



His Majesty King Hamad bin Isa Al Khalifa
The King of the Kingdom of Bahrain



His Royal Highness Prince Khalifa bin Salman Al Khalifa
The Prime Minister of the Kingdom of Bahrain



His Royal Highness Prince Salman bin Hamad Al Khalifa
The Crown Prince and Deputy Supreme Commander of the Kingdom of Bahrain

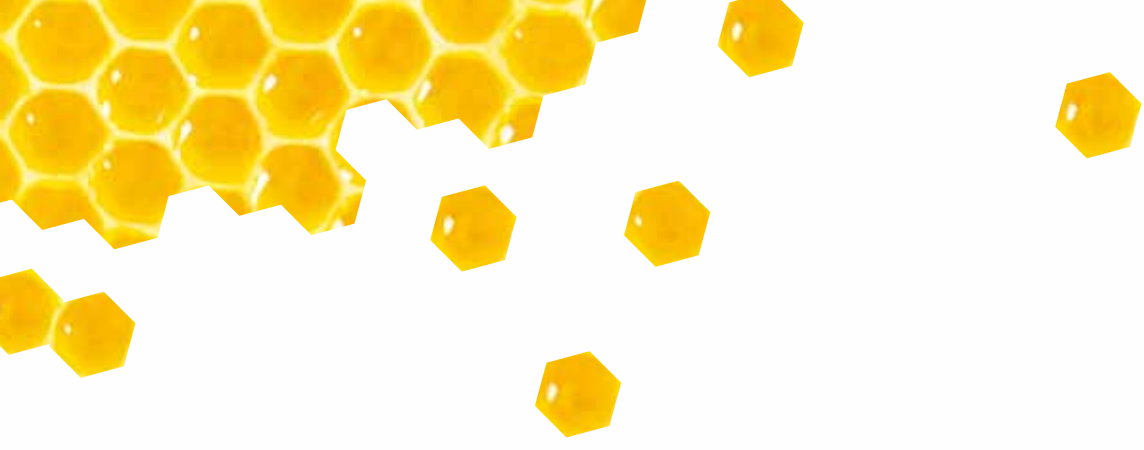
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Vision

Family Bank's Vision is to enable the lower income Bahrainis to build a secure future while introducing ethical rules and higher standards towards the development of microentrepreneurship and Islamic microfinance.



Mission

Family Bank's mission is to serve the needy families in the Kingdom of Bahrain through the promotion of Islamic Microfinance services that would lead the social development following the best practices worldwide, especially the Grameen Bank approach to deal with the needy and the deprived.

Family Bank's Goals are to:

- Focus on providing sustainable microfinance banking services to lower income individuals.
- Provide a broad community service that reaches all citizens of the Kingdom of Bahrain.
- Implement best practices in procedures drawn from the experience based on the Grameen Bank and other micro-finance programs.
- Focus on developing micro and small enterprises that would lead to social development as well as provide support to the economic development of the Kingdom of Bahrain.
- Meet all environmental and safety standards as well as social obligations.

Board of Directors



Dr. Fatima Al Balooshi

Board Chairperson

Appointed: 05/10/2009

Dr. Al-Balooshi is currently the Chairperson of the Family Bank. She is the Minister of Social Development since 2005, and the Acting Minister of Health.

She started her carrier as a science teacher. In 1992 she obtained a PhD. from Columbia University and was appointed as the Dean of the College of Education in the University of Bahrain and Chairman of the Department of Educational Technology.

She is an active member in many organizations: including the Information Center for Women and Children, International Society for Technology in Education, Bahrain Society for Creativity, Academics Society, Bahrain Information Technology Society, Bahrain Society for Childhood Development and Bahrain Society for Women Development. She is also a member of the Supreme Council for Women.



Dr. Mustafa Al Sayed

Board Deputy Chairperson/ Executive Committee Chairman

Appointed: 05/10/2009

Dr. Mustafa Al Sayed, is the Secretary General of the Royal Charity Organization and was the Chief Executive of Bahrain Petroleum Company (BAPCO) until 2007.

His previous positions include Chief Engineer with the Ministry of Works, Power & Water, Chief Executive at Midal Cables and General Manager with Gulf Petrochemical Industries Company (GPIC). He was also the Power and Utilities Supervisor with Bahrain Petroleum Company.

A mechanical engineer by profession, Mr. Al Sayed has a PhD in Industrial Management.

The Board members were elected by the ordinary General Assembly by a secret ballot and appointed for three renewable years.



Mrs. Sawsan Abulhassan

Executive Committee Member

Appointed: 05/10/2009

Mrs. Sawsan is the Deputy Group Chief Executive Officer - Private Banking and Wealth Management at Ahli United Bank B.S.C.

She also holds the following positions:

Director of Ahli United Bank (UK) PLC; Director of AUB Nominees Ltd.; Director & Chairperson of Audit Committee for Securities & Investment Company (SICO), Bahrain; and Director of National Social Work Fund, Kingdom of Bahrain. She has 19 years experience in wealth management and retail banking with international and regional banks. She was the Resident Vice President - Wealth Management and Distribution; with CitiBank N.A. Bahrain and Head of Wealth Management with Standard Chartered Bank, Bahrain.

She holds an MBA in Finance with Distinction and a BSC in Management with Distinction from the University of Bahrain.



Mr. Ahmed Abdul Rahim

Executive Committee member

Appointed: 05/10/2009

Mr. Ahmed Abdul Rahim serves as the General Manager, Retail Banking, of Ithmaar Bank B.S.C. He has also worked for 28 years with National Bank of Bahrain in various executive levels, including as Manager of Foreign Exchange and Funding, as Chief Internal Auditor and Assistant General Manager of Corporate Services.

He joined the National Bank of Bahrain in 1978 after several years with Chase Manhattan Bank, Bahrain and Aluminium Bahrain (ALBA). He serves as board member of Meezan Bank (Pakistan). He is also a member of the Board of Trustee of Islamic Waqf Fund and member of the Board of Directors of Injaz Bahrain. Mr. Ahmed Abdul Rahim holds an MBA from the University of Glamorgan, Wales (UK), and is an Associate Financial Accountant from the Institute of Financial Accountants, London (UK). He also holds an Executive Management Diploma from University of Bahrain and an Advance Banking Diploma from the Bahrain Institute of Banking and Finance.

The Board members were elected by the ordinary General Assembly by a secret ballot and appointed for three renewable years.

Board of **Directors** (Continued)



Mr. Khalid Mohammed Al Maarafi

Audit and Risk Committee Chairman

Appointed: 05/10/2009

Mr. Khalid Mohammed Al Maarafi holds a Bachelor's degree in Accounting from the University of Bahrain and is a Certified Public Accountant (CPA) as well as a member of the American Institute of Certified Public Accountants. He has been involved in the Banking industry and business management for over 26 years.

Mr. Khalid Mohammed Al Maarafi is an Executive Manager and Head of Banking Group at Kuwait Finance House, Bahrain.



Mr. Rashad Akbari

Audit and Risk Committee Member

Appointed: 05/10/2009

Mr. Rashad Akbari holds an MSc in Marketing from the University of Stirling, UK (1997).

He has 24 years of working experience, of which 10 years is in Banking. Mr Rashad joined BBK in 2000 and is currently the Assistant General Manager, Transactional Banking of BBK.



Prof H. Latifee

Board Member

Appointed: 05/10/2009

Professor H. Latifee is the Managing Director of Grameen Trust, a sister organization of the Grameen Bank. Grameen Trust has helped the implementation of more than 150 Grameen replication programs in 40 countries including 13 directly by the bank itself.

Professor Latifee is well known for his contribution in the field of microfinance, poverty alleviation, financial inclusion, social business and value building growth. He is recognized as an expert in the area of Microfinance, Poverty Reduction and Value Building Growth due to his long experience with the Grameen Bank, Grameen Trust, Grameen partners and Microfinance Institutions (MFIs) worldwide.

Professor Latifee is the Chairman of many programmes in several countries in Latin America, Africa and Asia.

The Board members were elected by the ordinary General Assembly by a secret ballot and appointed for three renewable years.



Sheikh Issam Eshaq

Sheikh Issam Eshaq holds the position of Shari'ah Advisor at Discover Islam, Bahrain, and is a member of the Shari'ah Supervisory Board in a number of Business, Educational and Financial institutions.

A member of the Auditing and Accounting Board of the Auditing and Accounting Organization for Islamic Financial Institutions (AAOIFI) - Bahrain, he is also a member of the Shari'ah Supervisory Boards of ArCapita Investment Bank, Bahrain; Al Baraka Islamic Bank, Bahrain ; Seera Investment Bank, Bahrain; AlHilal Bank, UAE; MunichRe ReTakaful, Malaysia; Dar Takaful Insurance, UAE; Capitas Group, USA; Ritaj Investment Company, Kuwait; Ecolslamic Bank, Kyrgyzstan Republic; AlMeezan Islamic Bank, Pakistan ; and a number of others. He is a prominent speaker on various topics on Islamic finance in major Islamic finance conferences and forums around the world. Sheikh Issam M. Eshaq graduated from McGill University, Montreal, Canada. He studied Shari'ah in different study circles in the traditional manner in various Masjids with a number of Shaikhs and scholars. He currently teaches Fiqh (Islamic Jurisprudence) and Aqeeda (Islamic Doctrines of Faith) in Islamic Study Centres affiliated with the Ministry of Islamic Affairs in the Kingdom of Bahrain.



Sheikh Ossama Bahr

Sheikh Ossama Bahr is a member of the Shari'ah supervisory Board of the National Investor Fund in Abu Dhabi, member of the Shari'ah supervisory Board of Al Aseel Equity Fund a subsidiary of Ithmaar Bank, member of the Shari'ah supervisory Board of Global Banking Corporation and others.

Prior to this, Sheikh Ossama was the Head of Shari'ah Compliance at Al Salam Bank, Shari'ah Compliance Officer at ABC Islamic Bank and Manager of the Shari'ah Department. He is an expert in structuring Islamic finance products, preparing Shari'ah contracts as well as conducting research papers on Islamic Banking and finance.

