Al Ebdaa Bank for Microfinance B.S.C. (c)

CHAIRWOMAN'S STATEMENT, INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2017

Al Ebdaa Bank for Microfinance B.S.C. (c)
Chairwoman's statement

On behalf of the founding shareholders and Board of Directors of Al Ebdaa Bank for Microfinance B.S.C. (c), I am pleased to present the annual report and audited financial statements for the year ending 31 December 2017. It gives me great pleasure to announce that the Bank has finally stepped into profitability and will hopefully continue to do so in years to come.

For the financial year ending 31 December 2017, the Bank has recorded a 33.9% increase in the loan portfolio income to BD 658,966 (2016: BD 492,152). This has heavily contributed to increase the total income to BD 714,409 (2016: BD 510,064).

In 2017, the Bank continued to focus on both volume and quality of its portfolio. This resulted in a significant increase in its net loan portfolio by 60% to reach BD 1,600,064 (2016: BD 1,001,264). In line with this huge growth in the portfolio size, the bank has successfully managed to maintain the portfolio quality at its best and only incurred an insignificant Provision for impairment (BD 964).

All these factors contributed towards achieving the full operational sustainability and recording a net income of BD 94,002 (2016: BD 1,520). This is the bank's best recorded result since its inception in 2009.

Despite the challenging environment, the Bank has continued to strive for enhancement of its overall efficiency, including staff training and capacity building. The Bank will also continue to assess its operations and formulate strategies that can deliver growth.

The Board of Directors is committed to support the management leadership of the team in addressing the challenges faced by the Bank. With further support from the shareholders and other stakeholders of the Bank, the Board of Directors is confident that the Bank will be able to progress to a stronger position to fulfill its objectives.

Ebdaa bank envisions Inclusive Financial Services for the whole population of the Kingdom of Bahrain. The purpose of the bank is "to contribute to the improvement of standard of (economic and social) living conditions of the low/limited income households of the Kingdom of Bahrain, through the direct and indirect provisioning of exemplary, diversified and sustainable financial services".

In 2018 and beyond, the bank is planning to continue its expansion and have a branch presence all over Bahrain. The rationale behind this objective is to increase outreach to the largest number of limited-income clients, to ensure accessibility of services to people by being closer to them, and to better position the bank in the market.

Ebdaa Bank for Microfinance is the first financial institution of its kind in the Gulf region. The bank is the result of a fruitful partnership between the Arab Gulf Program for Development (AGFUND), three Socially-Responsible Bahraini Business leaders, and the Bahraini Government, represented by the Housing Bank and the Bahrain Development Bank. The bank is registered as a traditional microfinance institution and operates according to Volume (5) of the Central Bank of Bahrain.

On behalf of the founding shareholders and the Board of Directors, I would like to convey our utmost gratitude to the wise leadership of the Kingdom of Bahrain, the Central Bank of Bahrain, Tamkeen, other governmental institutions, and other stakeholders, for their invaluable assistance and guidance. I would also like to record our appreciation to the customers of the Bank for their vital support, to the members of Sharia Supervisory Board for their counsel and supervision.

I need to specifically thank HRH Price Talal Bin Abdulaziz Al Saud, the president of AGFUND for his valuable guidance and leadership, which resulted in building an AGFUND Microfinance Model which ; once adopted by Ebdaa Bank in Bahrain; resulted in the remarkable growth we are witnessing nowadays.

Finally, all of this could have not been achieved without the dedication, hard work, and loyalty of the Ebdaa team. I would like to specifically thank the top management for their leadership and mentoring of the staff which groomed everyone to become real microfinance practitioners and experts.

Mona Yousif Khalil Almoayyed
Chairwomen of the Board of Directors

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AL EBDAA BANK FOR MICROFINANCE B.S.C. (c)

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Al Ebdaa Bank for Microfinance B.S.C. (c) (the "Bank") which comprise the statement of financial position as at 31 December 2017, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Other information consists of the Chairwoman's Statement, set out on page 1 and 2 that was obtained at the date of this auditor's report. The Chairwoman is responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors of the Bank is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AL EBDAA BANK FOR MICROFINANCE B.S.C. (c) (continued)

Report on the Audit of the Financial Statements (continued)

Responsibilities of the Board of Directors for the financial statements (continued)
In preparing the financial statements, the Board of Directors is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AL EBDAA BANK FOR MICROFINANCE B.S.C. (c) (continued)

Report on the Audit of the Financial Statements (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Bank's Board of Directors, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

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

a) the Bank has maintained proper accounting records and the financial statements are in agreement therewith;

b) the financial information contained in the Chairwoman's Statement is consistent with the financial statements;

c) except as disclosed in note 2.1 to the financial statements, we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 5) and the CBB directives or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2017 that might have had a material adverse effect on the business of the Bank or on its financial position; and

d) satisfactory explanations and information have been provided to us by Management in response to all our requests.

