

TAKAFUL EMARAT - INSURANCE (PSC)

**Financial Statements for the year ended
31 December 2015**

TAKAFUL EMARAT - INSURANCE (PSC)

Financial statements for the year ended 31 December 2015

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

Report on the financial statements

We have audited the accompanying financial statements of Takaful Emarat - Insurance (PSC) ("the Company"), which comprise the statement of financial position as at 31 December 2015, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015 and UAE Federal Law No (6) of 2007 and the related Financial Regulations for insurance 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.

Auditor's responsibility

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

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

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

*PricewaterhouseCoopers (Dubai Branch), License no. 102451
Emaar Square, Building 4, Level 8, P O Box 11987, Dubai - United Arab Emirates
T: +971 (0)4 304 3100, F: +971 (0)4 346 9150, www.pwc.com/me*



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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

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

- i) we have obtained all the information we considered necessary for the purpose 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 18 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 financial year ended 31 December 2015 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Memorandum of Association which would materially affect its activities or its financial position as at 31 December 2015; and
- viii) as disclosed in note 38 to the financial statements, no social contributions were made during the year ended 31 December 2015.

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
22 March 2016

A handwritten signature in blue ink, appearing to read 'Paul Suddaby'.


Paul Suddaby
Registered Auditor Number 309
Dubai, United Arab Emirates

Takaful Emarat - Insurance (PSC)

Statement of financial position

	Notes	31 December 2015 AED	31 December 2014 AED
ASSETS			
Cash and bank balances	5	129,076,567	23,871,231
Statutory deposit	6	4,000,000	4,000,000
Takaful receivables and other assets	7	98,729,057	83,910,817
Retakaful contract assets	8	41,199,181	11,747,865
Deferred policy acquisition costs	9	41,967,234	27,599,349
Held-to-maturity investment		1,000,000	-
Investments at fair value through profit or loss	10	78,884,626	43,560,774
Investment properties	11	39,676,256	31,282,360
Property and equipment	12	3,032,384	3,427,948
Intangible assets	13	1,697,179	2,861,607
Total assets		439,262,484	232,261,951
LIABILITIES AND EQUITY			
LIABILITIES			
Takaful and other payables	15	98,345,510	43,264,636
Takaful contract liabilities	8	193,544,572	112,957,295
Borrowings	14	11,025,000	-
Provision for employees' end of service benefits	16	1,395,084	1,302,559
Total liabilities		304,310,166	157,524,490
EQUITY			
Share capital	17	150,000,000	100,000,000
Accumulated losses		(16,787,279)	(25,980,650)
Statutory reserve	30	1,739,597	718,111
Total equity		134,952,318	74,737,461
Total liabilities and equity		439,262,484	232,261,951

This financial statements were approved by the Board of Directors on 21 March 2016 and are signed on its behalf by:



Mohammad Alhawari
Managing Director



Wael Al Sharif
Chief Executive Officer



Mohammed Iqbal Basha
Chief Financial Officer

Takaful Emarat - Insurance (PSC)

Statement of comprehensive income

	Notes	Year ended 31 December	
		2015 AED	2014 AED
Attributable to policyholders:			
Gross contribution written	20	402,821,846	169,465,335
Changes in unearned contribution	20	(24,930,673)	(50,061,863)
Takaful contributions earned	20	377,891,173	119,403,472
Retakaful contributions ceded	20	(58,011,344)	(21,181,078)
Net earned contributions	20	319,879,829	98,222,394
Gross claims incurred	21	(245,759,937)	(61,914,449)
Retakaful share of claims incurred	21	25,928,303	7,761,917
Net claims incurred	21	(219,831,634)	(54,152,532)
Commission incurred		(14,962,368)	(5,617,855)
Allocation charges on life takaful policies and other charges	8	(25,629,351)	(14,405,678)
Change in reserves	22	(18,563,621)	(10,687,496)
Net change in fair value of policyholders investment linked contracts	22	1,193,097	88,492
Net takaful income		42,085,952	13,447,325
Wakalah fees	23	(56,325,880)	(28,370,231)
Net deficit from takaful operations		(14,239,928)	(14,922,906)
Attributable to shareholders:			
Wakalah fees from policy holders	23	56,325,880	28,370,231
Investment (loss)/income	24	(10,363,308)	7,653,254
Allocation charges on life takaful policies and other charges	8	25,629,351	14,405,678
Gain on sale of investment property	12	5,402,745	-
Change in fair value of investment property	12	1,927,615	4,500,000
Other income	25	1,777,555	1,127,975
Commission incurred		(17,691,852)	(7,789,439)
General and administrative expenses	26	(38,553,201)	(26,163,681)
Provision for Qard Hassan to policyholders' fund		(14,239,928)	(14,922,906)
Profit for the year attributable to shareholders		10,214,857	7,181,112
Basic and diluted profit per share	27	0.10	0.07
Other comprehensive income		-	-
Total comprehensive profit for the year		10,214,857	7,181,112

Takaful Emarat - Insurance (PSC)

