

Family Bank B.S.C. (c)

**UNIFIED SHARI'A SUPERVISORY BOARD REPORT,
REPORT OF THE BOARD OF DIRECTORS,
INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS**

31 DECEMBER 2018

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

الموضوع: تقرير هيئة الرقابة الشرعية عن السنة المالية المنتهية 2018م

إلى مساهمي بنك الأسرة

السلام عليكم ورحمة الله وبركاته،

لقد قمنا بمراجعة المبادئ والعقود المتعلقة بالمعاملات والتطبيقات التي أجراها بنك الأسرة ش.م.ب (البنك) خلال السنة المالية المنتهية بتاريخ 31 ديسمبر 2018. ولقد أجرينا مراجعتنا لإبداء رأينا عما إذا كان البنك التزم بأحكام ومبادئ الشريعة الإسلامية وفق الفتاوى والقرارات والإرشادات المحددة الصادرة عن هيئة الرقابة الشرعية.

إن إدارة البنك هي المسؤولة عن ضمان تنفيذ عملياتها وفقاً لأحكام ومبادئ الشريعة الإسلامية. ومن مسؤوليتنا نحن بيان الحكم الشرعي عن عمليات البنك وإبلاغه للمساهمين.

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

كما قمنا بطلب المعلومات والتفسيرات التي رأيناها ضرورية لإعطاء تأكيد معقول بأن البنك لم يخالف أحكام ومبادئ الشريعة الإسلامية.

وعليه فقد تبين لنا التالي:

- 1- أن العقود والعمليات والمعاملات التي أبرمها البنك خلال السنة المالية المنتهية بتاريخ 31 ديسمبر 2018 كانت في مجملها متوافقة مع أحكام الشريعة الإسلامية.
- 2- أن جميع المكاسب غير المقصودة والتي تحققت خلال السنة من مصادر أو طرق تحرمها أحكام ومبادئ الشريعة الإسلامية (إن وجدت) التزمت الإدارة بتجنيبها وصرفها في وجوه الخير تحت إشراف الهيئة.
- 3- أن البنك قام بحساب مقدار الزكاة وفق أحكام ومبادئ الشريعة الإسلامية وبما يتفق مع معيار الزكاة الصادر من هيئة المحاسبة والمراجعة للمؤسسات المالية الإسلامية.

نسأل الله العلي القدير أن يحقق لنا الرشاد والسداد

والسلام عليكم ورحمة الله وبركاته

التاريخ: الثلاثاء 5 من جمادى الثاني 1440 هـ - الموافق 2019-03-12 م
المكان: مملكة البحرين



عبدالرحمن أحمد الموسى
عضو الهيئة



فضيلة الشيخ د. أسامة محمد بحر
عضو الهيئة



فضيلة الشيخ / عصام محمد إسحق
رئيس هيئة الرقابة الشرعية

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

Sharia'a Supervisory Board ("SSB") Report for the fiscal year ended 31 December 2018

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 and applications conducted by Family Bank BSC (C) ("The Bank") during the financial year ended December 31, 2018. Our review was conducted in order to judge whether the Bank followed the principle of the Islamic *Sharia'a*, specific *Fatwas* and guidelines issued by *Sharia'a* Supervisory Board.

The Bank's Management is responsible for ensuring that its operations are carried out in compliance with the rules and principles of the Islamic *Sharia'a*. 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 *Sharia'a* function of the Bank.

The review was planned and performed so as to obtain the necessary information and explanations to provide sufficient evidence confirming that the Bank has not violated the rules and principles of Islamic *Sharia'a*.

In our opinion:

- 1- Contracts, operations and transactions executed by the Bank during the financial year ended December 31, 2018 were on the whole in accordance with the rules and principles of Islamic *Sharia'a* law.
- 2-The management has committed itself to segregate all the unintended gains, obtained during the year from sources or means prohibited by the provisions and principles of Islamic *Sharia'a* and disburse of it towards charitable causes under the supervision of the *Sharia'a* Supervisory Board.
- 3-The Bank calculation of *Zakat* is in compliance with the rules and principles of the Islamic *Sharia'a* and according to *Zakat* standard issued by AAOIFI.

We ask Allah almighty his continued guidance & blessings.

Wasslam Alaikum Wa Rahmat Allah Wa Barakatuh

Date: 5/06/1440 - 12/03/2019 - Place: Kingdom of Bahrain

SH. ESAM MOHAMMED ISHAQ

Chairman of the Shariah Supervisory Board

SH. DR. OSAMA MOHAMMED BAHAR

Member of the Shariah Supervisory Board

ABDUL-RAHMAN AHMED AL-MOOSA

Member of the Shariah Supervisory Board

REPORT OF THE BOARD OF DIRECTORS For the year ended 31 December 2018

In the name of Allah, the most Beneficent, the most Merciful. Prayers and Peace be upon the Last Apostle 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 2018.

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 Microfinance Institution 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 savings accounts for beneficiaries, which are agreed on by the CBB, and other services that are in conformity with Islamic Shari'a.

In 2018, the Bank continued to disburse finances under Grameen and Micro Enterprise Finance. The Bank also offered non-financial services to its customers by providing advice and training. These principal activities conformed to the Islamic Shari'a and were performed with guidance from the Bank's Shari'a Advisory Board.

Performance during 2018

During the year 2018, Family Bank's total income increased substantially to BD 713,542 compared to BD 596,668 for the year 2017 an increase of 19.59%. Also the total expense for the year 2018 were at BD 673,572 compared to BD 666,472 for the year 2017 an increase of 1.07%, due to this performance, the year-end profit reaches to BD 41,578 compared to year-end loss of BD 89,269 for the year 2017. The collections were improved significantly and the default control was maintained.

Disbursements during the year 2018 were at BD 1,425,300 to 528 customers compared to BD 1,226,310 to 505 customers for 2017. Cumulative number of Accounts as on 31st December 2018 stood as 4,180 and cumulative amounts disbursed were at BD 8,945,222.

The repayments received from customers are BD 1,196,171 in 2018.

The quality of portfolio has been maintained in 2018, with better repayments and lesser numbers of new defaulters, due to higher screening of applications and improved credit scoring criteria.

The Portfolio at Risk (PAR) position, which was 9.31% as on 31st December 2017, was maintained at 5.61% by the end of December 2018. PAR position has maintained mainly by a tighter follow up by finance officers.

Financial Position and Results:

The detailed financial position of the Bank as 31st December 2018, and the results for the year then ended, are set out in the accompanying financial statements.

In Bahraini Dinars

Financial highlights	2018	2017
Total Assets	4,266,317	2,254,668
Total equity	2,153,212	2,111,634
Profit /Loss for the year	41,578	(89,269)

Movement in accumulated deficit	2018	2017
Balance at 1 st January	(2,888,366)	(2,799,097)
Profit / Loss for the period	41,578	(89,269)
Balance at 31 December	(2,846,788)	(2,888,366)

Dividends

The Board of Directors has not made any appropriations for dividends for the year ended 31 December 2018 (2017: Nil).

