

Guaranteeing
each other
for a better future

Annual Report 2012



Takaful International Co.B.S.C.**Registered Office:**

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Seef District 428
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Kingdom of Bahrain

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Fax.: +973 17 582 688

Email: takaful@takafulweb.com

Website: www.takaful.bh

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Tel.: +973 17 565 617
Fax.: +973 17 582 886

Muharraq

Tel.: +973 17 565 400
Fax.: +973 17 677 321

Riffa

Tel.: +973 17 565 444
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Salmabad

Tel.: +973 17 565 414
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Hamala

Tel.: +973 17 565 447
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Jerdab

Tel.: +973 17 484 347
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Qatar Branch:

P.O. Box: 31240
Doha, Qatar

Tel.: +974 4491 6444

Fax.: +974 4491 6445



**His Royal Highness
Prince Khalifa Bin Salman
Al Khalifa**

The Prime Minister



**His Majesty King
Hamad Bin Isa
Al Khalifa**

The King of the Kingdom of
Bahrain



**His Royal Highness
Prince Salman Bin Hamad
Al Khalifa**

The Crown Prince, Deputy
Supreme Commander and First
Deputy Prime Minister

General Information

Board of Directors Related

Corporate Governance

Financial Statements

04

General Information

04 Guaranteeing each other for a better future
06 Vision, Mission & Values
10 Milestones

11 Diversified Protection
12 Women Empowerment Award

16

16 Board of Directors
18 Executive Management
20 Board of Directors' Report
22 Chief Executive Report

28

28 Corporate Governance Disclosure
34 Sharia'a Supervisory Board's Report
35 Independent Auditors Report

37

Financial Statements 2012

37 Statement of Financial Position
38 Statement of Income
39 Statement of Comprehensive Income

40 Statement of Changes in Shareholders Equity
41 Statement of Changes in Participants Funds
42 Statement of cash flows
43 Notes to the financial statements

Guaranteeing each other for a better future



We care passionately about our society, our environment, and strive to contribute in improving the community where we live and work. We maintain this commitment both collectively as an organisation and individually in our personal contributions as this is a fundamental part of our culture, which strives to make our brand live up to the promise - Takaful - in the hearts and minds of our employees, customers, business partners and shareholders.



Our commitment to providing our clients is measured not only by our focus on bringing innovative products and services, but also by the importance we place on the impact we can make within the community.





Vision, mission & values

By adhering to our values, working towards achieving our mission and successfully attaining our vision we strive to make Takaful International the tree of life.

Vision

To be recognized as the pioneering innovative leader of quality Sharia'a compliant insurance solutions.

Mission

To be the insurance company of choice by spreading awareness of Islamic insurance solutions and becoming the leading provider of a full range of Takaful products that combines superior quality based on Sharia'a principles and values.

Values

The essence of our values is our ability to succeed in providing excellent services based on commitment and quality. The principles are:

- Adhere to the highest levels of professionalism.
- Contribute effectively to the local economy.
- Maintaining the company growth, profitability and development.
- Believe that there is potential for development and commitment to achieve success.
- Strengthen leadership by providing integrated services and innovative products.

In the name of Allah, The Merciful, The Compassionate

And there is no creature on
(or within) the earth or
bird that flies with its
wings except (that they
are) communities like you.
We have not neglected in
the Register a thing. Then
unto their Lord they will be
gathered.

God Almighty has spoken the truth.

(Holy Quran - Al-An'aam (The Cattle) - 6:38)



**Our planet gives us
every thing we need to survive.
Help us protect this planet
that provides.**

Milestones of growth with



1989 Established as the first Islamic Insurance provider in the region as Bahrain Islamic Insurance Company (BIIC)

1996 BIIC is officially announced as a public shareholding company

1998 Relaunched as Takaful International Company

2001 Family and Health Takaful introduced

2003 Capital increased to BD 5 million and authorised capital to BD 20 million

2004 First of its kind insurance scheme for Hajj and Umra

2007 Muharraq and Riffa centers inaugurated

2008 Assigned BBB rating from Standard and Poor's

2010 Salmabad center inaugurated

2011 First branch out of Bahrain in Doha, Qatar branch inaugurated

2011 Launched a new service "e-takaful" online insurance www.etakaful.bh

2011 Awarded Her Royal Highness Princess Sabeeka Bint Ibrahim Al Khalifa award for Women Empowerment

2011 Launches 'e-bidding system'

2011 Hamala Center inaugurated

2011 Launched "Mobile Takaful"

Diversified protections

Takaful the first Islamic insurance company in the region, which provided services that suit the Islamic values and cater to the requirements of the modern era.

The following products and services are tailor made for our customers so that they sufficiently cater to their requirements:

1

E-Takaful
(Online Takaful)
www.etakaful.bh

2

Takaful Hotline
(80008050)

3

Motor Takaful
(Sayartak)

- Motor Third Party.
- Motor Third Party (Fire & Theft)
- Motor Comprehensive Takaful with various a la carte options for coverage enhancement

4

Family Takaful and Healthcare

- Family Takaful (Osratak)
- Group Family Takaful
- Education Takaful (Taleemi)
- Saving Takaful (Edikhari)
- Group Health Takaful (Sehatak)
- Annuity Certain Takaful Plan (Damani)
- Regular Pay-Back Takaful (Sandooki)

5

General Takaful

- A. Commercial & Major Accounts:**
 - Property Takaful
 - Marine and Aviation Takaful
 - Engineering Takaful
 - Financial Institutions Takaful
 - Directors and Officers Liability
 - Professional Indemnity
 - General Accident
- B. Personal lines:**
 - Travel Takaful
 - Home Takaful
 - Property Takaful
 - Personal Accident Takaful
 - Domestic Servant Takaful
 - Haj & Umrah Takaful

Takaful honoured with Women Empowerment Award

We genuinely believe that Bahrain has a hidden gold mine of untapped talent in the women of Bahrain. If these talents are encouraged and utilized, it could help the economy of Bahrain to shoot up and achieve dazzling heights of success.



The Supreme Council of Women honored Takaful International, by awarding us the 3rd edition of Her Royal Highness Princess Sabeeka bint Ibrahim Al Khalifa Award for Bahraini Women's Empowerment in the private sector.

This award, an initiative of HRH Princess Sabeeka, is instituted to encourage the development of Bahraini women. Organizations contributing towards women empowerment in terms of, the percentage of women employed and women holding leading posts, commitment to provide training opportunities and sponsor academic women top achievers as well as train talented women to be able to take part in delegations, conferences, events and official committees.

By receiving this award, we are immensely honored. We genuinely believe that Bahrain has a gold mine of untapped talent in the women of Bahrain. Due to lack of opportunities they are not able to come to the forefront and showcase their talents and capabilities to the fullest. If these talents are encouraged and utilized, it could help the economy of Bahrain to shoot up and achieve dazzling heights of success.

To achieve this we provide necessary incentives and support to the women in our company to help them grow. Training and developmental programs are regularly conducted for them to fill up the missing pockets of knowledge and help them enhance their skills. On the domestic front they are provided with necessary incentives.

This award boosts our endeavor further and we will continue to provide the necessary strength and hopefully have set an example for other companies to work towards the empowerment of the women of Bahrain.

In the name of Allah, The Merciful, The Compassionate

Do you not see that Allah has made subject to you whatever is in the heavens and whatever is in the earth and amply bestowed upon you His favours, (both) apparent and unapparent? But of the people is he who disputes about Allah without knowledge or guidance or an enlightening Book (from Him).

God Almighty has spoken the truth.

(Holy Quran - Luqman (Luqman) - 31:20)



Give energy saving a helping hand.
Turn off the light... keep the future bright.

Board of Directors



Bara'a A. Al-Qenaei
Chairman



Hassan E. Kamal
Vice Chairman



Isa A. Al-Mannai
Managing Director



Mohammed E. Mohammed
Director



Saad E. Makki
Director



Dr. Abdalnaser M. Al-Janahi
*Director



Najwa A. Abdulla
*Director

*Independent Director

Executive Management



Younis J. Al Sayed
Chief Executive



Essam M. Al-Ansari
General Manager



Abdulaziz A. Al-Othman
Deputy General Manager
Corporate and Support



Ali E. Noor
Deputy General Manager
Family Investment & Takaful Centers



Ahmed E. Swailem
Assistant General Manager
Major Account

Sharia'a Supervisory Board

- **Dr. Shaikh Abdullatif M. Al-Mahmood**
Chairman
- **Dr. Shaikh Abdulsattar A. Abughuda**
Deputy Chairman
- **Shaikh Mohsin A. Al-Asfoor**
Member

Major Shareholders

Bahrain Islamic Bank
Investors Bank
International Investment Group, Kuwait
Gulf Monetary Group
Al-Mohanad Direct Investment Fund,
Kuwait
Al-Amana Alama, Kuwait

Auditors to the Company

BDO, P.O. Box 787
10th & 11th floor, GBCORP Tower
Bahrain Financial Harbour
Kingdom of Bahrain

Bankers to the Company

Bahrain Islamic Bank
Al Salam Bank
Kuwait Finance House
National Bank of Bahrain
Bank of Bahrain and Kuwait
AUB (Al Hilal Bank)

Management Team

- **C A Santosh S. Prabhu**
Financial Controller
- **Haider G. Shehabi**
Senior Manager - Legal Affairs & Collection
& Administration
- **Khalil A. Shams**
Regional Manager
- **Lamia E. Hassan**
Senior Manager - Internal Control &
Compliance
- **Fadhel M. Al-Showaikh**
Senior Manager - Takaful Marine
- **Reema G. Nawrooz**
Senior Manager - Family Takaful &
Healthcare
- **S. Jaffer K. Hussain**
Manager - Information Technology
- **Jijan A. Stephen**
Manager - General Takaful
- **Raef A. AlHammad**
Manager - Motor Takaful
- **Fernando A. Bibat**
Manager - Risk Management & Claims
- **Noor N. Al-Nasser**
Manager - Corporate Communication
- **Salah M. AlAwadhi**
Manager - Human Resources
- **Sridharan Sundaresan**
Country Manager (Doha)
- **Rayan Al Mahmood**
Manager - Financial Institutions and
Special Risks

Board of Directors' Report

**"In The Name of Allah,
The Most Compassionate, The Most Merciful,"**

Dear Shareholders,

On behalf of the Board of Directors, I am glad to present the 23rd Annual Report of Takaful International Company together with the audited financial statements of the company prepared in compliance with the Accounting and Auditing Standards for Islamic Financial Institutions (AAOIFI), International Financial Reporting Standards (IFRS) and the Central Bank of Bahrain (CBB) Law for the financial year ended 31 December 2012.

We have seen another year full of fluctuations and uncertainty on many levels, financial, social and political, to say the least. Global economies continued to transmit the lingering effects of the financial crisis that hit the international markets five years ago. This, coupled with the political instability in some of the Middle Eastern countries, had paused a major threat hindering the forward movements aimed at exiting the recession cycle and creating opportunities for recovery of the global and regional markets. Fortunately, the GCC region had been recovering well from the diminishing effects of this whirlpool. The Kingdom of Bahrain's recovery, although gradual, it was steady enough to guarantee continued growth in the local economy with its different industries.

Alhamdulillah, our company, with constant application of prudent strategies and focus on long term targets, has been able to achieve another fruitful year for shareholders and policyholders alike. Although the market and the economic situation were very tough; I am quite happy with the overall development and the growth of our company in these difficult times. During the year the Gross Written Contributions (Gross Premiums Written) grew around 6% from BHD 17,146,221 written premium in 2011 to BHD 18,138,798 during the year 2012. Operational results were decent with a net policyholders' profit of BD 204,328 a shortfall to the previous year and shareholders net profit for 2012 was BD 204,801, 13% growth over the previous year. The investment returns were quite decent at the prevailing financial market situations.

The company's major achievements included its prudent business strategy resulted into a growth of written contributions which included new business from Governmental and other prestigious accounts written on its business portfolio. The company has capitalized on the available Sharia'a complied investment

**Shareholders net profit for
the year 2012**

BD 204,801



Our company has progressed remarkably in line with its business and strategic plans and has successfully achieved its planned objectives and goals for the year 2012.



opportunities and has diversified its investment portfolio for generating decent return on its investments. During the year the company had a conservative approach on its investment activities looking at the global and regional financial market situation and its investment results were quite decent with the prevailing financial market conditions. Overall, our company has progressed remarkably in line with its business and strategic plans and has successfully achieved its planned objectives and goals for the year 2012.

We have strengthened our balance sheet and are focused on managing our costs and the prudent use of capital. Our investment grade ratings, cash balance and low net gearing place us in a unique position for creating a foundation for growth. At Takaful, we have been and continue to remain focused on creating long term shareholder value. We are committed to sustain a culture of operational excellence, responsible resource utilisation and creating a platform for sustainable growth to benefit all stakeholders.

Looking forward, Takaful is confidently prepared for facing the business challenges during the year 2013 and our goals are quite

ambitious. Our company has a very sound Corporate Governance in place and all the regulatory and legislative compliance are made timely thereby reflecting a positive image of the company and entrusting strong confidence amongst its customers, staff and all concerned entities. With the support of the company's team comprising of professionals and technical experts who have helped the company to reach to the current position; I am confident that the company will climb to greater heights in the near future.

On behalf of all my colleagues on the Board of Directors, I would like to extend our sincere thanks and appreciation to His Majesty "Shaikh Hamad Bin Isa Al Khalifa", the King of Bahrain, His Royal Highness Prince Khalifa Bin Salman Al Khalifa", the Prime Minister and His Highness "Prince Salman Bin Hamad Al Khalifa", The Crown Prince, Deputy Commander of the Bahrain Defence Force and First Deputy Prime Minister of the kingdom of Bahrain for the continued support to the National Financial Institutions.

We also express our sincere thanks to all the Government Ministers, Central Bank of Bahrain team and other Departments for

their support and co-operation.

We take this opportunity to thank and express our appreciation to the management and staff of Takaful International Company for their continued efforts, hard work and sincerity. We also thank our Sharia'a Board for their guidance and direction. We also express our sincere thanks to Company's shareholders for their continued faith and trust, and to our clients and all those institutions and individuals with whom the company deals in Bahrain locally, regionally and at the International level.

For and on behalf of the Board

Bara'a Abdulaziz Al Qenaei
Chairman
Bahrain, 12th February 2013

Chief Executive Report

**“In The Name of Allah,
The Most Compassionate, The Most Merciful,”**

I take great delight in introducing last year's operational and financial results, which once again reflected the strength and consistency of Takaful International Company despite numerous challenges arising in the industry as well as in the wider economy. The company like last year maintained its top line growth of over 6% during the financial year 2012. Alhamdulillah, the year closed with a satisfactorily note. The year was full of challenges with unprecedented economic uncertainty in Europe, geopolitical upheaval in the Middle East going through the shocks and waves of the Arab regional uprising and the economical crisis and a slowing down of economic growth across Asia. Closing the year on a successful note has indeed been another milestone year for Takaful especially under the political and regional crisis and the global financial turmoil. The year was full of challenges due to the after effects of the financial turmoil, increased competition between the various players in the market, the slowdown in the real estate and other industries business and adding to it the continued unrest due to the Arab uprising.