He holds a PhD. from the Islamic University of Europe.



Mr. Mohameden Weld Mohammed Ghulam

Mr. Mohameden Weld Mohammed Ghulam holds an Accounting and Shari'ah Auditing degree from the Organization for Islamic Financial Institutions and has a PhD. in Jurisprudence Transactions from Meknes University in Morocco.

He was a Script Editor for Bahrain TV and an auditor for a publishing agency in the UAE. Prior to that, he was an Arabic language and Shari'ah Teacher.

Senior Management



Dr. Atef Elshabrawy

CEO

Appointed: 01-09-2009

Dr. Atef Elshabrawy holds a PhD in Engineering and Management from Ecole des Mines de Nancy, France. He also holds a Bachelor's degree from the Faculty of Engineering Cairo University in Egypt.

Prior to being appointed the CEO of Family Bank, he has held several positions including the Community Development Advisor for the Ministry of Social Development, Kingdom of Bahrain and as General Manager of the Bahrain Development Bank. He has also worked as General Manager of the Egyptian Social Fund for Development, SFD. Dr. Atef has about 20 years experience working with entrepreneurship, SME's and project finance. He has served in several positions in different development organizations and social business entities in France, Egypt, Bahrain and Oman.



Mrs. Sana Salim Abdulla

Manager Banking Operations

Appointed: 02-12-2009

Mrs. Sana Salim Abdulla holds a Diploma in Commercial Studies from the University of Bahrain. She has over 15 years of experience with Eskin Bank and Bank of Bahrain and Kuwait.

During her professional career, she attended several courses, seminars and conferences in banking, management, Islamic banking, economy and banking laws.



Mr. Sameer Deshpande

Financial Controller

Appointed: 29-12-2009

Mr. Sameer Deshpande is a member of the Institute of Chartered Accountants of India (ICAI) and holds a B.Com degree in Commerce/Financial Accounting from the Bombay University, India.

He has over 20 years of experience in various financial positions, including as Financial Controller of the Bahrain Development Bank BSC.



Mr. Abdul Hai Khan
GM Grameen Programme
Appointed: 11-10-2009

Mr. Abdul Hai Khan holds a Master's Degree in Political Science and Government and a BSS in Political Science, Economics, and Sociology from the Daka University, Bangladesh.

He has over 28 years experience in micro financing with the Grameen Bank and Grameen Replication in many countries.



Mr. Abdulla Saleh
MEF & NGO's Manager
Appointed: 24-10-2010

Abdulla Saleh holds a BSc degree from Beirut University in Lebanon majoring in business administration and is a member of the Association of Accounting Technicians, United Kingdom majoring in Accounting, Finance, Audit and Taxation. His experience is in finance function in several organizations including the Fortune Investment House and the Gulf Air Co.



Mrs. Zoya Marhoon
Grameen Programme Manager
Appointed: 15-11-2009

Mrs. Zoya Marhoon is an American University graduate with a BSc in Mass Communications and has over 12 years experience in communications and human resource. She has worked for various organizations within the private and semi-government sectors such as the Economic Development Board, Eskan Bank and ARIG prior to her appointment in the Family Bank.



The Board of Directors of Family Bank takes pleasure in presenting the first Annual report of the Bank together with the financial statements for the year ended 31 December 2010

Chairperson's Report



The Family Bank, a non-profit organization, was established in Bahrain in 2010 as the first Islamic micro-finance Bank in the Kingdom as a direct consequence of the need to diversify the local economy based on the Vision 2030 campaign conceived by our country's visionary leaders.

Although the 2008 Global financial crisis is now years behind us, the financial markets within the region have not fully recovered from its after effects resulting in higher unemployment levels compounded by a decrease in economic activities. It is against this background that Family Bank began its operations with the objective of alleviating poverty while at the same time empowering the community it serves through the provision of sustainable financial services.

The Family Bank plays a vital role to guide and maintain programs that aim at enhancing the living conditions of needy families by providing official channels for obtaining financial and organizational support. The Bank began the implementation of relevant strategic related activities in its first year of operation.

The Bank faced several challenges during its start up phase, particularly due to our commitment to provide Shari'ah-complaint microfinance, specifically in relation to product designs and contracts as well as our desire to capture a sizable market share. Despite these challenges, the Bank has delivered on the non financial front during its first year through various products and services that were developed and implemented in line with the Bank's commitment to enhance the living conditions of needy families within Bahrain.

We would like to express our gratitude and appreciation to His Majesty King Hamad Bin Isa Al Khalifa, the King of the Kingdom of Bahrain, to His Royal Highness Prince Khalifa Bin Salman Al Khalifa, the Prime Minister, to His Royal Highness Prince Salman Bin Hamad Al Khalifa, the Crown Prince and Deputy Supreme Commander of the Bahrain Defence Force, and Her Royal Highness Princess Sabeeka Bint Ibrahim Al Khalifa Wife of His Majesty the King and President of the Supreme Council for Women as well as to the Government of the Kingdom of Bahrain, to the Minister of Industry and Commerce and to the CBB.

We would also like to express our gratitude to the Shari'ah Supervisory Board for its support and valuable guidance, to our investors and to our executives and employees for their support in adding value to the Bank.

Dr. Fatima Bint Mohamed Al Balooshi
Board Chairperson



During 2010, the Family Bank continued to strengthen its institutional capacity building in line with the growth in size and scope of its mission, to provide friendly and personalized services to needy and deprived individuals.

CEO's Message



I am pleased to report that during 2010, the Family Bank started its operation by disbursing finance to the first group of individuals forming the first authentic Grameen-based microfinance with 100% Shari'ah compliant program within an Islamic microfinance bank, licensed by the Central Bank.

The first year of operation was challenging. The Family Bank completed the implementation of several newly adjusted financial products such as Mudarabah and Tawarq in line with the directives from the CBB which are new in Microfinance, as well as establish a specialized partnership with non-governmental organizations to reach the needy within their community.

During the year, the Family Bank recorded a strong entry in the Bahraini microfinance market with a unique comprehensive approach of proposing financial and non-financial services for the needy individuals under very flexible conditions without collaterals and guarantees and the lowest profile rate in the region at 12% per annum, provided with Takaful Solidarity insurance and saving scheme facilities to customers. Through this, the Family Bank has reached about 300 families in 2010 with almost 60% among them being women. With a specialized contractual arrangement with the Ministry of Social Development (MOSD), some of our customers are welfare recipients which are unique in the region. This unique experience aims at graduating welfare recipients and getting them out of dependency and social assistance.

During 2010, the Family Bank continued to strengthen its institutional capacity building in line with the growth in size and scope of its mission which is to provide friendly and personalized services to needy and deprived individuals. The Family Bank continued to invest in developing its human resources, conducting numerous training programs both internally and externally to update staff skills and qualifications.

Partnerships have been a key to the Family Bank's growth and success in its first year. Several partnership agreements were signed during the year such as the partnership with Tamkeen to sponsor 50% of profit rate, Memorandum of Understanding (MOU) with RIFFA Socially to act as partner with Family Bank in developing microfinance services to their members; MOU with MOSD to finance handpicked individuals; and MOU with Bahrain Development Bank to collaborate in coordinating different services for M&SME's.

The Family Bank is now well positioned to look positively to the years ahead, to capitalize on the opportunities available to increase its operations, to diversify its services by launching new products to cover the different needs of its customers and to expand its outreach programs through new partnerships with local partners.

Finally it is my pleasure to extend my sincere appreciation to our Board of Directors for their continued support and valuable guidance; to the Central Bank of Bahrain; to the Shari'ah Advisory Board; to Grameen Trust - our partners and finally to all our dedicated staff members who worked very hard, individually and collectively during 2010. Thank you.

Dr. Atef Elshabrawy
Chief Executive Officer



Introduction

Microcredit came to prominence in the 1980's, although early experiments date back 1720 in Ireland, 1800 in Germany and USA, and a few other countries. Today, it has been realized that Microfinance¹ is one of the sustainable tools to address poverty and promote micro-enterprises. Women empowerment has been the hallmark of microfinance intervention. Microfinance has largely been a non-profit private sector initiative that avoided becoming overtly political, and as a consequence, has outperformed virtually all other forms of development lending.

¹"Microfinance encompasses the management of small amounts of money through a range of products, and a system of intermediary functions that circulates money in an economy. Microfinance is small in value amounts targeted at low incomes clients. It includes finances, savings, insurance, transfer services and other financial products and services. Providers of microfinance include non-government organizations, self-help groups, cooperatives, credit unions, commercial and state Banks, insurance and credit card companies, wire services, post offices, and other points of sale." - UNCDF

Family Bank

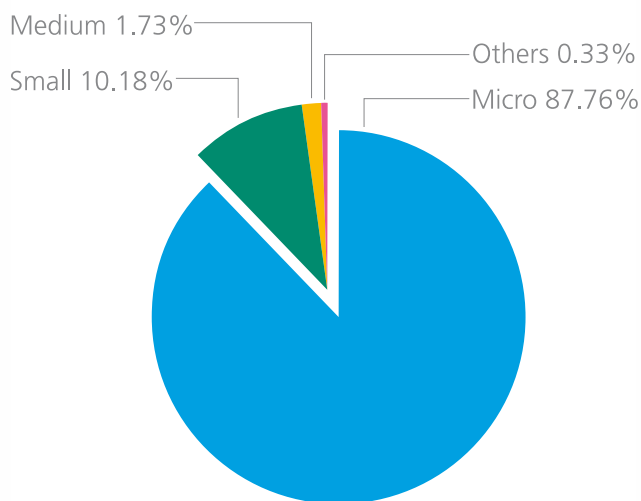
A pioneer social Bank in Bahrain

Bahrain is a country in transition, where the economic reforms have resulted in the rapid liberalization of domestic economy and improvement in the business environment. Statistics show that micro, small and medium enterprises represent a significant part of the Bahraini economy, provide jobs for nearly 73% of private sector employees of which, only 14% are Bahrainis.

