

National General Insurance Co. (P.S.C.)
Directors' report and financial statements
31 December 2009

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

Directors' report and financial statements

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Report of the Board of Directors

Dear Shareholders,

The Board of Directors have the pleasure to welcome you to the Ninth Annual General Meeting and present their report together with the audited financial statements for the year ended 31 December 2009.

FINANCIAL RESULTS

1. The Company reported a net profit of AED **33,349,401** for the year 2009 against AED 20,136,210 for 2008, registering a growth of 65.62%
2. Gross premiums increased from AED 365,430,522 in 2008 to AED **402,886,171** in 2009 an increase of 10.25 % and the retained premiums increased from AED 232,020,230 in 2008 to AED 237,298,762 in 2009.
3. The gross claims paid by the Company during the year 2009 amounted to AED 199,375,956 compared with AED 161,799,142 in 2008 and the net incurred claims increased to AED 148,540,409 from AED 129,697,121.
4. Underwriting profit decreased from AED 66,038,237 in 2008 to AED 62,701,631 in 2009 a decline of 5.05 %. The loss on investments including fair value loss on investment properties (net) was AED 26,278,491 in 2009 compared to net loss of AED 43,104,307 in 2008.
5. General and Management expenses including expenses directly attributable to underwriting activities for the year 2009 was AED 35,055,881 compared with AED 31,018,930 in 2008.
6. Investment fund comprising of investment properties, securities and short term bank deposits increased to AED 465,863,707 at the end of 2009 compared with AED 443,134,559 in 2008.
7. The Technical Reserves (i.e. unearned premium reserve, and net provision for outstanding claims) at the end of year 2009 amounted to AED 126,166,833 compared with AED 120,782,038 in 2008. Life Assurance Fund at the end of the year 2009 amounted to AED 38,285,753 compared to AED 33,879,905 in 2008.
8. The net increase in cash flow for the year 2009 was AED 66,637,704 as compared with decrease of AED 11,279,420 for the year 2008 mainly due to the positive cash flow from operating and investing activities for the year 2009.



RECOMMENDATIONS OF THE BOARD OF DIRECTORS

The Board of Directors have 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 2009.
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 2009.
5. Approve the proposed appropriation of the profits as follows:

	AED
a) Transfer to Legal reserve	3,334,940
b) Transfer to General reserve	3,334,940
c) Director's remuneration	1,998,514
d) Proposed Dividend 12% Cash	16,066,512
e) Proposed Dividend 12% Bonus Share	16,066,512
f) Balance transferred to retained earnings	(7,452,016)
Profit for the year 2009	<u>33,349,401</u>

6. Appoint or re-appoint Auditors for the financial year 2010 and determine their fees. KPMG being eligible for re-appointment have expressed their willingness to continue in office.

The Board of Directors take 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, who benefited immensely from their wise economic and social policies.

The Directors also appreciate the fruitful co-operation of all customers who had the major role in the progress of the company. The Directors take this opportunity to thank Messer's Munich Re and the rest of the Reinsurers for their strong support to the Company.

The Directors express their sincere appreciation and thanks to the Company's executive administration and staff for their loyalty, diligence and hard work.

On behalf of the Board

KHALID JASSIM MOHD BIN KALBAN
Chairman

03 February, 2010



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Independent auditor's report

The Shareholders

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

Report of the Auditors

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 2009, and the statement of comprehensive income (comprising a statement of comprehensive income and a separate income statement), statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, comprising a summary of significant accounting policies and other explanatory notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 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 principles used and 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 opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the relevant Articles of the Company and the UAE Federal Law No. 8 of 1984 (as amended) concerning commercial companies and Federal law No. 9 of 1984 (as amended) concerning insurance companies and agents.

Report on other legal and regulatory requirements

As required by the Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit, 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 2009, which may have had a material adverse effect on the business of the Company or its financial position.

03 FEB 2010

Munther Al Dajani
Registration No: 268

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

Statement of financial position

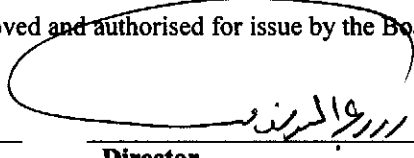
at 31 December 2009

	Note	2009 AED	2008 AED (Restated)
ASSETS			
Property and equipment	6	1,713,381	1,597,486
Investment properties	7	171,005,260	214,719,200
Investments securities	8	103,610,527	107,895,595
Reinsurance assets	11	287,743,622	148,717,317
Insurance and other receivables	9	89,488,517	98,434,698
Due from a related party	18	22,554,742	13,957,344
Cash and cash equivalent	10	202,361,213	135,723,509
Total assets		878,477,262	721,045,149
LIABILITIES			
Insurance contract provisions	11	452,196,208	303,379,260
Insurance and other payables	12	130,090,307	146,105,257
Total liabilities		582,286,515	449,484,517
EQUITY			
Share capital	13	133,887,600	121,716,000
Legal reserve	13	34,621,028	31,286,088
General reserve	13	34,005,042	30,670,102
Fair value reserve	13	(11,325,740)	(15,778,054)
Retained earnings		105,002,817	103,666,496
Total equity		296,190,747	271,560,632
Total liabilities and equity		878,477,262	721,045,149

The notes on pages 9 to 43 form an integral part of these financial statements.