Statement of changes in equity

	Share capital AED	Statutory reserve AED	Accumulated losses AED	Total AED
Balance at 1 January 2014	150,000,000	-	(82,443,651)	67,556,349
Less : Reduction in share capital (Note 17)	(50,000,000)	-	50,000,000	-
Total comprehensive profit for the year	-	-	7,181,112	7,181,112
Transfer to statutory reserve (Note 30)	-	718,111	(718,111)	-
Balance at 31 December 2014	100,000,000	718,111	(25,980,650)	74,737,461
Balance at 1 January 2015	100,000,000	718,111	(25,980,650)	74,737,461
Add : Increase in share capital (Note 17)	50,000,000	-	-	50,000,000
Total comprehensive profit for the year	-	-	10,214,857	10,214,857
Transfer to statutory reserve (Note 30)	-	1,021,486	(1,021,486)	-
Balance at 31 December 2015	150,000,000	1,739,597	(16,787,279)	134,952,318

Takaful Emarat - Insurance (PSC)

Statement of cash flows

	Year ended 31 December	
	2015	2014
	AED	AED
Cash flows from operating activities		
Profit for the year	10,214,857	7,181,112
Adjustments for:		
Depreciation and amortisation of property and equipment and intangible assets (Note 26)	2,261,611	2,376,263
Profit on investment at amortised cost	(130,461)	-
Profit on investments at fair value through profit or loss	(391,547)	(270,071)
Realised gain on sale of investments at fair value through profit or loss (Note 24)	6,017,902	(5,915,031)
Gain / (loss) on revaluation of investments carried at fair value through profit or loss (Note 10)	5,555,971	(2,100,614)
Provision of employees' end of service benefits (Note 16)	573,123	473,115
Gain on sale of property, equipment and Investment property	(5,527,159)	(17,036)
Reversal of provision against receivable	-	600,000
Increase in fair value of investment property (Note 11)	(1,927,615)	(4,500,000)
Operating profit/(loss) before working capital changes and payment of employee end of service benefits	16,646,682	(2,172,262)
Employees' end of service benefits paid (Note 16)	(480,598)	(164,568)
Operating profit/(loss) before working capital changes	16,166,084	(2,336,830)
Working capital changes:		
Changes in retakaful contract assets	(29,451,316)	11,389,843
Changes in takaful and other assets	(28,664,117)	(62,024,923)
Changes in due from a related party	-	2,413,743
Changes in takaful contract liabilities	80,587,277	53,867,222
Changes in takaful and other payables	66,105,874	12,044,596
Net cash generated from operating activities	104,743,802	15,353,651
Cash flows from investing activities		
Purchase of investments at fair value through profit or loss (Note 10)	(139,317,859)	(160,948,765)
Proceeds from sale of investments at fair value through profit or loss	92,420,134	164,698,305
Purchase of property and equipment and intangible assets	(733,614)	(273,119)
Proceeds from sale of property and equipment	31,995	39,250
Additions to investment property under construction	(939,122)	-
Purchase of investment at amortised cost	(1,000,000)	-
Net cash (used in) / generated from investing activities	(49,538,466)	3,515,671
Cash flows from financing activities		
Proceeds from issue of shares	50,000,000	-
Cash generated from financing activities	50,000,000	-
Net increase in cash and cash equivalents	105,205,336	18,869,322
Cash and cash equivalents at beginning of the year	23,871,231	5,001,909
Cash and cash equivalents at end of the year (Note 5)	129,076,567	23,871,231

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015

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").

UAE Federal Law No. 2 of 2015 (Companies Law) which is applicable to the Company has come into effect from 1 July 2015. The Company is currently assessing and evaluating the relevant provisions of the Companies Law. It has twelve months from the effective date of the Companies Law to fully comply with the Companies Law under the transitional provisions set out therein.

In December 2014, the UAE Insurance Authority issued the Board of Directors' decision number (25) of 2014 pertinent 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.

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 2015*

Annual improvements 2012 (Effective date – 1 July 2014)

These annual improvements amend standards from the 2010 - 2012 reporting cycle. It includes changes to:

- IFRS 8, 'Operating segments' which is amended to require disclosure of the judgments

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (continued)

3. Summary of significant accounting policies (continued)

3.1 Standards, amendments and interpretations (continued)

(a) Standards amendments and interpretations that are effective for the Company's accounting period beginning on 1 January 2015 (continued)

Annual improvements 2012 (Effective date – 1 July 2014) (continued)

made by management in applying the aggregation criteria to operating segments. It is also amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported.

- IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' are amended to clarify how the gross carrying amount and the accumulated depreciation are treated when an entity uses the revaluation model.
- IAS 24, 'Related party disclosures' is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity (the 'management entity'). Disclosure of the amounts charged to the reporting entity is required.

Annual improvements 2013 (Effective date – 1 July 2014)

IFRS 13 'Fair value measurement' on clarification of the portfolio exemption in IFRS 13 - The amendment clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a Company of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9.

IAS 19, Defined benefit plans: Employee contributions (Effective date – 1 July 2014)

The amendment clarifies the accounting by entities with plans that require contributions linked only to service in each period. Entities with plans that require contributions that vary with service will be required to recognise the benefit of those contributions over employees' working lives.

The above amendments to existing standards do not have any significant impact on the Company's financial statements for the year ended 31 December 2015. Apart from the above amendments, there are no new standards that have a potential significant impact on these financial statements.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (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 2015 and not early adopted

Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' regarding depreciation and amortization (Effective date 1 January 2016)

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.

Amendments to IAS 1, 'Presentation of financial statements' (Effective date 1 January 2016)

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.