Microfinance, which is a powerful tool for creating microenterprises and self-employment opportunities, was introduced in the Kingdom of Bahrain through a program launched jointly by the Government of Bahrain and UNDP in 1999. Three NGO's were selected to participate in the pilot microfinance project. Based on the excellent results done by these organizations, the Family Bank was established to increase and diversify the offer of microfinance services in Bahrain. The Bank finds its place as part of the Vision 2030 to support the Middle Class development as well as to complete the well established network of services and targets the SME's in Bahrain. Despite the financial difficulties caused by the past financial crisis, the booming economic status of Bahrain is creating the required atmosphere for the launch of Microfinance as there are a lot of opportunities that have yet to be tapped.

The primary target demography of the Family Bank will be needy families that receive various government aids and assistance. The Family Bank will provide them with Islamic microfinance (up to BD 7,000) to support income generating activities enabling them to prosper as productive members of a vibrant economy. The proposed target groups for the Family Bank are:

- Needy families receiving government welfare support;
- Needy families supported by charity organizations;
- Microenterprises registered under the "Productive Families" project in the MOSD;
- Youth, Women and handicapped individuals interested in establishing microenterprises;
- Owners of microenterprises in different economic sectors;



Core Values of Family Bank

Proposing a unique integrated services with Non-Financial Services Program

The Family Bank follows an integrated approach where innovative financing schemes are provided within a philosophy of being "supportive financing partner" with the following facilities:-

- 100% Shari'ah compliant microfinance services
- Collateral Free finance
- No legal or formal entity required
- Targeted Focus on the financially disadvantaged
- The Bank will go to the poor

As part of the Non-Financial Services Program which aims at empowering clients as well as their businesses through counseling, advisory services, participation in exhibitions and fairs, elaborate new business ideas, etc. the Bank through these programs contributes not only in reducing the risk of failure of its or clients but also in strengthening their potentials of success. All the non-financial services of this program are provided without any fees.

Fully Islamic Microfinance Programs

Islamic microfinance represents the confluence of two rapidly growing industries: microfinance and Islamic finance. It has the potential to not only respond to untapped demands but also to combine the Islamic social principle of caring for the less fortunate with microfinance's power to provide financial access to the needy.

The Family Bank's Islamic model of Microfinance presents a new paradigm of social enterprise in which profit and loss sharing replaces interest based financing which supports the Microfinance theory of aiding the poor. The Family Bank offers three Islamic Microfinance programs and a non-financial program for the establishment of micro and small enterprises. The Microfinance programs are designed in a fully Shari'ah compliant structure approved by the Family Bank Shari'ah Advisory Board. These programs vary from Mudharaba, Murabaha, and Murabaha by Tawarrouq.

Serving the families at their door steps

Since the Family Bank is targeting needy people all measures are taken to ensure the perfect accessibility of the services as well as to ensure maximum outreach for its clients. As result, door step services and facilitating finances from nearby centres are provided. The centre's location is determined based on the distance of the clients home and the nearest existing social centre.

Proposing compulsory Saving Scheme

In fulfillment of its vision and mission the Family Bank has introduced mandatory savings for the Grameen Group members as they are obliged to open a saving account of BD10/- and deposit minimum BD5/- every month with every installment. This method within the Grameen Program encourages members to save, manage funds wisely and depend on one's own self.

The Bank has a future outlook to further expand this into a

full fledged scheme that would support the clients and involve them in simple finance management.

Proposing compulsory Life Takaful Insurance

All human activities are subject to risk of loss from unforeseen events. To alleviate this burden to individuals, what is now called insurance has existed since at least 215 BC.

It originates from the Arabic word Kafalah, which means "guaranteeing each other" or "joint guarantee". The concept is in line with the principle of compensation and shared responsibilities among the community. In line with Family Bank credit policies but without burdening the customers the Bank has signed an agreement for a group credit life Takaful with Solidarity.

Solidarity Family Takaful is a Shari'ah compliant Takaful Operator that acts as a wakeel on behalf of the insured persons for a wakala fee paid by the Bank, upon the occurrence of the insured individual's or individuals' death or other event stopping him from work.

Lowest cost of financing in the region

In general, financing cost is the price of obtaining finance capital. Family Bank at present charges 1% per-month, which is equivalent to 12% per annum on all of its Islamic finance that include the Mudarabaha, Murabaha and Tawarrouq methods. No administrative or any other fees are incurred by the clients. This rate is considered the lowest in the microfinance industry worldwide.

Focus on women and youth

According to the State of the Microcredit Summit Campaign 2001 Report, 14.2 million of the world's poorest women now have access to financial services through specialized microfinance institutions (MFIs), Banks, NGOs, and other non-Bank financial institutions. These women account for nearly 74% of the 19.3 million of the world's poorest people now being served by microfinance institutions.

Family Bank is trying to focus on Bahraini women who are known to spend more of their income on their households; therefore, when women are helped to increase their incomes, the welfare of the whole family is improved. Bahrain has a 16.4% of youth among its population that amounts to 80,000 people. The Government has instituted many programs to develop the youth in fields like education, sports, employment, overall health and many more. But the youth do not have any specific programs to access to credit. Family Bank is trying to fulfill this need by developing attractive schemes which have been discussed with some youth NGO's who may be the main partners in reaching the targeted youth.

Focus on disabled & Economic Empowerment

To enable the disabled to become economically empowered the promotion of income generating activities, life-supporting skills training and entrepreneurship development training should be part of capacity building program for a sustainable household income generation. This is the reason why the

Family Bank focuses on a separate program to encourage these people to become active individuals in microenterprise development in Bahrain.

The Family Bank is also a member of the Economic Empowerment Team for the National Strategy for Persons with Disabilities in the Kingdom of Bahrain. This team comprises the Ministry of Social Development, UNDP and other concerned parties in both the private and public sectors and its aim is to empower disabled persons to work as normal employees and the right to have their work environment equipped according to their specific needs. The role of the Family Bank is to reduce unemployment by increasing the opportunities for the disabled to access the financial and non financial services from the Bank.

Leading Microentrepreneurship in Bahrain

Entrepreneurs coming from productive households and micro-projects (mostly informal) are unable to obtain finances and financial services particularly during their transformation into formal sector. Added to their complication is the need to have collaterals and guarantees to cover the finances.

The Family Bank was established to support this category of microentrepreneurs and provides its services as a leader in the Microentrepreneurship in Bahrain. The Bank aims at creating a successful and comprehensive model of support to productive families who are home-based which not only to encourage a bigger number of families on welfare to generate income activities but also to develop the "matured ones" to become successful SMEs.



Staff of Family Bank, Bahrain

The purposes for Family Bank microfinance

The Family Bank extends credit facilities exclusively for family members development purposes and this could be broadly described as follows:

- **Income Generating Activities (IGA):** Microfinance can be used to buy equipment, raw materials, and used as capital for various income generating activities.
- **Microenterprise development:** Microfinance can be used to accelerate the development of small and microenterprises and the shift of many of them from informal for formal.
- **Home Improvement:** Small finance can be used to renovate or repair rooms and houses of the clients enabling them to work from home to pursue their income generating activities.
- **Economic Asset Improvement:** Microfinance may be used to repair cars, taxis, improve store, and other activities that enhance the earning potentials of the client.
- **Skills Improvement:** Microfinance may be used to offset costs of education, training and other skills improvement initiative that will result in higher earning potential of the client.
- **Livelihood finance:** To meet the various social needs arising in the needy families from time to time.

Our Partners

The Bank was established through the partnership between the Ministry of Social Development and the following stakeholders

- Royal Charity Organization
- Ithmaar Bank
- Bank of Bahrain & Kuwait
- Ahli United Bank
- Kuwait Finance House

An agreement was signed with "Grameen Trust" one of the pioneering microfinance organizations recognized worldwide, to implement a microfinance Grameen model-based program as one of the main programs of the Bank. At present Grameen has replicated its model in 42 countries and more than 8 million borrowers in Bangladesh alone are receiving financial help. The Family Bank officially launched the Islamic microfinance program on 14 January 2010.

The year 2010... the year of establishment

The Family Bank's first goal is to foster the concept of engaging; government agencies, NGO's, the private sector, and international agencies directly and indirectly in the delivery of microfinance services as a strong pillar of the development of the micro entrepreneurship in Bahrain. The Family Bank is a non profit organization that provides innovative banking services for "unBankable" Bahrainis.



Inauguration ceremony

On behalf of His Majesty King Hamad Bin Isa Al Khalifa, royal charity organization board of trustees chairman Shaikh Nasser Bin Hamad Al Khalifa, with the presence of Nobel Laureate Prof Muhammad Yunus, officially opened the Family Bank during a ceremony held on January 14th 2010 at Gulf Hotel. Shaikh Nasser lauded the Ministry of Social Development's launching of the Bank as "a vital project aiming to uplift the social status and development of many Bahraini families".



Participation in "Made in My Home 2010" Exhibition

The Bahraini: productive families' project launched by the Ministry of Social Development (MOSD) aims at supporting and developing the projects of these families through proper training and financing, and through specialized services. Under the patronage of Her Royal Highness Princess Sabeeka bint Ibrahim Al Khalifa, wife of His Majesty and Chairwoman of Supreme Council for Women, a two-day "Made in My Home" exhibition was organized by the MOSD to encourage productive families to participate. Family Bank supported its customers by coordinating with MOSD to allow them to take part in the promotional event.



Visit of HE The Saudi Minister Of Social Development

Within the collaboration between the Ministries of Social Development in Bahrain and the Kingdom of Saudi Arabia, HE Dr. Yousif Alothaimeen, the Saudi Minister of Social Development, visited the Family Bank with a delegation from the ministry and other Saudi development organizations. The objective of the visit was to study the experience of the Bank in Islamic microfinance and to discuss the possibilities of establishing a future collaboration between the two institutions.



Participation in the Best Business plan competition 2010 for BTI Trainees

As the Family Bank has a clear objective of supporting innovation and creativity, the bank participated actively in the competition organized by Bahrain Training Institute (BTI) for the best business plan for the graduates of its programs. About 20 entrepreneurs participated in the competition and the most innovative ideas won the first three prizes. Family Bank sponsored the third prize.