These financial statements were approved and authorised for issue by the Board of Directors on 03 FEB 2010 and signed on their behalf by:


Khalid Jassim Mohd Bin Kalban
Chairman


Director


Dr. Abdul Zahra A. Ali
General Manager

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

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

Statement of income

for the year ended 31 December 2009

	Note	2009 AED	2008 AED
Continuing operations			
Gross written premium	20	402,886,171	365,430,522
Reinsurance ceded		(165,587,409)	(133,410,292)
Net premium		237,298,762	232,020,230
Change in unearned premium provision		(3,828,670)	(11,793,915)
Net earned premiums	20	233,470,092	220,226,315
Reinsurance commission earned	20	40,313,302	42,895,463
Total Income		273,783,394	263,121,778
Claims		(199,375,956)	(161,799,142)
Reinsurance share of claims		52,391,673	40,892,206
Net claims paid		(146,984,283)	(120,906,936)
Change in outstanding claims provision		(1,556,126)	(8,790,185)
Net incurred claims	20	(148,540,409)	(129,697,121)
Commission paid	20	(26,153,365)	(26,664,112)
Administrative expenses		(31,982,141)	(28,221,210)
Net underwriting expenses		(206,675,915)	(184,582,443)
Net movement in life assurance fund		(4,405,848)	(12,501,098)
Total underwriting expense		(211,081,763)	(197,083,541)
Underwriting profit	20	62,701,631	66,038,237
Interest and other income (net)		6,133,376	4,006,841
Net income/ (loss) from investment securities	16	11,588,133	(106,754,486)
Fair value (loss)/gain on investment properties	7	(44,000,000)	53,679,800
Capital gain on sale of investment property	7	-	5,749,653
Net rental income from investment property		-	213,885
Net loss from investments		(26,278,491)	(43,104,307)
General and administrative expenses	17	(3,073,739)	(2,797,720)
Profit for the year		33,349,401	20,136,210
Basic and diluted earnings per share	21	0.249	0.150

The notes on pages 9 to 43 form an integral part of these financial statements.

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

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

Statement of comprehensive income for the year ended 31 December 2009

	<i>Note</i>	2009 AED	2008 AED (Restated)
Profit for the year		33,349,401	20,136,210
Other comprehensive income			
Net change in fair value of Investments available for sale.		4,452,314	(15,778,054)
Director's remuneration		(1,000,000)	(3,500,000)
Total comprehensive income for the period		<u>36,801,715</u>	<u>858,156</u>

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

Statement of cash flows for the year ended 31 December 2009

	2009 AED	2008 AED
Cash flows from operating activities		
Profit for the year	33,349,401	20,136,210
<i>Adjustment for:</i>		
Depreciation	926,177	857,123
Provision for doubtful receivables	1,580,000	480,000
Profit on sale of investment properties	-	(5,749,653)
Unrealised (gains)/ losses on investments	(1,541,799)	111,529,424
Realised gains on sale of investments	(8,141,658)	(2,480,561)
Loss /(Gain) on fair value adjustment of investment properties	44,000,000	(53,679,800)
Increase in unearned premium reserve and life fund	8,234,518	24,295,012
Provision for employee terminal benefits – net of repayment	900,314	740,100
	79,306,953	96,127,855
Change in trade and related party receivables	(1,231,218)	24,409,569
Change in other payables and accruals	(17,915,264)	41,716,548
Change in net outstanding claims	1,556,126	8,790,183
Net cash from operating activities	61,716,597	171,044,155
Cash flows from investing activities		
Change in investments at fair value through profit or loss (net)	18,420,839	(46,940,154)
Change in Property and equipment (net)	(1,042,072)	(697,355)
Change in investment properties (net)	(286,060)	(69,289,748)
Change in investment held-to-maturity (net)	-	3,656,295
Change in investments available-for-sale (net)	-	(20,366,213)
Net cash from/ (used in) investing activities	17,092,707	(133,637,175)
Cash flow from financing activity		
Dividends paid	(12,171,600)	(48,686,400)
Cash used in financing activity	(12,171,600)	(48,686,400)
Net increase /(decrease) in cash and cash equivalents	66,637,704	(11,279,420)
Cash and cash equivalents at 1 January	135,723,509	147,002,929
Cash and cash equivalents at 31 December	202,361,213	135,723,509

The notes on pages 9 to 43 form an integral part of these financial statements.

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

Statement of changes in shareholders' equity

for the year ended 31 December 2009

	Share Capital AED	Legal reserve AED	General reserve AED	Fair value reserve AED	Retained earnings AED	Total AED
Balance at 1 January 2008 (as previously stated)	121,716,000	29,272,467	28,656,481	-	136,243,928	315,888,876
Adjustment due to restatement of directors' remuneration					3,500,000	3,500,000
Balance at 1 January 2008 (as restated)	121,716,000	29,272,467	28,656,481	-	139,743,928	319,388,876
Total comprehensive income for the year						
Profit for the year	-	-	-	-	20,136,210	20,136,210
Other comprehensive income	-	-	-	(15,778,054)	(3,500,000)	(19,278,054)
Total comprehensive income for the period	-	-	-	(15,778,054)	16,636,210	858,156
Transaction with owners :						
Transfer to legal reserve	-	2,013,621	-	-	(2,013,621)	-
Transfer to general reserve	-	-	2,013,621	-	(2,013,621)	-
Dividends paid	-	-	-	-	(48,686,400)	(48,686,400)
Balance at 31 December 2008 (as restated)	121,716,000	31,286,088	30,670,102	(15,778,054)	103,666,496	271,560,632
Balance at 1 January 2009	121,716,000	31,286,088	30,670,102	(15,778,054)	103,666,496	271,560,632
Total Comprehensive Income for the period	-	-	-	-	-	-
Profit for the year	-	-	-	-	33,349,401	33,349,401
Other comprehensive income	-	-	-	4,452,314	(1,000,000)	3,452,314
Total comprehensive income for the period	-	-	-	(11,325,740)	32,349,401	36,801,715
Issue of bonus shares	12,171,600	-	-	-	(12,171,600)	-
Transaction with owners :						
Transfer to legal reserve	-	3,334,940	-	-	(3,334,940)	-
Transfer to general reserve	-	-	3,334,940	-	(3,334,940)	-
Dividends paid	-	-	-	-	(12,171,600)	(12,171,600)
As at 31 December 2009	133,887,600	34,621,028	34,005,042	(11,325,740)	105,002,817	296,190,747

