

**Methaq Takaful Insurance
Company PSC**

**REPORT OF THE BOARD OF DIRECTORS
AND FINACIAL STATEMENTS**

31 DECEMBER 2016

**Methaq Takaful Insurance
Company PSC**

REPORT OF THE BOARD OF DIRECTORS

31 DECEMBER 2016

Methaq Takaful Insurance Company PSC

THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

Year ended 31 December 2016

On behalf of the Board of Directors, we are pleased to present the financial results of Methaq Takaful Insurance Company PSC for the year ended 31 December 2016.

Methaq succeeded in implementing its plans for the year 2016 based on achievable strategic goals. This is a reflection of the continued confidence and support of its shareholders and customers along with Methaq's team that is comprised of professionals and technical experts. Our strategic direction focuses on the following key objectives to deliver enhanced sustainable returns for the Policyholders and the Shareholders:

- Targeted profitable growth;
- Performance Management of Takaful portfolios;
- Operational excellence; and
- Optimal Retakaful agreements for all takaful portfolios.

The Company has recognised a net profit of AED 9,329,883 for the year ended 31 December 2016 compared to a restated net profit of AED 694,957 for the year ended 31 December 2015. The Company has achieved total comprehensive income of AED 7,557,883 during 2016 that led to the increase of the shareholders' equity to AED 79,929,837 as at 31 December 2016 compared to AED 72,371,954 as at 31 December 2015.

Management has implemented successful strategies in the year 2016 in respect of underwriting and claims management process where all takaful portfolios showed positive performance.

The results are summarized as below:

	31 December 2016 AED	31 December 2015 AED (Restated)
Brief of the statement of financial position:		
Total assets	411,112,589	360,318,304
Total liabilities	331,182,752	287,946,350
Total shareholders' equity	79,929,837	72,371,954
Brief of the income statement:		
Total revenues (gross takaful contributions written)	264,716,683	238,300,977
Profit for the year	9,329,883	694,957
Earning per share	0.062	0.005

Methaq Takaful Insurance Company PSC

THE ANNUAL REPORT OF THE BOARD OF DIRECTORS continued Year ended 31 December 2016

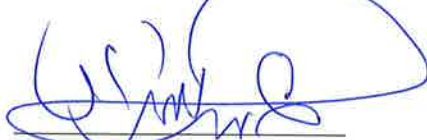
As for the Company's future plans for the year 2017, the Company has developed a budget plan supported by a set of ambitious goals especially takaful portfolios and retakaful agreements, operating expenses, and profitability. The company expects a significant improvement in performance and results for 2017.

Methaq has a very sound corporate governance in place and all the regulatory and legislative compliance is made timely, thereby reflecting a positive image of the Company and entrusting strong confidence amongst its customers, staff and all concerned entities.

On behalf of the Board of Directors, we reiterate our commitment to the growth and development of the UAE and particularly to the Abu Dhabi's 2030 vision under the leadership of His Highness Sheikh Khalifa bin Zayed Al Nahyan, the President of the UAE and the Ruler of Abu Dhabi and His Highness Sheikh Mohammed bin Rashid Al Maktoum, the Vice President, the Ruler of Dubai, and His Highness Sheikh Mohammed Bin Zayed Al Nahyan, the Crown Prince and all the Rulers of the UAE.

We also take this opportunity to thank and appreciate the staff and the management of Methaq Takaful Insurance Company PSC for their continued efforts, hard work, and sincerity. We also express our sincere thanks to the Company's Shareholders, clients, and all those institutions and individuals with whom the company deals in the UAE locally, in the region, and at the international level.

On Behalf of the Board of Directors

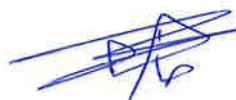


Ali Zaal Al-Mansoori

Chairman

Date

28/3/2017



**Methaq Takaful Insurance
Company PSC**

FINANCIAL STATEMENTS

31 DECEMBER 2016

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF METHAQ TAKAFUL INSURANCE COMPANY PSC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Methaq Takaful Insurance Company PSC (the "Company"), which comprise the statement of financial position as at 31 December 2016, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Material uncertainty related to going concern

We draw attention to note 2 in the financial statements, which indicate that the Company's accumulated losses amounted to AED 72,958,535 at 31 December 2016. This factor indicates the existence of a material uncertainty that may cast a significant doubt about the Company's ability to continue as a going concern. These financial statements have been prepared under the going concern concept as the Directors and management consider these losses to be temporary and expect the Company to generate profits from future takaful operations. Our opinion is not qualified in respect of this matter.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of the Company 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 financial statements in the United Arab Emirates, 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. 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 Auditors' responsibilities for the audit of the 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 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 financial statements.

1) *Valuation of Takaful Contract Liabilities and Retakaful Contract Assets*

The estimation of takaful contract liabilities and retakaful contract assets involve a significant degree of judgement. The liabilities amounting to AED 101,952,649 (note 8) 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 contract assets amounting to AED 6,576,634 (note 8) are recognised when the related gross takaful liability is recognised according to the terms relevant to the retakaful contracts and their recoverability is subject to the probability of default and probable losses in the event of default by respective retakaful counterparties.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
METHAQ TAKAFUL INSURANCE COMPANY PSC** continued

Report on the Audit of the Financial Statements continued

1) *Valuation of Takaful Contract Liabilities and Retakaful Contract Assets* continued

We assessed management's calculation of takaful contract liabilities and retakaful contract assets by performing audit procedures, which included among others:

- The evaluation and testing of key controls around the claims handling and reserve settling processes of the Company along with the recognition and release of retakaful contract assets. We examined evidence of the operation of controls over the valuation of individual claims reserves.
- We checked samples of claims reserves and the respective share of retakaful contract assets, through comparing the estimated amount of the reserve to documentation, such as reports from loss adjusters.
- We reviewed the subsequent settlement of claims and compared them to the claims reserve as at year end.
- We reviewed the actuarial report prepared by the actuary appointed by the Company and 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 reviewed the ratios of retakaful contract assets to related takaful contract liabilities to identify any variance from retakaful treaty arrangements.

2) *Revenue Recognition*

Gross contribution written comprise the total contribution receivable for the whole period of cover 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 contribution is provided for as an unearned contribution reserve to cover portions of risk that have not expired at the reporting date. The reserves are required to be calculated in accordance with the requirements of the UAE Insurance Law relating to insurance companies.

We assessed management's calculation of gross contribution written amounting to AED 264,716,683 (note 21) and net unearned contribution reserve amounting to AED 120,782,494 (note 8) by performing audit procedures, which included among others:

- We assessed whether the Company's revenue recognition policies complied with IFRS and tested the implementation of those policies. Specifically, we considered whether the contribution on takaful policies are accounted for on the date of inception of policies by testing a sample of revenue items to takaful contracts.
- We evaluated 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 financial statements to the reserve balance computed by the Company's actuary.
- We recalculated on a sample basis the unearned contributions reserve based on the earning period of takaful contracts existing as of 31 December 2016.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

METHAQ TAKAFUL INSURANCE COMPANY PSC continued

Report on the Audit of the Financial Statements continued

3) *Impairment losses on takaful and other receivables*

The Company estimates the collectible amount of takaful and other receivables (as disclosed in note 10) when collection of the full amount is no longer probable. This determination of whether the takaful and other receivables are impaired entails Management's evaluation of the specific credit and liquidity position of the policyholders and their historical recovery rates. Management regularly reviews the collectability of amounts due from takaful and retakaful companies. Such balances are regularly reconciled by both parties and are settled by on account payments on a regular basis.

We assessed management's provision for impairment losses calculation by performing audit procedures, which included among others:

- We considered the adequacy of provision for bad debts for significant balances outstanding more than one year taking into account 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 that reduce the net exposure.
- We discussed with management and reviewed correspondences, where relevant, to identify any disputes and assessed whether such matters were considered in the provision for impairment losses calculation.

Other information

Other information consists of the information included in the Annual Report and Board of Directors report, other than the financial statements and our auditor's report thereon. We obtained the Board of Directors Report prior to the date of our audit report, and we expect to obtain the other sections of the Annual Report after the date of our auditor's opinion. Management is responsible for the other information.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, 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.

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

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

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

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

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
METHAQ TAKAFUL INSURANCE COMPANY PSC continued**

Report on the Audit of the Financial Statements continued

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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.


INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

METHAQ TAKAFUL INSURANCE COMPANY PSC continued

Report on Other Legal and Regulatory Requirements

We report that:

- i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- ii) the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015, the UAE Federal Law No. (6) of 2007 and the Articles of Association of the Company;
- iii) the Company has maintained proper books of account;
- iv) the financial information included in the Board of Directors report is consistent with the books of account and records of the Company;
- v) investments in shares and stocks are included in note 7 to the financial statements and include purchases made by the Company during the year ended 31 December 2016;
- vi) note 9 reflects material related party transactions and the terms under which they were conducted; and
- 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 2016, any of the applicable provisions of the UAE Federal Law No. (2) of 2015, the UAE Federal Law No. (6) of 2007 or of its Articles of Association which would have a material impact on its activities or its financial position as at 31 December 2016.