Participation of clients in the MENA 100 Business plan competition: 2010

More than 130 entrepreneurial teams from 14 MENA economies participated in the MENA 100 Business Plan Competition. The competition represents the latest development in terms of entrepreneurship in the Arab World and is a special high level ceremony on entrepreneurship and SME development. Family Bank provided technical support for about 6 of its clients to fill the competition documents and to submit their applications through the competition's website. The Bank also participated in an exhibition organized in conjunction with the competition where the programs and services provided by the bank to its customers were highlighted.



Participation Career Expo

Career Expo 2010 is the only event in Bahrain recognized and supported by the Ministry of Education and the Ministry of Labour. The exhibition was held on 9th-11th November 2010 and its aim was to support jobseekers, vocational students, parents and the community, education and training to enable them to gain the most useful information towards career opportunities. The Bank took the opportunity to raise the awareness for entrepreneurship among students and parents. Visitors were also offered consultancy and guidance on how to start up, maintain or introduce new ideas for small businesses to market their products and how to get support from various entities.



Participation in the Female Job-Seekers' Training and Employment Expo (18-20 January' 2010)

HRH Princess Sabeeka bint Ibrahim Al Khalifa, Wife of His Majesty King and President of the Supreme Council for Women (SCW) patronized the opening ceremony of the Female Job-Seekers' Training and Employment Expo held on 18-20 January 2010. It was organized by the General Secretariat of the SCW in collaboration with the Ministry of Labour. The participation of the Family Bank in this event, which benefited from a large attendance by female job seekers, stressed the importance the bank gives in supporting women to effectively contribute in the implementation of social and economic development of Bahrain.



Participation in the Bahrain Small Medium Enterprise Day & Exhibition

Bahrain Small-Medium enterprises (BSME) society is an active partner of the Family Bank and organized the SME's Day and Exhibition on 11th November 2010. The Family Bank contributed a guest speaker for the forum. A booth was also dedicated to present the products and services of the bank for visitors and students. One of the Bank's customers who participated in the exhibition was nominated for a certificate of appreciation for the contribution of her business. Several of the Bank's customers were invited to take part in this one-day exhibition.



Participation in the Bahrain Animal Production Show 2010

The Bank participated in the Mara'ee show organized on 25-27th November 2010 for agricultural and animal production. The show was dedicated to the promotion of awareness of the importance of investing in vital economic sectors particularly those promoting useful ideas for micro-entrepreneurs.

The year 2010... the year of establishment (Continued)



Collaboration with Tamkeen initiative

In its effort to serve its clients and provide them the utmost advantages the Bank has signed an agreement for a collaboration with Tamkeen to achieve the objective of overall prosperity in Bahrain by providing self-employment through micro-enterprises financed by the Family Bank and supported by Tamkeen. Tamkeen's mission is to be the driver in promoting business growth by offering rewarding employment opportunities for Bahrainis to attain a prosperous life. Tamkeen aims to achieve this through investing in human capital, enabling enterprise growth and collaborating with key institutions such as the Family Bank which provides the necessary financing for Bahrainis to support their micro-enterprises. Tamkeen collaborates by subsidizing 50% of the rate of return on investment of the finances provided by the Bank to present cost-effective funds to the needy citizens to enable them to create small enterprises and therefore support self-employment.



Collaboration with Riffa Cultural Society

As part of support the Bank provides the MFI's in the Kingdom. A collaboration between the Bank and Riffa cultural Society was finalized through a Memorandum of Understanding whereby, the Society will act as service arm for the Bank's different programs in return for a minimum fee. The agreement marks the start of a mass development scheme for all small and medium MFI's in the Kingdom as the Bank intends to support these MFI through supporting their development.



Collaboration with Coca Cola to serve handicapped persons

An agreement was signed between Family Bank, Ministry of Social Development and Coca-Cola Bottling Co. in Bahrain to help entrepreneurial people with special needs to set up their own businesses selling soft drinks. In a unique initiative, the bank is teaming up with the MOSD and Coca-Cola Co. to provide individually customized 100 air-conditioned kiosks. The agreement aims to support people with special needs to allow them to unleash their abilities for establishing and managing small businesses.



Networking

In order to enlarge the network of partners who are actively working with the Bank, several visits, meetings and workshops were organized with national public services, universities and non-governmental organizations.

HRH President of the Supreme Council for Women (SCW) Meets the Board of Directors of Family Bank.

On Jan.14th 2010, HRH Princess Sabeeka Bint Ibrahim Al Khalifa, Wife of His Majesty the King and President of the Supreme Council for Women (SCW) received Her Excellency Dr. Fatima bint Mohammed Al Balooshi, Chairwoman of the Family Bank, and Professor Mohammed Younis besides board members of the Bank on the official inauguration of the Family Bank. HRH welcomed the foundation of the Family Bank which is blessed by His Majesty who always encourages successful initiatives that boost Bahraini family capabilities and avail big opportunities for limited income citizens to help them develop their skills to master cultural heritage professions and careers, and to improve and preserve them.

The Bank undertakes several activities with the following organizations

Universities:

- Bahrain University
- Kingdome University
- Ahliya University
- Royal Women University
- University College of Bahrain

Governorates:

- Southern Governorate
- Northern Governorate
- Alwassta Governorate



Non-governmental organizations, The Bank started to work closely with:

- Saar Charity Fund
- Maqaba Charity Fund
- The Country Girl Society
- Al Riffa Cultural Society
- Al Markh Charity Fund

The year 2010... the year of establishment (Continued)



Visits to Majilis in Bahrain

- Meeting with Shouter Majilis
- Meeting Abdel Hakim Al Shamari Majilis
- Meeting with some youth groups

Memorandum of Understanding

In line with its corporate strategy, the Family Bank has always aimed to strengthen the base of its operations with relevant organizations in the Kingdom. Family Bank has signed MOU's with the following organizations:

- Grameen Trust
- Tamkeen Initiative
- Solidarity Family Takaful Co.
- Coca Cola Co.
- Benefit Co.
- Al Riffa Cultural Society
- Bahrain Development Bank
- Eltezam Co.

The Bank also supports the youth by encouraging them to develop their own businesses within the university campus.

Microenterprise Tool Box -

This was a training program contracted with Talal Abu Ghazala Training Institute. It was designed to increase and strengthen the microenterprises from several aspects such as: business management, marketing skills, financial techniques and computational expertise in order to develop ideas to suit the needs and wants of the market. The Family Bank coordinated this training program with the Ministry of Social Development's productive families division and beneficiaries from the Royal Charity Organization, Southern Governorate and the Family Bank's Customers.

Staff Training and Empowering Programs

The Bank believes that human capital is the key element for success. This is the reason why the Bank adopted in 2010, a clear empowering strategy for the working team as the first step in its operation. Most of staff have gone through multiple level training programs either in BIBF, with Tamkeen or with Grameen Trust programs or abroad.

A specialized productivity enhancement program is currently being implemented by an international organization. An agreement between the Bank and Etkan Co has been signed to provide the Bank staff with a Productivity Enhancement Program.



Visit of the delegation from Small Business Administration in USA

Within the framework of the non-financial program networking efforts, the Bank received U.S. Small Business Administration (SBA) representatives. During the visit, SBA and the Family Bank discussed the potential of collaboration to develop some microentrepreneurship programs profiting from the long experience of the SBA in this filed. The SBA representatives congratulated the Bank for the adequacy and comprehensiveness of the programs that have been launched to help needy families in Bahrain.





Corporate **Governance**

Corporate Governance

Corporate Governance refers to the implementation of an appropriate system of directing and controlling the organization. A good system of corporate governance will facilitate the willing support (and therefore understanding) of all stakeholders, whilst facilitating the spirit of entrepreneurship and simultaneously protecting the interests of stakeholders. Corporate Governance assumes greater significance for large corporations as a result of the separation of management from shareholders.

Board Level Function

Name	Function
<p>Board of Directors (BOD)</p>	<p>Operations</p> <ul style="list-style-type: none"> • Include a balance of executive and non-executive board members (including independent non-executives) who offer a mix of financial, business, and personal skills appropriate to the needs of the organization and who have the time and energy necessary to meet their growing responsibilities • Have the independent board members meet informally (at least annually) without the presence of the CEO or other non-independent board members • Have access to appropriate training and independent professional advice on issues members deem necessary <p>Strategy</p> <ul style="list-style-type: none"> • Participate actively in strategy development • Review and challenge the strategy • Create a strategically adaptable organization that is able to respond quickly to changing market opportunities <p>Corporate Culture</p> <ul style="list-style-type: none"> • Foster openness with management on issues for which the board will ultimately be accountable • Support management's organizational code of conduct • Promote the use of appropriate incentives that make such codes meaningful <p>Monitoring and Evaluation</p> <ul style="list-style-type: none"> • Ensure that the organization complies with all relevant laws and regulations as well as with accounting, human resource, and other internal policies • Understand organizational risks and be informed routinely about how they are managed • Apply a rigorous process for evaluating the performance of the CEO

Name	Function
	<p><i>continue...</i></p> <p>Stewardship</p> <ul style="list-style-type: none"> • Uphold rigorous standards for individual member's preparedness, participation, and candor • Protect the organization and its stakeholders from the potential damage of conflicts of interest • Safeguard stakeholder's interests, in part by ensuring that communication with various stakeholders is thorough, timely, and transparent
<p>Executive Committee (EXCO)</p>	<ul style="list-style-type: none"> • Formulates and recommends to the Board of Directors medium and long term strategic directions for the Bank with the objective of continuously enhancing value to shareholders. • Establishes appropriate policies and procedures to ensure effective implementation of the above and to achieve maximum protection for the Bank's assets and future growth. • Ensures effective implementation of the Bank's short, medium and long term strategies and business objectives. • Represents the Board of Directors in the management team of the Bank and ensures clear understanding and effective compliance with the Board of Director's and other shareholders' directions and interest.
<p>Risk and Audit Committee (RAC)</p>	<p>Audit</p> <p>Reviewing the integrity of the Bank's financial reporting; overseeing the selection and compensation of the external auditor for appointment and approval at the shareholders' meeting; monitoring the external auditor's qualifications and independence; reviewing the activities and performance of the Bank's internal audit function; and reviewing the compliance by the Bank with legal and regulatory requirements including all relevant laws, regulations, codes and business practices;</p> <p>Risk</p> <p>Make recommendations to the Board in relation to the Bank's overall risk appetite and tolerances and the policies within which to manage the aforementioned. These policies are defined as credit risk, market risk, operational risk and liquidity risk in addition to any other risk categories the Bank faces in carrying out its activities. The Committee also recommends and monitors the Bank's overall risk management framework which involves developing across all business activities and operations policies, internal controls, methods of risk management, compliance procedures and methods of reporting to the Board.</p>