The notes on pages 9 to 43 form an integral part of these financial statements.

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

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's shares are listed in the Dubai Financial Market.

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 in accordance with the provisions of the UAE Federal Law no. 9 of 1984 relating to insurance companies and insurance agents.

The registered office of the Company is at the Green Tower, 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) and applicable requirements of UAE Law.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- i) financial instruments at fair value through profit or loss are measured at fair value;
- ii) available-for-sale financial assets are measured at fair value; and
- iii) investment property is measured at fair value.

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

c) Functional and presentation currency

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

d) 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 periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements 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)

e) **Change in accounting policies**

i) **Determination and presentation of operating segments**

From 1 January 2009 the Company determines and presents operating segments based on the information that is provided to management "the Company's operating decision makers" internally. This change in accounting policy is due to the adoption of IFRS 8 *Operating Segments*.

Previously operating segments were determined and presented in accordance with IAS 14 *Segment Reporting*. The new accounting policy in respect of segment operating disclosures is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of this standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

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. An operating segment's operating results are reviewed regularly by General Manager to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the management include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investment income, general and administrative expenses and other income.

Segment capital expenditure is the total cost incurred during the period to acquire property and equipment, and intangible assets other than goodwill.

ii) **Presentation of financial statements**

The Company has applied revised IAS 1 *Presentation of Financial Statements (2007)*, which became effective as of 1 January 2009. As a result, the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

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

Notes (continued)

f) Other accounting developments

Disclosures pertaining to fair values and liquidity risk for financial instruments

The Company has applied *Improving Disclosures about Financial Instruments* (Amendments to IFRS 7), issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

The methods for determination of fair values of financial instruments are included in note 3 (f) (iv).

The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorised as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reasons therefore, are required to be disclosed for each class of financial instruments.

Revised disclosures in respect of fair values of financial instruments are included in note 5.

Further, the definition of liquidity risk has been amended and it is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The amendments require disclosure of a maturity analysis for non-derivative and derivative financial liabilities, but contractual maturities are required to be disclosed for derivative financial liabilities only when contractual maturities are essential for an understanding of the timing of cash flows.

Revised disclosures in respect of liquidity risk are included in note 4 (c) (ii).

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

Notes (continued)

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except for the changes mentioned in note 2 (e)/(f).

a) Insurance contracts

i) Classification

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.

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 expire.

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 proportion of premiums is recognised as 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 based on percentage of net premium written and are at least equal to the minimum stipulated in UAE Insurance Companies Law [also refer 3 a (iv)]. Unearned premiums for Individual Life business are considered by the Company's actuary in the calculations 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 balance sheet date on the basis of management estimates. The basis of estimating outstanding claims and IBNR are detailed in note 11.

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.

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.

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

Notes (*continued*)

3. Significant accounting policies (*continued*)

a) Insurance contracts (*continued*)

v) Reinsurance (continued)

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 income 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 proportion of acquisition costs which corresponds to the proportion of gross premiums written that is unearned at the balance sheet 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.

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 property and fair value gains/losses on investment property.

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 (excluding those available for sale which are not recognised in the statement of income).

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

Notes (continued)

3. Significant accounting policies (continued)

b) Revenue (other than insurance revenue) (continued)

ii) Investment income (continued)

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 (f).

Fair value gains/losses on investment property are included in the statement of income in the period these gains/losses are determined. Details of valuations during the year are included in note 7.

c) Operating leases

Payments made under operating leases for office premises equipments are recognised in statement of incomes 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.

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 income as incurred.

iii) Depreciation

Depreciation is recognised in statement of income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

The estimated useful lives of all property and equipment are estimated as four years. Depreciation rates, useful lives, as well as residual values, are reassessed annually.

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

Notes (continued)

3. Significant accounting policies (continued)

e) Investment property

Property held for long-term rental yields or capital appreciation is classified as investment property.

These are initially recognised when significant risk and reward relating to ownership are transferred to the Company and are initially measured at cost. Investment properties are subsequently measured at fair value determined annually by an independent valuer, if necessary the fair values of investment properties adjusted by the management to reflect the current market conditions. Fair value is based on current market prices for similar properties in the same location and condition. Any gain or loss arising in fair value is recognised in the statement of income.

f) Non-derivative financial instruments

Non-derivative financial assets comprise investments in equity and debt securities, insurance and other receivables, cash and cash equivalents, investment contract liabilities, insurance and other payables and other liabilities.

i) Recognition, derecognition and initial measurement

Non-derivative financial instruments are measured initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

Financial instruments are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled. Regular way purchases and sales of financial assets are recognised and derecognised, as applicable, on the trade date, i.e. the date that the Company commits itself to purchase or sell the asset.

ii) Categories of financial instruments

Financial instruments at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Subsequent to initial measurement, financial instruments at fair value through profit or loss are measured at fair value, with fair value changes recognised in statement of income. Net changes in the fair value of financial assets classified as at fair value through profit or loss includes interest income and any dividends received.