Directors:

The following served on the Bank's Board of Directors during the year ended 31 December 2018:

<u>Name</u>	<u>Title</u>
H.E. Mr. Jameel Bin Mohammed Ali Humaidan	Chairman
Dr. Mustafa Ali Al Sayed	Deputy Chairman
Mr. Khalid Mohammed Al Maarafi	Member
Mr. Rashad Ahmed Akbari	Member
Mr. Redha Ali Mohammed	Member
Dr. Khalid Abdulla Ateeq	CEO & Member
Mrs. Kubra Ali Merza	Member
Mr. Mohammed Imad Hamzah	Member
Mr. Bader Ahmed Al Hammadi	Member
Mr. Masood Ahmed Al Bastiki	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 2019, will be submitted to the Annual General Meeting.

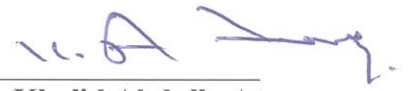
Appreciation

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 Central Bank of Bahrain and to the Ministry of Industry, Commerce and Tourism.

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



H.E. Mr. Jameel Bin Mohammed Ali Humaidan
Chairman



Dr. Khalid Abdulla Ateeq
CEO & Board Member

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

Report on the Financial Statements

We have audited the accompanying statement of financial position of Family Bank B.S.C. (c) (the "Bank") as of 31 December 2018, and the related statements of income, cash flows and changes in owners' equity for the year then ended and a summary of significant accounting policies and other explanatory information. 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 2018, 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.

Material uncertainty related to going concern

We draw attention to note 2 to the financial statements, which indicates that the Bank has lost a significant portion of its capital as of 31 December 2018 as a result of which a material uncertainty exists that may cast significant doubt on the Bank's ability to continue as a going concern. The financial statements, however, continue to be prepared on a going concern basis as the Bank's Board of Directors believe that the financial statements can be prepared as such based on the matter described in note 2. Our opinion is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

As required by the Bahrain Commercial Companies Law and Volume 5 of the Central Bank of Bahrain (CBB) Rule Book, we report that:

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

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

Report on Other Legal and Regulatory Requirement (continued)

- c) Except as disclosed in note 2, 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 5 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 2018 that might have had a material adverse effect on the business of the Bank or on its financial position; and
- d) 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.



Auditor's Registration No: 212
21 March 2019
Manama, Kingdom of Bahrain

Family Bank B.S.C. (c)

STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Note	2018 BD	2017 BD
ASSETS			
Cash and balances with banks	7	192,957	123,089
Mudaraba	8	354,130	600,062
Wakala	9	1,885,000	-
Murabaha receivables	10	1,766,280	1,478,897
Equipment, furniture and fixtures	12	7,750	9,667
Other assets		60,200	42,953
TOTAL ASSETS		4,266,317	2,254,668
LIABILITIES AND OWNERS' EQUITY			
Liabilities			
Wakala financing	14	2,000,000	-
Accounts payable, accruals and other liabilities	13	113,105	143,034
		2,113,105	143,034
Owners' equity			
Share capital	15	5,000,000	5,000,000
Accumulated losses		(2,846,788)	(2,888,366)
		2,153,212	2,111,634
TOTAL LIABILITIES AND OWNERS' EQUITY		4,266,317	2,254,668


H.E. Mr. Jameel Bin Mohammed Ali Humaidan
Chairman


Dr. Khalid Ateeq
CEO & Board Member

The attached notes 1 to 27 form part of these financial statements.

Family Bank B.S.C. (c)

STATEMENT OF INCOME

For the year ended 31 December 2018

	Note	2018 BD	2017 BD
INCOME			
Income from Mudaraba	16	15,459	17,280
Income from Wakala		9,371	-
Income from Murabaha receivables		483,712	459,013
Fee income		56,800	42,385
Other income	17	148,200	77,990
		<u>713,542</u>	<u>596,668</u>
EXPENSES			
Staff costs	18	561,010	557,322
General and administration expenses	19	106,286	100,201
Depreciation	12	6,276	8,949
		<u>673,572</u>	<u>666,472</u>
NET PROFIT (LOSS) FOR THE YEAR BEFORE PROVISION FOR CREDIT LOSSES		39,970	(69,804)
Reversal / (provision) for credit losses - net	11	1,608	(19,465)
NET PROFIT (LOSS) FOR THE YEAR		<u>41,578</u>	<u>(89,269)</u>



H.E. Mr. Jameel Bin Mohammed Ali Humaidan
Chairman



Dr. Khalid Ateeq
CEO & Board Member

The attached notes 1 to 27 form part of these financial statements.

Family Bank B.S.C. (c)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	<i>Note</i>	2018 BD	2017 BD
OPERATING ACTIVITIES			
Net profit (loss) for the year		41,578	(89,269)
Adjustments for:			
Depreciation	12	6,276	8,949
Provision for end-of-service benefits		14,017	4,106
(Reversal) / Provision for credit losses - net	11	(1,608)	19,465
Operating profit (loss) before changes in operating assets and liabilities		60,263	(56,749)
Changes in operating assets and liabilities:			
Mudaraba		500,124	(499,491)
Murabaha receivables		(285,837)	(130,522)
Other assets		(17,247)	3,659
Accounts payable, accruals and other liabilities		(43,946)	15,405
Net cash from (used in) operating activities		213,357	(667,698)
INVESTING ACTIVITIES			
Wakala placements with original maturities of above 90 days		(1,585,000)	-
Purchase of equipment, furniture and fixtures	12	(4,359)	(1,097)
Net cash used in investing activities		(1,589,359)	(1,097)
FINANCING ACTIVITY			
Wakala financing	14	2,000,000	-
Net cash from financing activity		2,000,000	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		623,998	(668,795)
Cash and cash equivalents at 1 January		223,089	891,884
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		847,087	223,089
CASH AND CASH EQUIVALENTS COMPRISE:			
		2018 BD	2017 BD
Cash in hand	7	1,759	3,776
Balances with banks	7	191,198	119,313
Mudaraba with financial institutions with original maturity of 90 days or less		354,130	100,000
Wakala with financial institutions with original maturity of 90 days or less		300,000	-
		847,087	223,089

The attached notes 1 to 27 form part of these financial statements.

Family Bank B.S.C. (c)

STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2018

	<i>Share capital BD</i>	<i>Accumulated losses BD</i>	<i>Total owners' equity BD</i>
Balance at 1 January 2017	5,000,000	(2,799,097)	2,200,903
Net loss for the year	-	(89,269)	(89,269)
Balance at 31 December 2017	<u>5,000,000</u>	<u>(2,888,366)</u>	<u>2,111,634</u>
Balance at 1 January 2018	5,000,000	(2,888,366)	2,111,634
Net profit for the year	-	41,578	41,578
Balance at 31 December 2018	<u>5,000,000</u>	<u>(2,846,788)</u>	<u>2,153,212</u>

The attached notes 1 to 27 form part of these financial statements.

1 INCORPORATION AND ACTIVITIES

Introduction

Family Bank B.S.C (c) (the "Bank") was incorporated on 5 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, Juffair, Kingdom of Bahrain. The Bank operates under an Islamic Microfinance Institution License 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.

Activities

The principal activities of the Bank include providing microfinance lending, opening trust accounts for the beneficiaries of the microfinance lending, 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 21 March 2019.

