

Operating Company Composite

NATIONAL GENERAL INSURANCE COMPANY (P.S.C.)

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Publicly Traded Corporation: National General Insurance
Company (P.S.C.)

DFM: NGI

Report Revision Date: 06/02/2014

BEST'S CREDIT RATINGS

Best's Financial Strength Rating: A-

Outlook: Positive

Best's Issuer Credit Rating: A-

Outlook: Positive

Best's Financial Size Category: VIII

RATING RATIONALE

Rating Rationale: The revised outlooks of National General Insurance Co. (P.S.C.) (NGI) reflect its strengthening risk-adjusted capitalisation, robust underwriting performance and notable improvements in the company's enterprise risk management.

NGI's risk-adjusted capitalisation remains strong and is expected to strengthen following the company's decision to de-risk its investments, reducing its exposure to property and equity holdings. In addition, the company's capital position will remain sufficiently strong to absorb projected growth of up to 10% over the next two years.

NGI has exhibited a track record of generating robust underwriting income, despite significant pressure on premium rates on the company's main lines of motor and medical business. The robust technical performance has been driven by prudent underwriting and improved risk selection in medical business. The company recorded a technical profit of AED 38.4 million (USD 10.5 million) in 2013, that translated into a loss ratio of approximately 75% compared to 80% in the prior year.

NGI has made a concerted effort to improve its enterprise risk management. Over the past year, the company implemented an internal capital model in combination with a clear definition of its risk appetite in order to manage its capital requirements. The company's developing risk-based approach to managing capital will support its strategic growth initiatives over the near term.

NGI is the seventh-largest insurance company in the UAE on a gross written premiums basis, with most of its business sourced locally. NGI's portfolio is well distributed on a gross basis and skewed towards medical, motor and life business on a net basis. Overall, NGI retains 69% of its premium revenue, one of the highest retention levels in the market. However, NGI's insurance risks are supported by a strong reinsurance programme encompassing proportional and non-proportional treaties.

Upward movements are likely to emanate from continuous improvement in the company's business

profile and enterprise risk management. Negative rating actions would arise from a significant deterioration in risk-adjusted capitalisation or a prolonged weakening in the company's underwriting performance.

FIVE YEAR RATING HISTORY

BEST'S		
<u>Date</u>	<u>FSR</u>	<u>ICR</u>
05/02/14	B++	bbb+
05/02/13	B++	bbb+
05/03/12	B++	bbb+
05/19/11	B++	bbb+
06/15/10	B++	bbb+
09/09/09	NR	NR

BUSINESS PROFILE

Established in 1980, NGI is a composite insurer domiciled in the UAE, where it ranked as the seventh-largest insurer by gross written premiums (GWP). NGI provides a diverse range of products in both general insurance and group and individual life. At year-end 2013, non-life business generated approximately 83% of gross revenues, with life accounting for the remaining 17%.

The majority of NGI's business originates from the UAE, and approximately 77% is sourced through the company's head office in Dubai. In addition, NGI has three other branches in Dubai as well as a branch in both Abu Dhabi and Sharjah. NGI is currently expanding its distribution network through opening new branches within the UAE.

NGI has been listed on the Dubai Financial Market since 2002, and its main shareholders are two established domestic banks, namely Emirates NBD (ENBD), holding a 36.70% share, and Commercial Bank of Dubai (CBD) with a 17.75% share. Dubai Investments owns a further 8.02%.

Growth in recent years has been slowing. NGI's average growth rate has been 2.3% in the last three years, which lags behind the market growth rate. In 2013, NGI's gross revenues declined by 0.7%. The decrease was due to the non-renewal of unit-linked business, which was acquired by NGI from Aviva in 2012 and is in run-off. In addition, strong competition, decreasing rates and a focus on the company's bottom line have dampened NGI's top-line growth in the last two years. Going forward, the company aims to achieve GWP growth of about 10% in the short term and has actively implemented a growth strategy which aims at strengthening its distribution network and further penetrating opportunities within the life segment.

Medical remained the company's main line of business in 2013, accounting for 43% of GWP, followed by motor (20%), life (16%), general accident (16%), fire (4%) and marine (1%). With regard to NGI's non-life business, retention ratios are the highest in the company's motor and medical lines at 97% and 90%, respectively, whilst lowest is in property and engineering with approximately 7% being retained in 2013. Marine and general accident lines have generally seen retention ratios between 16% and 20%. After reinsurance, NGI's portfolio is mainly comprised of medical (56%), motor (23%) and life (11%) business.

NGI has a well-diversified distribution network, supported by its shareholders, from which 22% of the company's business originated in 2013, with the vast majority of this coming from ENBD. Brokers provided a further 28%, direct sales 25%, with the remaining 25% being generated by other distribution channels.

