

# What's the benefit ?

annual report 2011



**The BENEFIT Company**

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His Royal Highness  
Prince Khalifa bin Salman  
Al Khalifa  
Prime Minister



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



His Royal Highness  
Prince Salman bin Hamad  
Al Khalifa  
The Crown Prince,  
Deputy Supreme Commander

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**The benefit of the BENEFIT Company is providing cost and time saving solutions, across a range of systems and services to Bahrain's Financial Industry.**

## **Vision**

We aim to sustain our leadership in Electronic Payments and Fund Transfer, Business Process Outsourcing and Risk Management in the financial and non-financial sectors by adding value to the shareholders and the community in the region and beyond.

## **Mission**

To continue maintaining the business support platform that caters for all Electronic Payments, ATM and Card Outsourcing Services, Internet Banking, and Risk Management Services which have direct values to the current and potential institutions and members.

**How do you benefit?**



**Coverage**  
ATM & GCCNet

BENEFIT completes your  
GCC ATM services coverage.





## Company Profile



BENEFIT was established and developed with the aim to add value to our member banks and clients in the interest of our shareholders, and Kingdom of Bahrain as a whole. Strong commitment, high levels of strategic planning, an unrivalled team of talented staff and ground-breaking technologies have led us to the successful implementation and running of state-of-the-art financial services.

Established by 17 commercial banks in November 1997 as the National ATM and Point of Sale switch of Bahrain, BENEFIT's driving force has been to improve, enhance and enable the financial industry in Bahrain and the region, to thrive and compete in a wider global arena. The company's success has, over the years, compounded BENEFIT as the backbone of the financial industry in the Kingdom, licensed by the Central Bank of Bahrain (CBB) to act as 'Provider of Ancillary Services for the Financial Sector'.

With an unwavering commitment and energy to expand our services in the interests of our shareholders and the financial community, BENEFIT developed the core services to cover markets outside Bahrain, so enabling business to thrive throughout the GCC countries, under the GCCNet arrangement.

BENEFIT's range of services, many of which are pioneering in the region, include the operating of Automated Teller Machines (ATM), Point of Sale (POS), GCCNet, the GCCNet Dispute Management System, Credit Reference Bureau (CRB), Telecom Bill Payment (Tele BP), Direct Debit (DD), Payment Gateway (PG), Internet Banking (IB), and Amex cash withdrawal. Moreover, the Company is currently working with CBB and all commercial banks to launch Bahrain Cheque Truncation System (BCTS) in 2012.

We have enormous pride in our highly qualified and talented staff, 96% of whom are Bahrainis, who

continually strive to enhance our services and maintain the cutting-edge infrastructure – now running at 100% capacity and reliability – for the benefit of our shareholders and the empowerment of the economy, and financial industry in Bahrain and the GCC.

BENEFIT is administered by a Board of Directors who represents the shareholders. BENEFIT's paid-up capital is to the value of BHD 1.8 million (approximately 4.8 million US Dollars).

The original 17 shareholding banks, as a result of mergers and acquisitions in the retail banking sector, have now become 14.

They are:

National Bank of Bahrain  
Bank of Bahrain and Kuwait  
Ahli United Bank  
Standard Chartered Bank  
HSBC  
Bahrain Islamic Bank  
CITI Bank  
Bahraini Saudi  
BMI Bank  
Arab Bank  
Future Bank  
Ithmaar Bank  
Habib Bank  
United Bank Limited



## Chairman's Statement

Abdul Razak Abdulla Hassan Al Qassim  
Chairman

The Year 2011 has been challenging for the global economy and an unsettled year in Bahrain and throughout the region. However, BENEFIT is pleased to report a 25% growth in net profits reaching BD 1,660,372.

During 2011, BENEFIT, as a company, faced its greatest challenge; replacing the existing switch platform infrastructure with a new, advanced and highly resilient system, whilst ensuring zero impact on overall services performance. Once again, through absolute focus, the BENEFIT team achieved 100% success, completing the migration with a minimum system outage.

The optimal upgrade of our network infrastructure, as the backbone of the financial industry in Bahrain, means the overall outlook for BENEFIT, its member banks, shareholders, clients and the economy as a whole is without barriers. We are proud of our proven successes in the delivery and enhancement of our existing services, such as ATM, POS, Direct Debit, Payment Gateway, Credit Reference Bureau (CRB), and the GCC Dispute Management System. Our very ethos, however, is to evolve, continue to lower costs and to deliver further added value services.

BENEFIT's mandate is to place its focus on financial institutions, yet we also serve ministries and telecom providers. By the very nature of our core activities this focus also extends to impact on the individual, principally with the enhancement and delivery of ATM, POS and CRB services. In short, we strive to be the intrinsic fabric which is the basis to help the stakeholders to prosper even further.

The year ahead will look to plan out the next 3 years' activities and corporate direction, with the overarching aim of meeting the demands of the banking industry with further new and enhanced services. BENEFIT's primary extensions and additions include the Bahrain Cheque Truncation System (BCTS), and the development of the Corporate Credit Reference Bureau to include corporations and Small and Medium Enterprises (SMEs).

In the coming years, we see ourselves developing beyond our current role in the financial industry as an electronic financial services provider. BENEFIT attempts to become a leader in its field and a partner of every financial institution looking to advance their role as a cost-efficient, low-risk, effective and attractive organisation.

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The determination and efforts of our highly qualified team are evident in the attainment of BENEFIT's objectives for the year, and proven by the healthy growth of the company. In addition to providing our ultimate aim to add value to our member banks and shareholders, the BENEFIT team has collaborated to tackle cost-control, and enhance the overall efficiency of operations.

We are also indebted to the banking community as a whole, without whose trust we would not grow, and also to the Central Bank of Bahrain for its support in enabling the delivery of BENEFIT's enhanced services to move forward.

We know what we want to achieve and we know where to base our focus. The next few years will shape out our status in the wider region and financial arena.



## **Guidance**

Credit Reference Bureau

BENEFIT gives you the guidance  
you need to make the right credit decisions.





## CEO Statement

**Abdulwahid Janahi**  
Chief Executive Officer

Our philosophy is to Think Big; in terms of size we are not a large company, we understand however that today it's not size that matters, but speed. We see no bounds to the added value BENEFIT can provide to the financial industry as a whole and, crucially, to its shareholders. We are proud of our accomplishments to date, but are not content to rely on recognition for previous achievements; our ethos is to continue our efforts to achieve more and to add further value.

Our aim from inception, as a shared business platform, has been to provide unrivalled technological support and added value to our member banks, shareholders and clients. The sheer scope of the products and services developed and employed by BENEFIT gives our initial aim an intrinsic value that is highlighted by a smooth and consistent growth, to maintain a strong and healthy status.

From the outset, we have been driven by a strong ambition to provide and expand in the interest of our shareholders, proving ourselves within a relatively short time, with the BENEFIT logo being ubiquitous in Bahrain throughout all switch processing and deliverables. With a network infrastructure that now runs at 100% capacity and reliability, our focus is to maintain this optimal level of delivery, whilst innovating to provide new and vital products and services.

Amongst our achievements this year, BENEFIT has been instrumental in the successful adaptation of

raising Bahrain Credit Reference Bureau's data quality to reach 100%, to provide enhanced reliability and decision-making capabilities of banks and also lower risk. This initiative brings Bahrain up to international standards, indirectly improving the country's rating to act as a draw to inward investment, with a knock-on effect to provide greater advantage to our shareholders.

With an unwavering focus on future products and capabilities, such as the enhancement and extension of Switch and ATM services, the introduction of mobile payment and the formation of switch and clearing houses, BENEFIT deliberately paves the way towards an ever evolving, value-added future for the industry.

This relentless innovation serves to perpetuate our position as the backbone of the financial industry in the region. As the architect of systems and services consistently delivered effectively and efficiently, BENEFIT's role in empowering Bahrain to retain its status as the financial hub of the GCC is all encompassing.

The backbone of BENEFIT, of course, is our highly skilled and dynamic staff, the majority of whom are Bahraini. As our greatest asset, the tangible pride we have in our team is systematically rewarded by the delivery of services of the highest quality, and a strong endeavour to innovate. This, in turn, helps elevate us closer to our aim of becoming an icon



BENEFIT deliberately paves the way towards an ever evolving, value-added future for the industry.

for management transactions across the board, to fundamentally benefit the banking industry and with it our shareholders.

Over the years, through the support and direction of the Board of Directors, together with our handpicked, highly skilled management and technical staff, we have developed and nurtured a level of trust with the banking community, shareholders and clients that sees BENEFIT fast becoming the role model of a shared platform business environment, not only in Bahrain but also further afield. As the very foundation upon which we continue to thrive and innovate, the trust invested in us allows the financial industry and our shareholders to prosper from our services and initiatives.

We understand how crucial relationships are to the growth of an industry. By intuitively recognising the needs of our member banks, we ensure optimal levels

of concentration can be placed on their own core activities, to improve cash flow and the provision of a higher quality of service to their customers.

The future for BENEFIT, we see, as limitless. Through state-of-the-art technologies, advanced service provider facilities, a committed and talented workforce and a fundamental understanding of the industry as a whole, we have proved to be an indispensable factor in the betterment of the economy for the region.

With the interests of our shareholders foremost in mind, we look forward to an exciting and prosperous few years that hold infinite possibilities to benefit the financial industry within Bahrain and the GCC, and also internationally.



## **Protection**

GCC Dispute Management System

BENEFIT protects your interests  
when things don't work as they should.



## Board of Directors



**Abdul Razak Abdulla Hassan Al Qassim**

Chairman  
Member of Nomination & Remuneration Committee  
NBB  
CEO and Board Member



**Reyadh Sater**

Vice Chairman  
Chairman of Audit Committee  
Member of Nomination & Remuneration Committee  
BBK  
GM, Shared Services Group



**Abdulla Hussain**

Director  
Chairman of Executive Committee  
NBB  
EAGM, Customer Services and IT



**Hana Sarwani**

Director  
Member of Audit Committee  
HSBC  
Chief Operating Officer



**Mohammed Malik**

Director  
Member of Executive Committee  
CREDIMAX  
Chief Executive



**Venkatachalam PS**

Director  
BSB  
Head - Operations & Support



**Khalid Juma**  
Director  
NBB  
General Manager  
Operations & Administration



**Abdul Razaq Abdul Khaliq**  
Director  
Member of Audit Committee  
BISB  
Assistant General Manager -  
Central Operations



**G.P.V. Rao**  
Director  
Member of Executive Committee  
AUB  
Group Head of Technology,  
Financial Services



**Sai Narain CDK**  
Director  
Member of Executive Committee  
SCHB  
Head of Consumer Banking



**Yousif Al Fadhel**  
Director  
CBB  
Director, IT Directorate

## Management Team

### Abdulwahid Janahi

Chief Executive Officer joined The BENEFIT Company in 10th April 2005 with BSc in Focus and Marketing St. Edward University in Austin and a MBA from University of Bahrain. Mr. Janahi brings to the company around 26 years of experience in the financial industry field covering marketing, telecom and business development.

