,212,202)	(26,664,112)	(18,907,508)
Administrative and general expenses	(22,121,209)	(18,781,896)	(6,100,001)	(5,647,173)	(28,221,210)	(24,429,069)
Total expenses	(165,999,993)	(118,474,959)	(18,582,450)	(13,529,397)	(184,582,443)	(132,004,356)
Profit before movement in life assurance fund	46,345,772	37,885,135	32,193,563	14,472,062	78,539,335	52,357,197
Increase in life assurance fund	-	-	(12,501,098)	(9,542,216)	(12,501,098)	(9,542,216)
Underwriting profit	46,345,772	37,885,135	19,692,465	4,929,846	66,038,237	42,814,981
(loss)/income from investment:					(43,104,307)	68,401,016
Unallocated expenses					(2,797,720)	(2,105,888)
Profit for the year					20,136,210	109,110,109

Secondary segment information

The Company does not have any geographical segment as Company is carrying out all of its operations with in UAE.

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

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

Notes (continued)

22. Basic and diluted 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:

	2008	2007
	AED	AED
Net profit for the year	20,136,210	109,110,109
	=====	=====
Weighted average number of shares outstanding during the year (after adjusting for issue of bonus shares)	121,716,000	121,716,000
	=====	=====
Basic earnings per share	0.165	0.896
	=====	=====

There is no dilution effect to the basic earning per share

23. Cash and cash equivalents

	2008	2007
	AED	AED
Cash in hand	3,908,508	3,548,805
Cash at bank	11,295,237	10,175,001
Fixed deposit maturing within three months	91,019,764	133,279,123
	-----	-----
	106,223,509	147,002,929
	=====	=====

24. Comparative figures

Certain comparative figures have been reclassified, where necessary, to conform with the presentation adopted in these financial statements.