

## The Benefit of Time



**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

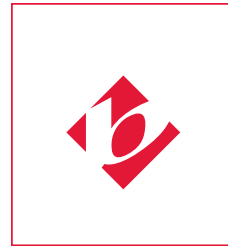
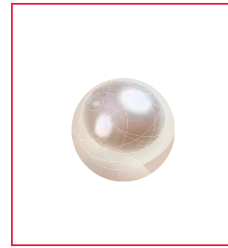
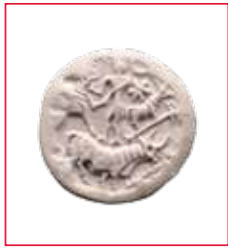


His Royal Highness  
Prince Salman bin Hamad  
Al Khalifa  
The Crown Prince,  
Deputy Supreme Commander



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## INTRODUCTION

Bahrain, as the seat of the lost and illustrious Dilmun empire, stepped onto the stage of history some 3000 years BC to earn a reputation as one of the great trading nations of the ancient world.

The benchmark was set for a culture of trade upon which the Kingdom has continued, in various forms, to exchange wealth and bring riches to the region; to this day, Bahrain retains its recognition as a leading commercial hub.

Our early ancestors plied the busy Gulf waterways with a commercial sophistication that created a strong and enduring network for continued economic growth and progress. Today, BENEFIT continues to build upon that platform by providing a valuable and essential link for the Gulf's monetary, banking and trading systems in what will be the ultimate chapter in Bahrain's great trading history.



**DILMUN SEAL**

"Dilmun" stamp-seal, armed man placed above a bull  
*Qal'at al-Bahrain, North Rampart, c. 2001-1900 B.C.*



## DILMUN SEAL

Dilmun's archaic commercial procedures and ethics can only be referred to as such in relative chronological terms and the inevitable passing of time. The archaeological discovery of intricate seals reveals that the business practices and operations of our ancestors were remarkably similar to that of enterprises and traders in the modern day, prior to the arrival of technology.

The masterfully conceived Dilmun seals, designed to identify property, notarise contracts and transactions, used as trademarks and amulets and for all the minutia of business, are true works of art. Carved in wood, soapstone, shells, clay and metal these unearthed seals truly define and portray the existence of a complex commercial society and culture.

It is little wonder that, today, Bahrain's BENEFIT Company takes pole position in the advancement of electronic financial and payment processes and schemes throughout the region. As history has written the extraordinarily progressive trading and exchange mechanisms, in place as far back as the Dilmun era, paved the way for the astute and ever-diversifying commercial trading practices of our ancestors through the ages.

The archaeological discovery of intricate seals reveals that the business practices and operations of our ancestors were remarkably similar to that of enterprises and traders in the modern day, prior to the arrival of technology.

## **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, Risk Management and Cheque Clearing Services which have direct values to the current and potential institutions and members.

## BENEFIT - COMPANY PROFILE

BENEFIT was established and developed with the aim of adding 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.

**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.**

Established by 17 commercial banks in November 1997 as the National ATM and Point of Sale switch of Bahrain, BENEFIT's focus has been on the improvement, enhancement and enablement of 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 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 core services to cover markets outside Bahrain, so facilitating business to thrive throughout the GCC countries, under the GCCNet arrangement.

BENEFIT's current range of services 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), Amex cash withdrawal and the Bahrain Cheque Truncation System (BCTS) which was launched, with the support of the CBB, in May 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 represent 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
- AlSalam Bank
- BMI Bank
- Arab Bank
- Future Bank
- Ithmaar Bank
- Habib Bank
- United Bank Limited

\* Note: The Board of Directors has proposed to increase the issued and paid capital of BENEFIT to BHD 2,160,000 by the issue of bonus share at the ratio of one bonus share for every five shares in the amount of BHD 360,000 that will be submitted to the shareholders at the annual general meeting for their approval.



**COPPER**

Dilmun era copper pot

## COPPER TRADE

Business practices of the Dilmun civilisation, by now so advanced, propelled Bahrain to play a pivotal role in the Copper trade, not only as traders but also as master craftsmen.

Omani mined copper was shipped via Bahrain, where skilled tradesmen and artisans developed and mastered unique melting and casting techniques. Indeed, the celebrated copper bull's head, found in the Barbar temple, is said to be the symbol of Dilmun.

The country acted as the vital link between Oman and the rest of the known world; merchants came from far and wide to take part in financial transactions that saw copper exchanged for valuable items such as tin, silver, woolen textiles, grain and domestic fowl. This invaluable link continues throughout history and time; as one era fades, the Kingdom of Bahrain focuses its talents on its expansive networks, building upon these to take the country into the next chapter in time.

Merchants came from far and wide to take part in financial transactions that saw copper exchanged for valuable items.



# CHAIRMAN'S STATEMENT

Abdul Razak Abdulla Hassan Al Qassim

Chairman

BENEFIT's proven commitment to the advancement of banking services in the Kingdom of Bahrain is demonstrated by the continued value added services provided by the Company to the financial services industry and, in particular, to the banks. As a result, the Company once again recorded a successful financial year as is demonstrated by a growth of 41% in net profit. During what has been a challenging year for the financial markets overall, BENEFIT rose to the challenge producing a higher returns for our shareholders compared to the previous year.

As an organisation, we ensure that a clear understanding of BENEFIT's vision and direction is met with strategic growth and development planning. Our deep understanding of this at every level is the driving force that has led BENEFIT, even through turbulent economic times, on the path of growth and further expansion and to the seal of overall trust from our shareholders and members alike.

In May 2012, BENEFIT, under the agreement and supported by the Central Bank of Bahrain, successfully launched the Bahrain Cheque Truncation System (BCTS). Met with wide positive reaction, this system has enabled the clearing process to operate at a far more accelerated speed to the benefit of both commercial and individual customers leading to greater customer satisfaction. The BCTS has been met with extremely encouraging reactions from all quarters. Together with an upgrade to the infrastructure and the enhancement of the Disaster Recovery, the Company has strengthened its service efficiency, reliability and availability not only to the advantage of our shareholders and the banks, but also for every individual, by substantially easing payment methods throughout the Kingdom.

We recognize our uniqueness as a solution provider of fundamental shared services to the banking community and its customers. It is that recognition, the strong support of the BENEFIT Board of Directors, management staff and, of course, the support of the Central Bank of Bahrain, that has aided the accomplishments' BENEFIT has made since its inception. Following on from the success of the strategic plan for the past 3 years which resulted in enhanced services and increased revenue, the Company is well positioned to set in stone its strategic corporate direction for the coming three years.

**Our fundamental philosophy as a support system to the banking community will remain in place for 2013; we will continue to provide strategic services based on long-term growth with the banking industry needs foremost in our planning.**

This year, we plan to further expand our capabilities and outlook by working closely with a renowned international consultancy group. We know our business, and with the aid of experts looking in from outside, we will not only receive the advantage of objective direction, but will also decide the future strategic direction of the Company. This invaluable merging of minds and the outsourcing of strategic planning will serve to markedly increase BENEFIT's prospects of expanding into uncharted markets and opportunities whilst, at the same time, sustaining the high performance level of its existing services in the future.

## CHAIRMAN'S STATEMENT (continued)

The commitment to aid a thriving financial services industry within Bahrain and the GCC is at the very heart of BENEFIT's drive as an organization.

Our fundamental philosophy as a support system to the banking community will remain in place for 2013; we will continue to provide strategic services based on long-term growth with the banking industry needs foremost in our planning.

Directly addressing the demands of the banking industry, we will remain focused on maintaining the efficiency of the Switch Service, Electronic Payment Gateway, Credit Reference Bureau and Cheque Clearing Service, whilst furthering initiatives to progress the Mobile Payment channel and the Inter-bank micro financial transactions amongst others.

Milestones will also be set for the near future with the ultimate aim to position BENEFIT as a hub of the financial shared platform. In short, we aim to take BENEFIT to an even higher echelon through

meticulous strategic planning with the result of optimal performance levels for the benefit of all.

We remain indebted to our shareholders, our member banks, Central Bank of Bahrain and the Kingdom of Bahrain. As we look forward to an exciting year ahead, we will continue in our endeavour to provide an unwavering commitment towards bolstering the pace and efficiency of business within the financial community. BENEFIT is now strategically positioned to take the next great steps forward and in taking those steps we plan to aid in boosting Bahrain's recognition and standing, both regionally and internationally, as a vibrant financial hub.







# CEO STATEMENT

Abdulwahid Janahi  
Chief Executive Officer

The priceless commodity of time in the business world is at the heart of BENEFIT's strategic planning toward providing the optimal service for our clients by adding value to banks and customers. Today, electronic transactions are within the grasp of every individual and every organization - as is the BENEFIT logo and infrastructure within Bahrain and the GCC. Commercial ventures, private entities and, indeed, every man and woman in the street need only reach into their pockets, or take a look around, to understand the impact BENEFIT has made on technological transactions and support systems for the banking industry throughout the Kingdom and the Gulf Region.

**We intend to truly make a difference with our contribution to a world of rapid economic exchange and growth at the tap of a button.**

This year the Company has shown good results; with an average of one to two new services a year during 15 years of business, we have worked hard to ensure every year has been counted a success. Our role of comprehensive back-office value added services for the banking industry has, from inception, been strategically positioned to add fundamental value for our clients through the provision of lower cost and service efficiency. Our strategy has always been, and will always remain, structured with a focus on providing our clients with the vital ability to concentrate on core activities.

In the coming years, we aim to grow and extend our reach without bounds whilst, at the same time, endeavoring to make the banking world a tighter, more viable place. Through speed, clarity, efficiency and innovation, we will continue to bring individuals, businesses and banks closer together; we intend to truly make a difference with our contribution to a world of rapid economic exchange and growth at the tap of a button. In May 2012, a major achievement was BENEFIT's and Central Bank of Bahrain's (CBB) launch of the Bahrain Cheque Truncation System (BCTS). Now live throughout Bahrain, this service further compounds the impact BENEFIT has on the banking community as a whole. This service was met with wide acclaim from commercial, retail, public and private sectors, and individuals alike; the ability to cash a cheque on the day of issue will serve to enhance business and the flow of revenue and, in turn, add value for our shareholders and clients.

This past year, we can also list amongst our achievements; the upgrade of the BENEFIT infrastructure that sees every retail bank in Bahrain linked to the switch with a 99.9% success rate; a fully active GCC Bahrain Dispute Management system that ensures the best and most efficient management of the disputes arising from businesses or people travelling within the GCC; FinanceNet continues to provide improved communications between BENEFIT and our Banks resulting in lower costs and maximum efficiency; in terms of security, BENEFIT has been re-certified with ISO 27001. And, with the success of the enhancement of the Disaster Recovery, we are proud to position ourselves as a complete service provider of financial transactions throughout the Kingdom of Bahrain.