All financial assets held by the Company in respect of its long term business funds are designated by the Company on initial recognition at fair value through profit or loss. This designation eliminates or significantly reduces a measurement inconsistency that would otherwise arise if these assets were not measured at fair value and the changes in fair value were not recognised in profit or loss.

Held-to-maturity investments

If the Company has the positive intent and ability to hold debt securities to maturity, and these debt securities have not been designated at fair value through profit or loss, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

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

Notes (continued)

3. Significant accounting policies (continued)

f) Non-derivative financial instruments (continued)

ii) Categories of financial instruments (continued)

Available-for-sale financial assets

This category is used for quoted financial assets that are not classified as at fair value through profit or loss or held-to-maturity investments. Interest income is recognised in statement of income using the effective interest method. Dividend income is recognised in statement of income when the Company becomes entitled to the dividend. Foreign exchange gains/losses on monetary securities are recognised in the statement of income. Other fair value changes are recognised directly in equity until the investment is sold or impaired and the relevant balance in equity is recognised in statement of income.

Other financial assets

Other non-derivative financial assets, such as cash and cash equivalents and insurance and other receivables are measured at amortised cost using the effective interest method, less any impairment losses.

iii) *Financial Liabilities*

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

iv) *Offsetting*

Financial assets and financial liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to set off the amounts and 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 by IFRS or for gains and losses arising from a group of similar transactions.

v) *Fair value measurement*

The determination of fair values of financial instruments is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. For the three-level fair value hierarchy refer 2(f)(iii).

Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions. When entering into an arm's length transaction, a financial instrument is recognised initially at its transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference is not recognised in profit or loss immediately. The timing of its recognition depends upon the facts and circumstances of each transaction but is not later than when the market data which supports the gain or loss becomes available.

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

Notes (continued)

3. Significant accounting policies (continued)

vi) *Identification and measurement of impairment*

At each reporting date the Company assesses whether there is objective evidence that financial assets not carried at amortised cost are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of an asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Company about any significant financial difficulty of the issuer, significant changes in the technological, market, economic or legal environment in which the issuer operates. A significant or prolonged decline in the fair value of an equity instrument below its cost is also objective evidence of impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in group that share similar credit risk characteristics.

All impairment losses are recognised in statement of income. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to statement of income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in statement of income. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

g) **Cash and cash equivalent**

Cash and cash equivalents comprise cash balances and bank deposits. Bank overdrafts (if any) that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

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

Notes (continued)

3. Significant accounting policies (continued)

h) 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, where appropriate, the risks specific to the liability.

i) 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 balance sheet 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 income.

j) 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 balance sheet 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.

k) 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.

l) 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 whose operating results are reviewed regularly by the Management to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available

The Company's primary format for segment reporting is based on business segments. The business segments are determined based on the Company's management and internal reporting structure

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

Notes (continued)

3. Significant accounting policies (continued)

m) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these financial statements:

- IFRS-3:(Revised): Business Combination (effective 1 July 2009);
- IFRS 5 amendments: Non-current Assets Held for Sale and Discontinued Operations (effective 1 July 2009)
- IFRS 1(Revised): First Time Adoption of International Financial Reporting Standards (effective 1 July 2009 and 1 January 2010);
- IFRS 2 amendments: Share-based payment: (effective 1 January 2010);
- Amendments to Financial Instruments recognition and measurement (effective 1st July IAS-39 : 2009);
- IAS-27 : (Amended) Consolidated and Separate Financial Statements (effective 1 July 2009);
- Amendments to IAS- 32 : Financial Instruments: Presentation (effective 1 February 2010);

- IFRIC-17: Distribution of Non-cash Assets to Owners (effective:1 July 2009)
- IAS-24 (Revised): Related Party Disclosures (effective 1 January 2011);
- IFRIC-19: Extinguishing Financial Liabilities with Equity Instruments (effective 1 July 2010);
- Amendments to IFRIC 14 The limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective 1 January 2011); and
- IAS-19 : Financial Instruments (effective 1 January 2013)
- IFRS 9:

Management has assessed the impact of the new standards, amendments to standards and interpretations and amendments to published standards, and concluded that they are either not relevant to the Company or their impact is limited to the disclosures and presentation requirement in the financial statements except for IFRS 9 as stated below.

IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. - The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

The Company is currently in 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 pervasive impact on the Company's 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:

a) Introduction and overview

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 recognizes the critical importance of having efficient and effective risk management systems in place.

ii) 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.

iii) 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 (e.g. unearned premium reserve) to minimize the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise.

iv) 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 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)

b) 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
- Group Health 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.

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.

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

Notes (continued)

4. Risk management (continued)

b) Insurance risks (continued)

The Company operates a number of oversight committees that monitor aggregate risk data and take overall risk management decisions.

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.