During the financial year your company was able to capture the business movement, for all the lines of takaful business. Our strategy to partner with customers and create takaful solutions to drive optimization and agility

across the enterprise is indeed benefiting our customers. Almost all our lines of business performed admirably with each growing. Our company's ability to grow in a rapidly evolving external environment is due to its customer-centric approach, balanced nature of business portfolio and services. Our object to remain relevant to our customers, understand their business needs and perform with vigor to meet those takaful needs.

Alhamdulillah, Takaful International was able to achieve satisfactory results in the operations and investments which is indeed commendable in the prevailing situation and looking at the global and the regional market situation. The claims ratio was high in line with the general market situation and which was felt by all the insurance companies. We believe this is a temporary situation and will settle down in some period of time with the improvement in the general situation. The company followed a conservative and balanced policy in managing its investments portfolio which was a prudent decision looking at the prevailing financial market situation. I would acknowledge this to the great team work and spirit of the entire Takaful staff which reflects the capability and professional approach of the managerial and technical team of the company.

Takaful is not only an insurance company but an Islamic and cooperative insurance service

provider which strongly believes in providing the ultimate satisfaction to its customers and assume the primary duty to provide complete peace of mind by covering their risk and helping the unfortunate through a cooperative activity. Our objective is to provide a satisfactory service of care and cooperative assurance to its policyholders by securing them on their insurable risks. The underwriting at Takaful is done in a prudent manner and the key to being able to select those businesses that promise the strongest profitability. Thus despite high competition Takaful International is doing very well and with the development of Takaful products there is a huge untapped scope of growth for the Takaful industry even in this market environment.

Takaful achieved another milestone in line with its strategy by opening two new branches in Bahrain (at Hamala & Isa Town) thereby having an overall six branches including Qatar branch and in addition to Head Office in Seef. This is another step to reach closer to our valuable clients and policyholders and has also made access to policyholders easy. Further in line with this, Introduction of the Mobile Takaful was another step which made our policyholder reach us on their finger tips through their mobile and smart phones. We are proud to announce that Takaful International was the first to introduce this technology in the island.



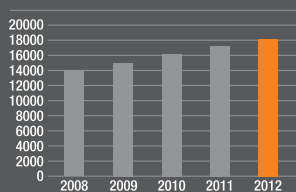
{ At Takaful the focus is towards fulfilling its obligations to its stakeholders, clients and business partners. We have clearly set ourselves areas of attention towards which the entire team is functioning.

I would like to highlight some of our important achievements of the company which are reflected in the following graphs which are self explanatory:

Key Achievements

Growth in Contributions

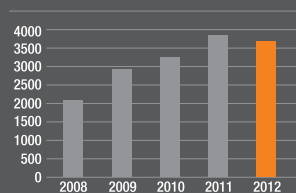
BD '000



Even under these tough times, Takaful delivered sustained growth of around 6% in its Gross Witten Contributions

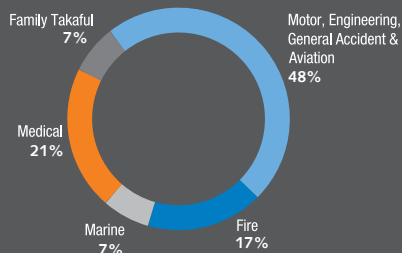
Underwriting Results

BD '000



Underwriting profit were slightly low by 4% compared to previous year

Business mix 2012

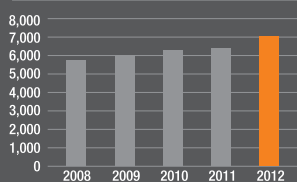


Business mix further diversified during the year 2012, thereby, balancing with the entire portfolio

Unearned contributions and technical reserves:

Technical Reserves

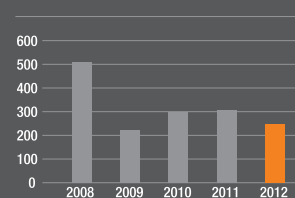
BD '000



Technical fund reserves further strengthened during the year

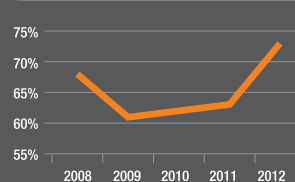
Investment Income

BD '000



Considering current global investment market situation investment income was quite decent for the year

Claims Ratio



Claims ratio was high in line with the adverse market conditions

Needless to mention that the above results even under such tough times could be achieved only due to the excellent cooperation and coordination of the entire Takaful team who drove their performance by seizing attractive opportunities, leveraging the integration of takaful solutions and constantly striving towards our strategic goals of organizational excellence. The credit goes to the entire Takaful team; all the Departments, Management, Board and all other Stake Holders who have contributed to the success of Takaful.

Strong Corporate Governance policy has always been the key to any financial organizations growth. Takaful International in line with the same always follows the best standards of corporate governance to protect the interest of all the concerned parties, including the shareholders and policyholders.

Our strategic direction focuses on the following key objectives to deliver enhanced sustainable returns for the participants and the shareholders:

- Generate economic profit growth
- Reduce earnings volatility
- Enlarge market scope
- Advance organizational excellence
- Best in class customer service
- Attractive returns to participants and shareholders.

The 2012 results show how these powerful combination of our above strategies have driven our performance, allowing us to deliver best in class client service and, ultimately, attractive returns for our participants and shareholders.

Our strategic objectives have been embedded in all of Takaful International's activities, helping us to further improve our economic efficiency. Our business goals are simple: to ensure growth in earnings per share, to pursue high quality business rather than volume for volume's sake as is evident in our financial highlights in terms of improved claims ratio and decent profits for the participants and shareholders.

This is further supported by continuously expanding the scope and the range of services we provide to our esteemed clients in all lines of business and regions.

Takaful's success is built on the superior client services, pro-active capital & investment management, diligent and disciplined underwriting, and dynamic growth through new products and markets. Our focus is to deliver attractive risk-adjusted returns for our policyholders and shareholders which can be seen from the above financial result highlights.

Takaful's organizational structure, as well as its risk and capital management assurance functions are defined by a governance framework that supports the company's success, and protects the interests of shareholders and other stakeholders. Takaful's strategic direction supports a disciplined approach to delivering the best in class customer service and attractive shareholder returns.

Takaful is closely aligned with its business focus on profitable growth, efficient use of capital and bringing the Company closer to clients. Takaful's employees combine expertise, creativity and sound judgment to deliver world-class services for its clients. Takaful drives performance contributing to its clients' success, enabling economic growth, and leveraging its expertise and long standing history to identify future trends and market opportunities.

In view of our stable financial standing, our business prospects for 2013 are therefore exceptionally bright. Your company is very well equipped to make the most of the year 2013. Our resources are strong and solid. This was reinforced by the rating agency Standard and Poor's which confirmed our BBB rating.

We have embarked on 2013 with high confidence and even higher expectations for the continuing success of your company in delivering sustainable and strong earnings per share. With the continued support of all our customers, growth in the market share and other value added advantages like the new Information Technology, expertise technical and professional team, plans of expansion,

“Our business goals are simple to ensure growth in earnings per share, to pursue high quality business rather than volume for volume's sake as is evident in our financial highlights in terms of improved claims ratio and decent profits for the participants and shareholders.”

The company like last year maintained its top line growth of over

6%
during the financial year 2012

diversification and spreading the wings across the region by marking our presence in all the strategic location by opening new branches, Takaful is all set and ready to face the future challenges and to attain higher goals with greater confidence to march ahead and capture greater market share and to provide the best valuable services to its policyholders and shareholders always.

At Takaful the focus is towards fulfilling its obligations to its stakeholders, clients and business partners. We have clearly set ourselves areas of attention towards which the entire team is functioning. Our efforts converge in this direction of meeting diverse expectation from those around us.

I'm most proud of our people: their dedication and resilience over the past years has been incredible. They've remained focused on what we're here for –delivering prosperity and peace of mind to our customers –and have done a great job. Our operational and financial success could not have been done without the hard work of our people across all our centers.

We will continue to deliver against the strategy that has helped us to navigate the global economic crisis so successfully. We will maximize the value of being a single, global group, as we aim to deliver a consistently positive experience for our customers.

In driving Takaful forward, we will retain our disciplined approach. We expect the external environment to remain unpredictable for some time but are encouraged that we saw the first signs of an improved appetite to save among our customers.

We have made excellent progress in the delivery of our strategy, which is also reflected in the successful launching of operations at our new branch at Qatar.

I'm pleased with our progress this year. It has been a year of good financial performance and delivery against our strategic plans. I'm proud of the way my team has performed and I'm confident that by remaining focused on our strategy we will make further progress in 2013.

I extend our sincere thanks and appreciations to His Majesty "Shaikh Hamad Bin Isa Al Khalifa", the King of Bahrain, His Royal Highness "Prince Khalifa Bin Salman Al Khalifa", the Prime Minister and His Highness "Prince Salman Bin Hamad Al Khalifa", The Crown Prince, Deputy Commander of the Bahrain Defence Force and First Deputy Prime Minister of the kingdom of Bahrain for the continued support to the National Financial Institutions.

I express our sincere thanks to all the Government Ministers, Central Bank of Bahrain team and other Departments for their support and co-operation.

I also take this opportunity to thank and appreciate the staff and the management of Takaful International for their continued efforts, sincerity and loyalty to their duties. I also extend my sincere thanks and gratitude to our Board of Directors and the Sharia'a Board for their guidance and direction. Also express my sincere thanks to Company's Shareholders, Clients and all those institutions and individuals with whom the Company deals in Bahrain locally and internationally.

Younis J. Al Sayed

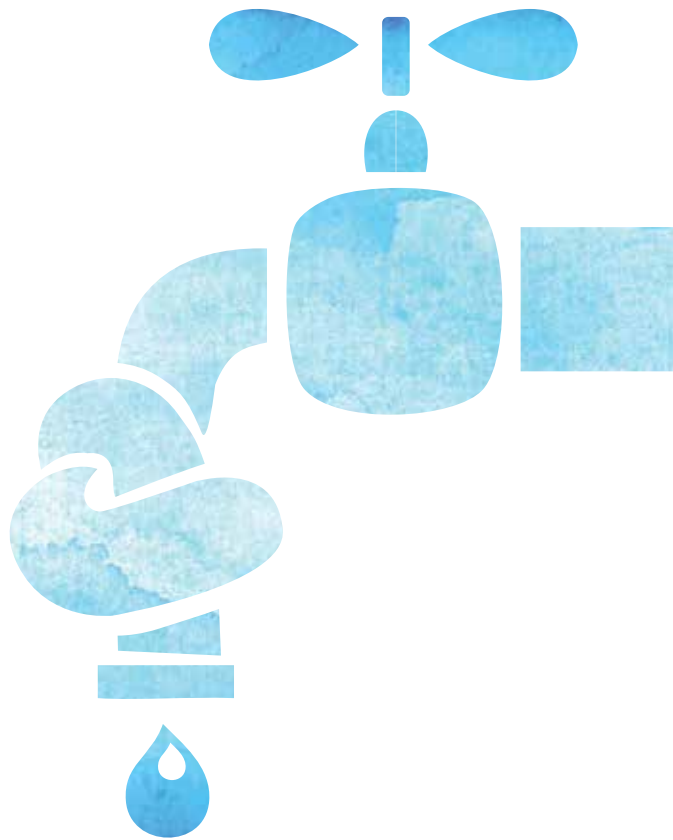
Chief Executive
Bahrain, 12th February 2013

In the name of Allah, The Merciful, The Compassionate

**And We have sent down rain
from the sky in a measured
amount and settled it in the
earth. And indeed, We are
Able to take it away.**

God Almighty has spoken the truth.

(Holy Quran - Al-Mu'minun (The Believers) - 23:18)



**Practice conservation together
for future generation.**

Corporate Governance disclosures

Financial Highlights

(figures in BD '000)

The financial highlights for the year ended 31st December 2012 are as follows:

Particulars	Growth rate 2012/11	2012	2011	2010	2009	2008
Gross contributions	6%	18,139	17,146	16,276	15,018	14,022
Underwriting profits	-4%	3,688	3,829	3,262	2,910	2,098
Participants' net surplus	-58%	170	409	464	405	351
Shareholders' net profit	13%	205	181	167	155	98
Total Profit	-37%	375	591	631	560	449
Net Technical Reserves	11%	7,055	6,366	6,224	5,989	5,750
Shareholders' Equity	4%	7,310	7,022	6,806	6,705	5,402
Investment Income	-19%	250	307	302	225	511
Claims Ratio	16%	73%	63%	59%	61%	68%

Corporate Governance

Takaful is fully committed to sound Corporate Governance. Takaful's Board of Directors have adopted high standards and values which set out the discipline expected of staff in their dealings with the participants, customers, shareholders, colleagues, brokers and other stakeholders of the company. One of the core values communicated within the Company is a belief that the highest standard of integrity is essential in business. The governance of the Company remains under continuous review, in order to enhance compliance levels according to international standards and best practice. The direct responsibility of the Board of Directors is to endeavour to be in line with policies of regulatory authorities and statutory requirements.

Board of Directors

The Company is governed through its Board of Directors. The Board's main role is to create value addition to its participants and shareholders, to provide entrepreneurial leadership, to approve Company's strategic objectives and to ensure that the necessary financial and other resources are made available to enable them to meet those objectives. The Board, which meets regularly, has a schedule of matters reserved for its approval.

Code of Conduct

The Company's Code of Conduct covers the conduct of the Company's directors and executive management. The Code binds the signatories to the highest standards of professionalism and due diligence in performance of their duties. It also covers conflicts of interest, disclosure and the confidentiality of insider information.

Capital adequacy, solvency margin and Qard Al Hassan

The Company maintains adequate human, financial and other resources sufficient to run the business in an orderly manner. The capital available and solvency margin are determined as per the provisions of Capital Adequacy Module of the Insurance Rulebook Volume 3 issued by the Central Bank of Bahrain. The shareholders' available capital for the company is BD 6,850,000. The Solvency Deficit calculated as per the CBB Rulebook Volume 3 for General Takaful is BD 4,139,000 and for the Family Takaful is BD 400,000. The shareholders provided Qard

Al Hassan (profit free loan) of BD 4,232,000 to general takaful policyholders and BD 407,000 to family takaful policyholders to meet their solvency valuation deficit. The net excess of available capital after the Qard Al Hassan in the shareholders fund is BD 3,020,000. The Tier 1 capital of the company is BD 7,659,000.

Insider trading policies

Members of the Board of Directors and identified insiders are bound by specific regulations relating to insider trading and are required to disclose details of their shareholdings in the Company. The Company's compliance with latest insider trading regulations of the Central Bank of Bahrain is supervised by the Audit Committee reporting to the Board of Directors.

Insider trading

The following insiders hold shares in the company:

Name	Position	No. of shares
Bara'a Abdulaziz Al-Qenaei	Chairman	125,000
Hasan Ebrahim Kamal	Vice-Chairman	244,580
Isa Abdulla Al-Mannai	Director	125,000
Saad Ibrahim Makki	Director	125,000
Dr. Shaikh Abdul Latif Mahmood Al Mahmood & connected person	Sharia Chairman	59,780
Mohammed Ebrahim Mohammed	Director	100,000

The insiders have not traded in the shares of the company for the year 2012.

