



TAKAFUL EMARAT INSURANCE (PSC)
Annual Report 2016

Life, Health and Happiness



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

IN THE NAME OF GOD, THE MOST GRACIOUS, THE MOST MERCIFUL



**Sheikh Khalifa bin Zayed bin
Sultan Al Nahyan**
President of the United Arab Emirates



**Sheikh Mohammed bin Rashid
Al Maktoum**
Vice President and Prime Minister
of the United Arab Emirates



Sheikh Mohamed bin Zayed Al Nahyan
Crown Prince of Abu Dhabi
and Deputy Supreme Commander
of the UAE Armed Forces.

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Board of Directors

H.E. Abdulla Al Murar - Chairman

Abdulla Atatreh – Deputy Chairman

Mohammad Ziad Al Hawari – Executive Board Member

Ahmad Kilani – Member

Ahmed Saeed Brouk Al Hamiri – Member

Zafar Habib Khan - Member

Khalifa Yousef Khoury – Member

Report of the Board of Directors

Dear Shareholders,

2016 was a year of strong growth for Takaful Emarat, which delivered robust financial performance with a 46.94% increase in net profit.

Over the last 36 months, a new management team with significant regional and international insurance experience has re-organized and streamlined the Takaful Emarat business. This process is focused on accelerating growth and expansion through delivering world class products that are innovative, digital, customer centric, and rooted in our culture and systems.

This growth has also been underpinned by the increasing awareness of the benefits of Takaful such as transparency, its principles of risk-sharing and the ongoing support and regulation of the sector by the UAE government.

However, increased regulation has also impacted the profitability of some of the less developed insurers, as they struggle to meet the more rigorous investment and corporate governance requirements. Looking ahead, this presents opportunities for our business, which is well-positioned to benefit from any potential consolidation in the sector.

Building on our strong financial performance for 2016, we remain committed to driving growth through ongoing commercial, operational and strategic initiatives across our business within the UAE and regionally.

To support this, we continue to invest in our infrastructure, human capital and distribution partnerships by continuously seeking unconventional channels as a market innovator and leader. The introduction of mandatory health insurance in the UAE is central to this growth, with Takaful Emarat serving as one of the Participating Insurer approved by the Dubai Health Authority, and the first Insurer to provide a digital channel for its customer to purchase this unique product. Takaful Emarat is therefore strategically well-positioned to capitalize on this significant market opportunity.

Underpinning all our success to date are our people. We continue to invest in all of our employees, as well as our on-going Emiratization Programme, and supporting the ‘Government

Accelerators’ initiative of His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai to recruit 1,000 employees in 75 days within the financial sector, along with the UAE’s Vision 2021.

I am proud to say that our employee training programme is one of the most comprehensive in our industry and is delivering high-quality graduates who are playing key roles in the ongoing success of Takaful Emarat. I would like to take this opportunity to thank them all for their hard work and dedication during 2016; it is very much appreciated.

Related party transactions and balances

Related parties comprise companies and entities under common ownership and/or common management and control, their partners and key management personnel. The terms and conditions of the transactions are mutually agreed by the parties.

Compensation of key management personnel

	2016	2015
	AED	AED
Short and long term benefits	8,522,228	6,412,683

Transactions with related parties during the year

Gross claims incurred	2,409,400	753,766
Gross contribution written	2,605,662	2,650,529

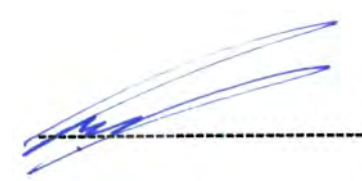
Balances with other related parties

Quoted equity investments	28,702,652	10,558,099
Claims reported	817,765	257,017
Receivables from related party	1,020,801	-

During 2016, the Company signed an agreement with a related party for selling life policies. The above amount pertains to the premium received in respect of policies sold under this agreement.

Our business is now primed for an exciting period of sustained long-term growth, and I look forward to reporting further progress in due course.

On behalf of Takaful Emarat's management and shareholders, the Board of Directors expresses its sincere appreciation and utmost gratitude to His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai, for his continued support of the UAE's business community and its development.



Abdulla Al Murar

Chairman

In the Name of God, the Most Gracious, the Most Merciful

Shariah Supervisory Board Report for the Financial Year ended 31st of December 2016

To the General Assembly of the Company Shareholders and to the Board of Directors

Praise to Allah and Peace be upon our Prophet Muhammad

We the Shariah Supervisory Board of Takaful Emarat:

Prof. Abed Naser Abu AlBasal - Chairman of Shariah Board

Dr. Abdul Sattar Abu Ghuddah - Deputy Chairman of Shariah Board

Mufti Muhammad Hassan Kaleem – Member of Shariah Board

In line with Article (63) of the Company's Articles of Association, we present the following report about the activities and accounts:

We have reviewed the basis on which the Company's business has been conducted, the financial results, the investments it has engaged in during the financial year ending on December 31, 2016, samples of the Takaful (Insurance) policies entered into by the Company and the new contracts and agreements signed by the Company and other activities in order to make the opinion on whether the company is compliant with the Islamic provisions and principles, the advisory opinions, resolutions and directives issued by us.

Ensuring the companies compliance with the Islamic provisions and principles is the responsibility of the management that is in charge of the implementation of the Company activities in accordance with its Articles of Association and in line with Islamic provisions and principles. Our responsibility is limited to making an independent Shariah opinion based on our audit of the documents and to report accordingly.

We have audited the Company's financial results and its financial structure by auditing the balance sheet, income statement and statement of revenues and expenses. We have also audited the Company investments, as well as the details of the Takaful policies dealt with in

different types of Takaful insurance. We identified updates on re-insurance or re-Takaful, and the authorities with whom such agreements were concluded.

We were provided with the adequate information and interpretations to give reasonable assurance that the company did not violate the Islamic provisions and principles in general and within the activities we examined.

Our Opinion:

1. The Company adhered in its financial structure in separating between the account of the policy holders and the shareholders' account, which is fundamental in Takaful insurance. The Company prepared its budget for the financial year ending on December 31, 2016 in accordance with the applicable model of the Shariah Standards according to which the Company should prepare its budget (under the prevailing accounting regulations) a model that expresses reality and nature of the Takaful business and its financial structure.
2. The Company only withheld from the policyholders the prescribed administration charges or less in addition to a common portion of the profit of this account being Modharba. We have requested the Company to disclose the same at its policy documents kept in headquarters, branches and website for the policyholders as it is a Shariah requirement for Wakala and Modaraba. Such declaration should be made clear to the customers.
3. The Company provided Qard Hasan to tackle the interim deficit in Takaful portfolio
4. The investments that the Company made are acceptable investments in light of our audit.
5. The Company confirmed that they entered into re-insurance agreements in accordance with our guidelines. We asked to minimize the re-insurance with traditional companies as possible, with priority given to the mandatory and optional re-insurance with the Islamic companies based on the Islamic insurance.
6. We have reviewed the samples of Takaful policy documents used by the Company and we found that they are in compliance with the Shariah principles.
7. A. In line with the Circular No. 39 of 2013 issued by the Insurance Authority in UAE, the Company has made a provision regarding Zakat relating to the shareholders' account. The Company will transfer the Zakat amount to the Zakat Fund as per the resolution of Board of Directors.

B. The Company has formed a supervisory committee to oversee disbursements from the Zakat Account, and actually the Company has paid Zakat last year as per the standards of Zakat calculations and to the rightful.

8. The Shariah Board emphasizes that the Company shall arrange training for the employees on Takaful insurance and its Shariah principles, with a view to enhance the business and to achieve the Company's objectives in compliance with the Islamic provisions, the Shariah Board Members are willing to provide training pragmas to the employees in this regard.

The Shariah Board affirms that the Company may not use any document or instrument or contracts or enter into any agreement or investment or exercise any of the activities unless approved by the Board to ensure compliance with the Shariah requirements as provided for in the Articles of Association.

May God guide the Company and those in charged with authority therein.

And in closing: "Praise be to Allah, the Cherisher and Sustainer of the worlds"

Signature: _____

Prof. Abed Naser Abu AlBasal - Chairman of Shariah Board

Signature: _____

Dr. Abdul Sattar Abu Ghuddah - Deputy Chairman of Shariah Board

Signature: _____

Mufti Muhammad Hassan Kaleem – Member of Shariah Board

Financial Statements

TAKAFUL EMARAT - INSURANCE (PSC)

**Financial Statements for the year ended
31 December 2016**

TAKAFUL EMARAT - INSURANCE (PSC)

Financial statements for the year ended 31 December 2016

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Independent auditor's report to the shareholders of Takaful Emarat - Insurance (PSC)

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Takaful Emarat - Insurance (PSC) (the “Company”) as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (‘IFRS’).

What we have audited

The Company’s financial statements comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and with the IESBA Code.

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Independent auditor's report to the shareholders of Takaful Emarat - Insurance (PSC) (continued)

Our audit approach

Overview

Key audit matters	<ul style="list-style-type: none">• Valuation of takaful contract liabilities• Valuation of investment properties• Measurement of acquisition costs on takaful life policies
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As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Key audit matters

Key audit matters (KAMs) are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

How our audit addressed the Key audit matter

Valuation of takaful contract liabilities

(refer to note 8 of the financial statements)

We focused on this balance because of the complexity involved in the estimation process, and the significant judgements that management and the directors make in determining the appropriateness and adequacy of the liability.

Note 8 to the financial statements describes the elements that make up the takaful contract liabilities balance. We comment on the most judgemental elements below.

The work that we performed to address the valuation of takaful contract liabilities included the following procedures:

We tested the completeness and accuracy of the underlying data used in the actuarial calculations through reconciliations between the data and the financial ledger as well as between the actuarial data used by the external actuary and that used by our own actuarial specialists in performing their review.



Independent auditor's report to the shareholders of Takaful Emarat - Insurance (PSC) (continued)

Our audit approach

Key audit matter

How our audit addressed the Key audit matter

Valuation of takaful contract liabilities

(refer to note 8 of the financial statements)

1. Claims reported and unsettled:

The estimation of outstanding claims involves significant judgement given the size of the liability and inherent uncertainty in estimating the expected future payments for claims incurred.

The valuation of outstanding claims relies on the quality of the underlying data. It involves subjective judgements and uncertainty about future events, both internal and external to the business for which small changes in assumptions can result in a material impact to the estimate.

We evaluated the competence, objectivity and independence of the Company's appointed actuary and our own actuarial specialists.

