TAKAFUL EMARAT

Life
Health
Happiness

ANNUAL REPORT 2017

بِسْمِ اللَّهِ الرَّحْمَٰنِ الرَّحِيمِ

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

His Highness Sheikh Khalifa bin Zayed Al Nahyan
President of the United Arab Emirates

His Highness Sheikh Mohammed bin Rashid Al Maktoum
Vice President and Prime Minister of the United Arab Emirates and Ruler of Dubai

His Highness Sheikh Mohammed bin Zayed Al Nahyan
Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces

Introduction

Takaful Emarat is one of the leading Shariah-compliant insurers and the only dedicated Health and Life insurer in the UAE.

The Company listed on the Dubai Financial Market (DFM) in 2008 and was established to provide a comprehensive range of life, wealth and health products for residents and expatriates in the Middle East. It is one of only three takaful insurers qualified by the Dubai Health Authority as a Participating Insurer to provide health insurance under Dubai's Mandatory Health Insurance Scheme.

AED 600m+

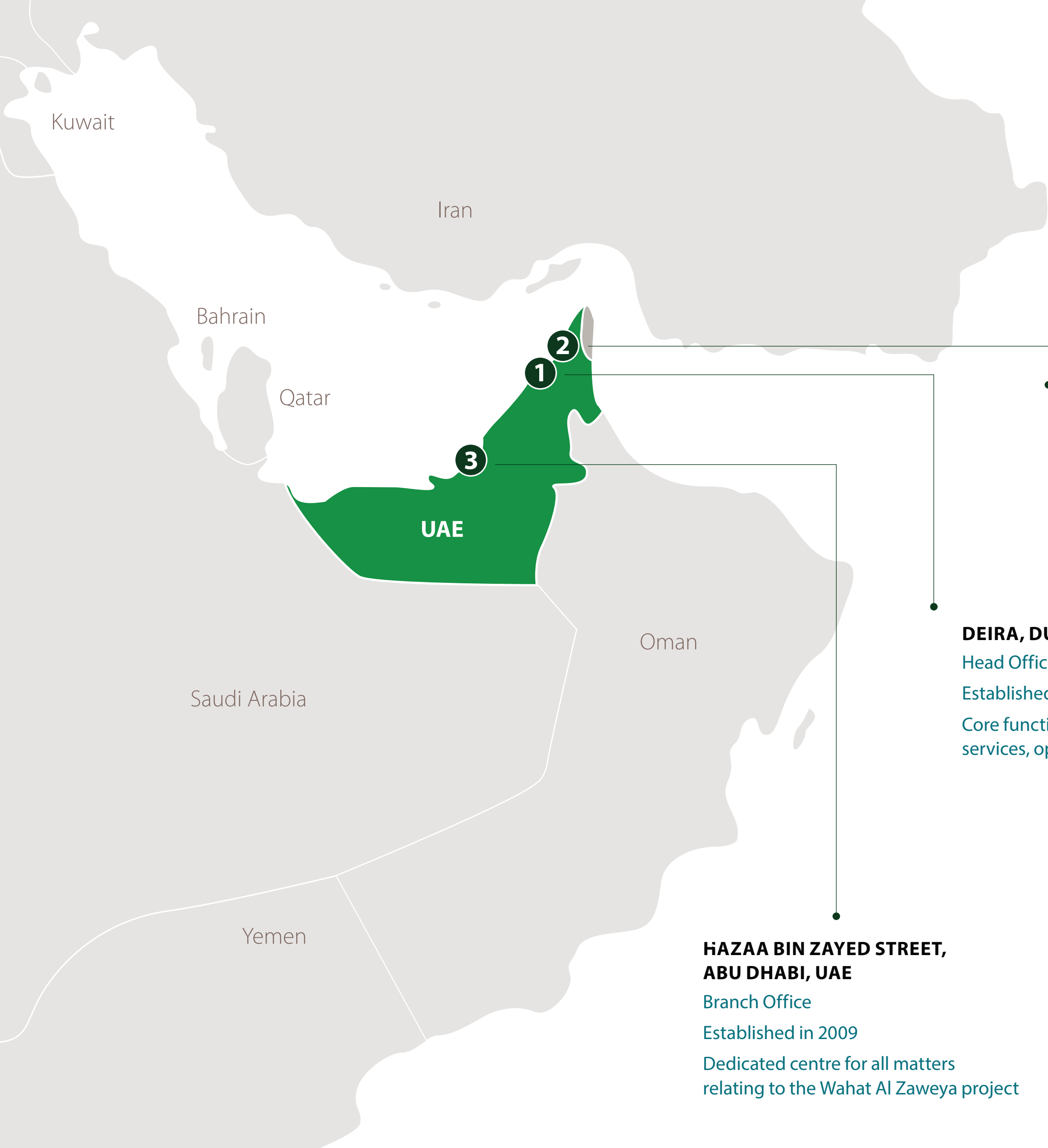
Over AED 600 million in Takaful Earned Contributions

325,000

325,000 members Covered

5,000

Employers covered



Locations

AL MAJAZ, SHARJAH, UAE
Branch Office
Established in 2008
Core functions include distribution and dedicated local customer service for Emirati nationals

DEIRA, DUBAI, UAE
Head Office
Established in 2008
Core functions include central services, operations, distribution

HAZAA BIN ZAYED STREET, ABU DHABI, UAE
Branch Office
Established in 2009
Dedicated centre for all matters relating to the Wahat Al Zaweya project

Overview

At a Glance

A ***unique concept*** of insurance

Takaful Emarat is a leading Shariah-compliant company and the only dedicated Life and Health takaful provider in the UAE, with offices in Dubai, Abu Dhabi and Sharjah.

The Company, which has been listed on the Dubai Financial Market (DFM) since 2008, offers a diverse portfolio of Life and Health takaful products tailored for both individuals and corporates.

As a listed business, the Company operates in line with Dubai Financial Market regulations and compliance directives and currently provides its corporate life and medical products to over 325,000 members, which span 5,000 employers in the UAE.

Today, Takaful Emarat is one of only three Health and Life takaful providers qualified by the Dubai Health Authority as a Participating Insurer to support the roll-out of mandatory health insurance in Dubai, and is uniquely well-positioned to benefit from the increased uptake of takaful insurance in the region, which is forecasted to grow as insurance penetration deepens. By 2017, the global gross takaful market is expected to reach USD20 billion, up from current estimates of USD14 billion, according to EY.

Takaful Emarat is uniquely well-positioned for steadyand long-term growth in the years ahead.

130+

years of collective experience of senior executives

3

physical presences across UAE

Our ***product portfolio*** is extensive and growing

Takaful Emarat provides a comprehensive range of Life and Health takaful products and services for individuals and corporate customers, all of which are fully compliant with international best practice.

Personal Takaful Insurance

Our **8** personal life takaful insurance products are segmented based on consumer needs and the purpose that these products mainly serve.

LIFE TAKAFUL PROTECTION

Level Term Plan: In case of death of the individual covered, a fixed Sum Cover will be payable to the beneficiary(ies), with optional additional takaful protection benefits (Critical Illness, Accidental Death Benefit, Permanent Partial Disability, Permanent Total Disability).

Decreasing Term Plan: In case of death of the individual covered, the Company will pay the amount of the outstanding loan to the beneficiary(ies) (this plan is more geared towards the mortgage market) with optional additional protection benefits (Permanent Total Disability).

Al Moyassara Plan: Designed to be a simple and hassle free solution which offers takaful protection against illness, disability and death caused only by accidents.

SAVINGS & PROTECTION

Takaful Growth Plan: Offers a unique combination of financial protection and savings growth, but is geared more towards the purpose of saving and growing your funds through Initial and Guaranteed Bonuses. This plan increases your savings by investing in a range of 44 investment funds offered by renowned fund managers, with an optional benefit to cover against critical illness up to 40 diseases.

Whole Life Plan: Offers a unique combination of financial protection and savings growth, but is geared more towards financial protection in case of death as a primary benefit, with less emphasis on the growth of your savings. This plan increases your savings by investing in a range of 44 investment funds offered by renowned fund managers.

Education Plan: Offers regular savings towards future education costs of the child in case of bread winner's (Parents) death, combined with a choice of protection covers (premature death, disability, etc.). This plan increases your savings by investing in to a range of 44 investment funds offered by renowned fund managers.

TRAVEL PROTECTION

Safar Mubarak Plan: Offers takaful protection to cover against accidents during travel, which includes medical expenses (inpatient/outpatient), travel assistance, compensation in case you are, involved in an accident that results in loss of limb, eyesight or death and optional benefits such as medical translation.

INVESTMENT PLANS

Wealth Plan (Single Contribution Plan): A flexible investment account allowing the opportunity to invest in a choice of Shariah-compliant funds strategies via over 44 world renowned fund managers.

AED 600m+

Over AED 600 million in Takaful Earned Contributions

325,000

325,000 members Covered

5,000

Employers covered

Corporate Takaful Insurance

Comprises the following Group takaful products aimed at corporations seeking life takaful solutions for themselves and their employees:

Group Life Takaful Plan:
Offers comprehensive death benefits to support the families of employees, with optional additional protection benefits (Critical/Terminal Illness, Accidental Death Benefit, Permanent Partial Disability, Permanent Total Disability, etc.) and Workmen's Compensation top-up cover (as per UAE Labor Law).

Group Credit Life Takaful Plan: A life takaful solution aimed at protecting business loans by eliminating the risk of loan default in case of death or disability and financial relief to the family of the deceased. This also includes optional additional protection benefits (Critical/Terminal Illness, Permanent Total Disability).

Health Takaful Insurance

B2B solution offered only to corporations:

Essential Benefits Plan (EBP):
A basic plan introduced by the Dubai Health Authority (DHA) to offer employees who earn a salary of AED 4,000 or less. This plan can be offered through the DHA-approved PI Insurers. Life takaful protection benefits are available upon request.

Customized Health Plans: Offers health takaful insurance which covers employees and their families under a single takaful contract, with access to a broad network of recognized medical providers.

What Differentiates Us?

A one-stop-shop for all ***Life and Health*** takaful needs

Strong management, comprehensive Life and Health product portfolio, well qualified workforce, extensive industry partnerships, customer-centric technology.

Takaful Emarat has a strong and stable management team who have a successful track record of driving steady and sustained growth across its core markets of life and health takaful.

The management team is supported by an exceptional workforce which is highly skilled with extensive regional and international insurance experience who provide customers with the 'best-in-class' service. This has created a well-respected and customer-centric business which is the first and only Shariah-compliant Life and Medical insurance provider in the UAE and is fully authorized by a multitude of insurance and healthcare governing bodies.

REGISTERED WITH ...

- Department of Economy– Abu Dhabi
- Department of Economy– Dubai
- Department of Economy– Sharjah
- Securities and Commodities Authority – UAE
- Insurance Authority – UAE
- Dubai Chamber of Commerce & Industry
- Abu Dhabi Chamber of Commerce & Industry
- Dubai Health Authority
- Health Authority Abu Dhabi

#transformation #innovation #drive #expan

1st

The first Shariah-compliant dedicated life and health insurance provider in the UAE

30%

% increase in Earned Contributions for 2017 to AED 642 million

130+

Strong management team with over 130 years' combined experience

3

Offices across the UAE in Abu Dhabi, Dubai, and Sharjah

rmation

25%

growth in net profit for 2017

digitalisation

80+

Number of brokers we have relationships with

diversification

325,000

members for our corporate life and medical products, which span 5,000 employers in the UAE

sion

PREMIUM NETWORK OF THIRD PARTY ADMINISTRATORS ('TPA')

Takaful Emarat also has established partnerships with a range of Premium Network Providers in order to offer support to its customer base and provide extensive choice. These include:

- **Aafiya**
- **Globalnet TPA**
- **NAS**
- **Pentacare Medical Services L.L.C**
- **Arab Gulf Health Services ('Next Care')**

ONGOING INVESTMENT

Takaful Emarat is committed to providing the best takaful products and services to the market and has recently invested heavily in its customer services function to do so. This includes a new state-of-the-art call centre facility, installed to support the rapid growth of the business, a contribution collection service that facilitates the micro-management of due contributions to reduce or eliminate delinquencies and a new automation process that pre-empts customer interaction through emails and SMS for their contribution reminders, renewal of their policies and overdue contributions.

"We have a truly diverse workforce, with outstanding relevant international experience gained from a broad range of high quality multinational insurance providers."

Fadi Jawdat Hindi, *CEO*

Leading the growth of the UAE's life and health insurance sector

2017 was a year of strong growth for Takaful Emarat, which delivered robust financial performance with a 25% increase in net profit.

Looking ahead, this presents opportunities for our business, which is well-positioned to benefit from any potential consolidation in the sector … building on our strong financial performance for 2017, we remain committed to driving growth through ongoing commercial, operational and strategic initiatives across our business.

Over the last 24 months, a new management team with significant regional and international insurance experience has re-organized and streamlined the Takaful Emarat business to focus on accelerating growth and expansion.

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

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

Building on our strong financial performance for 2017, we remain committed to driving growth through ongoing commercial, operational and strategic initiatives across our business.

To support this, we continue to invest in our infrastructure, human capital and distribution partnerships. The introduction of mandatory health insurance in the UAE is central to this growth, with Takaful Emarat serving as one of only three takaful providers qualified as Participating Insurers by the Dubai Health Authority. Takaful Emarat is therefore strategically well-positioned to capitalize on this significant market opportunity.

Underpinning all our success to date are our people. We continue to invest in all of our employees, as well as our ongoing Emiratisation Programme, in support of the UAE's National Agenda, launched by His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai.

I am proud to say that our employee training programme is one of the most comprehensive in our industry and is delivering high-quality graduates who are playing key roles in the ongoing success of Takaful Emarat. I would like to take this opportunity to thank them all for their hard work and dedication during 2017; it is very much appreciated.

