

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

Financial statements

31 December 2011

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Financial Statements

31 December 2011

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الشركة الوطنية للتأمينات العامة (ش.م.ع.)
NATIONAL GENERAL INSURANCE CO. (P.S.C.)

Paid up Share Capital AED 149,954,112, C.R. No. 56820
Registered in accordance with Insurance and agents Law 9 of 1984

رأس المال المدفوع ١١٢،٩٥٤،١٤٩ درهم، شهادة رقم ٥٦٨٢٠
مسجلة بموجب قانون التأمين والوساطة رقم ٩ لعام ١٩٨٤

Report of the Board of Directors

Dear Shareholders,

The Board of Directors have the pleasure to welcome you to the Eleventh Annual General Meeting and present their report together with the audited financial statements for the year ended 31 December 2011.

FINANCIAL RESULTS

1. The Company reported a net profit of AED 28,320,402 for the year 2011 against AED 53,825,884 for 2010
2. Gross premiums increased from AED 416,726,792 in 2010 to AED 435,429,709 in 2011 an increase of 4.5 % and the retained premiums increased from AED 239,924,800 in 2010 to AED 248,212,680 in 2011.
3. The gross claims paid by the Company during the year 2011 amounted to AED 271,002,518 compared with AED 190,757,638 in 2010 and the net incurred claims increased to AED 208,234,516 in 2011 from AED 144,782,708 in 2010.
4. Underwriting profit decreased from AED 60,329,955 in 2010 to AED 24,210,206 in 2011.
5. The investment income was AED 8,859,642 in 2011 compared to loss of AED 3,325,017 in 2010.
6. General and Management expenses including expenses directly attributable to underwriting activities for the year 2011 reduced to AED 36,699,528 compared to AED 39,835,291 in 2010.
7. Investment fund comprising of investment properties, securities and short term bank deposits was AED 478,532,932 at the end of 2011 compared with AED 578,749,669 in 2010.
8. The Technical Reserves (i.e. net unearned premium reserve, and net provision for outstanding claims) at the end of year 2011 amounted to AED 173,169,545 compared with AED 177,479,564 in 2010. Included in the above is Life Assurance Fund of AED 47,157,781 as at end 2011 compared to AED 42,807,740 in 2010.

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RECOMMENDATIONS OF THE BOARD OF DIRECTORS

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

1. Consider, discuss and approve the Board of Directors' report.
2. Consider, discuss and approve the Auditors' report.
3. Consider, discuss and approve the Financial Statements for the year ended 31 December 2011.
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 2011.
5. Approve the proposed appropriation of the profits as follows:

	AED
Profit brought forward	74,324,563
Add Profit for the year	28,320,402
Total available for distribution	102,644,965
Less	
a) Transfer to Legal reserve - 10% of profit	2,832,040
b) Transfer to General reserve - 10% of profit	2,832,040
c) Director's remuneration	1,515,864
d) Proposed Dividend --- Cash - 15%	22,493,117
Profit carried forward	72,971,904

6. Appoint or re-appoint Auditors for the financial year 2012 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, which 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 express their sincere appreciation and thanks to the Company's executive administration and staff for their loyalty, diligence and hard work, our treaty leaders Messrs Hannover Re and all the Reinsurers for their strong support to the Company.

On behalf of the Board

19 FEB 2012

Hamad Mubarak Buamim
Chairman

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of National General Insurance Co. (P.S.C.) ("the Company"), which comprise the statement of financial position as at 31 December 2011, the statements of comprehensive income (comprising a statement of comprehensive income and a separate income statement), statement of changes in shareholders' equity and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2011, and of 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.

Report on Other Legal and Regulatory Requirements

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit, 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 2011, which may have a material adverse effect on the business of the Company or its financial position.

19 FEB 2012

Vijendra Nath Malhotra
Registration No.48 B

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

Statement of financial position

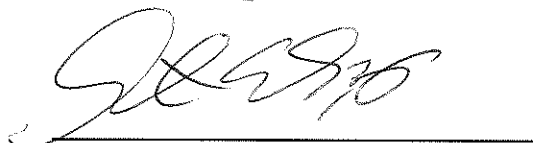
As at 31 December 2011

	Note	2011 AED	2010 AED
ASSETS			
Property and equipment	6	4,553,714	1,339,924
Investment properties	7	238,000,000	237,500,000
Investments securities	8	106,638,660	97,999,378
Reinsurance assets	11	241,035,720	239,247,897
Insurance and other receivables	9	137,152,744	146,072,716
Cash and cash equivalent	10	133,894,272	243,250,291
Total assets		861,275,110	965,410,206
LIABILITIES			
Insurance contract provisions	11	414,205,265	416,727,461
Insurance and other payables	12	127,606,363	211,919,656
Total liabilities		541,811,628	628,647,117
EQUITY			
Share capital	13	149,954,112	149,954,112
Legal reserve	13	42,835,656	40,003,616
General reserve	13	42,219,670	39,387,630
Fair value reserve		(12,526,841)	(6,514,256)
Retained earnings		96,980,885	113,931,987
Total equity		319,463,482	336,763,089
Total liabilities and equity		861,275,110	965,410,206

The notes on pages 10 to 40 form an integral part of these financial statements.