We applied our industry knowledge and experience and we compared the methodology, models and assumptions used against recognised actuarial practices in particular we:

- challenged management's key assumptions and judgements; and
- assessed whether the reserving methodology has been applied consistently across periods.

2. Claims incurred but not reported:

Significant judgement arises over the estimation of payments for claims that have been incurred at the reporting date but have not yet been reported to the Company. There is generally less information available in relation to these claims. Classes of business where there is a greater length of time between the initial claim event and settlement also tend to display greater variability between initial estimates and final settlement.

We obtained an understanding of and evaluated the Company's internal controls over the claims approval and recording process.

We substantively tested the outstanding claim reserves and on sample basis; in particular we performed the following procedures:

- Obtained an understanding of, and evaluated the controls of the Company to obtain reliance over the completeness and accuracy of the reports received by management from independent third party administrators (TPA).
- Verified medical claims by comparing the reports received by management from TPA.
- Tested a sample of individual and group life claims by agreeing the claim details to the underlying policy documents.

3. Mathematical reserves

This reserve represents the liability under the life takaful fund which is determined by an independent actuarial valuation, considering future policy benefits at the end of each reporting period. It involves complex and subjective judgements, for which small changes in assumptions can result in a material impact to the estimate.

We checked the accuracy and completeness of source data used for computing the contribution deficiency reserve.



Independent auditor's report to the shareholders of Takaful Emarat - Insurance (PSC) (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the Key audit matter
Valuation of investment properties <i>(refer to note 11 of the financial statements)</i>	
<p>The Company's investment properties comprise of land and residential apartments.</p> <p>The valuation of the Company's property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the other individual characteristics for that particular property.</p> <p>We have given specific audit focus and attention to this area because the existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in individual property valuation assumptions, when aggregated, could result in a material misstatement.</p> <p>The valuation of land was carried out by a third party valuer, Hamptons International (the Valuer). The Valuer was engaged by the Company, and performed its work in accordance with the International Valuation Standards issued by the Royal Institute of Chartered Surveyors.</p> <p>In determining a property's valuation, the Valuer adopted the Comparable Method (Direct Comparison Approach) of valuation. The Direct Comparison Approach involves making adjustments to the sale price of comparable properties in order to account for difference in location, access, use, plot and shape, potential built up area allowance and other individual characteristics.</p>	<p>We evaluated the competence, capability and objectivity of the valuation experts by considering information from a variety of sources, such as:</p> <ul style="list-style-type: none"> • Experience with previous work of that expert; • Knowledge of that expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition; and • Assessment by our own real estate specialists. <p>We evaluated the appropriateness of the expert's work by considering the nature and content of the instructions provided to the expert by the Company, the relevance and reasonableness of experts' findings or conclusions, their consistency with other audit evidence, and whether valuations have been appropriately reflected in the financial statements. Where the experts' work involved significant use of source data, the relevance and accuracy of that source data was evaluated.</p> <p>Because of the subjectivity involved in determining valuations for individual properties and the existence of alternative assumptions and valuation methods, we determined a range of values that were considered reasonable to evaluate the independent property valuations used by management.</p>



Independent auditor's report to the shareholders of Takaful Emarat - Insurance (PSC) (continued)

Our audit approach (continued)

Key audit matters (continued)

<i>Key audit matter</i>	<i>How our audit addressed the Key audit matter</i>
<i>Measurement of acquisition costs on takaful life policies</i> <i>(refer to note 9 of the financial statements)</i>	
We focused on this area because of the complexity involved in the estimation process, and the significant judgements that management make with respect to the measurement of acquisition costs on takaful life policies and in determining the effective term of takaful life policies.	Our actuarial experts reviewed the assumptions underlying the model for recognition of acquisition costs and determining the effective term of takaful life policies along with the supporting workings and discussed the model with the external actuary.
The Company has carried out an exercise during the current period to ascertain the effective term of the life policies. The model has been reviewed by the external actuary for appropriateness of the effective term of the life policies. The Company is amortising the acquisition costs in the same proportion as the fee income for each year over the effective term of the takaful life policies.	We carried out procedures, on a sample basis, to test whether details of the specific policies provided to the external actuary by the Company agreed to the underlying policy documents. We also carried out procedures, on a sample basis, to check the completeness and accuracy of the policy data provided to the external actuary. In addition, on a sample basis, we recalculated the amount of acquisition costs to be deferred as at year end and the corresponding amortization charge recorded in the income statement.

Other information

Management is responsible for the other information. The other information comprises Directors' report and Shariah Board report (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and Highlights of the Year, product portfolio, Chief Executive's Review, Managing Director's Q&A and Strategy and Business Model, which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.



Independent auditor's report to the shareholders of Takaful Emarat - Insurance (PSC) (continued)

Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. *We have nothing to report in this regard.*

When we read Highlights of the Year, product portfolio, Chief Executive's Review, Managing Director's Q&A and Strategy and Business Model, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015 and the related Financial Regulations for takaful companies issued by the Insurance Authority, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



Independent auditor's report to the shareholders of Takaful Emarat - Insurance (PSC) (continued)

Auditor's responsibilities for the audit of the financial statements

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



Independent auditor's report to the shareholders of Takaful Emarat - Insurance (PSC) (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the Key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

As required by the UAE Federal Law No. (2) of 2015, as amended, we report that:

- (i) we have obtained all the information we considered necessary for the purposes of our audit;
- (ii) the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- (iii) the Company has maintained proper books of account;
- (iv) the financial information included in the Directors' report, is consistent with the books of account of the Company;
- (v) note 10 to the financial statements discloses the shares purchased by the Company during the year;
- (vi) note 19 to the financial statements discloses material related party transactions and the terms under which they were conducted;
- (vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Company has contravened during the year ended 31 December 2016 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or, its Memorandum and Articles of Association which would materially affect its activities or its financial position as at 31 December 2016; and
- (viii) note 39 to the financial statements discloses the social contributions made during the year.

Further, as required by the UAE Federal Law No. (6) of 2007 and the related Financial Regulations for Insurance Companies issued by the Insurance Authority, we have obtained all the required information and explanations we considered necessary for the purposes of our audit. As discussed in Note 1 to the financial statements, the Company is in the process of complying with certain Sections of the Financial Regulations for insurance companies issued by the Insurance Authority.

PricewaterhouseCoopers
7 February 2017

Mohamed ElBorno
Registered Auditor Number 946
Place: Dubai, United Arab Emirates

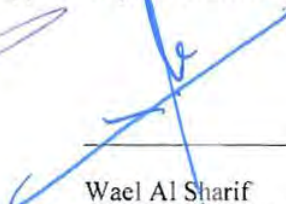
Takaful Emarat - Insurance (PSC)


Statement of financial position

	Notes	31 December 2016 AED	31 December 2015 AED
ASSETS			
Cash and bank balances	5	186,158,667	129,076,567
Investments at fair value through profit or loss	10	134,388,836	78,884,626
Takaful receivables and other assets	7	157,973,152	90,021,295
Deposit	12	23,000,000	-
Retakaful contract assets	8	95,705,237	41,199,181
Deferred policy acquisition costs	9	43,499,624	50,674,996
Investment properties	11	38,405,816	39,676,256
Statutory deposit	6	4,000,000	4,000,000
Held-to-maturity investment		1,000,000	1,000,000
Property and equipment	13	2,471,395	3,032,384
Intangible assets	14	1,533,323	1,697,179
Total assets		688,136,050	439,262,484
LIABILITIES AND EQUITY			
LIABILITIES			
Takaful and other payables	16	187,046,568	98,345,510
Takaful contract liabilities	8	337,539,349	193,544,572
Borrowings	15	19,845,000	11,025,000
Provision for employees' end of service benefits	17	1,743,000	1,395,084
Total liabilities		546,173,917	304,310,166
EQUITY			
Share capital	18	150,000,000	150,000,000
Accumulated losses		(11,278,446)	(16,787,279)
Statutory reserve	31	3,240,579	1,739,597
Total equity		141,962,133	134,952,318
Total liabilities and equity		688,136,050	439,262,484

This financial statements were approved by the Board of Directors on 7 February 2017 and are signed on its behalf by:


Mohammad Alhawari
Managing Director


Wael Al Sharif
Chief Executive Officer


Adnan Sabaalish
Financial Controller

Takaful Emarat - Insurance (PSC)

Statement of comprehensive income

		Year ended 31 December	
	Notes	2016 AED	2015 AED
Attributable to policyholders:			
Gross contributions written	21	568,167,214	402,821,846
Changes in unearned contributions	21	(74,707,342)	(24,930,673)
Takaful contributions earned		493,459,872	377,891,173
Retakaful contributions ceded	21	(118,584,115)	(58,011,344)
Net earned contributions		374,875,757	319,879,829
Gross claims incurred	22	(350,894,442)	(245,759,937)
Retakaful share of claims incurred	22	93,367,737	25,928,303
Net claims incurred		(257,526,705)	(219,831,634)
Commission incurred	9	-	(14,962,368)
Allocation charges on life takaful policies		(25,346,020)	(25,629,351)
Change in reserves	23	(26,146,441)	(18,563,621)
Net change in fair value of policyholders investment linked contracts	23	(966,726)	1,193,097
Net takaful income		64,889,865	42,085,952
Wakalah fees	24	(64,534,393)	(56,325,880)
Investment income - net	25	828,179	-
Net surplus / (deficit) from takaful operations		1,183,651	(14,239,928)
Attributable to shareholders:			
Wakalah fees from policy holders	24	64,534,393	56,325,880
Investment income / (loss)	25	25,535,078	(10,363,308)
Allocation charges on life takaful policies		25,346,020	25,629,351
Gain on sale of investment property		-	5,402,745
Change in fair value of investment property	11	(1,270,440)	1,927,615
Other income	26	2,109,031	1,777,555
Commission incurred	9	(45,319,218)	(17,691,852)
General and administrative expenses	27	(57,108,700)	(38,553,201)
Reversal of / (provision for) Qard Hassan to policyholders' fund		1,183,651	(14,239,928)
Profit for the year attributable to shareholders		15,009,815	10,214,857
Basic and diluted profit per share	28	0.10	0.10
Other comprehensive income		-	-
Total comprehensive income for the year		15,009,815	10,214,857

Takaful Emarat - Insurance (PSC)