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

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

H.E. Abdulla Bakheet Al Murar
Chairman

MARKET OVERVIEW

According to market research by Alpen Capital, the GCC insurance industry continues to grow at double-digit CAGR despite challenging market conditions, backed by increased awareness due to government spending on infrastructure, and favourable regulatory changes in most of the GCC nations.

The industry is thus expected to continue to grow in the years ahead, driven by government spending on infrastructure and the steady growth in insurance penetration across the region.

In support of these trends, the GCC insurance industry is moving from being a protected industry into a globally competitive sector. With governments realizing the importance of efficient and stringent regulatory frameworks to support growth, the industry is witnessing several reforms to tackle challenges such as a highly fragmented regional market with intense competition. High valuations and limited market share are discouraging consolidation in the industry; however stricter solvency and capital requirement regulations may push smaller players to consider the M&A route to sustain and grow in the industry, which represents an opportunity for Takaful Emarat as a potential consolidator.

Despite a sharp decline in oil prices in 2015, real GDP growth in the oil-exporting countries in the Middle East and Central Asia has remained steady at 2.4%, with subdued inflation. As wealthy GCC nations continue to grow, supported by cash reserves and strengthening fundamentals such as economic diversification and infrastructure development, significant opportunities are being created for insurers.

Added to this, according to research by Alpen Capital, the population in the Gulf is projected to increase by 2.4% CAGR between 2014 and 2020 to reach 59.5 million, with a high proportion of ages between 25 and 64. This large working population, with access to education, media, and new technologies, is expected to drive the demand for insurance. It is anticipated that the insurance penetration in the GCC is expected to increase to 3.3% in 2020 from 1.4% in 2014.

The economic outlook for the Gulf is also supported by infrastructure expansion through projects such as Dubai Expo 2020, FIFA World Cup 2022 along with Etihad and Qatari rail projects, which is also likely to create demand for insurance-related products.

The insurance industry is also well-positioned to benefit from medical insurance having been made mandatory under law in most of the GCC nations. The region is seeing a surge in healthcare consumption due to strong population growth and higher income levels.

The optimism in the global takaful arena, which according to EY is expected to be worth USD20 billion by 2017, has also trickled down to the GCC region, with the UAE and Saudi Arabia acting as its key markets. Also, the GCC takaful market presents strong growth potential due to low insurance penetration rates (less than 2%) in its key markets.

The ongoing regulatory reforms regarding the minimum capital and reporting requirements and pricing are likely to drive sustained growth in the insurance industry in the years ahead.

Takaful Emarat remains well-positioned to continue its growth momentum and act as a potential consolidator as it seeks to optimize shareholder value.

Meet our new CEO

Fadi Jawdat Hindi

"One of our key goals at Takaful Emarat is to cultivate and implement invigorating organizational solutions through digital disruption in order to generate new revenue and business growth opportunities thereby creating differentiated and enhanced client experiences

This also means collaborating with senior management to devise effective short and long-term plans, managing strategic planning to turnaround underperforming operations, and ensure business activities produce the desired results and are consistent with the overall strategy and mission."

As a proven strategy and business transformation leader, Fadi Hindi showcases over two decades of corporate experience in delivering inspiring leadership and overcoming profit and growth challenges.

Through advanced knowledge of people, processes and technology within the insurance, financial services, consumer products, pharmaceuticals and government sectors, Fadi has succeeded in building viable technology and growth plans that facilitate new revenue sources and operational improvements across enterprise organizations.

During his tenure, Fadi has been acknowledged for executive decision-making talents borne of intense analysis, business acuity, strategic-thinking abilities, and big picture vision.

Fadi Jawdat Hindi
Chief Executive Officer

A business driven by ***innovation*** and seeking growth through ***balanced risk***

There are three factors driving the growth of the takaful insurance market in the UAE: firstly, the growth of the general Islamic banking and finance sector; secondly the relatively low penetration of insurance in the Gulf; and thirdly other regulatory measures in the UAE such as the creation of a single Shariah board at the UAE Central Bank to monitor Islamic banking.

Mohammad Al Hawari
Managing Director

Ethical transparency through the elimination of *uncertainty*

Takaful Emarat is focused on value creation for its policy holders and shareholders through delivering steady and sustained growth.

Takaful Emarat's business model is designed to ensure that the Company provides its customers with a comprehensive portfolio of best-in-class insurance products that are fully supported by a customer-centric service.

As a publicly listed and fully regulated business, Takaful Emarat is committed to providing its customers with a fair and transparent service that adheres to the principles of Shariah.

This approach is supported by a team of experienced and qualified employees who combine significant international expertise with regional experience to deliver an optimal customer service.

Takaful Emarat's business model comprises the following core functions:

- prudent underwriting of insurance business;
- efficient management of claims and payments;
- comprehensive risk management procedures;
- delivery of innovative products and services; and
- customer-centric service with a total commitment to providing best-in class customer service across all platforms.

PRUDENT UNDERWRITING

Takaful Emarat utilises the skill sets of its actuarial, finance and insurance teams to ensure its underwriting model is profitable and efficient, and underpins the ongoing growth of the business.

This has been enhanced by the skills of Takaful Emarat's international management team, who have over 130 years of combined industry experience from leading international and regional insurance businesses, and bring significant experience in effective underwriting. This has been fundamental to the Group's restructuring initiative over the last two years, transforming the Company into a profitable and high-growth business.

For FY 2015, Takaful Emarat delivered a 42% increase in net profit and remains well-positioned to provide its customers with a continuously expanding range of services and industry expertise.

VALUE ADDED PRODUCTS

Takaful Emarat continues to focus on delivering innovative products to its customers, which deliver real value.

The Company currently has over 325,000 members for its corporate life and medical products, which span over 5,000 employers in the UAE. Today, Takaful Emarat is one of the only two Health and Life takaful providers approved by the Dubai Health Authority to support the roll-out of mandatory health insurance in Dubai, which has the potential to deliver significant opportunities for the Takaful Emarat business.

Takaful Emarat is also expanding its distribution network to provide new products and solutions through diversified distribution channels such as Bancassurance, brokers and a direct sales force, with a focus on ongoing growth and expansion.

Takaful Emarat has signed distribution agreements with RAK Bank and Emirates Islamic Bank, and a strategic distribution agreement with Wahat Al Zaweya Company for Investment and Real Estate Development to act as the exclusive provider of death and disability takaful to its home mortgage client base, which numbers in the thousands – a pioneering deal in the industry. New partnerships are currently being developed.

APPROPRIATE RISK MANAGEMENT

Takaful Emarat is heavily invested in sophisticated risk management procedures within the company, which protect its enterprise value as well as the interests of its policy holders and shareholders.

This is done by identifying, measuring and managing the various types of risks inherent within the Company's operations. The objective is to manage the organization's exposure to potential earnings versus capital volatility, while maximizing value.

EFFICIENT CLAIMS MANAGEMENT

Added to this, Takaful Emarat has also invested in its customer services function to support its ongoing growth momentum in the years ahead. This includes a new state-of-the-art call centre facility, installed to support the rapid growth of the business, a contribution collection service that facilitates the micro-management of due contributions to reduce delinquencies and a new automation process that pre-empts customer interaction through email/SMS for their contribution reminders, renewal of their policies and overdue contributions.

QUALITY CUSTOMER SERVICE

Takaful Emarat is committed to providing best-in-class customer service across all its platforms from call centres through to its online customer portal accessible at www.takafulemarat.com.

This is now supported by a new digital and technology strategy, with ongoing investment in the training of its employees.

Takaful Emarat recently launched a comprehensive programme of professional development for its employees, as well as launched its Emiratisation programme, in support of the UAE's National Agenda, launched by His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai.

Distribution Channels for Life & Health Products

DIRECT SALES FORCE

Main channel for generating premiums

Dedicated sales force for captive markets

BROKERS

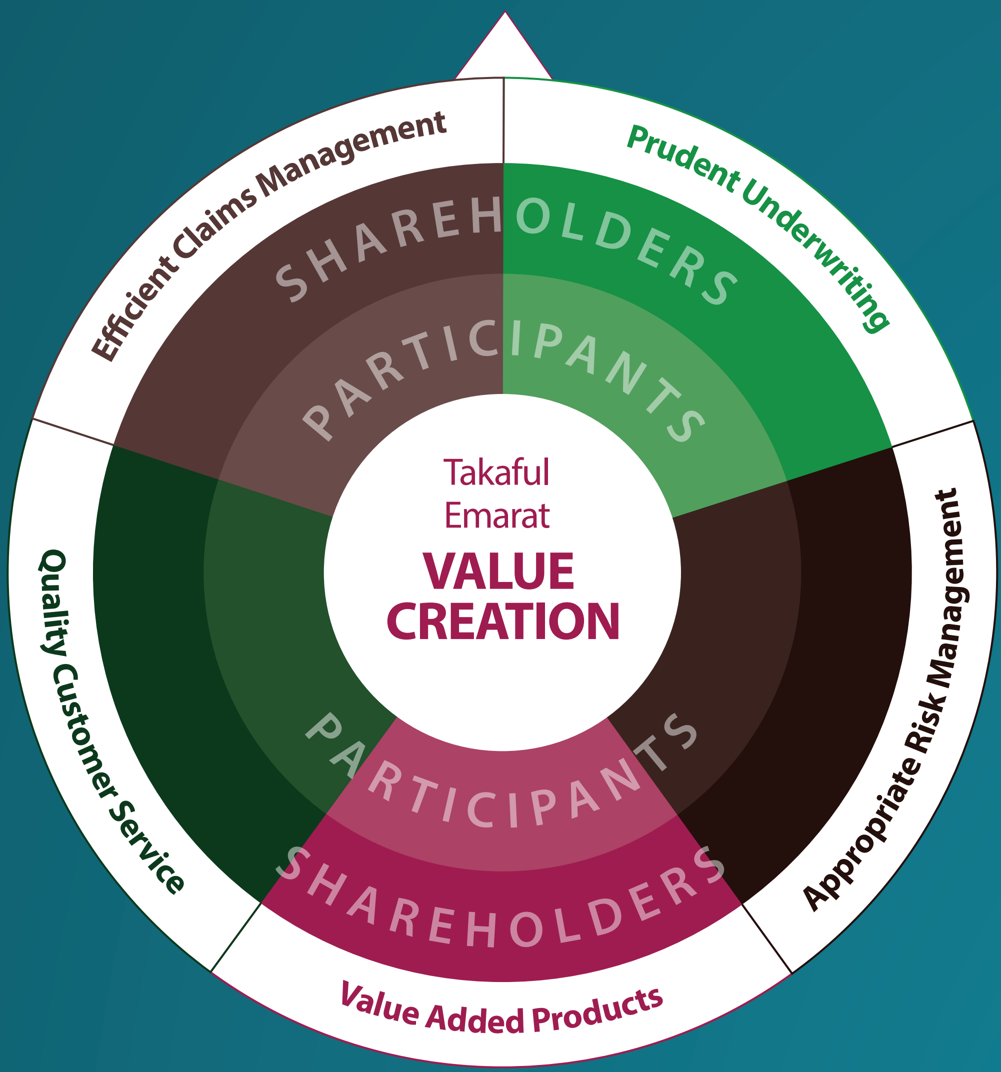
Relationships with 80+ brokers, and growing

Enhances face to face distribution and helps reach untapped markets

BANCASSURANCE

This channel is the main emphasis for our future growth, due to the strong b2c banking market and culture in the UAE

Product distribution agreements are in place with RAK Bank, Emirates Islamic Bank and FAB with more to follow – these will extend the Company's access to significant numbers of potential new customers



Board of Directors

H.E. Abdulla Bakheet Saif Murshed Al Murar
Chairman

Abdulla Subhi Atatreh
Deputy Chairman

Mohammad Ziad Al Hawari
Executive Director

Khalifa Yousef Khoury
Director

Omar Saeed Al Hamiri
Director

Zafar Habib Khan
Director

Noor Aldeen Atatreh
Director

Board of Directors Report

Dear Shareholders,

Takaful Emarat continues its robust financial performance with a 25% increase in net profit for the year 2017. We remain committed to driving growth through ongoing commercial, operational and strategic initiatives with digital at the forefront.

Key Financial Highlights

- Net profit (Investment Income and Operating Income) for the period was AED 18.8 million, up 25% from the Company's 2016 net profit of AED 15 million.
- Net Takaful Income up 35% to AED 122 million for twelve months period ended 31st December 2017 compared to AED 90 million for the same period in 2016.
- Takaful contributions earned for the twelve months ended December 31st 2017, increased by 30% to AED 642 million compared to AED 493 million for the comparable period in 2016.
- Total Assets for the period under review were AED 841 million, 15% higher than total assets for FY 2016 of AED 732 million, reflecting a sustained growth trajectory.

We continue to grow our business through strategic partnerships (Bayzat and Souqalmal) and with our recent acquisition of Al Hilal Takaful we have now expanded our product offering into general insurance complementing our life and health solutions. Our combined business is now the largest Takaful insurer in the UAE, which is a significant achievement for our team.

Testimony to our on-going success, at the recent MENA Insurance Awards we were recognised as UAE Insurer and Takaful Insurer of the year.

Building further on our strong financial performance for 2017, we have lined up several strategic digital initiatives that will enhance customer experience, streamline our product offerings and drive further growth by disrupting the traditional insurance market. This is being achieved under the watchful and adept management of our newly appointed CEO Fadi Hindi. We are swiftly moving towards a digitally transformed organization with lean operations, maximum efficiency and above all satisfied customers.

At the forefront of our growth and agility are our people. We continue to invest in world-class training mechanisms and opportunities, creating clear career paths and allowing people to nurture their skills and grow within the insurance sector.

I would like to thank all our employees for an enormous contribution towards yet another exponentially profitable year for Takaful Emarat.

RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent, major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. The pricing policies and terms of these transactions are approved by the Group's management.