Annual improvements 2014 (Effective date 1 January 2016)

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.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (continued)

3 Summary of significant accounting policies (continued)

3.1 Standard amendments and interpretations (continued)

(b) Standards, amendments and interpretations issued but not yet effective for the Company's accounting period beginning on 1 January 2015 and not early adopted (continued)

IFRS 15, 'Revenue from contracts with customers' (Effective date 1 January 2018)

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.

IFRS 9 'Financial Instruments' (Effective date 1 January 2018)

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.

The Company is assessing the impact of above new standards and amendments to published standards or IFFRIC interpretations issued but not yet effective for Company's financial year beginning 1 January 2015.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (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 property 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.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (continued)

3. Summary of significant accounting policies (continued)

3.4 Takaful contributions (continued)

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.

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 contribution

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 2015 (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 2015 (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 outstanding claims provision 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 income. Ceded retakaful arrangements do not relieve the Company from its obligations to policyholders.

The Company also assumes reinsurance risk in the normal course of business for insurance contracts where applicable. Contributions and claims on assumed retakaful are recognised as income and expenses in the same manner as they would be if the retakaful were considered direct business, taking into account the product classification of the reinsured business. Retakaful liabilities represent balances due to retakaful companies. Amounts payable are estimated in a manner consistent with the associated retakaful contract.

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 2015 (continued)

3. Summary of significant accounting policies (continued)

3.14 Takaful contract liabilities

(i) *Unearned contributions reserve*

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) *Outstanding claims reported*

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 2015 (continued)

3. Summary of significant accounting policies (continued)

3.15 Investment property

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 2015 (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 and 'cash and bank balances' in the statement of financial position.

(c) *Held-to-maturity investment*

Held-to-maturity investment are 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 2015 (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 2015 (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 U.A.E. 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 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 using actuarial techniques, 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 2015 (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.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (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 2015 (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 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 2015 (continued)

5. Cash and bank balances

	2015 AED	2014 AED
Cash on hand	47,037	46,037
Bank balances		
Current accounts	78,029,530	16,825,194
Deposits	<u>51,000,000</u>	<u>7,000,000</u>
Cash and cash equivalents	<u>129,076,567</u>	<u>23,871,231</u>

The deposits carry a profit rate of 0.8% to 1.25% per annum (2014: 0.5% to 1.0% per annum).

6. Statutory deposit

Statutory deposit is maintained in accordance with the requirements of U.A.E. Federal Law No. 6 of 2007 and is available to finance the day to day operations of the Company.

7. Takaful receivables and other assets

	2015 AED	2014 AED
Takaful receivables	61,838,603	60,726,122
Provision for impairment	<u>(1,582,362)</u>	<u>(1,582,362)</u>
	60,256,241	59,143,760
Receivable from retakaful companies	16,299,937	8,496,950
Prepaid expenses	1,198,172	875,332
Other receivables	<u>20,974,707</u>	<u>15,394,775</u>
	<u>98,729,057</u>	<u>83,910,817</u>

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (continued)

7. Takaful and other assets (continued)

Takaful receivables and other assets – Inside UAE

	2015 AED	2014 AED
Takaful receivables	61,838,603	60,726,122
Provision for impairment	<u>(1,582,362)</u>	<u>(1,582,362)</u>
	60,256,241	59,143,760
Receivable from retakaful companies	335,800	-
Prepaid expenses	1,198,171	875,332
Other receivables	<u>20,974,708</u>	<u>15,394,775</u>
	<u>82,764,920</u>	<u>75,413,867</u>

Takaful receivables and other assets – Outside UAE

Receivable from retakaful companies	15,964,137	8,496,950
Total takaful receivables and other assets	<u>98,729,057</u>	<u>83,910,817</u>

Ageing of takaful receivables and other assets: 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	20,974,708	69,135,592
30 – 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	<u>(1,582,362)</u>	-	-	<u>(1,582,362)</u>
	<u>60,256,241</u>	<u>335,800</u>	<u>20,974,708</u>	<u>81,566,749</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>20,974,708</u>	<u>97,530,886</u>

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (continued)

7. Takaful and other assets (continued)

Ageing of takaful and other assets:

31 December 2014

	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	52,815,848	-	15,394,775	68,210,623
31 – 90 days	4,832,711	-	-	4,832,711
<u>Past due but not impaired</u>				
91 - 180 days	727,715	-	-	727,715
181 - 270 days	767,486	-	-	767,486
271 - 360 days	-	-	-	-
<u>Past due and impaired</u>				
More than 360 days	1,582,362	-	-	1,582,362
Provision for impairments	(1,582,362)	-	-	(1,582,362)
	<u>59,143,760</u>	<u>-</u>	<u>15,394,775</u>	<u>74,538,535</u>
<i>Takaful receivables and other assets – Outside UAE</i>				
<u>Neither past due nor impaired</u>				
less than 30 days	-	8,496,950	-	8,496,950
Total takaful receivables and other assets	<u>59,143,760</u>	<u>8,496,950</u>	<u>15,394,775</u>	<u>83,035,485</u>

Movement in the allowance for doubtful debts:

	2015 AED	2014 AED
Balance at the beginning of the year	1,582,362	1,260,616
Impairment provision made during the year	-	600,000
Written off during the year	-	(278,254)
Balance at the end of the year	<u>1,582,362</u>	<u>1,582,362</u>

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (continued)