RISK MANAGEMENT

The company has made a concerted effort to improve its enterprise risk management framework. The company implemented an internal capital model with a clear definition of risk appetite in order to quantify its risks and to achieve a better understanding of capital requirements. This has allowed the company to assess the impact of its strategic growth initiatives. It is expected that the internal capital model will assist the company in its allocation of resources and in the evaluation of the company's solvency level. In addition, the company is able to demonstrate good understanding and control of its underwriting risks.

OPERATING PERFORMANCE

Operating Results: NGI's net income rose from USD 12.6 million in 2012 to USD 34.1 million in 2013, equivalent to a return on average capital and surplus of 31.9% compared to a five-year average of 16.5%. As a result of its sound underwriting performance, NGI has a long track record of generating profits.

In 2013, overall earnings were driven by an exceptionally strong investment yield of 16.6%, including gains which contributed to two-thirds of the company's operating result.

Underwriting Results: NGI has generated a good level of technical profits in each of the last five years. In 2013, technical profits have increased by 6% compared to the previous year whilst earned premiums increased 11% over the same period. The overall combined ratio improved for the second consecutive year to 87.9% in 2013 compared to 91.5% in 2012. The improvement in underwriting profitability was driven by adherence to the company's strict underwriting guidelines and rigorous selection process for medical business. The loss ratio for NGI's medical business has improved over the last two years: 79% in 2013 (95% in 2012) mainly due to an increase in premium rates in relation to its main shareholder ENBD. Going forward, it is expected that the medical business will remain at a stable loss ratio as rate increases are expected to compensate for strong inflationary claims costs. NGI's second-biggest line - motor -- remained profitable, but a deterioration in its loss ratio to 73% in 2013 (60% in 2012) was noted due to significant competition and price undercutting in the market. The remaining lines of business, which have low retention levels, have remained profitable.

Investment Results: Invested assets have yielded 16.5% in 2013 compared to 3.6% in 2012, including gains. Although past non-technical performance has been more volatile when including gains, performance seems to have stabilised in recent years. In 2013, the investment return recognised through the profit and loss account totalled USD 23.6 million (USD 2.7 million in 2012).

NGI's investment performance has experienced noticeable volatility in recent years due to large amounts of the portfolio being skewed towards real estate (37% of total invested assets in 2013) as well as equities, which were 25% of total assets in 2013. Going forward, it is expected that the company will significantly reduce its real estate and equity holdings.

NGI's investment portfolio consists of real estate (39% of invested assets), equities and mutual funds (25%), cash and short-term deposits (21%), bonds (14%) and other (1%) as of year-end 2013.

BALANCE SHEET STRENGTH

Capitalization: NGI reported capital and surplus of USD 119 million at year-end 2013, reflecting an increase of 27% compared to the prior year. A.M. Best considers NGI to have very strong risk-adjusted capitalisation, both currently and on a prospective basis, which is supported by the company's ability to generate capital internally through material profit retention.

NGI's risk-adjusted capital position benefits from moderate underwriting risks, whilst credit risks are mitigated by the company's high-quality reinsurance panel. Going forward, a relief in capital requirements from the sale of NGI's real estate and equity holdings is expected to further strengthen the company's risk-adjusted capitalisation. A.M. Best believes that NGI's capital and surplus will remain sufficiently strong to absorb projected growth of up to 10% over the next two years.

Loss Reserves: An external actuarial evaluation is carried out only for the individual life business. Furthermore, in A.M. Best's opinion, NGI has good control and awareness of its short-tailed non-life business.

Liquidity: A.M. Best views NGI's liquidity levels to be adequate as of year-end 2013, demonstrated by a ratio of liquid assets to total gross technical reserve provisions of 101%. However, it is expected that the company's liquidity position will significantly improve within the next 12 months as a result of divestments in its real estate and equity holdings.

Summarized Accounts as of December 31, 2013

Data reflected within all tables of this report has been compiled from the financial statements of this company (Source: Company Financial Statement).