The significant balances outstanding at 31 December in respect of related parties included in the consolidated financial statements are as follows:

Affiliates of major shareholders	***2017/ AED***	*2016 / AED*
Due from equity investments	**3,321,526**	1,020,801
Outstanding claims	**925,307**	21,841
Equity Investments – quoted	**19,110,000**	28,702,652

The income and expenses in respect of related parties included in the consolidated financial statements are as follows:

Affiliates of major shareholders	***2017/ AED***	*2016 / AED*
Contributions	**34,731,704**	2,605,662
Claims	**925,307**	2,409,400

Compensation of the key management personnel is as follows:

	2017/ AED	2016 / AED
Short term employee benefits	**6,004,543**	6,304,060
End of service benefits	**276,287**	275,709

Outstanding balances at the year-end arise in the normal course of business. For the years ended 31 December 2017 and 31 December 2016, the Group has not recorded any impairment of amounts owed by related parties.

We are now embarking on an exciting journey of growth and profitability in a market that is ripe for digital disruption and transformation. I am certain we can take Takaful Emarat to new heights in due course with commitment, dedication and passion.

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

Abdulla Al Murar
Chairman

Directors' Overview

Shariah Board Report

IN THE NAME OF GOD, THE MOST GRACIOUS, THE MOST MERCIFUL
Shariah Supervisory Board Report of Takaful Emarat – Insurance
Public Joint Stock Company- Dubai
UAE, financial year ending on 31 December 2017
To the General Assembly of the Company Shareholders and to the Board of Directors

Greetings,

Praise to Allah and peace be upon our prophet Mohammaed.

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

We have reviewed the basis on which the Company's business has been conducted, the financial results, the investments and the products it has engaged in during the financial year ending on December 31, 2017, samples of the Takaful (Insurance) policies entered into by the Company and the new contracts and agreements signed by the Company and other activities in order to make the opinion on whether the Company is compliant with the Islamic provisions and principles, the advisory opinions, resolutions and directives issued by us.

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

We have audited the Company's financial results and its financial structure by auditing the balance sheet, income statement and statement of revenues and expenses. We have also audited the Company investments, as well as the details of the Takaful policies dealt with in different types of Takaful insurance. We identified updates on re-insurance or re-Takaful, and the authorities with whom such agreements were concluded.

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

Our Opinion:

1. The Company adhered in its financial structure in separating between the account of the policy holders and the shareholders' account, which is fundamental in Takaful insurance. The Company prepared its financial statements for the financial year ending on December 31, 2017 in accordance with the applicable model of the Shariah Standards according to which the Company should prepare its financial statements (under the prevailing accounting regulations) a model that expresses reality and nature of the Takaful business and its financial structure.
2. The Company only withheld from the policyholders the prescribed administration charges or less in addition to a common portion of the profit of this account being Modaraba. We have requested the Company to disclose the same at its policy documents kept in headquarters, branches and website for the policyholders as it is a Shariah requirement for Wakala and Modaraba. Such declaration should be made clear to the customers.
3. The Company provided Qard Hasan to tackle the interim deficit in Takaful portfolio. The Company has recovered partially the Qard Hasan provided in previous years.
4. The products that the Company has offered and the investment from the policyholder fund that the Company made are acceptable in light of Shariah principles and our audit.
5. The Company confirmed that they entered into re-insurance agreements in accordance with our guidelines. We asked to minimize the re-insurance with traditional companies as possible, with priority given to the mandatory and optional re-insurance with the Islamic companies based on the Islamic insurance.
6. We have reviewed the samples of Takaful policy documents used by the Company and we found that they are in compliance with the Shariah principles.
7. The Board has reviewed and approved the Zakat calculated and paid for 2016. The Board hereby announces that for 2017 the amount of Zakat due for each share is AED 0.00725.
8. The Board emphasizes that the Company shall arrange training for the employees on Takaful insurance and its Shariah principles, with a view to enhance the business and to achieve the Company's objectives in compliance with the Islamic provisions, the Shariah Board Members are willing to provide training to the employees in this regard.

Shariah Board Report

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

The Board hereby issues this report and appreciated the Company's effort in complying with the rules and principles of Islamic Shariah.

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

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

Prof Dr Abdul Nasir musa Abul Basal
Chairman of the Board

TAKAFUL EMARAT - INSURANCE (PSC)

Consolidated Financial Statements
For the year ended 31 December 2017

EY
Building a better working world

Ernst & Young
P.O. Box 9267
28th Floor, Al Saqr Business Tower
Sheikh Zayed Road
Dubai, United Arab Emirates

Tel: +971 4 332 4000
Fax: +971 4 332 4004
dubai@ae.ey.com
ey.com/mena

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF TAKAFUL EMARAT - INSURANCE (PSC)

Opinion
We have audited the accompanying consolidated financial statements of Takaful Emarat - Insurance (PSC) (the "Company") and its subsidiary (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis of Opinion
We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF TAKAFUL EMARAT - INSURANCE (PSC)

Key audit matters (continued)

Key Audit Matter	How the Matter Was Addressed in the Audit
Valuation of takaful contract liabilities and retakaful assets *(refer to note 6 of the* consolidated *financial statements)*	
We focused on this balance because of the complexity involved in the estimation process, and the significant judgements that management and the directors make in determining the appropriateness and adequacy of the liability. The liabilities which includes claims reported and not settled, incurred but not reported and mathematical reserve are based on a best-estimate of the ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs. A range of methods may be used to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. Retakaful assets are recognised when the related gross insurance liability is recognised according to the terms of the relevant retakaful contracts and their recoverability is subject to the probability of default and probable losses in the event of default by respective retakaful counterparties. The actuarial valuation of takaful contract liabilities and retakaful assets was carried out by an independent actuary. Note 6 to the consolidated financial statements describes the elements that make up the takaful contract liabilities and retakaful assets balance.	The work that we preformed to address the valuation of takaful contract liabilities included the following procedures: • The evaluation and testing of key controls around the claims handling and reserve setting processes of the Company along with the recognition and release of retakaful assets. We examined evidence of the operation of controls over the valuation of individual claims reserves, such as large loss review controls and internal peer reviews (whereby reviewers examine documentation supporting claims reserves and consider if the amount recorded in the consolidated financial statements is valued appropriately). • We checked samples of claims reserves and the respective share of retakaful assets, through comparing the estimated amount of the reserve to appropriate documentation, such as reports from third party administrators. • We reviewed management's reconciliation of the underlying company data recorded in the policy administration systems with the data used in the actuarial reserving calculations. • We tied the takaful contract liabilities and retakaful assets as recommended by the Group's actuary to the liabilities and assets in the consolidated financial statements. • We assessed the experience and competency of the Company's actuary to perform the year end valuation. • We involved our actuarial specialist team members, to apply industry knowledge and experience and we compared the methodology, models and assumptions used against recognised actuarial practices. • We obtained the retakaful treaty summary for the year and verified the details in the summary to the respective agreements. • We reviewed the ratios of retakaful assets to related takaful contact liabilities to identify any variance from retakaful treaty arrangements.

Building a better working world

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF TAKAFUL EMARAT - INSURANCE (PSC) (continued)

Key audit matters (continued)

Key audit matter	**How the Matter Was Addressed in the Audit**
Valuation of investment properties *(refer to note 7 of the consolidated financial statements)*	
The Group's investment properties comprise of land and residential apartments. The valuation of the Company's property portfolio is inherently subjective due to, among other factors, the individual nature of each property, its location and the other individual characteristics for that particular property. We have given specific audit focus and attention to this area because the existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in individual property valuation assumptions, when aggregated, could result in a material misstatement. The valuation of land was carried out by an independent valuer. The Valuer was engaged by the Company, and performed its work in accordance with the International Valuation Standards issued by the Royal Institute of Chartered Surveyors. In determining a property's valuation, the Valuer adopted the Comparable Method (Direct Comparison Approach) of valuation. The Direct Comparison Approach involves making adjustments to the sale price of comparable properties in order to account for difference in location, access, use, plot and shape, potential built up area allowance and other individual characteristics.	We evaluated the competence, capability and objectivity of the valuation experts by considering information from a variety of sources, such as: • Knowledge of that expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition; and • Assessment of the reasonableness of the fair value by independently comparing the prices of similar properties on property listing sites. We evaluated the appropriateness of the expert's work by considering the nature and content of the instructions provided to the expert by the Company, the relevance and reasonableness of experts' findings or conclusions, their consistency with other audit evidence, and whether valuations have been appropriately reflected in the financial statements. Where the experts' work involved significant use of source data, the relevance and accuracy of that source data was evaluated. Because of the subjectivity involved in determining valuations for individual properties and the existence of alternative assumptions and valuation methods, we determined a range of values that were considered reasonable to evaluate the independent property valuations used by management.

Building a better working world

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF TAKAFUL EMARAT - INSURANCE (PSC) (continued)

Key audit matters (continued)

Key audit matter	How the Matter Was Addressed in the Audit
Revenue recognition *(refer to note 20 of the consolidated financial statements)*	
Gross contributions written comprise the total contributions receivable for the whole period of cover provided by contracts entered into during the accounting period, and are recognised on the date on which the policy commences. At the end of each year, a proportion of net retained contributions of the medical and life business is provided for to cover portions of risk which have not expired at the reporting date. The reserves are required to be calculated in accordance with the requirements of the Insurance Law relating to insurance companies. The actuarial valuation of unearned contributions reserve and the retakaful share thereof was carried out by an independent actuary.	The work that we performed to address this key audit matter included the following procedures: • We assessed whether the Group's revenue recognition policies complied with IFRS and tested the implementation of those policies. Specifically, we considered whether the contributions on insurance policies are accounted for on the date of inception of policies, by testing a sample of revenue items to insurance contracts, with a specific focus on transactions which occurred near 31 December 2017. • We evaluated the relevant IT systems and tested the operating effectiveness of the internal controls over the recording of revenue in the correct period. • We compared the unearned contributions reserve balance as per the consolidated financial statements to the reserve balance computed by the Company's actuary. • We recalculated the unearned contributions reserve based on the earning period of insurance contracts existing as of 31 December 2017. • We have obtained an understanding and reviewed the accounting treatment for contributions received based on the product classification of the policy. • We also tested a risk based sample of journal entries posted to revenue accounts to identify any unusual or irregular items, and we tested the reconciliations between the policy master file and its financial ledgers.

EY Building a better working world

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF TAKAFUL EMARAT - INSURANCE (PSC) (continued)

Key audit matters (continued)

Key audit matter	How the Matter Was Addressed in the Audit
Recoverability of takaful receivables *(refer to note 5 of the consolidated financial statements)*	
The Company has amounts of takaful receivables that are overdue and not impaired (as disclosed in note 5 to the consolidated financial statements). The key associated risk is the recoverability of receivables. Management's related provision is subjective and is influenced by assumptions concerning the probability of default and probable losses in the event of default.	The work that we performed to address this key audit matter included the following procedures: • We compared the historical provision for bad debts to the actual amounts written off, to determine whether the management's estimation techniques were reasonable. • We also considered the adequacy of provisions for bad debts for significant customers, taking into account specific credit risk assessments for each customer based on time past due, the existence of any disputes over the balance outstanding, the history of settlement of receivables and the existence of any liabilities with the same counterparties which reduce the net exposure. • We discussed with management and reviewed correspondences, where relevant, to identify any disputes and assess whether appropriately considered in the bad debt provision. • We have verified the netting off of retakaful receivable and payable balances and ensured the same is appropriately disclosed.
Valuation of unquoted investments *(refer to note 4 of the consolidated financial statements)*	
Given the ongoing market volatility and macroeconomic uncertainty, investment valuation continues to be an area of inherent risk. The risk is not uniform for all investment types, and is greatest where the investments are hard to value because quoted prices are not readily available.	For unquoted investments, we assessed both the methodology and assumptions used by management in the calculation of the year end values. The testing included performing the following procedures: • Reviewed the valuation working provided by the client. • We obtained and reviewed the supporting documents for the above working. • We reviewed the latest performance of the investment company and assessed whether the valuation is appropriate as compared to the performance of the company.

EY
Building a better working world

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF TAKAFUL EMARAT - INSURANCE (PSC) (continued)

Key audit matters (continued)

Key audit matter	**How the Matter Was Addressed in the Audit**
Measurement of acquisition costs on takaful life policies *(refer to note 8 of the consolidated financial statements)*	
We focused on this area because of the complexity involved in the estimation process, and the significant judgements that management make with respect to the measurement of acquisition costs on takaful life policies and in determining the effective term of takaful life policies. The Group has carried out an exercise during the current year to ascertain the effective term of the life policies. The model has been reviewed by the external actuary for appropriateness of the effective term of the life policies. The Group is amortising the acquisition costs in the same proportion as the fee income for each year over the effective term of the takaful life policies.	The work that we performed to address this key audit matter included the following procedures: • We carried out procedures, on a sample basis, to test whether details of the specific policies provided to the external actuary by the Company agreed to the underlying policy documents. • We also carried out procedures, on a sample basis, to check the completeness and accuracy of the policy data provided to the external actuary. In addition, on a sample basis, we recalculated the amount of acquisition costs to be deferred as at year end and the corresponding amortization charge recorded in the income statement.

Other information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Matters

The financial statements of the Company as of 31 December 2016 were audited by another auditor whose report dated 7 February 2017 expressed an unqualified opinion on those financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF TAKAFUL EMARAT - INSURANCE (PSC) (continued)

Responsibilities of management and those charged with governance for the consolidated financial statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and in compliance with the applicable provisions of the Company's Articles of Association and of the UAE Federal Law No. (2) of 2015 and the UAE Federal Law No. (6) of 2007 and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

EY
Building a better working world

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF TAKAFUL EMARAT - INSURANCE (PSC) (continued)

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

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

i) the Company has maintained proper books of account;

ii) we have obtained all the information we considered necessary for the purposes of our audit;

iii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the the Articles of Association of the Company and the UAE Federal Law No. (2) of 2015;

iv) the consolidated financial information included in the Directors' report is consistent with the books of account and records of the Group;

v) investments in shares and stocks during the year ended 31 December 2017, are disclosed in note 4 to the consolidated financial statements;

vi) note 29 reflect material related party transactions and the terms under which they were conducted;

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF TAKAFUL EMARAT - INSURANCE (PSC) (continued)

Report on other legal and regulatory requirements (continued)

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 2017 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or its Articles of Association which would have a material impact on its activities or its consolidated financial position; and

viii) note 38 to the consolidated financial statements reflects the social contributions made during the year.

