

Family Bank B.S.C. (c)
**SHARI'A SUPERVISORY BOARD REPORT,
REPORT OF THE BOARD OF DIRECTORS,
INDEPENDENT AUDITORS' REPORT AND
FINANCIAL STATEMENTS**

31 DECEMBER 2011

بسم الله الرحمن الرحيم

الحمد لله رب العلمين، والصلاة والسلام على رسوله الأمين، نبينا محمد وعلى آله وصحبه أجمعين...

الموضوع: تقرير هيئة الرقابة الشرعية عن السنة المالية المنتهية 2011م

إلى مساهمي بنك الأسرة
السلام عليكم ورحمة الله وبركاته،،

لقد راقبنا المبادئ المستخدمة والعقود المتعلقة بالمعاملات والتطبيقات التي طرحها بنك الأسرة ش. م. ب (البنك) خلال وحتى نهاية ديسمبر 2011م. لقد قمنا بالمراقبة الواجبة لإبداء رأينا عما إذا كان البنك التزم بأحكام ومبادئ الشريعة الإسلامية وكذلك بالفتاوى والقرارات والإرشادات المحددة التي تم إصدارها من قبلنا.

تقع مسؤولية التأكد من أن البنك يعمل وفقاً لأحكام ومبادئ الشريعة الإسلامية على الإدارة. أما مسؤوليتنا فتنحصر في إبداء رأي مستقل بناءً على مراقبتنا لعمليات البنك، وفي إعداد تقرير لكم.

لقد قمنا بالمراقبة التي اشتملت على فحص التوثيق والإجراءات المتبعة من البنك على أساس اختبار كل نوع من أنواع العمليات، وذلك مباشرة أو عن طريق إدارة الرقابة الشرعية الداخلية للبنك.

كما قمنا بالتخطيط والمراقبة من أجل الحصول على جميع المعلومات والتفسيرات التي اعتبرناها ضرورية لتزويدنا بأدلة تكفي لإعطاء تأكيد معقول بأن البنك لم يخالف أحكام ومبادئ الشريعة الإسلامية.

١٨/٤/١٤٣٢ هـ
١٨/٤/٢٠١١ م

١٨/٤/١٤٣٢ هـ
١٨/٤/٢٠١١ م

في رأينا

- 1- أن العقود والعمليات والمعاملات التي أبرمها البنك خلال وحتى نهاية السنة المالية 2011م تمت وفقا لأحكام الشريعة الإسلامية.
- 2- أننا لم نسجل وجود أي من المكاسب غير المقصودة والتي تتحقق من مصادر أو طرق تحرمها أحكام ومبادئ الشريعة الإسلامية خلال وحتى نهاية السنة المالية 2011م.
- 3- أن الإدارة ليست محولة بإخراج الزكاة عن المساهمين وتقع مسؤولية إخراجها عليهم طبقا لحساب الزكاة المعتمد من الهيئة الشرعية.
- 4- حسبت الهيئة الشرعية مقدار الزكاة الواجبة وقدرته بواقع 0.0020 دينار للسهم الواحد.

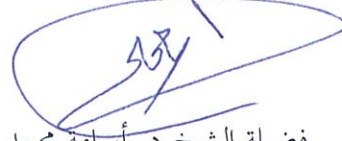
نسأل الله العلي القدير أن يحقق لنا الرشاد والسداد
والسلام عليكم ورحمة الله وبركاته

التاريخ: 08 / 04 / 1433 هـ . 2012/03/01 م.

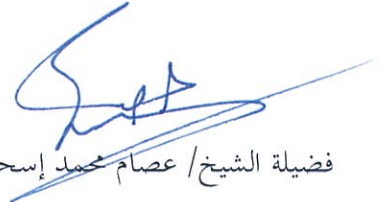
المكان: مملكة البحرين



د. محمد ولد محمد غلام
عضو الهيئة



فضيلة الشيخ د. أسامة محمد بجر
عضو الهيئة



فضيلة الشيخ / عصام محمد إسحق
رئيس هيئة الرقابة الشرعية

REPORT OF THE BOARD OF DIRECTORS

for the year ended 31 December 2011

All amounts expressed in Bahraini Dinars unless otherwise stated

In the name of Allah, the Beneficent, the Merciful, Prayers and Peace upon the Last Apostle and Messenger, Our Prophet Mohammed.