8. Takaful contract liabilities and retakaful contract assets

	2015 AED	2014 AED
Gross takaful contract liabilities		
Claims reported	34,071,485	5,103,610
Claims incurred but not reported	14,354,358	3,628,922
Unearned contributions	114,452,968	89,522,293
Mathematical reserve	1,350,322	661,993
Policyholders' investment linked contracts at fair value	29,315,439	14,040,477
	<u>193,544,572</u>	<u>112,957,295</u>
Retakaful contract assets		
Claims reported	6,284,596	946,892
Claims incurred but not reported	3,895,892	939,205
Unearned contributions	31,018,693	9,861,768
	<u>41,199,181</u>	<u>11,747,865</u>
Net takaful contract liabilities		
Claims reported	27,786,889	4,156,718
Claims incurred but not reported	10,458,466	2,689,717
Unearned contributions	83,434,275	79,660,525
Mathematical reserve	1,350,322	661,993
Fair value of policyholders investment linked contracts	29,315,439	14,040,477
	<u>152,345,391</u>	<u>101,209,430</u>
Movement in payable to policyholders of investment linked contracts		
Opening balance	14,040,477	9,660,820
Gross contribution written	46,984,144	24,659,507
Allocation charges	(25,629,351)	(14,025,678)
Other expenses and policy charges	(69,175)	(34,825)
Redemptions during the year	(4,817,559)	(6,130,855)
Change in fair value	(1,193,097)	(88,492)
Closing balance	<u>29,315,439</u>	<u>14,040,477</u>

9. Deferred policy acquisition costs

	2015 AED	2014 AED
Balance as at beginning of the year	27,599,349	3,616,972
Commission paid during the year	32,059,737	31,763,767
Amortisation for the year	(17,691,852)	(7,781,390)
Balance at the end of the year	<u>41,967,234</u>	<u>27,599,349</u>

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (continued)

10. Investments at fair value through profit or loss

	2015 AED	2014 AED
Equity investments	10,558,099	24,423,789
Mutual funds	34,833,433	19,136,985
Sukuk investments	33,493,094	-
	<u>78,884,626</u>	<u>43,560,774</u>

Sukuk investments carry profit rate ranging from 6.25% to 6.375% per annum.

During the year ended 31 December 2015, the Company invested in Dubai Islamic Bank (DIB) Tier 1 Sukuk amounting to AED 11.025 million which earns a coupon rate of 6.25% and is pledged with First Gulf Bank.

Movements during the year were as follows:

	2015		
	Attributable to policyholders AED	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	<u>29,315,439</u>	<u>49,569,187</u>	<u>78,884,626</u>
	2014		
	Attributable to policyholders AED	Attributable to shareholders AED	Total AED
At beginning of the year	9,660,820	29,633,849	39,294,669
Purchases during the year	10,599,004	150,349,761	160,948,765
Disposals during the year	(6,130,855)	(152,652,419)	(158,783,274)
Change in fair value during the year	(88,492)	2,189,106	2,100,614
At end of the year	<u>14,040,477</u>	<u>29,520,297</u>	<u>43,560,774</u>

During the year, the Company purchased equity securities amounting to AED 87.167 million (2014 : AED 157.27 million).

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

	2015 AED	2014 AED
Within U.A.E.	44,574,832	24,631,074
Outside U.A.E.	34,309,794	18,929,700
	<u>78,884,626</u>	<u>43,560,774</u>

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (continued)

11. Investment properties

	2015 AED	2014 AED
Plot of land (Refer (a) below)	16,927,615	15,000,000
Investment property under construction (Refer (b) below)	22,748,641	16,282,360
	<u>39,676,256</u>	<u>31,282,360</u>
(a) Movement in value of plot of land	2015	2014
Fair value at beginning of the year	15,000,000	10,500,000
Increase in fair value during the year	1,927,615	4,500,000
Fair value at end of the year	<u>16,927,615</u>	<u>15,000,000</u>

The carrying value of land represents its fair value as determined by an independent valuation expert, in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors (“RICS”). 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 16 July 2015. The revalued amount approximates its fair value as at 31 December 2015.

(b) At 31 December 2014 the amount of AED 16,282,360 represented 50% co-investment in a property project. During the current year, the Company has sold its share in the project for a consideration of AED 22,748,641 and recognised a gain of AED 5,402,745 in the statement of comprehensive income. In consideration for sale of its co-investment share, the Company has received free hold title for 28 apartments, the aggregate fair value of which is equal to the sales consideration.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (continued)

12. Property and equipment

	Office equipment AED	Furniture and fixtures AED	Motor vehicles AED	Total AED
Cost				
Balance at 31 December 2013	2,710,099	7,328,443	120,600	10,159,142
Additions during the year	111,396	15,075	83,750	210,221
Disposals during the year	(13,913)	-	(53,000)	(66,913)
Balance at 31 December 2014	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
Accumulated depreciation				
Balance at 31 December 2013	1,129,879	4,744,680	77,584	5,952,143
Depreciation for the year	499,618	440,531	26,909	967,058
Disposals during the year	(4,066)	-	(40,633)	(44,699)
Balance at 31 December 2014	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
Carrying amount				
Balance at 31 December 2015	931,219	1,968,704	132,461	3,032,384
Balance at 31 December 2014	1,182,151	2,158,307	87,490	3,427,948

At 31 December 2015, the cost of fully depreciated property and equipment that was still in use amounted to AED 3,821,285 (2014: AED 3,490,982).