2 FUNDAMENTAL ACCOUNTING CONCEPT

The Bank has accumulated losses of BD 2,847 thousand (2017: BD 2,888 thousand) as of 31 December 2018, which has substantially eroded the Bank's share capital. This condition indicates that a material uncertainty exists that may cast significant doubt on the Bank's ability to continue as a going concern. The financial statements, however, continue to be prepared on a going concern basis as the Bank's 5 year Strategic Business Plan, approved by the Board of Directors, projects that the Bank will make profits which will subsequently result in a reduction in accumulated losses.

The Bahrain Commercial Companies Law requires, where accumulated losses exceed half of the share capital, the Board of Directors should convene an extraordinary general meeting of the shareholders and resolve whether to continue with the operations of the Bank or to dissolve the Bank before the expiry of its term. This meeting is scheduled to be held on 31 March 2019.

3 BASIS OF PREPERATION

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

Statement of compliance

The 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 5 and applicable provisions of Volume 6) and CBB directives. For matters not covered by FAS, the Bank uses the relevant guidance from International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

4 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

In the process of applying the Bank's accounting policies, management has made estimates and judgments in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

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 Bank has the support of the shareholders as mentioned in note 2 to the financial statements, and 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 are prepared on a going concern basis.

4 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Impairment provisions against receivables

The Bank reviews its mudaraba, wakala and murabaha 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.

In addition to specific provisions, the Bank also makes a collective provision against receivables which, although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. This takes into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

The collective provision reflects estimated losses affecting these exposures attributable to unknown events that may have already occurred at the date of the financial statements, and losses attributable to future events.

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 values and useful lives annually and future depreciation charges would be adjusted where the management believes the useful lives differ from previous estimate.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

a Cash and cash equivalents

For the purpose of the cash flows statement, "cash and cash equivalents" consist of cash in hand, balances with banks and mudaraba and wakala with financial institutions, with original maturities of 90 days or less.

b Mudaraba

Mudaraba is a partnership in which the Bank contributes capital. These contracts are stated at the fair value of consideration given less any amounts written off and impairment, if any.

c Murabaha receivables

Murabaha receivables are deferred sales transactions (Murabaha) which are stated net of deferred profits and provisions for impairment, if any.

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 sales price (cost plus the profit margin) is repaid in installments by the Murabeh over the agreed period.

d Wakala

Wakala are stated at cost less provision for any amount doubtful of being recovered.

e Equipment, furniture and fixtures

Equipment, 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 a 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 and fixtures	3-5 years

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f Employees' end-of-service benefits

Bahraini employees of the Bank are covered by contributions made to the Social Insurance Organisation (SIO) 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. The expected costs of these benefits are accrued over the period of employment.

g 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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment value was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the statement of income.

h 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.

i Derecognition of financial instruments

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

- the right to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank 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.

j Revenue recognition

Mudaraba

Income on Mudaraba is recognised when the right to receive payment is established or on distribution by the Mudarib, whereas losses are charged to the statement of income on declaration by the Mudarib.

Murabaha receivables

Profit from murabaha receivables is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on a 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. Income related to accounts that are 90 days overdue is excluded from the statement of income.

Grant

Grant which are gratuitous and therefore do not warrant compliance with any conditions or obligations are recognised in the statement of income in the year in which such grant is received.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j Revenue recognition (continued)

Grant (continued)

Grants received as compensation for any expenditure, are recognised in the statement of income over the period such expenses are incurred.

Grants related to assets are accounted for by deducting such grant from the carrying amount of the assets.

Fee income

i. Administration fees

Administration fees earned for the provision of services over a period of time are accrued over that period.

ii. Processing fees

Loan processing fees are recognised upon receipt.

k 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.

l Offsetting

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

m Zakah

The responsibility of payment of Zakah is on individual shareholders of the Bank. The Zakah due for the financial year ended 31 December 2018 according to Zakat standard issued by AAOIFI is BD 0.001113 (2017: BD 0.001086) per share.

6 PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

New standards and interpretations issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. This listing is of the relevant standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. The Bank intends to adopt those standards (where applicable) when they become effective:

Implementation and Impact Analysis of FAS 30

Implementation strategy

In November 2017, the AAOIFI issued Financial Accounting Standard (FAS) 30 - *Impairment, credit losses and onerous commitments*. The Standard supersedes the earlier FAS 11 *Provisions and Reserves* effective from the financial periods beginning on or after 1 January 2020, with early adoption permitted.

Credit losses approach

The Bank will recognise credit loss provisions based on a forward looking Expected Credit Loss (ECL) approach on all established receivables and off-balance sheet exposures including guarantees, letters of credit and other similar positions which are subject to credit risk.

The Bank will categorise its assets subject to credit losses into the following three stages in accordance with the FAS 30 methodology:

- **Stage 1 – Performing assets:** assets that have not significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on 12 months ECL.
- **Stage 2 – Underperforming assets:** assets that have significantly deteriorated in credit quality since origination. The credit losses will be recorded based on life time ECL.

6 PROSPECTIVE CHANGES IN ACCOUNTING POLICIES (continued)

Implementation and Impact Analysis of FAS 30 (continued)

Credit losses approach (continued)

- **Stage 3 – Impaired assets:** For assets that are impaired, the Bank will recognize the impairment allowance based on life time ECL.

The Bank will also consider the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurement of ECLs.

The forward-looking information will include the elements such as macroeconomic factors (e.g., fiscal deficit, GDP growth, inflation, government spending, profit rates and oil prices) and economic forecasts obtained through internal and external sources.

To evaluate a range of possible outcomes, the Bank intends to formulate various scenarios. For each scenario, the Bank will derive an ECL and apply a probability weighted approach to determine the impairment allowance in accordance with the accounting standards requirements.

The Bank will early adopt FAS 30 during 2019 and currently is in the final phase of implementation, involving parallel runs and model validations.

Impairment approach

The Bank will recognise impairment losses on all financial assets subject to credit risks other than credit risk on any investments carried at fair value through income statement.

The impairment losses will be measured when carrying amount of an asset exceeds its recoverable amount. The recoverable amount will be the higher of its fair value less costs of disposal and its value in use.

Net realisable value approach

The Bank will recognize impairment on inventories recognized as a result of financial transactions which are based on a trade based structure e.g. deferred payment sales including Murabaha, Salam or Istisna'a.

The Bank, subsequent to initial recognition, will measure all inventories at the lower of cost and net realisable value. The net realisable value, is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale, considering the factors specific to the Bank.

Provision for onerous contract or commitment to acquire an asset

The Bank will recognize provision when the Bank is obligated to acquire an asset under a future commitment or contracts permissible to be entered in the future, and it is expected that the obligation under the contract or commitment is higher than the economic benefits expected to flow through acquisition of such asset. In such situation, the Bank will create a provision on this account reflecting the expected losses arising on such transaction.

Expected impact

The Bank has reviewed its assets and is expecting the following impact from the early adoption of FAS 30 on 1 January 2019:

- According to transitional provisions for initial application of FAS 30, any differences arising from adoption of FAS 30 is recognised in the accumulated losses on 1 January 2019.