Statement of changes in equity

	Share capital AED	Statutory reserve AED	Accumulated losses AED	Total AED
Balance at 1 January 2015	100,000,000	718,111	(25,980,650)	74,737,461
Increase in share capital (Note 18)	50,000,000	-	-	50,000,000
Total comprehensive income for the year	-	-	10,214,857	10,214,857
Transfer to statutory reserve (Note 31)	-	1,021,486	(1,021,486)	-
Balance at 31 December 2015	<u>150,000,000</u>	<u>1,739,597</u>	<u>(16,787,279)</u>	<u>134,952,318</u>
Balance at 1 January 2016	150,000,000	1,739,597	(16,787,279)	134,952,318
Total comprehensive income for the year	-	-	15,009,815	15,009,815
Cash Dividend paid (Note 18)	-	-	(8,000,000)	(8,000,000)
Transfer to statutory reserve (Note 31)	-	1,500,982	(1,500,982)	-
Balance at 31 December 2016	<u>150,000,000</u>	<u>3,240,579</u>	<u>(11,278,446)</u>	<u>141,962,133</u>

Takaful Emarat - Insurance (PSC)

Statement of cash flows

	Year ended 31 December	
	2016	2015
	AED	AED
Cash flows from operating activities		
Profit for the year	15,009,815	10,214,857
Adjustments for:		
Depreciation and amortization of property and equipment and intangible assets (Note 27)	1,962,021	2,261,611
Realised loss / (gain) on sale of investments at fair value through profit or loss (Note 25)	(4,389,456)	6,017,902
(Gain) / loss on revaluation of investments carried at fair value through profit or loss (Note 10)	(19,981,986)	5,555,971
Provision of employees' end of service benefits (Note 17)	493,732	573,123
Provision for doubtful debts (Note 7)	660,844	-
Gain on sale of property, equipment and Investment properties	-	(5,527,159)
Change in fair value of investment properties (Note 11)	1,270,440	(1,927,615)
Operating (loss) / profit before working capital changes and payment of employee end of service benefits	(4,974,590)	17,168,690
Employees' end of service benefits paid (Note 17)	(145,816)	(480,598)
Operating (loss) / profit before working capital changes	(5,120,406)	16,688,092
Working capital changes:		
Changes in retakaful contract assets	(54,506,056)	(29,451,316)
Changes in takaful receivables and other assets	(68,612,701)	(14,818,240)
Changes in deferred policy acquisition costs	7,175,372	(14,367,885)
Changes in takaful contract liabilities	143,994,777	69,562,277
Changes in takaful and other payables	88,701,058	66,105,874
Net cash generated from operating activities	111,632,044	93,718,802
Cash flows from investing activities		
Purchase of investments at fair value through profit or loss (Note 10)	(39,985,881)	(139,317,859)
Proceeds from sale of investments at fair value through profit or loss	8,853,113	92,420,134
Change in deposits with original maturity of more than three months	(23,750,000)	(2,500,000)
Purchase of property and equipment and intangible assets	(1,237,176)	(733,614)
Proceeds from sale of property and equipment	-	31,995
Additions to residential apartments	-	(939,122)
Purchase of held to maturity investment	-	(1,000,000)
Deposit held with an investment entity	(23,000,000)	-
Net cash used in investing activities	(79,119,944)	(52,038,466)
Cash flows from financing activities		
Proceeds from issue of shares	-	50,000,000
Dividends paid	(8,000,000)	-
Borrowings received	8,820,000	11,025,000
Net cash from financing activities	820,000	61,025,000
Net increase in cash and cash equivalents	33,332,100	102,705,336
Cash and cash equivalents at beginning of the year	126,576,567	23,871,231
Cash and cash equivalents at end of the year (Note 5)	159,908,667	126,576,567

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016

1. General information

Takaful Emarat - Insurance (PSC), Dubai, United Arab Emirates (the "Company") is a public joint stock company incorporated in the Emirate of Dubai – United Arab Emirates, pursuant to decree No. 62 for the year 2007 issued by the Ministry of Economy on February 6, 2007, and is subject to the provisions of the UAE Federal Law No. 2 of 2015 ("Companies Law").

The Company has assessed and evaluated the provisions of the UAE Federal Law No 2 of 2015 (Companies Law) and is in the process of ensuring the compliance within the transitional period of this law which has been extended to 30 June 2017.

In December 2014, the UAE Insurance Authority issued the Board of Directors' decision number (26) of 2014 relevant to financial regulations for Insurance Companies. The takaful insurance companies are given a period of one to three years to comply with the various sections of the financial regulations. The Company is in the process of complying with certain Sections of the Financial Regulations issued by the Insurance Authority.

The Company carries out takaful insurance activities in Health Insurance, Life Insurance and Credit and Saving Insurance in accordance with the Islamic Sharia'a and within the provisions of the Articles of Association of the Company.

The registered address of the Company is P.O. Box 64341, Dubai, United Arab Emirates.

2. Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with and comply with International Financial Reporting Standards, (IFRS) as issued by the International Accounting Standards Board (IASB), interpretations issued by International Financial Reporting Interpretations Committee (IFRIC) and the applicable requirements of laws of the United Arab Emirates.

The preparation of these financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

3. Summary of significant accounting policies

3.1 Standards, amendments and interpretations

(a) Standards, amendments and interpretations that are effective for the Company's accounting period beginning on 1 January 2016

New standards and significant amendments to standards applicable to the Company	Effective date
Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' regarding depreciation and amortisation. This amendment clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The presumption may only be rebutted in certain limited circumstances.	1 January 2016
Amendments to IAS 1, 'Presentation of financial statements' Disclosure initiative The amendments clarify that it may be necessary to disaggregate some of the line items specified in IAS 1 paragraphs 54 (statement of financial position) and 82 (profit or loss). That disaggregation is required where it is relevant to an understanding of the entity's financial position or performance.	1 January 2016
Annual improvements 2012 - 2014 These annual improvements amend standards from the 2012 - 2014 reporting cycle. It includes changes to: ■ IFRS 7, 'Financial instruments: Disclosures' – The amendment related to servicing contracts requires that if an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. ■ IAS 19, 'Employee benefits' – The amendment clarifies, when determining the discount rate for post-employment benefit obligations, that it is the currency that the liabilities are denominated in that is important, not the country where they arise. ■ IAS 34, 'Interim financial reporting', regarding information disclosed elsewhere in the interim financial report. The amendment clarifies what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report'. The amendment further amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information. The amendment is retrospective.	1 January 2016

There is no material impact of the above amendments on the financial statements of the Company. There are no other IFRSs or IFRIC interpretations that were effective for the first time for the financial year beginning on 1 January 2016 that have had a material impact on the Company's financial statements.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

3. Summary of significant accounting policies (continued)

3.1 Standards, amendments and interpretations (continued)

(b) Standards, amendments and interpretations issued but not yet effective for the Company's accounting period beginning on 1 January 2016 and not early adopted

New standards and significant amendments to standards applicable to the Company	Effective date
<p>IFRS 15, 'Revenue from contracts with customers'</p> <p>This standard replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.</p> <p>Amendment to IFRS 15, 'Revenue from contracts with customers'</p> <p>These amendments comprise clarifications on identifying performance obligations, accounting for licenses of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). The IASB has also included additional practical expedients related to transition to the new revenue standard.</p>	1 January 2018
<p>IFRS 9, 'Financial instruments'</p> <p>The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.</p>	1 January 2018 (Earlier application is permitted)

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

3. Summary of significant accounting policies (continued)

3.1 Standards, amendments and interpretations (continued)

(b) Standards, amendments and interpretations issued but not yet effective for the Company's accounting period beginning on 1 January 2016 and not early adopted (continued)

New standards and significant amendments to standards applicable to the Company	Effective date
Amendments to IAS 7, 'Statement of cash flows on disclosure initiative' These amendments to IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities including those from cash flows and other non-cash changes. The new requirement typically entails a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.	1 January 2017
IFRS 16, 'Leases' This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.	1 January 2019

The Company is assessing the impact of the above new standards and amendments to published standards or IFRIC interpretations issued but not yet effective for the Company's financial year beginning on 1 January 2016.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

3. Summary of significant accounting policies (continued)

3.2 Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments at fair value through profit or loss and investment properties that have been measured at fair value.

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.3 Foreign currency

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured in United Arab Emirates Dirham (“AED”) being the currency of the primary economic environment in which the Company operates (“the functional currency”). The financial statements are prepared in AED, which is the Company’s functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in statement of comprehensive income.

3.4 Takaful contributions

3.4.1 Medical and short term life takaful contracts

Takaful contributions comprise the total contributions receivable for the whole period of cover provided by takaful contracts entered into during the accounting period and are recognised on the date on which the takaful policy incepts. Unearned contributions are those proportions of contributions written in a year that relate to period of risk after the reporting date. Unearned contributions is calculated on a daily prorate basis or “1/365” method. The proportion attributable to subsequent year is deferred as a provision for unearned contributions.

3.4.2 Long term Life takaful contracts

The Company issues long term takaful contracts with an investment linked component. The Company classifies such contracts as takaful contracts based on significance of insurance risk. Takaful contracts with no significant insurance risk are classified as investment contracts. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that is at least 10% more than the benefits payable if the insured event did not occur.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

3. Summary of significant accounting policies (continued)

3.4 Takaful contributions (continued)

3.4.2 Long term Life takaful contracts (continued)

For takaful contracts, contributions, surrenders and maturities, changes in fair values of underlying assets and changes in reserves are recognised in the statement of comprehensive income. For investment contracts, changes in fair values of underlying assets and changes in reserves are recognised in the statement of comprehensive income and contributions and surrenders and maturities are directly recognised under investment contracts.

Liabilities for unit-linked contracts represent portfolios maintained to meet specific investment objectives of participants who bear the credit and market risks. The liabilities are carried at fair value with changes recognised in the statement of comprehensive income.

A liability for contractual benefits that are expected to be incurred in future is recorded when the contributions are recognised. The liability is based on the assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued. A margin for adverse deviation is included in the assumptions.

Where a life assurance contract has a single contribution or limited number of contribution payments due over a significantly shorter period than the period during which the benefits are provided, the excess of the contributions payable over the valuation premiums is deferred and recognised as income in line with the decrease of unexpired insurance risk of the contract in force or for annuities in force, in line with the decrease of the amount of future benefits expected to be paid.

The liabilities are recalculated at the end of each reporting period using the assumptions established at the inception of the contract.