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

19 FEB 2012



Hamad Mubarak Buamim
Chairman



Dr. Abdul Zahra A. Ali
Chief Executive Officer

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

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

Statement of income

For the year ended 31 December 2011

	Note	2011 AED	2010 AED
Continuing operations			
Gross written premiums	20	435,429,709	416,726,792
Reinsurance ceded		(187,217,029)	(176,801,992)
Net premiums		248,212,680	239,924,800
Change in unearned premium provision		9,562,931	(5,807,738)
Net earned premiums	20	257,775,611	234,117,062
Reinsurance commission earned	20	40,826,125	32,864,959
Total underwriting income		298,601,736	266,982,021
 Claims paid		 (271,002,518)	 (190,757,638)
Reinsurance share of claims paid		63,670,873	48,672,183
Net claims paid		(207,331,645)	(142,085,455)
Change in outstanding claims provision		(902,871)	(2,697,253)
Net incurred claims	20	(208,234,516)	(144,782,708)
Commission paid	20	(29,856,892)	(20,691,134)
Administrative expenses	17, 20	(31,950,081)	(36,656,237)
Net underwriting expenses		(270,041,489)	(202,130,079)
Net movement in life assurance fund	20	(4,350,041)	(4,521,987)
Total underwriting expense		(274,391,530)	(206,652,066)
 Underwriting profit	20	 24,210,206	 60,329,955
 Interest and other income (net)	7.1	 1,870,851	 18,588,030
Rental income	7.2	4,006,573	-
Net gain / (loss) from investment securities	16	2,482,218	(32,787)
Fair value gain / (loss) on investment properties	7	500,000	(21,880,260)
Net gain / (loss) from investments		8,859,642	(3,325,017)
General and administrative expenses		(4,749,446)	(3,179,054)
Profit for the year		28,320,402	53,825,884
 Basic and diluted earnings per share	21	 0.189	 0.359

The notes on pages 10 to 40 form an integral part of these financial statements.

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

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

Statement of comprehensive income

For the year ended 31 December 2011

	2011	2010
	AED	AED
Profit for the year	28,320,402	53,825,884
Other comprehensive income		
Fair value reserve (available for sale investments):		
Net change in fair value	(1,732,398)	3,033,954
Fair value (gain) / loss transferred to profit and loss on disposal of instruments	<u>(2,999,083)</u>	<u>1,777,530</u>
Total other comprehensive income for the year	<u>(4,731,481)</u>	<u>4,811,484</u>
Total comprehensive income for the year	<u><u>23,588,921</u></u>	<u><u>58,637,368</u></u>

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

Statement of cash flows

For the year ended 31 December 2011

	Note	2011 AED	2010 AED
Cash flows from operating activities			
Profit for the year		28,320,402	53,825,884
<i>Adjustment for:</i>			
Depreciation	6	698,169	644,914
Provision for doubtful receivables	9.1	99,131	2,960,000
Unrealised losses / (gains) on investments fair valued through profit or loss	16	2,675,251	(203,394)
Realised gains on investment	16	(2,999,083)	559,386
Impairment of available for securities	16	-	1,281,104
Unrealised (gains) / losses on fair value of investment properties	7	(500,000)	21,880,260
Change in unearned premium reserve and life assurance fund		(5,212,890)	10,329,725
Provision for gratuity - net of repayment		709,295	548,475
		<u>23,790,275</u>	<u>91,826,354</u>
Change in insurance and other receivables		8,820,841	(27,672,166)
Change in insurance and other payables		(88,422,588)	69,965,069
Change in net outstanding claims		902,871	2,697,253
<i>Net cash (used in) / generated from operating activities</i>		<u>(54,908,601)</u>	<u>136,816,510</u>
Cash flows from investing activities			
Change in investments at fair value through profit or loss (net)		(14,200,360)	(10,658,075)
Change in property and equipment (net)		(3,911,958)	(271,457)
Change in investments properties (net)		-	(88,375,000)
Change in investments at fair value through OCI / available-for-sale (net)		<u>1,153,428</u>	<u>19,443,612</u>
<i>Net cash used in investing activities</i>		<u>(16,958,890)</u>	<u>(79,860,920)</u>
Cash flows from financing activities			
Dividends paid		(37,488,528)	(16,066,512)
<i>Net cash used in financing activities</i>		<u>(37,488,528)</u>	<u>(16,066,512)</u>
Net (decrease) / increase in cash and cash equivalents		(109,356,019)	40,889,078
Cash and cash equivalents at January 1		<u>243,250,291</u>	<u>202,361,213</u>
Cash and cash equivalents at December 31		<u>133,894,272</u>	<u>243,250,291</u>

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National General Insurance Co. (P.S.C.)
Statement of changes in shareholders' equity
For the year ended 31 December 2011