### Yousif AlNefaiei

Deputy GM Business Development joined The BENEFIT Company in 30th March 2006 with BSc in Computer Science from University of Bahrain and a MSc. Degree in Information Systems from Brunel University of London in the United Kingdom. Mr. AlNefaiei brings to the company a total of 17 years of experience in the information technology and banking industries.

### Adel Salem

Deputy GM Business Support joined The BENEFIT Company in 1st of May 2007 with a degree in Computer Science from University of Bahrain and an MBA from University of Glamorgan in the United Kingdom. Mr. Salem brings to the company a total of 24 years of experience in the telecom and banking industries.

### Hessa Hussain

Head of Bahrain's Credit Reference Bureau joined The BENEFIT Company in 15th February 2005 with a BSc in Computer Engineering from the American University of Sharjah. Miss. Hussain brings to BENEFIT a total of 7 years of experience in Credit Reference Bureau in addition to 5 years in information technology.



**Abdulwahid Janahi**  
Chief Executive Officer



**Adel Salem**  
DGM Business Support



**Yousif AlNefaiei**  
DGM Business Development



**Hessa Hussain**  
Head of CRB



## **Speed**

Bahrain Cheque Transaction System (BCTS)

With BENEFIT's BCTS  
you receive funds faster.





## BENEFIT Services Spectrum



## The focus on speed, flexibility and ease highlights BENEFIT's commitment to the betterment of the economy.

BENEFIT's very existence from inception has been founded with the aim of saving time and money, to ensure optimal efficiency and low risk for banks and financial institutions within Bahrain. Our existing services, having proved their value, are consistently enhanced and improved by strategic thinking at the highest level. We strive to provide the utmost in cutting-edge financial technology, with our shareholders interests and the national economy foremost in mind.

With the launch of our first ATM switch services in 1997, BENEFIT has, over the years, provided the customer with instant access to cash withdrawal. Our current national network extended to more than 300 ATMs throughout the Kingdom enables around the clock, convenient services for all BENEFIT debit (ATM) cardholders.

In its role as the National Switch, the BENEFIT has been further developed to provide Point of Sale (POS) transactions at terminals throughout Bahrain. With a vast network, the enabling of POS transactions, at the majority of merchant outlets in the Kingdom, offers increased efficiency and maximum ease for BENEFIT debit cardholders. Our efforts to provide the highest availability of ATM and POS are invested continuously in a bid to positively heighten efficiency for our member banks and the industry.

BENEFIT's aim in the next few years is to spread our reach further afield to bring yet more added value to our banks and shareholders. Since 1999, the company

has been connected with all GCC countries as a member of the GCCNet Network. BENEFIT's card holders, under the GCCNet, are able to withdraw cash from ATM facilities in Kuwait, UAE, Qatar, Oman and Saudi Arabia. Conversely, those who hold GCCNet cards, whilst in Bahrain, are given access to cash withdrawal at ATMs throughout the Kingdom. With a constantly expanding network, transactions can now also be made at all ATMs carrying the GCCNet logo in Jordan, Egypt and Lebanon via Qatar National Switch.

BENEFIT's success has been built, in part, by our innate understanding of the needs of the financial industry on an individual and institutional basis. American Express, in recognition of our innovative and reliable network and processes has chosen BENEFIT as its preferred switch partner throughout the GCC. Through our network, AMEX holders are now able to withdraw cash from ATMs in Bahrain, Kuwait, Qatar, UAE and Oman.

To add further ease of business and transactions across the board, BENEFIT has been operating a high-tech Tele Bill Payment (Tele BP) service since 2001. This service, offered to Batelco, Zain Bahrain and VIVA Bahrain, allows their customers to make payments and settle telecom bills online or through kiosk machines with the use of BENEFIT debit cards.

As a continuation of our efforts to develop the financial community in Bahrain and facilitate ease of business transactions, BENEFIT's pioneering Direct Debit service,

introduced in 2002, has achieved substantial cost cutting and provided maximum efficiency to the market. Enabling and regulating bulk payments, such as utilities, bill payments, credit card and loan instalments has achieved tangible results for government agencies, the private sector and also the individual. Once again, the focus on speed, flexibility and ease highlights BENEFIT's commitment to the betterment of the economy

Another invaluable service to the financial sector is our Credit Reference Bureau (CRB). By supporting the banks' credit risk decisions through BENEFIT's CRB service, we empower our clients' risk management through the provision of maximum data quality. Since its introduction in 2005, the CRB service has grown in stature to facilitate optimum information sharing amongst lenders with the minimum risk of fraud. This strategically run service protects not only financial institutions, but also consumers and, as a result, may help to increase the rating of Bahrain as a country in which to do business.

To further protect merchants and financial institutions, whilst providing up-to-date transaction methods, BENEFIT's Payment Gateway was designed and implemented in 2006 to enable the processing of online transactions via the use of debit and credit card payments. Creating the height of business activity amongst banks, government clients and the private sector, this time and money saving service enables the acceptance of payments online or via kiosk machines, Interactive Voice Recognition (IVR) and call centres.

The highest level of e-commerce and e-gov payments are now processed through BENEFIT's state-of-the-art Payment Gateway service.

Through BENEFIT's Internet Banking (IB), the highest level of technology has, once again, been implemented to provide this shared IB platform. The provision of online access - 7 days a week, around the clock - is a vital commodity in today's financial arena. BENEFIT's state-of-the-art Internet Banking solution is the ideal Internet Banking solution to banks. BENEFIT's Internet Banking significantly lower costs, time and effort for the Banks, whilst ensuring the highest security and availability are in place, together with a full disaster recovery site.

BENEFIT, through its subsidiary SINNAD is continuously striving to offer a comprehensive range of outsourcing services relating to, amongst others, ATM & POS machines; such as ATM and credit card and Risk Management services. By outsourcing such an activity, the banks would experience great and immediate advantages. SINNAD's responsibility is to manage and support the ATM and POS terminals, on behalf of the banks, such would not only lead to huge cost cutting, but would also offer the ability for banks to invest more focus into selling their services.

As the hub of all regional GCCNet dispute claims, BENEFIT has hosted the GCCNet Dispute Management System since 2009. Facilitating and managing the fast and efficient dispute process and resolution, the system allows all commercial banks within the GCC countries to raise and settle customer disputes online. In yet another move to save costs and take over the running of a time-consuming process from our member banks, BENEFIT allows clients to focus on core activities, taking each GCC member country's requirements into consideration in the process.

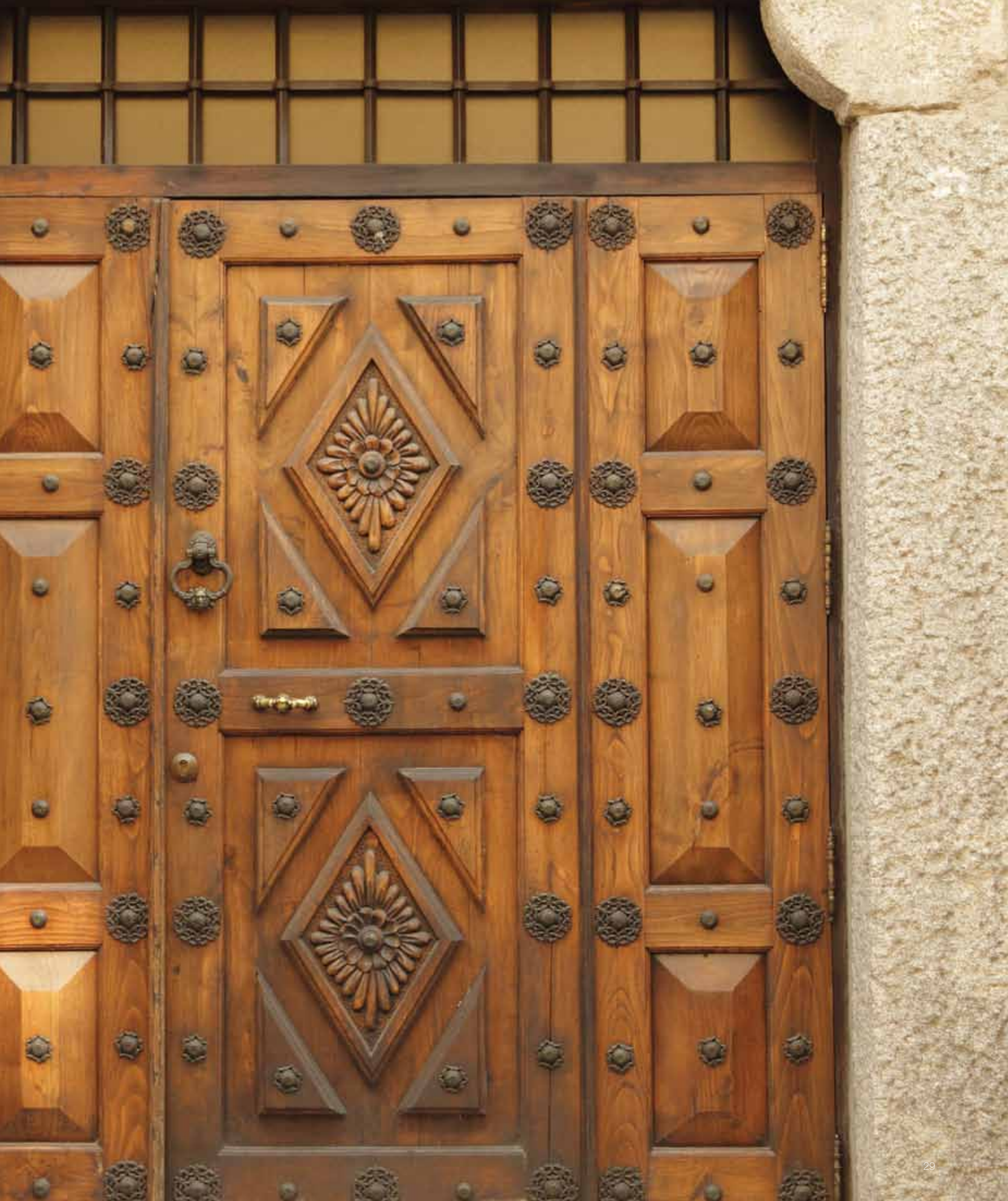




## **Secure**

Payment Gateway

Faster, safer transactions with BENEFIT.



## Optimising for the Future





BENEFIT's aim in the next few years is to spread our reach further afield to bring yet more added value to our banks and shareholders.

In 2011, the commitment and integrity of the BENEFIT staff was demonstrated by the achievement of its network and infrastructure upgrade that now runs at 100% capacity and reliability. BENEFIT, through experience and proven success, has both the direction and tools to create the highest available infrastructure, providing complete support to all of the banks currently operating in Bahrain, and any future banks with plans to establish themselves in the Kingdom. With the success of the upgrade, BENEFIT is now in a position to manage all levels of business development and growth in the coming years.