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (continued)

13. Intangible assets

	Software AED
Cost	
Balance at 31 December 2013	7,218,255
Additions during the year	<u>62,898</u>
Balance at 31 December 2014	7,281,153
Additions during the year	278,097
Disposals	<u>(46,300)</u>
Balance at 31 December 2015	<u>7,512,950</u>
Accumulated amortisation	
Balance at 31 December 2013	3,010,341
Amortisation for the year	<u>1,409,205</u>
Balance at 31 December 2014	4,419,546
Amortisation for the year	1,441,071
Disposals	<u>(44,846)</u>
Balance at 31 December 2015	<u>5,815,771</u>
Carrying amount	
Balance at 31 December 2015	<u>1,697,179</u>
Balance at 31 December 2014	<u>2,861,607</u>

14. Borrowings

This amount relates to AED 11.025 million borrowings from First Gulf Bank to purchase DIB Tier 1 Sukuk. The loan is pledged against DIB Tier 1 Sukuk for AED 11.025, with maturity of three months and carries profit rate 1.25% above 3 month LIBOR.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (continued)

15. Takaful and other payables

	2015 AED	2014 AED
Retakaful payables	74,334,704	30,599,944
Accrued expenses and other payables	<u>24,010,806</u>	<u>12,664,692</u>
	<u>98,345,510</u>	<u>43,264,636</u>

Retakaful payables include amount of AED 30.5 million (2014 : AED 19.5 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

	2015 AED	2014 AED
Inside UAE	46,134,148	39,970,414
Outside UAE	<u>52,211,362</u>	<u>3,294,222</u>
	<u>98,345,510</u>	<u>43,264,636</u>

Takaful and other payables – Inside UAE

Retakaful payables	22,123,342	360,466
Payable to insurance agents	623,612	764,213
Payable to insurance brokers	7,822,236	5,004,979
Payable to staff	4,771,755	2,440,512
Other payables	<u>10,793,203</u>	<u>6,895,500</u>
	<u>46,134,148</u>	<u>31,693,468</u>

Takaful and other payables –Outside UAE

	2015 AED	2014 AED
Retakaful payables	<u>52,211,362</u>	<u>14,011,680</u>

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (continued)

16. Provision for employees' end of service benefits

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

	2015	2014
	AED	AED
Balance at the beginning of the year	1,302,559	994,012
Charge for the year	573,123	473,115
Paid during the year	(480,598)	(164,568)
Balance at the end of the year	<u>1,395,084</u>	<u>1,302,559</u>

In accordance with the provisions of IAS 19, to assess the present value of its obligations as at 31 December 2015, 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 3.18% (2014: 3.15%). 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 3% (2014: 3%).

17. Share capital

	2015	2014
	AED	AED
Issued and fully paid:		
100,000,000 ordinary shares of AED 1 each	100,000,000	150,000,000
50,000,000 ordinary shares of AED 1 each (a)	-	(50,000,000)
50,000,000 ordinary shares of AED 1 each (b)	50,000,000	-
	<u>150,000,000</u>	<u>100,000,000</u>

(a) In 2014, the Company reduced the paid up share capital by AED 50 million by offsetting the amount against accumulated losses, following the completion of all statutory formalities.

(b) During the year ended 31 December 2015, the Company increased the paid up share capital by AED 50 million through a rights issue subscribed by the existing shareholders of the Company. The rights issue was fully subscribed and paid up during the year ended 31 December 2015.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (continued)

18. 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

	2015 AED	2014 AED
Short and long term benefits	6,412,683	2,647,122
	<u>6,412,683</u>	<u>2,647,122</u>

Transactions with related parties during the year

Gross contribution written	1,316,147	-
	<u>1,316,147</u>	<u>-</u>

During 2015, 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.

19. Policy holders' fund

	2015 AED	2014 AED
Deficit in policy holders' fund		
Balance at beginning of year	(43,894,560)	(28,971,654)
Deficit for the year	(14,239,928)	(14,922,906)
Balance at the end of the year	<u>(58,134,488)</u>	<u>(43,894,560)</u>
 Qard Hassan from shareholders		
Balance at beginning of year	43,894,560	28,971,654
Provided during the year	14,239,928	14,922,906
Balance at the end of the year	<u>58,134,488</u>	<u>43,894,560</u>
Total deficit in policy holders' fund	<u>-</u>	<u>-</u>

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (continued)

20. Net earned contributions

	Medical AED	<u>2015</u> Life and savings AED	Total AED	Medical AED	<u>2014</u> Life and savings AED	Total AED
Gross contributions written	351,203,230	51,618,616	402,821,846	140,846,873	28,618,462	169,465,335
Change in unearned contributions	(23,521,864)	(1,408,809)	(24,930,673)	(50,278,289)	216,426	(50,061,863)
Takaful contributions earned	327,681,366	50,209,807	377,891,173	90,568,584	28,834,888	119,403,472
Retakaful contributions	73,414,616	5,753,653	79,168,269	10,786,644	1,269,713	12,056,357
Change in unearned contributions	(20,297,723)	(859,202)	(21,156,925)	9,060,298	64,423	9,124,721
Retakaful contributions ceded	53,116,893	4,894,451	58,011,344	19,846,942	1,334,136	21,181,078
Net earned contributions	274,564,473	45,315,356	319,879,829	70,721,642	27,500,752	98,222,394

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (continued)