Ernst + Young

Partner's registration no. 115
6 March 2018
Manama, Kingdom of Bahrain

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	2017 BD	2016 BD
ASSETS			
Cash and cash equivalents	4	**188,347**	661,344
Deposit with bank	5	**500,000**	400,000
Loans and advances to customers	6	**1,600,064**	1,001,264
Other assets	7	**97,221**	146,948
Equipment	8	**68,332**	66,015
TOTAL ASSETS		**2,453,964**	2,275,571
LIABILITIES AND EQUITY			
Liabilities			
Non-bank borrowing	9	**1,000,000**	1,000,000
Deferred income	10	**130,429**	64,313
Provision for employees' end of service benefits		**11,367**	7,807
Other liabilities	11	**87,423**	72,708
Total liabilities		**1,229,219**	1,144,828
Equity			
Share capital	12	**2,209,720**	1,885,000
Advance towards share capital	13	**-**	324,720
Accumulated losses		**(984,975)**	(1,078,977)
Total equity		**1,224,745**	1,130,743
TOTAL LIABILITIES AND EQUITY		**2,453,964**	2,275,571

Mona Yousif Al Moayyed Chairwoman	Nasser AlQahtani Deputy Chairman	Khaled Walid Al-Gazawi Chief Executive Officer

The attached explanatory notes 1 to 23 form part of these financial statements.

Al Ebdaa Bank for Microfinance B.S.C. (c)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	***2017 BD***	*2016 BD*
Interest income		**272,766**	299,974
Interest expense		**(5,000)**	(5,000)
Net interest income		**267,766**	294,974
Fee income	14	**386,200**	192,178
Other income		**60,443**	22,912
Total income		**714,409**	510,064
Staff costs	15	**410,599**	345,701
Depreciation	8	**17,413**	15,102
Provision for impairment / (reversal of provision) on loans and advance to customers - net	6	**964**	(11,287)
Other expenses	16	**191,431**	159,028
Total expenses		**620,407**	508,544
NET PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**94,002**	1,520

Mona Yousif Al Moayyed Chairwoman	Nasser AlQahtani Deputy Chairman	Khaled Walid Al-Gazawi Chief Executive Officer

The attached explanatory notes 1 to 23 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Note	*Share capital BD*	*Advance towards share capital BD*	*Accumulated losses BD*	*Total BD*
Balance at 1 January 2016		1,885,000	324,720	(1,080,497)	1,129,223
Total comprehensive income for the year		-	-	1,520	1,520
Balance at 31 December 2016		1,885,000	324,720	(1,078,977)	1,130,743
Transfer to share capital	13	324,720	(324,720)	-	-
Total comprehensive income for the year		-	-	94,002	94,002
Balance at 31 December 2017		**2,209,720**	-	**(984,975)**	**1,224,745**

The attached explanatory notes 1 to 23 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 BD	2016 BD
OPERATING ACTIVITIES			
Net profit for the year		**94,002**	1,520
Adjustments for non-cash items:			
Depreciation	8	**17,413**	15,102
Provision for impairment / (reversal of provision) on loans and advance to customers - net	6	**964**	(11,287)
Provision for employees' end of service benefits		**3,705**	2,818
Operating profit before changes in operating assets and liabilities		**116,084**	8,153
Changes in operating assets and liabilities:			
Deposit with bank		**(100,000)**	(400,000)
Loans and advances to customers		**(599,764)**	(85,025)
Other assets		**49,727**	(21,327)
Other liabilities		**14,715**	(14,311)
Deferred income		**66,116**	(1,620)
End of service benefits paid		**(145)**	-
Net cash flows used in operating activities		**(453,267)**	(514,130)
INVESTING ACTIVITY			
Purchase of equipment	8	**(19,730)**	(19,419)
Net cash flows used in investing activity		**(19,730)**	(19,419)
NET DECREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR		**(472,997)**	(533,549)
Cash and cash equivalents at 1 January		**661,344**	1,194,893
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	4	**188,347**	661,344

