

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

31 DECEMBER 2012

REPORT OF THE BOARD OF DIRECTORS

for the year ended 31 December 2012

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 2012.

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 2012, 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.

Financial Position and Results

The detailed financial position of the Bank at 31 December 2012, and the results for the year then ended, are set out in the accompanying financial statements.

Financial highlights	2012	2011
Total assets	3,665,895	4,193,215
Total equity	3,562,011	4,075,324
Loss for the year	(513,313)	(519,576)

Movement in accumulated deficit	2012	2011
Balance at 1 January	(924,676)	(405,100)
Loss for the period	(513,313)	(519,576)
Balance at 31 December	(1,437,989)	(924,676)

Dividends

The Board of Directors has not made any appropriations for dividends for the year ended 31 December 2012 (2011: Nil).

Directors and Management

The following served on the Bank's Board of Directors during the year ended 31 December 2012:

<u>Name</u>	<u>Title</u>
H.E. Dr. Fatima Al Balooshi	Chairperson
Dr. Mustafa Ali Al Sayed	Member and Chairman of the Executive Committee
Mr. Ahmed Abdul Rahim	Member
Mr. Khalid Al Maarafi	Member
Mr. Rashad Akbari	Member
Mrs. Sawsan Abualhasan	Member

Dr. Khalid Ateeq

Member and Chairman of the
Audit Committee

Mr. Khalid Al Khalifa

Member

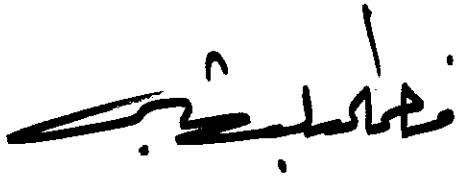
Auditors

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 2013; will be submitted to the Annual General Meeting.

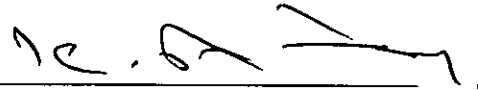
Appreciation

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 investors and to our executives and employees for their support in adding value to the Bank.



Dr. Fatima Al Balooshi
Chairperson



Dr. Khalid Ateeq
Chairman of the Audit Committee

18/02/2013

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 2012, 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 2012, 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 2012 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.

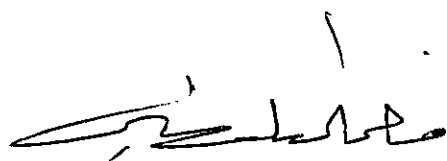
18 February 2013
Manama, Kingdom of Bahrain

Family Bank B.S.C. (c)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 BD	2011 BD
ASSETS			
Cash and balances with banks	4	207,940	166,151
Mudaraba	5	2,589,838	3,296,706
Murabaha receivables	6	697,048	518,671
Equipment, furniture and fixtures	8	156,509	205,912
Other assets		14,560	5,775
TOTAL ASSETS		3,665,895	4,193,215
LIABILITY AND OWNERS' EQUITY			
Accounts payable, accruals and other liabilities	9	103,884	117,891
Owners' Equity			
Share capital	10	5,000,000	5,000,000
Accumulated losses		(1,437,989)	(924,676)
Total owners' equity		3,562,011	4,075,324
TOTAL LIABILITY AND OWNERS' EQUITY		3,665,895	4,193,215



Dr. Fatima Bint Mohamed Al Balooshi
Chairperson



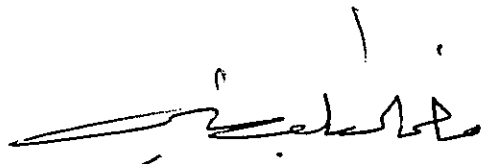
Dr. Khalid Ateeq
Chairman Risk and Audit Committee

Family Bank B.S.C. (c)

STATEMENT OF INCOME

For the year ended 31 December 2012

	Notes	2012 BD	2011 BD
Income from mudaraba	11	148,808	147,904
Income from murabaha receivables	12	106,338	78,093
Other income		2,381	-
Total income		257,527	225,997
Staff cost		462,635	423,430
General and administrative expenses	13	156,120	161,398
Depreciation	8	60,536	47,421
Total expenses		679,291	632,249
Net loss for the year before provisions		(421,764)	(406,252)
Provisions, net	7	(91,549)	(113,324)
NET LOSS FOR THE YEAR		(513,313)	(519,576)