## CEO STATEMENT (continued)

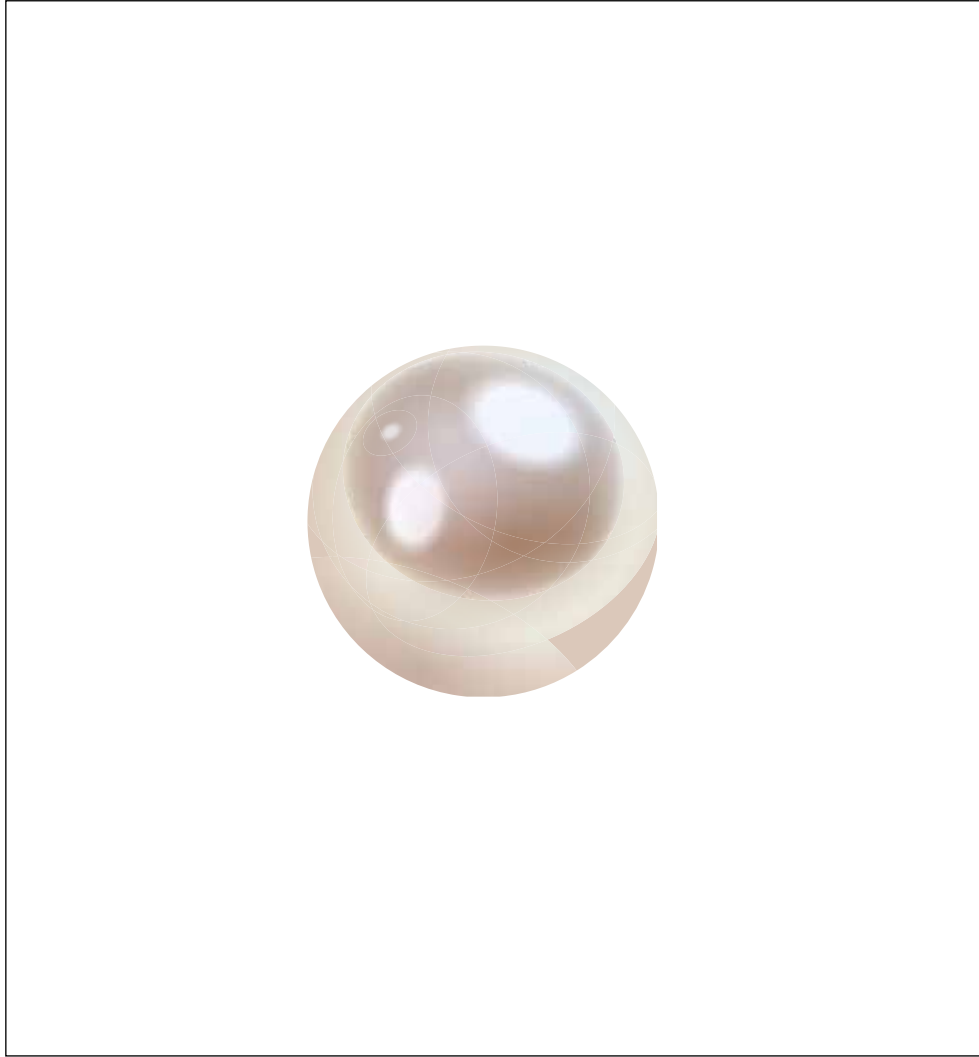
Time in the world of finance has seen, through technology, days being turned into seconds, with the backlash to this progress saddling the banking industry with a reputation as being somewhat faceless. At BENEFIT, we work from the Board down with the view that we are more than just a technology-based business; we are a family. In this fast-paced business world, we remain committed to striving for a very personal service, one that we believe works purely to promote and encourage business. Our role is to provide the invaluable luxury of time – time that will allow our clients to enhance their own business relationships with a heightened personal service; inevitably resulting in increased performance levels and a wider reach.

As a precious commodity, at BENEFIT we spend our time wisely; in the interests of our shareholders, clients and the overall community, we heavily invest our own time in our valued staff. We are a small company with big ambition and we understand the importance of our staff as more than just an asset; they are the vital source upon whom we can depend and trust; they have the drive, innovation, expertise and overall capability to move this company forward into uncharted arenas, territories and technologies.

From the beginning, BENEFIT and its staff have been moving forward towards a bigger, wider goal; a goal that we believe, unwaveringly, is achievable. We know our business and we know it can be much bigger; we plan to take BENEFIT to the next level. 2013 will see the creation of a Corporate Strategic Direction blueprint with the aid of a major international consultant. As with our own philosophy of being a service provider, we understand that expertise from the outside looking in can only work to enhance our already growing services and capabilities to the benefit of all. We look forward to the changes in 2013; at the same time, we will continue to provide a 100% client orientated business, reliable and accurate information, of providing the highest level of comprehensive added value services.

We remain indebted to our valued shareholders and clients and remain focused in our aim to not only take BENEFIT into a new stratosphere, but to also instill in others - regionally, internationally, globally – pride in the Kingdom of Bahrain and its banking industry.





**PEARL TRADE**

A natural Pearl harvested in Bahrain waters

## PEARL TRADE

Royal court jewelers, traders and commercial houses around the world over valued Bahrain's 'jewels of the sea' as being by far the most precious and esteemed pearls in circulation. The island of Bahrain, unique in many ways, emerged to possess a rare mix and quality of sweet and salt waters in the surrounding seas to produce these natural jewels. So followed centuries of pearling trade that continued to expand the country's networks, industry and prosperity.

So followed centuries of pearling trade that continued to expand the country's networks, industry and prosperity.

Today, Bahrain remains one of the foremost trading centres for high quality pearls, with cultured pearls banned from the Bahrain pearl market in an effort to preserve the country's heritage. Over the years, as time and the sea ebbed and flowed to produce, for a period, a source of wealth and commerce for Bahrain and its inhabitants, so this time of bountiful trade faded in the early 1930's to begin another trading chapter.

## BOARD OF DIRECTORS



**Abdul Razak Abdulla Hassan Al Qassim**

Chairman

Member of Nomination &  
Remuneration Committee  
NBB  
CEO and Board Member



**Reyadh Yousif Sater**

Vice Chairman

Chairman of Audit & Corporate Governance  
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 & Corporate Governance  
Committee  
HSBC  
Chief Operating Officer



**Mohammed Malik**

Director

Member of Executive Committee  
CREDIMAX  
Chief Executive





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



**Abdul Razaq Abdul Khaliq**  
Director  
Member of Audit & Corporate Governance  
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  
Regional Head of Consumer Banking



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

# MANAGEMENT TEAM

## **Abdulwahid Janahi**

Chief Executive Officer

Abdulwahid Janahi, Chief Executive Officer joined The BENEFIT Company in 10th April 2005 with BSc in Focus and Marketing from St. Edward University in Austin and a MBA from University of Bahrain. Mr. Janahi brings to the company a total of 27 years of experience in the financial industry field covering marketing, telecom, and business development.

## **Adel Salem**

DGM Business Support

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 26 years of experience in the telecom and banking industries.

## **Yousif AlNefaiei**

DGM 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 18 years of experience in the information technology and banking industries.

## **Hessa Hussain**

Head of CRB

Hessa Hussain, Head of Bahrain's Credit Reference Bureau joined The BENEFIT Company in 15th February as a 2005 with a BSc in Computer Engineering from the American University of Sharjah. Miss. Hussain brings to BENEFIT a total of 8 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



**FIRST COIN**

Early silver coin

## FIRST COIN

As a pioneer in many commercial ventures and processes, Bahrain was the first Gulf country to identify the use of coinage as a means to raise trading and financial activity. Indeed, the earliest references of currency in the Kingdom include the first coins to be minted in the region in the 8th century by the governors in the Umayyad Dynasty. Valued on the basis of purity and the weight of the metal they were minted from, the use in trade of these coins also adds weight to the fact that our ancestors were the trail blazers of business and industry.

Since the beginning of its time, Bahrain has never stood still in the name of commerce. From the early carved Dilmun seals, to the first minted coins and through to the age of BENEFIT's electronic payments, we are a country that will continue to pioneer our trading initiatives into the future.

**Bahrain was the first Gulf country to identify the use of coinage as a means to raise trading and financial activity.**

With its status as a hub of commerce, together with its esteemed position on one of the oldest trading routes between the East and West, the Kingdom of Bahrain saw many foreign currencies in circulation. Coins of gold and silver in the form of British sovereigns, Maria Teresa thalers and Indian rupees exchanged hands to further inflate the bustling trade and expanding networks.

# OVER 15 YEARS

1999

## GCCNet

Allows customers to withdraw money and check their balance in any GCC country along with Jordan, Egypt, and Lebanon, making BENEFIT the gateway to the Gulf region.

2002

## DD

Direct Debit, is the convenient way of automating regular bill payments through bank accounts.

2006

## PG

Payment Gateway, enables merchants to accept payments on-line or through kiosks machines, Interactive Voice Recognition (IVR), and call centre.

## POS

Point of Sale, operates more than 8,000 Point Of Sale terminals across Bahrain allowing customers to pay for purchases with their debit cards.

## ATM

Automated Teller Machine, provides self-servicing yet convenient access for customers making financial transactions throughout the country without a human teller.

1997

## Amex

Enables Amex cardholders to withdraw from any ATM in Bahrain, Kuwait, Qatar, Oman, and the UAE.

## Tele BP

Telecom Bill Payment, allows customers to pay their teleohone bills online or through kiosk machines using their debit cards.

2001

## CRB

Credit Reference Bureau, supports banks credit risk decisions by providing customers' credit background and history.

2005

The BENEFIT Company since its establishment came a long way. It has never stopped growing and introducing added value services that are sought to enhance the efficiency and reduce the operational cost of banking transactions and payments settlement. It started as ATM and POS switch in 1997 to become an electronic payments and transactions network between the banks in purchase transactions, e-commerce, bulk payments, credit risk management, cheque clearing, and dispute management in 2012. BENEFIT is now a comprehensive network that provides a wide range of strategically important services to the financial community.

2009

**GCC DISPUTE**

GCCNet Dispute Management System, manages the interbank ATM disputes within the GCCNet online.

**SINNAD**

SINNAD got established in 2009 as joint venture between The BENEFIT Company and Network International, a leading third party processor in the region. SINNAD was established to operate as an ideal partner of third party processing services to the banks. It offers a diverse portfolio of outsourcing services such as processing services, ATM & POS acquiring, personalization and logistics, and project management.

**IB**

Internet Banking, provides a fast and convenient way of managing bank accounts on-line, 24 hours a day, 7 days a week.

**BCTS**

Bahrain Cheque Transaction System enables same day clearing of cheques which in turn enhances the speed of cash flow in Bahrain's economy as a whole

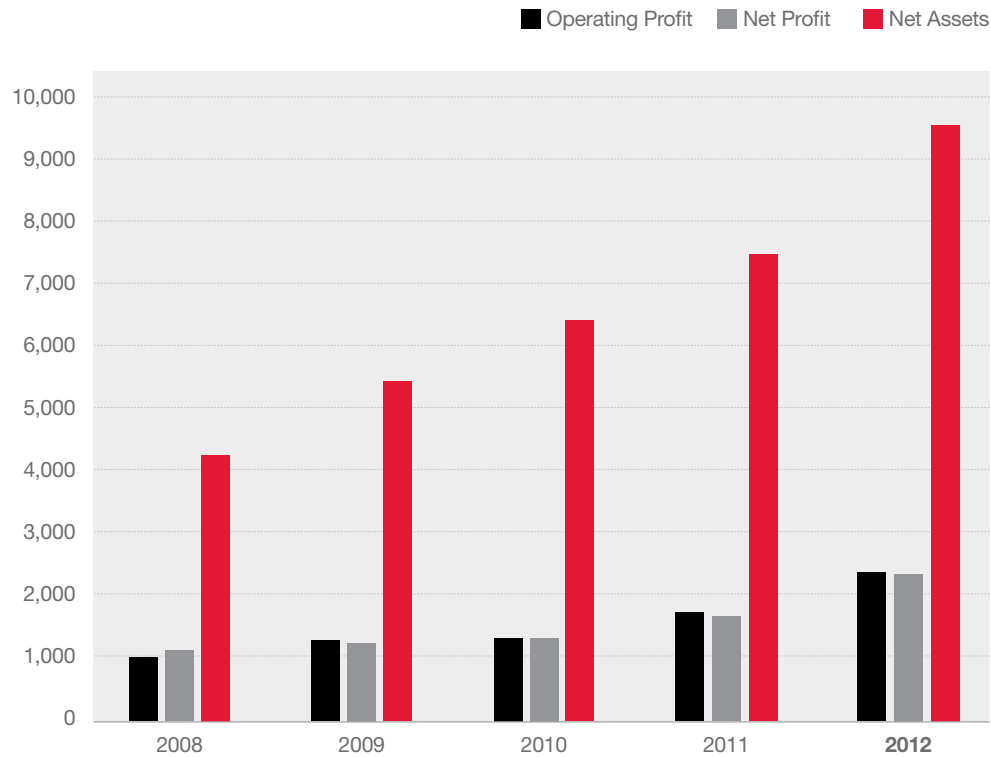
**PLATFORM UPGRADE**

BENEFIT services has grown throughout the years significantly since its inception. Accordingly, BENEFIT has enhanced its switch and communication infrastructure and platform to accommodate BENEFIT's current services and future growth plans.