For Ernst & Young

Signed by:
Ashraf Abu-Sharkh
Partner
Registeration No. 690

8 March 2018

Dubai, United Arab Emirates

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	*31 December 2017 AED*	*31 December 2016 AED*
TAKAFUL OPERATIONS' ASSETS			
Cash and bank balances	3	**85,965,659**	176,811,393
Financial instruments at fair value through profit or loss where the investment risk is borne by the policyholders	4	**88,436,028**	55,969,153
Other investments at fair value through profit or loss	4	**31,949,793**	-
Takaful receivables and other assets	5	**98,271,687**	84,977,138
Retakaful contract assets	6	**146,249,065**	95,705,237
Investment properties	7	**38,772,429**	-
Deferred policy acquisition cost	8	**49,966,632**	43,499,624
TOTAL TAKAFUL OPERATIONS' ASSETS		**539,611,293**	456,962,545
SHAREHOLDERS' ASSETS			
Cash and bank balances	3	**20,940,754**	9,347,274
Investments at fair value through profit or loss	4	**73,574,944**	78,419,683
Takaful receivables and other assets	5	**75,242,203**	14,153,032
Deposit	9	**-**	23,000,000
Statutory deposit	10	**4,000,000**	4,000,000
Held to maturity investment		**-**	1,000,000
Investment properties	7	**-**	38,405,816
Property and equipment	11	**49,231,162**	2,471,395
Intangible assets	12	**2,205,315**	1,533,323
Receivable from policyholders		**76,026,057**	102,547,898
TOTAL SHAREHOLDERS' ASSETS		**301,220,435**	274,878,421
TOTAL ASSETS		**840,831,728**	731,840,966
TAKAFUL OPERATIONS' LIABILITIES AND DEFICIT			
Takaful operations liabilities			
Takaful and other payables	13	**154,858,622**	73,826,135
Takaful contract liabilities	6	**349,509,319**	337,539,349
Payable to shareholders		**76,026,057**	102,547,898
TOTAL TAKAFUL OPERATIONS' LIABILITIES		**580,393,998**	513,913,382
DEFICIT IN POLICYHOLDERS' FUND AND QARD HASSAN FROM SHAREHOLDERS			
Deficit in policyholders' fund	33	**(40,782,705)**	(56,950,837)
Qard Hassan from shareholders	33	**40,782,705**	56,950,837
NET DEFICIT IN POLICYHOLDERS' FUND AND QARD HASSAN FROM SHAREHOLDERS		**-**	-
TOTAL TAKAFUL OPERATIONS' LIABILITIES AND DEFICIT		**580,393,998**	513,913,382

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
As at 31 December 2017

	Notes	*31 December 2017 AED*	*31 December 2016 AED*
SHAREHOLDERS' LIABILITIES AND EQUITY			
SHAREHOLDERS' LIABILITIES			
Shareholders' liabilities			
Takaful and other payables	13	**50,564,229**	54,377,451
Borrowings	14	**58,520,000**	19,845,000
Provision for employees' end of service benefits	15	**2,545,369**	1,743,000
TOTAL SHAREHOLDERS' LIABILITIES		**111,629,598**	75,965,451
SHAREHOLDERS' EQUITY			
Share capital	16	**150,000,000**	150,000,000
Statutory reserve	17	**5,121,798**	3,240,579
Accumulated losses		**(6,313,666)**	(11,278,446)
TOTAL SHAREHOLDERS' EQUITY		**148,808,132**	141,962,133
TOTAL SHAREHOLDERS' LIABILITIES AND EQUITY		**260,437,730**	217,927,584
TOTAL TAKAFUL OPERATIONS' LIABILITIES AND DEFICIT AND SHAREHOLDERS' LIABILITIES AND EQUITY		**840,831,728**	731,840,966

Mohammad AlHawari
Managing Director

Adnan Sabaalaish
Financial Controller

تكافل الإمارات - تأمين (ش.م.ع)
Head Office
TAKAFUL EMARAT
TAKAFUL EMARAT - Insurance (P.S.C)

TAKAFUL EMARAT - INSURANCE (PSC)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	*2017* *AED*	*2016* *AED*
Attributable to policyholders:			
Gross contribution written	20	**583,618,135**	568,167,214
Changes in unearned contributions	20	**58,488,647**	(74,707,342)
Takaful contributions earned	20	**642,106,782**	493,459,872
Retakaful contributions	20	**(283,053,233)**	(149,128,640)
Change in unearned contributions	20	**2,040,575**	30,544,525
Retakaful contributions ceded	20	**(281,012,658)**	(118,584,115)
Net earned contributions	20	**361,094,124**	374,875,757
Gross claims incurred	21	**(385,984,725)**	(350,894,442)
Retakaful share of claims incurred	21	**211,821,968**	93,367,737
Net claims incurred	21	**(174,162,757)**	(257,526,705)
Change in reserves	22	**(62,506,460)**	(26,146,441)
Net change in fair value of policyholders Investment linked contracts	22	**(2,151,877)**	(966,726)
Net takaful income		**122,273,030**	90,235,885
Wakalah fees	23	**(109,766,490)**	(89,880,413)
Investment Income, net	24	**3,661,592**	828,179
Net surplus from takaful operations		**16,168,132**	1,183,651
Attributable to shareholders:			
Wakalah fees from policyholders	23	**109,766,490**	89,880,413
Investment income, net	24	**15,354,845**	25,535,078
Change in fair value of investment property	7	**134,184**	(1,270,440)
Other income	25	**5,416,692**	2,109,031
Commission incurred	8	**(42,990,921)**	(45,319,218)
General and administrative expenses	26	**(85,037,235)**	(57,108,700)
Recovery of / (provision for) Qard Hassan to policyholders' fund	33	**16,168,132**	1,183,651
Profit for the year attributable to Shareholders		**18,812,187**	15,009,815
Basic and diluted profit per share	27	**0.13**	0.10
Other comprehensive income		**-**	-
TOTAL COMPREHENSIVE PROFIT FOR THE YEAR		**18,812,187**	15,009,815

TAKAFUL EMARAT - INSURANCE (PSC)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital AED	*Statutory reserve AED*	*Accumulated losses AED*	*Total AED*
Balance at 1 January 2017	150,000,000	3,240,579	(11,278,446)	141,962,133
Total comprehensive income for the year	-	-	18,812,187	18,812,187
Cash dividend (Note 18)	-	-	(10,500,000)	(10,500,000)
Zakat Paid (Note 19)	-	-	(1,466,188)	(1,466,188)
Transfer to statutory reserve	-	1,881,219	(1,881,219)	-
Balance at 31 December 2017	**150,000,000**	**5,121,798**	**(6,313,666)**	**148,808,132**
Balance at 1 January 2016	150,000,000	1,739,597	(16,787,279)	134,952,318
Total comprehensive income for the year	-	-	15,009,815	15,009,815
Cash dividend paid (Note 18)	-	-	(8,000,000)	(8,000,000)
Transfer to statutory reserve (Note 17)	-	1,500,982	(1,500,982)	-
Balance at 31 December 2016	150,000,000	3,240,579	(11,278,446)	141,962,133

TAKAFUL EMARAT - INSURANCE (PSC)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	*2017* *AED*	*2016* *AED*
OPERATING ACTIVITIES			
Profit for the year		**18,812,187**	15,009,815
Adjustments for:			
Depreciation and amortisation of property and equipment and intangible assets	11&12	**1,684,317**	1,962,021
Realised (gain) / loss on sale of investments at fair value through profit or loss	24	**(18,258,145)**	(4,389,456)
(Gain) / loss on revaluation of investments carried at fair value through profit or loss	4	**2,123,868**	(19,981,986)
Other investment income, net		**(5,034,037)**	(2,958,541)
Provision for doubtful debts	5	**8,219,708**	660,844
Change in fair value of investment properties	7	**(134,184)**	1,270,440
Provision for employees' end of service benefits	15	**1,281,077**	493,732
		8,694,791	(7,933,131)
Changes in operating assets and liabilities:			
Changes in retakaful contract assets		**(50,543,828)**	(54,506,056)
Changes in takaful receivables and other assets		**(82,603,428)**	(9,769,719)
Changes in deferred policy acquisition cost		**(6,467,008)**	7,175,372
Changes in takaful contract liabilities		**11,969,970**	143,994,777
Changes in takaful and other payables		**77,219,265**	29,858,076
Cash generated from operations		**(47,038,480)**	108,819,319
Employees' end of service benefits paid	15	**(478,708)**	(145,816)
Net cash (used in)/generated from operating activities		**(47,517,152)**	108,673,503
INVESTING ACTIVITIES			
Change in deposits with maturity of more than three months		**(8,168,000)**	(23,750,000)
Purchase of investments at fair value through profit or loss		**(191,356,585)**	(39,985,881)
Proceeds from sale of investments at fair value through profit or loss		**147,918,933**	8,853,113
Deposit		**23,000,000**	(23,000,000)
Held to maturity investment		**1,000,000**	-
Purchase of intangible assets		**(1,581,663)**	(994,445)
Purchase of property and equipment		**(47,534,413)**	(242,731)
Other investment income, net		**5,034,037**	2,958,541
Addition to investments properties		**(232,429)**	-
Net cash used in investing activities		**(71,920,120)**	(76,161,403)
FINANCING ACTIVITIES			
Dividend paid		**(10,500,000)**	(8,000,000)
Zakat payment		**(1,466,188)**	-
Borrowings	14	**38,675,000**	8,820,000
Net cash (used in)/ from financing activities		**26,708,812**	820,000
(DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		**(87,420,254)**	33,332,100
Cash and cash equivalents at the beginning of the year		**159,908,667**	126,576,567
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**72,488,413**	159,908,667

1 CORPORATE INFORMATION

Takaful Emarat - Insurance (PSC), Dubai, United Arab Emirates (the "Company") is a public 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 6 February, 2007, and is subject to the provisions of the UAE Federal Law No. 2 of 2015 ("Companies Law").

The Company carries out takaful 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.

During the year, the Company established a new subsidiary, Modern Tech Investment, for investment purposes. These consolidated financial statements incorporate the financial statements of the Company and its subsidiary (collectively referred to as the "Group").

These consolidated financial statements were authorised for issue on 6 March 2018.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

Accounting convention
The consolidated financial statements are prepared under the historical cost convention except for the measurement at fair value of financial assets carried at fair value. The consolidated financial statements have been presented in UAE Dirhams (AED).

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within twelve months after the reporting date (no more than 12 months) and more than 12 months after the reporting date (more than 12 months) is presented in the respective notes.

Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and applicable requirements of United Arab Emirates Laws.

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Group and its investees that are considered subsidiaries as at 31 December 2017. Subsidiaries are investees that the Group has control over. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:
- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.2 BASIS OF CONSOLIDATION (continued)

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the owners of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

The Group comprises of the Company and the under-mentioned subsidiary.

Subsidiary	*Principal activity*	*Country of incorporation*	*Ownership*	
			2017	2016
Modern Tech Investment	Investment	United Arab Emirates	**100%**	-

Modern Tech Investment was establishment during the year ended 31 December 2017 for the purpose of holding investments.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New standards and interpretations effective after 1 January 2017
The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2017.

The nature and the impact of each new standard and amendment is described below. Although these new standards and amendments applied for the first time in 2017, they did not have a material impact on the annual consolidated financial statements of the Group.

Amendments to IAS 7: Disclosure Initiative
The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the disclosure in Note 14.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
The amendments clarify that an entity needs to consider whether the tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profits may include the recovery of some assets for more than their carrying amount. This amendment has no effect on the Group's consolidated financial statement as the Group is not governed by any tax laws.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New standards and interpretations effective after 1 January 2017 (continued)

Annual Improvements Cycle - 2014-2016: Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12
The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or associate) that is classified (or included in a disposal group that is classified) as held for sale. During 2017 and 2016, the Group had no interests classified as such, and therefore these amendments did not affect the Group's financial statements.

Standards issued but not yet effective
The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

Overall, the Group expects no significant impact on its consolidated statement of financial position and equity, except for the effect of applying the impairment requirements of IFRS 9. The group meets the eligibility criteria of the temporary exemption from IFRS 9 and intends to defer the application of IFRS 9 until the effective date of the new insurance contracts standard (IFRS 17) of annual reporting periods beginning on or after 1 January 2021, applying the temporary exemption from applying IFRS 9 as introduced by the amendments (see below).

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the new insurance contracts standard (IFRS 17).

The amendments introduce two alternative options of applying IFRS 9 for entities issuing contracts within the scope of IFRS 4: a temporary exemption; and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2021 and continue to apply IAS 39 to financial assets and liabilities. An entity may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 9, other than only the requirements for the presentation of gains and losses on financial liabilities designated as FVPL; and (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016. The overlay approach allows an entity applying IFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for certain designated financial assets being the same as if an entity had applied IAS 39 to these designated financial assets.

An entity can apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies IFRS 9 for the first time.

During 2017, the Group performed an assessment of the amendments and reached the conclusion that its activities are predominantly connected with insurance as at 31 December 2017. The Group intends to apply the temporary exemption from IFRS 9 and, therefore, continue to apply IAS 39 to its financial assets and liabilities in its reporting period starting on 1 January 2018.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group expects to apply IFRS 15 using the modified retrospective application. Given insurance contracts are scoped out of IFRS 15, the Group expects the main impact of the new standard to be on the accounting for income from administrative and investment management services. The Group does not expect the impact to be significant.

IFRS 16 Leases
IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Group does not expect the impact to be significant.

IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2
The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting for a modification where the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Standards issued but not yet effective (continued)

IFRS 17 Insurance Contracts
In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 Insurance Contracts.

In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short-duration which typically applies to certain non-life insurance contracts.

The main features of the new accounting model for insurance contracts are, as follows:

- The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows)
- A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period (i.e., coverage period)
- Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period
- The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice
- The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period
- Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the income statement, but are recognised directly on the balance sheet
- Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense
- Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach.

The Group plans to adopt the new standard on the required effective date together with IFRS 9 (see above). The Group started a project to implement IFRS 17 and has been performing a high-level impact assessment of IFRS 17. The Group expects that the new standard will result in an important change to the accounting policies for insurance contract liabilities of the Group and is likely to have a significant impact on profit and total equity together with presentation and disclosure.

There are other amendments to IASB Standards and Interpretations which have been issued as of the date of the reporting but are effective from future dates and have not yet been adopted by the Group. Future adoption of these Standards and Interpretations is not expected to have an impact on the consolidated financial statements of the Group.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Takaful contributions

Medical takaful contracts

Gross takaful contributions written comprise the total contributions receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy commences. Contributions include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods. Contributions collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in contributions written.

Life assurance contracts
In respect of the short term life assurance contracts, premiums are recognised as revenue (earned premiums) proportionately over the period of coverage. The portion of the premium received in respect of in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability. Premiums are shown before the deduction of the commission.

In respect of long term life assurance contracts, premium are recognised as revenue (earned premiums) when they become payable by the contract holder. Premiums are shown before deduction of commission.

Premiums for group credit life policies are recognised when it is paid by the contract holder.

A liability for contractual benefits that are expected to be incurred in future is recorded when the premiums 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 premium or limited number of premium payments due over a significantly shorter period than the period during which the benefits are provided, the excess of the premiums 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.

Claims and benefits payable to contract holders are recorded as expenses when they are incurred.

Takaful contributions earned
Earned takaful contributions are taken to income over the terms of the takaful contract to which they relate on a pro-rata basis. Unearned takaful contributions represent the portion of net takaful contributions accounted for which relate to periods of risk that extent beyond the end of the financial year; they are calculated based on a time apportionment basis over the exposure to contracts. The change in the provision for unearned contributions is taken to the statement of takaful operations and accumulated surplus in order to recognize revenue over the period to cover the takaful risks.

Retakaful contributions
Gross retakaful contributions comprise the total contributions payable for the whole cover provided by contracts entered into during the period and are recognised on the date on which the policy incepts. Contributions include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods. Unearned reinsurance contributions are those proportions of contributions written in a year that relate to periods of risk after the reporting date. Unearned reinsurance contributions are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses occurring contracts.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Claims
Claims, comprising amounts payable to contract holders and third parties and related loss adjustment expenses, net of salvage and other recoveries, are charged to income as incurred. Provision for outstanding claims reported is based on estimates of the loss, which will eventually be payable on each unpaid claim, established by the management based on current conditions, increased exposure, rising claims costs and the severity and frequency of recent claims, as appropriate. Provision for incurred but not reported claims is included within additional reserve.

The Group generally estimates its claims based on previous experience. Any difference between the provisions at the reporting date and settlements and provisions for the following year is included in the statement of takaful operations for that year.

Retakaful share of claims incurred
Retakaful share of claims is recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Policy acquisition costs
Commissions and other costs directly related to the acquisition and renewal of takaful contracts are charged to the consolidated statement of income when incurred. If the commission and associated costs are for services provided in future periods then they are deferred and amortised over the life of the related takaful policy

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.

Liability adequacy test
At each consolidated statement of financial position date the Group 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 light of estimated future cash flows, the entire deficiency is immediately recognised in income and an unexpired risk provision is created.

The Group does not discount its liability for unpaid claims as substantially all claims are expected to be paid within one year of the consolidated statement of financial position date.

Foreign currency translation
The presentation currency is UAE Dirhams (AED). This is also the functional currency of the Group. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the consolidated statement of income, except when it relates to items when gains or losses are recognised directly in equity, the gain or loss is then recognised net of the exchange component in the consolidated statement of comprehensive income.

Segment reporting
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 comprise investments and cash management for the Company's own account. No operating segments have been aggregated to form the above reportable operating segments.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment reporting (continued)
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, allocation charges and Qard Hassan, no other inter-segment transactions occurred during the year. Segment income, expenses and results include transactions between business segments which will then be eliminated on consolidation.

Product classification
Takaful contracts are those contracts when the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Takaful contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable.

Once a contract has been classified as a takaful contract, it remains a takaful contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this year, unless all rights and obligations are extinguished or expire. Investment contracts can however be reclassified as takaful contracts after inception, if insurance risk becomes significant.

The Group issues long term takaful contracts with an investment linked component. The Group 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 Group 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.

Property and equipment
Property and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. Replacement or major inspection costs are capitalised when incurred, if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

Depreciation is provided on a straight line basis over the estimated useful lives of the following classes of assets:

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

The assets' residual values, and useful lives and method of depreciation are reviewed and adjusted, if appropriate, at each financial year end and adjusted prospectively.

An item of property and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the statement of comprehensive income in the year in which they arise. Fair values are evaluated annually by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognised either when they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of comprehensive income in the year of retirement or disposal.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Intangible assets

Intangible assets represents software acquired by the Group 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.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses are recognised in the statement of comprehensive income.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred acquisition costs (DAC)
Commissions that vary with and are related to the acquisition of new investment and takaful contracts are treated as prepayments (DAC) to the extent that the commission relates to the future provision of services by the parties to whom payments are made, when the degree of completeness of the service can be reliably measured and the Group is confident of future economic benefit from the introduction acquired. Prepaid commission is expensed through statement of comprehensive income over a period determined by policy features chosen by the contract holder introduced in return for the commission payment. The periods over which it is expensed range from five to thirty months. Commissions for which liability arises on completion of a significant act without the expectation of the delivery of further services are recognised in expenses when incurred. For investment contract introductions where costs are deferred, no costs are deferred beyond the point at which the introducer is considered to have fulfilled his contractual obligations and is not expected or obliged to perform further services.

Trade and settlement date accounting
All "regular way" purchases and sales of financial assets are recognised on the "trade date", i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Financial Instruments
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

a. Financial assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs that are attributable to the acquisition of the financial asset.

The classification depends on the purpose for which the investments were acquired or originated. Financial assets are classified as at fair value through profit or loss where the Group's documented investment strategy is to manage financial investments on a fair value basis, because the related liabilities are also managed on this basis. The available-for-sale and held to maturity categories are used when the relevant liability (including shareholders' funds) is passively managed and/or carried at amortised cost.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and bank balances, investments at fair value through profit and loss, takaful receivables and other assets, and retakaful contract assets.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as follows:

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

a. Financial assets (continued)

Subsequent measurement (continued)
Financial assets at fair value through profit or loss
Financial assets at FVPL include financial assets held for trading and those designated upon initial recognition as at FVPL. Investments typically bought with the intention to sell in the near future are classified as held for trading. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. For investments to be designated as at FVPL, the following criteria must be met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis, or
- The assets and liabilities are part of a group of financial assets, financial liabilities, or both, which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy

Subsequent to initial recognition, they are remeasured at fair value. Changes in fair value are recorded in 'Fair value gains and losses'. Interest is accrued and presented in 'Investment income', using the effective interest rate (EIR). Dividend income is recorded in 'Investment income' when the right to the payment has been established.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are measured at amortised cost, using the EIR method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in 'Investment income' in the statement of comprehensive income. Gains and losses are recognised in the statement of comprehensive income when the investments are derecognised or impaired, as well as through the amortisation process.

Held to maturity financial assets
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold until maturity. After initial measurement, held to maturity financial assets are measured at amortised cost, using the EIR, less impairment. The EIR amortisation is included in 'Investment income' in the statement of comprehensive income. Gains and losses are recognised in the statement of comprehensive income when the investments are derecognised or impaired, as well as through the amortisation process.

Derecognition of financial assets
A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  (a) the Group has transferred substantially all the risks and rewards of the asset or
  (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Impairment of financial assets
An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of comprehensive income. Impairment is determined as follows:

(a) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
(b) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Cash and bank balances
Cash and bank balances comprise cash in hand, balances with banks and unrestricted deposits with a maturity of less than 12 months from the date of placement.

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 receivables
Takaful receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, takaful receivables are measured at amortised cost, using the effective interest rate method. The carrying value of takaful receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the consolidated statement of comprehensive income.

Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

b. Financial liabilities

Initial recognition and measurement
Financial liabilities are classified at initial recognition, as financial liabilities at fair value through profit and loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include takaful and other payables, takaful contract liabilities and borrowings.

Subsequent measurement
Subsequent measurement of financial liabilities depends on their classification, as follows:

Financial liabilities at fair value through profit and loss
Financial liabilities at fair value through profit and loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit and loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on designated or held for trading liabilities are recognised in fair value gains and losses in the consolidated statement of comprehensive income.

The Group has not designated any financial liabilities as at fair value through profit and loss upon initial recognition.

Interest bearing loans and borrowings
After initial recognition, interest bearing loans and borrowings, and issued notes are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the consolidated statement of comprehensive income when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the consolidated statement of comprehensive income.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Takaful contract liabilities

(i) Unearned contributions

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

(ii) Claims incurred but not reported

A provision is made for the estimated excess of potential claims over unearned contributions and for claims incurred but not reported at the financial position date.

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

a) claims reported during the year
b) delay in reporting these claims
c) claims handling provision

(iii) Claims reported and unsettled

Outstanding claims are recognised when claims are intimated. 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.

(iv) Mathematical reserves

The mathematical reserve 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) Policyholders' investment linked contracts at fair value

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.

Investment contract liabilities

Investment contract liabilities without DPF are recognised when contracts are entered into and premiums are charged. These liabilities are initially recognised at fair value, this being the transaction price excluding any transaction costs directly attributable to the issue of the contract. Subsequent to initial recognition investment contract liabilities are measured at fair value through profit or loss.

Deposits and withdrawals are recorded directly as an adjustment to the liability in the consolidated statement of financial position and are not recognised as gross premium or claims in the consolidated statement of comprehensive income.

Fair value adjustments are performed at each reporting date and are recognised in the income statement in "movement in investment contract liabilities". For unitised contracts, fair value is calculated as the number of units allocated to the policyholder in each unit-linked fund multiplied by the unit-price of those funds at the reporting date. The fund assets and fund liabilities used to determine the unit prices at the reporting date are valued on a fair value basis adjusted to take account of the effect on the liabilities of the deferred tax on unrealised gains on assets in the fund.

Non-unitised contracts are subsequently also carried at fair value, which is determined by using valuation techniques such as discounted cash flows and stochastic modelling. Models are validated, calibrated and periodically reviewed by an independent qualified person.

The liability is derecognised when the contract expires, is discharged or is cancelled. For a contract that can be cancelled by the policyholder, the fair value of the contract cannot be less than the surrender value.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment contract liabilities (continued)
When contracts contain both a financial risk component and a significant takaful risk component and the cash flows from the two components are distinct and can be measured reliably, the underlying amounts are unbundled. Any contributions relating to the takaful risk component are accounted for on the same basis as takaful contracts and the remaining element is accounted for as a deposit through the consolidated statement of financial position as described above.

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

Surplus / deficit in policyholders' fund
Surplus in policyholders' funds represents accumulated gains on takaful operations and are distributed among the policyholders. The timing, quantum and the basis of distribution are determined by the Group and are approved by its Fatwa and Shari'a Supervisory Board.

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

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

Employees' end of service benefits
The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its UAE national employees, the Group makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Retakaful contracts held
The Group cedes insurance risk in the normal course of business for all of its businesses. Retakaful contract assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related retakaful contract.

Retakaful contract assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss is recorded in the consolidated statement of comprehensive income. Gains or losses on buying reinsurance are recognised in the consolidated statement of comprehensive income immediately at the date of purchase and are not amortised. Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expense will not be offset in the consolidated statement of comprehensive income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

Offsetting of retakaful receivable and payable balances
The Group discloses the net the receivable or payable position in the consolidated financial statements for each reinsurer per segment.

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 consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

Contingencies
Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Fair value measurement
The Group measures financial instruments, such as, equity instruments, and non-financial assets such as investment properties, at fair value at each balance sheet date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation(based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed in Note 31.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. These factors could include:

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of properties
Management decides on acquisition whether a property will be used as owner-occupied property or for renting out to third parties. If used as owner-occupied property, the value in use of the property is determined as part of the cash generating unit to which it belongs. Otherwise, the asset is classified as investment property and its fair value is determined on an individual asset basis.

Classification of investments
Management decides on acquisition of an investment whether it should be classified as of fair value through profit or loss, at fair value through OCI or at amortised cost.

Claims incurred but not reported
A provision is made for the estimated excess of potential claims over unearned premiums and for claims incurred but not reported at the financial position date.

The reserves represent the management's best estimates on the basis of:
a) claims reported during the year
b) delay in reporting these claims
c) claims handling provision

Estimation uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Provision for outstanding claims, whether reported or not
Considerable judgement by management is required in the estimation of amounts due to policyholders arising from claims made under takaful contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgement and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

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

Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred, and claims incurred but not reported, on a quarterly basis.

Impairment losses on deferred acquisition costs
The Group reviews its deferred acquisitions costs on a regular basis to assess whether a provision for impairment should be recorded in statement of comprehensive income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required.

Impairment losses on takaful receivables
The Group reviews its takaful receivables on a regular basis to assess whether a provision for impairment should be recorded in the consolidated statement of comprehensive income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about the probability of default and probable losses in the event of default, the value of the underlying security, and realisation costs.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimation uncertainty (continued)

Impairment losses on takaful receivables (continued)

In addition to specific provisions against individually significant insurance receivables, the Group also makes a collective impairment provision against takaful receivables which, although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. The amount of the provision is based on the historical loss pattern for insurance receivables within each grade and is adjusted to reflect current economic changes.