Dear Shareholders,

The Board of Directors is pleased to submit its report, together with the financial statements of Family Bank B.S.C. (c) (“the Bank”), for the year ended 31 December 2011.

Principal Activities

The Bank was established in the Kingdom of Bahrain on 5th October 2009, under commercial registration number 72929, as a Bahrain Joint Stock Company (closed). The Bank operates under an Islamic Retail Banking License issued by the Central Bank of Bahrain (the “CBB”). The Bank commenced commercial operations on 1st January 2010. The principal activities of the Bank include providing microfinance, opening trust accounts for beneficiaries, taking funds from financial institutions and engaging in any other activities, which are agreed on a case-by-case basis with the CBB, and other services that conform to the Islamic Shari’a.

In 2011, the Bank continued to disburse finances under Grameen and Microenterprise Finance. The Bank also offered non-financial services to its customers by providing advice, marketing support and training. These principal activities conformed to the Islamic Shari’a and were performed with guidance from the Bank’s Shari’a Advisory Board.

Financial Position and Results

The detailed financial position of the Bank at 31 December 2011, and the results for the year then ended, are set out in the accompanying financial statements.

Financial highlights	2011	2010
Total assets	4,193,215	4,738,399
Total equity	4,075,324	4,594,900
Loss for the year	(519,576)	(405,100)

Movement in accumulated deficit	2011	2010
Balance at 1 January	(405,100)	Nil
Loss for the period	(519,576)	(405,100)
Balance at 31 December	(924,676)	(405,100)

Dividends

The Board of Directors has not made any appropriations for dividends for the year ended 31 December 2011 (2010: Nil).

Directors and Management

The following served on the Bank's Board of Directors during the year ended 31 December 2011:

<u>Name</u>	<u>Title</u>
H.E. Dr. Fatima Al Balooshi	Chairperson
Dr. Mustafa Ali Al Sayed	Member
Mr. Ahmed Abdul Rahim	Member
Mr. Rashad Akbari	Member
Mrs. Sawsan Abualhasan	Member
Mr. Khalid Al Maarafi	Member
Prof. H Latifee	Member

Auditors

Ernst & Young have expressed their willingness to continue in office and a resolution proposing their appointment, as auditors of the Bank for the year ending 31 December 2012; will be submitted to the Annual General Meeting.

Appreciation

We 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, and to His Royal Highness Prince Salman Bin Hamad Al Khalifa, the Crown Prince and Deputy Supreme Commander of the Bahrain Defence Force, as well as to the Government of the Kingdom of Bahrain, to the Minister of Industry and Commerce and to the CBB.

We also express our gratitude to the Shari'a Supervisory Board for their support and valuable guidance, to our shareholders and to our executives and employees for their support in adding value to the Bank.

H.E. Dr. Fatima Al Balooshi
Chairperson

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS 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 2011, and the related statements of income, cash flows and changes in owners' equity for the year then ended. These financial statements and the Bank's undertaking to operate in accordance with Islamic Shari'a 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 Organisation 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 2011, the results of its operations, its cash flows and changes in owners' equity for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
FAMILY BANK B.S.C. (c) (continued)**

Other Matters

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 2), we report that:

- a) the Bank has maintained proper accounting records and the financial statements are in agreement therewith; and
- b) the financial information contained in the Report of the Board of Directors is consistent with the financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2011 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive script.