The expected impact is a decrease of BD 64 thousand on the date of initial application in opening accumulated losses.

- The new standard also introduces disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Bank's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

6 PROSPECTIVE CHANGES IN ACCOUNTING POLICIES (continued)**Implementation and Impact Analysis of FAS 30 (continued)**

The estimated decrease in shareholders' equity includes the impact of both balance sheet changes and the increase to credit impairment provisions compared to those applied at 31 December 2018 under FAS 11. The assessment above is a point in time estimate and is not a forecast. The actual effect of the implementation of FAS 30 on the Bank could vary significantly from this estimate. The Bank continues to refine models, methodologies and controls, and monitor developments in regulatory rule making in advance of FAS 30 early adoption on 1 January 2019. All estimates are based on the Bank's current interpretation of the requirements of FAS 30, reflecting industry guidance and discussions to date.

Governance and controls

The Bank has a centrally managed FAS 30 implementation project and includes subject matter experts on methodology, data sourcing modelling and reporting. The Bank's work to date has covered performing and developing an impairment methodology to support the calculation of the Expected Credit Loss (ECL) allowance. Specifically, during 2018 the Bank developed its approach for assessing significant increase in credit risk ("SICR"), incorporating forward looking information, including macro-economic factors and preparing the required IT systems and process architecture. The Bank has performed a full end to end parallel run based on [31 December 2018] data to assess procedural readiness. Overall governance of the program's implementation is done through the Bank's Finance function. The Bank is in the process of enhancing its governance framework to implement appropriate validations and controls over new key processes and significant areas of judgment such as SICR determining and applying forward looking information in multiple economic scenarios and computation of ECL.

7 CASH AND BALANCES WITH BANKS

	2018 BD	2017 BD
Cash in hand	1,759	3,776
Balances with banks (note 20)	191,198	119,313
	<u>192,957</u>	<u>123,089</u>

8 MUDARABA

	2018 BD	2017 BD
Mudaraba with Islamic financial institutions (note 20)	354,130	600,000
Mudaraba with customers	-	124
Provision for credit losses (note 11)	-	(62)
	-	62
	<u>354,130</u>	<u>600,062</u>

9 WAKALA

This represents Wakala placements with a local bank for periods of three, six, nine and twelve months at annual profit rates ranging between 4.0% to 4.8%.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

10 MURABAHA RECEIVABLES

	2018 BD	2017 BD
Gross murabaha receivables	2,695,109	2,296,870
Deferred profits	(851,175)	(695,769)
Provision for credit losses (note 11)	(77,654)	(122,204)
Net murabaha receivables	<u>1,766,280</u>	<u>1,478,897</u>

At 31 December 2018, the restructured facilities amounted to BD 17,872 (31 December 2017: BD 12,865).

11 PROVISIONS AGAINST MUDARABA AND MURABAHA RECEIVABLES

	2018			2017		
	Mudaraba BD	Murabaha receivables BD	Total BD	Mudaraba BD	Murabaha receivables BD	Total BD
As at 1 January	62	122,204	122,266	644	164,454	165,098
Recoveries	(124)	(114,928)	(115,052)	(510)	(87,542)	(88,052)
Charge for the year:						
Specific	62	110,479	110,541	175	106,226	106,401
Collective	-	2,903	2,903	(2)	1,118	1,116
(Reversal) provision for credit losses - net	(62)	(1,546)	(1,608)	(337)	19,802	19,465
Write-off during the year	-	(43,004)	(43,004)	(245)	(62,052)	(62,297)
As at 31 December	<u>-</u>	<u>77,654</u>	<u>77,654</u>	<u>62</u>	<u>122,204</u>	<u>122,266</u>
Provision comprise:						
Specific	-	59,813	59,813	61	107,266	107,327
Collective	-	17,841	17,841	1	14,938	14,939
	<u>-</u>	<u>77,654</u>	<u>77,654</u>	<u>62</u>	<u>122,204</u>	<u>122,266</u>

12 EQUIPMENT, FURNITURE AND FIXTURES

	Equipmen BD	Furniture and BD	Total BD
Cost:			
At 1 January 2018	135,814	193,019	328,833
Additions during the year	4,359	-	4,359
At 31 December 2018	<u>140,173</u>	<u>193,019</u>	<u>333,192</u>
Depreciation:			
At 1 January 2018	130,184	188,982	319,166
Charge for the year	4,626	1,650	6,276
At 31 December 2018	<u>134,810</u>	<u>190,632</u>	<u>325,442</u>
Net carrying values:			
At 31 December 2018	<u>5,363</u>	<u>2,387</u>	<u>7,750</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

12 EQUIPMENT, FURNITURE AND FIXTURES (continued)

	<i>Equipment BD</i>	<i>Furniture and fixtures BD</i>	<i>Total BD</i>
Cost:			
At 1 January 2017	134,717	193,019	327,736
Additions during the year	1,097	-	1,097
At 31 December 2017	135,814	193,019	328,833
Depreciation:			
At 1 January 2017	124,589	185,628	310,217
Charge for the year	5,595	3,354	8,949
At 31 December 2017	130,184	188,982	319,166
Net carrying values:			
At 31 December 2017	5,630	4,037	9,667

13 ACCOUNTS PAYABLE, ACCRUALS AND OTHER LIABILITIES

	<i>2018 BD</i>	<i>2017 BD</i>
Accrued expenses	46,442	47,726
Employees' end-of-service benefits	25,362	29,893
Customer saving accounts	23,776	21,893
Legal and professional fees payable	3,760	3,760
Other payables	13,765	39,762
	113,105	143,034

14 WAKALA FINANCING

This represents Wakala financing of BD 2 million received from Tamkeen for a period of 2 years. The financing is repayable in bullet on maturity. The financing carries a profit rate of 0.5% per annum. The financing agreement is being finalised as of the date of approval of these financial statements.

15 SHARE CAPITAL

	<i>2018 BD</i>	<i>2017 BD</i>
Authorised:		
150,000,000 ordinary shares (31 December 2017: 150,000,000) of BD 0.1 each	15,000,000	15,000,000
Issued and fully paid up:		
As at beginning and end of the year		
50,000,000 ordinary shares (31 December 2017: 50,000,000) of BD 0.1 each	5,000,000	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 required to be transferred to a statutory reserve until 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 Bahrain Commercial Companies Law and other applicable statutory regulations. No transfer has been made during the year as the Bank has accumulated losses (31 December 2017: nil).