Claims Development table

Year of occurrence of loss	Provision at the beginning of year		Claims provided for the first time or reopened during the year	Part payment on claims during the year	Payments on claims finally settled during the year	Provision at the end of the year	
	Outstanding claims	IBNR				Outstanding claims	IBNR
	AED	AED	AED	AED	AED	AED	AED
Current year	-	-	308,575,717	21,656,528	91,390,362	191,028,827	4,500,000
First preceding year	56,464,441	4,857,089	16,245,625	12,113,819	21,656,528	43,796,808	-
Second preceding year	34,300,878	-	-	-	18,113,819	16,187,059	-
Third preceding year	22,227,780	-	-	-	13,443,691	8,784,089	-
Forth preceding year	16,138,441	-	-	-	14,477,236	1,661,205	-
Fifth and earlier preceding years	6,916,474	-	-	-	6,523,973	392,502	-
Total all years	136,048,014	4,857,089	324,821,342	33,770,347	165,605,609	261,850,490	4,500,000

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	
	2009	2008	2009	2008	2009	2008
	AED	AED	AED	AED	AED	AED
Carrying amount	69,146,373	64,694,059	112,043,259	104,318,553	287,743,622	148,717,317
Concentration by sector						
- Financial institution / Reinsurance companies	69,146,373	64,694,039	29,345,937	14,328,842	287,743,622	148,717,317
- Banks	-	-	15,190,930	8,356,020	-	-
- Real estate	-	-	2,388,758	863,122	-	-
- Service	-	-	-	-	-	-
- Others	-	-	65,117,634	80,770,569	-	-
Total carrying amount	69,146,373	64,694,039	112,043,259	104,318,553	287,743,622	148,717,317
Concentration by location						
- UAE	53,622,030	64,694,039	82,697,322	89,989,711	-	-
- GCC	-	-	-	-	-	-
- Other Arab Countries	12,662,606	-	-	-	-	-
- Others	2,861,737	-	29,345,937	14,328,842	287,743,622	148,717,317
Total carrying amount	69,146,373	64,694,039	112,043,259	104,318,553	287,743,622	148,717,317

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.

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 2009	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	10,611,200	19,503,574	39,029,184	-	69,143,958
Investments fair value through profit or loss	34,463,464	-	-	-	34,463,464
Insurance and other receivables	65,519,836	23,968,681	-	-	89,488,517
Due from related party	22,554,742	-	-	-	22,554,742
Reinsurers' share of outstanding claims	-	287,743,622	-	-	287,743,622
Cash in hand and at bank	202,361,213	-	-	-	202,361,213
Total assets	335,510,455	331,215,877	39,029,184	-	705,755,516
Liabilities					
Insurance and other payables	119,484,120	-	-	-	119,484,120
Outstanding claim reserve	-	266,350,490	-	-	266,350,490
Total liabilities	119,484,120	266,350,490	-	-	385,834,610
Net gap	216,026,335	64,865,387	39,029,184	-	319,920,906

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

Notes (continued)

4. Risk management (continued)

c) Financial risks (continued)

ii) Liquidity risk (continued)

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	98,434,698	-	-	-	98,434,698
Due from related party	13,957,344	-	-	-	13,957,344
Reinsurers' share of outstanding claims	-	148,717,317	-	-	148,717,317
Cash in hand and at bank	135,723,509	-	-	-	135,723,509
Assets					
Total assets	291,317,087	157,953,528	55,457,848	-	504,728,463
Liabilities					
Insurance and other payables	134,336,595	-	-	-	134,336,595
Outstanding claim reserve	-	140,905,103	-	-	140,905,103
Total liabilities	134,336,595	140,905,103	-	-	275,241,698
Net gap	156,980,492	17,048,425	55,457,848	-	229,486,765

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, which is pegged with AED and the Company's exposure to currency risk is limited to that extent. Since almost all reinsurance arrangements are denominated in USD.

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 2009	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	-	-	18,150,436	-	18,150,436
Cash at bank	198,791,561	-	-	-	198,791,561
Total assets	198,791,561	-	18,150,436	-	216,941,997
Liabilities					
	-	-	-	-	-
	198,791,561	-	18,150,436	-	216,941,997
31 December 2008					
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	-	-	17,041,038	-	17,041,038
Cash at bank	131,914,664	-	-	-	131,914,664
Total assets	131,914,664	-	17,041,038	-	148,955,702
Liabilities					
	-	-	-	-	-
	131,914,664	-	17,041,038	-	148,955,702

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

Cash flow sensitivity analysis for fixed and 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 2008.

	Profit or loss (AED)	
	100 bp Increase	100 bp Decrease
31 December 2009		
Financial Instruments		
Financial assets	2,169,420	(2,169,420)
	-----	-----
31 December 2008		
Financial Instruments		
Financial assets	1,489,827	(1,489,827)
	-----	-----

(c) Price risk

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 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 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 AED	Equity AED	Profit or loss AED	Equity AED
31 December 2009				
Available-for-sale	-	6,914,637	-	(6,914,637)
Fair value through profit or loss	3,446,415	-	(3,446,415)	-
31 December 2008				
Available-for-sale	-	6,469,405	-	(6,469,405)
Fair value through profit or loss	4,320,153	-	(4,320,153)	-

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.

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

Notes (continued)

5. Use of estimates and judgements

Individual life insurance

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

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 and are presented in note 11.