3.5 Retakaful contributions

Retakaful contribution ceded are amounts paid to insurance and reinsurance companies in accordance with the retakaful contracts of the Company. In respect of proportional retakaful contracts and non-proportional retakaful contracts, the amounts are recognised in the statement of comprehensive income in accordance with the terms of these contracts.

3.6 Wakalah fees

The Company manages the takaful operations on behalf of the policyholders for a wakalah fee which is recognised on an accrual basis. A similar amount is shown as expense in statement of income attributable to policyholders.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

3. Summary of significant accounting policies (continued)

3.7 Claims

Claims, comprising amounts payable to participants and related loss adjustment expenses, net of recoveries and are charged to statement of comprehensive income as incurred. Such expenses include direct and indirect claims settlement costs which arise from events that have occurred up to the balance sheet date even if they have not been reported. The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments of individual cases reported and statistical analysis for the claims Incurred But Not Reported (“IBNR”) as determined by management’s best estimate.

3.8 Retakaful share of claims incurred

Retakaful share of claims are recognised when the related gross claim is recognised according to the terms of the retakaful contracts of the Company.

3.9 Policy acquisition costs

Commissions that are related to securing new contracts and renewing existing contracts are amortised over the terms of the policies as takaful contribution is earned. All other costs are recognised as expenses when incurred.

3.10 Investment income

Profit from investment deposits is recognised on a time proportion basis. Dividend income is accounted for when the right to receive payment is established. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the weighted average cost and are recorded on occurrence of the sale transaction.

3.11 Cash and cash equivalents

For the purpose of the cash flows statement, cash and cash equivalents comprise cash in hand, balances with banks and unrestricted deposits with a maturity of less than three months from the date of placement.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

3. Summary of significant accounting policies (continued)

3.12 Liability adequacy test

At the end of each reporting date the Company assesses whether its recognised takaful liabilities are adequate using current estimates of future cash flows under its takaful contracts. If that assessment shows that the carrying amount of its takaful liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised as charge against income and an additional reserve created.

The Company does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the reporting date.

3.13 Retakaful contract assets

The Company cedes takaful risk in the normal course of business for all of its businesses. Retakaful assets represent balances due from retakaful companies. Recoverable amounts are estimated in a manner consistent with the claims reported and unsettled, claim incurred but not reported, unearned contributions and mathematical reserves and are in accordance with the retakaful contracts.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the retakaful can be measured reliably. The impairment loss is recorded in the statement of comprehensive income. Ceded retakaful arrangements do not relieve the Company from its obligations to policyholders.

Contributions and claims are presented on a gross basis for both ceded and assumed retakaful risk.

Retakaful assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

3. Summary of significant accounting policies (continued)

3.14 Takaful contract liabilities

(i) Unearned contributions

Unearned contributions are those proportions of contributions written in a year that relate to period of risk after the reporting date. Unearned contribution is calculated on a daily prorate basis or “1/365” method. The proportion attributable to subsequent year is deferred as a provision for unearned contributions.

(ii) Claims reported and unsettled

Outstanding claims reported are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, after reduction for the recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of claims cannot be known with certainty at the reporting date. The liability is not discounted for the time value of money. No provision for equalisation or catastrophic reserves is recognised. The liability is derecognised when the contract expires, is discharged or is cancelled.

(iii) Claims incurred but not reported

A provision for claims Incurred But Not Reported (“IBNR”) is determined by management’s best estimate and after considering results of reserve review done by an independent actuary.

The reserves represent management’s best estimates on the basis of:

- (a) claims reported during the year
- (b) delay in reporting these claims

(iv) Life takaful fund

The life takaful fund is determined by independent actuarial valuation of future policy benefits at the end of each reporting period. 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 and industry mortality tables. Adjustments to the balance of the fund are effected by charging to statement of comprehensive income.

(v) Unit linked liabilities

For unit linked policies, liability is equal to the policy account values. The investment component of these insurance contracts are designated as at fair value through profit and loss (FVTPL).

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

3. Summary of significant accounting policies (continued)

3.15 Investment properties

Investment property comprises property held for rental yields and for capital appreciation. It is not held for purposes of the Company's own use as part of property and equipment. Investment property is initially recognized at cost, including transaction expenses. Subsequent to initial recognition, investment property is carried at fair value.

Fair value of the investment property is determined on the basis of valuation undertaken by an independent valuer who holds a recognized and relevant qualification and has recent experience in the location and category of the investment property being valued. Gains and losses arising from changes in the fair value are recognized in the statement of comprehensive income in the period in which they arise.

3.16 Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write down the cost of assets to their estimated residual values over their expected useful economic lives as follows:

Office equipment	5 years
Furniture and fixtures	10 years
Motor vehicles	5 years

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount being the higher of the net selling price and value in use. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are recorded in the statement of comprehensive income.

3.17 Intangible assets

Intangible assets represents software acquired by the Company which is stated at cost less accumulated amortisation and impairment losses, if any. Cost of the software represents the costs incurred to acquire and bring the software to use.

Amortisation is recognised on a straight line basis over the useful life of the software, from the date it is available for use. The useful life of the software is estimated to be 5 years.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

3. Summary of significant accounting policies (continued)

3.18 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

3.19 Financial assets

3.19.1 Classification

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and financial assets carried at amortised cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise 'takaful and other receivables', 'due from related party', 'retakaful receivables', 'deposit' and 'cash and bank balances' in the statement of financial position.

(c) Held-to-maturity investment

Held-to-maturity investment is a non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Company's management has the positive intention and ability to hold to maturity. If the Company were to sell other than an insignificant amount from investments carried at amortised cost, the entire category would be reclassified as available for sale.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

3. Summary of significant accounting policies (continued)

3.19 Financial assets (continued)

3.19.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within 'Investment income' in the period in which they arise.

3.19.3 Impairment of financial assets

(a) Financial assets carried at amortised cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or Company of financial assets is impaired. A financial asset or Company of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment and as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated cash flows of the financial asset or Company of financial assets that can be reliably estimated.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying value and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

3. Summary of significant accounting policies (continued)

3.20 Financial liabilities

Financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective profit method except for unit link contract liabilities. Liabilities are recognised for amounts to be paid for services received, whether or not billed to the Company.

3.21 Surplus / deficit in policyholders' fund

Surplus in participants' funds represents accumulated gains on takaful activities and are distributed among the participants. The timing, quantum and the basis of distribution are determined by the Company and are approved by its Fatwa and Shari'a Supervisory Board.

Deficits in participants' funds are financed through Qard Hasan by the Company and thereafter fully provided for by the Company. Accordingly, assets, liabilities, revenue and expenses relating to the participants' funds are recognized in the financial statements of the Company.

3.22 Employee benefits

3.22.1 Defined contribution plan

UAE national employees of the Company are members of the Government-managed retirement pension and social security benefit scheme pursuant to UAE labour law no. 7 of 1999. The Company is required to contribute 12.5% of the "contribution calculation salary" of payroll costs to the retirement benefit scheme to fund the benefits. The employees and the Government contribute 5% and 2.5% of the "contribution calculation salary" respectively, to the scheme. The only obligation of the Company with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to the statement of comprehensive income.

3.22.2 Annual leave and leave passage

An accrual is made for the estimated liability for employees' entitlement to annual leave and leave passage as a result of services rendered by eligible employees up to the end of the year.

3.22.3 Provision for employees' end of service benefits

A provision is made in accordance with the provisions of IAS 19 "Employee Benefits" for the end of service benefits due to employees in accordance with the Labor Law, for their period of service up to the statement of financial position date. This amount is charged to the statement of comprehensive income.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

3. Summary of significant accounting policies (continued)

3.23 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of time value of money is material).

3.24 Offsetting financial instruments

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

3.25 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

3.26 Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received), net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in Note 3 to these financial statements, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The 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 if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The significant judgments and estimates made by management, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

4.1 Critical judgements in applying accounting policies

4.1.1 Classification of investments

Management decides on acquisition of an investment whether it should be classified as investments at fair value through profit or loss or investment carried at amortised cost. The Company classifies investments at fair value through profit or loss, if they are acquired primarily for the purpose for short term profit making. Other investments are classified as investments carried at amortised cost if the Company's management has the positive intention and ability to hold the investment.

4.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4.2.1 The ultimate liability arising from claims made under takaful contracts

The estimation of ultimate liability arising from the claims made under takaful contracts is the Company's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Company will eventually pay for such claims. Estimates have to be made both for the expected ultimate cost of claims reported at the end of each reporting period and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the end of each reporting period. Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Company and management estimates based on past claims settlement trends for the claims incurred but not reported. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

4.2 Key sources of estimation uncertainty (continued)

4.2.2 Fair value of investment properties

The best evidence of fair value is current prices in an active market for similar properties. In the absence of such information, the Company determined the amount within a range of reasonable fair value estimates. In making its judgment, the Company considers recent prices of similar properties in the same location and similar conditions, with adjustments to reflect any changes in the nature, location or economic conditions since the date of the transactions that occurred at those prices. Such estimation is based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

4.2.3 Impairment of takaful receivables

The Company reviews its receivables to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from receivables. A provision for impairment of contribution, retakaful and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to their terms.

4.2.4 Liability adequacy test

At end of each reporting period, liability adequacy tests are performed to ensure the adequacy of takaful contract liabilities. The Company makes use of the best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities in evaluating the adequacy of the liability. Any deficiency is immediately charged to the statement of comprehensive income.

4.2.5 Actuarial valuation of life takaful provision

The life assurance fund is determined by independent actuarial valuation of future policy benefits at the end of each reporting period. 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 and industry mortality tables.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

5. Cash and bank balances

	2016 AED	2015 AED
Cash on hand	51,808	47,037
Bank balances		
Current accounts	92,356,859	78,029,530
Deposits	93,750,000	51,000,000
	<u>186,158,667</u>	<u>129,076,567</u>

The deposits carry profit rates ranging from 0.8% to 2.50% per annum (2015: 0.8% to 1.25% per annum) with maturity dates ranging from 17 January 2017 to 20 September 2017.

For the purpose of statement of cash flows, cash and cash equivalents comprise of:

	2016 AED	2015 AED
Cash and bank balances	186,158,667	129,076,567
Less: Deposits with original maturity of more than three months	(26,250,000)	(2,500,000)
Cash and cash equivalents	<u>159,908,667</u>	<u>126,576,567</u>

6. Statutory deposit

Statutory deposit is maintained in accordance with the requirements of UAE Federal Law No. 6 of 2007 for the purpose of carrying on takaful operations in the United Arab Emirates and is not available to finance the day to day operations of the Company. This deposit carries a profit rate of 0.8% (2015: 0.8%) per annum.