2008

2012

## 5 YEAR GROWTH



2012 has seen BENEFIT set on a clear path to further expansion and innovation, whilst it continues to add value to the financial industry, in particular to the banks. The past 5 years have shown a steady, healthy growth for the Company with 2012 delivering a higher rate of return for the Company's shareholders than in any previous year.

The continuing trend for growth demonstrates BENEFIT's clear understanding of its vision and direction. Through consistent strategic development planning, over the past 5 years, the Company has achieved a network that runs at 100% capacity and reliability. This year, the launch

of the Bahrain Cheque Truncation System (BCTS) and the enhancement of the Disaster Recovery further cements BENEFIT as a company with an outlook that signals continued growth and development over the next 5 years.

BENEFIT will continue to invest its profits in enhancing its existing services, introducing new services and extending its reach into unchartered territories. With its aim of adding overall value to its member banks and shareholders, BENEFIT looks forward, in the next 5 years, to continuing to provide Bahrain's financial industry with the power to deliver services at maximum efficiency.







**FIRST BANK NOTE**

First Bahrain dinar bank note

## FIRST BANK NOTE

As a small nation, Bahrain, over many centuries and throughout changing trading platforms, proved its position time and again on the commercial global stage. In the 1960's, with the rapid acceleration of the country's international economic maturity and expanding networks within the banking world, came the decision to introduce a national currency.

Three years into the reign of Sheikh Isa bin Sulman al Khalifa, the first bank note of Bahrain was printed by Thomas de la Rue & Company Limited of London and released to the public in October 1965.

In the 1960's, with the rapid acceleration of the country's international economic maturity and expanding networks within the banking world, came the decision to introduce a national currency.

The Central Bank of Bahrain - known as both the Bahrain Currency Board and Monetary Agency over the decades – has worked to provide an economy that is highly valued, liberal and diverse. With the CBB's support, in the same way, BENEFIT launched its electronic services to aid and accelerate the circulation of the Bahraini Dinar by providing its clients' with maximum added value and the freedom to forge a wider network into the ultimate banking era.

# CORPORATE GOVERNANCE

## 1. BENEFIT's CORPORATE GOVERNANCE REPORT 2012

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 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 the 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 & Corporate Governance Committee, Executive Committee, and a Nomination and Remuneration Committee to oversee company activities. The Audit & Corporate Governance Committee ensures correct procedures are taken and the proper financial records presented. It also acts to demonstrate and guarantee that BENEFIT, as a company, is in strict and proper compliance with the CBB's rules and regulations. 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.

## 2. 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. 4.8 million US dollars). BENEFIT is not publicly listed.\*

\* Note: The Board of Directors has proposed to increase the issued and paid capital of BENEFIT to BHD 2,160,000 by the issue of bonus share at the ratio of one bonus share for every five shares in the amount of BHD 360,000 that will be submitted to the shareholders at the annual general meeting for their approval.

## 2.1 Shareholders

There was a change in shareholding during the year 2012 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	Al Salam Bank *	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%
			<b>100%</b>

\*Note: Bahrain Saudi Bank merged with AlSalam Bank

## 3. AGM AND EAGM MEETINGS

The Annual General and the Extra Ordinary Meetings were held on 26 March 2012.

## 4. BOARD OF DIRECTORS INFORMATION

### 4.1 Board Composition

The Board of Directors comprises of 8 appointed, 2 elected and one CBB representative. The Board of Directors are appointed for 3 years term and their term will be completed by 14th April, 2013. The Board consists of members with wide range of experience in the Banking sector.

No	Director Name	Position in the Board
1	Abdul Razak Abdulla Hassan Al Qassim	Chairman
2	Reyadh Yousif Sater	Vice chairman
3	Abdulla Hussain	Director
4	Khalid Juma	Director
5	Abdul Razaq Abdul Khaliq	Director
6	G.P.V. Rao	Director
7	Hana Sarwani	Director
8	Mohammed Malik	Director
9	Sai Narain CDK	Director
10	Yousef Al Fadhel	CBB observer

## CORPORATE GOVERNANCE (continued)

### 4.2 Proposed Directors' Remuneration

The proposed remuneration for the members of the Board of Directors is BHD 77,000 for the year 2012 (BHD 55,000 : 2011).

### 4.3 Directors' Meeting Fees

The subcommittees receive sitting fees for attending the meetings of Audit & Corporate Governance Committee, Executive Committee, and Nomination & Remuneration Committee for a total amount of BHD 11,400 for 2012.

### 4.4 Directors' Profile

- **Abdul Razak Abdulla Hassan Al Qassim**  
BENEFIT Chairman  
Member of Nomination and Remuneration Committee
  - o CEO and Board Member of National Bank of Bahrain
  - o Total of 45 years experience
  - o Chairman of Board of Trustee of Ahlia University
  - o Deputy Chairman and Board Member of Nomination and Compensation Committee of Oasis Capital Bank B.S.C
  - o Deputy Chairman and Chairman of Executive Committee of the Arab Academy for Education and Research;
  - o Board Member and Chairman of the Executive Committee of Bahrain Telecommunication Company
  - o Board member of Umniah
  
- **Reyadh Yousif Sater**  
BENEFIT Vice Chairman  
Chairman of Audit & Corporate Governance Committee  
Member of Nomination and Remuneration Committee
  - o GM , Shared Services Group of Bank of Bahrain & Kuwait
  - o Total of 36 years experience
  - o Chairman of Sakana
  - o Vice Chairman of Capinnova Investment and Chairman of the Audit Committee
  - o Vice Chairman of Credimax and Chairman of the Audit Committee
  
- **Abdulla Hussain**  
BENEFIT Board Director  
Chairman of the Executive Committee
  - o EAGM, Customer Services and IT of National Bank of Bahrain
  - o Total of 23 years experience
  
- **Khalid Juma**  
BENEFIT Board Director
  - o GM, Operations & Administrations Group of National Bank of Bahrain
  - o Total of 41 years experience

- **Abdul Razaq Abdul Khaliq**  
 BENEFIT Board Director  
 Member of the Audit and Corporate Governance Committee

  - o AGM Central Operations of Bahrain Islamic Bank
  - o Total of 37 years experience
  - o Board Director of Bahrain Specialist Hospital
  - o Member of Trade Finance National Committee (ICC)
  - o Member of the BISB Fund Management Board
  
- **G.P.V. Rao**  
 BENEFIT Board Director  
 Member of the Executive Committee

  - o Group Head of Technology and Financial Services of Ahli United Bank
  - o Total of 23 years experience
  
- **Hana Sarwani**  
 BENEFIT Board Director  
 Member of the Audit and Corporate Governance Committee

  - o Chief Operating Officer of HSBC Bank
  - o Total of 16 years experience
  
- **Mohammed Malik**  
 BENEFIT Board Director  
 Member of the Executive Committee

  - o Chief Executive of Credimax
  - o Total of 26 years experience
  - o Chairman and Board Member of GPS (Global and Payment System)
  - o Chairman and Board Member of Invita - Kuwait
  - o PowerCard User Club Board Member - Morocco
  
- **Sai Narain CDK**  
 BENEFIT Board Director  
 Member of the Executive Committee

  - o Regional Head of Consumer Banking of Standard Chartered Bank
  - o Total of 23 years experience
  
- **Yousif AlFadhel**  
 CBB Observer

  - o Director, IT Directorate of Central Bank of Bahrain
  - o Total of 26 years experience

# CORPORATE GOVERNANCE (continued)

## 5. WHISTLE BLOWER POLICY

The Company is committed to integrity and ethical behavior and accordingly is adopting the Whistle Blower Policy. The Policy encourages all employees to disclose in good faith any wrongdoing, unethical or improper practice, or adverse employment action that may unfavorably impact the Company, its customers, shareholders, employees, investors, or the public at large. The Policy provides all employees the sufficient protection for such.

## 6. BOARD OF DIRECTORS TERMS OF REFERENCE AND CODE OF CONDUCT

### 6.1 Scope and Authority

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 is responsible for the overall quality of the Company’s performance and succession planning required to attain the organization’s major strategic and operational objectives. The Board oversees the conduct of the organization’s business and supervises the 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.

### 6.2 Membership

The Board consists of 10 Board Members representing 14 Banks along with a representative from the Central Bank of Bahrain [CBB] as an observer.

The Board operates by delegating certain of its authorities to management and by reserving certain powers to itself. The Board retains the responsibility for managing its own affairs including appointing the Chairman, Vice Chairman, proposing to the Members candidates for election to the Board, and constituting committees of the Board – Executive, Audit & Corporate Governance, and Nomination and Remuneration Committees.

### 6.3 Duties and Responsibilities of the Board

#### 6.3.1 Legal and Primary Oversight

The Board has the responsibility to ensure that legal requirements have been met and documents and records have been properly prepared, approved and maintained.

The Board has responsibility of:

- Oversee the management of the business affairs of BENEFIT.
- Act honestly and in good faith with a view to the best interests of BENEFIT.
- Exercise the care, diligence and skill that reasonable, prudent people would exercise in comparable circumstances; and
- Act in accordance with its obligations contained in bylaws, and other relevant legislation and regulations.
- Approval on the Succession plan of seniors and key position.
- Committees’ performance evaluation.



#### 6.3.2 Setting the Corporate Direction

The Board has the responsibility for setting the corporate direction for The BENEFIT Company and in doing so has the responsibility of:

- Ensure that there is a Corporate planning process in place and the capability to carry out the work,
- Ensure that there are specific short- and long-term objectives governing all major elements of BENEFIT operations in place;
- Review and approve the strategies, business plans and annual budgets by which it proposes to achieve these objectives; and
- Ensure that the objectives, strategies and budgets are submitted to and approved by the Board on an annual basis.

#### 6.3.3 Managing Performance

The Board has the responsibility of:

- Monitor BENEFIT's progress towards its objectives and program plans at least once a year and to revise and alter its direction through management in response to changing circumstances; and
- Take action when performance falls short of its objectives or when other special circumstances warrant.

#### 6.3.4 Financial Control

The Board has the responsibility of:

- Ensure that BENEFIT has implemented adequate control and information systems which ensure the effective discharge of its responsibilities;
- Review and approve overall financing programs and policies;
- Authorize actions as may be required to implement such programs; and
- Review and approve the annual budget for BENEFIT.

#### 6.3.5 Managing Risk

The Board has the responsibility to understand the principal risks of the business in which BENEFIT is engaged and to ensure that there are procedures and controls in place which effectively monitor and manage those risks with a view to the long term viability of BENEFIT.

#### 6.3.6 Policies, Procedures and Compliance

The Board has the responsibility to:

- Ensure that BENEFIT operates at all times within applicable laws and regulations, and the Corporation's by laws and maintains ethical and moral standards;
- Approve and monitor compliance with all policies, significant procedures and practices, and management contracts by which BENEFIT is operated;
- Ensure BENEFIT has a high regard for the health and safety of its employees in the workplace and has in place appropriate programs and policies; and
- Review and approve all pensions, retirement and other employee benefit plans.

# CORPORATE GOVERNANCE (continued)

## 6. BOARD OF DIRECTORS TERMS OF REFERENCE AND CODE OF CONDUCT (continued)

### 6.3.7 Reporting and Communication

The Board has the responsibility to:

- Ensure BENEFIT has in place policies and programs to enable it to communicate effectively with its Members, other stakeholders and the public generally;
- Ensure that the financial performance of BENEFIT is adequately reported to the Members on an annual basis;
- Ensure that the financial results are reported fairly and in accordance with generally accepted accounting principles;
- Ensure the timely reporting of any other developments that have a significant and material impact on the value of BENEFIT; and
- Approve plans and logistics of Members meetings.