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 under level 1 of fair value hierarchy. The fair value of investment properties is based on accounting policy stated in note 3(e). The investment securities disclosure are provided in note 8.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

Investments securities	Note	Level 1	Level 2	Level 3	Total
31 December 2009	8	34,464,154	69,146,373	-	103,610,527
31 December 2008	8	43,201,536	64,694,059	-	107,895,595

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

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 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
	-----	-----	-----	-----	-----
At 1 January 2009	2,332,644	770,553	214,150	4,211,069	7,528,416
Additions	50,345	35,150	13,500	943,077	1,042,072
Disposals	-	-	-	-	-
	-----	-----	-----	-----	-----
At 31 December 2009	2,382,989	805,703	227,650	5,154,146	8,570,488
	-----	-----	-----	-----	-----
Depreciation					
At 1 January 2008	1,825,224	528,705	80,638	2,642,802	5,077,369
Charge for the year	202,874	94,300	47,788	512,161	857,123
On disposals	-	-	(3,562)	-	(3,562)
	-----	-----	-----	-----	-----
At 31 December 2008	2,028,098	623,005	124,864	3,154,963	5,930,930
	-----	-----	-----	-----	-----
At 1 January 2009	2,028,098	623,005	124,864	3,154,963	5,930,930
Charge for the year	158,803	77,731	50,683	638,960	926,177
On disposals	-	-	-	-	-
	-----	-----	-----	-----	-----
At 31 December 2009	2,186,901	700,736	175,547	3,793,923	6,857,107
	-----	-----	-----	-----	-----
Carrying amounts					
At 1 January 2008	438,328	206,305	171,512	941,110	1,757,255
	=====	=====	=====	=====	=====
At 31 December 2008	304,546	147,548	89,286	1,056,106	1,597,486
	=====	=====	=====	=====	=====
At 31 December 2009	196,088	104,967	52,103	1,360,223	1,713,381
	=====	=====	=====	=====	=====

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

Notes (continued)

7. Investment properties (within UAE)

	2009 AED	2008 AED
At 1 January	214,719,200	86,000,000
Additions – at cost	286,060	101,039,400
Disposal – carrying amount (Note 7.1)	-	(26,000,000)
Change in fair values	(44,000,000)	53,679,800
	<u>171,005,260</u>	<u>214,719,200</u>
At 31 December		

Investment property comprises of two plots of land. The management intends to construct a plot of land as a commercial project, the final approval for which is still pending with the master developer. The plan has been approved by the Board of Directors. The management believes that the Company has required resources to undertake this project.

The Company has paid 85% of the purchase price of one of the plots of land and has issued post dated cheques for the remaining 15% 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 management of the Company has internally assessed the fair value of the investment properties using general decrease in the market values of undeveloped plots of land in the area / similar locations as a major indication.

The Company has adjusted the fair values of the investment properties at 31 December 2009 based on the abovementioned assessments, resulting in a write down of AED 44 million. Changes in the fair values are recorded in the statement of income.

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

	2009 AED	2008 AED
Gross rental income	-	250,333
Less: Direct operating expenses	-	(36,448)
Net rental income	-	213,885
Fair value (loss)/gain on investment properties	(44,000,000)	53,679,800
Capital gain on sale of investment property	-	5,749,653
	<u>(44,000,000)</u>	<u>59,643,338</u>

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

Notes (continued)

8. Investment securities (within UAE)

	2009 AED	2008 AED
Investments securities fair value through profit or loss	34,464,154	43,201,536
Investments available-for-sale	69,146,373	64,694,059
	<u>103,610,527</u>	<u>107,895,595</u>

Investments fair valued through profit or loss

	2009 AED	2008 AED
Equity investments – Quoted	34,464,154	43,201,536

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 (2008: AED 6.3 million) are held in the name of a Director for the beneficial interest of the Company.

Investments available-for-sale

	2009 AED	2008 AED
Externally managed funds – Unquoted	51,401,837	47,650,020
Equity investments – Quoted	3,000	3,000
Structured notes – Unquoted	17,741,536	17,041,039
	<u>69,146,373</u>	<u>64,694,059</u>

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

	2009 AED	2008 AED
Investments made		
- Within UAE	53,622,030	61,684,404
- Outside UAE	15,524,343	3,009,655
	<u>69,146,373</u>	<u>64,694,059</u>

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

Notes (continued)

9. Insurance and other receivables

	2009 AED	2008 AED
Premium receivable	45,959,947	58,266,539
Reinsurance companies	29,345,937	14,328,842
Insurance agents and brokers	13,720,445	23,309,703
Accrual of interest and other income	331,479	674,657
Advances and prepayments	1,749,691	1,971,904
Staff receivables	290,339	426,812
Other receivables	1,140,694	926,256
	<u>92,538,532</u>	<u>99,904,713</u>
Less: Provision for doubtful receivables (note 9.1)	<u>(3,050,015)</u>	<u>(1,470,015)</u>
	<u>89,488,517</u>	<u>98,434,698</u>

9.1 Provision for doubtful receivables

	2009 AED	2008 AED
Balance 1 January	1,470,015	990,015
Charge for the year	1,580,000	480,000
	<u>3,050,015</u>	<u>1,470,015</u>
Balance 31 December	<u>3,050,015</u>	<u>1,470,015</u>

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

	Gross 2009 AED	Impairment 2009 AED	Gross 2008 AED	Impairment 2008 AED
Not past due	21,779,437	-	23,404,534	-
Past due 0-30 days	40,577,083	-	41,655,088	-
Past due 31-120 days	26,164,193	-	25,011,069	-
More than 120 days	4,017,819	(3,050,015)	9,834,022	(1,470,015)
Total	<u>92,538,532</u>	<u>(3,050,015)</u>	<u>99,904,713</u>	<u>(1,470,015)</u>

10. Cash and cash equivalent (within UAE)

	2009 AED	2008 AED
Cash in hand	4,051,101	3,908,508
Cash at bank	7,062,192	11,295,237
Short term deposits	191,247,920	120,519,764
	<u>202,361,213</u>	<u>135,723,509</u>

Included in short term deposits with banks operating in the U.A.E., is a deposit amounting to AED 10,000,000 (2008: 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.