7. Takaful receivables and other assets

	2016 AED	2015 AED
Takaful receivables	73,970,976	61,838,603
Provision for impairment	(2,243,206)	(1,582,362)
	<u>71,727,770</u>	<u>60,256,241</u>
Receivable from retakaful companies	68,108,984	16,299,937
Prepaid expenses	1,737,881	1,198,172
Other receivables	16,398,517	12,266,945
	<u>157,973,152</u>	<u>90,021,295</u>

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

7. Takaful receivables and other assets (continued)

	2016 AED	2015 AED
Takaful receivables and other assets – Inside UAE		
Takaful receivables	73,970,976	61,838,603
Provision for impairment	(2,243,206)	(1,582,362)
	<u>71,727,770</u>	<u>60,256,241</u>
Receivable from retakaful companies	1,818,669	335,800
Prepaid expenses	1,737,881	1,198,172
Other receivables	16,398,517	12,266,945
	<u>91,682,837</u>	<u>74,057,158</u>
Takaful receivables and other assets – Outside UAE		
Receivable from retakaful companies	66,290,315	15,964,137
Total takaful receivables and other assets	<u>157,973,152</u>	<u>90,021,295</u>

Ageing of takaful receivables and other assets (excluding prepaid expenses) 31 December 2016

	Takaful Receivables AED	Receivable from retakaful companies AED	Other receivables AED	Total AED
<i>Takaful receivables and other assets – Inside UAE</i>				
<u>Neither past due nor impaired</u>				
Less than 30 days	48,918,965	1,075,544	16,398,517	66,393,026
30 – 90 days	13,099,472	200,000	-	13,299,472
<u>Past due but not impaired</u>				
91 - 180 days	2,017,293	205,625	-	2,222,918
181 - 270 days	1,408,031	300,000	-	1,708,031
271 - 360 days	2,048,136	-	-	2,048,136
<u>Past due and impaired</u>				
More than 360 days	6,479,079	37,500	-	6,516,579
Provision for impairment	(2,243,206)	-	-	(2,243,206)
	<u>71,727,770</u>	<u>1,818,669</u>	<u>16,398,517</u>	<u>89,944,956</u>
<i>Takaful receivables and other assets – Outside UAE</i>				
<u>Neither past due nor impaired</u>				
Less than 30 days	-	97,189	-	97,189
30 – 90 days	-	14,117,171	-	14,117,171
<u>Past due but not impaired</u>				
91 - 180 days	-	30,686,735	-	30,686,735
181 - 270 days	-	10,263,102	-	10,263,102
271 - 360 days	-	-	-	-
<u>Past due and impaired</u>				
More than 360 days	-	11,126,118	-	11,126,118
Total takaful receivables and other assets	<u>71,727,770</u>	<u>68,108,984</u>	<u>16,398,517</u>	<u>156,235,271</u>

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

7. Takaful receivables and other assets (continued)

Ageing of takaful receivables and other assets (excluding prepaid expenses)

31 December 2015

	Takaful Receivables AED	Receivable from retakaful companies AED	Other receivables AED	Total AED
<i>Takaful receivables and other assets – Inside UAE</i>				
<u>Neither past due nor impaired</u>				
Less than 30 days	47,825,084	335,800	12,266,945	60,427,829
31 – 90 days	5,721,505	-	-	5,721,505
<u>Past due but not impaired</u>				
91 - 180 days	1,591,929	-	-	1,591,929
181 - 270 days	4,499,880	-	-	4,499,880
271 - 360 days	617,843	-	-	617,843
<u>Past due and impaired</u>				
More than 360 days	1,582,362	-	-	1,582,362
Provision for impairment	(1,582,362)	-	-	(1,582,362)
	<u>60,256,241</u>	<u>335,800</u>	<u>12,266,945</u>	<u>72,858,986</u>
<i>Takaful receivables and other assets – Outside UAE</i>				
<u>Neither past due nor impaired</u>				
Less than 30 days	-	15,964,137	-	15,964,137
Total takaful receivables and other assets	<u>60,256,241</u>	<u>16,299,937</u>	<u>12,266,945</u>	<u>88,823,123</u>

Movement in the allowance for doubtful debts:

	2016 AED	2015 AED
Balance at the beginning of the year	1,582,362	1,582,362
Impairment provision made during the year	660,844	-
Balance at the end of the year	<u>2,243,206</u>	<u>1,582,362</u>

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

8. Takaful contract liabilities and retakaful contract assets

	2016 AED	2015 AED
Gross takaful contract liabilities		
Claims reported and unsettled	63,477,889	34,071,485
Claims incurred but not reported	24,701,304	14,354,358
Unearned contributions	189,160,310	114,452,968
Mathematical reserve	4,230,693	1,350,322
Policyholders' investment linked contracts at fair value	55,969,153	29,315,439
	337,539,349	193,544,572
Retakaful contract assets		
Claims reported and unsettled	21,088,996	6,284,596
Claims incurred but not reported	11,646,104	3,895,892
Unearned contributions	61,563,219	31,018,693
Mathematical reserve	1,406,918	-
	95,705,237	41,199,181
Net takaful contract liabilities		
Claims reported and unsettled	42,388,893	27,786,889
Claims incurred but not reported	13,055,200	10,458,466
Unearned contributions	127,597,091	83,434,275
Mathematical reserve	2,823,775	1,350,322
Policyholders' investment linked contracts at fair value	55,969,153	29,315,439
	241,834,112	152,345,391
Movement in policyholders' investment linked contracts at fair value		
At beginning of the year	29,315,439	14,040,477
Gross contributions	58,308,413	46,984,144
Allocation charges	(25,346,020)	(25,629,351)
Redemptions and other charges	(7,275,405)	(4,886,734)
Change in fair value	966,726	(1,193,097)
At the end of the year	55,969,153	29,315,439

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

9. Deferred policy acquisition costs

	2016 AED	2015 AED
Balance as at beginning of the year	50,674,996	33,306,360
Commission paid during the year	38,143,846	50,022,856
Amortisation for the year	(45,319,218)	(32,654,220)
Balance at the end of the year	43,499,624	50,674,996

As per Article (3) of Section 7 of the Financial Regulations for Takaful Insurance Companies, the shareholders account should bear all operational, administrative and general expenses for takaful insurance business. Accordingly, effective from 1 January 2016, the commission incurred related to medical business has been classified in the statement of comprehensive income as attributable to shareholders.

10. Investments at fair value through profit or loss

	2016 AED	2015 AED
Equity investments (Refer (a) below)	28,702,652	10,558,099
Mutual funds (Refer (b) below)	54,114,306	34,833,433
Sukuk investments (Refer (c) below)	51,571,878	33,493,094
	134,388,836	78,884,626

- (a) During the year, the Company purchased equity securities amounting to AED 3.342 million (2015: AED 87.167 million).
- (b) Mutual funds include various funds whose fair values are based on the net assets values provided by the fund managers.
- (c) Sukuk investments carry profit rate ranging from 6.25% to 6.75% per annum (2015: 6.25% to 6.375% per annum).

During the year ended 31 December 2016, the Company invested in Noor Tier 1 Sukuk amounting to AED 14.7 million which earns a coupon rate of 6.25% per annum and Boubyan Tier 1 Sukuk amounting to AED 2.2 million which earns a coupon rate of 6.75% per annum. As at 31 December 2016, the Sukuk investments amounting to AED 34.3 million are pledged with First Gulf Bank.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

10. Investments at fair value through profit or loss (continued)

Movements during the year were as follows:

	Attributable to policyholders AED	2016 Attributable to shareholders AED	Total AED
At beginning of the year	29,315,439	49,569,187	78,884,626
Purchases during the year	26,808,384	13,177,497	39,985,881
Disposals during the year	(1,121,396)	(3,342,261)	(4,463,657)
Change in fair value during the year	966,726	19,015,260	19,981,986
At end of the year	55,969,153	78,419,683	134,388,836

	Attributable to policyholders AED	2015 Attributable to shareholders AED	Total AED
At beginning of the year	14,040,477	29,520,297	43,560,774
Purchases during the year	21,285,618	118,032,241	139,317,859
Disposals during the year	(4,817,559)	(93,620,477)	(98,438,036)
Change in fair value during the year	(1,193,097)	(4,362,874)	(5,555,971)
At end of the year	29,315,439	49,569,187	78,884,626

Investments at fair value through profit or loss comprise of the following:

	2016 AED	2015 AED
Within UAE	81,606,851	44,574,832
Outside UAE	52,781,985	34,309,794
	134,388,836	78,884,626

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

11. Investment properties

	2016 AED	2015 AED
Plot of land	14,928,495	16,927,615
Residential apartments	23,477,321	22,748,641
	<u>38,405,816</u>	<u>39,676,256</u>

Movement during the year

2016	Land AED	Residential Apartments AED	Total AED
Fair value at beginning of the year	16,927,615	22,748,641	39,676,256
Change in fair value during the year	(1,999,120)	728,680	(1,270,440)
Fair value at end of the year	14,928,495	23,477,321	38,405,816

2015	Land AED	Residential Apartments AED	Total AED
Fair value at beginning of the year	15,000,000	22,748,641	37,748,641
Change in fair value during the year	1,927,615	-	1,927,615
Fair value at end of the year	<u>16,927,615</u>	<u>22,748,641</u>	<u>39,676,256</u>

The carrying value of land and residential apartments represents its fair value as at 31 December 2016 as determined by Hamptons International, an independent valuation expert, in accordance with relevant appraisal and valuation standards. The basis of determination of fair value is the amounts for which the property could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition. The date of revaluation was 31 December 2016.

12. Deposit

This represents deposit held with an investment entity with an expected profit rate of 15% per annum.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

13. Property and equipment

	Office equipment AED	Furniture and fixtures AED	Motor vehicles AED	Total AED
Cost				
Balance at 1 January 2015	2,807,582	7,343,518	151,350	10,302,450
Additions during the year	247,653	115,515	92,350	455,518
Disposals during the year	(147,019)	-	(80,000)	(227,019)
Balance at 31 December 2015	2,908,216	7,459,033	163,700	10,530,949
Additions during the year	117,846	124,885	-	242,731
Balance at 31 December 2016	3,026,062	7,583,918	163,700	10,773,680
Accumulated depreciation				
Balance at 1 January 2015	1,625,431	5,185,211	63,860	6,874,502
Depreciation for the year	484,043	305,118	31,379	820,540
Disposals during the year	(132,477)	-	(64,000)	(196,477)
Balance at 31 December 2015	1,976,997	5,490,329	31,239	7,498,565
Depreciation for the year	448,074	322,910	32,736	803,720
Balance at 31 December 2016	2,425,071	5,813,239	63,975	8,302,285
Carrying amount				
Balance at 31 December 2016	600,991	1,770,679	99,725	2,471,395
Balance at 31 December 2015	931,219	1,968,704	132,461	3,032,384

At 31 December 2016, the cost of fully depreciated property and equipment that was still in use amounted to AED 3,866,986 (2015: AED 3,821,285).