### 6.3.8 Function of the Board to be Independent

The Board must ensure that procedures exist which enable it to function independently of management through:

- Establishing a process and guidelines to enable the Board and/or committees to engage outside advisors when appropriate.

## 6.4 Committees of the Board

The Board has, as a minimum, the below standing committees:

- An Executive Committee, to supervise the affairs of BENEFIT between meetings of the Board and deal with emergency matters when it is impractical or impossible to call a meeting of the Board;
- An Audit & Corporate Governance Committee, with responsibility of oversight the financial reporting and controls for BENEFIT;
- Nomination and Remuneration Committee, review the board composition and succession planning and assist the board in finding, evaluating and recommending candidates for the Board.

Each standing committee of the Board will have a written mandate which will be reviewed and approved by the Board. Only Board Members can be members of the standing committees.

The Board may also create ad hoc Board committees to deal with specific projects. At least one member of the Board shall be appointed to each committee established by the Board. These committees need not be comprised of Board members exclusively. The Board may delegate to these committees such powers and to the non-board members such voting rights as the Board may decide. These committees will have written mandates.

Concurrent with establishment of a committee, the Board shall designate the committee chairman and each committee whether comprised exclusively of Board members or not shall have the power to fix its quorum at not less than a majority of its members.

## 6.5 Chairman and Vice Chairman Appointment

### 6.5.1 Chairman

The Chairman of the Board shall be appointed by the Board for a three years term and may be reappointed. Candidates for the Chairman of the Board will be identified from among the Directors. If more than one candidate is nominated, Board Members will select the Chairman through a secret ballot.

#### 6.5.2 Vice-Chairman

The Vice Chairman of the Board shall be appointed for a three years term, and can be reappointed, normally for three successive terms. The Vice Chairman shall assist the Chairman as may be necessary and, in the absence of the Chairman or the inability of the Chairman to act, shall exercise the powers and duties of the Chairman, and Candidates for the Vice Chairman of Board will be identified from among the Directors.

If more than one candidate is nominated, Board Members will select the Vice Chairman through a secret ballot. If the Chairman of the Board is not present at a meeting of the Board, the Vice Chairman will chair the meeting. If none of the former is present, the Board shall choose a Chairman from among the Directors present at the meeting.

#### 6.6 Corporate Secretary Roles and Responsibilities

The Corporate Secretary and or his designate have the below responsibilities:

- Record the minutes of all meetings of the Executive, Audit and Corporate Governance, Nomination and Remuneration Committees, and Board of Directors and the membership of the Association.
- Receive and prepare correspondence on behalf of the Executive, Audit and Corporate Governance, Nomination and Remuneration Committees, and the Board of Directors.
- Keep copies of email decisions made by the Executive, Audit and Corporate Governance, Nomination and Remuneration Committees, and Board of Directors.
- Ensure copies of minutes of all meetings are filed,
- Board minutes will be distributed in draft for review by Directors before being finalized.

#### 6.7 Meetings, Attendance, and Minutes

The meetings of the Board and the procedures at such meetings shall be determined from time to time, provided that:

- The Board shall hold a minimum of four (4) meetings a year;
- Notice of every meeting shall be delivered, telephoned or sent electronically to each Director not less than seven (7) days before the meeting is to take place.
- An agenda and related materials covering each meeting shall be given in writing or by electronic means to each Director at least 5 days (120 hours) prior to the time fixed for such meeting;
- A quorum for meetings shall be a majority of the Directors by which it consist of at six [6] Directors.
- At all meetings of the Board and any committees of the Board every question shall be decided by a majority of the votes cast on the question. In the case of an equality of votes, the Chairman shall have a second or casting vote. A Director shall not be entitled to vote at any meeting of the Board by proxy.
- A new Director so appointed shall in all cases complete the unexpired term of his predecessor

The Board shall at all times have the right to determine who shall and shall not be present at any part of the meetings of the Board.

The Corporate Secretary will ensure that all deliberations, recommendations, directions, decisions and resolutions of the Board shall be recorded in the minutes of the meetings of the Board, such minutes to be promptly circulated to all directors by the Board Secretary prior to the next Board meeting. Those members of the Board of Directors who sign the Minutes of any meeting shall be jointly answerable for the accuracy of the details contained therein.

The Board of Directors shall have the full power to administer the Company in accordance with the laws of the Kingdom of Bahrain and the Articles of Association of the Company, the power of the Board shall include but not be limited to open bank accounts, to approve business plans and budgets prepared by the Management, to review proposals to the General Assembly such as the annual profit and loss statement and the balance sheet, and to appoint the Company CEO.

# CORPORATE GOVERNANCE (continued)

## 6. BOARD OF DIRECTORS TERMS OF REFERENCE AND CODE OF CONDUCT (continued)

During the year 2012 five Board meetings were held as below:

Members	16.2.12	9.5.12	29.7.12	31.10.12	6.12.12	Attendance
Abdul Razak Abdulla Hassan Al Qassim - Chairman	✓	✓	X	X	✓	3/5
Reyadh Yousif Sater – Vice Chairman	✓	✓	✓	✓	✓	5/5
Abdulla Hussain - Director	✓	✓	✓	✓	✓	5/5
Khalid Juma – Director	✓	✓	✓	✓	✓	5/5
Abdul Razaq Abdul Khaliq - Director	✓	✓	✓	✓	✓	5/5
G.P.V. Rao - Director	✓	X	✓	✓	X	3/5
Hana Sarwani - Director	X	✓	✓	X	✓	3/5
Mohammed Malik - Director	✓	✓	✓	✓	✓	5/5
Sai Narain CDK - Director	✓	✓	✓	✓	X	4/5
Venkat PS – Director*	X	-	-	-	-	-
Yousif Al Fadhel – CBB Representative	✓	✓	✓	X	✓	4/5

\*Note: Mr. Venkat PS resigned at the beginning of the year 2012

### 6.8 Appointment of the Key Executives

The appointment of the first layer reporting to CEO must be coordinated with the Board of Directors.

### 6.9 Communication of the Board of Directors Meeting Recommendations

The CEO will ensure that key decisions and discussions (if required) are adequately disclosed to BENEFIT management. In addition, the CEO will ensure public disclosure of the BENEFIT corporate governance practices, including the terms of reference for the Board of Directors and Committees of the Board.

### 6.10 Review and Amendment of Terms of Reference

The Board will review and assess these Terms of Reference whenever there is a need.

### 6.11 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 upmost integrity.

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

#### 6.11.1 Integrity and Professionalism

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

#### 6.11.2 Compliance with the Law

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

#### 6.11.3 Conflicts of Interest

- 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.
- 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.
- 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.
- 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.

#### 6.11.4 Confidential Information

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

#### 6.11.5 Inside Information

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

#### 6.11.6 Benefits to Senior Officers

- 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.
- Directors of the Company must not accept payments, gifts or entertainment beyond that which would be considered normal business practice.

# CORPORATE GOVERNANCE (continued)

## 7. BOARD COMMITTEES

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:

### 7.1 Audit and Corporate Governance Committee Terms of Reference

#### 7.1.1 Constitution

The Board of Directors hereby resolves to establish a committee of the Board to be known as the Audit & Corporate Governance Committee

#### 7.1.2 Purpose

For the Company and its subsidiaries (if any), the Audit & Corporate Governance 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, Corporate Governance and the compliance with laws [CBB and Ministry of Commerce] and regulations and the Company's code of conduct (if any).

#### 7.1.3 Authority

The committee is authorized by the Board of Directors to investigate any activity within its terms of reference. It is authorized to seek any information it requires from any employee and all employees are directed to cooperate with any request made by the Committee. The Committee is authorized by the board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

#### 7.1.4 Membership

- The committee shall be appointed from the Board from amongst the non-executive Directors of the Company and shall consist of not less than 3 members.
- A quorum shall be 3 members.
- The chairman of the committee shall be appointed by the Board.
- There must be at least one qualified and/or appropriately experienced accountant in the committee.
- All members of the committee must be financially literate.
- The CEO will not be member of this committee.
- Audit & Corporate Governance Committee membership term expires at the same time as the Board of Directors.
- The tenure of the members shall be in line with the tenure of the Board.

No	Member Name	Position in the Committee
1	Reyadh Yousif Sater	Chairman
2	Hana Sarwani	Member
3	Abdul Razaq Abdul Khaliq	Member

#### 7.1.5 Attendance at Meetings

- The CEO, the Head of Internal Audit and a representative of the External Auditors shall normally attend meetings. The committee must meet with the external auditors at least twice per year and at least once per year in the absence of any members of the executive management.
- The Chairman of the Audit & Corporate Governance Committee will chair the meeting and during his absence the remaining members will elect one of the attendees to temporarily chair the meeting.
- Committee decisions will be decided by majority of the members.
- The minutes of the committee meetings should be circulated to all members of the Board of Directors for each of the Audit & Corporate Governance Committee meetings.
- Should there be any direct or indirect conflict of interest relating to any member of the Audit & Corporate Governance Committee, then he or she should declare it and yet should not attend the meeting and if attended with no right to participate or vote.
- Audit & Corporate Governance Committee membership term expires at the same time as the Board of Directors term. New or the same members of the Audit & Corporate Governance Committee can be re-elected if decided by Board of Directors.
- The quorum for a valid meeting shall be the presence of at least 3 members.

During the year 2012, 5 Audit & Corporate Governance committee meetings were held.

Members	7.2.12	29.4.12	19.7.12	31.7.12	22.10.12	Attendance
Reyadh Yousif Sater - Chairman	✓	✓	✓	✓	✓	5/5
Hana Sarwani – Member	✓	✓	X	✓	✓	4/5
Abdul Razaq Abdul Khaliq - Member	✓	✓	✓	✓	✓	5/5

Note: The fees for attending the Audit and Corporate Governance Committee meetings are BHD 300.

#### 7.1.6 Frequency of Meetings

Meetings shall be held four times a year. Meetings agenda will be prepared and provided in advance to members, along with appropriate briefing materials.

#### 7.1.7 Authorities and Resources

The Committee shall have the resources and authority necessary for its duties and responsibilities, including the authority to select, retain, terminate and approve the fees of outside legal, consulting or auditing firms, without seeking the approval of the Board or management, provided the expense to be incurred on such matters are within the budget approved by the Board. The Company shall provide appropriate funding for the compensation of any such persons.

# CORPORATE GOVERNANCE (continued)

## 7. BOARD COMMITTEES (continued)

### 7.1.8 Responsibilities of the Audit & Corporate Governance Committee

- To review the integrity of the Company's financial reporting, including choice of the accounting policy.
- To oversee the selection and compensation of the external auditors for appointment and approval at the shareholders meeting.
- To oversee relations with the external auditors, including ensuring the external auditor's independence and monitor rotation arrangement for audit engagement partners.
- To set up Internal Audit function reporting directly to the Audit & Corporate Governance Committee.
- To regularly review the activities and performance of the internal audit function.
- To consider effectiveness of Internal Control system within the Company.
- To review whether the Company complies with all relevant laws, regulations, codes and business practices, and ensure that the Company communicates with shareholders and relevant stakeholders (internal and external) openly and promptly, and with substance of compliance prevailing over form.
- To review and supervise the implementation of enforcement of and adherence to the Company's code of conduct.
- To review and report issues and comments to the Board on the Corporate Governance regulations in accordance with CBB requirements.

### 7.2 Executive Committee Terms of Reference

#### 7.2.1 Purpose

Executive Committee (ExCo) provides a forum for senior management to discuss policies and strategies and examine various strategic issues of the Company. The purpose of 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.

#### 7.2.2 Membership

The Executive Committee will comprise of four members with quorum of three members. Members not attending the committee can proxy another member of the Executive Committee.