US \$ per Local Currency Unit .2723 = 1 United Arab Emirates Dirham (AED)

STATEMENT OF INCOME

	12/31/2013 AED(000)	12/31/2013 USD(000)
General technical account:		
Gross premiums written	371,398	101,132
Reinsurance ceded	97,770	26,623
Net premiums written	273,628	74,509
Increase/(decrease) in gross unearned premiums	15,663	4,265
Net premiums earned	257,965	70,244
Total underwriting income	257,965	70,244
Net claims incurred	192,660	52,461
Management expenses	30,005	8,170
Acquisition expenses	6,141	1,672
Net operating expenses	36,146	9,843
Total underwriting expenses	228,806	62,304
Balance on general technical account	29,159	7,940
Life technical account:		
Gross premiums written	74,312	20,235
Reinsurance ceded	42,355	11,533
Net premiums written	31,957	8,702
Increase/(decrease) in gross unearned premiums	-550	-150
Net premiums earned	32,507	8,852
Unrealised capital gains/(losses)	-1,595	-434

Total revenue	30,912	8,417
Net claims incurred	22,473	6,119
Net increase/(decrease) in long term business provision	1,931	526
Management expenses	8,244	2,245
Acquisition expenses	-10,976	-2,989
Net operating expenses	-2,732	-744
Total expenses	21,672	5,901
Balance on long-term technical account	9,240	2,516
Combined technical account:		
Gross premiums written	445,710	121,367
Reinsurance ceded	140,125	38,156
Net premiums written	305,585	83,211
Increase/(decrease) in gross unearned premiums	15,113	4,115
Net premiums earned	290,472	79,096
Unrealised capital gains/(losses)	-1,595	-434
Total revenue	288,877	78,661
Net claims incurred	215,133	58,581
Net increase/(decrease) in long term business provision	1,931	526
Management expenses	38,249	10,415
Acquisition expenses	-4,835	-1,317
Net operating expenses	33,414	9,099
Total underwriting expenses	250,478	68,205
Balance on combined technical account	38,399	10,456
Non-technical account:		
Net investment income	6,603	1,798
Realised capital gains/(losses)	87,783	23,903
Unrealised capital gains/(losses)	2,417	658
Other income/(expense)	-10,096	-2,749
Profit/(loss) before tax	125,106	34,066
Profit/(loss) after tax	125,106	34,066
Dividend to shareholders	29,991	8,167
Transfer to reserves	24,816	6,757
Other adjustments	-2,962	-807
Retained Profit/(loss) for the financial year	67,337	18,336
Retained Profit/(loss) brought forward	103,247	28,114
Retained Profit/(loss) carried forward	170,584	46,450

MOVEMENT IN CAPITAL & SURPLUS

	12/31/2013 AED(000)	12/31/2013 USD(000)
Capital & surplus brought forward	345,816	94,166
Change in non-distributable reserves	24,814	6,757
Change in other reserves	-24,815	-6,757
Profit or loss for the year	125,106	34,066
Capital gains or (losses)	713	194
Dividend to shareholders	-32,953	-8,973
Total change in capital & surplus	92,865	25,287
Capital & surplus carried forward	438,681	119,453

ASSETS

	12/31/2013 AED(000)	12/31/2013 % of total	12/31/2013 USD(000)
Cash & deposits with credit institutions	136,099	14.5	37,060
Shares & other variable interest instruments	203,132	21.6	55,313
Assets held to cover linked liabilities	38,745	4.1	10,550
Liquid assets	377,976	40.2	102,923
Real Estate	221,631	23.6	60,350
Real estate for own use	28,830	3.1	7,850
Other investments	51,618	5.5	14,056
Total investments	680,055	72.3	185,179
Reinsurers' share of technical reserves - unearned premiums	61,778	6.6	16,822
Reinsurers' share of technical reserves - claims	85,333	9.1	23,236
Total reinsurers share of technical reserves	147,111	15.6	40,058
Insurance/reinsurance debtors	86,009	9.1	23,420
Inter-company debtors	13,749	1.5	3,744
Other debtors	3,336	0.4	908
Total debtors	103,094	11.0	28,072
Fixed assets	4,380	0.5	1,193
Prepayments & accrued income	4,577	0.5	1,246
Other assets	1,206	0.1	328
Total assets	940,423	100.0	256,077

LIABILITIES

	12/31/2013 AED(000)	12/31/2013 % of total	12/31/2013 USD(000)
Capital	149,954	15.9	40,832
Paid-up capital	149,954	15.9	40,832
Non-distributable reserves	118,143	12.6	32,170
Retained earnings	170,584	18.1	46,450

Capital & surplus	438,681	46.6	119,453
Gross provision for unearned premiums	158,864	16.9	43,259
Gross provision for outstanding claims	125,724	13.4	34,235
Gross provision for long term business - life	52,341	5.6	14,252
Gross provision for linked liabilities - life	38,745	4.1	10,550
Total gross technical reserves	375,674	39.9	102,296
Insurance/reinsurance creditors	42,239	4.5	11,502
Inter-company creditors	2,298	0.2	626
Other creditors	42,360	4.5	11,535
Total creditors	86,897	9.2	23,662
Accruals & deferred income	30,554	3.2	8,320
Other liabilities	8,617	0.9	2,346
Total liabilities & surplus	940,423	100.0	256,077

MANAGEMENT

NGI's management team has a good knowledge of the Emirati insurance market, corroborated by the company's track record of consistent growth and technical profitability in its core non-life business. The company has rigourously reviewed underperforming lines, namely medical, and has successfully implemented stricter underwriting criteria and controls to improve technical performance.