Dr. Fatima Bint Mohamed Al Balooshi
Chairperson



Dr. Khalid Ateeq
Chairman Risk and Audit Committee

Family Bank B.S.C. (c)

STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	<i>Notes</i>	2012 BD	2011 BD
OPERATING ACTIVITIES			
Net loss for the year		(513,313)	(519,576)
Adjustments for non-cash items:			
Depreciation	8	60,536	47,421
Write off of furniture and fixtures	8	13,714	-
Provision for indemnity		11,043	11,662
Provisions, net	7	91,549	113,324
Operating loss before changes in operating assets and liabilities		(336,471)	(347,169)
Changes in operating assets and liabilities:			
Mudaraba		133,878	675,296
Murabaha receivables		(251,075)	1,004,094
Other assets		(8,785)	(1,802)
Accounts payable, accruals and other liabilities		(25,050)	(37,270)
Net cash (used in) / from operating activities		(487,503)	1,293,149
INVESTING ACTIVITY			
Purchase of equipment, furniture and fixtures and net cash used in investing activity	8	(24,847)	(117,322)
NET MOVEMENT IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at 1 January		1,230,257	54,430
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		717,907	1,230,257
CASH AND CASH EQUIVALENTS COMPRISES:			
		2012 BD	2011 BD
Cash in hand		485	317
Balances with banks		207,455	165,834
Mudaraba with financial institution with original maturity of 90 days or less		509,967	1,064,106
		717,907	1,230,257

The attached notes 1 to 21 form part of these financial statements.

Family Bank B.S.C. (c)

STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2012

	<i>Share capital BD</i>	<i>Accumulated losses BD</i>	<i>Total owners' equity BD</i>
Balance at 1 January 2012	5,000,000	(924,676)	4,075,324
Net loss for the year	-	(513,313)	(513,313)
Balance at 31 December 2012	5,000,000	(1,437,989)	3,562,011
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

The attached notes 1 to 21 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, Juffair, Kingdom of Bahrain. The Bank operates under an Islamic Retail Banking 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.

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 18 February 2013.

2 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

These financial statements have been prepared in accordance with the Financial Accounting Standards ["FAS"] issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ["AAOIFI"] 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 Significant accounting judgments and estimates

The preparation of the Bank's financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements. The most significant uses 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 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.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Significant accounting judgments and estimates (continued)

Impairment provisions against receivables (continued)

In addition to specific provisions, the Bank also makes a general 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 general provision reflects estimated losses affecting these exposures attributable to unknown events that may have already occurred at the date of the financial statements, and not estimated losses attributable to future events. These provisions are reversed through the statement of income, if the balance exceeds the required level.

3.2 Summary of significant accounting policies

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

a Cash and cash equivalents

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

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.

c Murabaha receivables

Murabaha receivables are stated net of deferred profits, any amounts written off and provision for doubtful debts, 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 receivables 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.

d 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 the straight line basis at rates intended to write-off the cost of the assets over their estimated useful life.

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

Equipment	5 years
Furniture and fixtures	3-5 years

e Employees' end of service benefits

The Bank makes contributions to the Social Insurance Organisation (SIO) 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Summary of significant accounting policies (continued)

e Employees' end of service benefits (continued)

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.

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.

f Impairment

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.

g 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.

h Derecognition of financial instruments

Financial instruments consist of cash and balances with banks, mudaraba 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.

i 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.

j 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.

k Zakah

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

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

4 CASH AND BALANCES WITH BANKS

	2012 BD	2011 BD
Cash in hand	485	317
Balances with banks	207,455	165,834
Cash and balances with banks	<u>207,940</u>	<u>166,151</u>

5 MUDARABA

	Note	2012 BD	2011 BD
Mudaraba with financial institutions		2,548,756	3,135,520
Mudaraba with customers		94,616	237,216
Provision	7	(53,534)	(76,030)
		<u>41,082</u>	<u>161,186</u>
		<u>2,589,838</u>	<u>3,296,706</u>

5.1 The restructured facilities during the year amounted to BD 1,391 (2011: BD 27,945).

6 MURABAHA RECEIVABLES

	Note	2012 BD	2011 BD
Gross murabaha receivables		1,027,562	798,670
Deferred profits		(202,816)	(172,664)
Provision	7	(127,698)	(107,335)
Net murabaha receivables		<u>697,048</u>	<u>518,671</u>