No	Member Name	Position in the Committee
1	Abdulla Hussain	Chairman
3	Mohammed Malik	Member
2	G.P.V. Rao	Member
4	Sai Narain CDK	Member



### 7.2.3 Attendance

During the year 2012, 7 Executive Committee meetings were held.

Members	15.2.12	6.5.12	7.5.12	16.7.12	18.9.12	18.11.12	22.11.12	Attendance
Abdulla Hussain - Chairman	✓	✓	✓	✓	✓	✓	✓	7/7
Mohammed Malik - Member	✓	✓	✓	✓	✓	✓	✓	7/7
G.P.V. Rao - Member	✓	X	X	✓	X	✓	X	3/7
Sai Narain CDK - Member	✓	✓	✓	✓	✓	X	✓	6/7

Note: The fees for attending the Executive Committee meetings are BHD 300.

### 7.2.4 Frequency of the Meeting

It is recommended for the committee to meet not less than 4 times a year or when ever is needed.

### 7.2.5 Terms of Reference

- The members of the committee will not be less than four and not more than five.
- The Chairman of ExCo will request and chair the meeting and during his/her absence the committee will elect one of the attendees to temporarily chair the meeting.
- Decisions are made based on majority voting. Voting will be either yes or no. In the case where attendees are 3, the chairman of the ExCo vote will count as 2.
- For any decision should be in writing and signed by the committee members.
- In case there is a vacancy, the ExCo will select a replacement in the next meeting. Should number of vacancies affect the voting majority, and then the Chairman in coordination with the Board will call for a meeting to elect and select the right number of members.
- The ExCo meets separately from Board of Directors meetings and provides its report to the subsequent Board meeting for ratification if needed.
- ExCo membership term expires at the same time as the Board of Directors term. New or the same members of the ExCo can be re-elected if decided by Board of Directors.
- The ExCo meet once a month and the Chairman may call for a meeting at anytime by providing the time and venue for the same.
- The Chief Executive Officer or person acting on his/her behalf, of the Company attends all ExCo meetings with no authority to vote yet has the right to invite the Company's staff as appropriate.
  - Should there be any direct or indirect conflict of interest relating to any member of the ExCo, then he or she should declare it and yet should not attend the meeting and if attended with no right to participate or vote.
  - Executive Committee meetings will be minuted and signed by all members present.

# CORPORATE GOVERNANCE (continued)

## 7. BOARD COMMITTEES (continued)

### 7.3 Nomination & Remuneration Committee Terms of Reference

7.3.1 Nomination and Remuneration Committee Charter (In process of obtaining Board of Directors' approval)

#### 7.3.1.1 Introduction

A Committee Charter should be a living document that is referred to regularly and updated as required. It sets out the functions and responsibilities of the Committee. The Board established the Nomination and Remuneration Committee under the Company's constitution.

#### 7.3.1.2 Membership of the Committee

The Nomination and Remuneration Committee will comprise of up to 3 members of Directors:

- The Board will appoint the chairman of the Nomination and Remuneration Committee from the Board of Directors.
- The Company Secretary and or any designate will provide secretarial services for the Nomination and Remuneration Committee and maintain minutes of meeting.
- The Board decides appointments, rotations and resignations within the Nomination and Remuneration Committee. Each member should be capable of making a valuable contribution to the Committee.
- Members should be appointed for a three year term of office subject to review at any time by the Board.

No	Member Name	Position in the Committee
1	Abdul Razak Abdulla Hassan Al Qassem	Member
2	Reyadh Yousif Sater	Member

### 7.3.2 Responsibilities

The Nomination and Remuneration Committee should be responsible for:

#### 7.3.2.1 Nomination

The principal nomination responsibilities of the Committee include:

- Reviewing the structure, size and composition of the Board whenever is required;
- Evaluating the desired competencies across Board members;
- Screening, selecting and recommending to the Board the CEO and his direct reportees.
- Identifying appropriate individuals as Board nominees and making recommendations to the Board about potential nominees;
- Conducting appropriate enquiries into the backgrounds and qualifications of Board nominees. The Committee should determine each proposed nominee's suitability for service on the Board;
- Review and approve HR policy and procedure and any amendments and changes thereafter;
- Assisting in the appropriate processes for the evaluation of the performance and effectiveness of the Board as a whole;
- Reviewing Director's Company awareness, induction process and Company succession plans; and recommendations for committee membership to the Board;
- Amend and update the evaluation policy as required.

#### *7.3.2.2 Remuneration Policy*

The principal remuneration responsibilities of the Committee include:

- Review the competitiveness of BENEFIT Company executive management compensation packages against industry standards to ensure that the Company is able to attract and retain the best and most suitably qualified executives;
- Review compensation trends and oversee the development of new compensation plans as necessary or revise existing compensation packages;
- Review and approve the compensation packages for CEO and Executive management.
- Review and approve as it sees fit, retirement arrangements, long term incentive compensation plans, and any special or supplemental benefits for CEO and Executive management of the Company;
- Seek an external assistant if deemed necessary to assist it to determine the appropriate levels of compensation for the Directors and CEO and other Executive management.
- Recommend changes to the Company's remuneration policy to the Board as it sees fit.

#### *7.3.2.3 Reporting Responsibilities*

- Regularly update the Board about Committee activities and approvals.
- Evaluate the Committee's own performance.
- Evaluation of the CEO by the Chairman of the committee

### 7.3.3 Committee Meetings

#### *7.3.3.1 Meetings*

Meetings shall be convened as and when required, minimum two meetings per annum.

#### *7.3.3.2 Agenda*

An agenda and any supporting documentation should be sent to all members of the Committee (5 business days) prior to each meeting.

#### *7.3.3.3 Quorum*

A quorum for any meeting will be for the two members (Chairman and Vice-Chairman) and it can be done by circulation and/or any other means of communications (i.e. phone and emails).

#### *7.3.3.4 Committee Minutes*

- Minutes of each Nomination and Remuneration Committee meeting must be included in the papers for next of Nomination and Remuneration Committee meeting.
- Minutes must be distributed to all Nomination and Remuneration Committee members after the Nomination and Remuneration Committee chairman has approved them.
- Minutes, agenda and supporting papers are available to Directors upon request to the Nomination and Remuneration Committee secretary, except if a conflict of interest exists.

# CORPORATE GOVERNANCE (continued)

## 7. BOARD COMMITTEES (continued)

### 7.3.4 Review and change of the charter

- The Nomination and Remuneration Committee will review this charter as often as it considers necessary and recommend any proposed changes to the Board for its approval.
- The Board may change this charter from time to time by resolution.

### 7.3.5 Attendance

Due to the size of the company two members have been elected for the Nomination & Remuneration Committee.

During the year 2012 Nomination & Remuneration Committee met twice

Members	21.2.12	18.12.12	Attendance
Abdul Razak Abdulla Hassan Al Qassim - Member	✓	✓	2/2
Reyadh Yousif Sater – Member	✓	✓	2/2

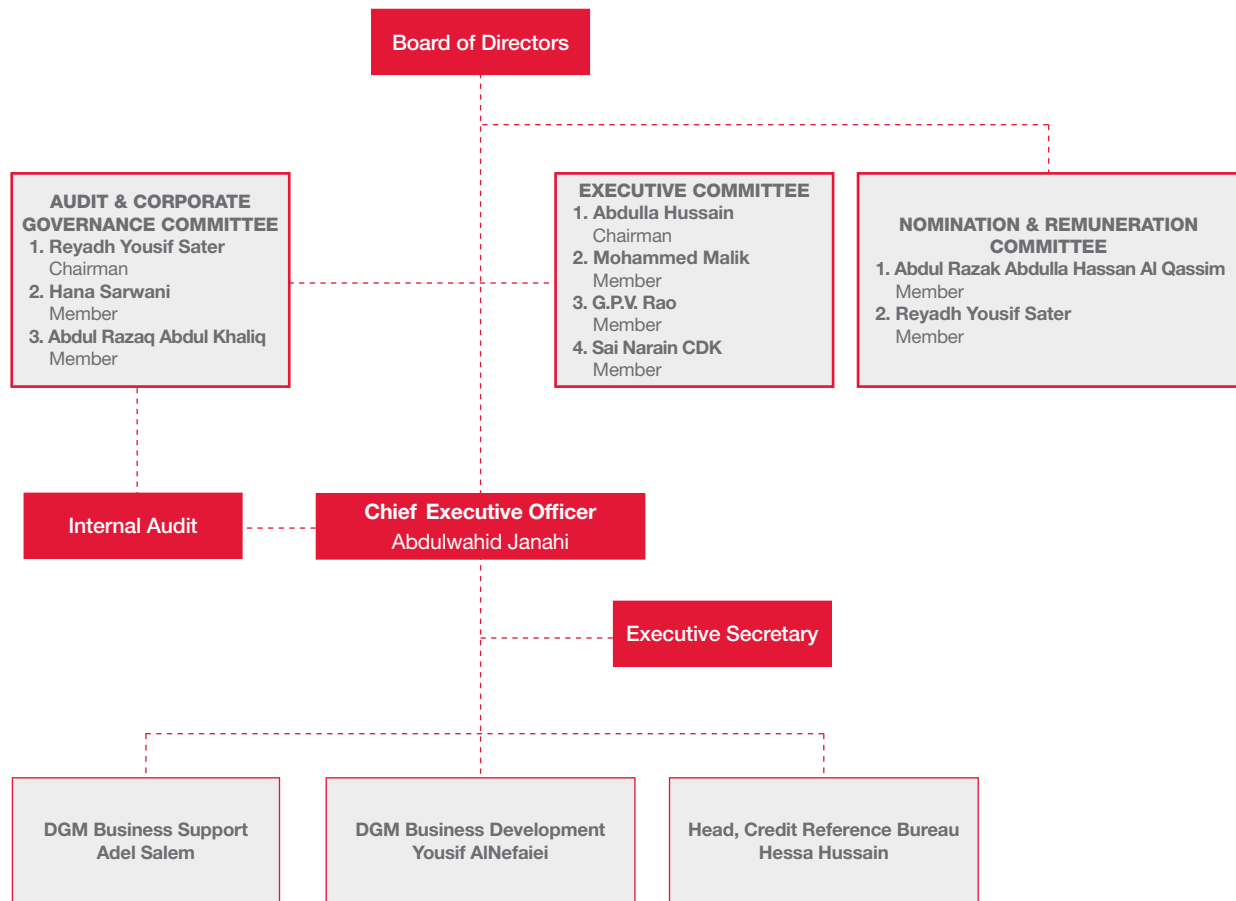
Note: The fees for attending the Nomination and Remuneration Committee meetings are BHD 300.

## 8. MANAGERIAL STRUCTURE

### 8.1 Management Team

- Abdulwahid Janahi, Chief Executive Officer
- Adel Salem, Deputy GM Business Support
- Yousif AlNefaiei, Deputy GM Business Development
- Hessa Hussain, Head of Bahrain's Credit Reference Bureau

## 9. BENEFIT ORGANIZATIONAL STRUCTURE



# CORPORATE GOVERNANCE (continued)

## 10. AVAILABLE COMMITTEE

- Audit & Corporate Governance Committee
- Executive Committee
- Nomination & Remuneration Committee

Each committee is governed by a Terms of Reference

## 11. 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).

## 12. RELATED PARTLY 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 2012 is BHD 132,816 [2011: BHD 117,419] which includes BHD 58,967 [2011: BHD 54,330] 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 2012 is BHD 196,295 [2011: 93,489].

## 13 RELATED PARTLY 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.

## 14. COMMUNICATION

BENEFIT Company is not publicly list, however, BENEFIT Company website is 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. 2012 Annual report will be updated on the website after the AGM meeting.

## 15. MATERIAL TRANSACTIONS FOR BOARD APPROVAL

The Board approved a yearly Budget along with Capital expenditure for projects [if any]. CEO have signing authority of up to BHD 5,000 any amounts over and above require dual signature by CEO and Chairman.