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

16 INCOME FROM MUDARABA

	2018 BD	2017 BD
Income from financial institution (note 20)	15,459	17,089
Income from customers	-	191
	<u>15,459</u>	<u>17,280</u>

17 OTHER INCOME

	2018 BD	2017 BD
Grant received	75,000	-
Recoveries from Murabaha & Mudaraba receivables previously written off	73,200	77,990
	<u>148,200</u>	<u>77,990</u>

18 STAFF COSTS

	2018 BD	2017 BD
Salaries and benefits	390,312	399,636
Social security contributions	60,799	63,227
Medical expenses	33,483	33,432
Other	76,416	61,027
	<u>561,010</u>	<u>557,322</u>

19 GENERAL AND ADMINISTRATION EXPENSES

	2018 BD	2017 BD
Lease rentals	27,720	27,420
Utilities	12,022	12,666
Professional fees	12,292	11,030
Membership fees	13,110	13,287
Security charges	7,994	7,838
Shari'a Supervisory Board advisory and attendance allowances (note 21)	6,040	6,040
Communications	5,527	5,438
Marketing and promotional expenses	5,242	1,034
Training expenses	-	200
Other	16,339	15,248
	<u>106,286</u>	<u>100,201</u>

20 RELATED PARTY TRANSACTIONS

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

The transactions with related parties arise from the ordinary course of business. Outstanding balances at year end are unsecured. As of 31 December 2018, none of the Bank's exposures to related parties are past due or impaired (31 December 2017: nil).

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

20 RELATED PARTY TRANSACTIONS (continued)

The significant balances with related parties were as follows:

	2018 BD	2017 BD
ASSETS		
Balances with banks (note 7)	191,198	119,313
Mudaraba (note 8)	354,130	600,000
Wakala (note 9)	1,885,000	-
Other assets	2,514	7,600
	<u>2,432,842</u>	<u>726,913</u>
LIABILITIES		
Accounts payable, accruals and other liabilities	<u>30,261</u>	<u>58,819</u>

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

	2018 BD	2017 BD
Income		
Grant received	25,000	-
Income from mudaraba (note 16)	15,459	17,089
Income from wakala	9,371	-
	<u>49,830</u>	<u>17,089</u>
Expense		
Shari'a Supervisory Board advisory and attendance allowances (note 19)	6,040	6,040
Professional fees	4,500	4,500
	<u>10,540</u>	<u>10,540</u>

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

	2018 BD	2017 BD
Salaries	223,057	226,137
Other benefits	32,211	36,033
	<u>255,268</u>	<u>262,170</u>

21 CAPITAL MANAGEMENT

The primary objectives of the Bank's capital management are to ensure 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.

22 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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

23 RISK MANAGEMENT

The Bank is exposed to credit risk, liquidity risk and operational risk in its day to day operations.

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, Remuneration & Nomination Committee (Executive Committee), which is responsible for developing and monitoring Bank's operations and policies across various functions including 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 an outsourced Internal Audit function.

23.1 Credit risk

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

The Bank's credit risk arises mainly from balances with banks, mudaraba, wakala and murabaha receivables. The Bank manages its credit risk by placing funds with reputable banks having good credit ratings and by a process of credit evaluation and monitoring of credit worthiness of the counterparties.

(a) Gross maximum exposure to credit risk

	2018 BD	2017 BD
Balances with banks	191,198	119,313
Mudaraba	354,130	600,124
Wakala	1,885,000	-
Murabaha receivables	2,695,109	2,296,870
Other assets	36,304	30,833
	5,161,741	3,047,140

(b) Credit quality by class of financial asset

	2018					
	Balances with banks BD	Mudaraba BD	Wakala BD	Murabaha receivables BD	Other assets BD	Total BD
Neither past due nor impaired	191,198	354,130	1,885,000	1,732,765	36,304	4,199,397
Past due but not impaired	-	-	-	36,903	-	36,903
Individually impaired	-	-	-	74,266	-	74,266
Provision	-	-	-	(77,654)	-	(77,654)
Net exposure to credit risk	191,198	354,130	1,885,000	1,766,280	36,304	4,232,912

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

23 RISK MANAGEMENT (continued)

23.1 Credit risk (continued)

(b) Credit quality by class of financial asset (continued)

	2017				
	Balances with banks BD	Mudaraba BD	Murabaha receivables BD	Other assets BD	Total BD
Neither past due nor impaired	119,313	600,000	1,474,532	30,833	2,224,678
Past due but not impaired	-	-	17,402	-	17,402
Individually impaired	-	124	109,167	-	109,291
Provision	-	(62)	(122,204)	-	(122,266)
Net exposure to credit risk	119,313	600,062	1,478,897	30,833	2,229,105

Past due but not impaired financial assets of BD 36,903 (2017: BD 17,402) are past due by 60 to 90 days at 31 December 2018 (2017: 60 to 90 days).

(c) Concentration of maximum exposure to credit risk

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

	2018					
	Banks and financial institutions BD	Trade BD	Service BD	Food Processing BD	Others BD	Total BD
Assets						
Balances with banks	191,198	-	-	-	-	191,198
Mudaraba	354,130	-	-	-	-	354,130
Wakala	1,885,000	-	-	-	-	1,885,000
Murabaha receivables	-	1,130,434	1,120,799	280,668	163,208	2,695,109
Other assets	32,154	-	400	-	3,750	36,304
	2,462,482	1,130,434	1,121,199	280,668	166,958	5,161,741
	2017					
	Banks and financial institutions BD	Trade BD	Service BD	Food Processing BD	Others BD	Total BD
Assets						
Balances with banks	119,313	-	-	-	-	119,313
Mudaraba	600,000	-	124	-	-	600,124
Murabaha receivables	-	1,011,530	842,959	272,821	169,560	2,296,870
Other assets	22,032	-	7,900	-	901	30,833
	741,345	1,011,530	850,983	272,821	170,461	3,047,140

Geographical concentration

Assets and liabilities of the Bank as at 31 December 2018 and 31 December 2017 are concentrated in the Kingdom of Bahrain.

Family Bank B.S.C. (c)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

23 RISK MANAGEMENT (continued)

23.2 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stressed circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a regular basis.

Maturity profile

The table below summarises the maturity profile of the Bank's assets and liabilities as of 31 December 2018 based on expected periods to cash conversion from the statement of financial position date:

	2018							
	Up to 1 month BD	1 to 3 months BD	3 months to 1 year BD	Total of within 1 year BD	1 to 3 years BD	Over 3 years BD	No fixed maturity BD	Total BD
Assets								
Cash and balances with banks	192,957	-	-	192,957	-	-	-	192,957
Mudaraba	-	354,130	-	354,130	-	-	-	354,130
Wakala	-	300,000	1,585,000	1,885,000	-	-	-	1,885,000
Murabaha receivables	-	-	-	-	1,766,280	-	-	1,766,280
Equipment, furniture and fixtures	-	-	-	-	-	-	7,750	7,750
Other assets	40,851	2,334	5,000	48,185	11,615	400	-	60,200
Total assets	233,808	656,464	1,590,000	2,480,272	1,777,895	400	7,750	4,266,317
Liabilities								
Wakala financing	-	-	-	-	2,000,000	-	-	2,000,000
Accounts payable, accruals and other liabilities	11,251	50,857	1,859	63,967	23,776	25,362	-	113,105
Total liabilities	11,251	50,857	1,859	63,967	2,023,776	25,362	-	2,113,105
Net gap	222,557	605,607	1,588,141	2,416,305	(245,881)	(24,962)	7,750	
Cumulative net gap	222,557	828,164	2,416,305		2,170,424	2,145,462	2,153,212	

Family Bank B.S.C. (c)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

23 RISK MANAGEMENT (continued)

23.2 Liquidity risk (continued)

Maturity profile (continued)