Signed by
Raed Ahmad
Partner
Ernst & Young
Registration No 811

28 March 2017
Abu Dhabi

Methaq Takaful Insurance Company PSC

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

		<i>31 December</i> 2016 <i>AED</i>	<i>31 December</i> 2015 <i>AED</i> <i>(Restated)</i>	<i>1 January</i> 2015 <i>AED</i> <i>(Restated)</i>
ASSETS				
Cash and bank balances	5	16,319,352	11,823,654	10,538,465
Statutory deposit	6	6,000,000	6,000,000	6,000,000
Investments at fair value through other comprehensive income	7	15,948,000	17,720,000	25,800,000
Investments at fair value through profit or loss	7	2,529,012	2,218,499	7,236,641
Retakaful contract assets	8	27,461,900	17,235,841	12,697,964
Takaful and other receivables	10	163,631,927	135,357,218	119,577,823
Deferred acquisition costs		14,853,276	15,085,752	13,044,910
Loan to policyholders, net	16	-	-	13,521,231
Furniture and equipment	11	2,009,122	2,741,715	2,282,912
Investment properties	12	162,360,000	152,135,625	144,150,000
TOTAL ASSETS		<u>411,112,589</u>	<u>360,318,304</u>	<u>354,849,946</u>
SHAREHOLDERS' EQUITY, POLICYHOLDERS' FUND AND LIABILITIES				
Shareholders' equity				
Share capital	13	150,000,000	150,000,000	150,000,000
Legal reserve	14	2,959,565	2,026,577	1,957,081
General reserve	15	1,700,807	1,700,807	1,700,807
Investment fair value reserve		(1,772,000)	-	8,080,000
Accumulated losses		(72,958,535)	(81,355,430)	(81,980,891)
Total shareholders' equity		<u>79,929,837</u>	<u>72,371,954</u>	<u>79,756,997</u>
Policyholders' fund				
Deficit of policyholders' fund	16	(165,552,785)	(148,372,712)	(136,719,263)
Loan from shareholders	16	165,552,785	148,372,712	136,719,263
Total policyholders' fund		-	-	-
Liabilities				
Provision for employees' end of service benefits	17	1,844,813	1,382,518	1,134,343
Takaful contract liabilities	8	243,620,409	199,692,466	188,999,839
Retakaful and other liabilities	18	60,822,819	69,348,889	71,921,173
Islamic financing arrangement	19	5,142,857	6,857,143	8,571,429
Unearned retakaful commission		5,119,849	2,092,784	812,279
Retakaful deposits retained	20	14,632,005	8,572,550	3,653,886
Total liabilities		<u>331,182,752</u>	<u>287,946,350</u>	<u>275,092,949</u>
TOTAL SHAREHOLDERS' EQUITY, POLICYHOLDERS' FUND AND LIABILITIES		<u>411,112,589</u>	<u>360,318,304</u>	<u>354,849,946</u>

Chairman



Board member

The attached notes 1 to 32 form part of these financial statements.

Methaq Takaful Insurance Company PSC

STATEMENT OF INCOME

For the year ended 31 December 2016

	Notes	2016 AED	2015 AED (Restated)
Attributable to policyholders			
Gross takaful contributions revenue	21	230,668,785	225,258,454
Retakaful contributions ceded	21	<u>(31,864,429)</u>	<u>(19,843,986)</u>
Net earned contributions	21	198,804,356	205,414,468
Retakaful commission income		<u>7,365,647</u>	<u>2,694,803</u>
Total takaful income		<u>206,170,003</u>	<u>208,109,271</u>
Gross claims incurred	26	<u>(167,490,846)</u>	<u>(155,706,327)</u>
Retakaful share of claims incurred	26	<u>30,211,322</u>	<u>17,634,374</u>
Net claims incurred	26	(137,279,524)	(138,071,953)
Expenses for acquisition of takaful contracts		<u>(25,968,652)</u>	<u>(29,450,328)</u>
Total takaful expenses		<u>(163,248,176)</u>	<u>(167,522,281)</u>
Net takaful income		42,921,827	40,586,990
Allowance for doubtful takaful and other receivables	10	<u>(7,657,032)</u>	<u>(4,906,352)</u>
Wakala fees	22	<u>(52,444,868)</u>	<u>(47,334,087)</u>
Deficit of takaful result for the year		<u>(17,180,073)</u>	<u>(11,653,449)</u>
Attributable to shareholders			
Shareholders' investment income	23	442,143	481,766
Wakala fees from policyholders	22	52,444,868	47,334,087
Net rental income from investment property		984,837	1,063,547
Increase in fair value of investment properties	12	10,224,375	7,985,625
Profit on sale of investments at fair value through profit or loss		-	4,083
Change in fair value of investments at fair value through profit or loss	7	310,513	(2,020,794)
Allowance for doubtful takaful and other receivables	10	<u>(3,849,918)</u>	-
Increase in allowance for loan to policyholders' fund	16	<u>(17,180,073)</u>	<u>(25,174,680)</u>
Profit expense on Islamic financing		<u>(532,262)</u>	<u>(678,381)</u>
General and administrative expenses	24	<u>(33,514,600)</u>	<u>(28,300,296)</u>
Profit for the year		<u>9,329,883</u>	<u>694,957</u>
Basic and diluted earning per share	25	<u>0.062</u>	<u>0.005</u>

The attached notes 1 to 32 form part of these financial statements.

Methaq Takaful Insurance Company PSC

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016 AED	2015 AED (Restated)
Profit for the year		<u>9,329,883</u>	<u>694,957</u>
Other comprehensive income:			
Items that will not be reclassified subsequently to statement of income:			
Decrease in fair value of investments at fair value through other comprehensive income	7	<u>(1,772,000)</u>	<u>(8,080,000)</u>
Items that may be reclassified subsequently to statement of income		<u>-</u>	<u>-</u>
Other comprehensive loss for the year		<u>(1,772,000)</u>	<u>(8,080,000)</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		<u>7,557,883</u>	<u>(7,385,043)</u>

The attached notes 1 to 32 form part of these financial statements.

Methaq Takaful Insurance Company PSC

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital AED	Legal reserve AED	General reserve AED	Investment fair value reserve AED	Accumulated losses AED	Total AED
Balance at 1 January 2015, as previously reported	150,000,000	1,957,081	1,700,807	8,080,000	(70,112,748)	91,625,140
Effect of changes in accounting policies (note 32)	-	-	-	-	(11,868,143)	(11,868,143)
Balance at 1 January 2015 - restated	150,000,000	1,957,081	1,700,807	8,080,000	(81,980,891)	79,756,997
Profit for the year - restated	-	-	-	-	694,957	694,957
Other comprehensive loss	-	-	-	(8,080,000)	-	(8,080,000)
Total comprehensive loss for the year - restated	-	-	-	(8,080,000)	694,957	(7,385,043)
Transfer to legal reserve - restated	-	69,496	-	-	(69,496)	-
Balance at 31 December 2015 - restated	<u>150,000,000</u>	<u>2,026,577</u>	<u>1,700,807</u>	-	<u>(81,355,430)</u>	<u>72,371,954</u>
Balance at 1 January 2016 - restated	150,000,000	2,026,577	1,700,807	-	(81,355,430)	72,371,954
Profit for the year	-	-	-	-	9,329,883	9,329,883
Other comprehensive loss	-	-	-	(1,772,000)	-	(1,772,000)
Total comprehensive income for the year	-	-	-	(1,772,000)	9,329,883	7,557,883
Transfer to legal reserve	-	932,988	-	-	(932,988)	-
Balance at 31 December 2016	<u>150,000,000</u>	<u>2,959,565</u>	<u>1,700,807</u>	<u>(1,772,000)</u>	<u>(72,958,535)</u>	<u>79,929,837</u>

The attached notes 1 to 32 form part of these financial statements.

Methaq Takaful Insurance Company PSC

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	<i>Notes</i>	2016 AED	2015 AED <i>(Restated)</i>
OPERATING ACTIVITIES			
Profit for the year		9,329,883	694,957
Deficit of takaful result for the year		(17,180,073)	(11,653,449)
Adjustments for:			
Depreciation of furniture and equipment	11	1,003,280	920,942
Increase in fair value of investment property	12	(10,224,375)	(7,985,625)
Profit on sale of investments		-	(4,083)
at fair value through profit or loss			
Change in fair value of investments			
at fair value through profit or loss	7	(310,513)	2,020,794
Fixed deposits, sukuk and dividend income	23	(442,143)	(481,766)
Employees' end of service benefit	17	553,597	421,136
Allowance for doubtful takaful and other receivables	10	11,506,950	4,906,352
Allowance for loan to policyholders fund	16	17,180,073	25,174,680
Profit expense on Islamic financing		<u>532,262</u>	<u>678,381</u>
		11,948,941	14,692,319
Movements in working capital:			
Takaful and other receivables		(39,781,659)	(20,685,747)
Deferred acquisition cost		232,476	(2,040,842)
Retakaful contract assets		(10,226,059)	(4,537,877)
Takaful contract liabilities		43,927,943	10,692,627
Retakaful and other liabilities		(8,526,070)	(2,572,284)
Unearned retakaful commission		3,027,065	1,280,505
Retakaful deposits retained		<u>6,059,455</u>	<u>4,918,664</u>
Cash from operations		6,662,092	1,747,365
End of service benefits paid	17	<u>(91,302)</u>	<u>(172,961)</u>
Net cash from operating activities		<u>6,570,790</u>	<u>1,574,404</u>
INVESTING ACTIVITIES			
Purchase of furniture and equipment	11	(270,687)	(1,379,745)
Purchase of investments at fair value through profit or loss	7	-	(985,511)
Sales proceeds from investments at			
fair value through profit or loss		-	3,986,942
Fixed deposits, sukuk and dividend income received	23	442,143	481,766
Movement in term deposits		<u>-</u>	<u>(5,007)</u>
Net cash from investing activities		<u>171,456</u>	<u>2,098,445</u>
FINANCING ACTIVITIES			
Profit expense on Islamic financing		(532,262)	(678,381)
Islamic financing repaid	19	(1,714,286)	(1,714,286)
Net cash used in financing activities		<u>(2,246,548)</u>	<u>(2,392,667)</u>
INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at 1 January	5	<u>11,489,631</u>	<u>10,209,449</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	5	<u>15,985,329</u>	<u>11,489,631</u>

The attached notes 1 to 32 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

1 CORPORATE INFORMATION

Methaq Takaful Insurance Company PSC (the “Company”) is a public shareholding company registered with the Department of Planning and Economy, Abu Dhabi, United Arab Emirates (“UAE”) on 24 March 2008 with a trade license number 1142419. The Company is registered in accordance with the UAE Federal Law No. (8) of 1984 (as amended). The Federal Law No. (2) of 2015, concerning Commercial Companies has come into effect from 1 July 2015, replacing the existing Federal Law No. (8) of 1984.

The Company carries out takaful and retakaful activities in accordance with the provisions of the UAE Federal Law No. (6) of 2007 regarding the Establishment of the Insurance Authority and Insurance Operations. The Company is domiciled and operates in the UAE and its registered address is P.O. Box 32774, Abu Dhabi, UAE. The Company is listed on the Abu Dhabi Securities Exchange.

The accompanying financial statements of Methaq Takaful Insurance Company PSC for the year ended 31 December 2016 have been authorised for issue in accordance with a resolution of the Board of Directors on 28 March 2017.

2.1 FUNDAMENTAL ACCOUNTING CONCEPT

The Company’s accumulated losses amounted to AED 72,958,535 at 31 December 2016. This factor indicates the existence of a material uncertainty that may cast a significant doubt about the Company’s ability to continue as a going concern. These financial statements have been prepared under the going concern concept as the Directors and management consider these losses to be temporary and expect the Company to generate profits from future takaful operations.