6.1 The restructured facilities during the year amounted to BD 16,733 (2011: BD 10,506).

7 PROVISIONS AGAINST MUDARABA / MURABAHA RECEIVABLES

	2012			2011		
	<i>Mudaraba BD</i>	<i>Murabaha receivables BD</i>	<i>Total BD</i>	<i>Mudaraba BD</i>	<i>Murabaha receivables BD</i>	<i>Total BD</i>
As at 1 January	76,030	107,335	183,365	42,861	27,180	70,041
Recoveries	(14,701)	(12,964)	(27,665)	-	-	-
Charge for the year:						
Specific	33,137	78,621	111,758	33,169	80,155	113,324
General	415	7,041	7,456	-	-	-
Provisions, net	18,851	72,698	91,549	33,169	80,155	113,324
Written off during the year	(41,347)	(52,335)	(93,682)	-	-	-
As at 31 December	<u>53,534</u>	<u>127,698</u>	<u>181,232</u>	76,030	107,335	183,365

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

8 EQUIPMENT, FURNITURE AND FIXTURES

	<i>Equipment BD</i>	<i>Furniture and fixtures BD</i>	<i>Total BD</i>
Cost:			
At 1 January 2012	138,382	147,287	285,669
Additions	11,883	12,964	24,847
Write off during the year	(13,714)	-	(13,714)
At 31 December 2012	<u>136,551</u>	<u>160,251</u>	<u>296,802</u>
Depreciation:			
At 1 January 2012	36,160	43,597	79,757
Charge for the year	17,195	43,341	60,536
At 31 December 2012	<u>53,355</u>	<u>86,938</u>	<u>140,293</u>
Net carrying values:			
At 31 December 2012	<u>83,196</u>	<u>73,313</u>	<u>156,509</u>
At 31 December 2011	<u>102,222</u>	<u>103,690</u>	<u>205,912</u>

9 ACCOUNTS PAYABLE, ACCRUALS AND OTHER LIABILITIES

	<i>2012 BD</i>	<i>2011 BD</i>
Accrued expenses	39,734	65,186
Customer saving accounts	26,008	22,282
Provision for employees end of service benefits	25,105	14,062
Legal and professional fees payable	11,103	12,601
Others	1,934	3,760
	<u>103,884</u>	<u>117,891</u>

10 SHARE CAPITAL

	<i>2012 BD</i>	<i>2011 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 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.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

11 INCOME FROM MUDARABA

	2012	2011
	BD	BD
Income from financial institutions	130,230	128,738
Income from customers	18,578	19,166
	<u>148,808</u>	<u>147,904</u>

12 INCOME FROM MURABAHA RECEIVABLES

	2012	2011
	BD	BD
Income from financial institutions	-	28,466
Income from customers	106,338	49,627
	<u>106,338</u>	<u>78,093</u>

13 GENERAL AND ADMINISTRATIVE EXPENSES

	2012	2011
	BD	BD
Lease rentals	25,152	25,152
Security charges	20,679	20,620
Marketing and promotional expenses	20,636	23,181
Professional fee	18,357	28,794
Shari'a Supervisory Board advisory and attendance allowances	16,610	15,720
Membership fee	13,282	13,479
Utilities	12,116	8,906
Communication	6,867	5,912
Grameen trust institutional charges	3,780	3,783
Training expenses	2,445	2,950
Others	16,196	12,901
	<u>156,120</u>	<u>161,398</u>

14 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.

The transactions with related parties arise from the ordinary course of business. Outstanding balances at year end are unsecured. For the year ended 31 December 2012, the Bank has not made any provision related to amounts owed by related parties (2011: Nil).

The significant balances with related parties were as follows:

	2012	2011
	BD	BD
ASSETS		
Balances with banks	207,455	165,834
Mudaraba	2,548,756	3,135,520
Other assets	6,619	-
	<u>2,762,830</u>	<u>3,301,354</u>
LIABILITY		
Accounts payable, accruals and other liabilities	17,163	13,879
	<u>17,163</u>	<u>13,879</u>

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

14 RELATED PARTY TRANSACTIONS (continued)

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

	2012	2011
	BD	BD
Income		
Income from mudaraba	130,230	128,647
Income from murabaha receivables	-	28,466
	130,230	157,113
Expense		
Shari'a Supervisory Board advisory and attendance allowances	16,610	15,720

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:

	2012	2011
	BD	BD
Salaries	146,361	160,600
Other benefits	36,099	30,326
	182,460	190,926

15 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.