The table below summarises the maturity profile of the Bank's assets and liabilities as of 31 December 2017 based on expected periods to cash conversion from the statement of financial position date:

	2017					
	Up to 1 month BD	1 to 3 months BD	3 months to 1 year BD	Total of within 1 year BD	1 to 3 years BD	Over 3 years BD
Assets						
Cash and balances with banks	123,089	-	-	123,089	-	-
Mudaraba	-	100,000	500,062	600,062	-	-
Murabaha receivables	-	-	-	-	1,478,897	-
Equipment, furniture and fixtures	-	-	-	-	-	9,667
Other assets	26,416	9,792	3,126	39,334	3,319	300
Total assets	149,505	109,792	503,188	762,485	1,482,216	9,667
						2,254,668
Liabilities						
Accounts payable, accruals and other liabilities	13,037	74,144	26,859	114,040	21,893	7,101
Total liabilities	13,037	74,144	26,859	114,040	21,893	7,101
						143,034
Net gap	136,468	35,648	476,329	648,445	1,460,323	(6,801)
						9,667
Cumulative net gap	136,468	172,116	648,445		2,108,768	2,101,967
						2,111,634

23 RISK MANAGEMENT (continued)

23.3 Operational Risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

24 SEGMENTAL INFORMATION

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

25 SOCIAL RESPONSIBILITY

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

26 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.

27 EARNINGS PROHIBITED BY SHARI'A

Earnings realised during the year from transactions that were not permitted by Shari'a amounted to BD nil (2017: BD nil).

**Supplement of disclosures as required by Volume 5 – Public
Disclosures Module PD-1.3 *Disclosures in the Annual Audited
Financial Statements***

- **Board Profile and experience**

1. H.E. Mr. Jameel bin Mohammed Ali Humaidan

Board Chairman

Non- Independent, Non- Executive Director

HE Mr. Jameel Bin Mohammed Humaidan is the Minister of Labour and Social Development (MLSD). He holds Bachelor in Law from Beirut Arab University. He is currently the Chairman of the Labour Market Regulatory Authority (LMRA), the Supreme Council for Vocational Training, the Supreme Committee for Occupational Safety and Health (SCOSH). He is a Board Member at Bahrain Economic Development Board (EDB), the Civil Service Council (CSC), Board of Trustees of University of Bahrain (UOB), the Development Committee of Education and Training, and the Civil Defence Council. He is also a Board Member at International Labour Organization (ILO).

2. Dr. Mustafa Ali Al Sayed

Board Deputy Chairman

Non- Independent, Non - Executive Director

Dr. Mustafa Al Sayed is the Secretary General of the Royal Charity Organization. He has over 38 years of industrial experience, his previous positions include: Chief Executive, Bahrain Petroleum Co. (BAPCO) Chief Engineer with the Ministry of Works, Power & Water, Chief Executive at Middle Cables Ltd, and General Manager with Gulf Petrochemical Industries Company (GPIC).

He is currently Board Member of Nass Corporation, Bahrain Health & Safety Society and Member of Board of Trustees of the Egyptian Zakat House. Dr. Al Sayed has a Ph.D. in Projects Management, M.Sc. in Industrial Management and B.Sc. in Mechanical Engineer.

3. Dr. Khalid Abdulla Ateeq

CEO & Board Member

Non- Independent, Executive Director

Dr. Khalid is currently the Chief Executive Officer of Family Bank. Dr. Khalid has over 39 years' experience in banking, finance, auditing and accounting. Prior to join VC Bank as Deputy CEO, he was Executive Director of Banking Supervision at the Central Bank of Bahrain. Where he was responsible for the licensing, inspection and supervision of financial institutions, insuring that all banks and financial institutions, either operating or incorporated in Bahrain, complied with promulgated laws and regulations. Before joining the CBB, he was Assistant Professor at Bahrain University. In addition, through his diversified experience, Dr. Ateeq served in senior posts with a number of reputable banks and firms. He holds a Ph.D. in Philosophy of Accounting from UK. Dr. Khalid is a Board Member in Med Gulf Company, Al Barakh Bank and Itqan Company.

4. Mr. Khalid Mohamed Al Maarafi

Non- Independent, Executive Director

Mr. Khalid Mohamed Al Maarafi holds a Bachelor's degree in Accounting from the University of Bahrain, and is a Certified Public Accountant (CPA). He has been involved in the banking and finance industry and business management for over 40 years. Mr. Al Maarafi is an Executive Manager and Head of Retail Banking Group at Kuwait Finance House-Bahrain and the Chairman of Al Enma'a House for Real Estate. He is also non-Executive Director at the Boards of Directors of various companies. Mr. Al Maarafi was held several positions at the Ministry of Finance and the Ministry of Industry in Bahrain.

5. Mr. Rashad Ahmed Akbari

Non- Independent, Executive Director

Mr. Rashad Akbari holds an MSc in Marketing from the University of Sterling, (UK) in 1997. He has 30 years of working experience of which 18 years in Banking. Mr. Rashad joined BBK in 2000 and is currently the Assistant General Manager, Operations of BBK.

6. Mr. Mohammed Imad Hamzah
Non- Independent, Executive Director

Mr. Mohammed Imad Hamzah currently works in the Asset Management department of Ithmaar Bank. He has a decade of investment banking experience working on private equity and real estate projects. Mr. Hamzah had advised start-up ventures in the region, providing guidance and support at various stages. He holds a Master of Business of Administration from Lancaster University, UK, and a Bachelor of Economic and Social Studies in Banking Finance (with Honors) from Cardiff University, UK. Mr. Hamzah also serves as a Board Member in Bahrain's Al Ahli Club, and is a published sports columnist. He has a keen interest in the economics of sport.

7. Mr. Redha Ali Mohamed
Non-Independent, Executive Director

Mr. Redha is currently the Group Head of Corporate Banking in Ahli United Bank. He has over 28 years' experience in banking with wide knowledge in Corporate Finance, Trade Finance, Syndication and Project Finance. Prior to join AUB, he was working with BNP Paribas - Bahrain. Mr. Ali holds a Diploma in Commercial Studies from University of Bahrain (UOB), Advanced Diploma in Banking and Finance from the Bahrain Institute of Banking and Finance (BIBF), among many other local and international course

8. Ms. Kubra Ali Mirza
Independent Director

Ms. Kubra Mirza has over 21 years of experience in investment banking, financial regulations, corporate governance, compliance, financial crimes and anti-money laundering. She is currently holding the position of Chief Compliance Officer, MLRO and Board Secretary of Bank Alkhair. Prior to joining Bank Alkhair, she was the Head of Compliance, MLRO and Board Secretary at Venture Capital Bank, Bahrain. Prior to that, she worked for the Central Bank of Bahrain as the Head of Policies and Central Risk Unit. She was also a member of several local and international regulatory working groups and task forces. Ms. Mirza holds an Executive MBA and a Bachelor's degree in Accounting from the University of Bahrain.

9. Mr. Bader Ahmed Al-Hammadi
Independent Director

Mr. Bader is currently the Director of Finance at the Royal Charity Organization (RCO). He has over 15 years' experience in accounting. Prior to his current appointment in Royal Charity Organization, he has held many senior positions at al Salam Bank and, before that, in the Court of HRH The Crown Prince. Mr. Bader holds a Bachelor Degree in Accounting from University of Bahrain (UOB).