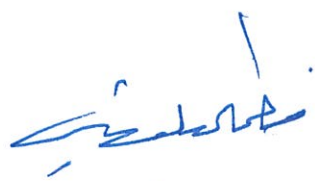
22 March 2012
Manama, Kingdom of Bahrain

Family Bank B.S.C. (c)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 BD	2010 BD
ASSETS			
Cash and balances with banks	4	166,151	54,430
Mudaraba	5	3,296,706	2,941,065
Murabaha receivables	6	518,671	1,602,920
Equipments, furniture and fixtures	8	205,912	136,011
Other assets		5,775	3,973
TOTAL ASSETS		4,193,215	4,738,399
LIABILITY AND OWNERS' EQUITY			
Accounts payable		117,891	143,499
Owners' Equity			
Share capital	9	5,000,000	5,000,000
Accumulated losses		(924,676)	(405,100)
Total owners' equity		4,075,324	4,594,900
TOTAL LIABILITY AND OWNERS' EQUITY		4,193,215	4,738,399



Dr. Fatima Bint
Mohamed Al Balooshi
Chairperson



Khalid Al Maarafi
Director

The attached notes 1 to 19 form part of these financial statements.

Family Bank B.S.C. (c)

STATEMENT OF INCOME

For the year ended 31 December 2011

	<i>Notes</i>	2011 BD	2010 BD
Income from mudaraba		147,904	231,589
Income from murabaha receivables		78,093	29,650
Total income		225,997	261,239
Staff cost		423,430	347,348
General and administrative expenses	11	161,398	152,566
Depreciation	8	47,421	32,336
Pre-incorporation expenses	10	-	64,048
Total expenses		632,249	596,298
Net loss before provisions		(406,252)	(335,059)
Provisions	7	(113,324)	(70,041)
NET LOSS FOR THE YEAR		(519,576)	(405,100)

The attached notes 1 to 19 form part of these financial statements.

Family Bank B.S.C. (c)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	<i>Notes</i>	2011 BD	2010 BD
OPERATING ACTIVITIES			
Net loss for the year		(519,576)	(405,100)
Adjustment for non-cash items:			
Depreciation	8	47,421	32,336
Provision for indemnity		11,662	9,800
Provisions	7	113,324	70,041
Operating loss before changes in operating assets and liabilities		(347,169)	(292,923)
Working capital adjustments:			
Mudaraba		675,296	(2,983,926)
Murabaha receivables		1,004,094	(1,630,100)
Other assets		(1,802)	(3,973)
Accounts payable		(37,270)	133,699
Net cash from (used in) operating activities		1,293,149	(4,777,223)
INVESTING ACTIVITY			
Purchase of equipments, furniture and fixtures and net cash used in investing activity	8	(117,322)	(168,347)
FINANCING ACTIVITY			
Proceeds from the issue of share capital and net cash from financing activity	9	-	5,000,000
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,175,827	54,430
Cash and cash equivalents at 1 January		54,430	-
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		1,230,257	54,430

CASH AND CASH EQUIVALENTS COMPRISES

	2011 BD	2010 BD
Cash in hand	317	551
Balances with banks	165,834	53,879
Mudaraba with financial institution with original maturity of less than 90 days	1,064,106	-
	1,230,257	54,430

The attached notes 1 to 19 form part of these financial statements.

Family Bank B.S.C. (c)

STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2011

	<i>Share capital BD</i>	<i>Accumulated losses BD</i>	<i>Total owners' equity BD</i>
Balance at 1 January 2011	5,000,000	(405,100)	4,594,900
Net loss for the year	-	(519,576)	(519,576)
Balance at 31 December 2011	5,000,000	(924,676)	4,075,324
Issue of share capital	5,000,000	-	5,000,000
Net loss for the year	-	(405,100)	(405,100)
Balance at 31 December 2010	5,000,000	(405,100)	4,594,900

The attached notes 1 to 19 form part of these financial statements.

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 ("the CBB"). The Bank formally started its operations from 1 January 2010. The Bank's Shari'a Supervisory Board is entrusted to ensure the Bank's adherence to Shari'a rules and principles in its transactions and activities.

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

The financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 22 March 2012.

2 BASIS OF PREPERATION

The financial statements have been prepared under the historical cost convention and presented in Bahraini Dinars ["BD"], being the functional currency of the Bank.

Statement of Compliance

These financial statements are prepared in accordance with the Financial Accounting Standards ["FAS"] issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ["AAOIFI"] the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank, the Bahrain Commercial Companies Law ["BCCL"], the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives. 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"].