16 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.

17 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.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

17 RISK MANAGEMENT (continued)

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:

	2012 BD	2011 BD
Balances with banks	207,455	165,834
Mudaraba	2,589,838	3,296,706
Murabaha receivables	697,048	518,671
Other assets	10,731	129
Maximum exposure to credit risk	3,505,072	3,981,340

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

	2012				Total BD
	Balances with banks BD	Mudaraba BD	Murabaha receivables BD	Other Assets BD	
Neither past due nor impaired	207,455	2,565,326	583,921	10,731	3,367,433
Past due but not impaired	-	6,452	53,127	-	59,579
Individually impaired					
Gross amount	-	71,594	187,698	-	259,292
Provision	-	(53,534)	(127,698)	-	(181,232)
Net	-	18,060	60,000	-	78,060
Total exposure to credit risk	207,455	2,589,838	697,048	10,731	3,505,072
	2011				Total BD
	Balances with banks BD	Mudaraba BD	Murabaha receivables BD	Other Assets BD	
Neither past due nor impaired	165,834	3,197,871	141,516	129	3,505,350
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	129	3,981,340

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

17 RISK MANAGEMENT (continued)

Aging analysis of past due but not impaired receivables per class of financial asset is as follows:

	2012				
	<i>Less than 30 days 2012 BD</i>	<i>31 to 60 days 2012 BD</i>	<i>61 to 90 days 2012 BD</i>	<i>Total 2012 BD</i>	
	Mudaraba	-	2,694	3,758	6,452
	Murabaha receivables	-	23,881	29,246	53,127
	-	26,575	33,004	59,579	

	2011				
	<i>Less than 30 days 2012 BD</i>	<i>31 to 60 days 2012 BD</i>	<i>61 to 90 days 2012 BD</i>	<i>Total 2012 BD</i>	
	Mudaraba	43,289	12,388	6,016	61,693
	Murabaha receivables	108,818	59,910	37,364	206,092
	152,107	72,298	43,380	267,785	

Concentration of maximum exposure to credit risk

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

	2012		
	<i>Banks and financial institutions BD</i>	<i>Others BD</i>	<i>Total BD</i>
Assets			
Balances with banks	207,455	-	207,455
Mudaraba	2,548,756	41,082	2,589,838
Murabaha receivables	-	697,048	697,048
Other assets	-	10,731	10,731
	2,756,211	748,861	3,505,072

	2011		
	<i>Banks and financial institutions BD</i>	<i>Others BD</i>	<i>Total BD</i>
Assets			
Balances with banks	165,834	-	165,834
Mudaraba	3,135,520	161,186	3,296,706
Murabaha receivables	-	518,671	518,671
Other assets	-	129	129
	3,301,354	679,986	3,981,340

Geographical concentration

Assets and liability of the Bank as at 31 December 2012 are primarily concentrated in Kingdom of Bahrain.

Family Bank B.S.C. (c)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

17 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.

	2012							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	207,940	-	-	207,940	-	-	-	207,940
Mudaraba	100,000	409,967	2,038,789	2,548,756	41,082	-	-	2,589,838
Murabaha receivables	-	-	-	-	697,048	-	-	697,048
Equipments, furniture & fixtures	-	-	-	-	-	-	156,509	156,509
Other assets	7,276	3,207	3,677	14,160	-	400	-	14,560
Total assets	315,216	413,174	2,042,466	2,770,856	738,130	400	156,509	3,665,895
Liability								
Accounts payable, accruals and other liabilities	17,657	33,255	27,867	78,779	-	25,105	-	103,884
Total liability	17,657	33,255	27,867	78,779	-	25,105	-	103,884
Net Liquidity Gap	297,559	379,919	2,014,599	2,692,077	738,130	(24,705)	156,509	

Family Bank B.S.C. (c)

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

17 RISK MANAGEMENT (continued)

	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, accruals and other liabilities	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	

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2012

17 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.

18 SEGMENTAL INFORMATION

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

19 SOCIAL RESPONSIBILITY

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

20 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.

21 EARNINGS PROHIBITED BY SHARI'A

The Bank has not received any income which was non-shari'a compliant during the year ended 31 December 2012 (2011: nil).