10. Mr. Masood Ahmed Al Bastiki
Independent Director

Mr. Masood Al Bastiki is the Chief Executive Officer of Aerolease – an aircraft & equipment leasing company. He is an executive banker with more than 31 years of experience in banking industry. His experience varies from local commercial, wholesale and investment banking. Mr. Al Bastiki holds a post graduate diploma in business and finance and BSC in Business Administration. He undertook various banking activities across various regions including the Middle East, North Africa, USA and Latin America as well as Europe and Asia.

● Board of Directors Responsibilities

Strategy

- Participate actively in strategy development;
- Review and challenge the strategy; and
- Create a strategically adaptable organization that is able to respond quickly to changing market opportunities.

Corporate Culture

- Support managements organizational code of conduct; and
- Promote the use of appropriate incentives that make such codes meaningful.

Monitoring and Evaluation

- 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; and
- Apply a rigorous process for evaluating the performance of the CEO.

Stewardship

- 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; and
- Safeguard stakeholder's interests, in part by ensuring that communication with various stakeholders is thorough timely, and transparent.

The Chairman of the Board of Directors is distinct from the CEO, that there will be an appropriate balance of power and greater capacity of the board for independent decision making, the Chairman is responsible for ensuring Board's effectiveness.

● The Board Composition

The Board has ten members, comprising ten members from the public sector and the private sector.

All the Board Members are Bahraini, and two of them are from governmental sector.

The Board Members have attended at least 75% of all board meetings during the financial year ended 31st December 2018, unless one member:

- 1- Mr. Redha Ali: where he did not achieve the required percentage due to his commitment outside Bahrain.

Ownership Structure: As at 31st December 2018, distribution schedule of shares, setting out the number and percentage of holders were as the following categories:

Name	Number of Shares	Percentage
Ministry of Labour & Social development	15,200,000	30,40%
Royal Charity Organization	15,000,000	30%
Ithmaar Bank	5,000,000	10%
Bank of Bahrain and Kuwait	5,000,000	10%
Ahli United Bank	6,000,000	12%
Kuwait Finance House	3,800,000	7,60%
Total	50,000,000	100%

1. Remuneration & Nomination Committee:

- Formalist and recommend to the Board of Directors medium and long term strategic directors for the Bank with the objective of continuously enhancing value to shareholders.
- Establish 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 Directors and other shareholders directions and interest.

2. Risk, Audit and Corporate Governance Committee:

A. Audit

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 qualification 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.

B. Risk

Make recommendations to the Board in relation to the Bank's overall risk appetite and tolerance and the policies within which to manage the, 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.

C. 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 protecting the interest of stakeholder. Corporate Governance assumes greater significance for any corporations as a result of the separation of management from shareholders.

3. Shari'ah Supervisory Board

The Bank has formed a Shari'ah Supervisory Board consisting of three 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 Reviewer.

All the above Committees are reported to the Board of Directors.

• **Management Committee:**

1. Management Committee Responsibilities:

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.

2. Credit Committee Responsibilities:

i. To exercise authority in assessing and managing the credit risk 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 Audit, Risk & Corporate Governance Committee.

ii. To monitor implementation of credit decisions in a manner so as to conform to credit policy as well laws and regulations stipulated by the statutory authorities.

3. HR Committee Responsibilities:

i. 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 employment agreements, consulting agreements, severance arrangements and changes in control agreements or provisions.

ii. 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.

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

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

v. 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 Certificates of Incorporation and BY- Laws and all applicable laws and as such documents may be amended from time to time.

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

vii. Make Annual Training Plan.

• **Heads of Functions:**

1. Mrs. Sana Salim

Manager - Banking operation

Mrs. Sana Salim Abdulla holds a Diploma in Commercial Studies from the University of Bahrain. She has over 19 years of experience with Bank of Bahrain and Kuwait and Eskin Bank. During her professional career, she attended several courses, seminars and conference in banking, management, Islamic banking, economy and banking laws.

2. Mr. Abdulla Saleh

Manager of Micro-finance department

Mr. 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. He has 31 years of experience and his experience is in finance function in several organizations including the Fortune Investment House and the Gulf Air Co.

FEES & SERVICES CHARGES

<p>Islamic financing is available at Family Bank at annual profit rate of 17% for Grameen and 19% for MEF (in cooperation with Tamkeen).</p>		
FEES & SERVICES CHARGES	(Bahraini Dinar)	BD
Application Fees (Non-Refundable)		15
Deposit in Saving Account (Grameen)		10
Admin Fees (to be added with the profits)		
• BD 500 – 1000		40
• BD 1001 – 2500		60
• BD 2501 – 4000		100
• BD 4001 – 10000		130
Outstanding Letter (stating of outstanding liabilities with the Bank)		10
Outstanding Letter (stating of outstanding liabilities with the Bank) - Urgent basis		15
No liability/Release letter		10
No liability/Release letter- Urgent basis		15
Confirmation of Financing		10
Tawarruq Fees for Islamic Financial Consultants (Eltezam)		30
Early Settlement (Mudaraba)		30
Takaful Insurance Rate		0.148

- **Non- compliance**

In 2018, The Bank has the following regulatory non-compliances with respect to the CBB Volume 5 – Specialised Licensees:

1. The chairman of the Board is not an independent member. Section 1.4.6 of the Module HC states that “The chairman of the Board should be an independent director, so that there will be an appropriate balance of power and greater capacity of the Board for independent decision making”.
2. The members of the nominating and remuneration committee are non-independent. Sections HC 4.2.2 and 5.3.2 of Module HC state that “nomination and remuneration committee must include only independent directors or, alternatively, only non-executive directors of whom a majority must be independent directors and the chairman must be an independent director”.
3. As required under Module HC, section HC-1.3.4, of the CBB Rule Book, each individual Board member must attend at least 75% of all Board meetings in a given financial year to enable the Board to discharge its responsibilities effectively. We noted that one of the Board members have not met the required attendance as stipulated in the rule book.
4. As per Appendix B - Nomination Committee and Appendix C - Remuneration committee of the Module FC state that the committee shall meet at least twice a year. However, only one meeting took place during the year.
5. As required under Module HC, section HC-1.3.7, the full Board should meet once every quarter. However, the Board of Directors of the Bank has not met in the first quarter of the financial year 2018.
6. Review of the independence of the Board of Directors was not conducted during the year as required by HC -1.4.9 of the CBB Rulebook.

- **Financial Penalty:**

- During the year 2018, the Central Bank of Bahrain imposed financial penalties on the Bank for its failure to clean up the erroneously open account in the BCRB system, the Bank paid to the Central Bank of Bahrain the imposed financial penalties of the amount of BD 1,000 Bahraini Dinar.

- **Communication strategy of the Bank**

1. **Organizational Structure**

CEO → Public Relation Department

2. **Responsibilities of PR Department**

- Preparation and issuance of financial reports;
- Organizing events and conferences for marketing purposes;
- Managing the Press releases by the Bank including Press releases by all members of the Management.
- Updating the official website of the Bank; and
- Any other responsibilities assigned by the CEO of the Bank.