Today, the entire spectrum of BENEFIT's services is operated through a shared network; **FinanceNet**, which encompasses all BENEFIT member banks throughout the Kingdom of Bahrain. The issues BENEFIT has faced and overcome in 2011 in the infrastructure upgrade will serve to add limitless value to the management of business growth.

The introduction of FinanceNet has also significantly increased the efficiency of the monitoring of the network; outage time from the bank side can now be minimised in case of communication failure. Having BENEFIT's services now all running on the same network, this shared resource proves to be of vital importance to a banking community wishing to stand out in the wider global financial arena. With the ability to monitor the entire network as another added service, BENEFIT ensures 100% availability

from both the company's side and also that of the banks, so reducing the total outage time on a national level.

Not only have we achieved full tolerance in the upgraded infrastructure and the ability to minimise outage and handle growth for the coming years, but we have also put in place the ultimate Disaster Recovery (DR) site. In case of failure on the primary, the Hot DR application has two systems working in synchronisation, with minute-by-minute back up to eliminate any future disruption, further cementing BENEFIT as the ultimate service provider.

The optimum upgrade of our infrastructure is in line with our philosophy as a company; at BENEFIT we believe in shared resources, from staff, to technology and through to member banks and clients. BENEFIT runs on a shared network, shared platform foundation. Our challenge now, having achieved 100% success with the infrastructure by overcoming loopholes in the system and finalised our ISO 27001 certification, is to maintain the infrastructure at the current 100% level and to continue to strive forward in the delivery of excellence.

2011 has seen BENEFIT's growth continue at a steady and smooth pace, further strengthening the trust invested in us by the banking industry. Our commitment to drive forward and put in place future initiatives is central to the success of our ultimate goal; to become the hub for all transactions in Bahrain and beyond. Over the last year, BENEFIT's net profit grew by 25%, it is such achievements and

implementations that continue to ensure added value for the banking industry and its shareholders, whilst its future initiatives look to strategically and fundamentally build upon this platform. BENEFIT's aim in the next few years is to spread our reach further afield to bring yet more added value services to our banks and shareholders.

The Central Bank of Bahrain (CBB) has, due to the Company's achievements and its effective role in the country's banking community, selected BENEFIT to deliver the **Bahrain Cheque Truncation System (BCTS)** project. This, under the supervision of the CBB, is a new service set to revolutionise the cheque clearing cycle in the Kingdom, bringing Bahrain up to date with the very latest in cutting-edge financial technology. In the world of modern day finance, speed is of the essence; whereas, previously, the cheque clearing process took from 2 to 3 days, the launch of the BCTS will ensure cheques are cleared and settled the same day. Moreover, the BCTS shall also speed up the interbank settlements with CBB via real-time integration with CBB's Real Time Gross Settlement (RTGS) system, so speeding up the circulation of funds throughout the country.

The BCTS infrastructure is at the height of banking technologies, developed with the highest level of security implementations to enhance the quality of cheques on exchange in the country, bringing with it the assurance of low risk to the banks and their customers. This strong infrastructure is backed up

with the best of communication technologies with a hot Disaster Recovery (DR) site. Moreover, BENEFIT also provides a business continuity site for member banks to use when facing system disrupt at their ends to assure the highest availability at all levels.

To provide added value and cost-efficient services is our overarching objective as a company, the BCTS project is a vital extension of BENEFIT's principles and direction. The future of BCTS sees the entire process of manual operations minimised, which will not only allow all 29 retail banks to invest their focus in primary activities, but will also provide a better quality of service to the customer, enable banks to monitor liquidity in real time and, crucially, add overall value to the industry.

BENEFIT understands fully the importance of risk management in order to generate added value services. This year, following approval from the CBB, will see the implementation of the **Corporate Credit Reference Bureau (CCRB)**, designed and developed by BENEFIT to provide full credit details, critical to the advancement of the individual bank and the entire financial industry in the region. The ability to view consolidated corporate data will substantially improve decision-making capabilities for the banks; by highlighting the positives as well as the negatives through providing historical and current corporate credit patterns, information, and data; the bank will be empowered to make forward driving decisions.

The provision of the CRB service will be of huge importance to banks, the customer who will be given freedom of mobility and heightened negotiating powers, and, vitally, the nation. To offer transparency to the Regulator by way of National Statistics, will confirm Bahrain's status as a 'place to do business'. The provision of corporate data through BENEFIT's state-of-the-art systems will serve to attract new business, encourage new ventures and substantially increase inward investment to truly bring Bahrain up to international standards through an improved country rating.

With FinanceNet operating at full capacity, the options to extend the network are limitless. As an extension to the GCCNET service, which currently enables only ATM cash withdrawal, BENEFIT has been working with the GCC Payment Committee on developing **GCC Point of Sale (POS)**. Such a service, will add tangible benefits and cost saving to all card holders, consumers, merchants and commercial Banks. Looking to go live in 2012, this service will allow customers, throughout all six GCC countries, to use their local debit cards at any POS facility. The BENEFIT team view this as a first step towards extending GCCNet services to include Direct Debit and Payment Gateway and moving GCCNet forward for a full expansion of services throughout the region, fundamentally providing a cost effective alternative for banks.

Precise and strategic thinking has been invested in the GCC POS routing scheme to not only create an efficient system but, ultimately, provide an appealing option to cardholders throughout the GCC. The aim is to keep charges at the lowest rate; these will be based on the Central Banks' exchange rate with the ultimate goal of keeping GCC money within GCC boundaries. Moreover, the GCC POS routing scheme assured reducing cost of transaction on GCC customers and merchants as well. To harness the wealth within the region will improve the flow of money and ultimately add to the GCC economy overall.

To enable the maximum insight into credit flow, BENEFIT aims to launch the **Credit Reference Bureau Club**, which will be developed with the purpose of offering the individual the opportunity to receive regular credit reports, on a monthly/quarterly basis. This service will easily allow the customer - both individuals and companies - to monitor performance and verify credit data with banks and financial institutions. Not only does the Credit Reference Bureau Club increase public awareness towards the CRB and its services, but with the BENEFIT system in place, member banks' time and resources invested in resolving customer complaints will be dramatically reduced.

Moreover, to be the hub for all transactions is consistently at the heart of our strategic thinking, in the next couple of years we aim to provide full risk analysis and reports with the introduction of the **Credit Risk Management** service. As provider of the centralised resource for credit account details, BENEFIT plans to create a system to provide member banks with the required risk information. This new service offering readily available information such as Exposure reports, Country Credit Statistics, Risk Alert, and Basel III will dramatically reduce analytical time spent by banks, thereby reducing costs and heightening risk management. Additionally, integration with Credit Score in order to automate the Credit Application process will allow banks to concentrate on easy online monitoring of performance, on a day by day basis, and to focus on core business.

The company's commitment to our core service, inter-bank ATM services, is strong and enduring with our ultimate aim being to service our customers wherever they may be, within the GCC or further

afield, to the benefit of our member banks and shareholders. The BENEFIT team have been concentrating on the **extension and development of ATM services** to include Top-up and Bill Payment, Fund Transfers, Loans and credit card enquiries and e-gov portals, all of which look to fundamentally increase productivity and lower costs for our member banks. With these systems in place, the focus can be placed on the provision of the highest quality and variety of products for member banks' customers.

In a move to create yet further benefits and services to the customer, in line with advanced financial and banking systems, the company is looking at introducing a **Mobile Payment** solution to be enabled via the existing BENEFIT network. The service, to be implemented at national level with free subscriptions and registration available to all member banks' customers, will be invaluable to the banking industry as more and more customers rely on mobile networks for ease of business transactions.

Enabling our network to centralise Mobile Payment will effectively ensure the high expense of cash management is minimised. With the addition of Mobile Payment technology, our member banks will be able to offer a wider range of services of a higher quality, but without the added pressure of systems management, to the benefit of all.

For BENEFIT, the need to investigate systems and processes for the advancement of the financial industry and our shareholders is strong and innate. We consistently strategise to put in place plans for growth over the next few years. Amongst the services we plan for the future are; **The Expansion of the ATM Network** to cover External Networks, to connect with China, Turkey, United Kingdom and Malaysia amongst others. Such external schemes will make BENEFIT the GCC's gateway to international networks and ensure cost-effective and efficient cash withdrawal for BENEFIT and GCC cardholders in countries outside the region.

And, finally, BENEFIT aims to act as a national hub or **shared gateway for international switches** such as VISA, MasterCard, Amex, and China Union Pay (CUP). In doing so, the company will assist banks, by way of interface set-up and the provision of equipment, in lowering costs and reducing the complexity of processing on the banks' side, once again, delivering added value to our member banks and hence our shareholders.



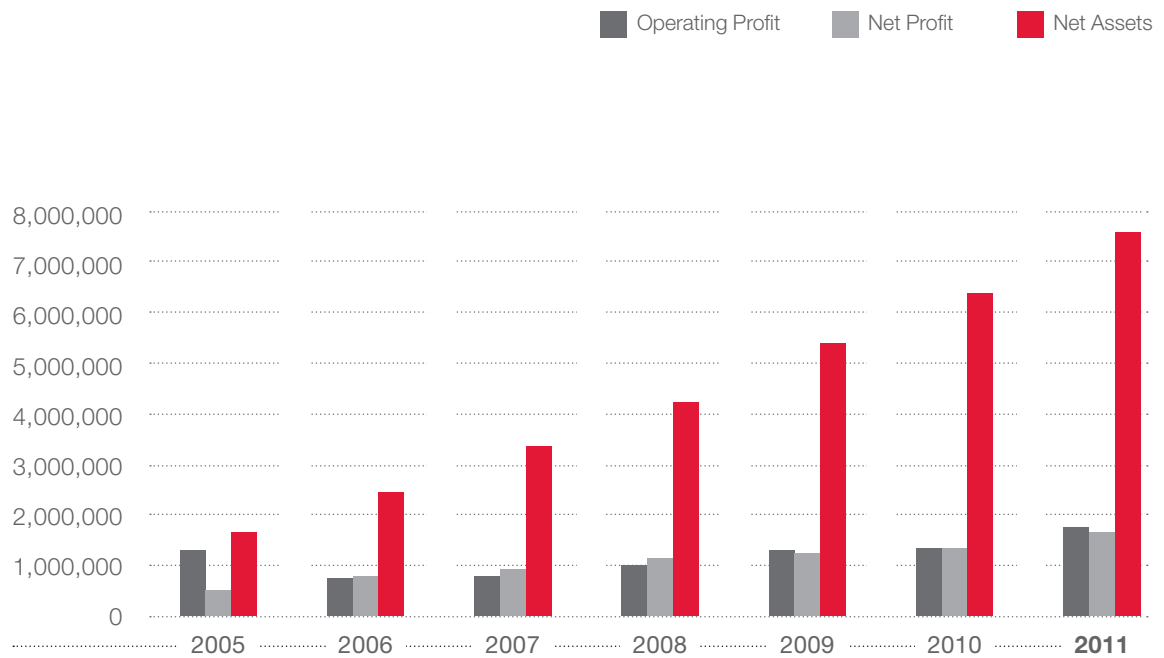
## **Cost Saving**

BENEFIT FINANCENET

BENEFIT's network saves you money.