#### **16. NEW APPOINTMENT OF DIRECTORS**

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 the Nomination & Remuneration Committee.

#### **17. INTERNAL CONTROL**

Ernst & Young is BENEFIT Internal Auditor by which they review internal control processes & procedure, and KPMG is the Company's External Auditor.

#### **18. FINANCIAL PREPERATION**

The Audit & Corporate Governance Committee on a quarterly basis review audited financial with the management and Internal Auditor and review with the Board for approval.

#### **19. REMUNERATION POLICY FOR BOARD OF DIRECTORS AND SENIOR MANAGEMENT**

The Board members remuneration shall be decided by the Board while senior management remuneration shall be decided by Nomination & Remuneration Committee. Remuneration paid to senior management is available to eligible shareholders upon specific request along with necessary/ indemnity, in keeping the information confidential as per the Company procedures.

#### **20. OTHER INFORMATION**

The statutory Auditors of the Company are KPMG Fakhro Bahrain, 2012 fees is BHD 12,300 and the Internal Audit function has been outsourced to Ernst & Young.

#### **21. NON-COMPLIANCE WITH HC MODULE OF CBB RULEBOOK**

BENEFIT abides by the new Code of Corporate Governance issued by Central Bank of Bahrain (CBB) and Ministry of Commerce for all banks in Bahrain. CBB has introduced amendments in the High-Level Control Module (HC Module) of its Rulebook. BENEFIT complies with all the rules and guidelines defined in HC Module except those mentioned below which are in the process of being adapted:

- As per the amended HC Module, BENEFIT is required to have written appointment agreements with all members of its Board. The Company is currently finalizing the written letter of appointment which details the responsibilities and authorities of each individual members of the Board.
- As per the HC Module, one-third of the Board shall consist of Independent Directors. Currently, BENEFIT has no Independent Directors and is in discussion with CBB on the process of finalizing such. Nevertheless, BENEFIT has one CBB observer in its Board of Directors.
- All performance incentive related plans shall be approved by the Shareholders. Currently; BENEFIT has Board Remuneration and Staff Bonus for all its employees.
- As per the HC Module, BENEFIT is required to have Board Performance Evaluations for all members of its Board. The Company is in the process of finalizing the Board Performance Evaluation.

# BENEFIT ANNUAL GENERAL ASSEMBLY MEETING MINUTES

Meeting: AGM - 26.03.12  
Minutes: 26 March 2012, 10:00 AM, The BENEFIT Company  
Meeting Called By: The BENEFIT Company  
Type of Meeting: Annual General Assembly Meeting for 2011  
Attendees: As Per Attendees List  
Apologies: None

The Vice Chairman, Mr. Reyadh Yousif Sater chaired the meeting. He welcomed the shareholders representatives, the Central Bank of Bahrain and the Ministry of Industry and Commerce, and confirmed that 98% of the shareholders were present at the meeting.

## AGENDA TOPICS

### **1.0 Minutes of AGM Meeting Held on 31 March 2011**

**Abdulwahid Janahi**

#### Discussion:

The CEO of BENEFIT read the minutes of the Annual General Assembly Meeting dated 31 March 2011. No questions were raised.

**Resolution:** The minutes of the Annual General Assembly Meeting dated 31 March 2011 was approved by the Shareholders.

### **2.0 Directors Report ended 31 December 2011**

**Reyadh Yousif Sater**

#### Discussion:

The Chairman read the Directors Report and advised the members, despite 2011 being a challenging year BENEFIT managed to grow the profitability of the Company by 25% to BD1,660,372 which was a remarkable achievement for the Company. During the year 2011 BENEFIT Board have approved to change the entire Switch Infrastructure. The new system was successfully implemented and will cope with the Company growth.

The Chairman continued to advise that the Company will work on developing a three year Corporate Strategy which will include providing the banking sector with more services, such as the Bahrain Cheque Truncation System [BCTS] which is to be implemented shortly. The Corporate Bureau is another project which BENEFIT is working very closely with the CBB where it shall add value to the banking industry. The Chairman thanked the Shareholders, CBB and MOIC for their continuous support to the Company and is looking forward to a successful year in 2012. He also thanked the staff for their dedication and support to the Company.

### **3.0 External Auditors Report to the Shareholders for the Year 2011**

**Jaafar Alqubaiti**

#### Discussion:

Mr. Jaafar Alqubaiti of KPMG read the Auditors report making reference to the financial statements for the year ended 31 December 2011 of The BENEFIT Company using international standard auditing practices, which was then approved.

**Resolution:** The External Auditors report for the year 2011 was approved by the Shareholders.



#### **4.0 Financial Statement for the Year 2011**

**Reyadh Yousif Sater**

**Discussion:**

The Company's financial statement for the year ended 2011 was reviewed and no questions were raised, the report was then approved.

**Resolution:** The financial statements for the year ended 2011 was approved by the Shareholders.

#### **5.0 Recommended Appropriation of the Net Profit for 2011**

**Reyadh Yousif Sater**

**Discussion:**

The Chairman advised the Members that the Board of Directors have recommended the appropriation of the Net Profit as follows:

- To pay a dividend to the shareholders of BD 450,000 equal to 25% of the paid up capital.
- Directors Remuneration of BD55,000.
- Retained earnings for the year 2011 is BD 1,210,372.

**Resolution:** The recommended appropriation for 2011 was approved by the Shareholders.

#### **6.0 Ratification of Board of Director**

**Reyadh Yousif Sater**

**Discussion:**

The Chairman advised that the appointment of new Board Member Mr. Khalid Juma replacing Mr. Abdul Aziz Al Ahmed as the representative for National Bank of Bahrain need to be ratified by the AGM.

**Resolution:** The Shareholders ratified the appointment of Mr. Khalid Juma as a Director in BENEFIT.

#### **7.0 Corporate Governance Update**

**Reyadh Yousif Sater**

**Discussion:**

The Chairman provided a brief update on Corporate Governance to the Shareholders. He advised that certain high level controls have already been done as per the requirements of CBB Rule Book like the formation of two Committees, Audit & Corporate Governance and Nomination and Remuneration and that the Company is in touch with CBB regarding the other requirements as good number of them are not relevant to the Company. A brief report was compiled by the Company detailing the level of the compliance and reported/distributed to the shareholders during the meeting. There was no questions raised and the report was approved.

**Resolution:** The Shareholders approved the Corporate Governance report.

# **BENEFIT** ANNUAL GENERAL ASSEMBLY MEETING MINUTES

(continued)

## **8.0 Absolution of Directors Legal Liability**

**Reyadh Yousif Sater**

### **Discussion:**

The Shareholders were asked to absolve The BENEFIT Company Board of Directors from their legal liability for the year 2011 and this motion was approved. There were no questions raised.

**Resolution:** The Shareholders approved to absolve the BENEFIT Company's Board of Directors from their legal liability for the year 2011.

## **9.0 Appointment of The External Auditor**

**Reyadh Yousif Sater**

### **Discussion:**

The Chairman advised the shareholders on The Board recommendation to re-appoint the Company's external auditor KPMG for the year 2012.

**Resolution:** The shareholders approved the reappointment of KPMG as the Company's External Auditors for the year 2012 and authorized the Board of Directors to agree on their fees after obtaining the approval of CBB for the appointment of the auditor.

There being no other issues for discussion the meeting was closed at 10:30am.

**Reyadh Yousif Sater**  
Vice Chairman

**Abdulwahid Janahi**  
Chief Executive Officer

# BENEFIT EXTRAORDINARY ANNUAL GENERAL ASSEMBLY MEETING MINUTES

Meeting: EAGM - 26.03.12  
Minutes: 26 March 2012, 10:30 AM, The BENEFIT Company  
Meeting Called By: The BENEFIT Company  
Type of Meeting: Extraordinary Annual General Assembly Meeting For 2011  
Attendees: As Per Attendees List  
Apologies: None

The Vice Chairman, Mr. Reyadh Yousif Sater chaired the meeting. The subjects listed in the agenda were discussed and all items were approved unanimously.

## AGENDA TOPICS

### 1.0 Minutes of EAGM Meeting Held on 15 April 2010

**Abdulwahid Janahi**

#### Discussion:

The CEO of BENEFIT read the minutes of the Extraordinary Annual General Assembly Meeting dated 15 April 2010. No questions were raised.

**Resolution:** The minutes of the Extraordinary Annual General Assembly Meeting dated 15 April 2010 was approved by the Shareholders.

### 2.0 Amendment to Articles of Association

**Reyadh Yousif Sater**

#### Discussion:

The Chairman advised the Company has to amend the Articles of Association to reflect the addition of the following to the Company's objects subject to approval from CBB and MOIC:

**“Acting as the clearing house of bank cheques under the Bahrain Cheque Truncation System [BCTS]”**

**Resolution:** The recommended amendment to be made to the Company's objects in the Articles of Association was approved by the Shareholders.

### 3.0 Authorised Signatory

**Reyadh Yousif Sater**

#### Discussion:

To authorize the Chairman, Mr. Abdul Razak Abdulla Hassan Al Qassim and/or the Vice Chairman, Mr. Reyadh Yousif Sater and/or the CEO of the Company, Mr. Abdulwahid Janahi to sign on behalf of all the shareholders before the Notary Public all necessary documents for the above amendment to the Articles of Association. This was approved by the Shareholders.

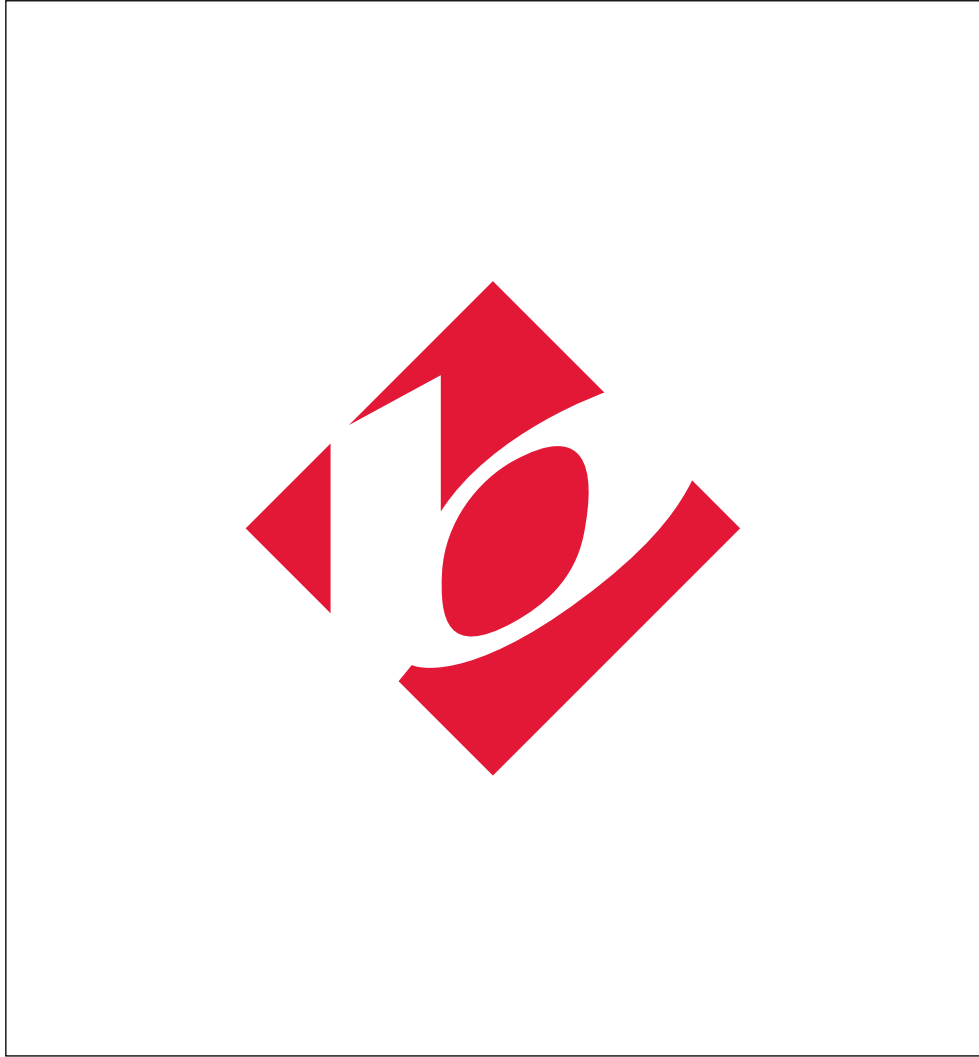
**Resolution:** This authorization was approved by the Shareholders.