2.2 BASIS OF PREPARATION

The financial statements have been prepared in accordance with the International Financial Reporting Standards and applicable requirements of the laws of the UAE.

The financial statements are prepared under the historical cost convention as modified for re-measurement at fair value of investments at fair value through other comprehensive income, investments at fair value through profit or loss and investment property.

The financial statements are presented in United Arab Emirates Dirhams (AED) being the functional and presentation currency of the Company.

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Company’s accounting policies and the key sources of estimation uncertainty are the same as those applied to the financial statements as at and for the year ended 31 December 2015, except for the following.

New standards and amendments to standards effective 1 January 2016

Amendments to IAS 1: Disclosure Initiative

The amendments provide clarifications and narrow-focus improvements on materiality, presentation of primary statements, structure of notes, disclosure of accounting policies, and presentation of other comprehensive income (OCI) arising from equity accounted investments. The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose and how to structure notes in their financial statements. These amendments did not impact the Company’s financial statements or accounting policies.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES continued

New standards and amendments to standards effective 1 January 2016 *continued*

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. These amendments did not impact the Company's financial statements or accounting policies.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment entities: Applying the Consolidation exception

The amendments define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. These amendments did not impact the Company's financial statements or accounting policies.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments clarify that when acquiring an interest in a joint operation where the activity of the joint operation constitutes a business, all of the principles on business combinations accounting in IFRS 3, and other IFRSs, that do not conflict with the guidance in IFRS 11, are to be applied. The requirements apply to the acquisition of both the initial interest and additional interests in a joint operation but any previously held interest in the joint operation would not be remeasured. These amendments did not impact the Company's financial statements or accounting policies.

Changes in accounting policies driven by new regulations:

The changes in accounting policies described below were driven by the Insurance Authority Board and provide more relevant and reliable information of the Company's financial performance and financial position to the users of the financial statements. The changes in accounting policies have been applied retrospectively by the Company. The effects of the changes in the accounting policies are described in note 32.

(i) Allocated Loss Adjustment Expense (ALAE) / Unallocated Loss Adjustment Expense Reserves (ULAE)

On 1 January 2016, the Company has adopted the financial regulations required by the Insurance Authority Board Decision No. (26) of 2014 relating to recognition of ALAE & ULAE and accordingly, changed its accounting policy to record a provision representing future claim expenses and related handling costs, being ALAE and ULAE. The ALAE reserve is for expenses and costs that can be assigned to a specific claim and the ULAE reserve is for all other overhead expenses and costs that cannot be assigned to a specific claim. The change in accounting policy in the current period has resulted in a provision of AED 753,212 as at 31 December 2016 included under takaful contract liabilities.

(ii) Unearned contributions Reserve (UCR)

On 1 January 2016, the Company has adopted the financial regulations required by the Insurance Authority Board Decision No. (26) of 2014 relating to the method of calculating UCR and accordingly, changed its accounting policy to comply with the regulation. Prior to the change in accounting policy, the Company has computed UCR and retakaful share thereon using minimum stipulated requirements in UAE Insurance Companies Law and mathematical models. The change in accounting policy in the current period has resulted in recognising UCR and retakaful share thereon on a time proportion basis over the effective period of the policy.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES continued

In line with the change in accounting policy related to the method of calculating UCR, management takes the view that the changes in accounting policies described below provide more relevant and reliable information of the Company's financial performance and financial position to the economic decisions made by the users of the financial statements.

(i) Deferred acquisition costs (DAC)

On 1 January 2016, the Company has changed its accounting policy for recognising deferred acquisition costs. Prior to the change in the accounting policy, the Company had computed these costs in line with unearned contributions using the minimum stipulated requirements in United Arab Emirates (UAE) Insurance Companies Law and mathematical models. The change in accounting policy in the current period has resulted in recognising these costs on a time proportion basis over the effective period of the policy in line with unearned contributions.

(ii) Unearned retakaful commission (URC)

On 1 January 2016, the Company has changed its accounting policy for recognising unearned retakaful commission. Prior to the change in the accounting policy, the Company had recognised unearned retakaful commission in line with unearned contributions using the minimum stipulated requirements in United Arab Emirates (UAE) Insurance Companies Law and mathematical models. The change in accounting policy in the current period has resulted in recognising retakaful commission income on a time proportion basis over the effective period of the policy in line with unearned contributions.

2.4 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 Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

- IFRS 9: Financial Instruments - hedge accounting (Amendments to IFRS 9, IFRS 7 and IAS 39)
- IFRS 9: Financial Instruments - impairment
- IFRS 15: Revenue from Contracts with Customers
- IFRS 16: Leases
- IAS 7: Statement of Cash Flows (Amendment)

Management is in the process of assessing the impact of these new standards and amendments on its financial statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Takaful contracts

Definition

The Company issues contracts that transfer takaful risk. Takaful contracts are those contracts that transfer significant takaful risk. As a general guideline, the Company defines significant takaful risk as the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Takaful contracts continued

Recognition and measurement

General takaful contracts protect the Company's customers for damage suffered to their assets as well as against the risk of causing harm to third parties as a result of their legitimate activities. General takaful contracts also protect the Company's customers from the consequences of events such as illness and disability.

For all these contracts, contributions are recognised as revenue proportionally over the period of coverage. The portion of contributions received on in-force contracts that relates to unexpired risks at the reporting date is reported as the unearned contributions liability. Contributions are shown before deduction of commission.

Claims and loss adjustment expenses are charged to the statement of income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the reporting date even if they have not yet been reported to the Company.

The Company does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for the claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

Retakaful contract assets

Contracts entered into by the Company for retakaful under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements of takaful contracts are classified as retakaful contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

Takaful contracts entered into by the Company under which the contract holder is involved in takaful activities are included with takaful contracts. The benefits to which the Company is entitled under its retakaful contracts held are recognised as retakaful contract assets. The Company assesses its retakaful contract assets for impairment on a regular basis. If there is objective evidence that the retakaful contract asset is impaired, the Company reduces the carrying amount of the retakaful contract assets to its recoverable amount and recognises that impairment loss in the income statement. Amounts recoverable from or due to retakaful holders are measured consistently with the amounts associated with the retakaful contracts and in accordance with the terms of each retakaful contract.

Takaful contract liabilities

Takaful contract liabilities include outstanding claims (OSLR), claims incurred but not reported (IBNR), unearned contribution reserve (UCR) and the provision for allocated and unallocated loss adjustment expenses (ALAE/ULAE).

Takaful contract liabilities towards outstanding claims are made for all claims intimated to the Company and still unpaid at the statement of financial position date, in addition for claims incurred but not reported.

The unearned contribution reserve considered in the Takaful contract liabilities comprise the estimated proportion of the gross contributions written which relates to the periods of Takaful subsequent to the reporting period date. Unearned contributions are calculated on a time proportion basis over the effective period of the policy. The proportion attributable to subsequent periods is deferred as unearned contributions reserve. The Company provides unearned contribution reserve based on actual terms of the policy.

The liability relating to IBNR and ALAE/ULAE reserve is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money.

The retakaful portion towards the above outstanding claims, claims incurred but not reported and unearned contributions reserve is classified as retakaful contracts assets in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Takaful contracts continued

Salvage and subrogation reimbursements

Some takaful contracts permit the Company to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Company may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the takaful liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are considered as an allowance in the measurement of the takaful liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party

Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the takaful contract liabilities net of related deferred policy acquisition costs. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the income statement initially establishing a provision for losses arising from liability adequacy tests.

Receivables and payables related to takaful contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and takaful contract holders.

If there is objective evidence that the takaful receivable is impaired, the Company reduces the carrying amount of the takaful receivable accordingly and recognises that impairment loss in the income statement.

The Company gathers the objective evidence that a takaful receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial statements.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable in the normal course of business.

Takaful contract income

Revenue from takaful contracts is measured under revenue recognition criteria stated under takaful contracts in these financial statements.

Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Rental income

Rental income from investment properties is recognised on a straight-line basis over the term of the relevant lease and is stated net of related property expenses.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition continued

Other income

Other income is accrued on a time basis, by reference to the principal outstanding and at the effective rate of return applicable.

Retakaful income and expenses

Retakaful income is recognised when retakaful is entered into and retakaful expenses are recognised when the policies are issued based on the terms and percentages agreed with other insurance companies and/or brokers.

Foreign currencies

For the purpose of these financial statements, the UAE Dirhams (AED) is the functional and the presentation currency of the Company.

Transactions in currencies other than AED (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the statement of income in the period in which they arise.

Furniture and equipment

Furniture and equipment are recorded at cost less accumulated depreciation and any impairment losses, if any. The cost of furniture and equipment is their purchase cost, together with any incidental expenses of acquisition.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated so as to write off the cost of furniture and equipment on a straight-line basis over their expected useful economic lives.

The principal annual rates used for this purpose are:

Furniture, fixtures and office equipment	20%
Computer equipment and accessories	33.33%

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Investment properties and advances on investment properties

Investment properties are held for the generation of income or capital appreciation and are initially measured 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 income in the year in which they arise.

Investment properties are derecognised when either 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 income in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use.

Amounts paid to purchase investment properties (e.g land) can be initially recorded as advances on investment properties and the related capital commitments are disclosed in the commitments and contingencies note. When the investment property recognition criteria are met, advances on investment properties are reclassified to investment properties.

Impairment of tangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Employee benefits

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

Provision is also made for the full amount of end of service benefits due to non-UAE national employees in accordance with the Company's policy, which is at least equal to the benefits payable in accordance with UAE Labour Law, for their period of service up to the end of the reporting period. The accrual relating to annual leave and leave passage is disclosed as a current liability, while the provision relating to end of service benefits is disclosed as a non-current liability.

Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (2), 2000 for Pension and Social Security. Such contributions are charged to the statement of income during the employees' period of service.

Financial assets

All financial assets are recognised and derecognised on trade date when the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss (FVTPL), which are initially measured at fair value.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value.

Classification of financial assets

The Company had the following financial assets as at 31 December 2015: 'cash and cash equivalents', 'takaful and other receivables', 'financial assets at fair value through profit or loss (FVTPL)', and 'financial assets at fair value through other comprehensive income (FVTOCI)'.