1 INCORPORATION AND ACTIVITIES

Incorporation
Al Ebdaa Bank for Microfinance B.S.C. (c) (the "Bank") was incorporated in the Kingdom of Bahrain as a closed shareholding company under commercial registration (CR) number 72533 dated 12 August 2009 issued by the Ministry of Industry, Commerce and Tourism. The Bank is operating through the Head office and two other branches in Hamad Town and Riyadat Mall within the Kigndom of Bahrain. The Bank is licensed as a microfinance retail bank by the Central Bank of Bahrain ("CBB") and accordingly is subject to the regulations and supervision of the CBB. The Bank is operating through its registered head office at Unisono Building, P.O. Box 18648, Sanabis, Kingdom of Bahrain and two other branches in Hamad Town and Riyadat Mall.

Activities
The principal activities of the Bank are the provision of microfinance loans and related advisory services. The Bank is permitted to conduct its activities in compliance with both conventional banking rules for its conventional banking activities and in compliance with Islamic Shari'a rules for its Islamic banking activities.

The financial statements of the Bank for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Board of Directors dated 6 March 2018.

2 BASIS OF PREPARATION

2.1 Statement of compliance
These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and in conformity with the Bahrain Commercial Companies Law ("BCCL") the CBB and Financial Institutions Law, the CBB Rule Book (Volume 5) and the relevant CBB directives, except that the Bank did not maintain the minimum share capital of BD 5 million as required by AU-2.5.2 of the CBB Rule Book.

2.2 Accounting convention
The financial statements have been prepared on a historical cost basis and are presented in Bahrain Dinars (BD) which is the Bank's functional and presentation currency.

3 ACCOUNTING POLICIES

3.1 Significant accounting judgements and estimates
In the process of applying the Bank's accounting policies, management has made estimates and judgements in determining the amounts recognised in the financial statements.

The most significant use of judgements and estimates are as follows:

Going concern
The Bank's directors have made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the directors are not aware of any material uncertainties that may cast significant doubt about the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

Impairment provision on loans and advances
The Bank reviews its individually significant loans and advances to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgements about the borrower's financial situation. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the impairment loss.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio, concentrations of risks and economic data.

3 ACCOUNTING POLICIES (continued)

3.1 Significant accounting judgements and estimates (continued)

In addition to specific provisions against individually significant loans and advances, the Bank also makes a collective impairment provision against groups of loans and advances which have not been identified for allocating specific provision but carry higher risk of default than originally perceived when the assets were booked.

Useful lives of equipment
The Bank's management determines the useful lives of tangible assets and the related depreciation charge. The depreciation charge for the year could change significantly if the actual life is different from the estimated useful life of the asset.

3.2 New and amended standards and interpretations

The accounting policies are consistent with those of the previous year except for the following relevant new standards and amendments to IFRS effective as of 1 January 2017:

- *Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative;*
- *Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12 from Annual Improvements Cycle - 2014-2016; and*
- *Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses.*

The above amendments to IFRSs which are effective for annual accounting periods starting from 1 January 2017 did not have any material impact on the accounting policies, financial position or performance of the Bank.

3.3 New Standards and amendments issued but not yet effective

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

IFRS 9 - Financial Instruments

(a) Overview
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement, and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Bank is currently assessing the potential impact of adoption of IFRS 9 on its financial statements.

(b) Classification and measurement
From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through other comprehensive income ("OCI") instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the statement of comprehensive income.

With the adoption of IFRS 9 on 1 January 2018, the loans and advances to customers, that are classified as loans and receivables under IAS 39 are expected to be classified as amortised cost under IFRS 9 and measured accordingly.

3 ACCOUNTING POLICIES (continued)

3.3 New Standards and amendments issued but not yet effective

(c) Impairment of financial assets
IFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

Based on Management's assessment, as at 1 January 2018 the expected credit losses allowance determined in accordance with IFRS 9 will result in a decrease in the retained earnings by BD 7,056.

IFRS 15 Revenue from Contracts with Customers
In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers. The Bank plans to adopt the new standard on the required effective date using the full retrospective method. Management's assessment of the implication of adopting this standard is ongoing. However, Management believe that the adoption of IFRS 15 will not have a significant impact on the Bank's financial position and performance.

IFRS 16: Leases
The IASB issued the new standard for accounting for leases IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their statements of financial position as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of comprehensive income.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. Management believe that the adoption of IFRS 16 will not have a significant impact on the Bank's financial position and performance.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis.