The Chairman thanked the Shareholders, CBB and MOIC for their continuous support to the Company and is looking forward to a productive and successful year in 2012.

There being no other issues for discussion the meeting was closed at 10:35am.

**Reyadh Yousif Sater**  
Vice Chairman

**Abdulwahid Janahi**  
Chief Executive Officer



**BENEFIT**

BENEFIT, launched 1997

# BENEFIT

In what is the ultimate chapter in the history of Bahrain's commercial and trading activities, BENEFIT's electronic services were launched in 1997 to greatly impact the banking and financial sectors of the Kingdom. As our ancestors drove their innate commercial skills and practices through generations of merchants and businesses, making their mark on the ancient and modern world of trade, so BENEFIT paves the way to further success and innovation.

BENEFIT, with the support of the Central Bank of Bahrain, provides an invaluable infrastructure for the banking community in Bahrain and throughout the region. As a leading hub of the financial shared platform, the Company's vast range of services, including switching ATMs and POSs transactions, electronic Payment Gateway for eCommerce and eGovernment transactions, Credit Reference Bureau, Cheque Clearing System, Dispute management center for electronic transactions, and Business Process Outsourcing will continue to innovate towards maximum added value for our clients, shareholders and the Kingdom of Bahrain.

Owing largely to its prime location on a vibrant trading route Bahrain has, through the ages, experienced great success. BENEFIT's inception, however, heralded an unleashing of any geographical constraints that has led to the financial empowerment of the Kingdom, its businesses, banks and people who drive commerce, at the touch of a button, without limits into the near future and beyond.

As our ancestors drove their innate commercial skills and practices through generations of merchants and businesses, making their mark on the ancient and modern world of trade, so BENEFIT paves the way to further success and innovation.

# REPORT OF THE DIRECTORS

for the year ended 31 December 2012

## Business Review

We are pleased to report to our shareholders that 2012 is another good year in terms of performance for the BENEFIT Company. This was attainable given to focus and strategy as a company to provide value adding services to the financial community.

The consolidated operating profits grew by 37% in 2012 to reach BHD 2,362,464 compared to BHD 1,723,907 in 2011; whereas, the consolidated net profits grew by 41% in 2012 to reach BHD 2,341,975 compared to BHD 1,660,372 in 2011.

In 2012, the BENEFIT Company had number of activities. It launched in coordination with Central Bank, the Bahrain Cheque Transaction System (BCTS) for a total of 29 retail banks. The BCTS is yet another strategic service that BENEFIT introduced to the market where it revolutionize the process of cheque clearing in Bahrain by reducing the time period of clearing fund settlements from 2-3 days to one business day. Moreover, the BENEFIT has successfully completed the upgrade and enhancement of its switch infrastructure platform via adopting the best and most reliable systems and infrastructure which takes the Company forward towards attaining its objectives and growth strategies. The network, communication, and systems of the Company are vital part of the core infrastructure that allows us to attain the required objectives. BENEFIT provides the financial community with secure, resilient and reliable services. Further, the Company has enhanced its network and infrastructure that runs at 100% capacity and reliability.

As the Credit Bureau is continuing to grow and expand its data size, the Company has worked on upgrading its CRB hardware infrastructure and platform. The new platform enabled CRB to increase its performance and capacity by using the new hardware technology from Oracle, which will be the base for eventually upgrading CRB application and topping it with new services and features.

## Consolidated Financial Results

Particulars	2012 (BHD)	2011 (BHD)	Change
Operating profit	2,362,464	1,723,907	37%
Profit for the year	2,341,975	1,660,372	41%
Net assets	9,461,359	7,569,384	25%

## Recommended Appropriations and Remuneration for 2012

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

2012 (BHD)	
Dividends [25%]	450,000
Bonus Shares	360,000
Statutory Reserve	180,000
Directors Remuneration	77,000
<b>Total</b>	<b>1,067,000</b>

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

	BHD
Share Capital	2,160,000
Statutory Reserve	1,086,137
Retained Earnings	5,650,386
Non-controlling interest	114,836
<b>Total Consolidated Shareholders' Equity</b>	<b>9,011,359</b>

#### **Outlook for 2013**

BENEFIT, over the past years, has been successful in positioning itself as an important shared business platform in the Banking Industry of Bahrain. It is its commitment in providing services and products that support and offer adding value to its member banks that had made such possible. The Company is keen and shall continue to provide Bahrain's Banking Industry with services that help in enhancing its efficiency and accordingly make it stand out.

2013 shall be a year of reshaping BENEFIT's three years corporate direction and strategy to take the company forward to new prospects. The corporate strategy will cover strategic opportunities and potential directions towards enabling the Company to substantially increase its market penetration and provide diversifying products and services to its stakeholders.

We are also working with CBB to introduce in 2013 the Corporate Credit Reference Bureau. We strongly believe that providing our member banks with consolidated corporate data will enhance the efficiency of the decision-making capabilities for the banks by drastically reducing the current risk of unknown credit history of corporate.

Our ongoing goal and belief is to carry on our projects and services, maintain our good performance, enhance our unique services. We are determined to elevate BENEFIT's position in the market to a clearing hub for Bahrain's Retail Banking Industry. We are committed to continue our successes and maintain mutually beneficial relationships with Central Bank, shareholders, member banks and clients.

**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 2012, 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 2012, 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 Law and the Central Bank of Bahrain Law, the CBB Rule Book (Volume 5, applicable provisions of Volume 6 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.



13 February 2013  
Kingdom of Bahrain

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2012

(Bahraini Dinars)

	Note	2012	2011
<b>ASSETS</b>			
Furniture and equipment	4	672,309	591,482
System software	5	853,806	226,670
Capital work in progress	5	85,597	626,433
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,611,712</b>	<b>1,444,585</b>
Cash and cash equivalents		1,511,214	1,057,850
Short Term Deposits		4,363,785	3,593,136
Balance with Central Bank of Bahrain		2,078,610	1,237,070
Balance with other central banks		519,285	410,781
Prepaid expenses and advances		56,157	73,952
CRB receivables	15	89,703	129,917
Other receivables	15	129,072	127,793
<b>TOTAL CURRENT ASSETS</b>		<b>8,747,826</b>	<b>6,630,499</b>
<b>TOTAL ASSETS</b>		<b>10,359,538</b>	<b>8,075,084</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital	1	1,800,000	1,800,000
Statutory reserve		906,137	900,695
Retained earnings		6,640,386	4,780,518
Non-controlling interest		114,836	88,171
<b>TOTAL EQUITY (page 66)</b>		<b>9,461,359</b>	<b>7,569,384</b>
<b>LIABILITIES</b>			
Provision for employees' leaving indemnities	6	60,865	42,461
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>60,865</b>	<b>42,461</b>
Payables and accrued expenses	7,15	786,514	406,598
Deferred income	8	50,800	56,641
<b>TOTAL CURRENT LIABILITIES</b>		<b>837,314</b>	<b>463,239</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>10,359,538</b>	<b>8,075,084</b>

ABDUL RAZAK ABDULLA HASSAN AL QASSIM  
Chairman

REYADH YOUSIF SATER  
Vice Chairman

## CONSOLIDATED STATEMENT OF **COMPREHENSIVE INCOME**

as at 31 December 2012

(Bahraini Dinars)

	Note	2012	2011
Switch income	9	3,137,189	2,651,410
Dispute management system		31,459	31,463
Internet banking income		79,039	68,289
BCTS income	10	602,025	-
CRB income		862,928	882,452
Revenue from card services	11	503,614	371,897
<b>Total operating income</b>		<b>5,216,254</b>	<b>4,005,511</b>
<b>Operating costs</b>			
Processing costs	12	(529,721)	(310,687)
Personnel costs		(1,321,576)	(1,240,443)
Professional services		(37,105)	(45,064)
Other operating expenses	13	(307,512)	(308,226)
Card services operating cost	14	(267,116)	(147,800)
Amortisation – software	5	(174,971)	(99,743)
Depreciation	4	(215,789)	(129,641)
<b>Total operating costs</b>		<b>(2,853,790)</b>	<b>(2,281,604)</b>
<b>Operating profit</b>		<b>2,362,464</b>	<b>1,723,907</b>
Foreign exchange loss on GCCNET transaction		(9,190)	(8,610)
Interest income	16	73,483	36,384
Pre-operating expenses of BCTS		(84,782)	(91,309)
<b>Profit for the year</b>		<b>2,341,975</b>	<b>1,660,372</b>
<b>Other comprehensive income for the year</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>2,341,975</b>	<b>1,660,372</b>
<b>Attributable to:</b>			
- Equity holders of the parent company		2,315,310	1,656,965
- Non controlling interest		26,665	3,407
<b>Total comprehensive income for the year</b>		<b>2,341,975</b>	<b>1,660,372</b>

ABDUL RAZAK ABDULLA HASSAN AL QASSIM  
Chairman

REYADH YOUSIF SATER  
Vice Chairman

## CONSOLIDATED STATEMENT OF **CHANGES IN EQUITY**

for the year ended 31 December 2012

(Bahraini Dinars)

2012	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	900,695	4,780,518	<b>7,481,213</b>	<b>88,171</b>	<b>7,569,384</b>
Total comprehensive income for the year	-	-	2,315,310	<b>2,315,310</b>	<b>26,665</b>	<b>2,341,975</b>
Dividend declared (2011)	-	-	(450,000)	<b>(450,000)</b>	-	<b>(450,000)</b>
Transfer to statutory reserve	-	5,442	(5,442)	-	-	-
<b>At 31 December</b>	<b>1,800,000</b>	<b>906,137</b>	<b>6,640,386</b>	<b>9,346,523</b>	<b>114,836</b>	<b>9,461,359</b>

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
Total comprehensive income for the year	-	-	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)	-	-	-
<b>At 31 December</b>	<b>1,800,000</b>	<b>900,695</b>	<b>4,780,518</b>	<b>7,481,213</b>	<b>88,171</b>	<b>7,569,384</b>

## CONSOLIDATED STATEMENT OF **CASH FLOWS**

for the year ended 31 December 2012

(Bahraini Dinars)

Note	2012	2011
<b>Operating Activities</b>		
Cash received from switch operations	3,169,920	2,743,448
Cash received from CRB operations	903,145	869,711
Cash received from internet banking operations	72,725	68,289
Cash received from BCTS operations	602,499	-
Cash received from card services	509,109	371,897
Payments for operating expenses	(2,093,937)	(2,321,597)
Payment for directors' remuneration	(55,000)	(55,000)
<b>Cash flows from operating activities</b>	<b>3,108,461</b>	<b>1,676,748</b>
<b>Investing Activities</b>		
Purchase of furniture and equipment	(107,496)	(460,930)
Payments for capital work in progress	(85,598)	(309,794)
Purchase of software	(364,793)	(80,069)
Placement of deposits with banks	(770,649)	(2,280,322)
Interest received	73,483	36,384
<b>Cash flows used in investing activities</b>	<b>(1,255,053)</b>	<b>(3,094,731)</b>
<b>Financing activities</b>		
Dividend paid	(450,000)	(450,000)
<b>Cash flow used in financing activities</b>	<b>(450,000)</b>	<b>(450,000)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>1,403,408</b>	<b>(1,867,983)</b>
Cash and cash equivalents at beginning of year	2,705,701	4,573,684
<b>Cash and cash equivalents at end of the year</b>	<b>4,109,109</b>	<b>2,705,701</b>
Cash and cash equivalents	1,511,214	1,057,850
Balance with Central Bank of Bahrain	2,078,610	1,237,070
Balance with other central banks	519,285	410,781
<b>TOTAL</b>	<b>4,109,109</b>	<b>2,705,701</b>

## NOTES

to the 31 December 2012 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, Bahrain Cheque Truncation 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. The Company launched the Bahrain Cheques Truncation System ("the BCTS") effective 13 May 2012.