Insiders trading Committee

Hasan Ebrahim Kamal - Chairman
Bara'a Abdulaziz Al Qenaei
A.Aziz Ahmed Al Othman

Board of Directors:

Name	Qualification	Experience	Appointment
Bara'a Abdulaziz Al Qenaei	MBA	11 years	27-03-2006
Hasan Ebrahim Kamal	BSc.	34 years	11-04-1989
Isa Abdulla Al Mannai	MSc.	24 years	2000
Najwa Abdulla Abdurraheem	MBA	29 years	26-07-2009
Dr. Abdunasser Mohammed Al-Janahi	PHD	30 years	26-07-2009
Saad Ibrahim Makki	BA Business Administration & Management	31 years	26-07-2010
Mohammed Ebrahim Mohammed	MBA	35 years	03-05-2010

Corporate Governance disclosures continued

The Board members other company's directorships are as follows:

Name	Other companies in which directorship is held
Bara'a Abdulaziz Al-Qenaei	Investors Group Osoul Investment Company Gulf Petroleum Investment
Hasan Ebrahim Kamal	ASMCO Industrial Security Co. Joslin Sugar Co. Bahrain Qatar Development Co. Bahrain Chamber of Commerce & Industry Bahrain Properties Group Bahrain Malaysia International Trade & Investment Bureau Global Investment & Construction Co. (Bahrain, Saudi & Yemen) GCC Commercial & Arbitration National Institute for Training Bahrainis
Isa Abdulla Al Mannai	Mannai Technical Services Bahrain Computer System Protection Chambers & Integrated Communication Co. Ltd. Saudi Arabia Gulf Process Company W.L.L. Bahrain Raslan Contracting Co. W.L.L. Bahrain PROU, India Investors Bank Gulf Scientific Glass Industry W.L.L
Najwa Abdulrahim Abdulla	Nil
Dr. Abdulnasser Mohammed Al-Janahi	Nil
Saad Ibrahim Makki	Takaful International - Kuwait Grand Real Estate
Mohammed Ebrahim Mohammed	Abaad Real Estate Company Bahrain Association of Banks (BAB) Liquidity Management House (LMC) Gulf Finance House (GFH) Enjaz

The Board has set up an Audit Committee with approved terms of reference and mandates to carry out the assigned functions.

The Board has delegated the following responsibilities to the Audit Committee:

- Reviewing the Company's draft financial statements and interim results statement prior to the Board approval and reviewing the external auditors details reports thereon;
- Reviewing the appropriateness of the Company's accounting policies and other operational procedures;
- Reviewing regularly the potential impact in the Company's financial statements of certain matter such as impairment of fixed assets values and proposed changes in International Financial Reporting Standards and AAI OFI Standards applicable to the company.
- Reviewing and approving the terms of engagement for the audit.
- Reviewing the annual report of the company and reporting to the Board on the results of the review and receiving regular updates on key risk areas of financial control; and
- Reviewing the internal audit functions terms of reference, its work programme and quarterly reports on its work during the year.

The Committee meets with Directors and management, and as and when considered necessary with both the external and internal auditors. The Company has an in-house Internal Audit / Control department which continuously monitors and performs and conducted their procedures on all transactions of the company as per the International Audit Standards and has adequate control and monitoring and provides periodic reports directly to the Audit Committee.

The members of the Audit Committee during 2012 were as follows:

Hasan Ebrahim Kamal	Chairman
Bara'a Abdulaziz Al Qenaei	
Dr. Abdulnaser Mohammed Al Janahi	

Other Management Committees:

Investment and Liquidity Committee

Younis J. Al Sayed	Chairman
Essam Mohammed Al Ansari	
A.Aziz Ahmed Al-Othman	
Santosh Shreenivas Prabhu	
Ali Ebrahim Mohammed Noor	

Re-insurance Security Committee

Essam Mohammed Al Ansari	Chairman
A.Aziz Ahmed Al-Othman	
Ali Ebrahim Mohammed Noor	
Santosh Shreenivas Prabhu	
Jijan Abraham Stephen	

Enterprise Risk Management – Committee

Essam Mohammed Al Ansari	Chairman
A.Aziz Ahmed Al-Othman	
Lamia Al Hassan	

Internal control

The Directors have continued to review the effectiveness of the Company's system of financial and non-financial controls, including operational and compliance controls, risk management and the Company's high level internal control arrangements. These reviews have included an assessment of internal controls, and in particular internal financial controls, by the internal audit function, management assurance of the maintenance of control and reports from the external auditor on matter identified in the course of its audit work.

Fines and penalties

The company did not pay any fines or penalties to regulatory or governmental agencies during the year under review.

Corporate Governance disclosures continued

Organizational structure

Chief Executive: Mr. Younis J. Al Sayed is a leading pioneer in the insurance and reinsurance sector with a rich experience that exceeds 33 years during which he held various positions. A graduate of Kuwait University, he began his illustrious career with the Arab Insurance Group (ARIG) in 1982 and was responsible for underwriting operations of all aspects of aviation insurance regionally as well as in international markets. In 2001, he joined Dubai International Financial Centre (DIFC) as Managing Director and played a prominent role in establishing the infrastructure of insurance and reinsurance sector for DIFC. Being specialized in Islamic Insurance (Takaful) Mr. Younis joined Takaful International Company in 2003 as General Manager and was promoted to the position of Chief Executive in 2008.

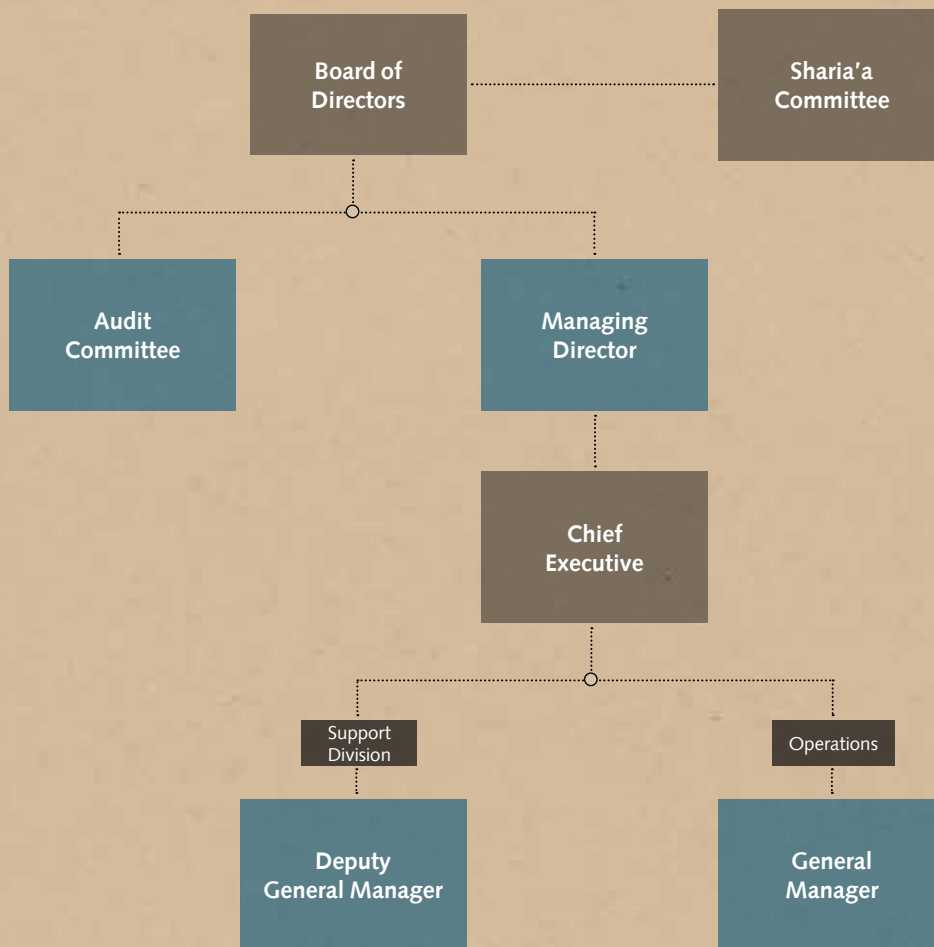
Mr. Younis is also the Chairman of Bahrain Insurance Association for the period 2011-2013.

General Manager: Mr. Essam Al Ansari is a top professional in the insurance field. He is an ACII degree holder (Associate of the Chartered Insurance Institute) from the Chartered Insurance Institute-London. He possesses 23 years of extensive experience in insurance and reinsurance business, through his long association in the insurance and reinsurance industry in Bahrain and the region. He has been in the Executive Management Cadre of Bahrain National Insurance Company, National Company for Cooperative Insurance (NCCI) Saudi Arabia and Bahrain Kuwait Insurance Company, Bahrain before joining Takaful International Company in 2006.

Deputy General Manager: Mr. A.Aziz Al Othman is a certified Accountant since 2002 and holds a Masters degree in Business Administration from the University of Hull, UK. A true professional in the Islamic Insurance field, he had completed his "Life Office Management Association program-LOMA" and ongoing on his ACII degree. He has extensive experience in the Islamic Insurance business acquired by his long association of over 24 years in the insurance industry with in-depth understanding of Takaful Markets. Al-Othman begun his distinguished career with Takaful International Company in 1989. After handling various administrative positions in 2008 he was designated as Deputy General Manager. His outstanding contributions has helped in enhancing the performance of the company for the past few years.

He is also well experienced in developing, evaluating and analysing strategies and business planning, insurance statistical and financial statement, and has attended a number of seminars and workshops related to accounting and insurance.

Organizational Structure



Shari'a Supervisory Board's Report

For the year ended 31 December 2012

"In the name of Allah, The Merciful, The Compassionate".

"Thanks to Allah, the Almighty, Prayer and Peace be Upon the True Messenger, His Relatives and All His Companions".

To the Shareholders and Participants of Takaful International

Assalam Alaikum Wa Rahmat Allah Wa Barakatuh

In compliance with our appointment to undertake the duties of Sharia'a supervision, we hereby submit the following report.

The Sharia'a Supervisory Board reviewed the procedures relating to the Takaful transactions and the applications introduced by the company for the year ended on 31.12.2012. The Board has reviewed and confirmed the implementation of the principles and guidelines covering the relationship between the participants and shareholders in order to identify the rights of each side. Discussions took place with the Company's officers with regard to its items and answered the queries made by the management.

It is the management responsibility to ensure that the company conducts its business in accordance with Islamic Sharia'a principles, our responsibility is to express an opinion on the company operations and that the financials are prepared on the basis of and in accordance with the principle of Islamic Sharia'a.

In our opinion:

1. The surplus distribution, charging of losses and expenses to the participants and shareholders fully confirm with the principles established by ourselves in compliance with Sharia'a rules and principles.
2. There are no gains realized from prohibited sources or from methods that are forbidden.
3. The calculations of Zakah is in compliance with Islamic Sharia'a rules and principles and as directed by the Sharia'a supervisory Board. It should be noted that responsibility for payment of Zakah is undertaken by the shareholders.

We pray to Allah the Almighty to grant the Company continuous success for purifying business transactions from suspicions and probations.

Assalam Alaikum Wa Rahmat Allah Wa Barakatuh

1 Rabia II, 1434 corresponding to 11 February 2013.

Member of the Sharia'a supervisory Board:-

1. Dr. Shaikh Abdul Latif Karim Al Mahmood, Chairman.
2. Dr. Shaikh Abdul Sattar Abdul Karim Abu Ghuda, Deputy Chairman.
3. Shaikh Mohsin Abdul Hussain al Asfour, Member.

Independent auditor's report

to the shareholders

Report on the financial statements

We have audited the accompanying financial statements of Takaful International Company B.S.C. ("the Company"), which comprise the statement of financial position as at 31 December 2012, the statement of income, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of changes in participant's funds, the statement of cash flows for year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

The management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and International Financial Reporting Standards, 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. The management is also responsible for the Company's undertaking to operate in accordance with Islamic Shari'a rules and principles.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Company, Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and International Financial Reporting Standards.

Report on other legal and regulatory requirements

As required by the Bahrain Commercial Companies Law, Decree Number 21 of 2001, and the Central Bank of Bahrain (CBB) Rule Book (Volume 3), we report that: the Company has maintained proper accounting records and the financial statements are in agreement therewith; the financial information contained in the Directors' report is consistent with the financial statements; in addition to what has been reported in Note 1 to the financial statements, we are not aware of any violations of the Bahrain Commercial Companies Law, Decree Number 21 of 2001, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 3 and applicable provisions of Volume 6) and CBB directives, Regulations and Associated Resolutions, Rules and Procedures of the Bahrain Bourse, or the terms of the Company's Memorandum and Articles of Association having occurred during the year ended 31 December 2012 that might have had a material adverse effect on the business of the Company or on its financial position; and satisfactory explanations and information have been provided to us by the management of the Company in response to all our requests.

Manama, Kingdom of Bahrain
12 February 2013

Financial Statements of the year 2012

Statement of financial position

as at 31 December 2012 (Expressed in Bahrain Dinars)

	Notes	Shareholders		General takaful		Family takaful		Total	
		31 December 2012	31 December 2011	31 December 2012	31 December 2011	31 December 2012	31 December 2011	31 December 2012	31 December 2011
ASSETS									
Cash and investments:									
Statutory deposit	5	125,000	125,000	-	-	-	-	125,000	125,000
Cash and cash equivalents	6	912,084	1,232,600	713,573	1,161,583	1,498,344	1,610,567	3,124,001	4,004,750
Available-for-sale investments	7	3,568,135	2,914,820	2,118,555	2,072,144	401,396	274,194	6,088,086	5,261,158
		4,605,219	4,272,420	2,832,128	3,233,727	1,899,740	1,884,761	9,337,087	9,390,908
Retakaful and takaful balances receivable	8	-	-	9,494,298	7,747,614	438,606	443,694	9,932,904	8,191,308
Due from retakaful companies in connection with outstanding claims	9	-	-	4,814,993	4,962,567	189,762	260,143	5,004,755	5,222,710
Deferred retakaful contribution	10	-	-	3,340,936	3,820,627	-	-	3,340,936	3,820,627
Deferred policy acquisition cost	11	-	-	533,763	390,100	26,311	28,476	560,074	418,576
Property and equipment	12	2,337,548	2,540,458	-	-	-	-	2,337,548	2,540,458
Other receivables and prepayments	13	314,874	240,384	88,336	77,214	207,905	17,318	611,115	334,916
Amounts due from related parties	14	25,111	42,012	-	-	-	-	25,111	42,012
Receivable from takaful funds	13	731,407	676,141	-	-	-	-	731,407	676,141
TOTAL ASSETS		8,014,159	7,771,415	21,104,454	20,231,849	2,762,324	2,634,392	31,880,937	30,637,656
SHAREHOLDERS' EQUITY									
Share capital	15	6,250,000	6,250,000	-	-	-	-	6,250,000	6,250,000
Statutory reserve	16	456,932	436,452	-	-	-	-	456,932	436,452
General reserve	16	200,000	200,000	-	-	-	-	200,000	200,000
Retained earnings	16	667,215	482,894	-	-	-	-	667,215	482,894
Investment fair value reserve	16	(263,876)	(347,786)	833	(26,319)	(8,055)	(6,633)	(271,098)	(380,738)
		7,310,271	7,021,560	833	(26,319)	(8,055)	(6,633)	7,303,049	6,988,608
SURPLUS IN PARTICIPANTS' FUND		-	-	616,440	505,578	751,939	692,770	1,368,379	1,198,348
Takaful funds:									
Gross outstanding claims	17	-	-	7,015,625	7,225,689	218,147	312,445	7,233,772	7,538,134
Unearned contributions reserve	19	-	-	7,117,076	6,766,287	-	-	7,117,076	6,766,287
Unearned retakaful commissions	20	-	-	651,612	730,835	1,402	1,378	653,014	732,213
Family Takaful Technical reserves		-	-	-	-	957,194	792,224	957,194	792,224
		-	-	14,784,313	14,722,811	1,176,743	1,106,047	15,961,056	15,828,858
Retakaful and takaful payables		-	-	3,919,204	3,575,929	767,247	740,854	4,686,451	4,316,783
Other liabilities and provisions	21	571,439	642,459	1,072,650	862,949	54,057	16,114	1,698,146	1,521,522
Employees' terminal benefits	22	132,449	93,827	-	-	-	-	132,449	93,827
Murabaha payables	23	-	13,569	-	-	-	-	-	13,569
Payable to shareholders		-	-	711,014	590,901	20,393	85,240	731,407	676,141
TOTAL LIABILITIES		703,888	749,855	5,702,868	5,029,779	841,697	842,208	7,248,453	6,621,842
TOTAL SHAREHOLDERS' EQUITY, PARTICIPANTS' FUND AND LIABILITIES		8,014,159	7,771,415	21,104,454	20,231,849	2,762,324	2,634,392	31,880,937	30,637,656