Shari'ah Supervisory Board and Key Management Committees

Name		Composition
Shari'ah Supervisory Board	<p>The Bank has formed a Shari'ah Supervisory Board consisting of 3 members who ensure that the operations of the Bank are in compliance with Shari'ah Principles. The Shari'ah Supervisory Board is assisted by a Shari'ah Compliance Officer.</p> <p>The Board is responsible for expanding the Shari'ah provisions with respect to the issues that are put forward before it and to control the activities of Family Bank pursuant to the provisions of Islamic Shari'ah. The committee carries out its activities in total independence.</p>	Members of the Committee are appointed by the Shareholders of the Bank.
Management Committee		
Management Committee	To review the overall performance of the functions of the Bank in line with the business plan and operating environment in order to achieve the Bank's objectives as set out by the Board and to permit actions required to achieve the business plan.	Members of the committee comprise Heads of Divisions who are drawn from relevant and related functions of the Bank.
Credit Committee	<p>To exercise authority in assessing and managing the credit risks of the business and ensuring the maintenance of a good quality risk asset portfolio in line with the Risk Appetite as agreed and monitored by the Board's Risk Committee.</p> <p>To monitor implementation of credit decisions in a manner so as to conform to credit policy as well as laws and regulations stipulated by the statutory authorities.</p>	
HR Committee	A. Interpret, implement, administer, review and Deliberates on matters concerning remuneration, succession planning of key personnel, performance evaluations, training and other staff related matters Review and approve for the CEO and all other executive officers of the Bank all employment agreements, consulting agreements, severance arrangements and changes in control agreements or provisions.	

Management Committee (continue)

B. In reviewing, setting and approving remuneration, the Committee shall consider whether such remuneration encourages recipients to undertake undue business risks, and endeavor to reasonably minimize setting goals or objectives, or approving other compensation, which encourage undue business risks.

C. The HR Committee, in consultation with the Chief Executive Officer, shall review succession planning relating to the Bank's Chief Executive Officer and other key members of the Bank's senior management.

D. Form and delegate authority to subcommittees as the HR Committee may deem appropriate.

E. Report regularly to the CEO, not less frequently than annually.

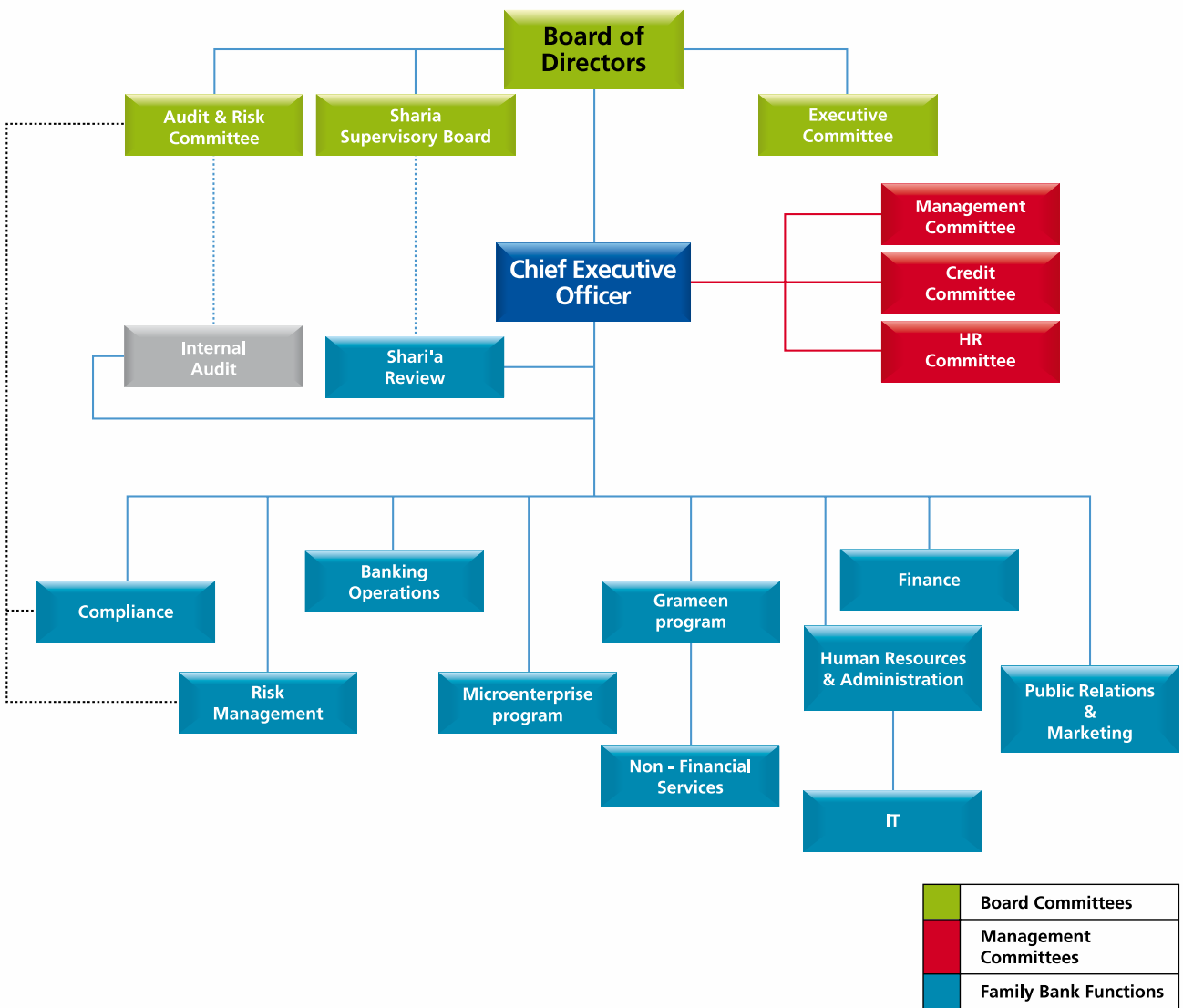
F. Review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for its approval. This Charter is in all respects subject and subordinate to the Bank's Certificate of Incorporation and By-laws and all applicable laws and as such documents may be amended from time to time.

G. Review annually its own performance, and report the results of such review to the Board.

H. Make Annual training Plan.

In addition to the activities described above, the HR Committee will perform such other functions as necessary or appropriate in its or the CEO's opinion under applicable law, the Bank's Certificate of Incorporation, By Laws and the resolutions and other directives of the CEO.

Organization Chart



	Board Committees
	Management Committees
	Family Bank Functions



Success **Stories**

Client Information: Amal Abud Alhassain
Marital Status: Married
Activity: Manufacture of spices, pickles
Amount of funding: two funds 2000 & 2000 BD

Amal did not have any other option but to depend on her disabled husband's salary to support her children and her orphaned brothers. The situation was made even worse as she usually received a reduced amount of his salary since her husband had chronic absenteeism problem and did not work during his illness. She felt she was being left alone in a continuous challenge in life. But since joining Family Bank's Grameen program, her life has changed for the better.



Amal met her neighbour, "Batool" who persuaded her to attend one of the sessions of the Family Bank training courses, which was organized in the Ministry of Social Development community. Amal became one of the early beneficiaries of the services of the bank which financed her to start making pickles and condiments. Amal's project took-off quickly through her untiring effort and she soon introduced and supplied her products to some nearby shops. Now she is linked to a network of retailers and even exports her products to neighbouring countries. She has even saved enough to buy a car for her husband and has also arranged marriages for her two orphaned brothers. In addition to this, she has also done some renovations to her house to have a separate area to produce pickles and condiments. Amal has applied for new finance from the Family Bank to build a plant on the third floor of her house for her pickles and condiments business and plans to turn it into a "home product" by recruiting some of her neighbors. She is also looking to provide a decent life for her disabled husband: she wants to get him a garage to open a small grocery shop to provide additional income for the family.

Amal frequently says "Thanks to God Almighty that offset the bitterness of the years. The bank provided flexible condition that unleashed my energy and...not only that, it encouraged participation in the Grameen program which enhanced social relations in my life through the link with members. If it was not for the group, I wouldn't have all the flexibilities with my friend and neighbor Batool who supported and guided me to establish the project with success. Also the supplies for the project such as packing cans were provided with minimum cost to members of the group."

Client Information: Jaafar Saaed Alwstti
Marital Status: Married
Activity: Selling car spare parts, open 24-hours
Amount of funding: two funds 1500 & 2000 BD

Jaafar has always had a dream to open a big spare parts shop. He achieved the first step in opening a small one. He approached the Family Bank to expand and improve his activity as he planned to buy more items for trade since his finances were not that good. He had looked for a financial institution that can provide capital with very flexible and special conditions. He faced a problem as he could not get funding from other banks. Jaafar's car spare parts shop was also having liquidity problems and he was unable to further develop his shop and get new supplies on a continuous basis.



Then he had the opportunity to join the Grameen program of Family Bank for training and getting microfinance. He soon managed to get finance for the purchase of equipment and spare parts in larger quantities to meet the needs of his customers.

Jaafar was able to expand his shop and his business in a very short time through the innovative financing provided by the Bank without guarantees and collaterals. The progress of sales in the shop has had an impact on Jaafar's life and has improved the standard of living of his family. After a short period of funding by the Family Bank, Jaafar managed to further develop and expand his business. Now he is planning to take a bigger step in the world of spare parts trading.