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

Notes (continued)

11. Insurance contract provisions and reinsurance assets

Outstanding claims reserve	2009 AED	2008 AED
Reserve for outstanding claims	261,850,490	136,048,014
Reserve for incurred but not reported claims	4,500,000	4,857,089
	<u>266,350,490</u>	<u>140,905,103</u>
Life assurance fund	38,285,753	33,879,905
Unearned premium reserve	147,559,965	128,594,252
	<u>452,196,208</u>	<u>303,379,260</u>
Less: Reinsurance assets		
Reinsurer share of outstanding claims	(228,354,530)	(104,465,268)
Unamortised reinsurance premium reserve	(59,389,092)	(44,252,049)
	<u>(287,743,622)</u>	<u>(148,717,317)</u>
Net Insurance contract provision	<u>164,452,586</u>	<u>154,661,943</u>

Movements in outstanding claims reserve and reinsurance assets:

	2009 Gross AED	2009 Reinsurance AED	Net AED
Total at beginning of the year	140,905,103	(104,465,268)	36,439,835
Less: Settled during the year	(199,375,956)	52,391,673	(146,984,283)
Add: Provision made during the year	324,821,343	(176,280,935)	148,540,408
	<u>266,350,490</u>	<u>(228,354,530)</u>	<u>37,995,960</u>
	2008 Gross AED	2008 Reinsurance AED	Net AED
Total at beginning of the year	108,553,924	(80,904,272)	27,649,652
Less: Settled during the year	(161,799,142)	40,892,206	(120,906,936)
Add: Provision made during the year	194,150,321	(64,453,202)	129,697,119
	<u>140,905,103</u>	<u>(104,465,268)</u>	<u>36,439,835</u>

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

Notes (continued)

11. Insurance contract provisions and reinsurance assets (continued)

Movements in unearned premium reserve

	Gross AED	2009 Reinsurance AED	Net AED
Balance at 1 January	128,594,252	(44,252,049)	84,342,203
Provision made during the year	147,559,965	(59,389,092)	88,180,873
Provision released during the year	(128,594,252)	44,252,049	(84,342,203)
Balance at 31 December	<u>147,559,965</u>	<u>(59,389,092)</u>	<u>88,180,873</u>
	Gross AED	2008 Reinsurance AED	Net AED
Balance at 1 January	112,161,801	(39,613,513)	72,548,288
Provision made during the year	128,594,252	(44,252,049)	84,342,203
Provision released during the year	(112,161,801)	39,613,513	(72,548,288)
Balance at 31 December	<u>128,594,252</u>	<u>(44,252,049)</u>	<u>84,342,203</u>

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.

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

Notes (continued)

11. Insurance contract provisions and reinsurance assets (continued)

Assumptions and sensitivities (continued)

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.

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.

12. Insurance and other payables

	2009 AED	2008 AED
Payable against purchase of investment property	15,311,820	30,311,820
Creditors	19,626,068	26,242,390
Reinsurance companies	59,339,859	40,705,210
Premium reserve withheld	15,655,313	17,341,051
Accrued expenses	10,606,187	11,768,662
Employee terminal benefits	3,322,786	2,422,472
Other payable balances	6,228,274	17,313,652
	<u>130,090,307</u>	<u>146,105,257</u>

13. Share capital and reserves

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

	2009		2008	
	No. of Shares	AED	No. of Shares	AED
Balance, beginning of the year	121,716,000	121,716,000	121,716,000	121,716,000
Issue of bonus shares	12,171,600	12,171,600	-	-
Balance at year end	<u>133,887,600</u>	<u>133,887,600</u>	<u>121,716,000</u>	<u>121,716,000</u>

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

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

Notes (continued)

14. Proposed cash dividend

The Board of Directors proposes a cash dividend AED 16.07 million (2008: AED 12.1 million) and bonus issue of AED 16.07 million for the year ended 31 December 2009 (2008: AED 12.1 million).

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 Board of Directors has proposed remuneration of AED 1.99 million (2008: AED 1 million).

16. Net (loss)/income from investments

	2009 AED	2008 AED
Dividend income	1,904,676	2,294,377
Realised gains on sale of investments	8,141,658	2,480,561
Unrealised gains /(losses) on investments fair value through profit or loss	1,541,799	(111,529,424)
	<u>11,588,133</u>	<u>(106,754,486)</u>

17. General and administrative expenses

	2009 AED	2008 AED
Total general and administration expenses	<u>35,055,880</u>	<u>31,018,930</u>
Less: Allocated to insurance operations		
- Accident and liabilities	(23,909,682)	(20,392,788)
- Marine	(455,794)	(586,999)
- Fire	(1,552,086)	(1,141,422)
- Company and individual life	(6,064,579)	(6,100,001)
	<u>31,982,141</u>	<u>28,221,210</u>
Unallocated management expenses	<u>(3,073,739)</u>	<u>(2,797,720)</u>

The above general and administration expenses include the following costs:

	2009 AED	2008 AED
Staff costs	23,388,280	21,380,286
Rent	2,357,469	1,998,479
Depreciation	926,179	857,123
	<u>157</u>	<u>154</u>
Number of employees at 31 December		