	Share capital AED	Legal reserve AED	General reserve AED	Fair value reserve AED	Retained earnings AED	Total AED
As at 1 January 2010	133,887,600	34,621,028	34,005,042	(11,325,740)	105,002,817	296,190,747
Total comprehensive income for the year						
Profit for the year	-	-	-	-	53,825,884	53,825,884
Other comprehensive income for the year						
Net change in fair value of available for sale investments	-	-	-	3,033,954	-	3,033,954
Net change in fair value of available for sale investments transferred to profit and loss	-	-	-	1,777,530	-	1,777,530
Total other comprehensive income	-	-	-	4,811,484	-	4,811,484
Total comprehensive income for the year	-	-	-	4,811,484	53,825,884	58,637,368
Transaction with owners :						
Directors' remuneration	-	-	-	-	(1,998,514)	(1,998,514)
Issue of bonus shares	16,066,512	-	-	-	(16,066,512)	-
Transfer to legal reserve	-	5,382,588	-	-	(5,382,588)	-
Transfer to general reserve	-	-	5,382,588	-	(5,382,588)	-
Dividends paid	-	-	-	-	(16,066,512)	(16,066,512)
As at 31 December 2010	149,954,112	40,003,616	39,387,630	(6,514,256)	113,931,987	336,763,089
Balance at 1 January 2011	149,954,112	40,003,616	39,387,630	(6,514,256)	113,931,987	336,763,089
Effect of changes in accounting policy for financial instrument recognition and measurement (IFRS 9) Note 2 (e) (ii)	-	-	-	(1,281,104)	1,281,104	-
As at 1 January 2011- restated	149,954,112	40,003,616	39,387,630	(7,795,360)	115,213,091	336,763,089
Total Comprehensive income for the year						
Profit for the year	-	-	-	-	28,320,402	28,320,402
Other comprehensive income for the year						
Net change in fair value of available for sale investments	-	-	-	(1,732,398)	-	(1,732,398)
Net change in fair value of available for sale investments	-	-	-	(2,999,083)	-	(2,999,083)
Total other comprehensive income for the year	-	-	-	(4,731,481)	-	(4,731,481)
Total comprehensive income for the year	-	-	-	(4,731,481)	28,320,402	23,588,921
Transaction with owners :						
Directors' remuneration	-	-	-	-	(3,400,000)	(3,400,000)
Issue of bonus shares	-	-	-	-	-	-
Transfer to legal reserve	-	2,832,040	-	-	(2,832,040)	-
Transfer to general reserve	-	-	2,832,040	-	(2,832,040)	-
Dividends paid	-	-	-	-	(37,488,528)	(37,488,528)
As at 31 December 2011	149,954,112	42,835,656	42,219,670	(12,526,841)	96,980,885	319,463,482

The notes on pages 10 to 40 form an integral part of these financial statements.
Independent auditor's report is set out on page 3 - 4.

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

Notes

(forming part of the financial statements)

1. Reporting entity

National General Insurance Co. (P.S.C.) ("the Company") is a Public Shareholding Company registered under UAE Federal Law No. (8) of 1984 as amended, in the Emirate of Dubai with effect from 12 September 2001. The Company'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 as well as certain reinsurance 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 U.P. House, P.O. Box 154, Dubai, UAE.

2. Basis of preparation

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) 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.

Information about critical judgement in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in note 5.

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

Notes (continued)

2. Basis of preparation (continued)

e) Change in accounting policies

- i) The Company has adopted IAS 24 "Related party disclosures" (revised) effective from 1 January 2011. IAS 24 amended the definition of a related party and modifies certain related party disclosure requirements for Government related entities. The management assessed the impact of this new standard believes that changes have no significant affect on the Company's financial statements.
- ii) The Company has adopted IFRS 9 Financial Instruments (IFRS 9) in 2011 in advance of its effective date. The Company has chosen 1 January 2011 as its date of initial application. The standard has been applied retrospectively and as permitted by IFRS 9, comparative financial information have not been restated.

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

Debt instruments are measured at amortised cost only if:

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

If either of the two criteria is not met the financial instrument is classified as at fair value through profit or loss ("FVPTL"). Additionally, even if the asset meets the amortised cost criteria the entity may choose at initial recognition to designate the financial asset as at FVTPL if doing so eliminates or significantly reduces the accounting mismatch.

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

Investment in equity instruments are classified and measured at FVTPL except if the equity instrument is not held for trading and is designated by the Company as at fair value through other comprehensive income ("FVTOCI).

If the equity investment is designated as FVTOCI, all gains and losses, except for dividend income are recognised in other comprehensive income and are not subsequently reclassified to profit or loss.

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

- the Company's investments in debt instruments meeting the required criteria are measured at amortised cost;
- the Company's equity investments not held for trading have been designated as at FVTOCI; and
- the Company's remaining investment in equity investments and debt instruments are measured at FVTPL.

The impact of change in accounting policy from the beginning of the current year (as at 1 January 2011) has been to increase retained earning opening balance by AED 1.28 million and to decrease investments revaluation reserve opening balance by AED 1.28 million as follows:

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

Notes (continued)

2. Basis of preparation (continued)

e) Change in accounting policies (continued)

	Retained Earnings	Revaluation Reserve
Due to reclassification of financial asset to:		
Financial assets measured at FVTOCI	<u>1,281,104</u>	<u>(1,281,104)</u>

Had IFRS 9 not been adopted during the current period, the statement of income would have been impacted by a decrease in profit by AED 6.5 million resulting from impairment of available for sale investments.