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

14. Intangible assets

	Software AED
Cost	
Balance at 1 January 2015	7,281,153
Additions during the year	278,097
Disposals during the year	<u>(46,300)</u>
Balance at 31 December 2015	7,512,950
Additions during the year	994,445
Balance at 31 December 2016	<u>8,507,395</u>
Accumulated amortisation	
Balance at 1 January 2015	4,419,546
Amortisation for the year	1,441,071
Disposals	<u>(44,846)</u>
Balance at 31 December 2015	5,815,771
Amortisation for the year	1,158,301
Balance at 31 December 2016	<u>6,974,072</u>
Carrying amount	
Balance at 31 December 2016	<u>1,533,323</u>
Balance at 31 December 2015	<u>1,697,179</u>

15. Borrowings

The borrowings of AED 19.845 million (31 December 2015: 11.025 million) is from First Gulf Bank and have been utilised to purchase Tier 1 Sukuks, which are pledged against the borrowings (Note 10). The value of pledged Sukuks as at 31 December 2016 was AED 34.3 million. The borrowings carry a profit rate of 1.25% per annum above the 3 month LIBOR and have a maturity period of three months.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

16. Takaful and other payables

	2016 AED	2015 AED
Retakaful payables	154,314,541	74,334,704
Accrued expenses and other payables	32,732,027	24,010,806
	<u>187,046,568</u>	<u>98,345,510</u>

Retakaful payables include amount of AED 20.1 million (2015: AED 30.5 million) in respect of advances received from re insurance entities for paying upfront commission to brokers for life insurance business. Under this arrangement a predefined percentage of life takaful business is ceded to reinsurance entities.

Takaful and other payables – Inside / Outside UAE

	2016 AED	2015 AED
Inside UAE	60,637,090	46,134,148
Outside UAE	126,409,478	52,211,362
	<u>187,046,568</u>	<u>98,345,510</u>

Takaful and other payables – Inside UAE

	2016 AED	2015 AED
Retakaful payables	27,905,063	22,123,342
Payable to insurance agents	3,443,613	623,612
Payable to insurance brokers	8,814,650	7,822,236
Payable to staff	7,378,853	4,771,755
Other payables	13,094,911	10,793,203
	<u>60,637,090</u>	<u>46,134,148</u>

Takaful and other payables – Outside UAE

	2016 AED	2015 AED
Retakaful payables	<u>126,409,478</u>	<u>52,211,362</u>

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

17. Provision for employees' end of service benefits

Movement in the provision for employees' end of service benefits during the year was as follows:

	2016 AED	2015 AED
Balance at the beginning of the year	1,395,084	1,302,559
Charge for the year	493,732	573,123
Paid during the year	(145,816)	(480,598)
Balance at the end of the year	1,743,000	1,395,084

In accordance with the provisions of IAS 19, to assess the present value of its obligations as at 31 December 2016, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Law, the expected liability at the date of leaving the service has been discounted to its net present value using a discount rate of 2.52% (2015: 3.18%). Under this method an assessment has been made of an employee's expected service life with the Company and the expected basic salary at the date of leaving the service. The assumed average annual salary growth is 4% (2015: 3%).

18. Share capital

	2016 AED	2015 AED
Issued and fully paid:		
150,000,000 ordinary shares (2015: 100,000,000 ordinary shares) of AED 1 each	150,000,000	100,000,000
50,000,000 ordinary shares of AED 1 each	-	50,000,000
	150,000,000	150,000,000

Dividend of 5.33% (AED 8 million) for the year ended 31 December 2015 approved in the Annual General Meeting held on 21 April 2016 was paid on 15 May 2016.

The Board of Directors have proposed a cash dividend of 7% (2015: 5.33%) of share capital for the year ended 31 December 2016.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

19. Related party transactions and balances

Related parties comprise companies and entities under common ownership and/or common management and control, their partners and key management personnel. The terms and conditions of the transactions are mutually agreed by the parties.

Compensation of key management personnel

	2016 AED	2015 AED
Short and long term benefits	8,522,228	6,412,683

Transactions with related parties during the year

Gross claims incurred	2,409,400	753,766
Gross contribution written	2,605,662	2,650,529

Balances with other related parties

Quoted equity investments	28,702,652	10,558,099
Claims reported	817,765	257,017
Receivables from related party	1,020,801	-

During 2016, the Company signed an agreement with a related party for selling life policies. The above amount pertains to the premium received in respect of policies sold under this agreement.

20. Policy holders' fund

	2016 AED	2015 AED
Deficit in policy holders' fund		
Balance at beginning of year	(58,134,488)	(43,894,560)
Surplus / (deficit) for the year	1,183,651	(14,239,928)
Balance at the end of the year	(56,950,837)	(58,134,488)
Qard Hassan from shareholders		
Balance at beginning of year	58,134,488	43,894,560
(Reversal) / provision during the year	(1,183,651)	14,239,928
Balance at the end of the year	56,950,837	58,134,488
Total deficit in policy holders' fund	-	-

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

21. Net earned contributions

	2016			2015		
	Medical AED	Life AED	Total AED	Medical AED	Life AED	Total AED
Gross contributions written	502,115,001	66,052,213	568,167,214	351,203,230	51,618,616	402,821,846
Change in unearned contributions	(73,949,906)	(757,436)	(74,707,342)	(23,521,864)	(1,408,809)	(24,930,673)
Takaful contributions earned	428,165,095	65,294,777	493,459,872	327,681,366	50,209,807	377,891,173
Retakaful contributions	139,513,066	9,615,575	149,128,641	73,414,616	5,753,653	79,168,269
Change in retakaful share of unearned contributions	(29,998,811)	(545,715)	(30,544,526)	(20,297,723)	(859,202)	(21,156,925)
Retakaful contributions ceded	109,514,255	9,069,860	118,584,115	53,116,893	4,894,451	58,011,344
Net earned contributions	318,650,840	56,224,917	374,875,757	274,564,473	45,315,356	319,879,829

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

22. Claims incurred

2016

	Gross			Retakaful			Net		
	Medical AED	Life AED	Total AED	Medical AED	Life AED	Total AED	Medical AED	Life AED	Total AED
Takaful claims paid	306,386,282	4,754,810	311,141,092	(66,417,146)	(4,395,979)	(70,813,125)	239,969,136	358,831	240,327,967
Movement in provision for claims reported and unsettled	29,693,684	(287,280)	29,406,404	(15,277,668)	473,268	(14,804,400)	14,416,016	185,988	14,602,004
Movement in provision for claims incurred but not reported	<u>9,352,032</u>	<u>994,914</u>	<u>10,346,946</u>	<u>(7,070,742)</u>	<u>(679,470)</u>	<u>(7,750,212)</u>	<u>2,281,290</u>	<u>315,444</u>	<u>2,596,734</u>
Claims recorded in the statement of comprehensive income	<u>345,431,998</u>	<u>5,462,444</u>	<u>350,894,442</u>	<u>(88,765,556)</u>	<u>(4,602,181)</u>	<u>(93,367,737)</u>	<u>256,666,442</u>	<u>860,263</u>	<u>257,526,705</u>

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

22. Claims incurred (continued)

2015

	Gross			Retakaful			Net		
	Medical AED	Life AED	Total AED	Medical AED	Life AED	Total AED	Medical AED	Life AED	Total AED
Takaful claims paid	204,296,118	1,770,508	206,066,626	(16,184,016)	(1,449,896)	(17,663,912)	188,112,102	320,612	188,432,714
Movement in provision for claims reported and unsettled	27,898,667	1,069,208	28,967,875	(4,189,521)	(1,148,184)	(5,337,704)	23,709,148	(78,976)	23,630,170
Movement in provision for claims incurred but not reported	<u>10,725,436</u>	<u>-</u>	<u>10,725,436</u>	<u>(2,956,686)</u>	<u>-</u>	<u>(2,956,687)</u>	<u>7,768,750</u>	<u>-</u>	<u>7,768,750</u>
Claims recorded in the statement of comprehensive income	<u>242,920,221</u>	<u>2,839,716</u>	<u>245,759,937</u>	<u>(23,330,223)</u>	<u>(2,598,080)</u>	<u>(25,928,303)</u>	<u>219,589,998</u>	<u>241,636</u>	<u>219,831,634</u>

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

23. Change in reserves

	2016 AED	2015 AED
Mathematical reserve – takaful life	1,473,453	688,329
Change in reserve relating to takaful life products	25,639,714	16,682,195
Changes in fair value (Note 10)	(966,726)	1,193,097
	<u>26,146,441</u>	<u>18,563,621</u>

24. Wakalah fees

Wakalah fees for the year ended 31 December 2016 amounted to AED 64,534,393 (2015: AED 56,325,880).

For group life and group medical policies, Wakalah fees were charged up to 20% of gross takaful contributions. For life takaful policies, Wakalah fees were charged at a maximum of 50% of takaful risk contribution for life takaful policies. Wakalah fee is approved by Sharia'a Supervisory Board and is charged to the statement of comprehensive income when incurred.