Mathematical reserve

The Group values its mathematical reserves based on actuarial valuations which relies on several underlying assumptions such as government yield curve for growth rates, discount rates and inflation as well as mortality rates, morbidity, longevity, investment returns, expenses, lapse and surrender rates, discount rates and partial withdrawal assumptions to estimate the value of insurance contract liabilities on a reasonable basis.

Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

Useful lives of property and equipment

The Group's management determines the estimated useful lives of its property and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

3 CASH AND CASH EQUIVALENTS

	31 December 2017		*31 December 2016*	
	Takaful Operations AED	***Shareholders' Operations AED***	*Takaful Operations AED*	*Shareholders' Operations AED*
Cash and bank balances	**61,715,659**	**10,772,754**	83,061,393	9,347,274
Deposits	**24,250,000**	**168,000**	93,750,000	-
Restricted deposit – Employee pension	**-**	**10,000,000**	-	-
	85,965,659	**20,940,754**	176,811,393	9,347,274
Less: Deposits maturing in more than - three months	**(24,250,000)**	**(168,000)**	(26,250,000)	-
Restricted deposit - Employee pension	**-**	**(10,000,000)**	-	-
Total	**61,715,659**	**10,772,754**	150,561,393	9,347,274

The deposits carry profit rates ranging from 1.75% to 2.80% per annum with maturity dates ranging from 10 January 2018 to 16 September 2018.

4 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2017			
	Attributable to individual life policyholders AED	***Attributable to shareholders AED***	***Attributable to takaful operations AED***	***Total AED***
Mutual funds	**73,314,638**	**1,257,092**	**-**	**74,571,730**
Sukuk investments	**15,121,390**	**24,471,085**	**31,949,793**	**71,542,268**
Equity investments – quoted	**-**	**33,910,000**	**-**	**33,910,000**
Equity investments – unquoted	**-**	**13,936,767**	**-**	**13,936,767**
Total	**88,436,028**	**73,574,944**	**31,949,793**	**193,960,765**

The borrowing of AED 23.52 million is from commercial bank in United Arab Emirates and is utilised to purchase Sukuks of an equivalent amount, which is pledged against the borrowing. The borrowing carries a profit rate of 1.25% above the 3 month LIBOR.

	31 December 2016			
	Attributable to individual life policyholders AED	*Attributable to shareholders AED*	*Attributable to takaful operations AED*	*Total AED*
Mutual funds	53,449,500	664,806	-	54,114,306
Sukuk investments	2,519,653	49,052,225	-	51,571,878
Equity investments– quoted	-	28,702,652	-	28,702,652
Total	55,969,153	78,419,683	-	134,388,836

Movements during the year were as follows:

	31 December 2017			
	Attributable to individual life policyholders AED	***Attributable to shareholders AED***	***Attributable to takaful operation AED***	***Total AED***
At beginning of the year	**55,969,153**	**78,419,683**	**-**	**134,388,836**
Purchases during the year	**71,757,382**	**100,539,280**	**19,059,923**	**191,356,585**
Transfers	**-**	**(24,606,613)**	**24,606,613**	**-**
Disposals during the year	**(41,442,384)**	**(76,675,229)**	**(11,543,175)**	**(129,660,788)**
Change in fair value during the year	**2,151,877**	**(4,102,177)**	**(173,568)**	**(2,123,868)**
Total	**88,436,028**	**73,574,944**	**31,949,793**	**193,960,765**

4 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

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

5 TAKAFUL RECEIVABLES AND OTHER ASSETS

	2017		
	Takaful operations AED	***Shareholder's operations AED***	***Total AED***
Takaful receivables	**69,522,658**	**-**	**69,522,658**
Provision for impairment	**(12,594,454)**	**-**	**(12,594,454)**
	56,928,204	**-**	**56,928,204**
Receivable from retakaful companies	**3,804,335**	**-**	**3,804,335**
Provision for impairment	**(2,670,000)**		**(2,670,000)**
Prepaid expenses	**-**	**4,173,425**	**4,173,425**
Other receivables	**40,209,148**	**71,068,778**	**111,277,926**
	98,271,687	**75,242,203**	**173,513,890**
Movement in the allowance for doubtful debts			
Balance at the beginning of the year	**2,268,206**	**-**	**2,268,206**
Impairment provision made during the year	**8,219,708**	**-**	**8,219,708**
Provision utilised during the year	**(1,590,488)**	**-**	**(1,590,488)**
Transfers*	**6,367,028**	**-**	**6,367,028**
Balance at the end of the year	**15,264,454**	**-**	**15,264,454**

*During the year, general provision maintained has been specifically embarked for doubtful receivables.

5 TAKAFUL RECEIVABLES AND OTHER ASSETS (continued)

	2017		
	Takaful operations AED	***Shareholder's operations AED***	***Total AED***
Takaful receivables and other assets – Inside UAE			
Takaful receivables	**69,522,658**	**-**	**69,522,658**
Provision for impairment – Takaful receivables	**(12,594,454)**	**-**	**(12,594,454)**
	56,928,204	**-**	**56,928,204**
Receivable from retakaful companies	**36,354**	**-**	**36,354**
Prepaid expenses	**-**	**4,173,425**	**4,173,425**
Other receivables	**40,209,148**	**71,068,778**	**111,277,926**
	97,173,706	**75,242,203**	**172,415,909**
Takaful receivables and other assets – Outside UAE			
Receivable from retakaful companies	**3,767,981**	**-**	**3,767,981**
Provision for impairment – Retakaful receivables	**(2,670,000)**	**-**	**(2,670,000)**
	1,097,981	**-**	**1,097,981**

	2016		
	Takaful operations AED	*Shareholder's operations AED*	*Total AED*
Takaful receivables	73,971,482	-	73,971,482
Provision for impairment	(2,268,206)	-	(2,268,206)
	71,703,276	-	71,703,276
Receivable from retakaful companies	9,291,003	-	9,291,003
Prepaid expenses	-	1,768,004	1,768,004
Other receivables	3,982,859	12,385,028	16,367,887
	84,977,138	14,153,032	99,130,170
Movement in the allowance for doubtful debts			
Balance at the beginning of the year	1,582,362	-	1,582,362
Impairment provision made during the year	685,844	-	685,844
Balance at the end of the year	2,268,206	-	2,268,206

5 TAKAFUL RECEIVABLES AND OTHER ASSETS (continued)

	2016		
	Takaful operations AED	*Shareholder's operations AED*	*Total AED*
Takaful receivables and other assets – Inside UAE			
Takaful receivables	73,971,482	-	73,971,482
Provision for impairment	(2,268,206)	-	(2,268,206)
	71,703,276	-	71,703,276
Receivable from retakaful companies	1,516,098	-	1,516,098
Prepaid expenses	-	1,768,004	1,768,004
Other receivables	3,982,859	12,385,028	16,367,887
	77,202,233	14,153,032	91,355,265
Takaful receivables and other assets – Outside UAE			
Receivable from retakaful companies	7,774,905	-	7,774,905
Total takaful receivables and other assets	7,774,905	-	7,774,905

The following table provides an ageing analysis of unimpaired receivables and other assets (excluding prepaid expenses)

31 December 2017

	Less than 30 days AED	*30-90 days AED*	*91 to 180 days AED*	*181 to 270 days AED*	*271 to 365 days AED*	*> 365 days AED*	*Total AED*
Inside UAE:							
Takaful receivables	**24,262,004**	**10,041,279**	**6,231,322**	**8,202,406**	**8,191,193**	-	**56,928,204**
Receivable from retakaful companies	-	**36,354**	-	-	-	-	**36,354**
Other receivables	**111,277,926**	-	-	-	-	-	**111,277,926**
Total	**135,540,180**	**10,077,633**	**6,231,322**	**8,202,406**	**8,191,193**	-	**168,242,484**
Outside UAE:							
Receivable from retakaful companies	**157,900**	**357,649**	-	-	-	**582,432**	**1,097,981**
Total	**157,900**	**357,649**	-	-	-	**582,432**	**1,097,981**

5 TAKAFUL RECEIVABLES AND OTHER ASSETS (continued)

31 December 2016

	Less than 30 days AED	*30-90 days AED*	*91 to 180 days AED*	*181 to 270 days AED*	*271 to 365 days AED*	*> 365 days AED*	*Total AED*
Inside UAE:							
Takaful receivables	48,918,965	13,099,472	2,017,293	1,408,031	2,048,136	4,211,379	71,703,276
Receivable from retakaful companies	-	-	240,977	937,621	300,000	37,500	1,516,098
Other receivables	16,367,887	-	-	-	-	-	16,367,887
Total	65,286,852	13,099,472	2,258,270	2,345,652	2,348,136	4,248,879	89,587,261
Outside UAE:							
Receivable from retakaful companies	-	93,677	55,209	115,000	270,000	7,241,019	7,774,905
Total	-	93,677	55,209	115,000	270,000	7,241,019	7,774,905

Unimpaired accounts receivable are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over accounts receivable.

During the year, the Company netted off retakaful receivable and payable balances per reinsurer per segment of business, refer Note 33 for details.

6 TAKAFUL CONTRACT LIABILITIES AND RETAKAFUL CONTRACT ASSETS

	2017 AED	*2016 AED*
Gross takaful contract liabilities		
Claims reported	**87,338,194**	63,477,889
Claims incurred but not reported	**38,881,602**	24,701,304
Unearned contributions	**130,677,692**	189,160,310
Mathematical reserves	**4,175,803**	4,230,693
Policyholders' investment linked contracts at fair value	**88,436,028**	55,969,153
	349,509,319	337,539,349
Retakaful contract assets		
Retakaful share of claims reported	**64,232,891**	21,088,996
Retakaful share of claims incurred but not reported	**16,737,632**	11,646,104
Retakaful share of unearned contributions	**63,603,793**	61,563,219
Retakaful share of mathematical reserve	**1,674,749**	1,406,918
	146,249,065	95,705,237
Net takaful contract liabilities		
Claims reported	**23,105,303**	42,388,893
Claims incurred but not reported	**22,143,970**	13,055,200
Unearned contributions	**67,073,899**	127,597,091
Mathematical reserves	**2,501,054**	2,823,775
Policyholders' investment linked contracts at fair value	**88,436,028**	55,969,153
	203,260,254	241,834,112

6 TAKAFUL CONTRACT LIABILITIES AND RETAKAFUL CONTRACT ASSETS (continued)

	2017 *AED*	*2016* *AED*
Movement in payable to policyholders of investment linked contracts		
Opening balance	**55,969,153**	29,315,439
Gross contribution	**91,823,595**	58,308,413
Allocation charges	**(20,066,213)**	(25,346,020)
Redemptions and other charges	**(41,442,384)**	(7,275,405)
Change in fair value	**2,151,877**	966,726
Closing balance	**88,436,028**	55,969,153

7 INVESTMENT PROPERTIES

	2017 *AED*	*2016* *AED*
Plot of land	**15,000,000**	14,928,495
Residential apartments	**23,540,000**	23,477,321
	38,540,000	38,405,816
Work in Progress	**232,429**	-
	38,772,429	38,405,816

Movement during the year

2017	***Land*** ***AED***	***Residential apartments*** ***AED***	***Total*** ***AED***
Fair value at beginning of the year	**14,928,495**	**23,477,321**	**38,405,816**
Change in fair value during the year	**71,505**	**62,679**	**134,184**
Fair value at end of the year	**15,000,000**	**23,540,000**	**38,540,000**

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

The carrying value of land and residential apartments represents its fair value as at 31 December 2017 as determined by an independent valuation expert, in accordance with relevant appraisal and valuation standards. The basis of determination of fair value is the amounts for which the property could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition. The date of revaluation was 31 December 2017.

During the year, the Board of Directors resolved to transfer the investment properties from shareholders' operations to policyholders' operations.

8 DEFERRED POLICY ACQUISITION COST

	2017 *AED*	*2016* *AED*
Balance as at beginning of the year	**43,499,624**	50,674,996
Commission paid during the year	**49,457,929**	38,143,846
Amortisation for the year	**(42,990,921)**	(45,319,218)
Balance at the end of the year	**49,966,632**	43,499,624

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

9 DEPOSIT

This represents deposit held with an investment entity with an expected profit rate of 15% per annum. During the year, the Group terminated the deposit and received partial settlement from the investment entity. The balance receivable at 31 December 2017 amounting to AED 9,600,000 is included in other assets in Note 5 above.

10 STATUTORY DEPOSIT

Statutory deposit is maintained in accordance with the requirements of UAE Federal Law No. 6 of 2007 for the purpose of carrying on takaful operations in the United Arab Emirates and is not available to finance the day to day operations of the Company. This deposit carries a profit rate of 0.8% (2016: 0.8%) per annum.

11 PROPERTY AND EQUIPMENT

	Office equipment AED	*Furniture and fixtures AED*	*Motor vehicles AED*	*Capital work in progress AED*	*Total AED*
Balance at 1 January 2016	2,908,216	7,459,033	163,700	-	10,530,949
Additions during the year	117,846	124,885	-	-	242,731
Balance at 31 December 2016	3,026,062	7,583,918	163,700	-	10,773,680
Additions during the year	352,359	90,564	-	47,091,490	47,534,413
Balance at 31 December 2017	**3,378,421**	**7,674,482**	**163,700**	**47,091,490**	**58,308,093**
Accumulated depreciation					
Balance at 1 January 2016	1,976,997	5,490,329	31,239	-	7,498,565
Depreciation for the year	448,074	322,910	32,736	-	803,720
Balance at 31 December 2016	2,425,071	5,813,239	63,975	-	8,302,285
Depreciation for the year	418,371	323,535	32,740	-	774,646
Balance at 31 December 2017	**2,843,442**	**6,136,774**	**96,715**	**-**	**9,076,931**
Carrying amount					
Balance at 31 December 2017	**534,979**	**1,537,708**	**66,985**	**47,091,490**	**49,231,162**
Balance at 31 December 2016	600,991	1,770,679	99,725	-	2,471,395

The borrowing of AED 35 million is from a commercial bank in United Arab Emirates and is utilised to finance the purchase of the building included in capital work in progress above, which is mortgaged against the borrowing. The Group's Board of Directors has resolved to use the building for office purposes.