3 ACCOUNTING POLICIES (continued)

3.3 New Standards and amendments issued but not yet effective (continued)

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (continued)
Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

(i) The beginning of the reporting period in which the entity first applies the interpretation;or
(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Bank's current practice is in line with the interpretation, the Bank does not expect any effect on its financial statements.

The Bank has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

3.4 Summary of significant accounting policies

The accounting policies set out below have been applied consistently by the Bank and are consistent with those of the previous year.

(a) Equipment
Equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the equipment. When significant parts of equipment are required to be replaced at intervals, the Bank recognises such parts as individual assets with specific useful lives and depreciation, respectively. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Furniture	10 years
Computer and equipments	4 to 10 years
Software	4 years
Vehicle	7 years
Office improvements	10 years

An item of equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income when the asset is derecognised.

(b) Cash and cash equivalents
Cash and cash equivalents comprise cash on hand, current account balances and placement with locally incorportated financial institutions with original maturities of ninety days or less.

(c) Deposits with banks
Deposits with banks mainly comprise of inter-bank deposits, which have a maturity of more than 90 days and are stated at their amortised cost less impairment.

(d) Impairment of non-financial assets
The Bank assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

3 ACCOUNTING POLICIES (continued)

3.4 Summary of significant accounting policies (continued)

(d) Impairment of non-financial assets (continued)

Impairment losses are recognised in the statement of comprehensive income in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to other comprehensive income. For such properties, the impairment is recognised in other comprehensive income up to the amount of any previous revaluation.

(e) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale ("AFS") financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Bank commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:
a) Fair value through profit or loss
b) Loans and receivables
c) Held-to-maturity
d) Available-for-sale

Loans and receivables

This category is the most relevant to the Bank. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate "EIR" method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in net provision for impairment on loans and advance to customers.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Bank's statement of financial position) when:

(a) The rights to receive cash flows from the asset have expired; or
(b) The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Bank continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

3 ACCOUNTING POLICIES (continued)

3.4 Summary of significant accounting policies (continued)

(e) Financial assets

Impairment of financial assets
The Bank assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(f) Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Bank's financial liabilities include non-bank borrowings and interest payable.

Subsequent measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Loans and borrowings
This is the category most relevant to the Bank. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate "EIR" method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of comprehensive income.

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

(g) Offsetting financial assets and financial liabilities
Financial assets and financial liabilities are offset and reported on a net basis in the statement of financial position when a legally enforceable right to set-off such amounts exists and when the Bank intends to settle on a net benefits basis or to realise the assets and settle the liabilities simultaneously.

(h) Fiduciary assets
Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and are, accordingly, not included in the statement of financial position.

3 ACCOUNTING POLICIES (continued)

3.4 Summary of significant accounting policies (continued)

(i) Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Bank has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude, and is also exposed to credit risks.

Interest income
For all financial instruments measured at amortised cost and interest-bearing financial assets classified as available for sale, interest income is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the statement of comprehensive income.

Fee income

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

ii. Processing fees
Processing fees in respect of the loans granted are recognised as fee income on completion of loan processing.

iii. Penalty fees
Penalty fees are earned on overdue loans ranging between BD 1 to BD 5 on each overdue day. These fees are recognized only upon receipt when it is earned.

Interest expense
Interest expense is recognised using the effective yield method.

(j) Provision
Provisions are recognised when the Bank has a present obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

(k) Provision for employees' end of service benefits
The Bank makes contributions to the Social Insurance Organization, for its national employees, calculated as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due.

The Bank also provides end of service benefits to its expatriate employees in accordance with the Labour Law of the Kingdom of Bahrain. The entitlement to these benefits is based upon the employees' final salary and length of service. The expected costs of these benefits are accrued over the period of employment.

(l) Share capital
Ordinary shares issued by the Bank are classified as equity. The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

3 ACCOUNTING POLICIES (continued)

3.4 Summary of significant accounting policies (continued)

(m) Statutory reserve

The Bahrain Commercial Companies Law 2001 requires that 10% of the annual profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50% of the paid up share capital. During the year, no transfer to statutory reserve has been made (2016: nil).

(n) Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Bank as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Bank is classified as a finance lease.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of comprehensive income on a straight-line basis over the lease term.

(o) Foreign currency translation

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing on the date of the transaction.