25. Investment income – net

	2016 AED	2015 AED
Return on investment in fixed deposits	3,602,679	760,534
Realised gain / (loss) on sale of investments at fair value through profit or loss	4,389,456	(6,017,902)
Fair value changes on investments at fair value through profit or loss (Note 10)	19,015,260	(4,362,874)
Dividend income	-	90,000
Investment management charges	(644,138)	(833,066)
	<u>26,363,257</u>	<u>(10,363,308)</u>

	2016 AED	2015 AED
Attributable to shareholders	25,535,078	(10,363,308)
Attributable to policyholders	828,179	-
	<u>26,363,257</u>	<u>(10,363,308)</u>

26. Other income

	2016 AED	2015 AED
Gain on sale of property and equipment	-	14,544
Miscellaneous income	2,109,031	1,763,011
	<u>2,109,031</u>	<u>1,777,555</u>

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

27. General and administrative expenses

	2016 AED	2015 AED
Salaries and other benefits	24,713,975	20,126,710
Third party administrator expenses	13,977,582	4,625,035
Depreciation and amortization (Note 13 and 14)	1,962,021	2,261,611
Authority fees	3,059,826	1,929,277
Rent and related expenses	1,862,177	1,783,186
Provision for impairment (Note 7)	660,844	-
Legal and professional fees	364,400	10,349
Remuneration of Sharia'a Supervisory Board	154,000	174,000
Other expenses	10,353,875	7,643,033
	<u>57,108,700</u>	<u>38,553,201</u>

28. Basic and diluted profit per share

Basic profit per share is calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding by the year as follows:

	2016	2015
Profit for the year attributable to shareholders (in AED)	<u>15,009,815</u>	<u>10,214,857</u>
Weighted average number of shares outstanding during the year	<u>150,000,000</u>	<u>100,547,945</u>
Basic profit per share (AED)	<u>0.10</u>	<u>0.10</u>

In accordance with IAS – 33 'Earnings Per Share', the impact of increase in shares issued has been considered retrospectively while computing weighted average number of ordinary shares.

Diluted earnings per share has not been presented since the Company has not issued any instruments which would have an impact on profit per share.

29. Fatwa and Sharia'a Supervisory Board

The Company's business activities are subject to the supervision of a Fatwa and Sharia'a Supervisory Board (FSSB) appointed by the shareholders. FSSB performs a supervisory role in order to determine whether the operations of the Company are conducted in accordance with Sharia'a rules and principles.

30. Zakat

Zakat is payable by the shareholders. Management has informed the shareholders the amount of Zakat payable by each shareholder.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

31. Statutory reserve

In accordance with the UAE Federal Law No. 2 of 2015, 10% of the net profit of the Company has to be transferred to a non-distributable legal reserve until such reserve equals 50% of the paid up share capital of the Company. Accordingly AED 1,500,982 (2015: 1,021,486) has been transferred to the statutory reserve during the year.

32. Segment information

For management purposes, the Company is organized into two business segments; takaful and investment operations. The takaful operations comprise the takaful business undertaken by the Company on behalf of policyholders. Investment operations comprises investments and cash management for the Company's own account. No operating segments have been aggregated to form the above reportable operating segments.

Segment performance is evaluated based on profit or loss which in certain respects is measured differently from profit or loss in the financial statements.

Except for Wakalah fees and Qard Hassan, no other inter-segment transactions occurred during the year. If any other transactions were to occur, transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment income, expenses and results include transactions between business segments which will then be eliminated on consolidation as shown below.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

32. Segment information (continued)

	2016					
	Medical AED	Underwriting Life AED	Total AED	Investments AED	Shareholders Others AED	Total AED
Segment revenue	428,165,094	65,294,778	493,459,872	25,535,078	(19,134,607)	6,400,471
Segment result	62,812,576	2,905,468	65,718,044	25,535,078	(19,134,607)	6,400,471
Wakalah fees	(60,505,168)	(4,029,225)	(64,534,393)	-	64,534,393	64,534,393
General and administrative expenses	-	-	-	-	(57,108,700)	(57,108,700)
Reversal of Qard Hassan to policyholders' fund	-	-	-	-	1,183,651	1,183,651
Profit / (loss) attributable to policyholders/ shareholders	2,307,408	(1,123,757)	1,183,651	25,535,078	(10,525,263)	15,009,815

	2015					
	Medical AED	Underwriting Life AED	Total AED	Investments AED	Shareholders Others AED	Total AED
Segment revenue	327,681,366	50,209,807	377,891,173	(10,363,308)	17,045,414	6,682,106
Segment result	40,304,745	1,781,207	42,085,952	(10,363,308)	17,045,414	6,682,106
Wakalah fees	(54,103,460)	(2,222,420)	(56,325,880)	-	56,325,880	56,325,880
General and administrative expenses	-	-	-	-	(38,553,201)	(38,553,201)
Provision for Qard Hassan to policyholders' fund	-	-	-	-	(14,239,928)	(14,239,928)
Profit / (loss) attributable to policyholders/ shareholders	(13,798,715)	(441,213)	(14,239,928)	(10,363,308)	20,578,165	10,214,857

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

32. Segment information (continued)

	2016						
	Medical	Life	Underwriting	Shareholders'	Unallocated	Shareholders'	Total
	AED	AED	Total AED	Investments AED	Others AED	Total AED	Total AED
Segment assets	<u>419,617,106</u>	<u>98,431,625</u>	<u>518,048,731</u>	<u>145,026,421</u>	<u>25,060,899</u>	<u>170,087,320</u>	<u>688,136,051</u>
Segment liabilities	<u>397,221,935</u>	<u>72,961,530</u>	<u>470,183,465</u>	<u>-</u>	<u>75,990,453</u>	<u>75,990,453</u>	<u>546,173,918</u>
	2015						
	Medical	Life	Underwriting	Shareholders'	Unallocated	Shareholders'	Total
	AED	AED	Total AED	Investments ED	Others AED	Total AED	Total AED
Segment assets	<u>197,260,228</u>	<u>36,333,823</u>	<u>233,594,051</u>	<u>145,246,037</u>	<u>90,422,396</u>	<u>205,668,433</u>	<u>439,262,484</u>
Segment liabilities	<u>208,360,356</u>	<u>38,379,052</u>	<u>246,739,408</u>	<u>-</u>	<u>57,570,758</u>	<u>57,570,758</u>	<u>304,310,166</u>

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

33. Capital management

(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 financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

The Board of Directors meets regularly to approve any commercial, regulatory and organisational decisions. Management under the authority delegated from the Board of Directors defines the Company's risk and its interpretation, limits structure to ensure the appropriate quality and diversification of assets, aligns underwriting and retakaful strategy to the corporate goals, and specifies reporting requirements.

(ii) Capital management framework

The primary objective of the Company's capital management is to comply with the regulatory requirements in the UAE and to ensure that it maintains a healthy capital ratio in order to support its business and to maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. As at 31 December 2016, the Company has complied with minimum capital requirement of AED 100 million.

(iii) Regulatory framework

Regulators are primarily interested in protecting the rights of the policyholders and monitor them 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 jurisdictions where it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise. The disclosure for capital risk management is included in Note 35(iii)(e).

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

34. Financial instruments

(a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the financial statements.

(b) Categories of financial instruments

	2016 AED	2015 AED
<i>Financial assets</i>		
At amortised cost	403,118,474	229,278,484
At fair value through profit or loss	134,388,836	78,884,626
	<u>537,507,310</u>	<u>308,163,110</u>
<i>Financial liabilities</i>		
At amortised cost	270,369,457	141,129,691
At fair value through profit or loss	55,969,153	29,315,439
	<u>326,338,610</u>	<u>170,445,130</u>

35. Risk management

(i) Takaful risk

The principal risk the Company faces under takaful contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

Takaful risk is basically concentrated in the medical class of business. However, the variability of risks is improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of retakaful arrangements.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

35. Risk management (continued)

(i) Takaful risk (continued)

Based on the simulations performed, the impact on profit of a change of 1% in the claims expenses for both gross and net of reinsurance recoveries would be as follows:

	2016 Gross AED	2015 Gross AED	2016 Net AED	2015 Net AED
Impact of an increase in 1% of claim ratio	(3,508,944)	(2,457,599)	(2,575,267)	(2,198,316)
Impact of a decrease in 1% of claim ratio	3,508,944	2,457,599	2,575,267	2,198,316

(ii) Retakaful risk

In order to minimise financial exposure arising from large takaful claims, the Company, in the normal course of business, enters into arrangements with other parties for retakaful purposes. Such retakaful arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. A significant portion of the retakaful is affected under treaty, facultative and excess of loss retakaful contracts.

To minimise its exposure to significant losses from retakaful insolvencies, the Company evaluates the financial condition of its retakaful providers and ensures diversification of retakaful providers. The Company deals with retakaful companies approved by the Board of Directors.

(iii) Financial risk

The Company's principal financial instruments are investment securities, deposits, takaful receivables, other receivables and cash and bank balances.

The main risks arising from the Company's financial instruments are credit risk, liquidity risk and market risk which includes: foreign currency risk, profit rate risk and price risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

The Company does not enter into any derivative transactions.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

35. Risk management (continued)

(iii) Financial risk (continued)

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. For all classes of financial assets held by the Company, the maximum exposure to credit risk to the Company is the carrying value as disclosed in the statement of financial position.

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- The Company only enters into takaful and retakaful contracts with recognised, credit worthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from takaful and retakaful contracts are monitored on an ongoing basis in order to reduce the Company's exposure against defaults.
- The Company's bank balances are maintained with a range of reputable local banks.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position:

	2016 AED	2015 AED
Bank balances	186,106,859	129,092,530
Statutory deposit	4,000,000	4,000,000
Takaful and other receivables	167,870,811	88,823,123
Retakaful share of claims reported and unsettled	21,088,996	6,284,596
Investments at fair value through profit or loss	51,571,878	33,493,094
Held to maturity investment	1,000,000	1,000,000
Deposit	23,000,000	-
	<u>454,638,544</u>	<u>262,693,343</u>

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

35. Risk management (continued)

(iii) Financial risk (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its commitments associated with takaful contract liabilities and financial liabilities when they fall due.

