TAKAFUL EMARAT - INSURANCE (PSC)

Review report and condensed interim financial information for the three-month period ended 31 March 2014

TAKAFUL EMARAT - INSURANCE (PSC)

Contents

pwc

Report on review of condensed interim financial information to the Board of Directors of Takaful Emarat - Insurance (PSC)

Introduction

We have reviewed the accompanying condensed interim statement of financial position of **Takaful Emarat - Insurance (PSC)** (the "Company"), as at 31 March 2014 and the related condensed interim statements of comprehensive income, changes in equity and cash flows for the three-month period then ended. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34: *"Interim Financial Reporting"*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34: *"Interim Financial Reporting"*.

Other Matter

Without qualifying our conclusion, we draw attention to Note 1 to the condensed interim financial statements which indicates that, at 31 March 2014 and 31 December 2013, the Company had accumulated losses which exceeded 50% of its paid up share capital, the maximum limit prescribed by Article 285 of the UAE Federal Commercial Law No. 8 of 1984, as amended. At an Extra-Ordinary General Meeting convened on 2 October 2013, the shareholders had authorised the Board of Directors to effect a reduction in the paid up share capital by AED 50 million by netting the amount off against an equivalent amount of accumulated losses, thereby remedying the breach.

PricewaterhouseCoopers, Emaar Square, Building 4, Level 8, PO Box 11987, Dubai, United Arab Emirates
T: +971 (0)4 304 3100, F: +971 (0)4 330 4100, www.pwc.com/middle-east

Report on review of condensed interim financial information to the Board of Directors of Takaful Emarat - Insurance (PSC) – (continued)

Other Matter – (continued)

The reduction in the share capital and accumulated losses was effected in April 2014, following the completion of the statutory formalities.

PricewaterhouseCoopers
13 May 2014

Amin H Nasser
Registered Auditor Number 307
United Arab Emirates

Takaful Emarat - Insurance (PSC)

Condensed interim statement of financial position

	Notes	31 March 2014 (Unaudited) AED	31 December 2013 (Audited) AED
ASSETS			
Cash and bank balances		**5,897,954**	5,001,909
Statutory deposit		**4,000,000**	4,000,000
Takaful and other receivables		**50,688,258**	49,815,172
Due from a related party	**4**	**-**	2,413,743
Retakaful contract assets	**5**	**27,038,030**	23,137,708
Investments at fair value through profit or loss	**6**	**35,782,984**	32,580,853
Available for sales investments	**7**	**6,663,859**	6,713,816
Investment properties	**8**	**26,782,360**	26,782,360
Property and equipment		**3,867,787**	4,206,999
Intangible asset		**3,854,678**	4,207,914
Total assets		**164,575,910**	158,860,474
LIABILITIES, POLICY HOLDERS' FUND AND SHAREHOLDERS' EQUITY			
Liabilities			
Takaful and other payables		**35,542,815**	31,220,040
Takaful contract liabilities	**5**	**58,634,703**	59,090,073
Provision for employees' end of service indemnity		**834,121**	994,012
Total liabilities		**95,011,639**	91,304,125
Shareholders' equity			
Share capital	**9**	**150,000,000**	150,000,000
Accumulated losses		**(80,435,729)**	(82,443,651)
Net shareholders' equity		**69,564,271**	67,556,349
Total liabilities, policyholders' fund and shareholders' equity		**164,575,910**	158,860,474

Mohamed Ali Abdalla Ali Alsari Chairman	Wael Al Sharif Chief Executive Officer	Mohammed Iqbal Basha Chief Financial Officer

The accompanying notes from 7 to 19 form an integral part of these condensed interim financial statements.

Takaful Emarat - Insurance (PSC)