Client Information: Hanan Janhi

Marital Status: Married

Activity: Fashion Designer

Amount of funding: 4000 BD

Hanan has had long passion and special relationship with fashion designing. She did not spare any effort to make her ambition as success story.

This creative lady was seeking to promote her project and elevate the name of Bahraini Fashion in the World. She had the ambition to make her designs a milestone in fashion in various Arab and international shows. She came to the Family Bank to obtain funding to enable her to expand her showroom and to buy new equipment as well as necessary supplies. In 2010, in her persistent attempt to achieve her dream, she founded a modest house of couture called "White Treasury". This outfit helped her to excel and improve her designs which were inspired by her experience of having seen fashion trends around the world. Hanan knows that the world of fashion is a fast changing one and needs continuous renewals and someone who has capital, skill and a strong commitment.



With her desire to succeed, Hanan participated in the Family Bank's Grameen program and received the required funds to realize her dreams. Hanan said, "I did not regret the move which led the road to success and I encouraged my friends to get in touch with the Family Bank to benefit from the financial and non-financial services it offers." According to her, the participation in the Grameen program was a great support to promote social links as well to improve her living standards.

Client Information : Anwar Iahdan

Marital Status : Married

Activity : Driving instructor

Amount of funding : 4000 BD

Anwar is about fifty years old. He is affable and has a nice smile. He spent his life in the dedication of his family and the education of his sons. He grew up on self-esteem and perseverance to achieve his goal and after long struggle retired from his job. After retirement, he found he still had energy and he could continue working.



He decided to start a business. His first step to success was to obtain a Driving Instructor's License. Once he got it, he realized that he needed a car since the business he wanted to establish, which was a driving school, needed it. It was then that he joined the microenterprise financing program to get suitable financing to purchase a car to be used for training people how to drive. "Despite the financial difficulties I was facing and the accumulation of old financial obligations, I decided to start my business", Anwar said. The finance officials in the program were convinced that he was a diligent man who will achieve his goal of improving his livelihood which had deteriorated after his retirement and that he will be able to provide a better life for his family.

Indeed, this was what happened after he had received assistance from the Family Bank. Success has opened many doors for him and has lighted his path of hope. Anwar believes that life is full of opportunities that do not depend upon age or circumstances. He is determined to continue on this path and would not rest until he has proved to himself that he is a successful person. The Family Bank had allowed him a new beginning and understood his difficult circumstances since there was no possibility of receiving funding from any other bank for lack of guarantees and his financial obligations. Anwar is now recommending his friends to head to the Family Bank to realize their dreams.

Client Information: Fateen Ebrahim

Marital Status: Widow

Activity: Cafeteria

Amount of funding: 4000BD

The story of Fateen is unique in Bahrain. She is a widow with several kids in schools under her shelter. After the death of her husband her only available support for her life was the welfare assistance provided by the government.

She applied for welfare assistance and received it from the Ministry of Social Development. But she also had a dream to work on her own by starting a small business, but did not have the opportunity to do it. Although she received a monthly social assistance, she refused to live just on this as she believed in her capabilities.

She approached the Family Bank to check on the possibility of getting financial support for her project which was to open a restaurant and coffee shop although she knew that she might lose the government support if she opts for financial help. For the first time and with a special legal arrangement between welfare recipients and the Ministry of Social Development, Fateen signed-up to go on her own, taking the risk of being in private business and to change her status from "welfare recipient" to a businesswoman.

Fateen's unique experience will certainly inspire hundreds of ladies, widows and divorcees, who can also unleash their potentials and profit by becoming independent businesswomen.



Financial Highlights

2010: Top 5 items in order of Finance amount

Item	BD
Trade	224,041
Fishing	42,350
Manufacturing	42,841
Agriculture	3,000
Services	182,358

Governate wise comparative statement up to December 31st 2010

Governate	Male (BD)	Female (BD)	Total (BD)
Southern	31,500	-	31,500
Northern	47,638	63,200	110,838
Central	99,585	85,600	185,185
Capital	43,300	26,040	69,340
Muharraq	34,400	63,327	97,727

Family Bank year end update

Performance up to 31st December 2010

Item	Programs	
	Grameen	MEF
Number of Clients	232	53
Finance Disbursed (BD)	303,213	191,377
Finance Repaid (BD)	76,512	12,216
Repayment Rate	93%	58.5%
Percentage of Women Customers	57%	60%

Islamic transactions up to 31st December 2010

Islamic Product	Number of Clients		Finance Disbursed in BD	
	Grameen	MEF	Grameen	MEF
Murabaha	6	20	8,776	76,427
Mudaraba	199	9	254,900	26,000
Murabaha by Tawarrouq	27	24	39,537	88,950
Total	232	53	303,213	191,377

Financial Highlights

Sector wise disbursement up to 31st December 2010

Main Sectors in Grameen	Number of Clients		Finance Disbursed (BD)	
	Male	Female	Male	Female
Agriculture	-	-	-	-
Fishing	26	-	38,150	-
Manufacturing	04	15	7,638	23,800
Trade	68	104	106,901	106,640
Other Services	10	05	14,247	5,837
Total	108	124	166,936	136,277

Main Sectors in MEF	Number of Clients		Finance Disbursed (BD)	
	Male	Female	Male	Female
Agriculture	1	-	3,000	-
Fishing	-	1	-	4,200
Manufacturing	2	1	7,903	3,500
Trade	1	2	4,000	6,500
Other Services	17	28	69,584	92,690
Total	21	32	84,487	106,890

Return on Shareholders' Equity: (8.10)%

Return on Networth: (8.82)%

The Family Bank has put the relevant supervisory and control structures in place to ensure satisfactory management of risk within the Bank. With this in mind, the Bank has given priority to the development of an effective and practical risk management framework.

Credit risk

Credit risk is the risk to earnings or capital due to borrowers' late and non-payment of finance obligations. Credit risk encompasses both the loss of income resulting from the Family Bank's inability to collect anticipated interest earnings as well as the loss of principle resulting from finance defaults. Credit risk includes both transaction risk and portfolio risk.

Transaction risk

Transaction risk refers to the risk within individual finances. Family Bank mitigates transaction risks through borrower screening techniques, underwriting criteria, and quality procedures for finance disbursement, monitoring, and collection.

Portfolio risk

Portfolio risk refers to the risk inherent in the composition of the overall finance portfolio. Policies on diversification (avoiding concentration in a particular sector or area), maximum finance size, types of finances, and finance structures lessen the Family Bank's portfolio risk.

Market Risk

Market risk is the risk that changes in market parameters, such as profit rates, equity prices, foreign exchange rates and credit spreads, that will affect the Bank's income or the value of its holdings of financial instruments. Due to the nature of current Family Bank's activities, market risk is only limited to profit rate risk. Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of financial instruments. The Bank currently has limited exposure to profit rate risks as its financing to customers is under fixed profit rate contracts. The Bank's assets that are exposed to profit rate risk comprise of mudaraba financing with financial institutions that have repricing dates of no longer than 1 year.

Operational Risk

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events which includes but is not limited to legal risk and Shari'ah compliance risk. This definition excludes strategic and reputational risk.

The Bank's approach to operational risk includes emphasis on:

- Establishment of an effective governance structure with clear reporting lines and segregation of duties
- Maintenance of an effective internal control environment
- Escalation and resolution of risk and control incidents and issues.

All business units are primarily responsible for managing their business activities as per the approved policies and procedures. They are also responsible for the identification and assessment of operational risks and for maintaining appropriate internal controls.

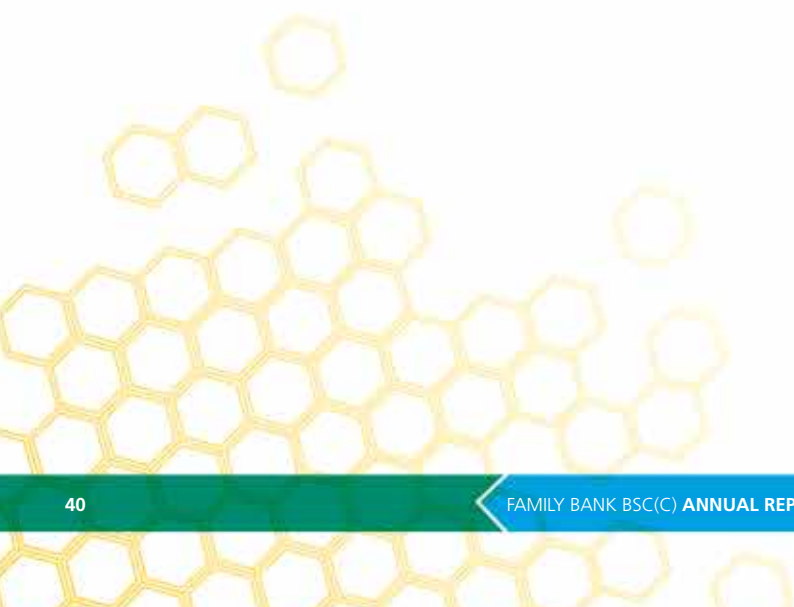
The Bank will be enhancing its operational risk framework to enable it to put in place a comprehensive risk and control self assessment process to identify the key risks in the business processes. This will also include a process of identifying and managing the key risk indicators, loss reporting set-up and implementing a robust business continuity plan.

Statement of Provisioning: The Bank being Islamic Microfinance Bank having no collateral securities from its customers, had provided 50% of its affected portfolio as of 31 December 2010.

Internal Controls and Communication

The Internal Audit function has been outsourced. The Internal Audit is carried out based on a Board Approved Risk Based Internal Audit Plan covering the Strategic, Governance and Operational activities of the Bank. Internal Audit tests the existing internal controls and submits a report to the Audit and Risk Committee.

The Bank follows properly the Public Disclosure Module of the CBB Rule Book, Volume II. The Bank conducts all communications with its stakeholders in a professional, honest, transparent, understandable, accurate and timely manner. The main communication channels include meetings, annual reports, and quarterly publications of financial results, a corporate website and regular announcements in the appropriate local media. Financial information covering the current year is available on the Bank's website.