21. Claims incurred

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	88,432,714
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 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 2015 (continued)

21. Claims incurred

2014

	Gross			Retakaful			Net		
	Medical AED	Life AED	Total AED	Medical AED	Life AED	Total AED	Medical AED	Life AED	Total AED
Takaful claims paid	62,759,288	74,633	62,833,921	(10,002,872)	(24,167)	(10,027,039)	52,756,416	50,466	52,806,882
Movement in provision for claims reported and unsettled	(528,952)	-	(528,952)	1,166,040	-	1,166,040	637,088	-	637,088
Movement in provision for claims incurred but not reported	<u>(390,520)</u>	<u>-</u>	<u>(390,520)</u>	<u>1,099,082</u>	<u>-</u>	<u>1,099,082</u>	<u>708,562</u>	<u>-</u>	<u>708,562</u>
Claims recorded in the statement of income	<u>61,839,816</u>	<u>74,633</u>	<u>61,914,449</u>	<u>(7,737,750)</u>	<u>(24,167)</u>	<u>(7,761,917)</u>	<u>54,102,066</u>	<u>50,466</u>	<u>54,152,532</u>

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (continued)

22. Change in reserves

	2015 AED	2014 AED
Change in reserve relating to takaful life products (note 8)	17,370,524	10,599,004
Less : change in fair value (note 9)	<u>1,193,097</u>	<u>88,492</u>
	<u><u>18,563,621</u></u>	<u><u>10,687,496</u></u>

23. Wakalah fees

Wakalah fees for the year ended 31 December 2015 amounted to AED 56,325,880 (2014: AED 28,370,231).

For group life and group medical policies, wakalah fees were charged at 10% to 30% of gross takaful contributions until June 2015 and 10% to 20% of gross takaful contributions from July 2015. 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 income when incurred.

24. Investment income – net

	2015 AED	2014 AED
Return on investment in fixed deposits	760,534	325,631
Realized (loss)/gain on sale of investments at FVTPL	(6,017,902)	5,915,031
Fair value changes on investments at FVTPL	(4,362,874)	2,100,614
Dividend income	90,000	-
Investment management charges	(833,066)	(688,022)
	<u><u>(10,363,308)</u></u>	<u><u>7,653,254</u></u>

25. Other income-net

	2015 AED	2014 AED
Gain on sale of property and equipment	14,544	17,035
Miscellaneous income	<u>1,763,011</u>	<u>1,110,940</u>
	<u><u>1,777,555</u></u>	<u><u>1,127,975</u></u>

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (continued)

26. General and administrative expenses

	2015 AED	2014 AED
Salaries and other benefits	20,126,710	13,725,789
Rent and related expenses	1,783,186	1,649,442
Legal and professional fees	10,349	199,635
Remuneration of Sharia Supervisory Board	174,000	290,608
Depreciation and amortization	2,261,611	2,376,263
Third Party Administrator (TPA) expenses	4,625,035	521,844
Authority fees	1,929,277	842,042
Other expenses	7,643,033	6,558,058
	<u>38,553,201</u>	<u>26,163,681</u>

27. 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:

	2015	2014
Profit for the year attributable to shareholders (in AED)	10,214,857	7,181,112
Weighted average number of shares outstanding during the year	100,547,945	100,547,945
Basic profit per share (AED)	<u>0.10</u>	<u>0.07</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.

28. 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.

29. 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 2015 (continued)

30. Statutory reserve

In accordance with the UAE Federal Law No. 2 of 2015, as amended, 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 1,021,480 (2014: 718,111) has been transferred to the statutory reserve during the year.

31. Segment information

For management purposes, the Company is organised 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 2015 (continued)

31. Segment information (continued)

	<u>2015</u>						<u>2014</u>					
	<u>Medical</u> AED	<u>Underwriting</u> <u>Life</u> AED	<u>Total</u> AED	<u>Investments</u> AED	<u>Shareholder</u> <u>Others</u> AED	<u>Total</u> AED	<u>Medical</u> AED	<u>Underwriting</u> <u>Life</u> AED	<u>Total</u> AED	<u>Investments</u> AED	<u>Shareholders</u> <u>Others</u> AED	<u>Total</u> AED
<u>Segment revenue</u>	327,681,366	50,209,807	377,891,173	(10,363,308)	17,045,414	6,682,106	90,568,584	28,834,888	119,403,472	7,653,254	13,584,676	21,237,930
Segment result	40,304,745	1,781,207	42,085,952	(10,363,308)	17,045,414	6,682,106	11,179,287	2,268,038	13,447,325	7,653,254	13,584,676	21,237,930
Wakalah fees	(54,103,461)	(2,222,420)	(56,325,880)		56,325,880	56,325,880	(27,170,575)	(1,199,656)	(28,370,231)		28,370,231	28,370,231
Loss attributable to												
<u>Policy holders</u>			(14,239,928)						(14,922,906)			
Unallocated costs						(52,793,129)						(42,427,049)
Net profit for the period						10,214,857						7,181,112

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (continued)

31. Segment information (continued)

	2015						
	Medical AED	Life and savings AED	Underwriting Total AED	Shareholders' investments AED	Unallocated 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>
	2014						
	Medical AED	Life and savings AED	Underwriting Total AED	Shareholders' investments ED	Unallocated Others AED	Total AED	Total AED
Segment assets	<u>103,574,376</u>	<u>16,987,409</u>	<u>120,561,785</u>	<u>71,802,657</u>	<u>39,897,509</u>	<u>111,700,166</u>	<u>232,261,951</u>
Segment liabilities	<u>113,196,107</u>	<u>20,151,420</u>	<u>133,347,527</u>	<u>-</u>	<u>24,176,963</u>	<u>24,176,963</u>	<u>157,524,490</u>

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (continued)

32. 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 U.A.E. 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 2015, 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 32(iii)(f).