Condensed interim statement of comprehensive income

	Notes	Three-month period ended 31 March 2014 AED	2013 AED
Attributable to policyholders:			
Takaful contributions earned	10	**26,103,444**	21,354,135
Retakaful contributions ceded	10	**(8,790,459)**	(12,280,786)
Net earned contributions	10	**17,312,985**	9,073,349
Gross claims incurred		**(13,798,226)**	(11,902,905)
Retakaful share of claims incurred		**3,713,767**	6,910,578
Net claims incurred		**(10,084,459)**	(4,992,327)
Commission and other expenses		**(4,523,670)**	(2,654,475)
Net change in policyholders' assets held at fair value through profit or loss		**(830,159)**	1,182,558
Net change in fair value of policyholders investment linked contracts		**830,159**	(1,182,558)
Net takaful income		**2,704,857**	1,426,547
Wakalah fees	11	**(6,878,732)**	(5,722,481)
Net deficit from takaful operations		**(4,173,876)**	(4,295,934)
Attributable to shareholders:			
Investment income		**3,227,167**	475,422
Wakalah fees from policy holders	11	**6,878,732**	5,722,481
Other income, net		**1,737,634**	303,561
General and administrative expenses		**(5,661,735)**	(8,762,116)
Provision for Qard Hassan to policyholders' fund		**(4,173,876)**	(4,295,934)
Profit/(loss) for the period attributable to shareholders		**2,007,922**	(6,556,586)
Basic and diluted profit/(loss) per share	12	**0.01**	(0.04)
Other comprehensive income		-	-
Total comprehensive profit/(loss) for the period		**2,007,922**	(6,556,586)

The accompanying notes from 7 to 19 form an integral part of the condensed interim financial information.

Takaful Emarat - Insurance (PSC)

Condensed interim statement of changes in equity

	Share capital AED	Accumulated losses AED	Total AED
Balance at 31 December 2012 (Audited)	150,000,000	(65,185,009)	84,814,991
Total comprehensive loss for the period	-	(6,556,586)	(6,556,586)
Balance at 31 March 2013 (Unaudited)	150,000,000	(71,741,595)	78,258,405
Balance at 31 December 2013 (Audited)	150,000,000	(82,443,651)	67,556,349
Total comprehensive profit for the period	-	2,007,922	2,007,922
Balance at 31 March 2014 (Unaudited)	150,000,000	(80,435,729)	69,564,271

The accompanying notes from 7 to 19 form an integral part of the condensed interim financial information.

Takaful Emarat - Insurance (PSC)

Condensed interim statement of cash flows

	Three-month period ended 31 March 2014 AED	2013 AED
Cash flows from operating activities		
Pofit/(loss) for the period	**2,007,922**	(6,556,586)
Adjustments for:		
Depreciation and amortization	**704,348**	706,232
Accrued profit on available for sale investments	**(95,484)**	(190,859)
Gain on sale of investments at FVTPL	**(5,921,990)**	-
Loss/(gain) on revaluation of investments carried at FVTPL	**2,564,001**	(233,736)
Employees' end of service indemnity	**(119,097)**	(204,729)
Impairment of retakaful receivables	**(400,000)**	-
Impairment loss on available for sale investments	**49,957**	-
Operating cash flows before changes in operating assets and liabilities	**(1,210,343)**	(6,479,678)
Increase in retakaful contract assets	**(3,900,322)**	7,939,658
(Increase)/decrease in takaful and other receivables	**(377,602)**	12,605,256
Decrease in due from a related party	**2,413,743**	500,001
Decrease in takaful contract liabilities	**(455,370)**	(10,521,377)
Increase/(decrease) in retakaful and other payables	**4,322,775**	(6,569,345)
Cash generated from/(used in) operations	**792,881**	(2,525,485)
Payment of employees' end of service indemnity	**(40,794)**	(9,533)
Net cash generated/(used in) from operating activities	**752,087**	(2,535,018)
Cash flows from investing activities		
Increase in investment deposits with banks	**-**	714,169
Purchase of investments carried at FVTPL	**(39,850,867)**	(155,673)
Proceeds from sale of investments at FVTPL	**40,006,725**	-
Profit received on investments carried at amortised cost	**-**	27,755
Purchase of property and equipment	**(11,900)**	(1,070,276)
Net cash generated from/(used in) investing activities	**143,958**	(484,025)
Net increase/(decrease) in cash and cash equivalents	**896,045**	(3,019,043)
Cash and cash equivalents at beginning of the period	**5,001,909**	11,721,919
Cash and cash equivalents at end of the period (Note 13)	**5,897,954**	8,702,876

The accompanying notes from 7 to 19 form an integral part of the condensed interim financial information.

1. General information

Takaful Emarat - Insurance (PSC), Dubai, United Arab Emirates (the "Company") incorporated as a public joint stock company in accordance with the U.A.E. Federal Law No. 8 of 1984 (as amended) and with U.A.E. Federal Law No. 6 of 2007, concerning formation of Insurance Authority of U.A.E. and organizing its activities in United Arab Emirates.