These financial statements, set out on pages 37 to 72, were approved for issue by the Board of Directors on 12 February 2013 and signed on its behalf by:

Bara'a Abdulaziz Al-Qenaie
Chairman

Isa Abdulla Al-Mannai
Managing Director

Statement of income

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

	Notes	Shareholders		General takaful		Family takaful		Total	
		2012	2011	2012	2011	2012	2011	2012	2011
Revenues									
Gross contributions	28	-	-	16,829,972	15,979,042	1,308,826	1,167,179	18,138,798	17,146,221
Retakaful share	28	-	-	(8,978,291)	(9,530,357)	(569,916)	(553,009)	(9,548,207)	(10,083,366)
Retained contributions		-	-	7,851,681	6,448,685	738,910	614,170	8,590,591	7,062,855
Movement in unearned contributions	28	-	-	(807,588)	163,203	-	-	(807,588)	163,203
Net earned contributions		-	-	7,044,093	6,611,888	738,910	614,170	7,783,003	7,226,058
Net commission and other takaful income/(expenses)	28	-	-	1,853,125	1,561,125	(78,136)	(40,181)	1,774,989	1,520,944
Total takaful revenue		-	-	8,897,218	8,173,013	660,774	573,989	9,557,992	8,747,002
Expenses									
Gross claims settled		-	-	(13,144,632)	(10,055,511)	(502,434)	(180,640)	(13,647,066)	(10,236,151)
Claims recovered from retakaful and other parties		-	-	7,576,297	5,714,265	298,092	143,181	7,874,389	5,857,446
Net movement in outstanding claims		-	-	62,489	(159,596)	23,916	(43,177)	86,405	(202,773)
Net claims incurred	28	-	-	(5,505,846)	(4,500,842)	(180,426)	(80,636)	(5,686,272)	(4,581,478)
Transfer to Family Takaful technical reserve		-	-	-	-	(184,503)	(43,772)	(184,503)	(43,772)
Provision for impaired takaful receivables	8	-	-	(34,297)	(292,722)	-	-	(34,297)	(292,722)
Total takaful expenses		-	-	(5,540,143)	(4,793,564)	(364,929)	(124,408)	(5,905,072)	(4,917,972)
Surplus from takaful operations before Wakala fees									
Wakala fees	24	-	-	3,357,075	3,379,449	295,845	449,581	3,652,920	3,829,030
Wakala fees	24	-	-	(3,269,306)	(3,273,713)	(284,015)	(280,123)	(3,553,321)	3,553,836
Surplus from takaful operations after Wakala fees									
Wakala fees	24	3,553,321	3,553,836	-	-	-	-	3,553,321	3,553,836
Investment income	25	96,726	99,845	97,691	145,361	55,693	61,393	250,110	306,599
Mudarib share	24	32,777	45,550	(24,423)	(36,341)	(8,354)	(9,209)	-	-
Net investment income		3,682,824	3,699,231	73,268	109,020	47,339	52,184	3,803,431	3,860,435
Management, general and administrative expenses and depreciation		(3,295,878)	(3,194,623)	-	-	-	-	(3,295,878)	(3,194,623)
Impairment loss on available-for-sale investments	7	(200,000)	(335,830)	(50,175)	(27,030)	-	-	(250,175)	(362,860)
Other income		17,855	12,526	-	-	-	-	17,855	12,526
Net management, general and administrative expenses		(3,478,023)	(3,517,927)	(50,175)	(27,030)	-	-	(3,528,198)	(3,544,957)
Net surplus for the year		204,801	181,304	110,862	187,726	59,169	221,642	374,832	590,672
Earnings per share	27	3.28 Fills	2.90 Fills						

Statement of comprehensive income

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
Net profit for the year		204,801	181,304
Other comprehensive income			
Fair value reserve movement pertaining to impairment on available-for-sale investments		-	184,032
Net realised fair value (losses)/gains on available-for-sale investments	7	(4,689)	19,275
Unrealised fair values gains/(losses) on available-for-sale investments	7	88,599	(168,648)
Other comprehensive gains for the year		83,910	34,659
Total comprehensive income for the year		288,711	215,963

Statement of changes in shareholders' equity

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

	Notes	Share capital	Statutory reserve	General reserve	Retained earnings	Investments fair value reserve	Total
At 31 December 2010		6,250,000	418,322	200,000	319,720	(382,445)	6,805,597
Total comprehensive income for the year		-	-	-	181,304	34,659	215,963
Transferred to statutory reserve	16	-	18,130	-	(18,130)	-	-
At 31 December 2011		6,250,000	436,452	200,000	482,894	(347,786)	7,021,560
Total comprehensive income for the year		-	-	-	204,801	83,910	288,711
Transferred to statutory reserve	16	-	20,480	-	(20,480)	-	-
At 31 December 2012		6,250,000	456,932	200,000	667,215	(263,876)	7,310,271

Statement of changes in participants' fund

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

	Notes	Investment fair value reserve				Total
		General takaful	Family takaful	General takaful	Family takaful	
At 31 December 2010		319,744	487,226	57,667	983	865,620
Realised fair value losses on available-for-sale investments	7	-	-	(56,620)	-	(56,620)
Reversal of fair value reserves		-	-	27,030	-	27,030
Unrealised fair value losses on available-for-sale investments	7	-	-	(54,396)	(7,616)	(62,012)
Transferred to reserve for Zakat		(1,892)	(16,098)	-	-	(17,990)
Surplus for the year		187,726	221,642	-	-	409,368
At 31 December 2011		505,578	692,770	(26,319)	(6,633)	1,165,396
Unrealised fair value gains/(losses) on available-for-sale investments	7	-	-	27,152	(1,422)	25,730
Surplus for the year		110,862	59,169	-	-	170,031
At 31 December 2012		616,440	751,939	833	(8,055)	1,361,157

Statement of cash flows

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

	Notes	2012	2011
Operating activities			
Net profit for the year		204,801	181,304
Surplus from participants' operations		170,031	409,368
Adjustments for:			
Loss/(profits) on disposal of property and equipment	26	135	(1,296)
Realised losses on sale of available-for-sale investments		4,689	-
Impairment loss on available-for-sale investments	3	250,175	362,860
Investment income		(250,110)	(306,599)
Depreciation	12	313,678	322,552
Finance costs		-	3,484
Movement in unearned contributions		830,480	(163,202)
Movement in unearned commissions		(220,697)	85,934
Transfer to family takaful technical reserve		164,970	17,311
Changes in operating assets and liabilities:			
Retakaful and takaful balance receivables		(1,741,596)	(1,150,783)
Other receivables and prepayments		(276,199)	(23,202)
Amount due from related parties		16,901	95,750
Due from retakaful companies in connection with outstanding claims		217,955	(1,602,151)
Gross outstanding claims		(304,362)	1,804,925
Retakaful and takaful balance payables		369,668	(44,524)
Other liabilities and provisions		176,624	264,853
Employees' leaving indemnity, net		38,622	24,589
Net cash (used in)/provided by operating activities		(34,235)	281,173
Investing activities			
Investment income received	25	250,110	306,599
Purchase of property and equipment	12	(186,517)	(219,185)
Net expenditure incurred on capital work-in-progress		74,544	(19,844)
Purchase of available-for-sale investments	3	(3,530,369)	(1,107,149)
Proceeds from disposal of property and equipment		1,070	1,426
Proceeds from the sale of available-for-sale investments		2,558,217	491,736
Net cash used in investing activities		(832,945)	(546,417)
Financing activities			
Finance cost paid		-	(3,484)
Net movement in Islamic murabaha		(13,569)	(158,683)
Net cash used in financing activities		(13,569)	(162,167)
Net decrease in cash and cash equivalents			
		(880,749)	(427,411)
Cash and cash equivalents, beginning of the year		4,004,750	4,432,161
Cash and cash equivalents, end of the year	6	3,124,001	4,004,750

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

1 Organisation and activities

Takaful International Company B.S.C. (“the Company”) is a Bahraini public shareholding company registered with the Ministry of Industry and Commerce in the Kingdom of Bahrain and operates under commercial registration number 21100 obtained on 11 April 1989.

The activities of the Company are organised on the principles of Sharia’a. The principal activity of the Company is to manage the General and Family takaful activities and investments by adopting wakala and mudarabha models respectively, on behalf of the participants in accordance with the Islamic Sharia’a principles. The retakaful activities are organised on an underwriting year basis with the participants pooling their contributions to compensate for losses suffered in the pool on occurrence of a defined event.

The registered office of the Company is in the Kingdom of Bahrain.

2 Basis of preparation

Statement of compliance

The financial statements have been prepared in accordance with the Financial Accounting Standards (“FAS”) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (“AAOIFI”), International Financial Reporting Standards (“IFRS”) as promulgated by the International Accounting Standards Board (“IASB”), interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”), the Central Bank of Bahrain and Financial Institutions Law 2006, the Insurance Regulations set out in Volume 3 of the Insurance Rulebook issued by the Central Bank of Bahrain and the requirements of the Bahrain Commercial Companies Law, Decree Number 21 of 2001.

Basis of preparation

The financial statements have been prepared under the historical cost convention except for and available-for-sale investments which are measured at their fair values. The financial statements have been presented in Bahrain Dinars which is the functional currency of the Company.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies.

Standards, amendments and interpretations issued and effective in 2012 but not relevant

The following new standards, amendments to existing standards and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2012 or subsequent periods, but are not relevant to the Company’s operations:

Standard or Interpretation	Title	Effective for annual periods beginning on or after
IAS 12	Income Taxes	1 January 2012
IFRS 1	First Time Adoption of International Financial Reporting Standards	1 July 2011
IFRS 7	Financial Instruments – Disclosures	1 July 2011

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

2 Basis of preparation (continued)

Improvements/amendments to IFRS 2011/2012 cycle

Improvements/amendments to IFRS issued in 2011/2012 cycle contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for the Company's annual audited financial statements beginning on or after 1 January 2013 with earlier adoption permitted. No material changes to accounting policies are expected as a result of these amendments.

Standards, amendments and interpretations issued but not yet effective in 2012

The following IFRS and IFRIC interpretations issued/revised as at 1 January 2012 or subsequent periods have not been early adopted by the Company's management:

Standard or Interpretation	Title	Effective for annual periods beginning on or after
IAS 1	Presentation of Financial Statements	1 July 2012
IAS 19	Employee Benefits	1 January 2013
IAS 27	Separate Financial Statements	1 January 2013
IAS 28	Investments in Associates and Joint Ventures	1 January 2013
IAS 32	Financial Instruments – Presentation	1 January 2014
IFRS 1	First Time Adoption of International Financial Reporting Standards	1 January 2013
IFRS 7	Financial Instruments – Disclosures	1 January 2013/ 1 January 2015
IFRS 9	Financial Instruments – Classification and Measurement	1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Agreements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
IFRIC 20	Stripping Costs in the Production Phase of Surface Mine	1 January 2013
FAS 26	Investment in Real Estate	1 January 2013

There would have been no change in the operational results of the Company for the year ended 31 December 2012 had the Company early adopted any of the above standards applicable to the Company.

Early adoption of amendments or standards in 2012

The Company did not early-adopt any new or amended standards in 2012.

3 Significant accounting policies

Takaful operations

As an Islamic insurance provider, the Company issues contracts that transfer takaful risk or financial risk, or both. The Company classifies all its contracts individually as either takaful contracts or investment contracts.

Takaful contracts are those contracts where the insurer accepts significant insurance risk from the participants by agreeing to compensate the participants if a specified uncertain future event adversely affects the participants. As a general guideline, the Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event.

Investment contracts are contracts where there is insignificant transfer of insurance risk from the participants to the Company. They are accounted for as financial instruments under IAS 39: "Financial Instruments: Recognition and Measurement". Revenue arising from such contracts is recognised in accordance with IAS 18: "Revenue Recognition".

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

General takaful

Gross contributions represent the total business written in the year, including contributions on annual takaful contracts covering part or all of the year. In addition, gross contributions include certain contributions derived from local inward business under co-takaful arrangements. Gross contributions in respect of annual takaful contracts are recognised in the statement of participant's revenue and expenses at takaful contract inception. In respect of longer term takaful contracts, contributions are spread over the tenure of the takaful contracts on a straight-line basis and the unexpired portion of such contributions is included within "unearned contributions" in the statement of financial position for the initial period of the year and the balance unexpired portion of such contribution is included in the other payables.

Unearned contributions represent the portion of contributions received on in-force contracts that relate to unexpired risks at the statement of financial position date.

In accordance with the provisions of Volume 3 of the Insurance Rulebook issued by the Central Bank of Bahrain, unearned contributions in respect of annual takaful contracts at the statement of financial position date have been calculated on retained contributions in order to spread the contributions earned over the tenure of the takaful contracts, as follows:

- by the '24th method' for all annual takaful contracts, except for marine cargo and marine hull business; and
- by the '6th method' for marine cargo and marine hull business.

Retakaful share represents amounts paid to retakaful companies in accordance with retakaful contracts entered into by the Company. In respect of proportional retakaful contracts and non-proportional retakaful contracts, the amounts are recognised in the statement of participant's revenue and expenses in accordance with the terms of these contracts.

Retakaful commission income and commission paid are recognised at the time when retakaful contracts are written.

The Company defers commission income and expense:

- by the 24th method for all annual insurance contracts, except for marine cargo and marine hull business; and
- by the 6th method for marine cargo and marine hull business

in order to spread the commission income and expense earned over the terms of the insurance contracts.

Gross claims settled are charged to the statement of participant's revenue and expenses in the year in which the claims payable to policyholders and third parties is determined as per the terms of the takaful contracts. This includes the settlement and handling costs of paid and outstanding claims arising from events occurring during the financial period.