12 INTANGIBLE ASSETS

	Software AED
Cost	
Balance at 1 January 2016	7,512,950
Additions during the year	994,445
Balance at 31 December 2016	8,507,395
Additions during the year	1,581,663
Balance at 31 December 2017	10,089,058
Accumulated amortisation	
Balance at 1 January 2016	5,815,771
Amortisation for the year	1,158,301
Balance at 31 December 2016	6,974,072
Amortisation for the year	909,671
Balance at 31 December 2017	7,883,743
Carrying amount	
Balance at 31 December 2017	**2,205,315**
Balance at 31 December 2016	1,533,323

13 TAKAFUL AND OTHER PAYABLES

	2017		
	Takaful operations AED	***Shareholder's operations AED***	***Total AED***
Retakaful payables	**111,805,237**	**23,855,225**	**135,660,462**
Accrued expenses and other payables	**43,053,385**	**26,709,004**	**69,762,389**
	154,858,622	**50,564,229**	**205,422,851**

	2016		
	Takaful operations AED	*Shareholder's operations AED*	*Total AED*
Retakaful payables	67,591,497	27,905,063	95,496,560
Accrued expenses and other payables	6,234,638	26,472,388	32,707,026
	73,826,135	54,377,451	128,203,586

Retakaful payables include amount of AED 27.08 million (2016: AED 27.91 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.

13 TAKAFUL AND OTHER PAYABLES (continued)

	2017		
	Takaful operations AED	*Shareholder's operations AED*	*Total AED*
Inside UAE			
Retakaful payables	**96,434,759**	**11,618,245**	**108,053,004**
Payable to insurance agents	**-**	**2,822,820**	**2,822,820**
Payable to insurance brokers	**-**	**11,913,260**	**11,913,260**
Payable to staff	**-**	**4,363,912**	**4,363,912**
Other payables	**43,053,385**	**4,389,092**	**53,809,505**
	139,488,144	**35,107,329**	**180,962,501**
Outside UAE			
Retakaful payables	**15,370,478**	**15,456,900**	**30,827,378**

	2016		
	Takaful operations AED	*Shareholder's operations AED*	*Total AED*
Inside UAE			
Retakaful payables	9,134,305	10,494,193	19,628,498
Payable to insurance agents	-	1,458,324	1,458,324
Payable to insurance brokers	-	10,363,520	10,363,520
Payable to staff	-	7,079,680	7,079,680
Other payables	6,234,637	15,394,840	21,629,477
	15,368,942	44,790,557	60,159,499
Outside UAE			
Retakaful payables	58,457,193	9,617,264	68,074,457

During the year, the Company netted off retakaful receivable and payable balances per reinsurer per segment of business, refer Note 33 for details.

14 BORROWINGS

The borrowings of AED 58.52 million (31 December 2016: 19.845 million) consist of two parts. AED 23.52 million was taken from First Gulf Bank and has been utilised to purchase Tier 1 Sukuks, which are pledged against the borrowings (Note 5). The value of pledged Sukuks as at 31 December 2017 was AED 23.84 million. The borrowings carry a profit rate of 1.25% per annum above the 3 month LIBOR and have a maturity period of three months. AED 35 million loan was taken from Commercial Bank of Dubai for the purchase of new building to be used as office space.

The Group's borrowings arising from financing activities include the above loans from First Gulf Bank and Commercial Bank of Dubai (2017: AED 58,520,000, 2016: AED 19,845,000, respectively). The increase of AED 38,675,000 in the carrying amount during 2017 consists of AED 3,675,000 and AED 35,000,000 of additional loan obtained by cash and cash equivalents from First Gulf Bank and Commercial Bank of Dubai, respectively.

15 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

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

	2017 AED	*2016 AED*
Balance at the beginning of the year	**1,743,000**	1,395,084
Charge for the year	**1,281,077**	493,732
Paid during the year	**(478,708)**	(145,816)
Balance at the end of the year	**2,545,369**	1,743,000

16 SHARE CAPITAL

	2017 AED	*2016 AED*
Authorised, issued and fully paid:		
150,000,000 ordinary shares of AED 1 each	**150,000,000**	150,000,000
	150,000,000	150,000,000

The Company has resolved to increase the authorised capital by AED 100 million.

17 STATUTORY RESERVE

In accordance with the UAE Federal Law No. 2 of 2015, 10% of the net profit of the Company has to be transferred to a non-distributable legal reserve until such reserve equals 50% of the paid up share capital of the Company. Accordingly AED 1,881,219 (2016: 1,500,982) has been transferred to the statutory reserve during the year

18 PROPOSED AND PAID DIVIDENDS

	2017 AED	*2016 AED*
Cash dividend for 2016 of AED 0.07 per share (declared and paid)	**10,500,000**	-
Cash dividend for 2015 of AED 0.053 per share (declared and paid)	-	8,000,000
	10,500,000	8,000,000
Proposed for approval at Annual General Meeting: (2016: Cash dividend of AED 0.07 per share)	-	10,500,000
	-	10,500,000

19 ZAKAT

Zakat is payable by the shareholders. Management has informed the shareholders the amount of Zakat payable by each shareholder. Zakat paid in current year amounted to AED 694,588 for 2016 and amounted to AED 771,600 for 2015.

20 NET EARNED CONTRIBUTIONS

	31 December 2017			*31 December 2016*		
	Medical AED	***Life and savings AED***	***Total AED***	*Medical AED*	*Life and savings AED*	*Total AED*
Gross contributions written	**485,099,454**	**98,518,681**	**583,618,135**	502,115,001	66,052,213	568,167,214
Change in unearned contributions	**58,157,393**	**331,254**	**58,488,647**	(73,949,906)	(757,436)	(74,707,342)
Takaful contributions earned	**543,256,847**	**98,849,935**	**642,106,782**	428,165,095	65,294,777	493,459,872
Retakaful contributions	**273,436,057**	**9,617,176**	**283,053,233**	139,513,065	9,615,575	149,128,640
Change in unearned contributions	**(2,246,586)**	**206,011**	**(2,040,575)**	(29,998,810)	(545,715)	(30,544,525)
Retakaful contributions ceded	**271,189,471**	**9,823,187**	**281,012,658**	109,514,255	9,069,860	118,584,115
Net earned contributions	**272,067,376**	**89,026,748**	**361,094,124**	318,650,840	56,224,917	374,875,757

21 CLAIMS INCURRED

2017

	Gross			*Retakaful*			*Net*		
	Medical AED	***Life AED***	***Total AED***	***Medical AED***	***Life AED***	***Total AED***	***Medical AED***	***Life AED***	***Total AED***
Takaful claims paid	**345,245,920**	**2,698,202**	**347,944,122**	**(161,225,109)**	**(2,361,436)**	**(163,586,545)**	**184,020,811**	**336,767**	**184,357,578**
Movement in provision for claims reported and unsettled	**22,524,850**	**1,335,455**	**23,860,305**	**(42,149,998)**	**(993,897)**	**(43,143,895)**	**(19,625,148)**	**341,557**	**(19,283,591)**
Movement in provision for claims incurred but not reported	**14,477,820**	**(297,522)**	**14,180,298**	**(5,316,750)**	**225,222**	**(5,091,528)**	**9,161,070**	**(72,300)**	**9,088,770**
Claims recorded in the statement of comprehensive income	**382,248,590**	**3,736,135**	**385,984,725**	**(208,691,857)**	**(3,130,111)**	**(211,821,968)**	**173,556,733**	**606,024**	**174,162,757**

2016

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

22 CHANGE IN RESERVES

	2017 AED	*2016 AED*
Changes in mathematical reserve – takaful life	**(322,721)**	1,473,453
Change in reserve relating to takaful life products	**64,981,059**	25,639,714
Change in fair value-individual life policyholders (Note 4)	**(2,151,877)**	(966,726)
	62,506,461	26,146,441

23 WAKALAH FEES

Wakalah fees for the year ended 31 December 2017 amounted to AED 109,766,490 (31 December 2016: AED 89,880,413).

For group life, individual medical and group medical policies, wakalah fees were charged up to 20% to 25% of gross takaful contributions. For life takaful policies, wakalah fees were charged at a maximum of 50% of takaful risk contributions. Wakalah fees are approved by the Sharia'a Supervisory Board and is charged to the statement of comprehensive income when incurred.

24 INVESTMENT INCOME - NET

	2017 AED	*2016 AED*
Return on investment in fixed deposits	**5,876,087**	3,881,459
Realised gain / (loss) on sale of investments at fair value through profit or loss	**18,258,145**	4,389,456
Fair value changes on investments at fair value through profit or loss (Note 4)	**(4,275,745)**	19,015,260
Dividend income	**500,000**	-
Investment management charges	**(1,031,566)**	(610,162)
Finance cost	**(310,484)**	(312,756)
	19,016,437	26,363,257
Attributable to shareholders	**15,354,845**	25,535,078
Attributable to policyholders	**3,661,592**	828,179
	19,016,437	26,363,257

25 OTHER INCOME

	2017 AED	*2016 AED*
Surrender and other charges on unit linked policies	**4,774,929**	1,447,200
Others	**641,763**	661,831
	5,416,692	**2,109,031**

26 GENERAL AND ADMINISTRATIVE EXPENSES

	2017 *AED*	*2016* *AED*
Salaries and other benefits	**31,417,912**	24,565,461
Third party administrator expenses	**17,569,951**	13,977,582
Provision for impairment (Note 5)	**8,219,708**	660,844
Authority fees	**3,740,343**	3,059,826
Legal and professional fees	**2,688,857**	750,750
Rent and related expenses	**2,005,724**	1,862,177
Depreciation and amortization (Note 11 and 12)	**1,698,271**	1,962,021
Remuneration of Sharia'a Supervisory Board	**170,004**	154,000
Other expenses	**17,526,465**	10,116,039
	85,037,235	57,108,700

27 BASIC AND DILUTED PROFIT PER SHARE

	2017 *AED*	*2016* *AED*
Profit for the year attributable to shareholders (in AED)	**18,812,187**	15,009,815
Weighted average number of shares outstanding during the year	**150,000,000**	150,000,000
Profit per share (AED)	**0.13**	0.10

No figures for diluted earnings per share are presented as the Group has not issued any instruments which would have an impact on earnings per share when exercised.

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 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent, major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. The pricing policies and terms of these transactions are approved by the Group's management.

The significant balances outstanding at 31 December in respect of related parties included in the consolidated financial statements are as follows:

	2017 *AED*	*2016* *AED*
Affiliates of major shareholders:		
Due from equity investments	**3,321,526**	1,020,801
Outstanding claims	**925,307**	21,841
Equity Investments – quoted	**19,110,000**	28,702,652

29 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The income and expenses in respect of related parties included in the consolidated financial statements are as follows:

	2017 AED	2016 AED
Affiliates of major shareholders:		
Contributions	**34,731,704**	2,605,662
Claims	**925,307**	2,409,400

Compensation of the key management personnel is as follows:

	2017 AED	2016 AED
Short term employee benefits	**6,004,543**	6,304,060
End of service benefits	**276,287**	275,709
	6,280,830	6,579,769

Outstanding balances at the year-end arise in the normal course of business. For the years ended 31 December 2017 and 31 December 2016, the Group has not recorded any impairment of amounts owed by related parties.

30 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 comprise 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, allocation charges and Qard Hassan, no other inter-segment transactions occurred during the year. Segment income, expenses and results include transactions between business segments which will then be eliminated on consolidation shown below.

31 December 2017

	Underwriting			***Shareholders***		
	Medical AED	***Life AED***	***Total AED***	***Investments AED***	***Others AED***	***Total AED***
Segment revenue	**543,256,847**	**98,849,935**	**642,106,782**	**15,354,845**	**115,317,366**	**130,672,211**
Segment result	**101,330,505**	**24,604,117**	**125,934,622**	**15,354,845**	**115,317,366**	**130,672,211**
Wakala fees	**(86,031,488)**	**(23,735,002)**	**(109,766,490)**	-		
Commission incurred	-	-	-	-	**(42,990,921)**	**(42,990,921)**
General and administrative expenses	-	-	-	-	**(85,037,235)**	**(85,037,235)**
Recovery of Qard Hassan to policyholders' fund.	-	-	-	-	**16,168,132**	**16,168,132**
Profit / (loss) attributable to policyholders / shareholders	**15,299,017**	**869,115**	**16,168,132**	**15,354,845**	**3,457,342**	**18,812,187**

30 SEGMENT INFORMATION (continued)

31 December 2016

	Underwriting			*Shareholders*		
	Medical AED	*Life AED*	*Total AED*	*Investments AED*	*Others AED*	*Total AED*
Segment revenue	428,165,094	65,294,778	493,459,872	25,535,078	90,719,004	116,254,082
Segment result	62,812,576	28,251,488	91,064,064	25,535,078	90,719,004	116,254,082
Wakala fees	(60,505,168)	(29,375,245)	(89,880,413)	-		
Commission incurred	-	-	-		(45,319,218)	(45,319,218)
General and administrative expenses	-	-	-	-	(57,108,700)	(57,108,700)
Provision for Qard Hassan to policyholders' fund.	-	-	-	-	1,183,651	1,183,651
Profit / (loss) attributable to policyholders / shareholders	2,307,408	(1,123,757)	1,183,651	25,535,078	(10,525,263)	15,009,815

31 December 2017

	Medical AED	***Life and savings AED***	***Underwriting total AED***	***Shareholders' investments AED***	***Unallocated others AED***	***Total AED***	***Total AED***
Segment assets	**358,307,789**	**181,303,504**	**539,611,293**	**77,574,944**	**147,619,434**	**225,194,378**	**764,805,671**
Segment liabilities	**363,546,586**	**140,821,355**	**504,367,941**	**23,520,000**	**88,109,598**	**111,629,598**	**615,997,539**

31 December 2016

	Medical AED	*Life and savings AED*	*Underwriting total AED*	*Shareholders' investments AED*	*Unallocated others AED*	*Total AED*	*Total AED*
Segment assets	358,930,699	98,031,846	456,962,545	144,825,499	27,505,024	172,330,523	629,293,068
Segment liabilities	72,578,237	338,787,247	411,365,484	19,845,000	56,120,451	75,965,451	487,330,935

31 FAIR VALUE OF FINANCIAL INSTRUMENTS

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 operations 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 consolidated financial statements approximate their fair values.