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Adoption of new and amended standards and interpretations

The accounting policies are consistent with those of the previous year except that during 2010, AAOIFI amended its conceptual framework and issued new Financial Accounting Standard (FAS 25) "Investment in sukuk, shares and similar instruments", which were effective as of 1 January 2011.

Conceptual Framework for the financial reporting by Islamic Financial Institutions

The amended conceptual frame work provides the basis for the financial accounting standards issued by AAOIFI. The amended framework introduces the concept of substance and form compared to the concept of form over substance. The framework state that it is necessary that information, transaction and other events are accounted for and presented in accordance with its substance and economic reality as well as the legal form. The adoption of the framework did not have any significant impact on policies, financial position or performance of the Bank

The adoption of the new conceptual framework did not have any impact on the accounting policies, financial position or performance of the Bank.

Financial accounting standard (FAS 25) "Investment in sukuk, shares and similar instruments"

The Bank has adopted FAS 25 issued by AAOIFI which covers the recognition, measurement, presentation and disclosure of investment in sukuk, shares and similar investments that exhibit characteristics of debt and equity instruments made by Islamic financial institutions. The adoption of this standard did not have any significant impact on the accounting policies, financial position or performance of the Bank.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 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.

Useful life of equipment, furniture and fixtures

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

Impairment provisions against receivables

The Bank reviews its receivables at each statement of financial position date to assess whether an impairment provision should be recorded in the financial statements. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future changes to the provisions.

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.

3.4 Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks and mudaraba with financial institutions with original maturities of less than ninety days.

3.5 Mudaraba

Mudaraba 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 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.

3.6 Murabaha receivables

Murabaha receivables consist of deferred sales transactions and are stated net of deferred profits and provisions for impairment, if any. Murabaha receivables are sales on deferred terms. The Bank arranges a murabaha transaction by buying a commodity (which represents the object of the murabaha) and then resells this commodity to the Murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is repaid in installments by the Murabeh over the agreed period.

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 realisation is reasonably certain or when actually realised.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2011

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Significant accounting judgments and estimates (continued)

3.7 Equipments, furniture and fixtures

Equipments, furniture and 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 capitalised; 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:

Equipments	5 years
Furniture and fixtures	3-5 years

3.8 Employees' end of service benefits

The Bank makes contributions to the Social Insurance Organisation scheme for its national employees calculated as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due.

The Bank also provides for end of service benefits to its expatriate employees. 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.

3.9 Earnings prohibited by Shari'a

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

3.10 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.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

3.11 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) arising from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

3.12 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'a) to set off the recognised amounts and the Bank intends to settle on a net basis.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2011

3 SIGNIFICANT ACCOUNTING POLICIES (continued)**3.13 Zakah**

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

4 CASH AND BALANCES WITH BANKS

	2011 BD	2010 BD
Cash in hand	317	551
Balances with banks	165,834	53,879
Cash and balances with banks	166,151	54,430

5 MUDARABA

	2011 BD	2010 BD
Mudaraba with financial institutions	3,135,520	2,777,631
Mudaraba with customers	237,216	206,295
Provision	(76,030)	(42,861)
	161,186	163,434
	3,296,706	2,941,065

5.1 The restructured facilities during the year amounted to BD 30,846 (2010: 5,013)

6 MURABAHA RECEIVABLES

	2011 BD	2010 BD
Murabaha with financial institution	-	1,423,100
Murabaha with customers	798,670	269,814
Less deferred profits	(172,664)	(62,814)
Provision	(107,335)	(27,180)
	518,671	179,820
	518,671	1,602,920

6.1 The restructured facilities during the year amounted to BD 12,452 (2010: Nil)

7 PROVISION AGAINST MUDARABA / MURABAHA RECEIVABLES

	2011			2010		
	<i>Mudaraba</i>	<i>Murabaha</i>	<i>Total</i>	<i>Mudaraba</i>	<i>Murabaha</i>	<i>Total</i>
As at 1 January	42,861	27,180	70,041	-	-	-
Charge for the year	33,169	80,155	113,324	42,861	27,180	70,041
As at 31 December	76,030	107,335	183,365	42,861	27,180	70,041