Claims recovered from retakaful and other parties include amounts recovered from retakaful companies in respect of the gross claims paid by the Company, in accordance with the retakaful contracts held, together with salvage and other claims recoveries.

Gross outstanding claims comprise the gross estimated cost of claims incurred but not settled at the statement of financial position date, whether reported or not. Provisions for gross outstanding claims is based on estimates of the outstanding loss which will eventually be payable on each reported claim, established by management based on currently available information and past experience modified for changes reflected in current conditions, increased exposure, rising claims costs and the severity and frequency of recent claims, as appropriate. In addition, a provision based on management's judgment and the Company's prior experience is maintained for the cost of settling claims incurred but not reported at the statement of financial position date. Outstanding claim provisions are not discounted for their value of money.

Liability adequacy tests are performed at each statement of financial position date to ensure the adequacy of the takaful liabilities using current best estimates of future contractual cash flows under takaful contracts. Any deficiency is immediately charged to the statement of participant's revenue and expenses by establishing a provision for losses arising from liability adequacy tests.

Retakaful contracts are contracts entered into by the Company with retakaful companies under which the Company is wholly or partly compensated for gross claims on takaful contracts.

Amounts recoverable by the Company under retakaful contracts are recognised as current assets. This asset consists of balances due from retakaful companies on settlement of claims and as retakaful commissions and other amounts recoverable. Retakaful balances payable are primarily contributions payable by the Company for retakaful contracts and are recognised as an expense when due.

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

3 Significant accounting policies (continued)

General takaful (continued)

Retakaful and takaful balances receivable are stated at cost less any impairment losses. Amounts receivable from retakaful companies relating to claims are accounted for in the same period and estimated in a manner consistent with the gross claim.

The Company assesses its retakaful assets for impairment at each reporting date. If there is objective evidence that the retakaful asset is impaired, the Company reduces the carrying amount of the retakaful asset to its recoverable amount and recognises that impairment loss in the statement of participant's revenue and expenses. Objective evidence for impairment is assessed as a result of an event that occurred after initial recognition of the retakaful asset, which implies that the Company may not be able to receive all the amounts due under the terms of the contract.

Family takaful

Family takaful technical reserves represent the present value of future benefit obligations in respect of family takaful contracts in force at the statement of financial position date. The reserve consists of two types of funds namely protection takaful and savings takaful.

The protection takaful and savings takaful reserve is determined annually by the Company's appointed actuary. Reserves for individual family takaful contracts are calculated on a prospective method. The liabilities are valued using discounted cash flow (DCF) with a discount rate of 3.25% per annum (2011: 3.25% per annum).

Maturity and survival benefits are charged against the technical reserve when due. Encashment and surrenders are accounted for when paid or when cover ceases. Death and disability claims are accounted for when notified.

Gross contributions are recognised in the statement of participant's revenue and expenses on the due date of the premium.

Gross outstanding claims: Provision for outstanding claims is based on estimates of the loss, which will eventually be payable on each unpaid claims, established by the management in the light of the currently available information and past experiences and modified for changes reflected in current creditors, increased exposure, rising claims costs and the severity and frequency of recent claims as appropriate. Outstanding claim provisions are not discounted for time value of money.

Retakaful share represents amounts paid to retakaful companies in accordance with retakaful contracts entered into by the Company. In respect of proportional retakaful contracts and non-proportional retakaful contracts, the amounts are recognised in the statement of participant's revenue and expenses in accordance with the terms of these contracts.

Retakaful commission income and commission paid are recognised at the time retakaful contracts are written.

Claims settled are charged to the statement of participant's revenue and expenses, in the year in which claims arise.

Gross claims recovered include amounts recovered from retakaful companies in respect of the gross claims paid by the Company in accordance with the retakaful contracts held.

Liability adequacy tests are performed at each statement of financial position date to ensure the adequacy of the takaful liabilities using current best estimates of future contractual cash flows under takaful contracts. Any deficiency is immediately charged to the statement of participant's revenue and expenses by establishing a provision for losses arising from liability adequacy tests.

Retakaful contracts are contracts entered into by the Company with retakaful companies under which the Company is compensated for losses on takaful contracts issued.

The benefits to which the Company is entitled under its retakaful contracts held are recognised as retakaful assets. These assets consists of balances due from retakaful companies on settlement of claims and other receivables such as retakaful commissions and amounts recoverable from retakaful companies in connection with outstanding claims, that are dependent on the expected claims and benefits arising under the related takaful contracts. Amounts recoverable from or due to retakaful companies are recognised consistently with the amounts associated with the underlying takaful contracts and in accordance with the terms of each retakaful contract. Retakaful balances payable are primarily contributions payable for retakaful contracts and are recognised as an expense when due.

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

Retakaful and takaful balances receivable are stated at cost less any impairment losses. Amounts receivable from retakaful companies relating to claims are estimated in a manner consistent with the claim liability associated with the retakaful companies.

The Company assesses its retakaful assets for impairment on a quarterly basis. If there is objective evidence that the retakaful asset is impaired, the Company reduces the carrying amount of the retakaful asset to its recoverable amount and recognises that impairment loss in the statement of participant's revenue and expenses. Objective evidence for impairment is assessed as a result of an event that occurred after initial recognition of the retakaful asset that the Company may not be able to receive all the amounts due under the terms of the contract and that the event has a reliably measurable impact on the amounts that the Company will receive from the retakaful company.

Available-for-sale Investments

Available-for-sale investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in profit rates, are classified as non-current assets unless management has the express intention of holding the investment for less than 12 months from the statement of financial position date, or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Investments are initially recognised at cost but are subsequently carried at fair value. Any unrealised gains and losses arising from changes in the fair value of investments are taken to a fair value reserve in owner's equity. When investments are sold or assessed as impaired, the accumulated fair value adjustments are included in the statement of comprehensive income as gains or losses from investments.

All purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the asset. The cost of purchase includes transaction costs. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has substantially transferred all the risks and rewards of ownership.

Investment fair value reserve

Investments classified as available-for-sale investments are re-measured at their fair values and the net difference arising between the carrying amounts and their fair values are credited to a separate component of Owner's equity in a fair value reserve. Gains and losses arising from changes in fair value of available-for-sale investments are recognised in the fair value reserve in the statement of changes in equity. On sale of available-for-sale investments the component in the investment fair value reserve is transferred to the statement of comprehensive income in the year of de-recognition.

Impairment of assets

The Company assesses at each statement of financial position date whether there is objective evidence that an asset is impaired. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Company on terms that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a Company of assets such as adverse changes in the payment status of borrowers or issuers in the Company, or economic conditions that correlate with defaults in the Company. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

a) Impairment of available-for-sale investments

In the case of investments in equity securities classified as available-for-sale and measured at fair value, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss measured and the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of changes in shareholders' equity is removed from equity and recognised in the statement of income. Impairment losses recognised in the statement of income on equity securities are not subsequently reversed through the statement of income. For available-for-sale investments carried at cost, the Company makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment.

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

3 Significant accounting policies (continued)

Impairment of assets (continued)

b) Impairment of other non-financial assets

The carrying amount of the Company's assets or its cash generating unit, other than financial assets, are reviewed at each statement of financial position date to determine whether there is any indication of impairment. A cash generating unit is the smallest identifiable asset Company that generates cash flows that largely are independent from other assets and Companies. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset or a cash generating unit is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the statement of income. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Property and equipment and accumulated depreciation

Property and equipment are stated at historical cost less accumulated depreciation. Cost includes all costs directly attributable to bringing the asset to working condition for its intended use.

Depreciation is calculated on the straight-line method to write-off the cost of property and equipment to their estimated residual values over their expected useful lives as follows:

Buildings on freehold land	30 years
Furniture and fixtures	5-10 years
Office equipment	5 years
Motor vehicles	4 years

The estimated useful lives of the leasehold buildings are determined based on the remaining lease period of the land on which the buildings are constructed.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining net profit.

Repairs and renewals are charged to the statement of comprehensive income when the expenditure is incurred.

The carrying values of the property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists, and where the carrying values exceed the estimated recoverable amounts, the property and equipment are written-down to their recoverable amounts.

Capital work-in-progress

Expenditure incurred on the construction of new facilities prior to the commencement of commercial use is capitalised. Capital work in progress is transferred to property and equipment and depreciated at the time of commencement of their commercial use.

Provisions

The Company has recognised provisions for liabilities of uncertain timing or amount including those for onerous leases, warranty claims, leasehold dilapidations and legal disputes. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date, reflecting current market assessments of the time value of money and risks specific to the liability.

Employee benefits

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

Post employment benefits

Employee benefits and entitlements to annual leave, holiday, air passage and other short-term benefits are recognised as they accrue to the employees. The Company contributes to the pension scheme for Bahraini nationals administered by the Social Insurance Organisation in the Kingdom of Bahrain. This is a defined contribution pension plan and the Company's contributions are charged to the statement of income in the year to which they relate. In respect of this plan, the Company has a legal obligation to pay the contributions as they fall due and no obligation exists to pay the future benefits.

The expatriate employees of the Company are paid leaving indemnity in accordance with the provisions of the Bahrain Labour Law. The Company accrues for its liability in this respect on an annual basis.

Leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprises of cash on hand and call and current account balances with bank.

Dividends and board remuneration

Dividends and board remuneration are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the directors. In the case of final dividends and board remuneration, this is when approved by the shareholders at the Annual General Meeting.

Foreign currency transactions

Foreign currency transactions are accounted for at the rates of exchange prevailing at the dates of the transactions. Gains and losses arising from the settlement of such transactions and from the translation, at the year-end rates, of monetary assets and liabilities denominated in foreign currencies, are recognised in the statement of comprehensive income.

Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's ordinary shares are classified as equity instruments.

Dividend income

Dividend income is recognised when the Company's right to receive payment is established.

Other income

Other income is accounted for on the accruals basis, unless collectibility is in doubt.

Earnings prohibited by Sharia'a

The Company is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Company uses these funds for charitable purposes.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision makers have been identified as the Managing Director and the Chief Executive Officer of the Company.

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

4 Critical accounting judgments and key source of estimation uncertainty

Preparation of the financial statements in accordance with Bahrain Commercial Companies Law, Decree Number 21 of 2001, the Central Bank of Bahrain and Financial Institutions Law 2006, the Insurance Regulations set out in Volume 3 of the Insurance Rulebook issued by the Central Bank of Bahrain, the terms of the Company's Memorandum and Articles of Association and IFRS requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. The determination of estimates requires judgments which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from those estimates.

The most significant areas requiring the use of management estimates and assumptions in these financial statements relate to:

- ultimate liability arising from claims made under insurance contracts;
- economic useful lives of property and equipment;
- fair value of investments;
- impairment of available-for-sale investments;
- legal proceedings;
- provisions;
- contingencies; and
- going concern.

The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The estimations for claims incurred but not reported (IBNR) uses statistical models including an estimation made to meet certain contingencies such as unexpected and unfavourable court judgments which may require a higher payout than originally estimated and settlement of claims, which may take longer than expected, resulting in actual payouts being higher than estimated.

Economic useful lives of property and equipment

The Company's property and equipment are depreciated on a straight-line basis over their economic useful lives. Useful economic lives of property and equipment are reviewed by management periodically. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Company.

Fair value of investments

The Company determines fair values of investment designated as available-for-sale investments that are not quoted in active markets by using valuation techniques which include net asset valuation and recent transaction prices. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments. In the absence of alternative information the Company management estimate fair values based on information from and discussions with representatives of the management of the investee companies, and based on the latest available audited and un-audited financial statements.

Impairment of available-for-sale investments

The Company determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment and is assessed for each investment separately. In case of quoted equity securities, the Company considers a decline of more than 30% in the fair value below cost to be significant and considers a decline below cost which persists for more than 6 months as prolonged.

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

Where fair values are not readily available and the available-for-sale investments are carried at cost, the recoverable amount of such investment is subject to a test for impairment. A significant portion of the Company's available-for-sale investments comprise of investments in long-term real estate development projects. In making a judgment of impairment, the Company evaluates among other factors, evidence of a deterioration in the financial health of the project, impacts of delays in execution, industry and sector performance, changes in technology, and operational and financing cash flows.

Legal proceedings

The Company recognises a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Obligations arising in respect of contingent liabilities that have been disclosed, or those which are not currently recognised or disclosed in the financial statements could have a material effect on the Company's financial position. Application of these accounting principles to legal cases requires the Company's management to make determinations about various factual and legal matters beyond its control.

The Company reviews outstanding legal cases following developments in the legal proceedings at each reporting date, in order to assess the need for provisions and disclosures in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claims or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claims or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Company's management as to how it will respond to the litigation, claim or assessment.

Provisions

The Company creates a provision for impaired trade receivables to account for estimated losses resulting from the inability of customers to make the required payments. At 31 December 2012, in the opinion of the Company's management, a provision of BD34,297 is required against impaired general takaful receivables (2011: BD292,722). When evaluating the adequacy of a provision for impaired trade receivables, management bases its estimate on current overall economic conditions, ageing of the accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the provisions for impaired trade receivables recorded in the financial statements.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Going concern

The management of the Company reviews the financial position on a periodical basis and assesses the requirement of any additional funding to meet the working capital requirements and estimated funds required to meet the liabilities as and when they become due. In addition, the shareholders of the Company ensure that they provide adequate financial support to fund the requirements of the Company to ensure the going concern status of the Company.

5 Statutory deposits

Statutory deposits are maintained under the regulations of the Central Bank of Bahrain and Financial Institutions Law, 2006. Such deposits, which depend on the nature of the takaful business and the number of branches, cannot be withdrawn except with the approval of the Central Bank of Bahrain. A sum of BD125,000 (2011: BD125,000) has been deposited with Bahrain Islamic Bank B.S.C. in the name of the Company and for the order of Central Bank of Bahrain and carries a fixed profit return.

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

6 Cash and cash equivalents

	31 December 2012				31 December 2011			
	Shareholders	General takaful	Family takaful	Total	Shareholders	General Takaful	Family takaful	Total
Call account balances	354,458	-	1,367,809	1,722,267	804,188	100,000	1,079,570	1,983,758
Balances with banks	556,592	711,373	130,535	1,398,500	427,133	1,059,683	530,997	2,017,813
Cash on hand	1,034	2,200	-	3,234	1,279	1,900	-	3,179
Closing balance	912,084	713,573	1,498,344	3,124,001	1,232,600	1,161,583	1,610,567	4,004,750

Call account balances and deposits earn effective profit rates ranging between 2.25% and 8% per annum (2011: between 2.50% and 8% per annum).

The savings account balances with banks earn effective profit rates ranging between 1% and 2% per annum (2011: between 2% and 3% per annum).

The current account balances with banks are non-profit bearing.