## 7 Years Growth



Through consistent innovation, focus and strategic planning, BENEFIT has demonstrated a steady growth over the past 7 years. 2011, and by continuing the trend for growth, highlights BENEFIT's achievements over the past 7 years with a network that now runs at 100% capacity and reliability, and the successful adaptation of enhancing Bahrain Credit Reference Bureau's data quality to 100% accuracy.

As the National ATM and Point of Sale switch of Bahrain, BENEFIT is consistently enhancing its services and expanding even further in the interests of its shareholders and the financial sector as a whole. BENEFIT's primary aim is to alleviate banks and financial institutions, in Bahrain and throughout the

GCC, by providing ancillary services enabling banks to focus on core activities.

BENEFIT's growth in profits serves the company's main focus of enhancing its existing services and introducing new services that provide value adding advantages to member banks and shareholders such as Bahrain Cheque Truncation System, Corporate Credit Reference Bureau and Mobile Payments amongst others, whilst consistently extending its reach. To provide Bahrain's financial industry with the power to deliver services at maximum efficiency, whilst continuing to maintain modest profit, ensures BENEFIT, as a company, can look ahead to further steady growth and the next 7 years of achievement.





## Corporate Governance



# Corporate Governance Report

Benefit Company foresees Bahrain's global position in the future of banking in the region, and is determined to provide the banking community with the best and most advanced services. The company has the interest of Bahrain's financial industry at heart, and all of its efforts revolve around that. Thus, BENEFIT is determined to provide their clients with the best most advanced services and support.

As the backbone of Bahrain's financial industry we understand the importance of adopting best corporate governance practice. BENEFIT, as a company, has earned a reputation for conducting business with the highest integrity and maximum efficiency from Board level and throughout our entire organisational structure. We operate in full compliance with the rules and regulations of the Central Bank of Bahrain (CBB) in our endeavour to protect the future of Bahrain's economy and the financial industry as a whole, and with it the interests of our shareholders.

The highest and strictest standards are applied to all areas of BENEFIT's business conduct. With strong working values, and the supervision and control

of company management operations by Board of Directors, we ensure long-term sustainability of growth.

To underline BENEFIT's commitment to compliance with corporate governance, the Board has formed and put in place an Audit Committee, Executive Committee, and a Nomination and Remuneration Committee to oversee company activities. The Audit Committee ensures correct procedures are taken and the proper financial records presented, whilst the Executive Committee acts with an emphasis on speeding up the Board approval process for new projects, the Nomination and Remuneration Committee reviews the Board composition and succession planning and assists the Board in finding, evaluating and recommending candidates for the Board.

The Audit Committee also acts to demonstrate and guarantee that BENEFIT, as a company, is in strict and proper compliance with the CBB's rules and regulations.

# SHAREHOLDERS INFORMATION

The Benefit Company is the backbone of the Financial Industry of Bahrain and is focused on adding value and investing in the prosperity of the financial community. It was established in November 1997, by seventeen commercial banks in Bahrain who are the sole shareholders and which are currently 14 banks due to mergers and acquisitions. BENEFIT is licensed by the Central Bank of Bahrain (CBB), under a special license, as a 'Provider of Ancillary Services to the Financial Sector'. Furthermore, it is administered by a Board of Directors representing the shareholders on a proportional basis. The company's paid-up capital holds a value of BHD 1.8 million (approx. 4.7 million US dollars). BENEFIT is not publicly listed.

There was no change in shareholding during the year and current shareholding pattern given below

No.	Bank/Institution	No. of shares	% of shares
1	National Bank of Bahrain BSC	6,270.75	34.84%
2	Bank of Bahrain & Kuwait	3,960.00	22.00%
3	Ahli United Bank BSC	1,980.00	11.00%
4	Standard Chartered Bank	1,620.00	9.00%
5	HSBC Bank Middle East Limited	1,260.00	7.00%
6	Bahrain Islamic Bank B.S.C.	870.75	4.84%
7	Citibank N.A.	540.00	3.00%
8	Bahraini Saudi Bank B.S.C.	418.50	2.33%
9	BMI Bank B.S.C. (c)	180.00	1.00%
10	Arab Bank Plc	180.00	1.00%
11	Future Bank B.S.C. (c)	180.00	1.00%
12	Ithmaar Bank B.S.C. (c)	180.00	1.00%
13	Habib Bank Limited	180.00	1.00%
14	United Bank Limited	180.00	1.00%

## Annual General and Extra Ordinary Meeting

Annual General Meeting was held on 31 March 2011

There was no requirement to hold an Extra Ordinary Meeting during the year

# Board of Directors information

## Board composition

The Board of Director comprises of 8 appointed, 2 elected and one CBB representative. The Board of Directors appointed for a 3 years term and their term will be completed 14th April, 2013, The Board shall conduct an assesment of the directors subsequent to the AGM meeting. The Board consists of members with wide range of experience in the Banking sector.

1.	Abdul Razak Abdulla Hassan Al Qassim	Chairman	Executive
2.	Reyadh Yousif Sater	Vice chairman	Executive
3.	Abdulla Hussain	Director	Executive
4.	Khalid Juma	Director	Executive
5.	G.P.V. Rao	Director	Executive
6.	Abdul Razaq A.Khaliq	Director	Non-Executive
7.	Mohammed Malik	Director	Executive
8.	Hana Sarwani	Director	Non-Executive
9.	Sai Narain	Director	Non-Executive
10.	Venkat PS	Director	Non-Executive
11.	Yousef Al Fadhel	CBB observer	

## Directors' roles and responsibilities

The Board adapted a Terms of reference, the scope as follows:

The primary role of the Board of Directors (the "Board") of BENEFIT (the "Company"), is the protection and enhancement of the value of the organization's assets. It provides direction to the total affairs of the organization to ensure its development and financial sustainability and to enhance the value of its products and services to its constituents.

The Board provides for the quality, depth, and continuity of management required to attain the organization's major strategic and operational objectives. The Board oversees the conduct of the organization's business and supervises management, which is responsible for the day-to-day conduct of the business. In supervising the conduct of the business, the Board, through the CEO, sets the standards of conduct for the organization.

The Board has adopted this Terms of Reference and Code of Conduct. This Terms of Reference and Code of Conduct, together with the Company's Memorandum and Articles of Association (collectively M&A Articles), the requirements of the Central Bank of Bahrain ("CBB") and the charters of certain Board Committees, provide the authority and practices for governance of the Company.

### **Directors' remuneration**

Members of the Board of Directors' remuneration is BD55,000 for the year 2011. The subcommittees receive sitting fees for attending the meetings of Audit committee, Executive committee and Nomination & remuneration committee for a total amount of BD 11,700 for 2011.

### **Directors' Profile**

Abdul Razak Abdulla Hassan Al Qassim,  
44 years of experience.

- BENEFIT Company Chairman
- Chairman of Board of Trustee of Ahlia University;
- Deputy Chairman of Eskan Bank;
- Deputy Chairman and Chairman of Executive Committee of Oasis Capital Bank B.S.C;
- Deputy Chairman and Chairman of Executive Committee of the Arab Academy for Education and Research;
- Board Member and Chairman of Executive Committee Member of Bahrain Telecommunication Company;
- Board Member of Umniah;
- Member of the Board of the Crown Prince International Scholarship Programme.

Reyadh Sater,  
35 years of experience.

- BENEFIT Vice Chairman and Audit Committee Chairman
- Sakana Holistic Housing Solution Chairman
- Capinnova Investment Bank Vice Chairman & Audit Committee Chairman
- Credimax company Deputy Chairman & Audit Committee Chairman

Abdulla Hussain,  
22 years of experience.

- BENEFIT Board Director and Executive Committee Chairman

Khalid Juma,  
40 years of experience.

- BENEFIT Board Director

Mohammed Malik,  
25 years of experience.

- BENEFIT Board Director and Executive Committee Director
- Global Payment System (GPS) - Board Chairman

G.P.V Rao,  
Over 26 years of experience.

- BENEFIT Board Director and Executive Committee Director

Sai Narain,  
22 years of experience.

- BENEFIT Board Director and Executive Committee Director

Hana Sarwani,  
15 years of experience.

- BENEFIT Board Director and Audit Committee Director

Abdulrazaq Abdul khaliq  
36 years of experience.

- BENEFIT Board Director and Audit Committee Director
- Bahrain Specialist Hospital Board of Directors
- Trade Finance National Committee (ICC)

Venket P.S.  
About 27 years of experience.

- BENEFIT Board Director

Yousif Al Fadhel  
Over 25 years of experience.

- CBB observer

### **Code of Conduct of Directors**

This Code sets ethical standards for the directors and key officers of the Company and reflects the directors' and key officers' intention to ensure that their duties and responsibilities to the Company are performed with the utmost integrity.

The conduct of the directors is governed by the following principles.

### **Integrity and Professionalism**

1. Directors will act honestly and with integrity in all of their dealings for the Company.
2. Directors will maintain the highest levels of professional conduct in their interactions with colleagues, business partners and in representing the Company in the community.
3. Directors will be truthful, and not mislead or make any false statements, nor mislead by omission.

### **Compliance with the Law**

1. Directors will abide by the law at all times.
2. Directors are bound by the laws of the Kingdom of Bahrain.

### **Conflicts of Interest**

1. Director will fully disclose any business interest (public or private) and any other matters which may lead to potential or actual conflicts of interest, in accordance with such policies adopted by the Company from time to time.
2. Directors owe their first duty to the Company. In circumstances where other roles (whether serving as directors or trustees of another organization) potentially conflict with the Company's interests, the Director will advise and seek approval from the Chairperson in accordance with this Code.
3. Directors will not use their role within the Company for political interests at any time, or if there is conflict of interest with a third party or for community interests unless authorized by the Company.
4. Directors must not take improper advantage of the position as a director to gain, directly or indirectly, a personal advantage or an advantage for any associated person. They shall disclose any benefits from personal business as well as any issue that may conflict with the Company's benefit or may cause a conflict of interest to the Company.

### **Confidential Information**

1. Directors must ensure that confidential information relating to the Company, its customers, its operations, or any other commercially sensitive matter, are not given either inadvertently or deliberately to third parties without the consent of the Company. Other than in circumstances required by law, there is no reason for Directors to reveal confidential information. Confidential information which is to be released to legitimately



interested third parties shall only be made so available after appropriate authorization procedures have been followed.