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2011

8 EQUIPMENTS, FURNITURE and FIXTURES

	<i>Equipment BD</i>	<i>Furniture and fixtures BD</i>	<i>Total BD</i>
Cost:			
At 1 January 2011	62,469	105,878	168,347
Additions	75,913	41,409	117,322
At 31 December 2011	<u>138,382</u>	<u>147,287</u>	<u>285,669</u>
Depreciation:			
At 1 January 2011	12,993	19,343	32,336
Charge for the year	23,167	24,254	47,421
At 31 December 2011	<u>36,160</u>	<u>43,597</u>	<u>79,757</u>
Net carrying values:			
At 31 December 2011	<u>102,222</u>	<u>103,690</u>	<u>205,912</u>
At 31 December 2010	<u>49,476</u>	<u>86,535</u>	<u>136,011</u>

9 SHARE CAPITAL

	<i>2011 BD</i>	<i>2010 BD</i>
<i>Authorised :</i>		
150,000,000 ordinary shares of BD 0.1 each	<u>15,000,000</u>	<u>15,000,000</u>
<i>Issued and fully paid up :</i>		
As at the beginning and end of the year		
50,000,000 ordinary shares of BD 0.1 each	<u>5,000,000</u>	<u>5,000,000</u>

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 utilised 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.

10 PRE-INCORPORATION EXPENSES

	<i>2011 BD</i>	<i>2010 BD</i>
Staff cost	-	42,041
Rental expenses	-	17,225
Others	-	4,782
	<u>-</u>	<u>64,048</u>

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2011

11 GENERAL AND ADMINISTRATIVE EXPENSES

	2011	2010
	BD	BD
Lease Rentals	25,152	22,047
Professional Fee	28,794	21,854
Security Charges	20,620	20,085
Marketing & Promotional	23,181	18,365
Shariah Advisory fee	15,720	16,368
Inauguration Expenses	-	9,119
Membership Fee	13,479	9,074
Utilities	8,906	8,201
Communication	5,912	7,046
Training	2,950	6,149
Grameen Trust Institutional Charges	3,783	3,775
Others	12,901	10,483
	161,398	152,566

12 RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, directors of the Bank, Shari'a Supervisory Board members, entities owned or controlled, jointly controlled or significantly influenced by such parties.

Transactions with related parties arise from the ordinary course of business. Outstanding balances at year end are unsecured. For the year ended 31 December, the Bank has not made any provision related to amounts owed by related parties.

The significant balances with related parties were as follows:

	2011	2010
	BD	BD
ASSETS		
Balances with banks	165,834	53,879
Mudaraba	3,135,520	2,777,631
Murabaha receivables	-	1,423,100
	3,301,354	4,254,610
LIABILITY		
Accounts payable	13,879	74,326

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

	2011	2010
	BD	BD
Income		
Income from mudaraba	128,647	218,715
Income from murabaha receivables	28,466	23,100
	157,113	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:

	2011	2010
	BD	BD
Salaries	160,600	146,529
Other benefits	30,326	18,209
	190,926	164,738

13 CAPITAL MANAGEMENT

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

14 SHARI'A SUPERVISORY BOARD

The Bank's Shari'a Supervisory Board consists of three scholars who review the Bank's compliance with general Shari'a 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'a principles.

15 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 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 balances with banks, mudaraba and murabaha receivables.

The Bank manages its credit risk by placing funds with reputable banks having good credit ratings.

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

	2011	2010
	BD	BD
Balances with banks	165,834	53,879
Mudaraba	3,296,706	2,941,065
Murabaha receivables	518,671	1,602,920
Maximum exposure to credit risk	<u>3,981,211</u>	<u>4,597,864</u>

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2011

15 RISK MANAGEMENT (continued)

The credit quality by class of financial asset is as follows:

	2011			Total BD
	Balances with banks BD	Mudaraba BD	Murabaha receivables BD	
Neither past due nor impaired	165,834	3,197,871	141,516	3,505,221
Past due but not impaired	-	61,693	206,092	267,785
Individually impaired				
Gross amount	-	113,172	278,398	391,570
Provision	-	(76,030)	(107,335)	(183,365)
Net	-	37,142	171,063	208,205
Total exposure to credit risk	165,834	3,296,706	518,671	3,713,426
	2010			
	Balances with banks BD	Mudaraba BD	Murabaha receivables BD	Total 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:

	2011		Total BD
	Banks and financial institutions BD	Others BD	
Assets			
Balances with banks	165,834	-	165,834
Mudaraba	3,135,520	161,186	3,296,706
Murabaha receivables	-	518,671	518,671
Total assets	3,301,354	679,857	3,981,211
Liability			
Accounts payable	-	117,891	117,891
Total liability	-	117,891	117,891

15 RISK MANAGEMENT (continued)

	<i>2010</i>		
	<i>Banks and financial institutions BD</i>	<i>Others BD</i>	<i>Total BD</i>
Assets			
Balances with banks	53,879	-	53,879
Mudaraba	2,777,631	163,434	2,941,065
Murabaha receivables	1,423,100	242,634	1,665,734
Total assets	4,254,610	406,068	4,660,678
Liability			
Accounts payable	-	143,499	143,499
Total liability	-	143,499	143,499

Geographical concentration

Assets and liability of the Bank as at 31 December 2011 are primarily concentrated in Bahrain.

Family Bank B.S.C. (c)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2011

15 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.

	2011							Total BD
	Up to 1 month BD	1 to 3 months BD	3 months to 1 year BD	Within 1 year BD	1 to 3 years BD	Over 3 years BD	No fixed maturity BD	
Assets								
Cash and balances with banks	166,151	-	-	166,151	-	-	-	166,151
Mudaraba	202,720	861,386	2,232,600	3,296,706	-	-	-	3,296,706
Murabaha receivables	-	-	-	-	518,671	-	-	518,671
Equipments, furniture & fixtures	-	-	-	-	-	-	205,912	205,912
Other assets	3,669	2,106	-	5,775	-	-	-	5,775
Total assets	372,540	863,492	2,232,600	3,468,632	518,671	-	205,912	4,193,215
Liability								
Accounts payable	95,897	20,334	1,660	117,891	-	-	-	117,891
Total liability	95,897	20,334	1,660	117,891	-	-	-	117,891
Net Liquidity Gap	276,643	843,158	2,230,940	3,350,741	518,671	-	205,912	
Cumulative Liquidity Gap	276,643	1,119,801	3,350,741	3,350,741	3,869,412	3,869,412	4,075,324	

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NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2011

15 RISK MANAGEMENT (continued)

	2010							Total BD
	Up to 1 month BD	1 to 3 months BD	3 months to 1 year BD	Within 1 year BD	1 to 3 years BD	Over 3 years BD	No fixed maturity BD	
Assets								
Cash and balances with banks	54,430	-	-	54,430	-	-	-	54,430
Mudaraba	-	-	2,941,065	2,941,065	-	-	-	2,941,065
Murabaha receivables	1,423,100	-	-	1,423,100	179,820	-	-	1,602,920
Equipments, furniture & fixtures	-	-	-	-	-	-	136,011	136,011
Other assets	-	-	3,973	3,973	-	-	-	3,973
Total assets	1,477,530	-	2,945,038	4,422,568	179,820	-	136,011	4,738,399
Liability								
Accounts payable	75,522	67,977	-	143,499	-	-	-	143,499
Total liability	75,522	67,977	-	143,499	-	-	-	143,499
Net Liquidity Gap	1,402,008	(67,977)	2,945,038	179,820	-	-	136,011	
Cumulative Liquidity Gap	1,402,008	1,334,031	4,279,069	4,279,069	4,458,889	4,458,889	4,594,900	

As at 31 December 2011

15 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.

16 SEGMENTAL INFORMATION

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

17 SOCIAL RESPONSIBILITY

The Bank discharges its social responsibilities through donations to charitable causes and organisations.

18 FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of the Bank's financial instruments are not significantly different from their book values as at the statement of financial position date.

19 EARNINGS PROHIBITED BY SHARIA

The Bank has not received any income which was non-sharia compliant during the year ended 31 December 2011 (2010 nil).