Liquidity requirements are monitored on a monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

The table below summarises the maturity profile of the Company's financial instruments. The contractual maturities of the financial instruments have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the financial assets and financial liabilities at the reporting date based on contractual repayment arrangements was as follows:

2016

	Less than three months AED	From three months to one year AED	Over one year AED	Total AED
Financial assets				
Bank balances	159,908,667	26,250,000	-	186,158,667
Statutory deposit	-	-	4,000,000	4,000,000
Takaful receivables and other assets	93,906,858	46,928,922	15,399,491	156,235,271
Retakaful contract assets	21,088,996	-	-	21,088,996
Held to maturity investment	-	1,000,000	-	1,000,000
Investments at fair value through profit or loss	82,816,958	-	51,571,878	134,388,836
Deposit	23,000,000	-	-	23,000,000
Total	<u>380,721,479</u>	<u>74,178,922</u>	<u>70,971,369</u>	<u>525,871,770</u>
Financial liabilities				
Takaful and other payables	32,732,027	154,314,541	-	187,046,568
Takaful contract liabilities	63,477,889	-	-	63,477,889
Borrowings	19,845,000	-	-	19,845,000
Policyholders' investment linked contracts at fair value	55,969,153	-	-	55,969,153
Total	<u>172,024,069</u>	<u>154,314,541</u>	<u>-</u>	<u>326,338,610</u>

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

35. Risk management (continued)

(iii) Financial risk (continued)

(b) Liquidity risk (continued)

2015

	Less than three months AED	From three months to one year AED	Over one year AED	Total AED
Financial assets				
Bank balances	126,576,567	2,500,000	-	129,076,567
Statutory deposit	-	-	4,000,000	4,000,000
Takaful receivables and other assets	82,113,471	6,709,652	-	88,823,123
Retakaful contract assets	6,284,596	-	-	6,284,596
Held to maturity investment	-	-	1,000,000	1,000,000
Investments at fair value through profit or loss	45,391,532	-	33,493,094	78,884,626
Total	<u>260,366,166</u>	<u>9,209,652</u>	<u>38,493,094</u>	<u>308,068,912</u>
Financial liabilities				
Takaful and other payables	24,010,806	74,334,704	-	98,345,510
Takaful contract liabilities	34,071,485	-	-	34,071,485
Borrowings	11,025,000	-	-	11,025,000
Policyholders' investment linked contracts at fair value	29,315,439	-	-	29,315,439
Total	<u>98,422,730</u>	<u>74,334,704</u>	<u>-</u>	<u>172,757,434</u>

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

35. Risk management (continued)

(iii) Financial risk (continued)

(c) Market risk

Market risk arises from fluctuations in foreign exchange rates, profit rates and equity prices. The value at risk that may be accepted by the Company is monitored on a regular basis by management.

(i) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

There are no significant exchange rate risks as substantially all financial assets and financial liabilities are denominated in UAE Dirhams or US Dollars to which the UAE Dirham is pegged.

(ii) Profit rate risk

Profit rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market rates. Floating rate instruments expose the Company to cash flow risk.

The Company is exposed to profit rate risk on certain of its investments, liabilities, bank balances and cash. The Company limits its risk by monitoring changes in such rates.

	Increase in basis points	Effect on results for the year AED
2016		
Profit bearing assets	+100	1,735,228
Expense bearing liabilities	+100	198,450
2015		
Profit bearing assets	+100	854,976
Expense bearing liabilities	+100	110,250

Any movement in profit rates in the opposite direction will produce exactly opposite results.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

35. Risk management (continued)

(iii) Financial risk (continued)

(c) Market risk (continued)

(iii) Price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from profit 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 price risk is managed by outsourcing the trading of securities held by the Company to professional brokers. However the activities of brokers are also monitored and supervised by the management.

The following table shows the sensitivity of fair values to 5% increase or decrease as at 31 December:

	Favorable change AED	Unfavorable change AED
2016		
At fair value	6,719,442	(6,719,442)
2015		
At fair value	3,944,231	(3,944,231)

(d) Operational risk

Operational risk is the risk of loss arising from systems 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 lead to financial loss. The Company cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

35. Risk management (continued)

(iii) Financial risk (continued)

(e) Capital risk management

	2016 AED	2015 AED
Minimum Capital Requirement (MCR)	100,000,000	100,000,000
Solvency Capital Requirement (SCR)	133,576,319	80,109,779
Minimum Guarantee Fund (MGF)	82,106,611	49,798,408
Own Funds	45,488,969	50,559,943
Basic Own Funds	45,488,969	50,559,943
Ancillary Own Funds	-	-
MCR Solvency Margin Surplus/(Deficit)	(145,488,969)	(49,440,057)
SCR Solvency Margin Surplus/(Deficit)	(179,065,287)	(29,549,835)
MGF Solvency Margin Surplus/(Deficit)	(127,595,579)	770,535

As per Article (8) of Section 2 of the financial regulations issued for insurance companies in UAE, the Company shall at all times comply with the requirements of Solvency Margin. As of 31 December 2016, the Company had solvency deficit of AED 145.49 million as compared to the Minimum Capital Requirements of AED 100 million. The Company has alignment period of one year till 31 December 2017 to comply with the requirement of Solvency Margin.

36. Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Company is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

Fair value of financial instruments carried at amortised cost

Management considers that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

Valuation techniques and assumptions applied for the purposes of measuring fair value

Fair value of assets classified at fair value through profit or loss is determined by reference to their bid price at the close of business at the reporting date. Fair value for plot of land classified as investment property is based on external valuation or management internal assessment based on comparable transactions.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

36. Fair value measurements (continued)

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of assets and liabilities that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
2016				
Assets				
Investments at fair value through profit or loss				
- Equity investments	28,702,652	-	-	28,702,652
- Mutual funds	-	54,114,306	-	54,114,306
- Sukuk investments	51,571,878	-	-	51,571,878
Investment properties	-	38,405,816	-	38,405,816
	80,274,530	92,520,122	-	172,794,652
Liabilities				
Policyholders' investment linked contracts at fair value	-	55,969,153	-	55,969,153

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

36. Fair value measurements (continued)

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
2015				
Assets				
Investments at fair value through profit or loss				
- Equity investments	10,558,099	-	-	10,558,099
- Mutual funds	-	34,833,433	-	34,833,433
- Sukuk investments	33,493,094	-	-	33,493,094
Investment properties	-	39,676,256	-	39,676,256
	<u>44,051,193</u>	<u>74,509,689</u>	<u>-</u>	<u>118,560,882</u>
Liabilities				
Policyholders' investment linked contracts at fair value	-	29,315,439	-	29,315,439

There were no transfers between any of the levels during the year.

37. Contingent liabilities and commitments

Contingent liabilities

	2016 AED	2015 AED
Letters of guarantee	<u>821,041</u>	<u>523,921</u>

Commitments

The Company has lease agreements which are payable as follows:

	2016 AED	2015 AED
Less than one year	976,474	1,521,839
Between one and five years	<u>92,435</u>	<u>523,446</u>
	<u>1,068,909</u>	<u>2,045,285</u>

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

38. Technical provision

	2016	2015
	AED	AED
Claims reported and unsettled	63,477,889	34,071,485
Claims incurred but not reported	24,701,304	14,354,358
Unearned contributions	189,160,310	114,452,968
Mathematical reserve	4,230,693	1,350,322
Policyholders' investment linked contracts at fair value	55,969,153	29,315,439
Technical provisions	<u>337,539,349</u>	<u>193,544,572</u>

Medical business

	2016	2015
	AED	AED
Claims reported and unsettled	62,695,962	33,002,278
Claims incurred but not reported	23,706,390	14,354,358
Unearned contributions	186,285,820	112,335,914
Technical provisions	<u>272,688,172</u>	<u>159,692,550</u>

Life business

	2016	2015
	AED	AED
Claims reported and unsettled	781,927	1,069,207
Claims incurred but not reported	994,914	-
Unearned contributions	2,874,490	2,117,054
Mathematical reserve	4,230,693	1,350,322
Policyholders' investment linked contracts at fair value	55,969,153	29,315,439
Technical provisions	<u>64,851,177</u>	<u>33,852,022</u>

39. Social contributions

The Company has not made any social contributions during the year ended 31 December 2016 (31 December 2015: Nil).

40. Claims development schedule

Since all claims settled are short-term in nature, the claims development schedule is not applicable.

41. Approval of financial statements

The financial statements for the year ended 31 December 2016 were approved by the Board of Directors and authorised for issue on 7 February 2017.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

42. Assets and liabilities belonging to the shareholders and policyholders

As required by Financial Regulations for Takaful Insurance Companies issued by the Insurance Authority, the assets and liabilities belonging to the shareholders and participants are provided below:

	2016 AED	2015 AED
TAKAFUL OPERATIONS ASSETS		
Cash and bank balances	176,811,393	21,571,247
Investments at fair value through profit or loss	55,969,153	29,315,439
Takaful receivables and other assets	146,063,326	82,705,513
Retakaful contract assets	95,705,237	41,199,181
Deferred policy acquisition cost	43,499,624	-
Receivable from shareholders	-	5,006,808
Total takaful operations' assets	518,048,733	179,798,188
SHAREHOLDERS' ASSETS		
Cash and bank balances	9,347,274	107,505,320
Investments at fair value through profit or loss	78,419,683	49,569,187
Takaful receivables and other assets	11,909,826	7,315,782
Investment properties	38,405,816	39,676,256
Deposit	23,000,000	-
Deferred policy acquisition cost	-	50,674,996
Statutory deposit	4,000,000	4,000,000
Held to maturity investment	1,000,000	1,000,000
Property and equipment	2,471,395	3,032,384
Intangible assets	1,533,323	1,697,179
Receivable from policyholders	105,060,059	-
Total shareholders' assets	275,147,376	264,471,104
Total assets	793,196,109	444,269,292

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2016 (continued)

42. Assets and liabilities belonging to the shareholders and policyholders (continued)

	31 December 2016 AED	31 December 2015 AED
TAKAFUL OPERATIONS LIABILITIES		
Liabilities		
Takaful and other payables	132,644,115	53,194,839
Takaful contract liabilities	337,539,349	193,544,572
Payable to shareholders	105,060,059	-
Total takaful operations liabilities	575,243,523	246,739,411
SHAREHOLDERS' LIABILITIES AND EQUITY		
Liabilities		
Takaful and other payables	54,402,453	45,150,671
Borrowings	19,845,000	11,025,000
Provision for employees' end of service benefits	1,743,000	1,395,084
Payable to policyholders	-	5,006,808
Total shareholders' liabilities	75,990,453	62,577,563
DEFICIT IN POLICYHOLDERS' FUND AND QARD HASSAN FROM SHAREHOLDERS		
Deficit in policyholders' fund	(56,950,837)	(58,134,488)
Qard Hassan from shareholders	56,950,837	58,134,488
Net deficit in policyholders' fund and Qard Hassan from shareholders	-	-
EQUITY		
Share capital	150,000,000	150,000,000
Accumulated losses	(11,278,446)	(16,787,279)
Statutory reserve	3,240,579	1,739,597
Total equity	141,962,133	134,952,318
Total shareholders' liabilities and equity	217,952,586	197,529,881
Total liabilities and equity	793,196,109	444,269,292

43. Comparative figures

Certain comparative figures have been reclassified where appropriate to conform to the presentation and accounting policies adopted in these financial statements.

Notes

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