31 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Valuation techniques and assumptions applied for the purposes of measuring fair value
The fair values of assets and liabilities are determined using similar valuation techniques and assumptions as used in the audited annual financial statements for the year ended 31 December 2016.

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).

	31 December 2017			
	Level 1 AED	***Level 2 AED***	***Level 3 AED***	***Total AED***
Assets				
Investments at fair value through profit or loss				
Equity investments - quoted	**33,910,000**	-	-	**33,910,000**
Equity investments - unquoted			**13,936,767**	**13,936,767**
Mutual funds	-	**74,571,730**	-	**74,571,730**
Sukuk investments	**71,542,269**	-	-	**71,542,269**
Investment property	-	**38,772,429**	-	**38,772,429**
	105,452,269	**113,344,159**	**13,936,767**	**232,733,195**
Liabilities				
Investment linked contracts	-	**88,436,028**	-	**88,436,028**

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

32 POLICY HOLDERS' FUND

	2017 *AED*	*2016* *AED*
Deficit in policy holders' fund		
Balance at the beginning of the year	**(56,950,837)**	(58,134,488)
Surplus for the year recovered	**16,168,132**	1,183,651
Balance at the end of the year	**(40,782,705)**	(56,950,837)
Qard Hassan from shareholders		
Balance at beginning of year	**56,950,837**	58,134,488
Deficit recovered during the year	**(16,168,132)**	(1,183,651)
Balance at the end of the year	**40,782,705**	56,950,837
Total deficit in policyholders' fund	**-**	-

33 COMPARATIVE FIGURES

To improve the quality of presentation, certain amounts have been reclassified in the statement of comprehensive income and the statement of financial position for the year ended 31 December 2016 to confirm to the classifications and presentation used for the year ended 31 December 2017.

Such reclassifications do not affect previously reported net profit or equity of the shareholders.

The details of these reclassifications are as follows:

Statement of financial position:

	Amount as previously reported *AED*	*Reclassification* *AED*	*Amount as reclassified* *AED*
31 December 2016			
Takaful and other receivables	187,046,568	(58,843,032)	128,203,536
Takaful and other payables	157,973,202	(58,843,032)	99,130,170

- Retakaful receivable and payable balances which were earlier disclosed at gross values separately under takaful and other receivables and takaful and other payables respectively have now been offsetted per reinsurer per segment of business.

34 RISK MANAGEMENT

(i) Governance framework

The primary objective of the Group's risk and financial management framework is to protect the Group'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 Group's risk management function is carried out by the board of directors, with its associated committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to the Chief Operating Officer and senior managers.

The board of directors meets regularly to approve any commercial, regulatory and organisational decisions. The Chief Operating Officer under the authority delegated from the board of directors defines the Group's risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements.

The Group's current enterprise risk management framework is formally documented and divided into three phases. The Group's enterprise risk management framework is established to identify and analyse the key risks faced by the Group to set appropriate controls and manage those risks. As part of the risks identification process, the Group uses risk based capital model to assess the capital requirement and uses stress analysis to apply changes to capital. The Group's risk appetite is derived from the changes to capital.

(ii) Capital management framework

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group fully complied with the externally imposed capital requirements and no changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 31 December 2016.

(iii) Regulatory framework

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

The operations of the Group are also subject to regulatory requirements within the jurisdiction 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.

(iv) Asset liability management (ALM) framework

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group manages these positions to achieve long-term investment returns in excess of its obligations under insurance contracts. The principal technique of the Group's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders.

The Chief Operating Officer actively monitors the ALM to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance contracts.

The Chief Operating Officer regularly monitors the financial risks associated with the Group's other financial assets and liabilities not directly associated with insurance liabilities.

34 RISK MANAGEMENT (continued)

(i) Governance framework (continued)

34A Takaful risk

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

The above risk exposure is mitigated by diversification across a large portfolio of takaful contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of retakaful arrangements.

Frequency and amounts of claims
The frequency and amounts of claims can be affected by several factors. The Group underwrites mainly medical, group life and personal accident risks. These are regarded as short-term takaful contracts as claims are normally advised and settled within one year of the insured event taking place. This helps to mitigate insurance risk.

Medical, group life and personal accident
Medical insurance is designed to compensate the contract holders for medical costs. Group life and personal accident insurance entitles the contract holders or their beneficiaries to specified amounts in case of death or permanent or partial disability. For medical insurance, the main risks are illness and related healthcare costs.

Individual Life
For contracts for which death or disability is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. Group wide reinsurance limits on any single life insured and on all high risk individuals insured are in place.

The Group has adequate retakaful arrangements to protect its financial viability against such claims for all the above classes.

Geographical concentration of risks
The takaful risk arising from takaful contracts is primarily concentrated mainly in the United Arab Emirates. The geographical concentration of risks is similar to last year.

Retakaful risk
In common with other insurance companies, in order to minimise financial exposure arising from large takaful claims, the Group, 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 effected under treaty, facultative and excess of loss reinsurance contracts.

Retakaful ceded contracts do not relieve the Group from its obligations to policyholders and as a result the Group remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the retakaful agreements.

To minimise its exposure to significant losses from reinsurer insolvencies, the Group evaluates the financial condition of its reinsurers. The Group deals with reinsurers approved by the Board of Directors.

The three largest reinsurers account for 90% of amounts due from reinsurance companies at 31 December 2017 (2016: 89%).

34 RISK MANAGEMENT (continued)

34B Financial risk

The Group's principal financial instruments include financial assets and financial liabilities which comprise financial investments (at fair value through profit or loss), receivables arising from takaful and retakaful contracts, statutory deposits, cash and cash equivalents, and takaful and other payables.

The Group does not enter into derivative transactions.

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

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 Group, the maximum exposure to credit risk to the Group is the carrying value as disclosed in the consolidated statement of financial position.

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

- The Group only enters into takaful and retakaful contracts with recognised, credit worthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables from takaful and ratakaful contracts are monitored on an ongoing basis in order to reduce the Group's exposure to bad debts.
- The Group seeks to limit credit risk with respect to agents and brokers by setting credit limits for individual agents and brokers and monitoring outstanding receivables.
- The Group's investments at fair value through profit or loss are managed by the Chief Operating Officer in accordance with the guidance of the Board of Directors.
- The Group's bank balances are maintained with a range of international and local banks in accordance with limits set by the management.

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

	2017 *AED*	*2016* *AED*
Bank balances	**106,847,105**	186,158,667
Statutory deposit	**4,000,000**	4,000,000
Takaful and other receivables	**169,340,465**	97,362,166
Retakaful share of claims reported and unsettled	**64,232,891**	21,088,996
Investments at fair value through profit or loss	**71,542,269**	51,571,878
Held to maturity investment	**-**	1,000,000
Deposit	**-**	23,000,000
	415,962,730	363,481,707

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

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

34 RISK MANAGEMENT (continued)

34B Financial risk (continued)

Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its commitments associated with insurance contracts and financial liabilities when they fall due. Liquidity requirements are monitored on a monthly basis.

The maturity profile of the financial assets and financial liabilities at the reporting date based on contractual repayment arrangements was as follows:

2017	*Less than three months AED*	*From three months to one year AED*	*Over one year AED*	*Total AED*
Financial assets				
Bank balances	82,597,105	24,250,000	-	106,847,105
Statutory deposit	-	-	4,000,000	4,000,000
Takaful receivables and other assets	146,133,362	26,503,342	877,186	173,513,890
Retakaful share of outstanding claims	64,232,891	-	-	64,232,891
Investments at fair value through profit or loss	-	122,418,497	71,542,268	193,960,765
Total	292,963,358	173,171,839	76,419,454	542,554,651
Financial liabilities				
Takaful and other payables	184,714,734	27,075,145	-	211,789,879
Outstanding claims	87,338,194	-	-	87,338,194
Borrowings	700,000	2,100,000	55,720,000	58,520,000
Policyholders' investment linked contracts at fair value	-	88,436,028	-	88,436,028
Total	275,752,928	117,611,173	55,720,000	446,084,101

2016	*Less than three months AED*	*From three months to one year AED*	*Over one year AED*	*Total AED*
Financial assets				
Bank balances	159,908,667	26,250,000	-	186,158,667
Statutory deposit	-	-	4,000,000	4,000,000
Takaful receivables and other assets	80,248,005	7,392,267	11,489,898	99,130,170
Retakaful contract assets	21,088,996	-	-	21,088,996
Held to maturity investment	-	1,000,000	-	1,000,000
Investments at fair value through profit or loss	82,816,958	-	51,571,878	134,388,836
Deposit	23,000,000	-	-	23,000,000
Total	367,062,626	34,642,267	67,061,776	468,766,669
Financial liabilities				
Takaful and other payables	108,122,499	20,111,457	-	128,233,956
Takaful contract liabilities	63,477,889	-	-	63,477,889
Borrowings	-	-	19,845,000	19,845,000
Policyholders' investment linked contracts at fair value	-	55,969,153	-	55,969,153
Total	171,600,388	76,080,610	19,845,000	267,525,998

33 RISK MANAGEMENT (continued)

33B Financial risk (continued)

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 profit rates. Floating rate instruments expose the Group to cash flow profit risk, whereas fixed profit rate instruments expose the Group to fair value profit risk.

The Group is exposed to profit rate risk on certain of its investment in financial instruments held at fair value though profit or loss, designated upon initial recognition, statutory deposits and bank loan. The Group limits profit rate risk by monitoring changes in profit rates in the currencies in which its cash and interest bearing investments and borrowings are denominated.

	Increase in basis points	*Effect on results for the year AED*
2017		
Profit bearing assets	**+100**	1,059,603
Expense bearing liabilities	**+100**	585,200
2016		
Profit bearing assets	+100	1,735,228
Expense bearing liabilities	+100	198,450

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

Equity price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from profit rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The price risk is managed by outsourcing the trading of securities held by the Company to professional brokers. However the activities of brokers are also monitored and supervised by the management.

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

	Favorable change AED	*Unfavorable change AED*
2017		
At fair value	**9,698,038**	**(9,698,038)**
2016		
At fair value	6,719,442	(6,719,442)

34C 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 Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes.

35 CONTINGENCIES

Contingent liabilities
At 31 December 2017 the Group had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to AED 1,011,924 (2016: AED 821,041).

Legal claims
The Group, in common with the significant majority of insurers, is subject to litigation in the normal course of its business. The Group, based on independent legal advice, does not believe that the outcome of these court cases will have a material impact on the Group's income or financial condition.

Capital commitments

At 31 December 2017, the group's capital commitment amounted to AED 37 million with respect to acquisition of an insurance company based in United Arab Emirates (2016: AED Nil).

Other Commitments

The Group has lease agreements which are payable as follows:

	2017 AED	*2016 AED*
Less than one year	**1,065,671**	976,474
Between one and five years	**-**	92,435
	1,065,671	1,068,909

36 FINANCIAL REGULATIONS

	2017 AED	*2016 AED*
Minimum Capital Requirement (MCR)	**100,000,000**	100,000,000
Solvency Capital Requirement (SCR)	**83,946,259**	133,576,319
Minimum Guarantee Fund (MGF)	**74,398,248**	82,106,611
Own Funds	**90,988,155**	45,488,969
Basic Own Funds	**90,988,155**	45,488,969
Ancillary Own Funds	**-**	-
MCR Solvency Margin Surplus/(Deficit)	**(9,011,845)**	(145,488,969)
SCR Solvency Margin Surplus/(Deficit)	**7,041,896**	(179,065,287)
MGF Solvency Margin Surplus/(Deficit)	**16,589,907**	(127,595,579)

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

37 TECHNICAL PROVISION

	2017 *AED*	*2016* *AED*
Claims reported and unsettled	**87,338,194**	63,477,889
Claims incurred but not reported	**38,881,602**	24,701,304
Unearned contributions	**130,677,692**	189,160,310
Mathematical reserve	**4,175,803**	4,230,693
Policyholders' investment linked contracts at fair value	**88,436,028**	55,969,153
Technical provisions	**349,509,319**	337,539,349

Medical business	*2017* *AED*	*2016* *AED*
Claims reported and unsettled	**85,220,813**	62,695,962
Claims incurred but not reported	**38,184,210**	23,706,390
Unearned contributions	**128,134,455**	186,285,820
Technical provisions	**251,539,478**	272,688,172

Life business	*2017* *AED*	*2016* *AED*
Claims reported and unsettled	**2,117,381**	781,927
Claims incurred but not reported	**697,392**	994,914
Unearned contributions	**2,543,237**	2,874,490
Mathematical reserve	**4,175,803**	4,230,693
Policyholders' investment linked contracts at fair value	**88,436,028**	55,969,153
Technical provisions	**97,969,841**	64,851,177

38 SOCIAL CONTRIBUTIONS

The Company has not made any social contributions during the year ended 31 December 2017 (31 December 2016: AED Nil).

39 CLAIMS DEVELOPMENT SCHEDULE

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

TAKAFUL EMARAT PSC
Office No. 701-708,
7th Floor,
New Century City Tower,
Port Saeed,
Deira,
PO Box 64341,
Dubai, UAE

T: +971 4 230 9300

www.takafulemarat.com