Monetary assets and liabilities in foreign currencies are translated into Bahraini Dinars at functional currency rates of exchange prevailing at the reporting date. Any gains or losses are recognised in the statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(p) Contingent assets and liabilities

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

4 CASH AND CASH EQUIVALENTS

	2017	*2016*
	BD	*BD*
Cash on hand	**5,430**	11,229
Balances with banks	**182,917**	650,115
	188,347	661,344

5 DEPOSIT WITH BANK

Deposit with bank represents a medium-term interest bearing deposit with investment grade bank incorporated in the Kingdom of Bahrain carrying a fixed rate ranging between 3.95% to 3.80% per annum (2016: 3.80% per annum) with maturity 1 May 2018 and 29 October 2019. Interest income earned during the year amounted to BD 15,009 (2016: BD 3,386).

6 LOANS AND ADVANCES TO CUSTOMERS

	2017	*2016*
	BD	*BD*
Gross loans and advances	**1,882,682**	1,282,918
Less: allowance for impairment	**(282,618)**	(281,654)
	1,600,064	1,001,264

Movement in impairment allowance is as follows:

	2017	*2016*
	BD	*BD*
At 1 January	**281,654**	339,637
Charge for the year	**135,654**	101,563
Write-back of provisions	**(134,690)**	(112,850)
Amounts written off during the year	**-**	(46,696)
Provision for impairment / (reversal of provision) on loans and advance to customers	**964**	(57,983)
At 31 December	**282,618**	281,654
Specific provision	**266,979**	272,306
Collective provision	**15,639**	9,348
	282,618	281,654
Gross amount of loans, individually determined to be impaired	**318,788**	348,164

	Collective		*Specific*	
	2017	*2016*	*2017*	*2016*
	BD	*BD*	*BD*	*BD*
Balance at 1 January	**9,348**	8,082	**272,306**	331,555
Charge for the year	**6,291**	1,266	**129,363**	100,297
Write-back of provisions	**-**	-	**(134,690)**	(112,850)
Amounts written off during the year	**-**	-	**-**	(46,696)
Balance at 31 December	**15,639**	9,348	**266,979**	272,306

At 31 December 2017, the Bank's loans and advances that are past due and impaired amounted to BD 318,788 (2016: BD 348,164) against which provision of BD 266,979 (2016: BD 272,306) have been made. Interest in suspense on past due loans amounts to BD 12,670 (2016: BD 6,789). The Bank has no past due but not impaired loans as the Bank immediately starts to create an impairment allowance if the principal or interest is not paid on the due date. During the year, the Bank has refinanced 153 loans of BD 212,537 (2016: 104 loans of BD 141,295) and has rescheduled 1,016 loans of BD 1,194,602 (2016: 708 loans of BD 973,264). During the year, the Bank has also recovered BD 5,694 against loans previously written off.

7 OTHER ASSETS

	2017 *BD*	*2016* *BD*
Interest receivable	**38,907**	31,938
Prepayments	**21,690**	27,388
Other receivables	**36,624**	9,772
Management fee receivable	-	77,850
	97,221	146,948

8 EQUIPMENT

	Furniture *BD*	*Computer and equi-pment* *BD*	*Software* *BD*	*Vehicle* *BD*	*Office improve-ments* *BD*	***2017 Total*** ***BD***	*2016 Total* *BD*
Cost							
At 1 January	24,480	61,199	65,731	20,431	21,532	**193,373**	173,954
Additions	1,970	3,338	10,091	-	4,331	**19,730**	19,419
At 31 December	**26,450**	**64,537**	**75,822**	**20,431**	**25,863**	**213,103**	193,373
Depreciation							
At 1 January	12,006	52,781	50,064	9,553	2,954	**127,358**	112,256
Charge for the year	2,488	6,353	2,466	3,543	2,563	**17,413**	15,102
At 31 December	**14,494**	**59,134**	**52,530**	**13,096**	**5,517**	**144,771**	127,358
Net book value							
2017	**11,956**	**5,403**	**23,292**	**7,335**	**20,346**	**68,332**	-
2016	12,474	8,418	15,667	10,878	18,578	-	66,015

9 NON-BANK BORROWING

Non-bank borrowing represents an interest bearing loan from the Supreme Council of Women amounting to BD 1 million carrying a fixed rate of 0.5% per annum (2016: 0.5%) renewable on an annual basis.