Financial assets at amortised cost and the effective rate of return method

• *Cash and cash equivalents*

Cash and cash equivalents which include cash on hand and deposits held at call with banks with original maturities of three months or less, are classified as financial assets at amortised cost.

• *Takaful and other receivables*

Takaful and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Takaful and other receivables are measured at amortised cost using the effective rate of return method, less any impairment. Return income is recognised by applying the effective rate of return, except for short term receivables when the recognition of return income would be immaterial.

Financial assets at FVTPL

Investments in equity instruments are mandatorily classified as at FVTPL, unless the Company designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) at initial recognition.

Financial assets at FVTPL are measured at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss is included in the 'net investment and other income' line item in the profit and loss. Fair value is determined with reference to quoted prices.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial assets continued

Financial assets at FVTOCI

At initial recognition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Company's right to receive the dividends is established in accordance with IAS 18 *Revenue*, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends earned are recognised in profit or loss and are included in the 'net investment and other income' line item in the profit and loss.

Impairment of financial assets at amortised cost

Financial assets that are measured at amortised cost are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as takaful receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, reflecting the impact of collateral and guarantees, discounted at the financial asset's original effective rate of return rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of takaful receivables, where the carrying amount is reduced through the use of an allowance account. When a takaful receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial assets continued

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset.

Financial liabilities and equity instruments issued by the Company

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities comprise retakaful payables and other liabilities and Islamic financing and are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with profit recognised on an effective yield basis, except for short-term liabilities when the recognition of profit would be immaterial.

The effective rate of return is a method of calculating the amortised cost of a financial liability and of allocating the expense over the relevant period. The effective rate of return is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Fair value measurement

The Company measures financial instruments, such as investments at fair value through other comprehensive income, investments at fair value through profit or loss and non-financial assets such as investment properties, at fair value at each reporting 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 by the Company.

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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Fair value measurement continued

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 Company 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 financial statements are categorized 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 financial statements on a recurring basis, the Company 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.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. An analysis of fair values of financial instruments and investment properties is provided in note 32

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counter party), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

Qard Hassan and deficit in policyholders' fund

Deficit in the policyholders' fund is financed by the Shareholders through a Qard Hassan loan. This loan is tested quarterly for impairment. In the event that it is judged by management that any or the entire deficit in the policyholders' fund is not recoverable from the future surpluses, the amount considered impaired is charged to the shareholders' statement of income.

Dividends distribution

Dividends distribution to the Company's Shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's Shareholders.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

While applying the accounting policies as stated in note 3, management of the Company has made certain judgments, estimates and assumptions that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period of the revision in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The significant judgments and estimate made by management, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

Classification of investments

Management designates at the time of acquisition of securities whether these should be classified as at FVTOCI, FVTPL or amortised cost. In judging whether investments in securities are as at FVTOCI, FVTPL or amortised cost, management has considered the detailed criteria for determination of such classification as set out IFRS 9 *Financial Instruments*. Management is satisfied that its investments in securities are appropriately classified.

Impairment of takaful and other receivables

An estimate of the collectible amount of takaful and other receivables is made when collection of the full amount is no longer probable. This determination of whether the takaful and other receivables are impaired entails Management's evaluation of the specific credit and liquidity position of the policyholders and their historical recovery rates. The impairment of takaful and other receivables as at 31 December 2016 is AED 38,996,007 (2015: AED 27,489,057).

Management regularly reviews the collectability of amounts due from takaful and retakaful companies. The majority of these receivables are due from reputable local and international takaful and retakaful companies. Such balances are regularly reconciled by both parties and are settled by on account payments on a regular basis.

The ultimate liability arising from claims made under takaful contracts

The estimation of ultimate liability arising from the claims made under takaful contracts is the Company's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Company will eventually pay for such claims. Estimates have to be made for the expected ultimate cost of claims reported at the end of the reporting period, allocated loss adjustment expense (ALAE) / unallocated loss adjustment expense reserves (ULAE) at the end of the reporting period and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the end of the reporting period. Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Company and management estimates based on past claims settlement trends for the claims incurred but not reported. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision. Provision for ultimate liability arising from claims as at 31 December 2016 amounted to AED 101,952,649 (2015: AED 92,072,604) as detailed in note 8.

Liability adequacy test

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

Useful lives and residual values of furniture and equipment

Management reviews the residual values and estimated useful lives of furniture and equipment at the end of each annual reporting period in accordance with IAS 16 *Property, Plant and Equipment*. Management determined that current year expectations do not differ from previous estimates based on its review

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

5 CASH AND CASH EQUIVALENTS

	<i>2016</i> <i>AED</i>	<i>2015</i> <i>AED</i>
Cash on hand	45,000	45,000
Current bank accounts	15,940,329	11,444,631
Term deposits	<u>334,023</u>	<u>334,023</u>
Cash and bank balances	16,319,352	11,823,654
Less: term deposits with original maturity of more than three months	<u>(334,023)</u>	<u>(334,023)</u>
Cash and cash equivalents	<u>15,985,329</u>	<u>11,489,631</u>

Term deposits represent deposits held with financial institutions in the UAE, denominated in UAE dirhams and carry profit at a rate of 1.75% per annum (2015: 1.75% per annum).

6 STATUTORY DEPOSIT

In accordance with the requirements of the Federal Law No. (6) of 2007 regarding the Establishment of the Insurance Authority and Insurance Operations, the Company maintains a bank deposit of AED 6,000,000 which cannot be utilised without the consent of the UAE Insurance Authority. The statutory deposit is held with a commercial bank in the UAE and bears profit at commercial rates.

7 INVESTMENTS

	<i>2016</i> <i>AED</i>	<i>2015</i> <i>AED</i>
Investments at fair value through other comprehensive income		
Unquoted UAE equity securities	<u>15,948,000</u>	<u>17,720,000</u>
Investments at fair value through profit or loss		
Quoted UAE equity securities	<u>2,529,012</u>	<u>2,218,499</u>

Unquoted UAE equity securities represent the following:

The Company has a participation in the private placement of Emirates Aqua Technologies Caviar Factory LLC (caviar farm) for 15,500,000 shares for a fair value of AED 15,948,000 (AED 1.03 per share) (2015: 15,500,000 shares for a fair value of AED 17,720,000 (AED 1.14 per share)).

Methaq Takaful Insurance Company PSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

7 INVESTMENTS continued

	<i>2016</i> <i>AED</i>	<i>2015</i> <i>AED</i>
Investments at fair value through other comprehensive income		
At the beginning of the year	17,720,000	25,800,000
Decrease in fair value	<u>(1,772,000)</u>	<u>(8,080,000)</u>
At the end of the year	<u>15,948,000</u>	<u>17,720,000</u>
Investments at fair value through profit or loss		
At the beginning of the year	2,218,499	7,236,641
Purchases during the year	-	985,511
Sales during the year	-	(3,982,859)
Increase (decrease) in fair value	<u>310,513</u>	<u>(2,020,794)</u>
At the end of the year	<u>2,529,012</u>	<u>2,218,499</u>

8 RETAKAFUL CONTRACT ASSETS AND TAKAFUL CONTRACT LIABILITIES

	<i>31 December</i> <i>2016</i> <i>AED</i>	<i>31 December</i> <i>2015</i> <i>AED</i> <i>(Restated)</i>	<i>1 January</i> <i>2015</i> <i>AED</i> <i>(Restated)</i>
Gross			
Takaful contract liabilities			
Reported claims	75,641,480	71,851,440	83,260,403
Claims incurred but not reported	25,557,957	20,221,164	11,162,097
Unearned contributions	141,667,760	107,619,862	94,577,339
Unallocated loss expense reserve	<u>753,212</u>	<u>-</u>	<u>-</u>
	<u>243,620,409</u>	<u>199,692,466</u>	<u>188,999,839</u>
Retakaful contract assets			
Reported claims	4,064,746	3,848,092	6,542,001
Claims incurred but not reported	2,511,888	1,992,799	1,232,305
Unearned contributions	<u>20,885,266</u>	<u>11,394,950</u>	<u>4,923,658</u>
	<u>27,461,900</u>	<u>17,235,841</u>	<u>12,697,964</u>
Takaful liabilities - net			
Reported claims	71,576,734	68,003,348	76,718,402
Claims incurred but not reported	23,046,069	18,228,365	9,929,792
Unearned contributions	120,782,494	96,224,912	89,653,681
Unallocated loss expense reserve	<u>753,212</u>	<u>-</u>	<u>-</u>
	<u>216,158,509</u>	<u>182,456,625</u>	<u>176,301,875</u>

Methaq Takaful Insurance Company PSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

8 RETAKAFUL CONTRACT ASSETS AND TAKAFUL CONTRACT LIABILITIES continued

The movement in the retakaful contract assets and takaful contract liabilities during the year is as follows:

	Year ended 31 December 2016			Year ended 31 December 2015 (restated)		
	Gross AED	Retakaful AED	Net AED	Gross AED	Retakaful AED	Net AED
CLAIMS						
Notified claims	71,851,440	3,848,092	68,003,348	83,260,403	6,542,001	76,718,402
Incurred but not reported	<u>20,221,164</u>	<u>1,992,799</u>	<u>18,228,365</u>	<u>11,162,097</u>	<u>1,232,305</u>	<u>9,929,792</u>
Total at 1 January	92,072,604	5,840,891	86,231,713	94,422,500	7,774,306	86,648,194
Increase in liabilities	169,871,027	30,211,322	139,659,705	166,643,685	17,634,373	149,009,312
Claims settled in the year	<u>(159,990,982)</u>	<u>(29,475,579)</u>	<u>(130,515,403)</u>	<u>(168,993,581)</u>	<u>(19,567,788)</u>	<u>(149,425,793)</u>
Total at 31 December	<u>101,952,649</u>	<u>6,576,634</u>	<u>95,376,015</u>	<u>92,072,604</u>	<u>5,840,891</u>	<u>86,231,713</u>
Notified claims	75,641,480	4,064,746	71,576,734	71,851,440	3,848,092	68,003,348
Incurred but not reported	25,557,957	2,511,888	23,046,069	20,221,164	1,992,799	18,228,365
Unallocated loss expense reserve	<u>753,212</u>	-	<u>753,212</u>	-	-	-
Total at 31 December	<u>101,952,649</u>	<u>6,576,634</u>	<u>95,376,015</u>	<u>92,072,604</u>	<u>5,840,891</u>	<u>86,231,713</u>
UNEARNED CONTRIBUTION						
Total at 1 January	<u>107,619,862</u>	<u>11,394,950</u>	<u>96,224,912</u>	<u>94,577,339</u>	<u>4,923,658</u>	<u>89,653,681</u>
Increase during the year	141,667,760	20,885,266	120,782,494	107,619,862	11,394,950	96,224,912
Released during the year	<u>(107,619,862)</u>	<u>(11,394,950)</u>	<u>(96,224,912)</u>	<u>(94,577,339)</u>	<u>(4,923,658)</u>	<u>(89,653,681)</u>
Net increase during the year	<u>34,047,898</u>	<u>9,490,316</u>	<u>24,557,582</u>	<u>13,042,523</u>	<u>6,471,292</u>	<u>6,571,231</u>
Total at 31 December	<u>141,667,760</u>	<u>20,885,266</u>	<u>120,782,494</u>	<u>107,619,862</u>	<u>11,394,950</u>	<u>96,224,912</u>