Auditor's report & Audited **Financial Statements**

Shari'ah supervisory board report, report of the board of directors, independent auditors' report and financial statements ending 31 December 2010

In the Name of Allah, the Beneficent, the Merciful

Praise be to Allah, and peace and blessings be upon our Prophet, Mohammed, and upon his Family and Companions.

Subject: Shari'ah Report of Family Bank BSC (c) for the fiscal year ended 31 December 2010

To the shareholders of Family Bank BSC (c)

Asslam Alaikum Wa Rahmat Allah Wa Barakatuh

We have reviewed the principles and contracts relating to the transactions conducted by Family Bank BSC (c) ("the Bank") during the course of the fiscal year ending 31 December 2010.

The review was conducted in order to judge whether the Bank followed the principles of the Islamic Shari'ah, specific fatwas and guidelines issued by us.

The Bank's Management is responsible for ensuring that its operations are carried out in compliance with principles of the Islamic Shari'ah, specific fatwas and guidelines issued by us.

Our responsibility is to present an independent view of the Bank's operations and to communicate it to the shareholders.

We have established controls, which include the examination of documentation and procedures of the Bank by testing all types of transactions, directly or through the Shari'ah Function of the Bank.

The review was planned and performed so as to obtain all necessary information and explanations to provide sufficient evidence proving that the Bank has not violated the rules and principles of Islamic Shari'ah;

In our opinion:

- 1- Contracts, operations and transactions executed by the Bank during and until the end of the fiscal year 31 December 2010 were in accordance with the provisions and principles of Shari'ah Islamic law, with the exception of the following:

The Department of Micro Enterprise Finance:

The Department commenced by executing Mudharaba contracts and subsequently introduced commodity Murabaha and Murabaha financing contracts. A total of nine Mudharaba contracts were executed during the fiscal year ended 31 December 2010. However, the execution of the contracts did not adhere to the terms therein as it did not claim the profit ratio agreed in the contract based on the actual net profit achieved by the Client, indicating a clear violation of the legitimacy.

- 2- Earnings have not been realized from sources that are non-Shari'ah compliant.
- 3- The Bank is not empowered to deduct the Zakat on shareholders, and the responsibility for deducting the Zakat is that of the shareholders according to the account of the Zakat-based legitimacy
- 4- The Zakat due is BHD 0.0023/- per share.

We ask God Almighty to bring us righteousness and payment

May peace and God's mercy and blessings be upon you

XXXX(Islamic Calendar date)

28/3/2011

Place : Kingdom Of Bahrain



P.O. Box 110
1481 Fozh - The Towers
Bahrain Commercial Complex
Manama, Kingdom of Bahrain
Tel: +973 (773) 5425 Fax: +973 (773) 3405
ernstyoung@by.com.bh
www.ey.com/bhr
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INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF FAMILY Bank B.S.C. (c)

We have audited the accompanying statement of financial position of Family Bank B.S.C. (c) ["the Bank"] as of 31 December 2010, and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements and the Bank's undertaking to operate in accordance with Islamic Shari'ah Rules and Principles are the responsibility of the Bank's Board of Directors. 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 issued by the Accounting and Auditing Organization for Islamic Financial Institutions ["AAOIFI"]. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2010, the results of its operations, its cash flows and changes in equity for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

Other Matters

We confirm that, in our opinion, proper accounting records have been kept by the Bank and the financial statements, and the contents of the Report of the Board of Directors relating to these financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the Central Bank of Bahrain and Financial Institutions Law, nor of the memorandum and articles of association of the Bank, have occurred during the year ended 31 December 2010 that might have had a material adverse effect on the business of the Bank or on its financial position and that the Bank has complied with the terms of its Banking license and has also complied with the Islamic Shari'ah Rules and Principles as determined by the Shari'ah Supervisory Board of the Bank.

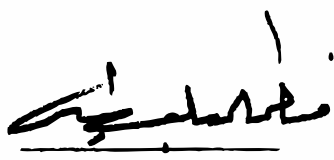
A stylized, handwritten signature of "Ernst & Young" in black ink.

7 March, 2011
Manama, Kingdom of Bahrain

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	BD
ASSETS		
Cash and balances with Banks	3	54,430
Mudaraba financing	4	2,941,065
Murabaha receivables	5	1,602,920
Equipments, furniture & fixtures	6	136,011
Other assets		3,973
TOTAL ASSETS		4,738,399
LIABILITY AND EQUITY		
Accounts payable		143,499
Equity		
Share capital	7	5,000,000
Accumulated losses		(405,100)
Total equity		4,594,900
TOTAL LIABILITY AND EQUITY		4,738,399



Dr. Fatima Bint Mohamed Al Balooshi
Chairperson



Khalid Al Maarafi
Director

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	BD
Income from mudaraba		231,589
Income from murabaha		29,650
Total income		261,239
Staff cost		347,348
General and administrative expenses	9	152,566
Depreciation	6	32,336
Pre-incorporation expenses	8	64,048
Total expenses		596,298
Net loss for the year before provision		(335,059)
Provision		(70,041)
NET LOSS FOR THE YEAR		(405,100)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	BD
OPERATING ACTIVITIES		
Net loss for the year		(405,100)
Adjustment for:		
Depreciation	6	32,336
Provision for indemnity		9,800
Provision		70,041
Operating loss before changes in operating assets and liabilities		(292,923)
Changes in operating assets and liabilities:		
Mudaraba financing	4	(2,983,926)
Murabaha receivables	5	(1,630,100)
Other assets		(3,973)
Accounts payable		133,699
Net cash used in operating activities		(4,777,223)
INVESTING ACTIVITY		
Purchase of equipments, furniture & fixtures and net cash used in investing activity	6	(168,347)
FINANCING ACTIVITY		
Issue of share capital and net cash from financing activity	7	5,000,000
INCREASE IN CASH AND CASH EQUIVALENTS		54,430
Cash and cash equivalents at 1 January		-
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	3	54,430

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Share capital	Accumulated losses	Total equity
	BD	BD	BD
Issue of share capital	5,000,000	-	5,000,000
Loss for the year	-	(405,100)	(405,100)
Balance at 31 December 2010	5,000,000	(405,100)	4,594,900

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

1 INCORPORATION AND ACTIVITIES

Family Bank B.S.C (c) (the "Bank") was incorporated on 5th October 2009, under commercial registration number 72929 as a Bahraini Joint Stock Company (closed). The Bank's registered office is Flat/shop 8, Building 16, Road 4101, Block 341, Jufair, Kingdom of Bahrain. The Bank operates under an Islamic Retail Banking Licence issued by the Central Bank of Bahrain ("CBB"). The Bank formally started its operations from 1 January 2010.

The principal activities of the Bank include providing microfinance finances, open trust accounts for the beneficiaries of the microfinance finances, taking funds from financial institutions and engaging in any other activities that are agreed on a case-by-case basis with CBB and services that are in conformity with Islamic Shari'ah.

The financial statements were authorised for issue in accordance with a resolution of the Board of Directors on ...7 March 2011.

The financial statements cover the year ended 31 December 2010. This being the first year, comparative information is not applicable.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These 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"] and in conformity with the Bahrain Commercial Companies Law ["BCCL"], the Central Bank of Bahrain and Financial Institutions Law. In accordance with the requirement of AAOIFI, for matters for which no AAOIFI standards exist, the Bank uses the relevant International Financial Reporting Standards ["IFRS"] issued by the International Accounting Standards Board ["IASB"].

2.2 Accounting Convention

The financial statements have been prepared under the historical cost convention.

The financial statements have been presented in Bahraini Dinar ["BD"], being the functional currency of the Bank.

The significant accounting policies adopted in the preparation of financial statements are set out below:

2.3 Significant accounting judgments and estimates

The application of the accounting policies requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The most significant judgments and estimates are discussed below:

Going concern

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Impairment of financial assets

The Bank assesses at each statement of financial position date whether there is objective evidence that a specific asset or a group of assets may be impaired. An asset or a group of assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event(s) have an impact on the estimated future cash flows of the asset or the group of the assets that can be reliably estimated.

2.5 Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with Banks with original maturities of less than ninety days.

2.6 Mudaraba financing

Mudaraba financing is a partnership in which the Bank contributes capital. These contracts are stated at the fair value of consideration given less impairment.

Income on mudaraba financing is recognised when the right to receive payment is established or on distribution by the mudarib, whereas losses are charged to income on declaration by the mudarib.

2.7 Murabaha receivables

Murabaha receivables consist of deferred sales transactions and are stated net of deferred profits and provisions for impairment.

Profit from murabaha is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on time-apportioned basis over the period of the transaction. Where the income from a contract is not contractually determinable or quantifiable, it is recognised when the realization is reasonably certain or when actually realized.

2.8 Equipments, furniture & fixtures

Equipments, furniture & fixtures are initially recognised at cost and subsequently stated at cost less accumulated depreciation and accumulated impairment. The cost of additions and major improvements are capitalized; maintenance and repairs are charged to the statement of income as incurred. Depreciation is provided on the straight line basis at rates intended to write-off the cost of the assets over their estimated useful life.

The estimated useful lives of the assets for the calculation of depreciation are as follows:

Equipment	5 years
Furniture & fixtures	3-5 years

2.9 Employees' end of service benefits

The Bank provides end of service benefits to its employees in accordance with the requirement of Bahrain Labor Law. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its employees who are Bahraini nationals, the Bank makes contributions to the General Organization for Social Insurance calculated as a percentage of the employees' salaries in accordance with the relevant regulation. The Bank's obligations are limited to these contributions, which are expensed when due.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Earnings prohibited by Shari'ah

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

2.11 Derecognition of financial instruments

Financial instruments consist of cash and balances with Banks, mudaraba financing and murabaha receivables.

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

- (i) the right to receive cash flows from the asset has expired;
- (ii) the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a «pass through» arrangement; or
- (iii) the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.12 Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

2.13 Offsetting financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the statement of financial position, if and only if there is a legally enforceable or religious right (as determined by Shari'ah) to set off the recognised amounts and the Bank intends to settle on a net basis.