10 DEFERRED INCOME

	2017 *BD*	*2016* *BD*
Administration fees	**129,017**	52,750
Other	**1,412**	11,563
	130,429	64,313

Administration fees are collected upfront upon disbursing of the loan facility and are deferred over the loan tenor.

11 OTHER LIABILITIES

	2017	*2016*
	BD	*BD*
Interest payable	**37,642**	32,642
Other liabilities	**29,103**	19,735
Accrued expenses	**13,606**	15,856
Employee related accruals	**7,072**	4,475
	87,423	72,708

12 SHARE CAPITAL

	2017	*2016*
	BD	*BD*
Authorized, issued and fully paid up capital		
5,861,326 (2016: 5,000,000) shares of BD 0.377 each	**2,209,720**	1,885,000

The Bank has only one class of equity shares and the holders of these shares have equal voting rights.

13 ADVANCE TOWARDS SHARE CAPITAL

On 19 January 2017 the Bank has obtained the approvals from Ministry of Industry, Commerce and Tourism to amend the Bank's memorandum and article of association to transfer the advance towards share capital balance amounting to BD 324,720.

14 FEE INCOME

	2017	*2016*
	BD	*BD*
Processing fees	**322,793**	141,445
Penalty fees	**28,261**	30,003
Application and other fees	**35,146**	20,730
	386,200	192,178

15 STAFF COSTS

	2017	*2016*
	BD	*BD*
Salaries and allowances	**330,415**	280,767
Social insurance expenses	**35,605**	32,295
Other benefits	**44,579**	32,639
	410,599	345,701

16 OTHER EXPENSES

	2017 BD	2016 BD
Rent and utilities	**52,868**	44,621
Professional fees	**55,734**	43,681
Travel expenses	**20,651**	28,419
Communication expenses	**14,603**	5,566
Marketing expenses	**8,584**	4,990
Other expenses*	**38,991**	31,751
	191,431	159,028

* Other expenses includes penalty paid to the Central Bank of Bahrain amounted to BD 1,000 (2016: BD 340) due to late submission of certain regulatory reportings.

17 RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, directors and key management personnel of the Bank and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Bank's management.

Amounts outstanding as of the statement of financial position date in respect of transactions entered into with related parties were as follows:

	2017 BD	2016 BD
Bank balances held with a shareholder	**4,095**	1,516
Other liabilities	**7,994**	822

The income and expense in respect of related parties included in the statement of comprehensive income are as follows:

	2017 BD	2016 BD
Rent expenses	**7,392**	7,392

Compensation of the key management personnel is as follows:

	2017 BD	2016 BD
Salaries and short term employee benefits	**72,000**	72,000
Provision for employees' end of service benefits	**8,650**	6,363

No remuneration was paid to directors during the year (2016: nil).

18 ASSETS UNDER MANAGEMENT

The Bank provides administration services on loans provided on behalf of other entities, these assets are managed in a fiduciary capacity where the Bank has no entitlement to these assets and are subject to normal administration fee arrangements. Accordingly, these assets are not included in the Bank's statement of financial position. At the statement of financial position date, the Bank had no assets under management (2016: BD 202,363). During the year, for managing the projects, the Bank has charged management fees amounted BD 8,040 (2016: nil).

19 COMMITMENTS AND CONTINGENCIES

Operating lease commitments – Bank as lessee

The operating lease relates to the rent of the Bank's main office and the branches' premises for a period of 1 and 2 years respectively. The Bank does not have the option to purchase the leased property at the expiry of the lease period. The lease term for the main office expires on 30 September 2018, Hamad Town branch lease expires on 31 December 2018 and Riyadat Mall branch lease expires on 1 September 2019.

Operating lease payments recognised as an expense

	2017	*2016*
	BD	*BD*
Operating lease payments	**35,640**	35,160

Future minimum rentals payable under non-cancellable operating leases as at 31 December are, as follows:

	2017	*2016*
	BD	*BD*
Within one year	**28,578**	29,118
More than one year	**10,092**	17,292
	38,670	46,410

Contingent liability

The Bank may be from time to time, involved in a number of legal proceedings, that are incidental to its operations. The Bank is defendant in a legal case on which based on legal opinion received, Management expect an eventual cash outflow of BD 2,000 plus legal fees, in the event of an unfavorable outcome.