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:

	2009 AED	2008 AED
Premiums written	<u>138,446,206</u>	<u>102,664,363</u>
Claims paid	<u>78,276,051</u>	<u>41,384,381</u>
Management expenses (net)	<u>-</u>	<u>193,000</u>
Directors' and key management personnel (remuneration including benefits)	<u>2,555,965</u>	<u>2,454,915</u>
Interest income	<u>5,745,168</u>	<u>2,746,258</u>
Interest expense	<u>-</u>	<u>47,568</u>
Due from a related party		
	2009 AED	2008 AED
Insurance premium receivables	<u>22,554,742</u>	<u>13,957,344</u>
Available-for-sale investments		
	2009 AED	2008 AED
Externally managed funds – Unquoted	<u>40,381,737</u>	<u>38,413,810</u>
Cash and cash equivalents		
	2009 AED	2008 AED
Cash at bank	<u>4,846,956</u>	<u>8,609,714</u>
Short term deposits	<u>154,269,188</u>	<u>100,350,396</u>

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:

	2009 AED	2008 AED
Less than one year	<u>427,719</u>	<u>441,700</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 nil (2008: AED 1,253,195) was recognised as gross rental income in respect of operating leases.

Capital commitments

Capital commitments as at 31 December 2009 amounted to AED nil (2008: nil).

Guarantees

	2009 AED	2008 AED
Letters of guarantees	<u>10,000,000</u>	<u>7,745,000</u>

Fixed deposit amounting to AED 10 million (2008: 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 (2008: 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 company 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	
	2009 AED	2008 AED	2009 AED	2008 AED	2009 AED	2008 AED
UNDERWRITING INCOME						
Gross written premium	307,228,208	287,693,280	95,657,963	77,737,242	402,886,171	365,430,522
Reinsurance ceded and UPR	(96,717,844)	(93,083,422)	(72,698,235)	(52,120,785)	(169,416,079)	(145,204,207)
Net earned premium	210,510,364	194,609,858	22,959,728	25,616,457	233,470,092	220,226,315
Reinsurance commission						
Income	16,082,658	17,735,907	24,230,644	25,159,556	40,313,302	42,895,463
Total income	226,593,022	212,345,765	47,190,372	50,776,013	273,783,394	263,121,778
UNDERWRITING EXPENSES						
Net claims incurred	(141,138,333)	(125,193,940)	(7,402,076)	(4,503,181)	(148,540,409)	(129,697,121)
Commission paid	(18,504,629)	(18,684,844)	(7,648,736)	(7,979,268)	(26,153,365)	(26,664,112)
Administrative and general	(25,917,562)					
Expenses		(22,121,209)	(6,064,579)	(6,100,001)	(31,982,141)	(28,221,210)
Total expenses	(185,560,524)	(165,999,993)	(21,115,391)	(18,582,450)	(206,675,915)	(184,582,443)
Profit before movement in						
life assurance fund	41,032,498	46,345,772	26,074,981	32,193,563	67,107,479	78,539,335
Increase in life assurance fund	-	-	(4,405,848)	(12,501,098)	(4,405,848)	(12,501,098)
Underwriting profit	41,032,498	46,345,772	21,669,133	19,692,465	62,701,631	66,038,237
(loss)/ from investments					(26,278,491)	(43,104,307)
Unallocated expenses					(3,073,739)	(2,797,720)
Profit for the year					33,349,401	20,136,210

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

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

Notes (continued)

21. 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:

	2009 AED	2008 AED
Net profit for the year	<u>33,349,401</u>	<u>20,136,210</u>
Weighted average number of shares outstanding during the year (after adjusting for issue of bonus shares)	<u>133,887,600</u>	<u>133,887,600</u>
Basic earnings per share	<u>0.249</u>	<u>0.150</u>

There is no dilution effect to the basic earning per share

22. Comparative figures

During the previous years, the directors' remuneration was recognised in the statement of equity in the year to which it related instead of the year it was approved by the shareholders as required by IAS 10 "Events after the reporting period". Accordingly, the opening balance of the retained earnings has been adjusted to reflect the change however this change has not resulted in any adjustment to profit or loss for the year ended 31 December 2008 and 2009 and retained earnings as at 31 December 2009.

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



InfoFort Retrieval Request Form

Company:	KPMG
Department:	Audit
Date:	14-Feb-10
Name:	Bilal-Paulo Tan
Telephone No / Ext:	04 - 3569509
Email:	Mbilal1@kpmg.com / paulotan@kpmg.com
Location:	Dubai Silicon Oasis
Bldg & Floor No:	IT Plaza Building Level 12

SL. NO.	BOX BARCODE	FILE BARCODE	DESCRIPTION
1.	288023	9356294	Arabian GEO 2007
	288019	9356264	Arabian GEO 2007

Type of Delivery for Retrievals:

- | | | |
|-------------------|--------------------------|--|
| Shuttle Service | ☐ | Orders received by 4.00 pm delivered the following day. (Up to 5 boxes) |
| Priority Service | ☐ | 4 hrs delivery service. (Up to 5 boxes) |
| Emergency Service | ☐ | 3hrs delivery service, from time request is received (up to 5 boxes / files) |
| Client Pick Up | ☐ | (From InfoFort) |

Comments:

Requests for files / boxes and services at InfoFort will be honored only for authorized users, provided by the client.

** Appreciate if a parking space is provided to our team, in order to avoid delays in processing your request **

Safic.abdulsalam@infofort.com