Additional disclosures required, reflecting the revised classification and measurement of financial assets of the Company as result of adopting IFRS 9, are shown in note 8 to the financial statements.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been consistently applied by the Company, except as explained in note 2(e) which addresses the changes in accounting policies.

a) Insurance contracts

i) Classification

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

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

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

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

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

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

Notes (continued)

3. Significant accounting policies (Continued)

a) Insurance contracts (Continued)

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 using mathematical models to spread premium written evenly over period of coverage 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 calculation for Life Reserve Fund.

iii) Claims

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

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

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

3. Significant accounting policies (continued)

a) Insurance contracts (continued)

v) Reinsurance

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

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

Reinsurance assets are assessed for impairment at each reporting date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due, and that event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. Impairment losses on reinsurance assets are recognised in statement of 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 reporting date.

vii) Insurance receivables and payables

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

viii) Life assurance fund

The fund is determined by the independent actuarial valuation of future policy benefits. Actuarial assumptions include a margin for adverse deviation and generally vary by type of policy, year of issue and policy duration. Mortality and withdrawal rate assumptions are based on experience. Adjustments to the balance of fund are affected by charges or credits to income. Certain generated returns are accrued and provided for in the life fund.

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.

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

Notes (continued)

3. Significant accounting policies (continued)

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

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) .

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.

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

ii) Subsequent costs

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

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

3. Significant accounting policies (continued)

d) Property and equipment (continued)

iii) Depreciation

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

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

The estimated useful lives for all property and equipment for the current and comparative years is four years.

e) Investment property

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

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

f) Non-derivative financial assets

As per IFRS 9 - policy applicable from 1 January 2011

All recognized financial assets are subsequently measured in their entirety at either amortized cost or fair value. Complete policy is disclosed in note 2 (e) (ii).

As per IAS 39 - applicable for comparative figures only and financial assets that have already been derecognised at date of initial application

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

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

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

Notes (continued)

3. Significant accounting policies (continued)

f) Non-derivative financial assets (continued)

Financial instruments at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Financial assets designated at fair value through profit or loss comprise equity securities that otherwise would have been classified as available for sale.

Held-to-maturity investments

If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held to maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available for sale, and prevent the Company from classifying investment securities as held to maturity for the current and the following two financial years.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, and trade and other receivables, including service concession receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

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

Notes (continued)

3. Significant accounting policies (continued)

f) Non-derivative financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the above categories of financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(k)(i)) and foreign currency differences on available-for-sale debt instruments (see note 3(b)(i)), are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Available-for-sale financial assets comprise equity securities and debt securities.

g) Impairment

i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Company, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Loans and receivable and held-to-maturity investment securities

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

In assessing collective impairment the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

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

Notes (continued)

3. Significant accounting policies (continued)

g) Impairment (continued)

Loans and receivable and held-to-maturity investment securities (continued)

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. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

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 the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

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 reporting date. Non monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to AED at the foreign exchange rate ruling at the date of the transaction. Realised and unrealised exchange gains and losses have been dealt with in the statement of 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 reporting date. The management considers that the difference between the liability as calculated using an actuarial method would not be materially different from the provision carried in the financial statements.

Defined contribution plan

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

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

Notes (continued)

3. Significant accounting policies (continued)

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, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the Company's CEO to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

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

m) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2011, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company. The Company has early adopted IFRS 9 and has chosen 1 January 2011 as its date for initial application. The extent of the impact has been determined and disclosed in note 2 (e)(ii) and 3 (f).

4. Risk management

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

i) Governance framework

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

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

Notes (continued)

4. Risk management (continued)

ii) Risk management framework

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

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

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

iii) Capital management framework

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

iv) Regulatory framework

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

The operations of the Company are also subject to regulatory requirements within the UAE. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (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.

v) Asset liability management ("ALM")

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

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

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

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

4. Risk management (continued)

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

a) Insurance risks

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

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

General insurance contracts

- Liability insurance
- Property insurance
- Motor insurance
- 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.

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

Notes (continued)

4. Risk management (continued)

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

a) Insurance risks (continued)

Life insurance

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

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

Reinsurance strategy

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

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

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

b) Financial risks

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

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

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

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

Notes (continued)

4. Risk management (continued)

b) Financial risks (continued)

i) Credit risk

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

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

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

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

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.

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	
	2011 AED	2010 AED	2011 AED	2010 AED	2011 AED	2010 AED
Carrying amount	49,788,619	-	143,261,890	152,082,731	241,035,720	170,334,974
Concentration by sector						
- Financial institution / Reinsurance companies	49,788,619	-	22,317,906	21,609,127	241,035,720	170,334,974
- Banks	-	-	26,786,224	13,832,625	-	-
- Real estate	-	-	7,864,769	2,971,659	-	-
- Service	-	-	-	-	-	-
- Others	-	-	86,292,991	107,659,305	-	-
Total carrying amount	49,788,619	-	143,261,890	146,072,716	241,035,720	170,334,974
Concentration by location						
- UAE	49,788,619	-	143,261,890	152,082,731	-	-
- GCC	-	-	-	-	-	-
- Other Arab Countries	-	-	-	-	-	-
- European Countries	-	-	-	-	241,035,720	170,334,974
- Others	-	-	-	-	-	-
Total carrying amount	49,788,619	-	143,261,890	152,082,731	241,035,720	170,334,974

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

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

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

Notes (continued)

4. Risk management (continued)

b) Financial risks (continued)

i) Credit risk (continued)