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

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

The Company has accumulated losses of AED 82.4 million as at 31 December 2013 which exceeds 50% of its paid up share capital of the Company at that date. In accordance with the Article 285 of U.A.E. Federal Commercial Law No. 8 of 1984, as amended, if a Joint-Stock Company sustains losses amounting to one half of the capital, the Board of Directors shall convene an Extra-Ordinary General Meeting and resolve whether the Company shall be maintained or dissolved before the term fixed in its Articles of Association. On 2 October 2013, the Extra-Ordinary General Meeting was convened and the shareholders authorised the Board of Directors to take actions necessary to reduce the paid up capital by AED 50 million and offset the amount against accumulated losses. In April 2014 the paid up share capital was decreased by AED 50 million and set off against accumulated losses, following the completion of statutory formalities.

2. Application of new and revised International Financial Reporting Standards (IFRSs)

2.1 Amendments and interpretations effective for the Company's accounting period beginning on 1 January 2014

The following applicable new standards and amendments to existing standards have been published and are effective for the Company's accounting period beginning on 1 January 2014.

- Amendment to IAS 32, 'Financial instruments: Presentation', on offsetting financial assets and financial liabilities (effective 1 January 2014).
- Amendment to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets (effective 1 January 2014).
- Amendment to IAS 39, 'Financial instruments: Recognition and measurement', on novation of derivatives and hedge accounting (effective 1 January 2014).
- IFRIC 21, 'Levies' (effective 1 January 2014), sets out the accounting for an obligation to pay a levy that is not income tax.

Management has assessed the impact of the above amendments and interpretations to existing standards and has concluded that there is no significant impact on the Company's condensed interim financial statements.

2. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2 New standards and amendments not effective for the Company's accounting period beginning on 1 January 2014 and has not been early adopted by the Company (continued)

- IFRS - 9, 'Financial instruments' (effective 1 January 2018). IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of International Accounting Standard (IAS) 39 – 'Financial Instruments: Recognition and Measurement' that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

- Amendment to IAS 19, 'Employee benefits' (effective 1 July 2014) clarifies the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service.

Management is assessing the impact of the above new standard and amendment to a published standards on the Company's condensed interim financial statements and does not intend to adopt the above standard and amendment to a published standards prior to their respective effective dates.

3. Summary of significant accounting policies

3.1 Basis of preparation

These condensed interim financial statements have been prepared in accordance with International Accounting Standard (IAS) No. 34, "*Interim Financial Reporting*" and also comply with the applicable requirements of the laws in the U.A.E.

The condensed interim financial statements are presented in U.A.E. Dirhams (AED) since it is the currency in which the majority of the Company's transactions are denominated.

These condensed interim financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and investment properties.

The accounting policies, presentation and methods, critical accounting judgements and estimates in these condensed interim financial statements are consistent with those used in the audited financial statements for the year ended 31 December 2013.

These condensed interim financial statements for the three-month ended 31 March 2014 have been prepared in accordance with IAS 34, 'Interim financial reporting'. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with International Financial Reporting Standards.

4. Related party transactions and balances

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

At the reporting date, due from a related party is as follows:

	31 March 2014 (Unaudited) AED	31 December 2013 (Audited) AED
Due from a related party		
Company under common management		
UNIQA Re AG, Switzerland	-	2,413,743

	31 March 2014 (Unaudited) AED	31 December 2013 (Audited) AED
Investment property (under construction - GGICO)	**16,282,360**	16,282,360

Takaful Emarat - Insurance (PSC)

Notes to the condensed interim financial statements for the period ended 31 March 2014 (continued)

4. Related party transactions and balances (continued)

Compensation of key management personnel

	Three month period ended 31 March	
	2014 (Unaudited) AED	2013 (Unaudited) AED
Short term employee benefits	**639,450**	1,147,169
Provision for end of service gratuity	**22,380**	22,976
	661,830	1,147,169

5. Takaful contract liabilities and retakaful contract assets

	31 March 2014 (Unaudited) AED	31 December 2013 (Audited) AED
Gross takaful contract liabilities		
Claims reported	**9,732,230**	5,632,562
Claims incurred but not reported	**3,482,983**	4,019,442
Unearned contributions	**36,272,010**	39,460,430
Life takaful provision	**316,819**	316,819
Fair value of policyholders investment linked contracts	**8,830,661**	9,660,820
	58,634,703	59,090,073