9 RELATED PARTIES

Related parties comprise shareholders, directors and key management personnel of the Company and entities controlled, jointly controlled or significantly influenced by such parties. The Company maintains significant balances with these related parties as follows:

	2016 AED	2015 AED
Takaful receivables due from related parties (note 10)	5,106,219	1,984,248
Less: allowance for doubtful balances due from related parties (note 10)	<u>(4,965,275)</u>	-
	<u>140,944</u>	<u>1,984,248</u>
Other receivables due from related parties (note 10)	2,744,090	2,776,089
Less: allowance for doubtful balances due from related parties (note 10)	<u>(1,894,090)</u>	<u>(1,551,122)</u>
	<u>850,000</u>	<u>1,224,967</u>

The Company entered into the following significant transactions with related parties in the ordinary course of business at terms and conditions agreed upon between the parties:

	2016 AED	2015 AED
Related party transactions		
Gross takaful contributions	<u>1,516,022</u>	<u>1,411,545</u>
Claims paid	<u>1,554,816</u>	<u>2,101,349</u>
Directors fees	<u>87,000</u>	<u>277,000</u>

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

9 RELATED PARTIES continued

The remuneration of key management personnel during the year was as follows:

	2016 AED	2015 AED
Short-term benefits	<u>4,832,000</u>	<u>4,152,000</u>
Long-term benefits	<u>496,786</u>	<u>384,333</u>

The remuneration of key management personnel is based on the remuneration agreed in their employment contracts as approved by the Board of Directors.

10 TAKAFUL AND OTHER RECEIVABLES

	2016 AED	2015 AED
Receivables from takaful and retakaful contracts		
Due from takaful policyholders	10,071,952	12,377,745
Due from agents, brokers and intermediaries	88,277,495	59,297,297
Due from related parties (note 9)	<u>5,106,219</u>	<u>1,984,248</u>
	<u>103,455,666</u>	<u>73,659,290</u>
Other receivables		
Due from related parties (note 9)	2,744,090	2,776,089
Advances towards formation of companies	823,388	823,388
Due from other insurance/takaful companies	58,616,963	59,498,284
Prepaid expenses	1,104,823	1,100,714
Accrued profit from investment deposits	78,708	44,751
Refundable deposits	1,361,635	1,382,635
Advances for investments	3,506,950	3,506,950
Other receivables and advances to suppliers	<u>30,935,711</u>	<u>20,054,174</u>
	<u>99,172,268</u>	<u>89,186,985</u>
Less: allowance for doubtful takaful and other receivables	<u>(38,996,007)</u>	<u>(27,489,057)</u>
	<u>163,631,927</u>	<u>135,357,218</u>
Allowance for doubtful takaful and other receivables includes:		
Allowance for doubtful receivables from takaful and retakaful contracts (*)	(30,272,789)	(25,115,757)
Allowance for doubtful other receivables due from related parties (note 9)	(1,894,090)	(1,551,122)
Allowance for advances towards formation of companies	(822,178)	(822,178)
Allowance for advances for investments	(3,506,950)	-
Allowance for due from other insurance/takaful companies	<u>(2,500,000)</u>	<u>-</u>
	<u>(38,996,007)</u>	<u>(27,489,057)</u>

(*) This item includes allowance for doubtful takaful receivables due from related parties amounting to AED 4,965,275 (2015: AED nil).

NOTES TO THE FINANCIAL STATEMENTS

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10 TAKAFUL AND OTHER RECEIVABLES continued

Amounts due from takaful and retakaful contracts consist of a large number of policyholders and insurance and reinsurance companies. The Company's terms of business require amounts to be paid in accordance with arrangements reached with the policyholders and insurance and reinsurance companies and no interest is charged on takaful and other receivables.

Before accepting any new customer, the Company assesses the potential customer's credit quality and defines credit limits by customer. In determining the recoverability of a takaful receivable, the Company considers any change in the credit quality of the takaful receivable from the date credit was initially granted up to the reporting date.

As at 31 December 2016, receivables from takaful and retakaful contracts at a nominal value of AED 30,272,789 (2015: AED 25,115,757) were impaired and fully provided for.

Movement in the allowance for doubtful receivables from takaful and retakaful contracts is as follows:

	2016	2015
	AED	AED
At 1 January	27,489,057	23,257,137
Charge for the year	11,506,950	4,906,352
Amount written off	<u>-</u>	<u>(674,432)</u>
At 31 December	<u>38,996,007</u>	<u>27,489,057</u>

As at 31 December, the ageing of unimpaired receivables from takaful and retakaful contracts is as follows:

	<i>Neither past due nor impaired</i>	<i>Past due but not impaired</i>			
		<i>91 - 180 days</i>	<i>180 - 360 days</i>	<i>More than 360 days</i>	
<i>Total</i>	<i>impaired</i>	<i>days</i>	<i>days</i>	<i>days</i>	
<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	<i>AED</i>	
2016	73,182,877	24,397,503	21,421,905	8,218,019	19,145,450
2015	48,543,533	8,137,748	9,293,763	10,550,518	20,561,504

Advances for investments represent the following:

On 16 September 2012, the Company committed to participate for a share of Euro 840,000 (840,000 shares at Euro 1 each) in United Food Technologies AG ("UFT"). The Company paid AED 3,506,950 (Euro 598,010) to UFT (2014: AED 3,506,950). During 2016, the Company has provided in full for the advance.

Methaq Takaful Insurance Company PSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

11 FURNITURE AND EQUIPMENT

	<i>Furniture, fixtures and office equipment AED</i>	<i>Computer equipment and accessories AED</i>	<i>Total AED</i>
2016			
Cost:			
At 1 January 2016	5,044,043	3,533,819	8,577,862
Additions	<u>260,608</u>	<u>10,079</u>	<u>270,687</u>
At 31 December 2016	<u>5,304,651</u>	<u>3,543,898</u>	<u>8,848,549</u>
Depreciation:			
At 1 January 2016	2,451,330	3,384,817	5,836,147
Charge for the year (note 24)	<u>898,242</u>	<u>105,038</u>	<u>1,003,280</u>
At 31 December 2016	<u>3,349,572</u>	<u>3,489,855</u>	<u>6,839,427</u>
Net carrying amount: 31 December 2016	<u>1,955,079</u>	<u>54,043</u>	<u>2,009,122</u>
2015			
Cost:			
At 1 January 2015	3,696,084	3,502,033	7,198,117
Additions	<u>1,347,959</u>	<u>31,786</u>	<u>1,379,745</u>
At 31 December 2015	<u>5,044,043</u>	<u>3,533,819</u>	<u>8,577,862</u>
Depreciation:			
At 1 January 2015	1,632,423	3,282,782	4,915,205
Charge for the year (note 24)	<u>818,907</u>	<u>102,035</u>	<u>920,942</u>
At 31 December 2015	<u>2,451,330</u>	<u>3,384,817</u>	<u>5,836,147</u>
Net carrying amount: 31 December 2015	<u>2,592,713</u>	<u>149,002</u>	<u>2,741,715</u>

12 INVESTMENT PROPERTIES

	<i>2016 AED</i>	<i>2015 AED</i>
At the beginning of the year	152,135,625	144,150,000
Increase in fair value	<u>10,224,375</u>	<u>7,985,625</u>
At the end of the year	<u>162,360,000</u>	<u>152,135,625</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

12 INVESTMENT PROPERTIES continued

Investment properties is comprised of:

- A building, located in Abu Dhabi, purchased in 2010 and held for long term rental yields. As at year end, the investment property was registered and held in trust in the name of another party, for and on behalf of the Company and was not yet transferred to the Company. Management is still in the process of formalising the necessary registration procedures to transfer the title to the Company's name.
- A plot of land in Abu Dhabi that is held in the name of a related party, for and on behalf of the Company.

Investment properties are stated at fair value which represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. The fair value of the investment properties at 31 December 2016 are determined by independent valuers using the income and comparable methods.

The rental income for the year amounted to AED 1,183,203 (2015: AED 1,219,967) and building expenses amounted to AED 198,366 (2015: AED 156,420).

13 SHARE CAPITAL

	<i>2016</i>	<i>2015</i>
	<i>AED</i>	<i>AED</i>
<i>Authorized, issued and fully paid</i>		
150,000,000 shares of AED 1 each	<u>150,000,000</u>	<u>150,000,000</u>

14 LEGAL RESERVE

In accordance with the provisions of the UAE Federal Law No. (2) of 2015, and the Company's Articles of Association, the Company is required to transfer annually to a legal reserve account an amount equivalent to 10% of its annual net profit, until such reserve reaches 50% of the paid up capital of the Company.

15 GENERAL RESERVE

In accordance with Article 64 of the Company's Articles of Association, 10% of the Company's net profit for the year is to be transferred to a general reserve. No transfer was made during the year as the Company is in accumulated losses position.

Methaq Takaful Insurance Company PSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

16 POLICYHOLDERS' FUND

	<i>2016</i> <i>AED</i>	<i>2015</i> <i>AED</i> <i>(Restated)</i>
Policyholders' fund		
Opening balance	(148,372,712)	(136,719,263)
Deficit for the year	<u>(17,180,073)</u>	<u>(11,653,449)</u>
Closing balance	<u>(165,552,785)</u>	<u>(148,372,712)</u>
Loan from shareholders to policyholders		
At 1 January	148,372,712	136,719,263
Net movement during the year	<u>17,180,073</u>	<u>11,653,449</u>
Loan from shareholders	165,552,785	148,372,712
Less: allowance for loan to policyholders	<u>(165,552,785)</u>	<u>(148,372,712)</u>
Loan to policyholders, net	<u> -</u>	<u> -</u>

The deficit in the policyholders' fund is financed by the Shareholders through a Qard Hasan loan.