The age analysis of insurance and other receivables are as follows

	Gross	Impairment	Gross	Impairment
	2011	2011	2010	2010
Not past due	78,160,874	-	63,648,649	-
Past due 0-30 days	9,388,287	-	24,392,326	-
Past due 31-120 days	10,987,122	-	16,261,551	-
Past due 120-365 days	2,023,420	-	2,161,613	-
More than 365 days	42,702,187	(6,109,146)	45,618,592	(6,010,015)
	<u>143,261,890</u>	<u>(6,109,146)</u>	<u>152,082,731</u>	<u>(6,010,015)</u>

ii) Liquidity risk

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

Maturity profiles

The table below 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 2011	Less than 180 days AED	180 days to 1 year AED	1-5 Year AED	Over 5 Year AED	Total AED
Liabilities					
Insurance and other payables	120,075,119	-	-	-	120,075,119
Outstanding claim reserve	-	215,126,979	-	-	215,126,979
Total liabilities	<u>120,075,119</u>	<u>215,126,979</u>	<u>-</u>	<u>-</u>	<u>335,202,098</u>
31 December 2010	Less than 180 days AED	180 days to 1 year AED	1-5 Year AED	Over 5 Year AED	Total AED
Liabilities					
Insurance and other payables	200,493,664	-	-	-	200,493,664
Outstanding claim reserve	-	211,028,187	-	-	211,028,187
Total liabilities	<u>200,493,664</u>	<u>211,028,187</u>	<u>-</u>	<u>-</u>	<u>411,521,851</u>

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

Notes (continued)

4. Risk management (continued)

b) Financial risks (continued)

iii) Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Company limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in local equity and bond markets. In addition, the Company actively monitors the key factors that affect stock and bond market movements, including analysis of the operational and financial performance of investees.

a) Currency risk

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

The Company's major exposures are in USD, 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.

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 2011	Less than 180 days	180 days to 1 year	1-5 Year	Over 5 Year	Total
Assets					
Investment at amortized cost	-	-	16,948,553	-	16,948,553
Cash at bank	131,396,052	-	-	-	131,396,052
Total assets	<u>131,396,052</u>	<u>-</u>	<u>16,948,553</u>	<u>-</u>	<u>148,344,605</u>
Liabilities	-	-	-	-	-
	<u>131,396,052</u>	<u>-</u>	<u>16,948,553</u>	<u>-</u>	<u>148,344,605</u>

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

Notes (continued)

4. Risk management (continued)

b) Financial risks (continued)

iii) Market risk (continued)

b) Interest rate risk (continued)

31 December 2010	Less than 180 days	180 days to 1 year	1-5 Year	Over 5 Year	Total
Assets					
Investments available for sale	-	17,885,537	-	408,900	18,294,437
Cash at bank	241,147,930	-	-	-	241,147,930
Total assets	<u>241,147,930</u>	<u>17,885,537</u>	<u>-</u>	<u>408,900</u>	<u>259,442,367</u>
Liabilities					
	-	-	-	-	-
	<u>241,147,930</u>	<u>17,885,537</u>	<u>-</u>	<u>408,900</u>	<u>259,442,367</u>

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

31 December 2011	Profit or loss (AED) 100 bp	
	Increase	Decrease
Financial instruments		
Financial assets	<u>1,313,235</u>	<u>(1,313,235)</u>
31 December 2010	Profit or loss (AED) 100 bp	
	Increase	Decrease
Financial instruments		
Financial assets	<u>2,594,424</u>	<u>(2,594,424)</u>

Fair value sensitivity analysis for fixed rate instruments

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

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

Notes (continued)

4. Risk management (continued)

b) Financial risks (continued)

iii) Market risk (continued)

c) 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	Equity	Profit or loss	Equity
	AED	AED	AED	AED
31 December 2011				
Fair value through OCI	-	3,284,007	-	(3,284,007)
Fair value through profit or loss	5,685,004	-	(5,685,004)	-
31 December 2010				
Available-for-sale	-	5,267,375	-	(5,267,375)
Fair value through profit or loss	4,532,563	-	(4,532,563)	-

iv) Operational risk

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

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

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

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

Notes (continued)

5. Use of estimates and judgements

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

Measurement of insurance contract provisions

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

Individual life insurance

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

Provision for outstanding claims, whether reported or not

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

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

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

Notes (continued)

5. Use of estimates and judgements (continued)

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 2011	8	56,850,041	32,840,066	-	89,690,107
31 December 2010	8	45,325,625	-	-	45,325,625

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

Notes (continued)