7 Available-for-sale investments

	31 December 2012				31 December 2011			
	Shareholders	General takaful	Family takaful	Total	Shareholders	General Takaful	Family takaful	Total
Opening balance	2,914,820	2,072,144	274,194	5,261,158	2,720,742	2,116,592	228,213	5,065,547
Additions during the year	3,143,336	225,500	161,533	3,530,369	847,859	185,747	73,543	1,107,149
Sales during the year	(2,373,931)	(156,066)	(32,909)	(2,562,906)	(352,610)	(119,179)	(19,946)	(491,735)
Realised (losses)/gains on sale of available for sale investments	(4,689)	-	-	(4,689)	19,275	(56,620)	-	(37,345)
Impairment loss for the year	(200,000)	(50,175)	-	(250,175)	(151,798)	-	-	(151,798)
Unrealised fair value gains/ (losses) recognised in investment fair value reserve	88,599	27,152	(1,422)	114,329	(168,648)	(54,396)	(7,616)	(230,660)
Closing balance	3,568,135	2,118,555	401,396	6,088,086	2,914,820	2,072,144	274,194	5,261,158

Analysis of available-for-sale investments

	31 December 2012				31 December 2011			
	Shareholders	General Takaful	Family takaful	Total	Shareholders	General Takaful	Family takaful	Total
Shares listed on stock exchanges	950,856	42,336	-	993,192	561,032	37,846	-	598,878
Quoted managed funds	668,052	170,966	138,429	977,447	421,200	171,818	80,562	673,580
Unquoted managed funds	925,983	1,905,253	262,967	3,094,203	809,344	1,862,480	193,632	2,865,456
Unquoted equity investments	1,023,244	-	-	1,023,244	1,123,244	-	-	1,123,244
Closing balance	3,568,135	2,118,555	401,396	6,088,086	2,914,820	2,072,144	274,194	5,261,158

Included within the available-for-sale investments are shares with a carrying value of BD222,318 (2011: BD258,721) held in the name of a related party for the beneficial interest of the Company.

Investments have been categorised by management and/or external agencies credit rating grading policies into investments grades with AAA grade the highest possible rating. The investments below AAA rating fall under the investment grade if as per the management grading policy or rated by the agencies.

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

	31 December 2012						
	Shareholders			General takaful		Family takaful	
	Investment graded*	Not graded*	Total	Investment graded*	Total	Investment graded*	Total
Shares listed on stock exchanges	948,034	2,822	950,856	42,336	42,336	-	-
Quoted managed funds	668,052	-	668,052	170,966	170,966	138,429	138,429
Unquoted managed funds	925,983	-	925,983	1,905,253	1,905,253	262,967	262,967
Unquoted equity investments	1,023,244	-	1,023,244	-	-	-	-
	3,565,313	2,822	3,568,135	2,118,555	2,118,555	401,396	401,396

	31 December 2011						
	Shareholders			General takaful		Family takaful	
	Investment graded*	Not graded*	Total	Investment graded*	Total	Investment graded*	Total
Shares listed on stock exchanges	558,210	2,822	561,032	37,846	37,846	-	-
Quoted managed funds	421,200	-	421,200	171,818	171,818	80,562	80,562
Unquoted managed funds	809,344	-	809,344	1,862,480	1,862,480	193,632	193,632
Unquoted equity investments	1,123,244	-	1,123,244	-	-	-	-
	2,911,998	2,822	2,914,820	2,072,144	2,072,144	274,194	274,194

* as per Rating Agency or Management Grading Policy.

The available-for-sale investments comprise unquoted equity shares which do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, and are therefore stated at cost. In the opinion of the Company's management, the fair values of these unquoted equity shares are not expected to be significantly different from their carrying amounts.

Available-for-sale investments are denominated in the following currencies:

	31 December 2012	31 December 2011
Currency		
United States Dollars	3,154,737	2,673,555
Kuwait Dinars	1,079,929	1,136,062
Bahrain Dinar	999,732	624,351
Indian Rupees	333,074	241,765
British Pound	306,555	316,056
United Arab Emirates Dirhams	119,783	102,600
Euros	26,118	75,442
Saudi Arabian Riyal	42,294	74,079
Qatar Riyals	25,864	17,248
	6,088,086	5,261,158

None of the available-for-sale investments are past due.

During the year, the Company has performed an impairment test of its available-for-sale investments and concluded that certain of those investments are impaired. Accordingly, the impairment loss of BD250,175 (2011:BD362,860) has been charged to the statement of income.

The maximum exposure to market risk at the reporting date is the carrying value of the financial assets classified as available-for-sale.

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

8 Retakaful and takaful receivables

	31 December 2012			31 December 2011		
	General takaful	Family takaful	Total	General Takaful	Family takaful	Total
Due from retakaful companies	2,978,575	131,876	3,110,451	1,860,959	114,078	1,975,037
Due from takaful companies	1,801,331	-	1,801,331	1,362,859	-	1,362,859
Due from takaful participants	3,075,692	231,982	3,307,674	3,313,112	224,793	3,537,905
Other receivables	1,638,700	74,748	1,713,448	1,210,684	104,823	1,315,507
Closing balance	9,494,298	438,606	9,932,904	7,747,614	443,694	8,191,308

Retakaful and takaful receivable consist of balances due from retakaful and takaful companies domiciled mainly in the Middle East and Europe.

At 31 December 2012, in the opinion of the Company's management, a provision of BD 34,297 is required towards impairment of retakaful and takaful receivables (2011: BD292,722). The movement in the provision for impaired retakaful and takaful receivables is as follows:

	2012	2011
At 1 January	-	-
Charge for the year	34,297	292,722
Released during the year	-	(292,722)
At 31 December	34,297	-

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

Age in days	General takaful				Family takaful			
	Current		Overdue		Current		Overdue	
	2012	2011	2012	2011	2012	2011	2012	2011
0 to 90 days	2,729,537	3,412,158	-	-	158,140	231,763	-	-
91 to 180 days	-	-	3,707,236	2,192,603	-	-	167,694	105,142
181 to 365 days	-	-	1,407,684	1,207,149	-	-	25,194	11,114
More than 365 days	-	-	1,649,841	935,704	-	-	87,578	95,675
	2,729,537	3,412,158	6,764,761	4,335,456	158,140	231,763	280,466	211,931

The net retakaful and takaful receivables are expected to be fully recoverable. It is not the practice of the Company to obtain collateral over retakaful and takaful receivables. In the opinion of the Company's management, the fair values of the retakaful and takaful receivables are not expected to be significantly different from their carrying values.

9 Due from retakaful companies in connection with outstanding claims

	Fire general, accident and engineering	Marine	Motor	Medical	General takaful		Family takaful	
					2012 Total	2011 Total	2012 Total	2011 Total
Opening balance	2,196,549	312,164	1,031,232	1,422,622	4,962,567	3,588,783	260,143	31,776
Claims incurred	374,408	20,823	3,331,657	3,701,834	7,428,722	7,088,049	227,711	371,548
Claims recovered	(634,310)	(259,551)	(2,877,514)	(3,804,921)	(7,576,296)	(5,714,265)	(298,092)	(143,181)
Closing balance	1,936,647	73,436	1,485,375	1,319,535	4,814,993	4,962,567	189,762	260,143

All dues from retakaful companies in connection with outstanding claims are unimpaired and are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over dues from retakaful companies in connection with outstanding claims.

In the opinion of the Company's management, the fair values of the dues from retakaful companies in connection with outstanding claims are not expected to be significantly different from their carrying values.

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

10 Deferred retakaful contributions

The movement in deferred retakaful contributions during the year is:

	General takaful				2012 Total	2011 Total
	Motor and general accident	Fire	Marine	Medical		
Opening balance	1,241,346	1,370,799	18,331	1,190,151	3,820,627	3,397,126
Retakaful contributions deferred	1,121,612	944,650	22,207	1,252,467	3,340,936	3,820,627
Retakaful contributions released	(1,241,346)	(1,370,799)	(18,331)	(1,190,151)	(3,820,627)	(3,397,126)
Closing balance	1,121,612	944,650	22,207	1,252,467	3,340,936	3,820,627

11 Deferred policy acquisition costs

The movement in deferred policy acquisition costs during the year is:

	General takaful				Family takaful			
	Motor and general accident	Fire	Marine	Medical	2012 Total	2011 Total		
Opening balance	254,575	102,380	2,628	30,517	390,100	382,794	28,476	12,039
Commission incurred	814,729	197,212	76,968	143,274	1,232,183	830,873	62,854	67,347
Commission paid	(706,213)	(201,940)	(58,861)	(121,506)	(1,088,520)	(823,567)	(65,019)	(50,910)
Closing balance	363,091	97,652	20,735	52,285	533,763	390,100	26,311	28,476

12 Property and equipment

	Freehold land	Buildings on freehold land	Furniture and fixtures	Office equipment	Motor vehicles	Capital work-in- progress	Total
Cost							
At 31 December 2010	492,148	1,266,765	729,291	1,019,721	23,521	42,000	3,573,446
Additions	-	-	75,905	71,509	71,771	19,844	239,029
Disposals	-	-	-	(198)	(4,100)	-	(4,298)
At 31 December 2011	492,148	1,266,765	805,196	1,091,032	91,192	61,844	3,808,177
Additions	-	-	64,494	83,118	20,200	18,705	186,517
Transferred to general and administrative expenses	-	-	-	-	-	(74,544)	(74,544)
Disposals	-	-	-	(210)	(3,698)	-	(3,908)
At 31 December 2012	492,148	1,266,765	869,690	1,173,940	107,694	6,005	3,916,242
Accumulated depreciation							
At 31 December 2010	-	210,561	318,964	405,026	14,784	-	949,335
Charge for the year	-	42,202	87,709	171,607	21,034	-	322,552
Disposals	-	-	-	(68)	(4,100)	-	(4,168)
At 31 December 2011	-	252,763	406,673	576,565	31,718	-	1,267,719
Charge for the year	-	42,318	75,522	171,275	24,563	-	313,678
Disposals	-	-	-	(5)	(2,698)	-	(2,703)
At 31 December 2012	-	295,081	482,195	747,835	53,583	-	1,578,694
Net book amount							
At 31 December 2012	492,148	971,684	387,495	426,105	54,111	6,005	2,337,548
At 31 December 2011	492,148	1,014,002	398,523	514,467	59,474	61,844	2,540,458

Capital work-in-progress primarily represents amounts incurred towards construction of new facilities and which are yet to be completed.

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

13 Receivable from takaful funds and other receivables and prepayments

a). Receivable from takaful funds

Receivable from takaful funds includes amounts due from General takaful and Family takaful policyholders on account of wakala fees and inter-entity balances but does not include Qard Al Hassan (Note 36).

b). Other receivables and prepayments

Other receivables are unimpaired and expected, on the basis of past experience, to be fully recoverable within 12 months from the statement of financial position date.

The carrying values of other receivables and prepayments reasonably approximate their fair values as at 31 December 2012.

14 Transactions and balances with related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Transactions with related parties are conducted in the normal course of business and are authorised by the management.

A summary of the transactions with related parties, included in these financial statements is:

	31 December 2012	31 December 2011
Investment with related parties		
Statutory deposit	125,000	125,000
Call deposits	363,250	120,834
Available-for-sale investments	1,280,687	1,254,905
	1,768,937	1,500,739

Call deposits

BD363,250 (2011: BD120,834) representing 20% (2011: 6%) of the total deposits are placed with a shareholder.

Due from a shareholder

At 31 December 2012, an amount of BD20,436 (2011: BD27,928) is due from a shareholder representing 0.25% (2011: 0.35%) of total shareholders' assets and 0.28% (2011: 0.39%) of equity.

Transactions with related parties included in the statement of financial position, statement of participants' revenues and expenses and statement of income are as follows:

	31 December 2012	31 December 2011
Gross contributions	652,285	545,088
Retakaful contributions	371,097	8,564

A summary of the related party balances is as follows:

	31 December 2012	31 December 2011
Amounts due from related parties		
Grand Real Estate	682	682
International Investment Group	8,574	16,673
Investors Bank	3,082	10,573
Gulf Monetary Group	12,773	-
Takaful International – Kuwait	-	14,084
Total	25,111	42,012

Amounts due to related parties are unsecured, bear no profit, have no fixed repayment terms and are authorised by the Company's management.

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

15 Share capital

	31 December 2012	31 December 2011
Authorised share capital:		
Ordinary shares		
200,000,000 ordinary shares of 100 fils each (2011: 200,000,000 ordinary shares of 100 fils each)	20,000,000	20,000,000
Issued and fully paid-up capital:		
Ordinary shares		
62,500,000 ordinary shares of 100 fils each (2011: 62,500,000 ordinary shares of 100 fils each)	6,250,000	6,250,000

Additional information on shareholding pattern

i) The names and nationalities and number of shares held by the major shareholders individually holding 5% and more of the issued and fully paid-up share capital as at 31 December 2012 and 2011 respectively is as follows:

	Nationality	Number of shares	Percentage of shareholding interest
Bahrain Islamic Bank B.S.C.	Bahraini	14,220,486	22.75%
Investors Bank	Bahraini	11,265,655	18.03%
International Investment Group	Kuwaiti	8,638,197	13.82%
Gulf Monetary Group	Bahraini	6,953,125	11.13%
Al Muhannad Direct Investment Fund	Kuwaiti	6,742,504	10.79%
Al Amana Alama State of Kuwait	Kuwaiti	5,250,000	8.40%

	Nationality	Number of shares	Percentage of total outstanding Shares
Bahrain Islamic Bank B.S.C.	Bahraini	14,220,486	22.75%
Investors Bank	Bahraini	11,265,655	18.03%
International Investment Group	Kuwaiti	8,638,197	13.82%
Gulf Monetary Group	Bahraini	6,953,125	11.13%
Al Muhannad Direct Investment Fund	Kuwaiti	6,742,504	10.79%
Al Amana Alama State of Kuwait	Kuwaiti	5,250,000	8.40%

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

15 Share capital (continued)

Additional information on shareholding pattern (continued)

- ii) The Company has only one class of equity shares and the holders of the shares have equal voting rights.
 iii) The distribution pattern of equity shares, setting out the number of shareholders and percentages in the following categories is as follows:

	31 December 2012		
	Number of shareholders	Number of shares	Percentage of total outstanding shares
Less than 1%	224	9,015,776	14.43%
1% up to less than 5%	1	989,257	1.58%
5% up to less than 10%	1	5,250,000	8.40%
10% up to less than 20%	4	33,124,481	53.00%
20% up to less than 50%	1	14,120,486	22.59%
	231	62,500,000	100.00%

	31 December 2011		
	Number of shareholders	Number of shares	Percentage of total outstanding shares
Less than 1%	218	8,440,776	13.51%
1% up to less than 5%	1	989,257	1.58%
5% up to less than 10%	1	5,250,000	8.40%
10% up to less than 20%	4	33,599,481	53.76%
20% up to less than 50%	1	14,220,486	22.75%
	225	62,500,000	100.00%

- iv) The percentage of shares held by the Directors to the total number of shares at 31 December 2012 was 1.01% (2011: 1.24%).

v) Key management remuneration

Key management personnel of the Company comprise the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Company. Remuneration to key management personnel is as follows:

	31 December 2012	31 December 2011
Salaries and benefits	362,261	324,660

vi) Dividends

No dividend was paid by the Company for the year ended 31 December 2011 (31 December 2010: BDNil) and no stock dividend was approved by the shareholders in the Annual General Meeting held on 29 February 2012 (2010: 22 March 2011).

Proposed by the Board of Directors

The Board of Directors do not propose to pay dividend for the year ended 31 December 2012 (2011: BDNil). This is subject to the approval of the shareholders in the Annual General Meeting.