2.14 Zakat

The responsibility of payment of zakat is on individual shareholders of the Bank.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

3 CASH AND BALANCES WITH Banks

	31 December 2010
	BD
Cash in hand	551
Balances with Banks	53,879
	54,430

4 MUDARABA FINANCING

	31 December 2010
	BD
Mudaraba financing with financial institution	2,777,631
Mudaraba financing with customers	206,295
	2,983,926
Provision	(42,861)
	2,941,065

5 MURABAHA RECEIVABLES

	31 December 2010
	BD
Murabaha with financial institution	1,423,100
Murabaha financing with customers	207,000
	1,630,100
Provision	(27,180)
	1,602,920

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

6 EQUIPMENT, FURNITURE & FIXTURES

	Equipments BD	Furniture & fixtures BD	Total BD
Cost:			
At 1 January 2010	-	-	-
Additions	62,469	105,878	168,347
At 31 December 2010	62,469	105,878	168,347
Depreciation and impairment:			
At 1 January 2010	-	-	-
Charge for the year	12,993	19,343	32,336
At 31 December 2010	12,993	19,343	32,336
Net carrying values:			
At 31 December 2010	49,476	86,535	136,011

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

7 SHARE CAPITAL

	31 December 2010
	BD
Authorized :	
150,000,000 ordinary shares of BD 0.1 each	15,000,000
Issued and fully paid up :	
50,000,000 ordinary shares of BD 0.1 each	5,000,000

Statutory reserve

In accordance with the Bahrain Commercial Companies' Law and the Bank's articles of association, 10% of the net profit for the year is transferred to the statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital. This reserve is not distributable, but can be utilized as security for the purpose of distribution in such circumstances as stipulated in the BCCL and other applicable statutory regulations. No transfers are required when the Bank makes a loss.

Shareholders

Shareholders of the Bank as at 31 December 2010 were as follows:

Name	Nationality	Share#	Share%
Ahli United Bank B.S.C.	Bahraini	6000000	12
Bank Of Bahrain And Kuwait	Bahraini	5000000	10
Kuwait Finance House (Bahrain) B.S.C.(c)	Bahraini	3800000	7.60
Ithmaar Bank B.S.C.	Bahraini	5000000	10
Ministry Of Social Development	Bahraini	15200000	30.40
Royal Charity Organization	Bahraini	15000000	30

8 PRE-INCORPORATION EXPENSES

	31 December 2010
	BD
Staff cost	42,041
Rental expenses	17,225
Others	4,782
	64,048

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

9 GENERAL AND ADMINISTRATIVE EXPENSES

	31 December 2010
	BD
Lease Rentals	22,047
Professional Fee	8,154
Audit Fee	13,700
Security Charges	20,085
Marketing & Promotional	18,365
Shari'ah Advisory fee	16,368
Inaguration Expenses	9,119
Membership Fee	9,074
Utilities	8,201
Communication	7,046
Training	6,149
Grameen Trust Institutional Charges	3,775
Others	10,483
	152,566

Professional fees paid to the External Auditors are classified as Audit fees and refer to fees paid to for the statutory audit and CBB review requirements. No other fees were paid to the External Auditors.

Family Bank had not cleaned up erroneously opened accounts in the Bahrain Credit Reference Bureau Records System and paid a penalty of BD550 for 11 un-cleaned accounts to the CBB.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

10 RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders and related companies.

The significant balances with related parties were as follows:

	31 December 2010
	BD
ASSETS	
Balances with Banks	53,879
Mudaraba financing	2,777,631
Murabaha receivables	1,423,100
	4,254,610
LIABILITIES	
Accounts payable	57,885

The transactions with the related parties included in the statement of income are as follows:

	31 December 2010
	BD
Income	
Income from mudaraba	218,715
Income from murabaha	23,10
	241,815

Key management personnel are those that possess significant decision-making and direction-setting responsibilities in each team, at different grades with the Bank. Compensation of these key management personnel is as follows:

	31 December 2010
	BD
Salaries	146,529
Other benefits	18,209
	164,738

The Directors have opted not to be remunerated for their services due to the non-profit nature of Family Bank's operations.

The Chief Executive Officer and senior managers are compensated in line with the market trends and performance linked bonus is paid on the basis of their individual performance which is evaluated at the end of the year.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

11 CAPITAL MANAGEMENT

The Bank follows the CBB guidelines for capital requirements and maintains sufficient capital to ensure compliance with the minimum capital requirements.

The Bank's regulatory capital is analyzed in two tiers as per CBB guidelines and includes:

- Tier 1: Core capital - This includes issued and fully paid ordinary shares, statutory reserve, retained earnings and unrealized gains on trading investments (45% of the value); and
- Tier 2: Supplementary Capital – current retained profits, asset revaluation reserves and unrealized gains arising from fair valuing equities (45% of the value).

The risk weighted assets are determined according to CBB guidelines that seek to reflect the varying levels of risk attached to assets. The Bank's policy is to maintain a capital adequacy ratio [«CAR»], at all times, in excess of the minimum required by CBB. The current requirement for the Bank is 8%.

The Bank has adopted the Standardized Approaches to credit risk and Basic Indicator Approach to operational risk management under the revised framework.

The Bank's regulatory capital position at 31 December was as follows:

	2010
	Basel II
Total risk weighted assets (a)	1,825
Total regulatory capital, net of deductions (b)	4,595
Capital adequacy ratio (b/a x 100)	252%

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

12 SHARI’AH SUPERVISORY BOARD

The Bank’s Shari’ah Supervisory Board consists of three scholars who review the Bank’s compliance with general Shari’ah principles and specific fatwa’s, rulings and guidelines issued. Their review includes examination of the documentation and procedures adopted by the Bank to ensure that its activities are conducted in accordance with Shari’ah principles.

13 RISK MANAGEMENT

The Bank is exposed to the credit risk and liquidity risk during the course of its business along with other operational risks.

The Bank’s Board of Directors has the overall responsibility for the establishment and oversight of the Bank’s risk management framework. The Board has established an Executive Committee, which is responsible for developing and monitoring the Bank’s operations and policies across various functions including the risk management policies. The Executive Committee consists of three non-executive directors of the Bank along with the Chief Executive Officer [“CEO”] as an attendee. The Executive Committee reviews and approves the CEO’s recommendations for investment strategies, investment proposals, various products and services and where deemed necessary, also refers decisions to the Board of Directors.

The Bank’s Audit Committee is responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by outsourced Internal Audit function.

Credit Risk

Credit risk is the risk that a counterparty to a financial transaction does not discharge its obligations on due dates and causes the other party to incur a financial loss.

The Bank’s credit risk arises mainly from cash and balances with Banks, mudaraba financing and murabaha receivables.

The Bank manages its credit risk on cash and balances with Banks by placing funds with reputable Banks having good credit ratings.

The Bank’s maximum exposure to credit risk at 31 December was as follows:

	2010
	BD
Balances with Banks	53,879
Mudaraba financing	2,941,065
Murabaha receivables	1,602,920
MAXIMUM EXPOSURE TO CREDIT RISK	4,597,864

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

ANALYSIS OF Bank's EXPOSURE TO CREDIT RISK

	2010			
	Balances with Banks	Mudaraba financing	Murabaha receivables	Total
	BD	BD	BD	BD
Neither Past Due Nor Impaired	53,879	2,898,205	1,575,740	4,527,824
Individually Impaired				
Gross amount		85,721	54,360	140,081
Provision	-	(42,861)	(27,180)	(70,041)
Net	-	42,860	27,180	70,040
TOTAL EXPOSURE TO CREDIT RISK	53,879	2,941,065	1,602,920	4,597,864

Concentration Risk

The Bank's assets and liabilities are distributed over the following industry sectors and geographical areas:

	2010		
	Banks and financial institutions	Others	Total
	BD	BD	BD
Assets			
Balances with Banks	53,879	-	53,879
Mudaraba financing	2,777,631	163,434	2,941,065
Murabaha receivables	1,423,100	179,820	1,602,920
Total assets	4,254,610	343,254	4,597,864
Liabilities			
Accounts payable	-	143,499	143,499
TOTAL LIABILITIES	-	143,499	143,499

Geographical Concentration

Assets and liabilities of the Bank as at 31 December 2010 are primarily concentrated in the Middle East region.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

13. RISK MANAGEMENT (continued)**Maturity Profile**

The table below summarizes the maturity profile of the Bank's financial assets and liabilities based on contractual cash flows. The other balances have been presented based on expected cash flows:

	Up to 1 month BD	1 to 3 months BD	3 months to 1 year BD
Assets			
Cash and balances with Banks	54,430	-	-
Mudaraba financing	-	-	2,941,065
Murabaha receivables	1,423,100	-	-
Equipments, furniture & fixtures	-	-	-
Other assets	-	-	3,973
Total assets	1,477,530	-	2,945,038
Liabilities			
Accounts payable	75,522	67,977	-
Total liabilities	75,522	67,977	-
Cumulative Liquidity Gap	1,402,008	1,334,031	4,279,069

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of financial instruments. The Bank currently has limited exposure to profit rate risk as its financing to customers is under fixed profit rate contracts. The Bank's assets that are exposed to profit rate risk comprise of mudaraba financing with financial institutions that have repricing dates of no longer than 1 year. During 2010 a +/- 0.25% change in profit rate with all other variables constant would have resulted in a +/- BD 46,545 impact on the statement of income

2010					
Within 1 year BD	1 to 3 years BD	Over 3 years BD	No fixed maturity BD	Total BD	
54,430	-	-	-	54,430	
2,941,065	-	-	-	2,941,065	
1,423,100	179,820	-	-	1,602,920	
-	-	-	136,011	136,011	
3,973	-	-	-	3,973	
4,422,568	179,820	-	136,011	4,738,399	
143,499	-	-	-	143,499	
143,499	-	-	-	143,499	
4,279,069	4,458,889	4,458,889	4,594,900		

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

13. RISK MANAGEMENT (continued)

Operational Risk

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events which includes but is not limited to legal risk and Shari'a compliance risk. This definition excludes strategic and reputational risk.

14. SEGMENTAL INFORMATION

The Bank operates solely in the Kingdom of Bahrain and hence no geographic segment information has been presented.