The Shareholders have funded the deficit in the policyholders' fund in accordance with the Company's policy through a Qard Hassan (free of finance charge) of AED 165,552,785 as of 31 December 2016 (2015 restated: AED 148,372,712) with no repayment terms. During the year, Qard Hassan with a nominal value of AED 17,180,073 (2015 restated: AED 25,174,680) was impaired and the allowance of the same amount was charged to the statement of income attributable to shareholders.

17 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

	<i>2016</i> <i>AED</i>	<i>2015</i> <i>AED</i>
At 1 January	1,382,518	1,134,343
Charge for the year	553,597	421,136
Paid during the year	<u>(91,302)</u>	<u>(172,961)</u>
At 31 December	<u>1,844,813</u>	<u>1,382,518</u>

18 RETAKAFUL AND OTHER LIABILITIES

	<i>2016</i> <i>AED</i>	<i>2015</i> <i>AED</i>
Due to retakaful companies/garages/suppliers/providers	56,701,710	64,835,267
Accrued expenses	2,676,241	2,622,334
Rent received in advance	758,303	681,505
Other payables	<u>686,565</u>	<u>1,209,783</u>
	<u>60,822,819</u>	<u>69,348,889</u>

The average credit period is 60 days. The Company has financial risk management policies in place to ensure that all payables are paid within credit time frame. No profit is charged on the takaful and other payable balances.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

19 ISLAMIC FINANCING ARRANGEMENT

	<i>Profit charge %</i>	2016 <i>AED</i>	2015 <i>AED</i>
Ijara financing arrangement	8.5%	<u>5,142,857</u>	<u>6,857,143</u>

Ijara financing arrangement

The Company entered into an Ijara financing arrangement with a local Islamic bank in UAE for AED 12,000,000 in 2012. The Ijara is repayable in 14 semi-annual rental instalments commencing 22 June 2013 and secured by a first degree registered mortgage over the Company's investment property.

Amounts repayable in respect of the Ijara financing arrangement are as follows:

	2016 <i>AED</i>	2015 <i>AED</i>
Within 1 year	1,714,286	1,714,286
Between 1 – 2 years	1,714,286	1,714,286
Between 2 – 3 years	1,714,285	1,714,286
Between 3 – 4 years	<u>-</u>	<u>1,714,285</u>
	<u>5,142,857</u>	<u>6,857,143</u>

20 RETAKAFUL DEPOSITS RETAINED

	2016 <i>AED</i>	2015 <i>AED</i>
At 1 January	8,572,550	3,653,886
Retained during the year	14,185,034	8,103,980
Released during the year	<u>(8,125,579)</u>	<u>(3,185,316)</u>
At 31 December	<u>14,632,005</u>	<u>8,572,550</u>

21 NET EARNED CONTRIBUTIONS

	2016 <i>AED</i>	2015 <i>AED</i> <i>(Restated)</i>
Gross takaful contributions revenue		
Gross contributions written	264,716,683	238,300,977
Change in unearned contributions provision (note 8)	<u>(34,047,898)</u>	<u>(13,042,523)</u>
	<u>230,668,785</u>	<u>225,258,454</u>
Retakaful contributions ceded		
Retakaful contributions	(41,354,745)	(26,315,278)
Change in unearned contributions provision (note 8)	<u>9,490,316</u>	<u>6,471,292</u>
	<u>(31,864,429)</u>	<u>(19,843,986)</u>
Net earned contributions	<u>198,804,356</u>	<u>205,414,468</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

22 WAKALA FEES AND MUDARIB SHARE

The shareholders manage the takaful operations for the policyholders and charge the following range of percentages of gross takaful contributions as Wakala fees:

Motor	21%	(2015: 21%)
Medical	10%	(2015: 10%)
Others	2 - 22%	(2015: 2-22%)

The shareholders manage the policyholders' investment fund and charge 10% (2015: 10%) of investment income earned by policyholders' investment fund as Mudarib share. Investment income earned by policyholders' investment fund as well as Mudarib share amounted to AED nil (2015: AED nil).

23 SHAREHOLDERS' INVESTMENT INCOME

	<i>2016</i> <i>AED</i>	<i>2015</i> <i>AED</i>
Return on deposits and other income	437,017	370,892
Dividend income from investments at fair value through profit or loss	5,126	4,624
Profit on sukuk	<u>-</u>	<u>106,250</u>
	<u>442,143</u>	<u>481,766</u>

24 GENERAL AND ADMINISTRATIVE EXPENSES

	<i>2016</i> <i>AED</i>	<i>2015</i> <i>AED</i>
Staff costs	21,752,628	21,402,551
Rental expenses	6,869,770	2,228,064
Depreciation of furniture and equipment (note 11)	1,003,280	920,942
Other expenses	<u>3,888,922</u>	<u>3,748,739</u>
	<u>33,514,600</u>	<u>28,300,296</u>

25 BASIC AND DILUTED EARNINGS PER SHARE

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

	<i>2016</i>	<i>2015</i> <i>(Restated)</i>
Net profit for the year (AED)	<u>9,329,883</u>	<u>694,957</u>
Ordinary shares in issue throughout the year (shares)	<u>150,000,000</u>	<u>150,000,000</u>
Basic and diluted earning per share (AED)	<u>0.062</u>	<u>0.005</u>

The Company has not issued any instruments which would have a dilutive impact on profit per share when converted or exercised.

Methaq Takaful Insurance Company PSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

26 NET CLAIMS INCURRED

	2016 AED	2015 AED
Gross claims paid, net of recoveries	157,622,416	166,828,308
TPA fees and roadside assistance, net of recoveries	(892,936)	685,104
Change in provision for outstanding claims	3,790,040	(11,408,963)
Change in outstanding claims recoveries	881,321	(9,457,189)
Change in claims incurred but not reported	5,336,793	9,059,067
Change in unallocated loss adjustment expenses reserve	<u>753,212</u>	<u>-</u>
Gross claims incurred	<u>167,490,846</u>	<u>155,706,327</u>
Recovered claims from retakaful contracts	(29,475,579)	(19,567,789)
Change in retakaful share of outstanding claims	(216,654)	2,693,909
Change in retakaful share of claims incurred but not reported	<u>(519,089)</u>	<u>(760,494)</u>
Retakaful share of claims incurred	<u>(30,211,322)</u>	<u>(17,634,374)</u>
Net claims incurred	<u>137,279,524</u>	<u>138,071,953</u>

27 CONTINGENT LIABILITIES AND COMMITMENTS

	2016 AED	2015 AED
Bank guarantees	<u>6,300,000</u>	<u>6,300,000</u>

Bank guarantees were issued in the normal course of business.

Lawsuits raised against the Company that are related to takaful business and that will probably result in quantifiable settlements are provided for as part of the outstanding claims reserve. During the year, the Company settled a lawsuit related to a rent dispute of AED 4.5 million which is included as part of the general and administrative expenses.

28 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. All operating segments used by management meet the definition of a reportable segment under IFRS 8.

The Company is organised into two business segments, shareholders and policyholders. Shareholders' segment comprises investment and cash management for the Company's own account in addition to management of the policyholders' fund. The policyholders segment comprises the takaful business undertaken by the Company. These segments are the basis on which the Company reports its primary segment information.

The Company's underwriting business is based entirely within the United Arab Emirates. Retakaful treaties are arranged with companies based primarily in the GCC or in Europe and USA. The investments of the Company are held in the United Arab Emirates.

Methaq Takaful Insurance Company PSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

28 SEGMENT INFORMATION continued

The policyholders' segment is further organised into three main product lines consistent with the reports used by the Board. These include:

- Motor: Covers damage to motor cars and related property and injuries or deaths of persons
- Medical: Covers groups of individuals for medical treatment
- Others: Covers insurance of engineering, property, marine and personal, general and third party accidents

Details of the three takaful product lines of the policyholders' segment are shown in the product lines table below.

Business segments

	2016			2015 (restated)		
	Policyholders AED	Shareholders AED	Total AED	Policyholders AED	Shareholders AED	Total AED
Net underwriting income	42,921,827	-	42,921,827	40,586,990	-	40,586,990
Allowance for takaful and other receivables	(7,657,032)	-	(7,657,032)	(4,906,352)	-	(4,906,352)
Wakala fees	<u>(52,444,868)</u>	<u>52,444,868</u>	-	<u>(47,334,087)</u>	<u>47,334,087</u>	-
	(17,180,073)	52,444,868	35,264,795	(11,653,449)	47,334,087	35,680,638
Investment income	-	442,143	442,143	-	481,766	481,766
Net rental income from investment property	-	984,837	984,837	-	1,063,547	1,063,547
Increase in fair value of investment property	-	10,224,375	10,224,375	-	7,985,625	7,985,625
Profit (Loss) on sale of investments at fair value through profit or loss	-	-	-	-	4,083	4,083
Increase (decrease) in fair value of investments at FVTPL	-	310,513	310,513	-	(2,020,794)	(2,020,794)
Allowance for takaful and other receivables	-	(3,849,918)	(3,849,918)	-	-	-
Increase in allowance for loan to policyholder's fund	-	(17,180,073)	(17,180,073)	-	(25,174,680)	(25,174,680)
Profit expenses on Islamic finance	-	(532,262)	(532,262)	-	(678,381)	(678,381)
General and administrative expenses	-	<u>(33,514,600)</u>	<u>(33,514,600)</u>	-	<u>(28,300,296)</u>	<u>(28,300,296)</u>
Net profit for the year	<u>(17,180,073)</u>	<u>9,329,883</u>	<u>(8,193,158)</u>	<u>(11,653,449)</u>	<u>694,957</u>	<u>(10,958,492)</u>

	2016			2015 (restated)		
	Policyholders AED	Shareholders AED	Total AED	Policyholders AED	Shareholders AED	Total AED
Total assets	<u>315,093,805</u>	<u>96,018,784</u>	<u>411,112,589</u>	<u>270,780,959</u>	<u>89,537,345</u>	<u>360,318,304</u>

Revenue reported above represents revenue generated from external customers and third parties. There were no inter-segment revenues in the year ended 31 December 2016 (2015: AED nil).