6. Property and equipment		Note	2011 AED	2010 AED	
Operating assets		6.1	1,431,880	1,339,924	
Capital work in progress		6.2	3,121,834	-	
			<u>4,553,714</u>	<u>1,339,924</u>	
6.1 Operating assets					
	Furniture and fixtures AED	Office equipment AED	Motor vehicles AED	Computer equipment AED	Total AED
<i>Cost</i>					
At 1 January 2010	2,382,989	805,703	227,650	5,154,146	8,570,488
Additions	5,750	26,822	-	238,885	271,457
Disposals	-	-	-	-	-
At 31 December 2010	<u>2,388,739</u>	<u>832,525</u>	<u>227,650</u>	<u>5,393,031</u>	<u>8,841,945</u>
At 1 January 2011	2,388,739	832,525	227,650	5,393,031	8,841,945
Additions	37,322	26,848	182,000	543,955	790,125
Disposals	-	-	(98,000)	-	(98,000)
At 31 December 2011	<u>2,426,061</u>	<u>859,373</u>	<u>311,650</u>	<u>5,936,986</u>	<u>9,534,070</u>
<i>Depreciation</i>					
At 1 January 2010	2,186,901	700,736	175,547	3,793,923	6,857,107
Charge for the year	114,327	63,628	28,029	438,930	644,914
On disposals	-	-	-	-	-
At 31 December 2010	<u>2,301,228</u>	<u>764,364</u>	<u>203,576</u>	<u>4,232,853</u>	<u>7,502,021</u>
At 1 January 2011	2,301,228	764,364	203,576	4,232,853	7,502,021
Charge for the year	58,467	34,869	57,916	546,917	698,169
On disposals	-	-	(98,000)	-	(98,000)
At 31 December 2011	<u>2,359,695</u>	<u>799,233</u>	<u>163,492</u>	<u>4,779,770</u>	<u>8,102,190</u>
<i>Carrying amounts</i>					
At 31 December 2010	<u>87,511</u>	<u>68,161</u>	<u>24,074</u>	<u>1,160,178</u>	<u>1,339,924</u>
At 31 December 2011	<u>66,366</u>	<u>60,140</u>	<u>148,158</u>	<u>1,157,216</u>	<u>1,431,880</u>

6.2 Capital work in progress represents the amount spent for the interior decoration of Union House.

7. Investment properties (within UAE)

	2011 AED	2010 AED
At 1 January	237,500,000	171,005,260
Additions - at cost	-	88,375,000
Changes in fair value	500,000	(21,880,260)
At 31 December	<u>238,000,000</u>	<u>237,500,000</u>

Investment property comprises of two plots of land and a commercial building.

The investment properties have been valued by independent property valuers and a net increase of AED 500,000 reflecting change in the fair value has been recorded in the statement of income.

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

Notes (continued)

7. Investment properties (within UAE) (continued)

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

	2011 AED	2010 AED
Fair value gain / (loss) on investment properties	500,000	(21,880,260)
Discount obtained on initial cost	-	10,103,940
	<u>500,000</u>	<u>(11,776,320)</u>

- 7.1 During previous year the Company has negotiated a discount of AED 10.103 million from the master developer of one of the plots of land on the original cost price as the property market faced significant decline as compared to the original acquisition cost. The amount had been included into other income for last year.
- 7.2 During the year the Company received a rental income of AED 4,006,573 through renting out the commercial units in Union House.

8 Investment securities

	2011 AED	2010 AED
Financial assets at fair value through profit or loss	56,850,041	45,325,625
Financial assets - <i>Available for sale</i> (refer note 8.2)	-	52,673,753
Financial assets at fair value through other comprehensive income	32,840,066	-
Financial assets at amortised costs	16,948,553	-
	<u>106,638,660</u>	<u>97,999,378</u>

8.1 Investments at fair valued through profit or loss

	2011 AED	2010 AED
Equity investments – Quoted	<u>56,850,041</u>	<u>45,325,625</u>

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

Shares amounting to AED 3.96 million (2010: AED 4.7 million) are held in the name of a Director for the beneficial interest of the Company.

8.2 Financial assets - Available for sale

	2011 AED	2010 AED
Fair value at 1 January	52,673,753	69,146,373
Addition during the year	16,500,084	408,900
Disposals during the year*	(17,652,820)	(19,915,474)
Decrease in fair value	(1,244,142)	3,033,954
Fair value at 31 December 2011	<u>50,276,875</u>	<u>52,673,753</u>
<i>Reclassification adjustment</i>		
Transfer to investments at fair value through OCI	(33,328,322)	-
Transfer to investments at amortised cost	(16,948,553)	-
	<u>-</u>	<u>52,673,753</u>

*During the year structured notes matured at the reporting date, the available for sale financial assets were neither overdue nor impaired.

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

Notes (continued)

8 Investment securities (continued)

8.3 Classes and categories of financial instruments

	Original measurement category IAS 39	New measurement category IFRS 9	Original carrying amount	New carrying amount
Investment in listed shares	Held for trading	Financial assets at FVTPL	56,850,041	56,850,041
Investments in bonds	Available for sale	Financial assets measured at amortised cost	16,948,553	16,971,720
Other financial assets	Available for sale	Financial assets at FVTOCI	32,840,066	32,840,066
Total			106,638,660	106,661,827
			2011	2010
			AED	AED

8.4 Investments made

- Within UAE	78,852,171	97,226,320
- Outside UAE	27,786,489	773,058
	106,638,660	97,999,378

9 Insurance and other receivables

	2011	2010
	AED	AED
Premium receivable	101,229,163	101,971,054
Reinsurance companies	22,317,906	24,650,700
Insurance agents and brokers	2,726,856	541,991
Due from related parties (Refer note 18)	13,863,598	20,821,926
Accrual of interest and other income	735,310	577,239
Advances and prepayments	2,265,620	2,183,169
Staff receivables	-	236,603
Other receivables	123,437	1,100,049
	143,261,890	152,082,731
Less: Provision for doubtful receivables (note 9.1)	(6,109,146)	(6,010,015)
	137,152,744	146,072,716