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

16 Reserves

a) Statutory reserve

In accordance with the provisions of the Bahrain Commercial Companies Law, Decree Number 21 of 2001 and the Company's Memorandum and Article of Association, an amount equivalent to 10% of the Company's net profit before appropriations is required to be transferred to a non-distributable reserve account until such time as a minimum of 50% of the issued share capital is set aside. During the year ended 31 December 2012, an amount of BD20,480 (2011: BD18,130) has been transferred to the statutory reserve.

b) General reserve

This represents an appropriation of the retained earnings for the purpose of meeting potential future commitments of a general nature.

c) Investment fair value reserve

This represents represents the unrealised gains or losses on the valuation of available-for-sale investments.

d) Retained earnings

This represents all other net gains and losses and transactions with shareholders not recognised elsewhere.

17 Gross outstanding claims

The movement in gross outstanding claims during the year is:

	General takaful				Family takaful		2011 Total
	Fire, general, Accident And engineering	Marine and aviation	Motor	Medical	2012 Sub-total	2012 Sub-total	
Opening balance	2,539,239	365,813	2,494,391	1,826,246	7,225,689	312,445	5,733,209
Claims incurred	507,961	21,738	7,133,411	5,271,458	12,934,568	408,136	12,041,076
Claims paid	(776,181)	(299,297)	(6,644,000)	(5,425,154)	(13,144,632)	(502,434)	(10,236,151)
Closing balance	2,271,019	88,254	2,983,802	1,672,550	7,015,625	218,147	7,538,134

Breakdown of Claims

	General takaful				Family takaful		2011 Total
	Fire, general, Accident And engineering	Marine and aviation	Motor	Medical	2012 Sub-total	2012 Sub-total	
Current year claims	858,129	7,731	1,968,754	103,268	2,131,094	18,010	2,250,042
Prior year claims	746,534	2,968	631,508	93,083	2,280,881	6,640	2,520,945
Incurred but not yet reported	666,356	77,555	383,540	1,476,199	2,603,650	193,497	2,767,147
Closing balance	2,271,019	88,254	2,983,802	1,672,550	7,015,625	218,147	7,538,134

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

18 Claims history

Each year the Company estimates the ultimate value of claims for the year. A comparison of this estimate with the actual liability for each year provides a measure of the Company's ability to accurately estimate claims.

For the years prior to 2007, the estimate of claims was based on notified claims received. From 2007 onwards, an estimate for "Incurred but not reported" ("IBNR") claims have been included.

General takaful gross claims

Accident year	2008	2009	2010	2011	2012	Total
Estimate of ultimate claims costs:						
At end of reporting year	5,851,384	6,175,125	6,571,856	7,331,720	8,743,935	34,674,021
One year later	7,082,967	7,047,376	7,009,101	8,280,718	-	29,420,162
Two years later	7,346,558	7,209,535	7,154,526	-	-	21,710,619
Three years later	7,394,716	7,270,657	-	-	-	14,665,373
Four years later	7,351,314	-	-	-	-	7,351,314
Current estimate of cumulative claims	7,351,314	7,270,657	7,154,526	8,280,718	8,743,935	38,801,151
Cumulative payments to date	(6,908,190)	(6,736,102)	(6,607,038)	(7,632,407)	(7,626,969)	(35,510,706)
Sub-total	443,123	534,555	547,489	648,311	1,116,966	3,290,444
Reserve in respect of prior years	-	-	-	-	1,121,531	1,121,531
	443,123	534,555	547,489	648,311	2,238,497	4,411,975
Incurred but not yet reported						2,603,650
Total reserve included in the statement of financial position						7,015,625

19 Unearned contributions reserve

The movement in the unearned contributions reserve during the year is:

	General takaful					2011 Total
	Motor and general accident	Fire	Marine	Medical	2012 Total	
Opening balance	3,697,959	1,537,149	4,984	1,526,195	6,766,287	6,505,988
Additions during the year	4,296,151	1,172,399	16,880	1,631,646	7,117,076	6,766,287
Releases	(3,697,959)	(1,537,149)	(4,984)	(1,526,195)	(6,766,287)	(6,505,988)
Closing balance	4,296,151	1,172,399	16,880	1,631,646	7,117,076	6,766,287

20 Unearned retakaful commissions

The movement in unearned retakaful commissions during the year is:

	General takaful				Family takaful			2011 Total
	Motor and general accident	Fire	Marine	Medical	2012 Sub-total	2012 Sub-total	2012 Total	
Opening balance	165,757	302,913	4,966	257,199	730,835	1,378	732,213	622,536
Commissions received	256,101	28,002	79,033	288,476	651,612	1,402	653,014	732,213
Commissions realised	(165,757)	(302,913)	(4,966)	(257,199)	(730,835)	(1,378)	(732,213)	(622,536)
Closing balance	256,101	28,002	79,033	288,476	651,612	1,402	653,014	732,213

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

21 Other liabilities and provisions

	31 December 2012				31 December 2011			
	Shareholders	General Takaful	Family takaful	Total	Shareholders	General takaful	Family takaful	Total
Staff related accruals	305,376	-	-	305,376	307,203	-	-	307,203
Unclaimed share of profit	119,074	7,588	-	126,662	227,214	7,588	-	234,802
Accruals and other payables	146,989	1,065,062	54,057	1,266,108	108,042	855,361	16,114	979,517
	571,439	1,072,650	54,057	1,698,146	642,459	862,949	16,114	1,521,522

The carrying amounts of other liabilities and provisions disclosed above reasonably approximate their fair values as at 31 December 2012.

The table below analyses the Company's borrowings into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not considered significant by management.

	At 31 December 2012		
	Up to 3 months	Between 3 and 12 months	Total
Staff related accruals	130,000	175,376	305,376
Unclaimed share of profit	126,662	-	126,662
Accruals and other payables	785,945	480,163	1,266,108
	1,042,607	655,539	1,698,146

	At 31 December 2011		
	Up to 3 months	Between 3 and 12 months	Total
Staff related accruals	164,904	142,299	307,203
Unclaimed share of profit	234,802	-	234,802
Accruals and other payables	601,540	377,977	979,517
	1,001,246	520,276	1,521,522

22 Employees' terminal benefits

Local employees

The contributions made by the Company towards the pension scheme for Bahraini nationals administered by the Social Insurance Organisation in the Kingdom of Bahrain for the year ended 31 December 2012 amounted to BD159,413 (2011: BD146,538).

Expatriate employees

The movement in leaving indemnity liability applicable to expatriate employees is as follows:

	31 December 2012	31 December 2011
Opening balance	93,827	69,238
Accruals for the year	41,968	27,373
Payments during the year	(3,346)	(2,784)
Closing balance	132,449	93,827
The number of staff employed by the Company	132	123

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

23 Murabaha payable

	31 December 2012	31 December 2011
Current portion of murabaha payable	-	13,569

Murabaha payable represents a financing facility obtained from a local bank amounting to BD474,902 to finance the working capital requirements. The amount is repayable in 36 instalments with the last instalment due in February 2012 and which has been duly repaid during the year.

24 Wakala fee and mudarib share

The shareholders manage the general and family takaful operations for the participants' and charge 20% (2011: 20%) and 22% (2011: 24%) respectively of gross contributions as a wakala fee. The shareholders also manage the participants' investment funds as a mudarib and charge 25% (2011: 25%) and 15% (2011: 15%) of the general takaful and family takaful investment income earned by the participants' investment funds, respectively. The maximum chargeable wakala fee and mudarib share, as approved by the Shari'a Supervisory Board, are 30% (2011: 30%) and 25% (2011: 25%) respectively.

25 Investment income

	Year ended 31 December 2012			Year ended 31 December 2011		
	Shareholders	General takaful	Family takaful	Shareholders	General takaful	Family takaful
Deposit income	30,114	5,559	45,041	54,849	47,009	56,466
Investment income	45,331	90,861	10,652	64,271	41,732	4,927
Dividend income	25,970	1,271	-	-	-	-
Realised gains/(losses) on sale of available-for-sale investments	(4,689)	-	-	(19,275)	56,620	-
	96,726	97,691	55,693	99,845	145,361	61,393

26 Other income

	Year ended 31 December 2012	Year ended 31 December 2011
(Losses)/profits on sale of property and equipment	(135)	1,296
Rental income	13,500	1,100
Other income	4,490	10,130
	17,855	12,526

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

27 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares issued during the year.

	Year ended 31 December 2012	Year ended 31 December 2011
Net profit attributable to the shareholders	204,801	181,304
Weighted average number of ordinary shares issued	62,500,000	62,500,000
Profit per share	3.28 fils	2.90 fils

The Company does not have any potentially dilutive ordinary shares, hence the diluted earnings per share and basic earnings per share are identical.

28 Segmental underwriting results

Business segments – primary reporting segment

The Company's primary segment reporting format is business segments. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. The Company's primary business segments are:

Motor and general accident	:	Motor, general accidents and engineering and aviation
Fire	:	Fire and allied perils
Marine and aviation	:	Marine cargo, marine hull and aviation
Medical takaful	:	Medical expense cover

An analysis of the gross participant's contributions, net contributions retained and net results for its main classes of general takaful is as follows:

	Year ended 31 December 2012				
	Motor and general accident	Fire	Marine and aviation	Medical	Total
Gross contributions	8,613,088	3,087,546	1,303,956	3,825,382	16,829,972
Retakaful share	(2,269,382)	(2,689,096)	(1,209,408)	(2,810,405)	(8,978,291)
Retained contributions	6,343,706	398,450	94,548	1,014,977	7,851,681
Movement in unearned contributions	(695,034)	(61,400)	(8,020)	(43,134)	(807,588)
Net earned contributions	5,648,672	337,050	86,528	971,843	7,044,093
Net commissions and other takaful income	61,385	433,743	159,708	1,198,289	1,853,125
Net claims incurred	(3,854,637)	(80,670)	(915)	(1,569,624)	(5,505,846)
	1,855,420	690,123	245,321	600,508	3,391,372
Wakala fees	(1,636,522)	(609,594)	(156,741)	(866,449)	(3,269,306)
Surplus/(deficit) from takaful operations	218,898	80,529	88,580	(265,941)	122,066
Identifiable assets and liabilities as on 31 December 2012					
Identifiable assets	5,484,137	2,319,257	215,655	6,283,795	14,302,844
Identifiable liabilities	7,130,895	2,132,629	134,975	5,206,340	14,604,838

Assets amounting to BD6,801,610 and liabilities amounting to BD6,499,616 are not specifically identifiable in general takaful business.

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

28 Segmental underwriting results (continued)

	Year ended 31 December 2011				
	Motor and general accident	Fire	Marine and aviation	Medical	Total
Gross contributions	7,235,007	3,726,619	808,623	4,208,793	15,979,042
Retakaful share	(2,343,594)	(3,377,693)	(717,709)	(3,091,361)	(7,507,082)
Retained contributions	4,891,413	348,926	90,914	1,117,432	6,448,685
Movement in unearned contributions	(214,358)	(44,748)	24,146	398,163	163,203
Net earned contributions	4,677,055	304,178	115,060	1,515,595	6,611,888
Net commissions and other takaful income	102,046	389,026	131,109	938,944	1,561,125
Net claims incurred	(2,671,272)	(95,965)	(34,045)	(1,699,560)	(4,500,842)
Provision for doubtful receivables	(3,444)	-	-	(289,278)	(292,722)
	2,104,385	597,239	212,124	465,701	3,379,449
Wakala fees	(1,596,894)	(585,525)	(165,357)	(925,937)	(3,273,713)
Surplus/(deficit) from takaful operations	507,491	11,714	46,767	(460,236)	105,736
Identifiable assets and liabilities as on 31 December 2011					
Identifiable assets	4,668,245	2,920,845	432,401	5,580,907	13,602,398
Identifiable liabilities	7,329,589	3,511,616	344,935	3,481,301	14,667,441

Assets amounting to BD6,629,451 and liabilities amounting to BD5,564,408 are not specifically identifiable in general takaful business.

The surplus arising from the family takaful operations are disclosed separately in the statement of participant's revenues and expenses. The assets and liabilities of family takaful operations are disclosed separately in the statement of financial position.

The activities of the Company are restricted to carrying out takaful, on the principles of Sharia'a a significant portion of which is concentrated in the GCC countries which are subject to similar risks and rewards and, as such, no geographical segmental information has been presented.

Geographical segments – secondary reporting segment

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

The Company's activities is to manage the General and Family takaful activities and investments by adopting wakala and mudarabha models respectively, on behalf of the participants in accordance with the Islamic Sharia'a principles with operations in the State of Qatar as well.

The geographical segment reporting of the Company as at 31 December 2012 and 2011 is as follows:

	External revenue by location		Non-current assets by location of assets	
	2012	2011	2012	2011
Kingdom of Bahrain	9,461,730	8,729,260	2,232,720	2,416,580
State of Qatar	96,262	17,742	104,828	123,878

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

29 Financial assets and liabilities and risk management

Financial assets and liabilities carried on the statement of financial position include statutory deposits, cash and cash equivalents, available-for-sale investments and retakaful and takaful receivables, retakaful and takaful payables, other liabilities, Islamic murabaha and payable to shareholders. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Capital management

The Company's objectives when maintaining capital are:

- to safeguard the entity'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 products and services commensurately with the level of risk.

The Company manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. No changes were made in the objectives, policies and processes during the years ended 31 December 2012 and 2011.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company includes within net debt, retakaful and takaful payables, other liabilities and provisions, murabaha payable less cash and cash equivalents. Capital includes share capital, share capital received in advance and reserves attributable to the shareholders of the Company.

	31 December 2012	31 December 2011
Retakaful and takaful payables	4,686,451	4,316,783
Other liabilities and provisions	1,698,146	1,521,522
Murabaha payable	-	13,569
Less: cash and cash equivalents	(3,124,001)	(4,004,750)
Net debt	3,260,596	1,847,124
Share capital	6,250,000	6,250,000
Statutory reserve	456,932	436,452
General reserve	200,000	200,000
Retained earnings	667,215	482,894
Investment fair value reserve	(271,098)	(380,738)
Total capital	7,303,049	6,988,608
Total capital and net debt	10,563,645	8,835,732
Gearing ratio	30.87%	20.91%

Risk management

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function. The Board receives monthly reports from the Company Financial Controller through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The Company's internal auditors also review the risk management policies and processes and report their findings to the Audit Committee.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility.