#### Share Capital

The Share Capital of the Company consists of 18,000 issued and paid up shares (2011: 18,000) at BD 100 each. The authorised capital is BD 5,400,000.

#### 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 presentation

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 2012

The following standards, amendments and interpretations, which became effective as of 1 January 2012 are relevant to the Group.

- **FRS 7 (amendment) – Disclosures: Transfer of financial assets**

The amendments to IFRS 7 introduce new disclosure requirements about transfers of financial assets including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. The adoption of this amendment had no significant impact on the consolidated financial statements.

- **Improvements to IFRSs (2011)**

Improvements to IFRS issued in 2011 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. There were no significant changes to the current accounting policies of the Group as a result of these amendments.

## NOTES

to the 31 December 2012 Consolidated Financial Statements  
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### 2. BASIS OF PREPARATION (continued)

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2012, and have not been applied in preparing these financial statements. Those which are relevant to the Group are set out below. The Group does not plan to early adopt these standards.

- **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 after 1 July 2012 with an option of early application.

The Group is not expecting a significant impact from the adoption of this amendment.

- **IAS 19 – Employee benefits (2011)**

IAS 19 (2011) changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two. For defined benefit plans, removal of the accounting policy choice for recognition of actuarial gains and losses is not expected to have any impact on the Group. However, the Group may need to assess the impact of the change in measurement principles of the expected return on plan assets. IAS 19 (2011) is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

The Group is not expecting a significant impact from the adoption of this amendment.

- **Amendments to IFRS 7 and IAS 32 on offsetting financial assets and financial liabilities (2011)**

Disclosures – Offsetting Financial Assets and Financial Liabilities (amendments to IFRS 7) introduces disclosures about the impact of netting arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. Based on the new disclosure requirements the Group will have to provide information about what amounts have been offset in the statement of financial position and the nature and extent of rights of set off under master netting arrangements or similar arrangements.

Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32) clarify the offsetting criteria IAS 32 by explaining when an entity currently has a legally enforceable right to set off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Earlier application is permitted.

The Group is not expecting a significant impact from the adoption of these amendments.

- **IFRS 9 - Financial Instruments**

IFRS 9 was issued in November 2009 and amended in October 2010 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets and financial liabilities.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues. The adoption of this standard is not expected to have a significant impact on the Group.

## NOTES

to the 31 December 2012 Consolidated Financial Statements  
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### 2. BASIS OF PREPARATION (continued)

- **IFRS 10 - Consolidated financial statements and IAS 27 Separate Financial Statements (2011)**

IFRS 10 introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees (see Note 3a). The standard is effective for annual periods beginning on or after 1 January 2013.

The IASB published Investment Entities (Amendments to IFRS 10 and IFRS 12), which grants certain relief from consolidation to investment entities. It requires qualifying investment entities to account for investment in controlled investees on a fair value basis. The effective date is annual periods beginning on or after 1 January 2014, but early adoption is permitted to enable alignment with the adoption of IFRS 10.

The Group is not expecting a significant impact from the adoption of this standard.

- **IFRS 13 – Fair value measurement**

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. Although many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Group to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorised in Level 3.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013. The Group is currently reviewing its methodologies for determining fair values (see note 18).

#### f) Early adoption of standards

The Group did not early adopt new or amended standards in 2012.

### 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, BCTS operations and card services are recognised when the related services are provided. Interest and other income are recognized when earned.



## NOTES

to the 31 December 2012 Consolidated Financial Statements  
(Bahraini Dinars)

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

##### 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 2012 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.

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

The preparation of financial statements in conformity with IFRSs require management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

#### 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.

## NOTES

to the 31 December 2012 Consolidated Financial Statements  
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### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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	2012 Total	2011 Total
<b>Cost</b>					
At 1 January	993,240	139,752	99,958	<b>1,232,950</b>	772,020
Additions	289,552	4,910	2,154	<b>296,616</b>	460,930
<b>At 31 December</b>	<b>1,282,792</b>	<b>144,662</b>	<b>102,112</b>	<b>1,529,566</b>	1,232,950
<b>Depreciation</b>					
At 1 January	441,334	128,679	71,455	<b>641,468</b>	511,827
Charge for the year	191,430	6,766	17,593	<b>215,789</b>	129,641
<b>At 31 December</b>	<b>632,764</b>	<b>135,445</b>	<b>89,048</b>	<b>857,257</b>	641,468
<b>Carrying value at 31 December</b>	<b>650,028</b>	<b>9,217</b>	<b>13,064</b>	<b>672,309</b>	591,482

### 5. SYSTEM SOFTWARE

	2012	2011
At 1 January	<b>226,670</b>	246,343
Additions	<b>802,107</b>	80,071
Amortised during the year	<b>(174,971)</b>	(99,744)
<b>At 31 December</b>	<b>853,806</b>	226,670

The Company has recognised an amount of BD 85,597 as work in progress. This amount comprises the cost incurred on additional licences during 2012 on the BCTS project, which are not yet setup. The amount also includes payment for CRB equipments which are not yet delivered / installed.

## NOTES

to the 31 December 2012 Consolidated Financial Statements  
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### 6. PROVISION FOR EMPLOYEES' LEAVING INDEMNITIES

The movement in the provision is as follows:

	2012	2011
At 1 January	42,461	8,265
Add: charge during the year	18,404	34,196
At 31 December	60,865	42,461
Total number of employees at 31 December:		
Bahrainis	47	44
Expatriates	2	2
	49	46

### 7. PAYABLES AND ACCRUED EXPENSES

	2012	2011
Trade payables	113,401	46,745
Accrued expenses	476,818	266,364
Due to related party	196,295	93,489
	786,514	406,598

### 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.

### 9. SWITCH INCOME

	2012	2011
Bahrain ATM	1,510,920	1,329,541
GCC ATM	396,596	331,753
Telecom bill payment	151,778	97,375
Direct debit	18,430	15,640
Bahrain POS	869,393	704,674
Payment gateway	81,069	71,151
AMEX	31,003	28,276
Membership fee	78,000	73,000
	3,137,189	2,651,410

## NOTES

to the 31 December 2012 Consolidated Financial Statements  
(Bahraini Dinars)

### 10. BCTS INCOME

Income from BCTS services is recognised when the related services are provided. The BCTS project income for the year comprises:

	2012
Implementation and set up fees	232,983
Annual maintenance	170,321
Transaction fees	198,721
	<b>602,025</b>

Implementation and set up fees are one-off fees paid by each participating bank based on number of branches upon completion of the setup phase.

### 11. REVENUE FROM CARD SERVICES

	2012	2011
Debit and credit card hosting	472,157	347,133
Card personalisation	31,457	24,764
	<b>503,614</b>	371,897

### 12. PROCESSING COSTS

	2012	2011
License fees	102,899	71,551
System support and maintenance	125,304	74,411
Communication lines	121,118	72,312
GCC NET telecom charges	18,944	22,342
Other processing costs	5,330	7,200
BCTS banks' share	95,141	-
Maintenance and development- CRB	60,985	62,871
	<b>529,721</b>	310,687

### 13. OTHER OPERATING EXPENSES

	2012	2011
Rent	90,554	95,628
Travelling	22,498	27,466
Office maintenance	18,111	29,897
Marketing and public relation	35,596	38,699
Telephone and fax	10,151	8,280
Directors' sitting fees	11,400	11,700
Directors' remuneration	55,000	55,000
Vehicle expenses	5,940	5,694
Office insurance expenses	1,569	1,635
Impairment allowance for doubtful debts	11,310	-
Other expenses	45,383	34,227
	<b>307,512</b>	308,226

## NOTES

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### 14. 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.

### 15. 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:

	2012	2011
Salaries and short term employee benefits	420,632	459,237
Termination benefits	48,945	49,370
Directors remuneration	55,000	55,000
Directors fees	11,400	11,700

#### 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 2012 is BD 132,816 (2011: BD 117,419) which includes BD 58,967 (2011: BD 54,330) from a major shareholder.

Bank balances and fixed deposits are kept 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 2012 is BD 196,295 (2011: 93,489). The Subsidiary also has an amount due from NI of BD 12,360 (2011: 2,136).

### 16. INTEREST INCOME

	2012	2011
Interest on bank deposits	73,483	36,384
	73,483	36,384

### 17. 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

	2012	2011
Issue of bonus shares	360,000	-
Statutory reserve	180,000	-
Dividends	450,000	450,000
Directors remuneration	77,000	55,000

The Board has recommended a bonus share issue in the ratio of one share for every five shares held by transferring BD 360,000 from the retained earnings. Further, the Board has also recommended a transfer of BD 180,000 to statutory reserve to bring the reserve balance to 50% of the paid up capital as stipulated by the Bahrain Commercial Companies Law. Appropriations and board remunerations for 2011 were approved by the Shareholders in their Annual General Meeting held on 27th March 2012.

## NOTES

to the 31 December 2012 Consolidated Financial Statements  
(*Bahraini Dinars*)

### 18. CAPITAL COMMITMENTS

Capital commitments as on 31 December 2012 by the Group are BD 438,737 (2011: BD 604,177).

### 19. 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.

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.

## NOTES

to the 31 December 2012 Consolidated Financial Statements  
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### 19. FINANCIAL RISK MANAGEMENT (continued)

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

	2012	2011
Bank balance	1,510,615	1,057,539
Short term deposits	4,363,785	3,593,136
Balance with Central Bank of Bahrain	2,078,610	1,237,070
Balance with other central banks	519,285	410,781
CRB receivables	89,703	129,917
Other receivables	129,072	127,793

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:

	2012	2011
0 - 30 days	117,458	106,483
31-180 days	101,317	151,227
	218,775	257,710

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

The past due receivables as at 31 December 2012 are BD 101,317. 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.

#### 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.



## NOTES

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### 19. FINANCIAL RISK MANAGEMENT (continued)

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

2012	Carrying Amount	Contractual cash flows	6 months or less
Payables and accrued expenses	786,514	786,514	786,514
	786,514	786,514	786,514

2011	Carrying Amount	Contractual cash flows	6 months or less
Payables and accrued expenses	406,598	406,598	406,598
	406,598	406,598	406,598

#### 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. Except for the Kuwaiti Dinar, 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.

	2012	2011
Effective interest rate on short-term deposit (BHD)	1.76%	0.99%
Effective interest rate on short-term deposit (USD)	1.08%	0.85%

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.

#### 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 25 percent in 2012 (2011: 22 percent).

## NOTES

to the 31 December 2012 Consolidated Financial Statements  
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### 19. FINANCIAL RISK MANAGEMENT (continued)

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-12		31-Dec-11	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	1,511,214	1,511,214	1,057,850	1,057,850
Short term deposits	4,363,785	4,363,785	3,593,136	3,593,136
Balance with Central Bank of Bahrain	2,078,610	2,078,610	1,237,070	1,237,070
Balance with other central banks	519,285	519,285	410,781	410,781
Other receivables	129,072	129,072	127,793	127,793
Prepaid expenses and advances	56,157	56,157	73,952	73,952
CRB receivables	89,703	89,703	129,917	129,917
Payables and accrued expenses	786,514	786,514	406,598	406,598

At 31 December 2012, 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.

### 20. 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.