5. Takaful contract liabilities and retakaful contract assets (continued)

	31 March 2014 (Unaudited) AED	31 December 2013 (Audited) AED
Retakaful contract assets		
Claims reported	**3,274,856**	2,112,932
Claims incurred but not reported	**1,952,762**	2,038,287
Unearned contributions	**21,810,412**	18,986,489
	27,038,030	23,137,708
Net takaful contract liabilities		
Claims reported	**6,457,374**	3,519,630
Claims incurred but not reported	**1,530,221**	1,981,155
Unearned contributions	**14,461,598**	20,473,941
Life takaful provision	**316,819**	316,819
Fair value of policyholders investment linked contracts	**8,830,661**	9,660,820
	31,596,673	35,952,365

6. Investments at fair value through profit or loss

	31 March 2014 (Unaudited) AED	31 December 2013 (Audited) AED
Fair value at beginning of the period/year	**32,580,853**	30,811,235
Purchases during the period/year	**39,850,867**	57,653,904
Disposals during the period/year	**(34,084,735)**	(57,919,927)
(Decrease)/increase in fair value during the period/year	**(2,564,001)**	2,035,641
Fair value at end of the period/year	**35,782,984**	32,580,853

7. Available for sale investments

	31 March 2014 (Unaudited) AED	31 December 2013 (Audited) AED
At beginning of the period/year	**6,713,816**	19,937,762
Disposals during the period/year	**-**	(12,823,308)
Impairment loss during the period/year	**(49,957)**	(400,638)
At end of the period/year	**6,663,859**	6,713,816

8. Investment properties

	31 March 2014 (Unaudited) AED	31 December 2013 (Audited) AED
Plot of land	**10,500,000**	10,500,000
Investment property under construction	**16,282,360**	16,282,360
	26,782,360	26,782,360

Management is in the process of registering the title deed of the plot of land.

9. Share capital

	31 March 2014 (Unaudited) AED	31 December 2013 (Audited) AED
Issued and fully paid:		
150,000,000 ordinary shares of AED 1 each	**150,000,000**	150,000,000

10. Net earned contributions

	Three-month period ended 31 March 2014			Three-month period ended 31 March 2013		
	Medical Unaudited AED	Life Unaudited AED	Total Unaudited AED	Medical Unaudited AED	Life Unaudited AED	Total Unaudited AED
Gross contributions written	18,775,059	4,139,965	22,915,024	4,864,747	1,166,826	6,031,573
Change in unearned contributions	2,776,600	411,820	3,188,420	15,212,688	109,874	15,322,562
Takaful contributions earned	21,551,659	4,551,785	26,103,444	20,077,435	1,276,700	21,354,135
Retakaful contributions	11,509,222	105,160	11,614,382	2,229,413	(47,791)	2,181,622
Changes in unearned contributions	(3,054,562)	230,639	(2,823,923)	9,845,917	253,247	10,099,164
Retakaful contributions ceded	8,454,660	335,799	8,790,459	12,075,330	205,456	12,280,786
Net earned contributions	13,096,999	4,215,986	17,312,985	8,002,105	1,071,244	9,073,349

11. Wakalah fees

The shareholders manage the takaful operations for the policyholders and charge 15% - 35% of gross takaful contributions as wakalah fees.

12. Basic and diluted profit/(loss) per share

	31 March 2014 (Unaudited)	31 March 2013 (Unaudited)
Profit/(loss) for the period attributable to shareholders (in AED)	**2,007,922**	(6,556,586)
Weighted average number of shares outstanding during the period	**150,000,000**	150,000,000
Profit / (loss) per share (AED)	**0.01**	(0.04)

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

13. Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalent comprise of:

	31 March 2014 (Unaudited) AED	31 March 2013 (Unaudited) AED
Cash and bank balances	**5,897,954**	13,702,876
Investment deposits with maturity over three months from the date of placements	-	(5,000,000)
	5,897,954	8,702,876

14. Segment information

The Company is organized into two main business segments:

- Underwriting of takaful business insurance incorporating health insurance, life insurance and credit saving insurance.
- Investments incorporating investment deposits with local banks and other investments.