2. Directors will maintain and observe their obligations of confidentiality and proper use of information even after leaving the Company's premises.

#### **Inside Information**

Directors must not use inside information for personal gain, and or for any business that is a conflict of interest.

#### **Benefits to Senior Officers**

1. Directors must not use their status of the Company to seek personal gain from those doing business or seeking to do business with the Company.
2. Directors of the Company must not accept payments, gifts or entertainment beyond that which would be considered normal business practice

#### **Board meeting and attendance:**

During the year 2011 five Board meetings were held in Bahrain as below

<b>MEMBERS</b>	<b>17 JAN 2011</b>	<b>27 FEB 2011</b>	<b>17 MAY 2011</b>	<b>1 NOV 2011</b>	<b>14 DEC 2011</b>
Abdul Razak Abdulla Hassan Al Qassim – Chairman	✓	✓	✓	✓	
Reyadh Sater – Vice Chairman	✓	✓	✓	✓	✓
Abdul Aziz Al Ahmed / Khalid Juma – Director	✓	✓	✓	✓	✓
Abdulla Hussain - Director	✓	✓	✓	✓	✓
Mohammed Malik - Director	✓	✓	✓	✓	✓
G.P.V. Rao - Director		✓		✓	
Sai Narain - Director	✓	✓	✓	✓	✓
Hana Sarwani - Director	✓	✓	✓	✓	✓
Abdul Razaq A.Khaliq - Director	✓	✓		✓	✓
Venkat PS - Director	✓	✓	✓	✓	✓
Yousif Al Fadhel – CBB Representative	✓	✓	✓	✓	✓

Note – Khalid Juma replaced Abdul Aziz Al Ahmed on 1 November 2011 as NBB representative. Also, Board of Director Sai Narain replaced B Chandrasekhar representing Standard Chartered Bank.

### Board committee

To enable better and more focused attention on the affairs of the Company, the Board delegates particular matters to committees of the Board set up for the purpose:

### Audit committee:

For the company and its subsidiaries (if any), the Audit committee shall assist the Board of Directors in overseeing the responsibilities for the financial reporting process, the system of internal control, the audit process, monitoring financial risks and the compliance with laws and regulations and the company's code of conduct (if any).

- The committee shall be appointed from the Board from amongst directors of the company and shall consist of not less than 3 members.
- A quorum shall be 2 members.
- The Chairman of the Committee shall be appointed by the Board.
- Audit Committee membership term expires at the same time as the Board of Directors.

### Audit Committee members

Reyadh Yousif Sater	Chairman
Hana Sarwani	Director
Abdulrazak A Khaliq	Director

During the year 2011 4 Audit committee meetings were held.

MEMBERS	2 FEB 2011	26 APR 2011	26 JUL 2011	24 OCT 2011
Reyadh Sater - Chairman	✓	✓	✓	✓
Abdulrazaq Abdul Khaliq - Director	✓	✓	✓	✓
Hana Sarwani – Director		✓	✓	✓

### Executive Committee

The purpose the ExCo is to a) help speed up the decision making process, b) support and enable the senior management of the company to perform its functions as per the company goals and strategy, c) express views and provide guidance on any particular strategic or major issue affecting the business. In particular, The ExCo is to review and make timely decisions and recommendations to the board

- Execute any actions mandated by the Board of Directors.
- Review Strategic business direction, plans and budgets of the Company and make any necessary decisions.
- Discuss matters affecting shareholders' interests in the Company.
- Assess high potential acquisitions, joint ventures or disposal of assets.

#### **Executive committee**

Abdulla Hussain	Chairman
GPV Rao	Director
Mohammed Malik	Director
Sai Narain	Director

During the year 2011 8 Executive committee meetings were held.

<b>MEMBERS</b>	<b>23 MAR 2011</b>	<b>14 MAY 2011</b>	<b>18 MAY 2011</b>	<b>28 JUL 2011</b>	<b>28 SEP 2011</b>	<b>17 NOV 2011</b>	<b>24 NOV 2011</b>	<b>22 DEC 2011</b>
Abdulla Hussain - Chairman	✓	✓	✓	✓	✓	✓	✓	✓
Mohammed Malik - Director	✓	✓	✓	✓	✓	✓	✓	✓
G.P.V Rao - Director	✓	✓		✓		✓		✓
Sai Narain - Director	✓	✓	✓		✓		✓	

#### **Nomination & Remuneration Committee**

The board established the Nomination and Remuneration Committee under the Company's constitution.

#### **Nomination & Remuneration Committee**

Abdul Razak Abdulla Hassan Al Qassem	Director
Reyadh Yousif Sater	Director

Due to the size of the company two members have been elected for Nomination & Remuneration.  
During the year Nomination & Remuneration committee met twice

<b>MEMBERS</b>	<b>27 FEB 2011</b>	<b>29 NOV 2011</b>
Abdul Razak Abdulla Hassan Al Qassim - Director	✓	✓
Reyadh Sater – Director	✓	✓

# Managerial Structure

## Management Team

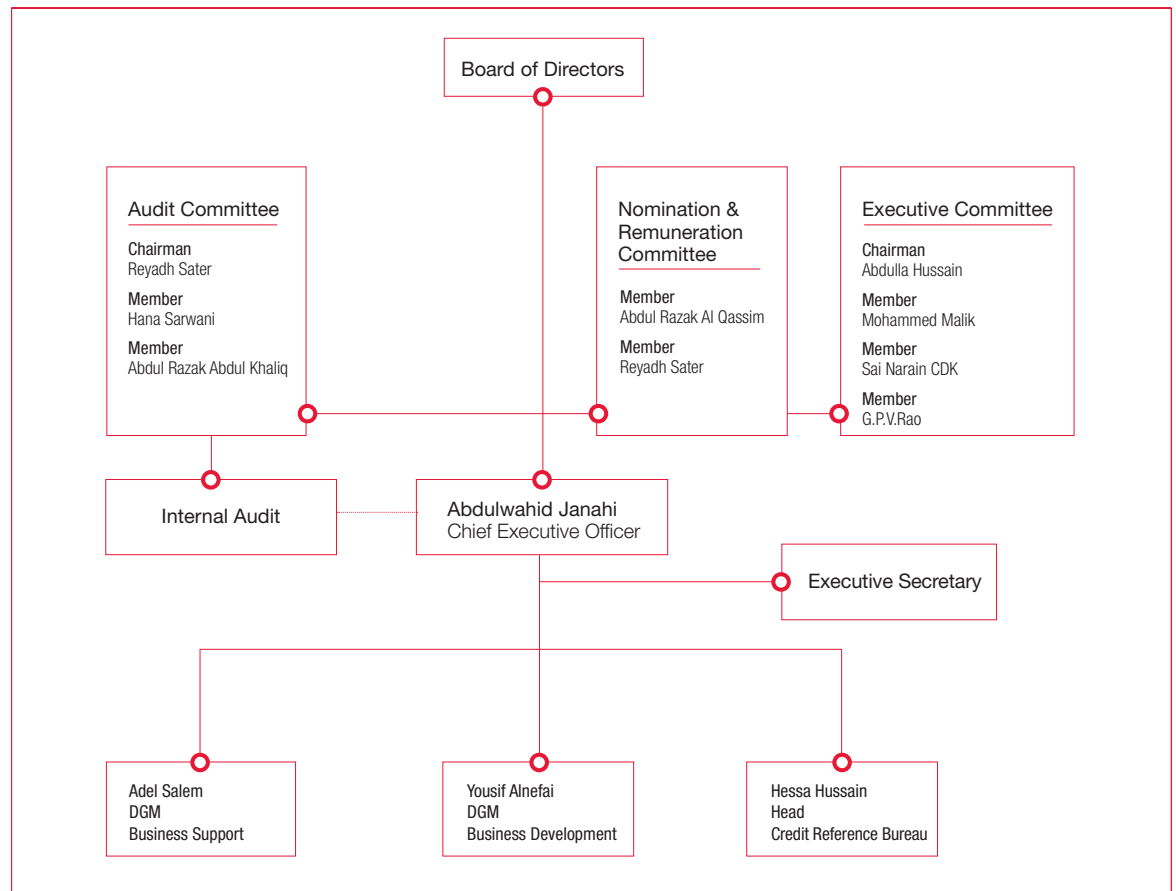
Abdulwahid Janahi, Chief Executive Officer joined The BENEFIT Company in 10th April 2005 with BSc in Focus and Marketing St. Edward University in Austin and a MBA from University of Bahrain. Mr. Janahi brings to the company around 26 years of experience in the financial industry field covering marketing, telecom and business development.

Adel Salem, Deputy GM Business Support joined The BENEFIT Company in 1st of May 2007 with a certificate in Computer Science from University of Bahrain and an MBA from University of Glamorgan in the United Kingdom. Mr. Salem brings to the company a total of 24 years of experience in the telecom and banking industries.

Yousif AlNefaiei, Deputy GM Business Development joined The BENEFIT Company in 30th March 2006 with BSc in Computer Science from University of Bahrain and a MSc. Degree in Information Systems from Brunel University of London in the United Kingdom. Mr. AlNefaiei brings to the company a total of 16 years of experience in the information technology and banking industries.

Hessa Hussain, Head of Bahrain's Credit Reference Bureau joined The BENEFIT Company in 15th February 2005 with a BSc in Computer Engineering from the American University of Sharjah. Miss. Hussain brings to BENEFIT a total of 7 years of experience in Credit Reference Bureau in addition to 5 years in information technology.

## BENEFIT Structure



### Available committees

- Audit committee
- Executive committee
- Nomination & Remuneration committee

Each committee is governed by a Terms of Reference

**Performance incentive**

The Board has formed Nomination and Remuneration committee to evaluate the performance linked incentive structure for the key management personnel, please refer to Audited financials under note 14 (a) in the Annual Report.

**Related Party Transactions**

Transactions with Shareholders

The Group has dealings with several banks in Bahrain who are also shareholders of the Group. These transactions are in the nature of provision of services in relation to payment systems, internet banking and Credit Reference Bureau. Out of total receivables [related and third party] due from shareholders as on 31 December 2011 is BD 117,419 [2010: BD 135,419] which includes BD 54,330 [2010: BD 55,851] from major shareholder.

Bank balances and fixed deposit are with two of the major shareholders of the Group.

The Subsidiary has entered into contracts with certain shareholders of the Parent Company for the provision of services related to debit/credit card personalization and ATM acquiring services. In accordance with an understanding between NI and the Subsidiary, the Subsidiary has outsourced work related to ongoing projects to NI. In consideration of the services provided by NI, the subsidiary will pay the agreed costs of providing such services to NI. The amount payable to NI at 31 December 2011 is BD 93,489 [2010: 211,361].

**Related Party transactions [IFRS]**

BENEFIT nature of Business is to serve the banking sectors in Bahrain through number of services, ATM/POS, CRB and other. In Addition, Sinnad also established as a 3rd party processing company to serve the Banks.