Policies

1. Annual Corporate Marketing Plan

1.1 The Annual Corporate Marketing Plan shall contain the following:

- Details of recurring Departmental responsibilities e.g. publications of Annual Reports, Conferences, other events etc.
- Budgets for major events planned for the following financial year;
- Details of events such as the date and month; and
- Plans and Preparation of ideas for the following financial year.

1.2 PRD reviews the actual spending of its department against its budgeted spending on a quarterly basis.

2. Annual Audited Financial Statement

2.1 The Bank must submit the Annual Audited financial statements to the CBB within 3 months of the end of Bank financial year (as per Central Bank of Bahrain Rulebook section PD-1.2.1). The Annual Audited financial statements must be edited by their external auditor.

3. Year End Financial Statement

3.1 Public Relation Department has the responsibility to obtain deadlines for the publications of the year end financials from the Financial Controller and the compliance Department.

3.2 The Bank required to publish the Annual Audited Financial statements on their website within seven days of submission to the CBB.

3.3 Public Relation Department should notify all relevant members of staff about the details of advertisement one day before publishing the Financials so that they are aware of the contents of the Financials when approached by any third parties.

4. Events

- 4.1 To facilitate the activities of an event, the PRD will coordinate with the Head of the relevant department.
- 4.2 The PRD should act as the main point of contact between the Bank and Event invitees.
- 4.3 The PRD should identify the purpose of the event, the target audience and other relevant targets which need to be achieved.
- 4.4 PRD is responsible that special invitation cards are made and sent to all relevant guests and VIP guests.
- 4.5 The PRD shall identify the performance measurement criteria for events and agents as per the relevant guidelines of CBB on monitoring performance.
- 4.6 If the bank hosting a luncheon, PRD should organize a reception line consisting of the Functional Departments and CEO/Senior Management.
- 4.7 The offices of the CEO/Senior Management should draft any speeches or Presentations to be given by the CEO/ Senior Management at an event. The PRD should ensure that copies are circulated to the Media immediately following the presentation or speech.
- 4.8 PRD should arrange for a private photographer and video operator to cover activities at the event.
- 4.9 All Press releases and photographs that are subsequently used for media publicity should be approved by the CEO/Senior Management.

5. Conferences

- 5.1 Conferences may be held at any geographical location and are classified into the following;
 - Conferences sponsored by
 - Conferences attended by
- 5.2 The PRD should act as the main point of contact between the Bank and Conference organizers.
- 5.3 PRD should ensure that they are aware of all the dates and formalities of the conference, including the theme and nature of the conference.
- 5.4 The offices of the CEO/Senior Management should draft any speeches or presentations to be given by the CEO/Senior Management at an event.
- 5.5 The staff members should be allowed to attend the conference based on the following criteria by the Heads of each Department:
 - Topic of the conference;
 - Relevance of the conference to the staff member's job and department activities;
 - What value the staff will bring to the Bank by attending the conference.
- 5.6 Any information for sponsorship should be sent to the PRD by the Heads of Departments along with the reasons why to sponsor the conference.
- 5.7 PRD will make sure that all the expenditure related to a conference is as per the approved budget.
- 5.8 PRD should collect all the photographs and interviews taken regarding during the conference and should be filed.

6. Press Release

- 6.1 PRD is responsible to coordinate all Press releases.
- 6.2 Separate Procedures will be devised for compulsory and own initiated Press releases.
- 6.3 Press releases should be drafted either for specific Projects or when there is a need for public information about the activities.
- 6.4 Press releases should be made for positive publicity of and to curtail the effects of any negative publicity as well.
- 6.5 The CEO/Senior Management has the authority to issue Press releases.
- 6.6 No staff member is allowed to make any public statement under any circumstances except the CEO Approval.
- 6.7 PRD should ensure that separate versions of the same Press releases are drafted, one in English and one in Arabic, if necessary.
- 6.8 PRD is responsible to distribute the Press Release one day before the Press release date to all relevant members of staff through the email. This is to ensure that all relevant members of staff are aware of the Press release in case they are approached by a third party and questioned about the topic.
- 6.9 PRD must send the press release to the Compliance Department to obtain CBB approval, in case if there's any advertising for the Bank products or services.

7. Eid and Seasons Greeting Cards

- 7.1 PRD is responsible to ensure that Eid and seasons greeting cards are available when requested.
- 7.2 PRD is responsible to place all orders for both types of Cards from the advertising agency. While
- 7.3 designing any cards, the PRD should obtain rates and samples from the advertising agency.
- 7.4 PRD orders Eid cards prior to the specified number of days.
- 7.5 PRD should distribute Eid and Seasons greetings cards to the relevant Heads of Department, CEO/Senior Management's office that require them for business usage.
- 7.6 The mode of distribution e.g. courier, regular mail should be decided and communicated to the PRD by the relevant Department Heads.

8. Website Update

- 8.1 PRD is responsible to ensure that the website content and design is constantly updated and maintained on a regular basis.
- 8.2 PRD shall not be responsible for the technical maintenance of the website.
- 8.3 PRD should collect all changes required to the website and submit them to the website developer at the end of every month or when required.
- 8.3 Any change in the business activity or product offerings must be updated immediately on the website.
- 8.4 All Press releases submitted by PRD to the website developers, and should be updated immediately after the press release.
- 8.5 PRD is responsible to submit the Annual Audited Financial statements to the website developers for updating within seven days of submission to the CBB's.

9. Directory Advertising

- 9.1 The PRD is responsible to contact the CEO/Senior Management and obtain approval when renewing any advertising listings.
- 9.2 The PRD has the responsibility to act as the liaison between the Bank and the publishing company.
- 9.3 PRD is responsible to collect all new updated information for advertising from the relevant Heads of Departments, at the time of renewal of the advertisement.

10. Selection of Advertising Agency

- 10.1 PRD should request for quotations and sample for the tendering of advertising activities from at least three advertising agencies.
- 10.2 Selection of the advertising agency should be driven by the quality of the samples and by cost.
- 10.3 When selecting the advertising agency, PRD should also take into consideration the level of exposure the advertising agency can offer.

11. Selection of Quotations

- 11.1 PRD should request for at least two quotations of suppliers/service Providers for any type of service required.

12. Standard Stationery Items

- 12.1 All requests for publication of corporate stationery, including business cards, must be approved by the Head of PRD/CEO/Senior Management.
- 12.2 The following are the bank's standard stationery items that are routinely printed with the Bank's logo:
- Letterhead
 - Continuation paper
 - Compliment slips
 - Corporate Gift bags
 - Corporate Wrapping paper
 - Brown mailing envelopes (A5, A4 and larger)
 - White mailing envelopes (DL, A4 and larger)
 - Window envelopes (DL,A4 and Arabic and English Package size)

13. Payments

- 13.1 PRD Staff must ensure that all invoices received are in line with the payment terms agreed with the service vendor prior to provision of such services.
- 13.2 All invoices relating to PRD expenses must be reviewed and initialed by the PRD and should be approved by the authorized signatories of the Bank as per the Delegated Approval Authority Limits.