Product lines

	2016				2015 (restated)			
	Motor AED	Medical AED	Others AED	Total AED	Motor AED	Medical AED	Others AED	Total AED
Gross takaful contributions revenue	197,346,855	30,670,925	2,651,005	230,668,785	192,507,690	29,382,417	3,368,347	225,258,454
Retakaful contributions ceded	<u>(28,654,689)</u>	<u>(1,370,951)</u>	<u>(1,838,789)</u>	<u>(31,864,429)</u>	<u>(13,837,477)</u>	<u>(3,299,911)</u>	<u>(2,706,598)</u>	<u>(19,843,986)</u>
Net earned contributions	168,692,166	29,299,974	812,216	198,804,356	178,670,213	26,082,506	661,749	205,414,468
Retakaful commission income	<u>7,025,200</u>	-	<u>340,447</u>	<u>7,365,647</u>	<u>2,233,714</u>	-	<u>461,089</u>	<u>2,694,803</u>
Total underwriting income	<u>175,717,366</u>	<u>29,299,974</u>	<u>1,152,663</u>	<u>206,170,003</u>	<u>180,903,927</u>	<u>26,082,506</u>	<u>1,122,838</u>	<u>208,109,271</u>
Gross claims incurred	(137,824,483)	(31,099,850)	1,433,487	(167,490,846)	(128,934,780)	(26,660,225)	(111,322)	(155,706,327)
Retakaful share of claims incurred	<u>25,371,302</u>	<u>4,642,902</u>	<u>197,118</u>	<u>30,211,322</u>	<u>12,808,190</u>	<u>4,250,592</u>	<u>575,592</u>	<u>17,634,374</u>
Net claims incurred	(112,453,181)	(26,456,948)	1,630,605	(137,279,524)	(116,126,590)	(22,409,633)	464,267	(138,071,953)
Expenses for acquisition of takaful contracts	<u>(25,191,013)</u>	<u>(466,490)</u>	<u>(311,149)</u>	<u>(25,968,652)</u>	<u>(28,889,334)</u>	<u>(265,334)</u>	<u>(295,660)</u>	<u>(29,450,328)</u>
Total underwriting expenses	<u>(137,644,194)</u>	<u>(26,923,438)</u>	<u>1,319,456</u>	<u>(163,248,176)</u>	<u>(145,015,924)</u>	<u>(22,674,967)</u>	<u>168,610</u>	<u>(167,522,281)</u>
Net underwriting income for the year	<u>38,073,172</u>	<u>2,376,536</u>	<u>2,472,119</u>	<u>42,921,827</u>	<u>35,888,003</u>	<u>3,407,539</u>	<u>1,291,448</u>	<u>40,586,990</u>

Methaq Takaful Insurance Company PSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

28 SEGMENT INFORMATION continued

Primary segment information

For operating purposes, the Company is organised into two main business segments:

- Underwriting of takaful business incorporating all classes of takaful including fire, marine, motor, general accident, engineering, and energy. This business is conducted fully within the UAE.
- Investments incorporating investments in UAE marketable equity securities, short-term investments with banks and other securities.

Gross Takaful contributions revenue from underwriting departments

The following is an analysis of the Company's revenues classified by major underwriting departments.

	<i>2016</i> <i>AED</i>	<i>2015</i> <i>AED</i> <i>(Restated)</i>
Motor	197,346,898	192,507,690
Medical	30,670,925	29,382,417
Miscellaneous accidents	998,028	1,526,108
Fire	992,844	1,160,895
Engineering	609,021	482,177
Marine	<u>51,069</u>	<u>199,167</u>
	<u>230,668,785</u>	<u>225,258,454</u>

29 TAKAFUL RISK

The risk under any one takaful contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the nature of a takaful contract, this risk is random and therefore unpredictable.

For a portfolio of takaful contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its takaful contracts is that the actual claims and benefit payments exceed the estimated amount of the takaful liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Takaful events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar takaful contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its takaful underwriting strategy to diversify the type of takaful risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The Company manages risks through its underwriting strategy, adequate retakaful arrangements and proactive claims handling. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography. Underwriting limits are in place to enforce appropriate risk selection criteria.

29 TAKAFUL RISK continued

Frequency and severity of claims

The Company has the right not to renew individual policies, re-price the risk, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Takaful contracts also entitle the Company to pursue third parties for payment of some or all costs (for example, subrogation).

Property takaful contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claim payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies. Property takaful contracts are subdivided into four risk categories: fire, business interruption, weather damage and theft. The takaful risk arising from these contracts is not concentrated in any of the territories in which the Company operates, and there is a balance between commercial and personal properties in the overall portfolio of insured buildings

The retakaful arrangements include excess and catastrophe coverage. The effect of such retakaful arrangements is that the Company should not suffer net takaful losses of a set limit of AED 250,000 in any one motor policy and AED 250,000 for any one non-motor policy. The Company has survey units dealing with the mitigation of risks surrounding claims. This unit investigates and recommends ways to improve risk claims. The risks are reviewed individually at least once in 3 years and adjusted to reflect the latest information on the underlying facts, current law, jurisdiction, contractual terms and conditions, and other factors. The Company actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

Sources of uncertainty in the estimation of future claim payments

Claims on takaful contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and element of the claims provision includes incurred but not reported claims (IBNR). The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims. For some takaful contracts, the IBNR proportion of the total liability is high and will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities.

In estimating the liability for the cost of reported claims not yet paid, the Company considers information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The amount of takaful claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. Takaful contracts are also subject to the emergence of new types of latent claims, but no allowance is included for this at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

29 TAKAFUL RISK continued

Sources of uncertainty in the estimation of future claim payments continued

Where possible, the Company adopts multiple techniques to estimate the required level of provisions. This provides a greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

In calculating the estimated cost of unpaid claims (both reported and not), the Company's estimation techniques are a combination of loss-ratio-based estimates and an estimate based upon actual claims experience using predetermined formulae where greater weight is given to actual claims experience as time passes. The initial loss-ratio estimate is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claims inflation.

Process used to decide on assumptions

The risks associated with the takaful contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. Internal data is derived mostly from the Company's quarterly claims reports and screening of the actual takaful contracts carried out at the end of the reporting period to derive data for the contracts held. The Company has reviewed the individual contracts and in particular the industries in which the insured companies operate and the actual exposure years of claims. This information is used to develop scenarios related to the latency of claims that are used for the projections of the ultimate number of claims.

Claims development process

The following schedule reflect the actual claims (based on year end estimates including IBNR) compared to the previous estimates for the last two years on an underwriting year basis:

Underwriting year

	2010 AED	2011 AED	2012 AED	2013 AED	2014 AED	2015 AED	2016 AED	Total AED
Gross:								
At the end of the underwriting year	46,494,747	53,927,139	51,460,080	127,123,415	118,099,772	104,647,773	104,626,981	606,379,907
One year later	46,109,203	8,243,591	18,093,339	122,171,809	54,328,710	49,411,283	-	298,357,935
Two years later	2,219,893	(1,906,523)	(2,944,927)	5,264,583	11,554,457	-	-	14,187,483
Three years later	(138,676)	(5,212,352)	530,735	4,555,458	-	-	-	(264,835)
Four years later	(887,532)	1,174,440	(223,413)	-	-	-	-	63,495
Five years later	(32,513)	(758,553)	-	-	-	-	-	(791,066)
Six years later	(62,500)	-	-	-	-	-	-	(62,500)
Current estimate of cumulative claims	93,702,622	55,467,742	66,915,814	259,115,265	183,982,939	154,059,056	104,626,981	917,870,419
Cumulative payments to date	(93,614,311)	(55,816,127)	(66,622,336)	(252,325,807)	(174,073,212)	(131,304,914)	(42,633,041)	(816,389,948)
	<u>88,311</u>	<u>(348,385)</u>	<u>293,278</u>	<u>6,789,458</u>	<u>9,909,727</u>	<u>22,754,142</u>	<u>61,993,940</u>	<u>101,480,471</u>

Concentration of takaful risk

Substantially all of the Company's underwriting activities are carried out in the United Arab Emirates.

In common with other takaful companies, in order to minimise financial exposure arising from large takaful claims, the Company, in the normal course of business, enters into arrangement with other parties for retakaful purposes.

To minimise its exposure to significant losses from retakaful insolvencies, the Company evaluates the financial condition of its retakaful and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the retakafuls. Retakaful ceded contracts do not relieve the Company from its obligations to policyholders. The Company remains liable to its policyholders for the portion covered by retakaful to the extent that any retakaful does not meet the obligations assumed under the retakaful agreements.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

30 FINANCIAL INSTRUMENTS

The Company is exposed to a range of financial risks through its financial assets, financial liabilities, retakaful assets and takaful liabilities. In particular, the key financial risk is that in the long-term, its investment proceeds are not sufficient to fund the obligations arising from its takaful and investment contracts. The risks that the Company primarily faces due to the nature of its investments and underwriting business are market price risk, credit risk and liquidity risk.

Fair value of financial instruments

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

An analysis of financial instruments that are measured subsequent to initial recognition at fair value into levels 1 to 3 is provided in note 31.

Capital risk management

The Company's objectives when managing capital are:

- to comply with the insurance capital requirements required by UAE Federal Law No. (6) of 2007 concerning the formation of Insurance Authority of UAE;
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing takaful contracts commensurately with the level of risk.

In U.A.E., the local takaful regulator specifies the minimum amount and type of capital that must be held by the Company in addition to its takaful liabilities. The minimum required capital (presented in the table below) must be maintained at all times throughout the year. The Company has incorporated in its policies and procedures the necessary tests to ensure continuous and full compliance with such regulations.

The table below summarises the minimum regulatory capital of the Company and the total capital held.

	<i>2016</i>	<i>2015</i>
	<i>AED</i>	<i>AED</i>
Capital	<u>150,000,000</u>	<u>150,000,000</u>
Minimum regulatory capital (a)	<u>100,000,000</u>	<u>100,000,000</u>

- (a) The UAE Insurance Authority has issued resolution no. 42 for 2009 setting the minimum subscribed or paid up capital of AED 100 million for establishing insurance firm and AED 250 million for re- insurance firm. The resolution also stipulates that at least 75 percent of the capital of the insurance companies established in the UAE should be owned by UAE or GCC national individuals or corporate bodies. The Company is complying with the above requirements.