**Communication**

BENEFIT company is not publicly listed, however, BENEFIT company website will be updated with the Annual Report as well as BENEFIT shareholders have access to any information required i.e. Related to financial and others through CEO. 2011 Annual report will be updated on the website after the AGM meeting.

**Material Transactions for Board approval**

The Board approved a yearly Budget along with Capital expenditure for projects [if any]. CEO has signing authority of up to BD5,000 over and above dual signature required by CEO and Chairman.

**New appointment of Director**

The Board members are appointed directly by the shareholders from the Banking sector. Any new member appointed will be made aware of the company business by Nomination & Remuneration Committee.

**Internal Control**

E&Y is BENEFIT Internal Auditor by which they review internal control processes & procedures, and KPMG is our External Auditor.

**Financial preparation**

Audit committee on a quarterly basis reviews the Audited Financials with the management and then forward it to the Board for approval.

**Remuneration policy for Board of Director and senior management**

Board member remuneration decided by the Board and senior management remuneration decided by Nomination & Remuneration Committee. Remuneration paid to senior management is available to eligible shareholders upon specific request along with requirements.

**Other information**

The statutory Auditors of the company are KPMG Fakhro Bahrain, 2011 fees is BD13,800 and the Internal Audit function has been outsourced to Ernst & Young in 2011.

# Report of the Directors

for the year ended 31 December 2011 (Bahraini Dinars)

## Business Review

The year 2011 was another good year in terms of performance for the BENEFIT Company despite the unsettled circumstances around the region. This was mainly attributed to our focus on BENEFIT's core activities and services efficiency and effectiveness to the Banking Industry; hence we are happy to report such results to the Shareholders.

The consolidated operating profits grew by 30% in 2011 to reach BD 1,723,907 compared to BD 1,318,635 in 2010. Similarly, the consolidated net profits grew by 25% in 2011 to reach BD 1,660,372 compared to BD 1,323,437 in 2010.

It was an active year in 2011 for the BENEFIT Company where we continued working on implementation and development of the Bahrain Cheque Truncation System (BCTS) project with Central Bank of Bahrain (CBB) and 29 retail banks. The BCTS project is considered to be one of the strategic projects between the Company and CBB where it will enhance and elevate the efficiency and performance of the cheque clearing cycle in Bahrain reducing the time period of clearing fund settlements from 2-3 days to one business day. The BCTS project is expected to go live in 2012.

During the year we have also worked closely with CBB on extending Bahrain's Credit Reference Bureau (CRB) services to include Corporate and Small and Medium Enterprises (SMEs). The Corporate CRB is expected to be launched in 2012. This additional service shall reinforce CRB's positive performance and growth reflected in its client base where it reached a total of 37 Members subscribing to the system in 2011.

Our services and transaction volume has grown considerably in the past year, and given our future plans we are expecting to grow further. In view of this, the Company has under taken a project of upgrading its infrastructure in 2011 to accommodate for BENEFIT's current and future business plans. We believe the Network, Communication, and Systems are an important part of our core infrastructure which enables us to outperform and excel. By having a strong infrastructure, BENEFIT provides the Banking Industry with more secure, flexible and reliable services. We are proud to announce that we have successfully upgraded our network and infrastructure to run at 100% capacity and reliability.

## Consolidated Financial Results

Particulars	2011 (BD)	2010 (BD)	Change
Operating profit	1,723,907	1,318,635	30%
Profit for the year	1,660,372	1,323,437	25%
Net assets	7,569,384	6,359,012	19%

## Recommended Appropriations and Remuneration for 2011

The Board of Directors recommend the following appropriations and remuneration, which are subject to the shareholders' approval at the annual general meeting:

	2011 (BD)
Dividends (25%)	450,000
Directors Remuneration	55,000
<b>Total</b>	<b>505,000</b>



# Report of the Directors

for the year ended 31 December 2011 (Bahraini Dinars)

## Recommended Appropriations and remuneration for 2011 (continued)

Upon approval of the above recommendations, Shareholders' Equity Account balance will be as follows:

	BD
Share Capital	1,800,000
Statutory Reserve	900,695
Retained Earnings	4,330,518
Non-controlling interest	88,171
<b>Total Consolidated Shareholders' Equity</b>	<b>7,119,384</b>

## Outlook for 2012

BENEFIT shall continue improving its services and products towards supporting and adding value to its member banks. The Company is devoted to provide its stakeholders with services that help Bahrain's Banking Community enhance in terms of efficiency and accordingly stand out.

2012 shall be a year of launching major projects under BENEFIT's services spectrum. The Bahrain Cheque Truncation System (BCTS) project is expected to go live in 2012. The BCTS project came as result of Central Bank of Bahrain (CBB) trust in the BENEFIT Company. We find such project further supports our vital role in the Banking Industry. The introduction of the BCTS shall provide vast benefits on the performance and productivity levels of cheque clearing in the Kingdom. In addition, the BCTS will drastically reduce the time consumed in clearing cycles and accordingly improve the efficiency and speed of the cash flow between customers and banks.

Another major project which is expected to be launched in 2012 is the introduction of the Corporate Credit Reference Bureau. Providing our member banks with consolidated corporate data will significantly enhance the efficiency of the decision-making capabilities for the banks by drastically reducing the current risk of unknown credit history of corporate.

The BENEFIT Company is in the process to work on its three year Strategic Corporate Direction plan for 2013 to 2015. The Strategic Corporate plan will include the scope, strategic opportunities and potential directions, and how the company should substantially increase its market penetration and provide diversifying products and services to its stakeholders.

Our ultimate goal and philosophy is to sustain our success, excellent performance, unique services, and growth. We are seeking to position the BENEFIT Company as a clearing hub for Bahrain's Retail Banking Industry. We are aware that such is only attainable by maintaining a healthy, excellent, and mutually beneficial relationship with our Member Banks and clients enabling us to achieve our Shareholders' goals.

## **ABDUL RAZAK ABDULLA HASSAN AL QASSIM**

Chairman

# Independent Auditors' Report to the Shareholders

The Benefit Company BSC (c), Kingdom of Bahrain

## Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of The Benefit Company BSC (c) ("the Company") and its subsidiary (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

## Responsibility of the board of directors for the consolidated financial statements

The board of directors of the Company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' responsibility

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

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

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

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2011, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

## Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 5), we report that: the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith; the financial information contained in the directors' report is consistent with the consolidated financial statements; we are not aware of any violations of the Bahrain Commercial Companies and the Central Bank of Bahrain Law, the CBB Rule Book (Volume 5) and CBB directives or the terms of the Company's memorandum and articles of association having occurred during the year that might have had a material adverse effect on the business of the Company or on its financial position; and satisfactory explanations and information have been provided to us by the management in response to all our requests.



January 2012  
Kingdom of Bahrain

# Consolidated Statement of Financial Position

as at 31 December 2011 (Bahraini Dinars)

	Note	2011	2010
<b>ASSETS</b>			
Furniture and equipment	4	591,482	260,193
System software	5	226,670	246,343
Capital work in progress	5	626,433	316,639
<b>Total non-current assets</b>		<b>1,444,585</b>	<b>823,175</b>
Cash and cash equivalents		1,057,850	3,659,927
Short Term Deposits		3,593,136	1,312,814
Balance with Central Bank of Bahrain		1,237,070	569,830
Balance with other central banks		410,781	343,927
Prepaid expenses and advances		73,952	48,121
CRB receivables	14	129,917	173,970
Other receivables	14	127,793	138,095
<b>Total current assets</b>		<b>6,630,499</b>	<b>6,246,684</b>
<b>Total assets</b>		<b>8,075,084</b>	<b>7,069,859</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital		1,800,000	1,800,000
Statutory reserve		900,695	900,000
Retained earnings		4,780,518	3,574,248
<b>Non-controlling interest</b>		<b>88,171</b>	<b>84,764</b>
<b>Total equity (page 48)</b>		<b>7,569,384</b>	<b>6,359,012</b>
<b>LIABILITIES</b>			
Provision for employees' leaving indemnities	6	42,461	8,265
<b>Total non-current liabilities</b>		<b>42,461</b>	<b>8,265</b>
Payables and accrued expenses	7,14	406,598	652,251
Deferred income	8	56,641	50,331
<b>Total current liabilities</b>		<b>463,239</b>	<b>702,582</b>
<b>Total equity and liabilities</b>		<b>8,075,084</b>	<b>7,069,859</b>

**ABDUL RAZAK ABDULLA HASSAN AL QASSIM**  
Chairman

**REYADH SATER**  
Vice Chairman

The consolidated financial statements consisting of pages 46 to 62 were approved by the directors on February 2012.

# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011 (Bahraini Dinars)

	Note	2011	2010
Switch income	9	2,651,410	2,389,942
Dispute management system		31,463	31,455
Internet banking income		68,289	55,787
CRB income		882,452	838,027
Revenue from card services	10	371,897	257,147
<b>Total operating income</b>		<b>4,005,511</b>	<b>3,572,358</b>
<b>Operating costs</b>			
Processing costs	11	(310,687)	(383,089)
Personnel costs		(1,240,443)	(1,179,844)
Professional services		(45,064)	(42,956)
Other operating expenses	12	(308,226)	(304,692)
Card services operating cost	13	(147,800)	(94,503)
Amortisation – software	5	(99,743)	(106,595)
Depreciation	4	(129,641)	(142,044)
<b>Total operating costs</b>		<b>(2,281,604)</b>	<b>(2,253,723)</b>
<b>Operating profit</b>		<b>1,723,907</b>	<b>1,318,635</b>
Foreign exchange loss on GCCNET transaction		(8,610)	(10,303)
Interest income	15	36,384	22,030
New project expense – CTS		(91,309)	(6,925)
<b>Profit for the year</b>		<b>1,660,372</b>	<b>1,323,437</b>
<b>Other comprehensive income for the year</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>1,660,372</b>	<b>1,323,437</b>
<b>Attributable to:</b>			
- Equity holders of the parent company		1,656,965	1,367,182
- Non controlling interest		3,407	(43,745)
<b>Total comprehensive income for the year</b>		<b>1,660,372</b>	<b>1,323,437</b>

**ABDUL RAZAK ABDULLA HASSAN AL QASSIM**  
Chairman

**REYADH SATER**  
Vice Chairman

The consolidated financial statements consisting of pages 46 to 62 were approved by the directors on February 2012.