OFFICERS

CEO: Dr. Abdul Zahra Al Ali

Manager: Sandeep Jain (Actuarial & Life Operations)

General Manager: Mutaz Dabbagh

Manager: L. Ramakrishnan (Auditing)

Deputy General Manager: D. Sudhakaran (Non Life)

Manager: Nicola Kelly (Technical Manager Medical)

Assistant General Manager: Ms. Daisy Jacob

DIRECTORS

Mr. Adel M. S. Al Zarouni (Vice Chairman)

H. E. Hamad Mubarak Buamim (Chairman)

Mr. Mohamed Hadi Al Hussaini

Mr. Yagoob Yousuf Hassan Janahi

Mr. Mohamed Abdulrahman Al Jallaf

Mr. Khalid Jassim Kalban

Mr. Hesham Abdulla Al Qassim

REINSURANCE

NGI has a solid panel of reinsurers with the majority having secure financial strength. Proportional treaties are set for property, engineering, general accident and marine business. An additional excess of loss coverage is in place for property, engineering and marine business for the amount of AED 50 million in excess of AED 10 million. Excess of loss coverage is also in place for medical, motor and other liabilities (priority of AED 250,000 for motor and other liabilities and AED 55,000 for medical). Life business is reinsured on a proportional basis.

BALANCE SHEET ITEMS

	AED (000) <u>2013</u>	AED (000) <u>2012</u>	AED (000) <u>2011</u>	AED (000) <u>2010</u>	AED (000) <u>2009</u>
Liquid assets	377,976	238,679	190,744	288,576	236,828
Total investments	680,055	545,102	478,533	578,750	476,976
Total assets	940,423	866,937	861,275	965,410	887,795
Total gross technical reserves	375,674	422,230	414,205	416,727	452,196
Net technical reserves	228,563	202,524	173,169	177,479	164,452
Total liabilities	501,742	521,121	541,811	628,647	591,604
Capital & surplus	438,681	345,816	319,464	336,763	296,191

INCOME STATEMENT ITEMS

	AED (000) <u>2013</u>	AED (000) <u>2012</u>	AED (000) <u>2011</u>	AED (000) <u>2010</u>	AED (000) <u>2009</u>
Gross premiums written	445,710	448,964	435,429	416,726	402,886
Net premiums written	305,585	299,414	248,212	239,924	237,298
Balance on technical account(s)	38,399	36,260	24,210	60,330	62,701
Profit/(loss) before tax	125,106	46,400	28,320	53,826	33,349
Profit/(loss) after tax	125,106	46,400	28,320	53,826	33,349

LIQUIDITY RATIOS (%)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total debtors to total assets	11.0	10.7	15.6	14.8	13.4
Liquid assets to net technical reserves	165.4	117.9	110.1	162.6	144.0
Liquid assets to total liabilities	75.3	45.8	35.2	45.9	40.0
Total investments to total liabilities	135.5	104.6	88.3	92.1	80.6

LEVERAGE RATIOS (%)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net premiums written to capital & surplus	69.7	86.6	77.7	71.2	80.1
Net technical reserves to capital & surplus	52.1	58.6	54.2	52.7	55.5
Gross premiums written to capital & surplus	101.6	129.8	136.3	123.7	136.0
Gross technical reserves to capital & surplus	85.6	122.1	129.7	123.7	152.7
Total debtors to capital & surplus	23.5	26.9	42.0	42.6	40.3
Total liabilities to capital & surplus	114.4	150.7	169.6	186.7	199.7

PROFITABILITY RATIOS (%)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Loss ratio	74.7	79.3	84.5	64.8	67.0
Operating expense ratio	13.2	12.2	12.7	16.7	13.3
Combined ratio	87.9	91.5	97.2	81.5	80.4
Net investment income ratio	2.6	2.9	3.4	9.8	3.8
Operating ratio	85.3	88.6	93.8	71.6	76.5
Benefits paid to net premiums written (Life)	76.4	24.3	58.6	63.4	48.4
Expense ratio (Life)	-8.5	-1.9	-29.3	-44.4	-43.1
Return on net premiums written	40.9	15.5	11.4	22.4	14.1
Return on total assets	14.5	5.5	3.1	5.8	4.0
Return on capital & surplus	31.9	13.9	8.6	17.0	11.4