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (continued)

33. 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

	2015 AED	2014 AED
<i>Financial assets</i>		
At amortised cost	237,986,246	105,910,720
At fair value	78,884,626	43,560,774
	<u>316,870,872</u>	<u>149,471,494</u>
<i>Financial liabilities</i>		
At amortised cost	141,129,691	45,063,150
At fair value	29,315,439	14,040,477
	<u>170,445,130</u>	<u>59,103,627</u>

34. 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 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 2015 (continued)

34. 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:

	2015	2014	2015	2014
	Gross	Gross	Net	Net
	AED	AED	AED	AED
Impact of an increase in 1% of claim ratio	(2,457,599)	(619,145)	(2,198,316)	(541,525)
Impact of a decrease in 1% of claim ratio	2,457,599	619,145	2,198,316	541,525

(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 cash equivalents.

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, foreign currency risk, profit risk and equity 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 2015 (continued)

34. 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 local banks.

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

	2015	2014
	AED	AED
Statutory deposit	4,000,000	4,000,000
Takaful and other receivables	97,625,083	77,138,634
Bank balances and Sukuks	163,569,661	23,825,194
Retakaful share of claims	6,284,596	946,892
Retakaful share of claims incurred but not reported	3,895,892	939,205
	<u>275,375,232</u>	<u>106,849,925</u>

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (continued)

34. 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:

2015:

	Less than three months AED	From 3 months to one year AED	Over 1 year AED	Total AED
Financial assets				
Bank balances and Sukuk	127,576,567	2,500,000	-	130,076,567
Statutory deposit	-	-	4,000,000	4,000,000
Takaful and other assets	74,387,217	23,237,866	-	97,625,083
Retakaful contract assets	6,284,596	-	-	6,284,596
Investments at FVTPL	78,884,626	-	-	78,884,626
Total	<u>287,133,006</u>	<u>25,737,866</u>	<u>4,000,000</u>	<u>316,870,872</u>
Financial liabilities				
Takaful and other payables	15,235,197	80,798,009	-	96,033,206
Retakaful contract liabilities	34,071,485	-	-	34,071,485
Borrowings	11,025,000	-	-	-
Investment linked contracts	29,315,439	-	-	29,315,439
Total	<u>89,647,121</u>	<u>80,798,009</u>	<u>-</u>	<u>170,445,130</u>

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (continued)

34. Risk management (continued)

(iii) Financial risk (continued)

(b) Liquidity risk (continued)

2014:

	Less than three months AED	From 3 months to one year AED	Over 1 year AED	Total AED
Financial assets				
Cash and bank balances	23,871,231	-	-	23,871,231
Statutory deposit	-	-	4,000,000	4,000,000
Takaful and other receivables	35,389,426	41,749,208	-	77,138,634
Retakaful contract assets	1,886,097	-	-	1,886,097
Investments at FVTPL	43,560,774	-	-	43,560,774
Total	<u>104,707,528</u>	<u>41,749,208</u>	<u>4,000,000</u>	<u>150,456,736</u>
Financial liabilities				
Takaful and other payables	9,359,596	30,599,944	-	39,959,540
Retakaful contract liabilities	8,732,532	-	-	8,732,532
Investment linked contracts	14,040,477	-	-	14,040,477
Total	<u>32,132,605</u>	<u>30,599,944</u>	<u>-</u>	<u>62,732,549</u>

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (continued)

34. 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 U.A.E. Dirhams or US Dollars to which the UAE Dirham is fixed.

(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
2015		
Profit bearing assets	+100	854,976
Expense bearing liability	+100	110,250
2014		
Profit bearing assets	+100	110,000
Expense bearing liability	+100	-

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 2015 (continued)

34. Risk management (continued)

(iii) Financial risk (continued)

(d) 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 20% increase or decrease as at 31 December:

	Favorable change AED	Unfavorable change AED
2015		
At fair value	15,776,925	(15,776,925)
2014		
At fair value	8,712,155	(8,712,155)

(e) 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 2015 (continued)

34. Risk management (continued)

(iii) Financial risk (continued)

(f) Capital risk management

	2015 AED
Minimum Capital Requirement (MCR)	100,000,000
Solvency Capital Requirement (SCR)	80,109,779
Minimum Guarantee Fund (MGF)	49,789,408
Own Funds	50,559,943
Basic Own Funds	50,559,943
Ancillary Own Funds	-
MCR Solvency Margin Surplus/(Deficit)	(49,440,057)
SCR Solvency Margin Surplus/(Deficit)	(29,549,835)
MGF Solvency Margin Surplus/(Deficit)	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 2015, the Company had solvency deficit of AED 49.4 million as compare to the Minimum Capital Requirements of AED 100 million. The Company has alignment period of two years till 31 December 2017 to comply with the requirement of Solvency Margin.