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2011 (Bahraini Dinars)

2011	Total equity attributable to shareholders of the parent Company				Non controlling Interest	Total
	Issued capital	Statutory reserve	Retained earnings	Total		
At 1 January	1,800,000	900,000	3,574,248	6,274,248	84,764	6,359,012
<b>Total comprehensive income for the year</b>	-	-	1,656,965	1,656,965	3,407	1,660,372
Dividend declared (2010)	-	-	(450,000)	(450,000)	-	(450,000)
Transfer to statutory reserve	-	695	(695)	-	-	-
At 31 December	1,800,000	900,695	4,780,518	7,481,213	88,171	7,569,384

2010	Total equity attributable to shareholders of the parent Company				Non controlling Interest	Total
	Issued capital	Statutory reserve	Retained earnings	Total		
At 1 January	1,200,000	600,000	3,462,066	5,262,066	128,509	5,390,575
Total comprehensive income for the year	-	-	1,367,182	1,367,182	(43,745)	1,323,437
Dividend declared (2009)	-	-	(300,000)	(300,000)	-	(300,000)
Directors' remuneration paid (2009)	-	-	(55,000)	(55,000)	-	(55,000)
Issue of bonus shares	600,000	-	(600,000)	-	-	-
Transfer to statutory reserve	-	300,000	(300,000)	-	-	-
At 31 December	1,800,000	900,000	3,574,248	6,274,248	84,764	6,359,012

The consolidated financial statements consist of pages 46 to 62.

# Consolidated Statement of Cash Flows

for the year ended 31 December 2011 (Bahraini Dinars)

	2011	2010
<b>Operating Activities</b>		
Cash received from switch operations	2,743,448	2,421,392
Cash received from CRB operations	869,711	775,987
Payments for operating expenses	(2,321,597)	(1,838,130)
Payment for director remuneration	(55,000)	(55,000)
Cash received from internet banking operations	68,289	76,959
Cash received from card services	371,897	203,391
<b>Cash flows from operating activities</b>	<b>1,676,748</b>	<b>1,584,599</b>
<b>Investing Activities</b>		
Purchase of furniture and equipment	(540,999)	(67,746)
Payments for capital work in progress	(309,794)	(316,639)
Purchase of software	-	(21,068)
<b>Cash flows used in investing activities</b>	<b>(850,793)</b>	<b>(405,453)</b>
<b>Financing activities</b>		
Interest received	36,384	22,030
Dividend paid	(450,000)	(300,000)
<b>Cash flow used in financing activities</b>	<b>(413,616)</b>	<b>(277,970)</b>
<b>Net increase in cash and cash equivalents</b>	<b>412,339</b>	<b>901,176</b>
Cash and cash equivalents at beginning of year	5,886,498	4,985,322
<b>Cash and cash equivalents at end of the year</b>	<b>6,298,837</b>	<b>5,886,498</b>
Cash and cash equivalents	1,057,850	3,659,927
Short Term Deposits	3,593,136	1,312,814
Balance with Central Bank of Bahrain	1,237,070	569,830
Balance with other central banks	410,781	343,927
<b>TOTAL</b>	<b>6,298,837</b>	<b>5,886,498</b>

The consolidated financial statements consist of pages 46 to 62.

# Notes

to the 31 December 2011 consolidated financial statements (Bahraini Dinars)

## 1. Status and Operations

The Benefit Company BSC (c) ("the Company") is registered with the Directorate of Commerce and Companies Affairs since 29 October 1997 under registration number 39403.

The Company has been granted with a licence for Ancillary Services from the Central Bank of Bahrain to provide payment systems and other related financial services for the benefit of the commercial banks and their customers in the Kingdom of Bahrain. The Credit Reference Bureau (CRB) operations commenced in Bahrain in August 2005.

### Subsidiary

The Company owns 51% in 'SINNAD WLL' ("Subsidiary"), while Network International ("NI") holds the remaining 49% shareholding. The Subsidiary has been incorporated to carry out ATMs/Credit Cards and Payment Services. The consolidated financial statements comprise the financial statements of the Company and its subsidiary (together referred to as the "Group").

## 2. Basis of Preparation

### a) Statement of compliance

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the Bahrain Commercial Companies Law 2001.

### b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for financial liabilities stated at amortized cost on an effective interest rate basis. The accounting policies have been consistently applied by the Group and are consistent with those applied in the previous year, except as described in note 2d below.

### c) Functional and presentation currency

The consolidated financial statements are presented in Bahraini Dinars, which is the Group's functional and presentation currency.

### d) New Standards, amendments and interpretations effective on or after 1 January 2011

The following standards, amendments and interpretations, which became effective in 2011 are relevant to the Group.

- **IAS 24 (Revised) "Related Party Disclosures"**

The revised standard was issued in November 2009. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The adoption of the revised standard did not have any significant impact on the related party disclosure of the Group.

# Notes

to the 31 December 2011 consolidated financial statements (Bahraini Dinars)

## 2. Basis of Preparation (continued)

### d) New Standards, amendments and interpretations effective on or after 1 January 2011 (continued)

#### • Improvements to IFRSs (2010)

Improvements to IFRS issued in 2010 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. Except for the amendments to IFRS 7 – will mainly apply to Banks and Financial Institutions, there were no significant changes to the current accounting policies of the Company as a result of these amendments.

### e) Standards and interpretations issued but not yet effective

The following standards and interpretations have been issued and are expected to be relevant to the Group in future periods, with effective dates on or after 1 January 2012.

#### • IAS 1 (amendment) – Presentation of items of other comprehensive income

The amendments to IAS 1 require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendment is effective for annual periods beginning on or after 1 July 2012 with an option of early application.

#### • IFRS 9 – Financial Instruments

*Standard issued November 2009*

IFRS 9 (2009) 'Financial Instruments' is the first standard issued as part of a wider project to replace IAS 39 'Financial instruments: recognition and measurement'. IFRS 9 (2009) retains and simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment and hedge accounting continues to apply. The 2009 standard did not address financial liabilities.

*Standard issued October 2010*

IFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and de-recognition of financial assets and liabilities to the version issued in November 2009. It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 "reassessment of Embedded Derivatives".

The Company is considering the implications of the standard, the impact on the Company and timing of its adoption by the Company.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before 1 January 2012. In its November 2011 meeting, the IASB tentatively decided to defer the mandatory effective date to 1 January 2015.



# Notes

to the 31 December 2011 consolidated financial statements (Bahraini Dinars)

## 2. Basis of Preparation (continued)

### e) Standards and interpretations issued but not yet effective (continued)

#### • IFRS 13 – Fair value measurement

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The standard is effective for annual periods beginning on or after 1 January 2013 with an option of early adoption.

### f) Early adoption of standards

The Group did not early adopt new or amended standards in 2011.

## 3. Significant Accounting Policies

### a) Basis of consolidation

#### i. Subsidiary:

Subsidiaries are those entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

#### ii. Transactions eliminated on consolidation:

The carrying value of the Company's investment in the subsidiary and the equity of the subsidiary are eliminated on consolidation. All significant intra-group balances and transactions, and any unrealised gains arising from intra-group transactions with subsidiaries are eliminated in preparing the consolidated financial statements.

### b) Income

from Switch, Credit Reference Bureau operations and card services are recognised when the related services are provided. Interest and other income are recognized when earned.

### c) Furniture, equipment and software

#### Owned assets

Furniture, equipment and software are stated at cost less accumulated depreciation and impairment losses, if any. The cost of the assets includes the cost of bringing them to their present location and condition. Direct costs are capitalized until the assets are ready for use. Intangible assets are recorded at the consideration paid for acquisition.

# Notes

to the 31 December 2011 consolidated financial statements (Bahraini Dinars)

## 3. Significant Accounting Policies (continued)

### c) Furniture, equipment and software (continued)

#### Subsequent measurement

Expenditure incurred to replace a component of an asset that is accounted for separately, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the asset. All other expenditure is recognised in the statement of comprehensive income as an expense as incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. When an asset is sold or discarded, the respective cost and accumulated depreciation relating thereto are eliminated from the statement of financial position, the resulting gain or loss being recognized in the statement of comprehensive income.

#### Depreciation

Depreciation is applied on a straight line basis over the useful life of assets estimated by the Management. Depreciation for assets purchased / sold during a period is proportionately charged. Intangible assets are amortized over their estimated useful lives on a straight-line basis, commencing from the date the asset is available to the Group for its use. The Management estimates the useful lives for the various fixed assets as follows:

System hardware	1 – 6 years
System software	3 – 6 years
Computer equipments	2 – 5 years
Furniture, fixtures and office equipments	3 – 5 years
Vehicles	3 – 5 years

All depreciation is charged to the statement of comprehensive income.

### d) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand, bank balances, balance with the Central Bank of Bahrain and other central banks, and bank deposits maturing within 3 months when acquired.

### e) Receivables

Receivables are recorded at cost, being the fair value of services rendered and facilities provided; less provision for impairment.

### f) Trade and other payables

Trade and other payables are stated at their amortised cost.

### g) Impairment

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its estimated recoverable amount. All impairment losses are recognised in the statement of comprehensive income.

# Notes

to the 31 December 2011 consolidated financial statements (Bahraini Dinars)

## 3. Significant Accounting Policies (continued)

### h) Provisions

A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

### i) Dividends

Dividends are recognised as a liability in the period in which they are declared.

### j) Employees' Benefits

Pensions and other social benefits for Bahraini employees are covered by the Social Insurance Organisation scheme to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Group's contribution to this scheme, which represents a defined contribution scheme under International Accounting Standard 19 – Employee Benefits, is expensed as incurred.

Expatriate employees are entitled to leaving indemnities payable under the Bahraini Labour Law for the Private Sector of 1976, based on length of service and final remuneration. Provision for this unfunded commitment which represents a defined benefit plan under International Accounting Standard 19 – Employee Benefits, has been made by calculating the notional liability had all employees left at the reporting date.

#### *Employee savings scheme*

The Company has a voluntary employees saving scheme. The employees and employers contribute monthly on a fixed-percentage-of-salaries-basis to the scheme.

### k) Interest income

Interest income on short term deposit is recognised in the statement of comprehensive income as it accrues, taking into account the effective yield on the asset.

### l) Foreign currency transactions

- I. Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the 'functional' currency). The consolidated financial statements are presented in Bahraini Dinars, which is the Group's functional and presentation currency.
- II. Transactions in foreign currencies are translated to Bahraini dinars, at the foreign exchange rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at reporting date are translated to Bahraini dinars at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies are translated into Bahraini dinars at the foreign exchange rates ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

# Notes

to the 31 December 2011 consolidated financial statements (Bahraini Dinars)

## 3. Significant Accounting Policies (continued)

### m) Critical accounting estimates and judgments in applying accounting policies

The Group makes estimates and assumptions that affect the reported amount of assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### Impairment of receivables

The Group reviews the carrying amounts of the receivables at each reporting date to determine whether the receivables have been impaired. The Group identifies the receivables, which have been impaired based on the age of the receivables, the receivables recoverable amount is estimated based on past experience and estimated cash flows.

### n) Statutory reserve

The Bahrain Commercial Companies Law 2001 requires 10 percent of net profit to be appropriated to a statutory reserve, which is not normally distributable except in accordance with Article 224. Appropriations may cease when the reserve reaches 50 percent of the paid-up share capital.