14. Segment information (continued)

	Three-month period ended 31 March 2014 (Unaudited)					
	Medical AED	**Underwriting Life AED**	**Total AED**	**Shareholders Investments AED**	**Unallocated Others AED**	**Total AED**
Segment revenue	**21,551,659**	**4,551,785**	**26,103,444**	**3,227,167**	**1,737,634**	**4,964,801**
(Loss)/profit for the period	**(4,796,955)**	**623,080**	**(4,173,875)**	**3,227,167**	**(1,219,245)**	**2,007,922**

	Three-month period ended 31 March 2013 (Unaudited)					
	Medical AED	Underwriting Life AED	Total AED	Shareholders Investments AED	Unallocated Others AED	Total AED
Segment revenue	20,077,435	1,276,700	21,354,135	475,422	303,561	778,983
Loss for the period	(4,243,681)	(52,253)	(4,295,934)	475,422	(7,032,008)	(6,556,586)

Takaful Emarat - Insurance (PSC)

Notes to the condensed interim financial statements for the period ended 31 March 2014 (continued)

14. Segment information (continued)

	31 March 2014 (Unaudited)						
	Medical AED	Underwriting Life AED	Total AED	Shareholders' Investments AED	Unallocated Others AED	Total AED	Total AED
Segment assets	**58,369,531**	**11,082,415**	**69,451,946**	**64,398,542**	**30,725,422**	**95,123,964**	**164,575,910**
Segment liabilities	**70,016,562**	**11,618,060**	**81,634,622**	**-**	**13,377,017**	**13,377,017**	**95,011,639**

	31 December 2013 (Audited)						
	Medical AED	Underwriting Life AED	Total AED	Shareholders Investments AED	Unallocated Others AED	Total AED	Total AED
Segment assets	68,225,562	9,141,056	77,366,618	49,794,669	31,699,187	81,493,856	158,860,474
Segment liabilities	70,377,613	12,664,693	83,042,306	-	8,261,819	8,261,819	91,304,125

15. Fair value of financial instruments

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

Fair value of financial instruments carried at amortised cost

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

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

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used in the audited annual financial statements for the year ended 31 December 2013.

Fair value measurements recognised in the statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 March 2014 (Unaudited)	**Level 1 AED**	**Level 2 AED**	**Level 3 AED**	**Total AED**
Investments at fair value through profit or loss				
Quoted securities	**19,258,002**	**-**	**-**	**19,258,002**
Mutual fund	**-**	**16,524,982**	**-**	**16,524,982**
Available for sale investments		**6,663,859**	**-**	**6,663,859**
Investment properties	**-**	**-**	**26,782,360**	**26,782,360**
	19,258,002	**23,188,841**	**26,782,360**	**69,229,203**
Financial liabilities				
Investment linked contracts	**-**	**8,830,661**	**-**	**8,830,661**

15. Fair value of financial instruments (continued)

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
Financial assets				
31 December 2013 (Audited)				
Investments at fair value through profit or loss				
Quoted equities	16,129,529	-	-	16,129,529
Mutual funds	-	16,451,324	-	16,451,324
Available for sale investments	-	6,713,816	-	6,713,816
Investments properties	-	-	26,782,360	26,782,360
	16,129,529	23,165,140	26,782,360	66,077,029
Financial liabilities				
Investment linked contracts	-	9,660,820	-	9,66,820

There were no transfers between levels during the period.

16. Contingencies and commitments

	31 March 2014 (Unaudited) AED	31 December 2013 (Audited) AED
Letters of guarantee	**446,950**	187,127

17. Policyholders' fund

	31 March 2014 AED (Unaudited)	31 December 2013 AED (Audited)
Balance at the beginning of the period/year	(28,971,654)	(8,701,793)
Deficit for the period/year attributable to participants	(4,173,876)	(20,269,861)
Balance at the end of the period/year	(33,145,530)	(28,971,654)
Qard Hassan from shareholders	33,145,530	28,971,654
Total deficit in policyholders' fund	-	-

18. Seasonality of results

No profit of a seasonal nature was recorded in the condensed interim statement of comprehensive income for the three-month periods ended 31 March 2014 and 2013.

19. Comparative figures

Certain figures for the prior period/year have been reclassified to conform with the presentation in the current period.

20. Approval of condensed interim financial statements

The condensed interim financial statements were approved and authorised for issue on 13 May 2014.