35. 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 as FVTPL 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 2015 (continued)

35. 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
Assets				
2015				
Investments at FVTPL				
Quoted equities	44,051,193	-	-	44,051,193
Mutual funds	-	34,833,433	-	34,833,433
Investment property	-	39,676,256	-	39,676,256
	44,051,193	74,509,689	-	118,560,882
Liabilities				
Investment linked contracts	-	29,315,439	-	29,315,439

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (continued)

35. Fair value measurements (continued)

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
Assets				
31 December 2014				
Investments at FVTPL				
Quoted equities	24,423,789	-	-	24,423,789
Mutual funds	-	19,136,985	-	19,136,985
Investment property	-	15,000,000	-	15,000,000
	<u>24,423,789</u>	<u>34,136,985</u>	<u>-</u>	<u>58,560,774</u>
Liabilities				
Investment linked contracts	-	14,040,477	-	14,040,477

There were no transfers between each of level during the year.

36. Contingent liabilities and commitments

Contingent liabilities

	2015 AED	2014 AED
Letters of guarantee	<u>523,921</u>	<u>446,950</u>

Commitments

The Company has lease agreements which are payable as follows:

	2015 AED	2014 AED
Less than one year	1,521,839	918,465
Between one and five years	<u>523,446</u>	<u>92,435</u>
	<u>2,045,285</u>	<u>1,010,900</u>

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (continued)

37. Technical provision

	2015 AED	2014 AED
Unearned contribution reserve	114,452,968	89,545,690
Claims reported	34,071,485	5,103,610
Incurred but not reported reserve	14,354,358	3,631,603
Mathematical reserve	1,350,322	660,114
Policyholders' investment linked contracts at fair value	<u>29,315,439</u>	<u>14,040,477</u>
Technical provisions	<u>193,544,572</u>	<u>112,981,494</u>
Medical Business	2015 AED	2014 AED
Unearned contribution reserve	112,335,914	88,814,048
Claims reported	33,002,278	4,938,293
Incurred but not reported reserve	<u>14,354,358</u>	<u>3,628,922</u>
Technical provisions	<u>159,692,550</u>	<u>97,383,944</u>
Life business	2015 AED	2014 AED
Unearned contribution reserve	2,117,054	731,642
Claims reported	1,069,207	165,317
Mathematical reserve	1,350,322	660,114
Policyholders' investment linked contracts at fair value	<u>29,315,439</u>	<u>14,040,477</u>
Technical provisions	<u>33,852,022</u>	<u>15,597,550</u>

38. Social contributions

The Company has not made any social contributions during the year ended 31 December 2015.

39. Claims development schedule

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

40. Approval of financial statements

The financial statements for the year ended 31 December 2015 were approved by the Board of Directors and authorised for issue on 21 March 2016.

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (continued)

41. Assets and liabilities belonging to the shareholders and participants

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:

	31 December 2015 AED	31 December 2014 AED
TAKAFUL OPERATIONS ASSETS		
Cash and bank balances	21,571,247	-
Takaful receivables and other assets	91,413,275	82,212,741
Retakaful contract assets	41,199,181	11,747,865
Investments at fair value through profit or loss	29,315,439	14,040,477
Receivable from shareholders	5,010,383	3,562,571
Total takaful operations' assets	188,509,525	111,563,654
SHAREHOLDERS' ASSETS		
Cash and bank balances	107,505,320	39,896,719
Statutory deposit	4,000,000	4,000,000
Takaful receivables and other assets	7,315,782	1,698,105
Deferred policy acquisition cost	41,967,234	27,599,349
Investment at amortised cost	1,000,000	-
Investments at fair value through profit or loss	49,569,187	29,520,297
Investment properties	39,676,256	31,282,360
Property and equipment	3,032,384	3,427,948
Intangible assets	1,697,179	2,861,607
Receivable from policyholders	-	2,601,563
Total shareholders' assets	255,763,342	142,887,948
Total assets	444,272,867	254,451,602

Takaful Emarat - Insurance (PSC)

Notes to the financial statements for the year ended 31 December 2015 (continued)

41. Assets and liabilities belonging to the shareholders and participants (continued)

	31 December 2015 AED	31 December 2014 AED
TAKAFUL OPERATIONS LIABILITIES		
Liabilities		
Takaful and other payables	53,194,839	36,415,720
Takaful contract liabilities	193,544,570	112,957,297
Payable to shareholders	3,575	6,164,134
Total takaful operations liabilities	246,742,984	155,537,151
SHAREHOLDERS' LIABILITIES AND EQUITY		
Liabilities		
Takaful and other payables	45,150,671	22,874,431
Borrowings	11,025,000	-
Provision for employees' end of service benefits	1,395,084	1,302,559
Payable to policyholders	5,006,808	-
Total shareholders' liabilities	62,577,563	24,176,990
DEFICIT IN POLICYHOLDERS' FUND AND QARD HASSAN FROM SHAREHOLDERS		
Deficit in Policyholders' fund	(58,134,489)	(43,894,560)
Qard Hassan from Shareholders	58,134,489	43,894,560
Net deficit in policyholders' fund and Qard Hassan from shareholders	-	-
EQUITY		
Share capital	150,000,000	100,000,000
Accumulated losses	(16,787,279)	(25,980,650)
Statutory reserve	1,739,597	718,111
Total equity	134,952,318	74,737,461
Total shareholders' liabilities and equity	197,529,881	98,914,450
Total liabilities and equity	444,272,867	238,426,114