Significant accounting policies

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

Methaq Takaful Insurance Company PSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

30 FINANCIAL INSTRUMENTS continued

Categories of financial instruments

	<i>2016</i> <i>AED</i>	<i>2015</i> <i>AED</i> <i>(Restated)</i>
Financial assets		
Investments at FVTOCI	15,948,000	17,720,000
Investments at FVTPL	2,529,012	2,218,499
Retakaful contract assets	27,461,900	17,235,841
Takaful and other receivables	163,631,927	135,357,218
Cash and bank balances	16,319,352	11,823,654
Statutory deposit	<u>6,000,000</u>	<u>6,000,000</u>
Total	<u>231,890,191</u>	<u>190,355,212</u>
Financial liabilities		
Takaful contract liabilities excluding unearned contributions	101,952,649	92,072,604
Retakaful and other liabilities	60,822,819	69,348,889
Retakaful deposits retained	14,632,005	8,572,550
Islamic financing arrangement	<u>5,142,857</u>	<u>6,857,143</u>
Total	<u>182,550,330</u>	<u>176,851,186</u>

Profit rate risk management

The Company's profit rate risk is mainly attributable to its bank deposits, current accounts and Islamic profit-bearing Ijara, the majority of which are fixed rate and, accordingly, no significant profit rate risk will result from these balances.

The Company generally tries to minimise the profit rate risk by closely monitoring the market rates and investing in those financial assets in which such risk is expected to be minimal.

Foreign currency risk

The Company is not exposed to significant foreign currency risk as substantially all financial assets and financial liabilities are denominated in United Arab Emirates Dirhams (AED) or US Dollars to which the AED is pegged.

Equity price risk

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

A 10% increase in the market price of the Company's quoted equities at 31 December 2016 would have increased equity and profit by AED 252,901 (2015: AED 221,850). An equivalent decrease would have resulted in an equivalent but opposite impact.

A 10% increase in the value of the Company's unquoted equities at 31 December 2016 would have increased equity and other comprehensive income by AED 1,594,800 (2015: AED 1,772,000). An equivalent decrease would have resulted in an equivalent but opposite impact.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

30 FINANCIAL INSTRUMENTS continued

Credit risk management

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Company.

Key areas where the Company is exposed to credit risk are:

- retakafuls' share of takaful liabilities;
- amounts due from retakafuls in respect of claims already paid;
- amounts due from takaful contract holders;
- amounts due from takaful intermediaries; and
- amounts due from banks for its bank balances and fixed deposits.

The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management annually.

Retakaful is used to manage takaful risk. This does not, however, discharge the Company's liability as primary insurer. If a retakaful fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. The creditworthiness of retakafuls is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

The Company maintains records of the payment history for significant contract holders with whom it conducts regular business. The exposure to individual counterparties is also managed by other mechanisms, such as the right of offset where counterparties are both debtors and creditors of the Company.

Management information reported to the Company includes details of provisions for impairment on takaful receivables and subsequent write-offs. Exposures to individual policyholders and groups of policyholders are mitigated by ongoing credit evaluation of their financial condition. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis equivalent to that conducted for retakafuls is carried out by the Company. Details on concentration of amounts due from policyholders is disclosed in note 11. Management believes that the concentration of credit risk is mitigated by high credit rating and financial stability of its policyholders.

Liquidity risk management

Liquidity risk is the risk that Company will not be able to meet its commitments associated with insurance contracts and financial liabilities as they fall due.

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

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

30 FINANCIAL INSTRUMENTS continued

Liquidity risk management continued

The table below summarises the maturities of the Company's undiscounted financial liabilities at 31 December 2016 and 31 December 2015, based on contractual payment dates and current market interest rates.

	<i>Current AED</i>	<i>Non-current AED</i>	<i>Total AED</i>
31 December 2016			
Takaful contract liabilities	243,620,409	-	243,620,409
Retakaful and other liabilities	60,822,819	-	60,822,819
Retakaful deposits retained	14,632,005	-	14,632,005
Islamic financing arrangement	<u>1,714,286</u>	<u>3,428,571</u>	<u>5,142,857</u>
Total	<u>320,789,519</u>	<u>3,428,571</u>	<u>324,218,090</u>
31 December 2015 – (Restated)			
Takaful contract liabilities	199,692,466	-	199,692,466
Retakaful and other liabilities	69,348,889	-	69,348,889
Retakaful deposits retained	8,572,550	-	8,572,550
Islamic financing arrangement	<u>1,714,286</u>	<u>5,142,857</u>	<u>6,857,143</u>
Total	<u>279,328,191</u>	<u>5,142,857</u>	<u>284,471,048</u>

Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	<i>Current AED</i>	<i>Non-current AED</i>	<i>Total AED</i>
31 December 2016			
Assets			
Cash and bank balances	16,319,352	-	16,319,352
Statutory deposits	-	6,000,000	6,000,000
Investments at fair value through other comprehensive income	-	15,948,000	15,948,000
Investments at fair value through profit or loss	2,529,012	-	2,529,012
Retakaful contract assets	27,461,900	-	27,461,900
Takaful and other receivables	163,631,927	-	163,631,927
Deferred acquisition costs	14,853,276	-	14,853,276
Furniture and equipment	-	2,009,122	2,009,122
Investment property	<u>-</u>	<u>162,360,000</u>	<u>162,360,000</u>
Total assets	<u>224,795,467</u>	<u>186,317,122</u>	<u>411,112,589</u>
Liabilities			
Takaful contract liabilities	243,620,409	-	243,620,409
Retakaful and other liabilities	60,822,819	-	60,822,819
Retakaful deposits retained	14,632,005	-	14,632,005
Islamic financing arrangement	1,714,286	3,428,571	5,142,857
Provision for end of service benefits	-	1,844,813	1,844,813
Unearned retakaful commission	<u>5,119,849</u>	<u>-</u>	<u>5,119,849</u>
Total liabilities	<u>325,909,368</u>	<u>5,273,384</u>	<u>331,182,752</u>

Methaq Takaful Insurance Company PSC

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

30 FINANCIAL INSTRUMENTS continued

Maturity analysis of assets and liabilities continued

	<i>Current AED</i>	<i>Non-current AED</i>	<i>Total AED</i>
31 December 2015 – (Restated)			
Assets			
Cash and bank balances	11,823,654	-	11,823,654
Statutory deposits	-	6,000,000	6,000,000
Investments at fair value through other comprehensive income	-	17,720,000	17,720,000
Investments at fair value through profit or loss	2,218,499	-	2,218,499
Retakaful contract assets	17,235,841	-	17,235,841
Takaful and other receivables	135,357,218	-	135,357,218
Deferred acquisition costs	15,085,752	-	15,085,752
Furniture and equipment	-	2,741,715	2,741,715
Investment property	<u>-</u>	<u>152,135,625</u>	<u>152,135,625</u>
Total assets	<u>181,720,964</u>	<u>178,597,340</u>	<u>360,318,304</u>
Liabilities			
Takaful contract liabilities	199,692,466	-	199,692,466
Retakaful and other liabilities	69,348,889	-	69,348,889
Retakaful deposits retained	8,572,550	-	8,572,550
Islamic financing arrangement	1,714,286	5,142,857	6,857,143
Provision for end of service benefits	-	1,382,518	1,382,518
Unearned retakaful commission	<u>2,092,784</u>	<u>-</u>	<u>2,092,784</u>
Total liabilities	<u>281,420,975</u>	<u>6,525,375</u>	<u>287,946,350</u>

Fair value of financial assets and liabilities

Management considers that the fair values of financial assets and financial liabilities approximate their carrying amounts.

31 FAIR VALUE MEASUREMENTS

The following table provides fair value hierarchy of the Company's assets measured at fair value.

	<i>Level 1 AED</i>	<i>Level 2 AED</i>	<i>Level 3 AED</i>	<i>Total AED</i>
31 December 2016				
Investments at fair value through other comprehensive income	-	-	15,948,000	15,948,000
Investments at fair value through profit or loss	2,529,012	-	-	2,529,012
Investment properties	<u>-</u>	<u>-</u>	<u>162,360,000</u>	<u>162,360,000</u>
Total	<u>2,529,012</u>	<u>-</u>	<u>178,308,000</u>	<u>180,837,012</u>
31 December 2015				
Investments at fair value through other comprehensive income	-	-	17,720,000	17,720,000
Investments at fair value through profit or loss	2,218,499	-	-	2,218,499
Investment properties	<u>-</u>	<u>-</u>	<u>152,135,625</u>	<u>152,135,625</u>
Total	<u>2,218,499</u>	<u>-</u>	<u>169,855,625</u>	<u>172,074,124</u>

There were no transfers between levels 1, 2 and 3 in 2016 and 2015.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2016

32 EFFECTS OF CHANGES IN ACCOUNTING POLICIES

As disclosed in note 2.3, the Company has changed its accounting policies for allocated and unallocated loss adjustment expenses (ALAE/ULAE), for recognising unearned contributions reserve, deferred acquisition costs and unearned retakaful commission. The change in accounting policies have been accounted for retrospectively in accordance with IAS 8 and, accordingly the prior years' financial statements presented have been restated as follows:

	<i>31 December</i>	<i>1 January</i>
	<i>2015</i>	<i>2015</i>
	<i>AED</i>	<i>AED</i>
<i>Impact on statement of financial position</i>		
Assets		
Increase in retakaful contract assets	1,441,518	325,342
Increase in deferred acquisition costs	1,739,748	2,348,068
Shareholders' equity		
Increase in legal reserve	(69,496)	-
Increase in accumulated losses	7,727,466	11,868,143
Policyholders' fund		
Increase in deficit of policyholders' fund	7,657,970	11,868,143
Increase in loan from shareholders	(7,657,970)	(11,868,143)
Liabilities		
Increase in takaful contract liabilities	(10,623,006)	(14,677,579)
(Increase) decrease in Unearned retakaful commission	(216,230)	136,026
<i>Impact on statement of income</i>		
Attributable to policyholders		
Increase in net earned contributions	5,170,749	
Decrease in retakaful commission income	(352,257)	
Increase in expenses for acquisition of takaful contracts	<u>(608,319)</u>	
Increase in takaful results for the year	<u>4,210,173</u>	
Attributable to shareholders		
Decrease in allowance for loan to policyholders' fund	<u>(4,210,173)</u>	