9.1 Provision for doubtful receivables

	2011	2010
	AED	AED
Balance 1 January	6,010,015	3,050,015
Charge for the year	99,131	2,960,000
Balance 31 December	6,109,146	6,010,015

10. Cash and cash equivalent (within UAE)

	2011	2010
	AED	AED
Cash in hand	2,979,668	2,102,361
Cash at bank	26,138,934	12,211,408
Short term deposits	104,775,670	228,936,522
	133,894,272	243,250,291

Included in short term deposits with banks operating in the U.A.E., is a deposit amounting to AED 9.5 million (2010: AED 14 million) 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

	2011 AED	2010 AED
Reserve for outstanding claims	199,315,736	197,942,927
Reserve for incurred but not reported claims	15,811,243	13,085,260
	<u>215,126,979</u>	<u>211,028,187</u>
Life assurance fund	47,157,781	42,807,740
Unearned premium reserve	151,920,505	162,891,534
	<u>414,205,265</u>	<u>416,727,461</u>
Less: Reinsurance assets		
Reinsurer share of outstanding claims	(173,530,895)	(170,334,974)
Unamortised reinsurance premium reserve	(67,504,825)	(68,912,923)
	<u>(241,035,720)</u>	<u>(239,247,897)</u>
Net Insurance contract provision	<u>173,169,545</u>	<u>177,479,564</u>

Movements in outstanding claims and reinsurance assets

	2011 Gross AED	2011 Reinsurance AED	Net AED
Total at the beginning of the year	211,028,187	(170,334,974)	40,693,213
Less: Settled during the year	(271,002,518)	63,670,873	(207,331,645)
Add: Provision made during the year	275,101,310	(66,866,794)	208,234,516
Balance at 31 December	<u>215,126,979</u>	<u>(173,530,895)</u>	<u>41,596,084</u>

	2010 Gross AED	2010 Reinsurance AED	Net AED
Total at the beginning of the year	266,350,490	(228,354,530)	37,995,960
Less: Settled during the year	(190,757,638)	48,672,183	(142,085,455)
Add: Provision made during the year	135,435,335	9,347,373	144,782,708
Balance at 31 December	<u>211,028,187</u>	<u>(170,334,974)</u>	<u>40,693,213</u>

Movements in unearned premium reserve

	2011 Gross AED	2011 Reinsurance AED	Net AED
Balance at 1 January	162,891,534	(68,912,923)	93,978,611
Provision made during the year	151,920,505	(67,504,825)	84,415,680
Provision released during the year	(162,891,534)	68,912,923	(93,978,611)
Balance at 31 December	<u>151,920,505</u>	<u>(67,504,825)</u>	<u>84,415,680</u>

	2010 Gross AED	2010 Reinsurance AED	Net AED
Balance at 1 January	147,559,965	(59,389,092)	88,170,873
Provision made during the year	162,891,534	(68,912,923)	93,978,611
Provision released during the year	(147,559,965)	59,389,092	(88,170,873)
Balance at 31 December	<u>162,891,534</u>	<u>(68,912,923)</u>	<u>93,978,611</u>

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

Notes (continued)

11. Insurance contract provisions and reinsurance assets (continued)

Assumptions and sensitivities

Process used to determine the assumptions

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

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

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

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

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

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

An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Company's estimation process. The Company believes that the liability for claims reported in the statement of financial position is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims are finally settled.

Claim movement table

Year of loss	Provision at the beginning of the year		Claims provided for first time or reopened	Part payment on claims during the year	Payment 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	-	-	180,687,254	10,340,745	93,890,818	60,644,447	15,811,243
First preceding year	46,473,602	13,085,260	6,334,106	10,929,219	37,584,516	17,379,233	-
Second preceding year	102,668,900	-	489,593	541,618	96,977,835	5,639,039	-
Third preceding year	27,716,405	-	-	219,511	8,030,285	19,466,609	-
Fourth preceding year	19,521,718	-	-	602,113	12,188,915	6,730,691	-
Fifth and earlier preceding year	1,562,302	-	87,590,357	(387,097)	84,040	89,455,717	-
Total all years	197,942,927	13,085,260	275,101,310	22,246,109	248,756,409	199,315,736	15,811,243

12. Insurance and other payables

	2011 AED	2010 AED
Creditors	21,876,646	30,858,420
Reinsurance companies	65,028,387	45,910,066
Premium reserve withheld	16,310,693	16,234,424
Due to related parties	-	87,500,000
Accrued expenses	7,531,244	11,425,992
Employee terminal benefits	6,737,616	3,871,261
Commission payable	7,113,227	6,616,159
Other payable balances	3,008,550	9,503,334
	127,606,363	211,919,656

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

Notes (continued)

13. Share capital and reserves

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

	2011		2010	
	No. of Shares	AED	No. of Shares	AED
Balance, beginning of the year	149,954,112	149,954,112	133,887,600	133,887,600
Issue of bonus shares	-	-	16,066,512	16,066,512
Balance at year end	<u>149,954,112</u>	<u>149,954,112</u>	<u>149,954,112</u>	<u>149,954,112</u>

In accordance with the Company's Articles of Association and 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, may be transferred to a general reserve until it is suspended by an Ordinary General Meeting upon a proposal by the Board of Directors. The General reserve can be utilized for the purposes determined by the Ordinary General Meeting upon recommendations of the Board of

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

14. Proposed cash dividend

The Board of Directors proposes a cash dividend of AED 22.49 million (2010: AED 37.49 million) and bonus issue of AED nil for the year ended 31 December 2011 (2010: AED nil).