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

29 Financial assets and liabilities and risk management (continued)

Risk management (continued)

The Company is exposed through its operations to the following financial risks:

- Takaful risk
- Retakaful risk
- Liquidity risk
- Regulatory risk
- Investment risk
- Legal risk
- Reputation risk
- Credit risk
- Currency rate risk
- Profit margin risk
- Fair value risk
- Profit rate risk

Principal financial instruments

The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

- Retakaful and takaful receivables
- Dues from retakaful companies in connection with outstanding claims
- Other receivables and prepayments
- Statutory deposit
- Cash and cash equivalents
- Available-for-sale investments
- Retakaful and takaful payables
- Other liabilities and provisions

A summary of the financial instruments held by category is provided below as at 31 December 2012:

Financial assets	Loans and receivables	Available-for-sale
Cash and cash equivalents	3,124,001	-
Retakaful and takaful receivables	9,932,904	-
Dues from retakaful companies in connection with outstanding claims	5,004,755	-
Other receivables and prepayments	611,115	-
Amounts due from related parties	25,111	-
Statutory deposit	125,000	-
Available-for-sale investments	-	6,088,086
Total financial assets	18,822,886	6,088,086

	Financial liabilities at amortised cost
Retakaful and takaful payables	4,686,451
Other liabilities and provisions	1,698,146
Total financial liabilities	6,384,597

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

A summary of the financial instruments held by category is provided below as at 31 December 2011:

Financial assets	Loans and receivables	Available-for-sale
Cash and cash equivalents	4,004,750	-
Retakaful and takaful receivables	8,191,308	-
Dues from retakaful companies in connection with outstanding claims	5,222,710	-
Other receivables and prepayments	334,916	-
Amounts due from related parties	42,012	-
Statutory deposit	125,000	-
Available-for-sale investments	-	5,261,158
Total financial assets	17,920,696	5,261,158
		Financial liabilities at amortised cost
Financial liabilities		
Retakaful and takaful payables		4,316,783
Other liabilities and provisions		1,521,522
Total financial liabilities		5,838,305

Takaful risk

The risks under each takaful contract are the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of a takaful contract, this likelihood of this risk occurring is unpredictable. The principal risks that the Company faces under such contracts are the occurrence of an insured event and the severity of the reported claim. The Company's risk managed by diversification of takaful risks over a large portfolio of contracts, as a diversified portfolio is less likely to be affected by any single unexpected event or series of events.

The Company does not have any single takaful contract, or small number of related contracts, that cover low frequency, high-severity risks such as earthquakes, or takaful contracts covering risks for single incidents that expose the Company to potentially large claims. The Company's takaful risk is not exposed to unexpected changes in trends or in participants' behaviour or to major changes in financial market conditions. The Company has adequately provided for takaful risks that may involve significant litigation.

The primary control in respect of takaful risk is the cession of risks to third parties through retakaful. The majority of retakaful business ceded is placed on either a proportional or non-proportional basis, with retention limits varying by lines of business. The placements of retakaful contracts are diversified so that the Company is not dependent on a single retakaful company or a retakaful contract.

Delegate authorities pertaining to underwriting and retention policies and procedures regulate who is authorised and accountable for concluding takaful and retakaful contracts and under what conditions. Compliance with these authorities is regularly checked and developments in the global, regional and local markets are closely monitored, reacting where necessary with appropriate change in underwriting authorities when required.

Retakaful risk

Retakaful is used to manage takaful risk. Although the Company has retakaful arrangements, this does not, however, discharge the Company's liability as primary insurer and thus a credit risk remains with respect to retakaful ceded if any retakaful company is unable to meet its obligations to the Company under such retakaful arrangements, the Company remains liabilities for the gross claim. The Company minimises such credit risk by entering into retakaful arrangements with counter-parties having good credit ratings. The creditworthiness of retakaful companies is re-assessed annually by reviewing their financial strength and credit rating prior to finalisation of any contract. Solvency risks are controlled by regularly monitoring the provisions for claims that have been submitted but not yet settled and by amending the provisions, if deemed necessary.

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

29 Financial assets and liabilities and risk management (continued)

Geographical region

A geographical analysis of the Company's net retakaful exposure at 31 December 2012 and 2011 is provided below:

	2012		2011	
	General takaful	Family takaful	General takaful	Family takaful
Middle East	1,340,359	30,620	1,851,490	91,113
Europe	893,572	101,256	1,233,579	567,437
Rest of the world	744,644	-	61,972	-
	2,978,575	131,876	3,147,041	658,550

The five largest reinsurers account for 26% of the maximum credit exposure at 31 December 2012 (2011: 24%).

Financial risk

The Company is exposed to financial risk through its financial assets, financial liabilities, retakaful assets and takaful liabilities. The key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its takaful and investment contracts. The most important components of financial risk are profit rate risk, equity price risk, currency rate risk, credit risk and liquidity risk.

These risks arise from open positions in profit rate, currency and equity products, all of which are exposed to general and specific market movements. The Company manages these positions within an Asset Liability Management (ALM) framework that ensures that its insurance funds are invested in short-term instruments to meet its takaful liabilities.

Profit rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market profit rates. The Company is exposed to market risk with respect to its Islamic investments. The Company limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in international investment markets. In addition, the Company actively monitors the key factors that affect stock market movements, including analysis of the operational and financial performance of investments. The Company's other assets and liabilities, in the opinion of the management, are not sensitive to profit rate risk.

Market risk

Market 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 market risk with respect to its investments in equities, managed funds and bonds.

The management has set up an investment policy to manage its investment portfolio. The Company limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in international equity and bond markets. In addition, the Company actively monitors the key factors that affect stock market movements, including analysis of the operational and financial performance of investees.

A geographical analysis of the Company's available-for-sale investments is:

	31 December 2012	31 December 2011
Kingdom of Bahrain	1,805,103	906,617
Other GCC countries	2,341,546	2,260,203
Asia/BRIC	869,554	614,591
UK and Europe	357,298	623,282
United States	195,108	137,747
Other countries/global	519,477	718,718
	6,088,086	5,261,158

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company adopts policies and procedures in order to maintain credit risk exposures within limits. These limits have been set on the basis of the types of exposures and the credit rating of the counter party and are regularly monitored by the management.

For all classes of financial assets held by the Company, other than those related to retakaful contracts as described in takaful risk above, the maximum credit risk exposure to the Company is the carrying value as disclosed in the statement of financial position.

The Company does not enter into derivatives to manage credit risk, although in certain isolated cases may take steps to mitigate such risks if it is sufficiently concentrated. Quantitative disclosures of the credit risk exposure in relation to financial assets are set out below. Further disclosures regarding other receivables, which are neither past due nor impaired, are provided in Note 8 and Note 9 to these financial statements.

	At 31 December 2012	
	Carrying value	Maximum exposure
Financial assets		
Cash and cash equivalents	3,124,001	3,120,767
Retakaful and takaful receivables	9,932,904	9,932,904
Dues from retakaful companies in connection with outstanding claims	5,004,755	5,004,755
Other receivables and prepayments	611,115	611,115
Amounts due from related parties	25,111	25,111
Statutory deposit	125,000	125,000
Total financial assets	18,822,886	18,819,652

	At 31 December 2011	
	Carrying value	Maximum exposure
Cash and cash equivalents	4,004,750	4,001,571
Retakaful and takaful receivables	8,191,308	8,191,308
Dues from retakaful companies in connection with outstanding claims	5,222,710	5,222,710
Other receivables and prepayments	334,916	334,916
Amounts due from related parties	42,012	42,012
Statutory deposit	125,000	125,000
Total financial assets	17,920,696	17,917,517

The Company seeks to limit its credit risk with respect to participants by setting credit limits and monitoring outstanding receivables. Due from participants consist of balances due from participants mainly in the Kingdom of Bahrain. Five (2011: Five) participants account for 31% (2011: 33%) of the total participants balances receivable at 31 December 2012.

A significant amount of cash and cash equivalent is held with the following institutions:

	Rating as at 31 December 2012	Balance as at 31 December 2012	Rating as at 31 December 2011	Balance as at 31 December 2011
Bahrain Islamic Bank	Moody's Ba3	706,348	Moody's Ba1	936,168
Al Salam Bank	NR	255,197	NR	662,610
National Bank of Bahrain	Capital Intelligence "A"	10,472	Capital Intelligence "A"	12,893
Kuwait Finance House	Moody's Baa2	127,805	Moody's Baa2	159,229

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

29 Financial assets and liabilities and risk management (continued)

Currency rate risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's foreign currency transactions are predominantly in Bahrain Dinars and other GCC currencies which are effectively pegged to the United States Dollars. Accordingly, the management does not consider the Currency to have a significant currency rate risk.

As at 31 December 2012 and 2011, the Company's financial assets and financial liabilities were denominated in the following currencies:

Financial assets

	United States										Total	
	Dollars		Bahrain Dinars		Kuwait Dinar		British Pound		Others			
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011		
Cash and cash equivalents	1,074,202	1,079,856	1,524,742	2,495,608	-	-	234,055	221,367	291,002	207,919	3,124,001	4,004,750
Retakaful and takaful receivables	995,344	680,328	8,035,529	7,055,341	31,105	34,016	-	-	870,926	421,623	9,932,904	8,191,308
Dues from retakaful companies in connection with outstanding claims	1,601,521	1,566,813	1,951,854	1,932,403	50,048	78,341	-	-	1,401,332	1,645,153	5,004,755	5,222,710
Other receivables and prepayments	611,115	334,916	-	-	-	-	-	-	-	-	611,115	334,916
Amounts due from related parties	25,111	42,012	-	-	-	-	-	-	-	-	25,111	42,012
Available-for-sale investments	3,154,737	2,699,250	999,732	627,229	1,079,929	1,210,091	306,555	316,055	547,133	408,533	6,088,086	5,261,158
Statutory deposit	-	-	125,000	125,000	-	-	-	-	-	-	125,000	125,000
Total	7,462,030	6,403,175	12,636,857	12,235,581	1,161,082	1,322,448	540,610	537,422	2,298,122	2,084,023	24,910,972	23,181,854

Financial liabilities

	United States										Total
	Dollars		Bahrain Dinars		Kuwait Dinar		Others				
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	
Retakaful and takaful payables	1,321,197	1,142,277	2,167,919	1,918,000	41,287	57,114	1,156,048	1,199,392	4,686,451		4,316,783
Other liabilities and provisions	-	-	1,698,146	1,521,522	-	-	-	-	1,698,146		1,521,522
Total	1,321,197	1,142,277	3,866,065	3,439,522	41,287	57,114	1,156,048	1,199,392	6,384,597		5,838,305

Liquidity risk is defined as the risk that funds will not be available to meet liabilities as they fall due. The Risk and Finance Department has the overall responsibility for managing the funds and the liquidity of the Company. The day-to-day management of liquidity is the responsibility of the Risk and Finance Department along with Managing Director and Chief Executive Officer. The Board provides broad guidelines as regards minimum liquid assets that need to be maintained and uses the assets maturity profile for managing the liquidity risk.

The table setting out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities is disclosed in Note 21.

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction. As the Company's financial instruments are compiled under the historical cost convention, except as modified by the valuation of available-for-sale investments, differences can arise between the book amounts and the fair value estimates.

The fair values of the Company's financial assets and liabilities, in the opinion of the management, are generally not materially different from their carrying amounts.

Profit margin risk

Profit margin risk arises from the possibility that changes to margin will effect either future profitability or the fair value of financial instruments. The Company is exposed to profit margin risk on its investments and deposits. The Company limits profit margin risk by monitoring changes in margin prices in the currencies in which deposits and investments are denominated.

	Less than three months	more than three months	Total
Statutory deposits	-	125,000	125,000
Call deposits	1,107,019	615,248	1,722,267
At 31 December 2012	1,107,019	740,248	1,847,267
At 31 December 2011	767,698	1,341,060	2,108,758

The effective profit rates by major class of currencies for each major class of profit-bearing financial instruments are as follows:

	2012		2011	
	Effective rate of return		Effective rate of return	
	US\$	BD	US\$	BD
Statutory deposits	-	3.17%	-	4.15%
Other deposits	4.86%	4.13%	6%	5.82%

Regulatory risk is the risk of non-compliance with regulatory and legal requirements in the Kingdom of Bahrain and the State of Kuwait. The Company's Compliance Department is currently responsible for ensuring all regulations are adhered to.

Investment risk is defined as the uncertainty about the future benefits to be realised from an investment. The Company has well-defined policies for managing investment risk. These policies cover investment authority limits and investment assessment practices. The Investment Department, the Risk Department and the Finance Department study the impact of transactions on the Company's consolidated statement of financial position and monitors the investment portfolio on a continuous basis. Every investment application is reviewed by a designated body depending on the size and the nature of the transaction. Fair valuation is generally conducted on a quarterly basis. The Company has a policy to ensure the conservatism convention and to make the necessary provisions when they are warranted.

Legal risk includes the risk of unexpected losses from transactions and/or contracts not being enforceable under applicable laws or from unsound documentation. The Company deals with several external law firms to support it in managing the legal risk.

Reputation risk is the risk that negative perception regarding the Company's business practices or internal controls, whether true or not, will cause a decline in the Company's investor base and lead to costly litigations which could have an adverse impact on the liquidity of the Company. The Board represented by the Board Executive Committee examines the issues that are considered to have reputation repercussions for the Company and issues directives to address these.

30 Capital adequacy and solvency margin requirements

The Company maintains adequate human, financial and other resources sufficient to run the business in an orderly manner. The capital available and solvency margin are determined as per the provisions of Capital Adequacy Module of the Insurance Rulebook Volume 3 issued by the Central Bank of Bahrain. Shareholders' available capital for the Company is BD6,850,000. The solvency deficit calculated as per the CBB Rulebook Volume 3 for general takaful is BD4,139,000 and for the family takaful is BD400,000. The shareholders provided Qard Al Hassan (profit free loan) of BD4,232,000 to general takaful policyholders and BD407,000 to family takaful policyholders to meet their solvency valuation deficit (Note 36). The net excess of available capital after the Qard Al Hassan in the shareholders fund is BD3,020,000. The Tier I Capital of the Company is BD 7,659,000.

Notes to the financial statements

for the year ended 31 December 2012 (Expressed in Bahrain Dinars)

31 Shari'a Supervisory Board

The Company's business activities are subject to the supervision of a Shari'a supervisory Board consisting of three members appointed by the Board of Directors. The Shari'a Supervisory Board performs a supervisory role in order to determine whether the operations of the Company are conducted in accordance with Islamic Shari'a rules and principles.

32 Zakah

Zakah of BD134,973 at 2.16 fils per share (2011:BD124,465 at 1.99 fils per share) is to be directly borne by the shareholders and, accordingly, the financial statements includes no provision for Zakah. The components used in the computation of Zakah are share capital, statutory reserve, general reserve and retained earnings/(accumulated deficit), participants' equity and property and equipment. The basis of computation is approved by the Sharia'a Supervisory Board and the amounts payable are notified to the shareholders.

33 Earnings prohibited under Shari'a

There were no earnings retained during the year (2011: Nil) from transactions which are not permitted under Shari'a.

34 Contingent liabilities

The Company is a defendant in a number of cases brought by takaful contract holders in respect of claims which the Company disputes. While it is not possible to predict the eventual outcome of such legal actions, the Directors' have made provisions which, in their opinion, are adequate to cover any resultant liabilities.

35 Commitments

a) Operating lease commitments

The minimum lease commitments under cancellable operating leases (Note 12) are as follows:

	31 December 2012	31 December 2011
Not later than 1 year	118,013	112,393

b) Other commitments

The commitments towards available-for-sale investments (Note 7) are as follows:

	31 December 2012	31 December 2011
Available-for-sale investments	70,328	84,956

36 Qard Al Hassan

In accordance with the capital adequacy requirements of the Central Bank of Bahrain' Insurance Rulebook, the shareholders of the Company have apportioned through the Insurance Firm Return an amount of BD4,232,000 and BD407,000 as Qard Al Hassan for funding the valuation deficit in general takaful and family participants' funds, respectively, of the Company (Note 30).

37 Comparative figures

Certain comparative figures of the previous year have been reclassified, wherever necessary, to conform to the current year's presentation. Such regrouping does not affect net worth or net profit for the previous year.

38 Events after reporting date

No events have occurred subsequent to 31 December 2012 and before the date of the report that would have a significant effect on these financial statements.