## 4. Furniture and Equipment

	System hardware	Computers	Furniture, Fixtures, Office Equipment & Vehicle	2011 Total	2010 Total
<b>Cost</b>					
At 1 January	551,943	129,213	90,864	772,020	745,509
Additions	441,297	10,539	9,094	460,930	26,511
<b>At 31 December</b>	<b>993,240</b>	<b>139,752</b>	<b>99,958</b>	<b>1,232,950</b>	<b>772,020</b>
<b>Depreciation</b>					
At 1 January	340,368	118,331	53,128	511,827	369,377
Charge for the year	100,966	10,348	18,327	129,641	142,450
<b>At 31 December</b>	<b>441,334</b>	<b>128,679</b>	<b>71,455</b>	<b>641,468</b>	<b>511,827</b>
<b>Carrying value at 31 December</b>	<b>551,906</b>	<b>11,073</b>	<b>28,503</b>	<b>591,482</b>	<b>260,193</b>

# Notes

to the 31 December 2011 consolidated financial statements (Bahraini Dinars)

## 5. System Software

	2011	2010
At 1 January	246,343	290,229
Additions	80,071	62,709
Amortised during the year	(99,744)	(106,595)
<b>At 31 December</b>	<b>226,670</b>	<b>246,343</b>

During 2010, the company has commenced development of a new project "Electronic image based cheque clearing system", for which an amount of BD 626,433 has been incurred till date and recognised as work in progress.

## 6. Provision for Employees' Leaving Indemnities

The movement in the provision is as follows:

	2011	2010
At 1 January	8,265	27,679
Add: charge to statement of comprehensive income during the year	34,196	6,776
Less: Paid during the year		(26,190)
<b>At 31 December</b>	<b>42,461</b>	<b>8,265</b>

Total number of employees at 31 December:

Bahrainis	44	43
Expatriates	2	2
	<b>46</b>	<b>45</b>

## 7. Payables and Accrued Expenses

	2011	2010
Trade payables	46,745	164,400
Accrued expenses	266,364	276,490
Due to related party	93,489	211,361
	<b>406,598</b>	<b>652,251</b>

## 8. Deferred Income

Deferred income represents advance billing to clients where the services are yet to be provided by the Company, income is recognised as the related services are performed.

# Notes

to the 31 December 2011 consolidated financial statements (Bahraini Dinars)

## 9. Switch Income

	2011	2010
Bahrain ATM	1,329,541	1,167,015
GCC ATM	331,753	336,215
Telecom bill payment	97,375	58,821
Direct debit	15,640	13,516
Bahrain POS	704,674	660,670
Payment gateway	71,151	50,373
AMEX	28,276	25,332
Membership fee	73,000	78,000
	<b>2,651,410</b>	<b>2,389,942</b>

## 10. Revenue from Card Services

	2011	2010
Debit and credit card hosting	347,133	235,458
Card personalisation	24,764	21,689
	<b>371,897</b>	<b>257,147</b>

## 11. Processing Costs

	2011	2010
License fees	71,551	61,400
System support and maintenance	74,411	75,677
Communication lines	72,312	102,291
GCC NET telecom charges	22,342	17,081
Other processing costs	7,200	-
Maintenance and development- CRB	62,871	126,640
	<b>310,687</b>	<b>383,089</b>

# Notes

to the 31 December 2011 consolidated financial statements (Bahraini Dinars)

## 12. Other Operating Expenses

	2011	2010
Rent	95,628	98,028
Travelling	27,466	29,609
Office maintenance	29,897	28,279
Marketing and public relation	38,699	25,950
Telephone and fax	8,280	8,978
Directors' sitting fees	11,700	6,000
Directors' remuneration	55,000	55,000
Vehicle expenses	5,694	4,013
Office insurance expenses	1,635	2,979
Other expenses	34,227	45,856
	<b>308,226</b>	<b>304,692</b>

## 13. Card Services Operating Cost

Card services operating cost includes costs incurred for the services of Network International and other suppliers in relation to the Subsidiary's ATM/ Credit card and payment services business.

## 14. Related Party Transactions

### a) Transactions with key management personnel

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

	2011	2010
Salaries and short term employee benefits	418,867	508,278
Termination benefits	17,012	32,187
Directors remuneration	55,000	55,000
Directors fees	11,700	6,000

### b) Transactions with shareholders

The Group has dealings with several banks in Bahrain who are also shareholders of the Group. These transactions are in the nature of provision of services in relation to payment systems, internet banking and Credit Reference Bureau. Out of total receivables (related and third party), due from shareholders as on 31 December 2011 is BD 117,419 (2010: BD 135,419) which includes BD 54,330 (2010: BD 55,851) from major shareholder.

Bank balances and fixed deposit are with two of the major shareholders of the Group.

The Subsidiary has entered into contracts with certain shareholders of the Parent company for the provision of services related to debit/ credit card personalisation and ATM acquiring services. In accordance with an understanding between NI and the Subsidiary, the Subsidiary has outsourced work related to ongoing projects to NI. In consideration of the services provided by NI, the Subsidiary will pay the agreed costs of providing such services to NI. The amount payable to NI at 31 December 2011 is BD 93,489 (2010: 211,361).

# Notes

to the 31 December 2011 consolidated financial statements (Bahraini Dinars)

## 15. INTEREST INCOME

	2011	2010
Interest on bank deposits	36,384	22,030
	<b>36,384</b>	<b>22,030</b>

## 16. Appropriations and Board Remunerations

The Board of Directors has recommended the following appropriations and board remunerations which are subject to approval by the shareholders in the Annual General Meeting

	2011	2010
Dividends	450,000	450,000
Directors remuneration	55,000	55,000

Appropriations and board remunerations for 2010 were approved by the Shareholders in their Annual General Meeting held on 31st March 2011.

## 17. Capital Commitments

Capital commitments as on 31 December 2011 by the Group are BD 604,177 (2010: BD 542,623).

## 18. Financial Risk Management

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. Financial instruments consist of financial assets and financial liabilities.

**Financial assets** consist of cash and bank balances, deposit with bank, balance with the Central Bank of Bahrain, balances with other central banks, CRB receivables, prepaid expenses and other receivables.

**Financial liabilities** consist of payables and accrued expenses.

### Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's are included management of capital. Further, quantitative disclosures are included throughout these consolidated financial statements.



# Notes

to the 31 December 2011 consolidated financial statements (Bahraini Dinars)

## 18. Financial Risk Management (continued)

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has appointed the Chief Executive Officer who is responsible for developing and monitoring the risk management policies for the Group.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

### Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is exposed to credit risk on its cash and bank balances, balance with the Central Bank of Bahrain, balance with other central banks, prepaid expenses and other receivables and CRB receivables.

The Group seeks to limit its credit risk with respect to customers by means of the following policies:

- Credit risk is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures laid down by the Group.
- Cash is placed with banks with good credit ratings.

The carrying amount of the financial assets represents the maximum credit exposure. The maximum exposure credit risk at the reporting date was:

	2011	2010
Cash and cash equivalents	1,057,744	3,659,910
Short term deposits	3,593,136	1,312,814
Balance with Central Bank of Bahrain	1,237,070	569,830
Balance with other central banks	410,781	343,927
CRB receivables	129,917	173,970
Other receivables	127,793	138,095

The Group's credit risk on bank balances is limited since these are maintained with banks having high credit ratings. The Group's credit risk is minimal as all switch fee income is received from financial institutions and other central banks, which are transferred to the Group's account with the Central Bank of Bahrain within a week of rendering the service.

Ageing of receivables:

	2011	2010
0 - 30 days	106,483	91,130
31-180 days	151,227	220,935
	257,710	312,065

The Group does not hold any collateral against the above receivables.

The past due receivables as at 31 December 2011 are BD 151,227. However, these are not impaired since these are due from reputed banks and are considered recoverable.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. All the receivables are from banks in the Kingdom of Bahrain.

# Notes

to the 31 December 2011 consolidated financial statements (Bahraini Dinars)

## 18. Financial Risk Management (continued)

### Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The management rigorously monitors the liquidity requirements of the Group and it ensures that sufficient funds are available. The Group has sufficient liquidity and thus does not resort to borrowings in the normal course of business.

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

2011	Carrying Amount	Contractual cash flows	6 months or less	6 - 12 months	More than 12 months
Payables and accrued expenses	406,598	406,598	406,598	-	-
	<b>406,598</b>	<b>406,598</b>	<b>406,598</b>	-	-

2010	Carrying Amount	Contractual cash flows	6 months or less	6 - 12 months	More than 12 months
Payables and accrued expenses	652,251	652,251	652,251	-	-
	<b>652,251</b>	<b>652,251</b>	<b>652,251</b>	-	-

### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to a change in foreign exchange rates. The majority of Group's switch transactions are in other GCC currencies and the Toman (Iranian currency). Except for the Kuwaiti Dinar and the Toman, the other GCC currencies are pegged to the US Dollar, hence there is no significant movement in the exchange rates between the GCC currencies. The group is charging a mark-up on GCC switch transaction in order to cover up the currency losses. Such mark-up is classified as operation revenue.

Change in market foreign exchange rates is not expected to have a significant impact on the operations of the Group.

### Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group is exposed to interest rate risks on its short-term deposit.

The Group's short-term deposit is at a fixed interest rate and matures within 1-6 months.

	2011	2010
Effective interest rate on short-term deposit (BHD)	<b>2.11%</b>	1.15%
Effective interest rate on short-term deposit (USD)	<b>1%</b>	0.7%

Change in market interest rate will not have a significant impact on the carrying value of the deposits due to short term characteristics of the deposit.

# Notes

to the 31 December 2011 consolidated financial statements (Bahraini Dinars)

## 18. Financial Risk Management (continued)

### Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as total shareholders' equity. The Group's consolidated return on equity was 22 percent in 2011 (2010: 21 percent).

There were no changes in the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

### Fair value and classification of financial instruments

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences can therefore arise between the book values under the historical cost method and fair value estimates. The fair value of the Group's financial assets and liabilities are not materially different from their carrying amounts.

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	31-Dec-11		31-Dec-10	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	1,057,850	1,057,850	3,659,927	3,659,927
Short term deposits	3,593,136	3,593,136	1,312,814	1,312,814
Balance with Central Bank of Bahrain	1,237,070	1,237,070	569,830	569,830
Balance with other central banks	410,781	410,781	343,927	343,927
Other receivables	127,793	127,793	138,095	138,095
Prepaid expenses and advances	73,952	73,952	48,121	48,121
CRB receivables	129,917	129,917	173,970	173,970
Payables and accrued expenses	406,598	406,598	652,251	652,251

At 31 December 2011, all the financial assets have been classified as loans and receivables and the financial liabilities of the Group are classified as financial liabilities measured at amortised cost.

## 19. COMPARATIVE FIGURES

The corresponding figures for the previous year have been regrouped where necessary, in order to make them comparable with the current year's figures. Such regrouping has not affected the reported net profit, total assets or total equity and liabilities.