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 1.5 million (2010: AED 3.4 million).

16. Net income / (loss) from investments

	2011	2010
	AED	AED
Dividend income	2,158,386	1,604,309
Realised gains / (losses) on investments	2,999,083	(559,386)
Unrealised (losses) / gains on investments fair value through profit and loss	(2,675,251)	203,394
Impairment of securities	-	(1,281,104)
	<u>2,482,218</u>	<u>(32,787)</u>

17. General and administrative expenses

	2011	2010
	AED	AED
Total general and administration expenses	<u>36,699,527</u>	<u>39,835,291</u>

The above general and administration expenses include the following costs:

Staff costs	26,841,687	24,615,900
Rent	2,564,273	2,491,576
Depreciation	689,169	644,914
Number of employees at 31 December	221	168

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 (Revised). The Company's management believes that The terms of such transactions are not significantly different from those that could have been obtained from third parties.

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

	2011 AED	2010 AED
Premiums written	<u>107,316,986</u>	<u>118,696,235</u>
Claims paid	<u>73,658,396</u>	<u>68,401,007</u>
Directors' and key management personnel (remuneration including benefits)	<u>8,297,967</u>	<u>5,774,037</u>
Interest income	<u>180,956</u>	<u>7,781,213</u>
Payment made during the year for investment property	<u>87,500,000</u>	<u>-</u>

b) Due from related parties

	2011 AED	2010 AED
Insurance premium receivable (included in receivables)	<u>13,863,598</u>	<u>20,821,926</u>

c) Due to related parties

Payable to a related party	<u>-</u>	<u>87,500,000</u>
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d) Available-for-sale investments

	2011 AED	2010 AED
Externally managed funds - unquoted	<u>22,269,996</u>	<u>22,804,971</u>

e) Cash and cash equivalents

	2011 AED	2010 AED
Cash at bank	<u>26,845,048</u>	<u>12,633,032</u>
Short term deposit	<u>104,775,669</u>	<u>228,936,522</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:

	2011 AED	2010 AED
Less than one year	171,288	582,706
More than one year	-	60,312

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 4 million (2010: nil) was recognised as gross rental income in respect of operating leases.

Capital commitments

Capital commitments as at 31 December 2011 amounted to Nil (2010: nil).

Guarantees

	2011 AED	2010 AED
Letters of guarantees	<u>9,437,558</u>	<u>8,147,942</u>

Fixed deposit amounting to AED 9.5 million (2010: AED 14 million) are under lien as collateral in respect of above guarantees (refer note 10). Guarantees includes an amount of AED 7.5 million (2009: AED 10 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

Operating segment information

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

	General insurance		Life assurance		Total	
	2011	2010	2011	2010	2011	2010
	AED	AED	AED	AED	AED	AED
UNDERWRITING INCOME						
Gross written premium	321,663,346	302,447,320	113,766,363	114,279,472	435,429,709	416,726,792
Reinsurance ceded and UPR	(98,662,479)	(87,891,186)	(88,554,550)	(88,910,806)	(187,217,029)	(176,801,992)
Net earned premium	223,000,867	214,556,134	25,211,813	25,368,666	248,212,680	239,924,800
Change in unearned premium reserve	11,056,757	(8,996,256)	(1,493,826)	3,188,518	9,562,931	(5,807,738)
Reinsurance commission Income	25,186,346	9,170,746	15,639,779	23,694,213	40,826,125	32,864,959
Total income	259,243,970	214,730,624	39,357,766	52,251,397	298,601,736	266,982,021
UNDERWRITING EXPENSES						
Net claims incurred	(197,817,435)	(133,211,515)	(10,417,081)	(11,571,193)	(208,234,516)	(144,782,708)
Commission paid	(26,068,095)	(14,680,095)	(3,788,797)	(6,011,039)	(29,856,892)	(20,691,134)
Administrative and general Expenses	(27,473,943)	(30,229,352)	(4,476,138)	(6,426,885)	(31,950,081)	(36,656,237)
Total expenses	(251,359,473)	(178,120,962)	(18,682,016)	(24,009,117)	(270,041,489)	(202,130,079)
Profit before movement in life assurance fund	7,884,497	36,609,662	20,675,750	28,242,280	28,560,247	64,851,942
Increase in life assurance fund	-	-	(4,350,041)	(4,521,987)	(4,350,041)	(4,521,987)
Underwriting profit	7,884,497	36,609,662	16,325,709	23,720,293	24,210,206	60,329,955
Profit / (loss) from investments, interest and rental income					8,859,642	(3,325,017)
Unallocated expenses					(4,749,446)	(3,179,054)
Profit for the year					28,320,402	53,825,884

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:

	2011	2010
	AED	AED
Net profit for the year	<u>28,320,402</u>	<u>53,825,884</u>
Weighted average number of shares outstanding during the year (after adjusting for issue of bonus shares)	<u>149,954,112</u>	<u>149,954,112</u>
Basic earnings per share	<u>0.189</u>	<u>0.359</u>

There is no dilution effect to the basic earning per share

22. Comparative figures

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