20 RISK MANAGEMENT

Risk is inherent in the Bank's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risks limits and other controls. The process of risk management is critical to the Bank's continuing profitability. The Bank is exposed to market risk (which includes currency risk and interest rate risk), credit risk and liquidity risk.

a) Credit risk

Credit risk is the risk that one party to a financial instrument or lease agreement will fail to discharge a financial obligation and cause the other party to incur a financial loss.

The Bank is not exposed to any significant concentration of credit risk arising from exposures to a single debtor or debtors having similar characteristics such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions.

The geographic distribution of predominantly all assets and liabilities of the Bank is in the Kingdom of Bahrain. The assets and liabilities of the Bank are not concentrated in any particular industry sector.

20 RISK MANAGEMENT (continued)

a) Credit risk (continued)

There is no significant concentration of credit risk at the reporting date. The credit risk on liquid funds is limited because the counterparties are banks with good financial standing. The Bank's maximum exposure to credit risk is as follows:

	2017	*2016*
	BD	*BD*
Bank balances	**182,917**	650,115
Deposit with bank	**500,000**	400,000
Loans and advances to customers	**1,600,064**	1,001,264
Interest receivable	**55,312**	31,938
Management fee receivable	**-**	77,850
	2,338,293	2,161,167

The table below shows the credit quality of loans and advances based on the Bank's credit rating system.

2017 Classification	***Gross loan amount BD***	***Collective impairment allowance BD***	***Specific impairment allowance BD***	***Net loan amount BD***
Current	**1,563,894**	**15,639**	**-**	**1,548,255**
Past due:				
0-30 days	**20,792**	**-**	**2,079**	**18,713**
31-60 days	**35,313**	**-**	**8,828**	**26,485**
61-90 days	**6,691**	**-**	**3,345**	**3,346**
91-180 days	**13,062**	**-**	**9,797**	**3,265**
181 days and above	**242,930**	**-**	**242,930**	**-**
	1,882,682	**15,639**	**266,979**	**1,600,064**

2016 Classification	*Gross loan amount BD*	*Collective impairment allowance BD*	*Specific impairment allowance BD*	*Net loan amount BD*
Current	934,754	9,348	-	925,406
Past due:				
0-30 days	51,680	-	5,168	46,512
31-60 days	23,308	-	5,827	17,481
61-90 days	14,180	-	7,090	7,090
91-180 days	19,100	-	14,325	4,775
181 days and above	239,896	-	239,896	-
	1,282,918	9,348	272,306	1,001,264

20 RISK MANAGEMENT (continued)

b) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise interest rate risk and currency risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(i) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

As the Bank's financial assets and financial liabilities are denominated in Bahraini Dinars, the management does not perceive the Bank to be exposed to significant currency risk.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The interest rates on Bank's term deposits and non-bank borrowings are fixed. Hence the Bank is not exposed to interest rate risk.

c) Liquidity risk

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Exposure to liquidity risk arises because of the possibility that the Bank could be required to pay its liabilities earlier than expected.

Management monitors the liquidity requirements on a monthly basis and ensures that sufficient funds are available to meet the Bank's future commitments.

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2017 and 31 December 2016 based on contractual undiscounted payment obligation:

	31 December 2017			
	1-3 months BD	***3 months to 1 year BD***	***More than 1 year BD***	***Total BD***
Liabilities and commitments				
Non-bank borrowing	**-**	**1,005,000**	**-**	**1,005,000**
Other liabilities	**-**	**87,423**	**-**	**87,423**
Commitments	**8,910**	**19,668**	**10,092**	**38,670**
	8,910	**1,112,091**	**10,092**	**1,131,093**

	31 December 2016			
	1-3 months BD	*3 months to 1 year BD*	*More than 1 year BD*	*Total BD*
Liabilities and commitments				
Non-bank borrowing	-	1,005,000	-	1,005,000
Other liabilities	-	72,708	-	72,708
Commitments	7,350	21,768	17,292	46,410
	7,350	1,099,476	17,292	1,124,118

20 RISK MANAGEMENT (continued)

c) Liquidity risk (continued)

The table below summarises the expected maturity profile of the Bank's assets and liabilities as at 31 December 2017 and 31 December 2016:

	31 December 2017					
	Up to 3 months BD	*3 months to 1 year BD*	*Total up to 1 year BD*	*1 to 5 years BD*	*No specific maturity BD*	*Total BD*
ASSETS						
Cash and cash equivalents	**182,917**	**-**	**182,917**	**-**	**5,430**	**188,347**
Deposit with bank	**-**	**500,000**	**500,000**	**-**	**-**	**500,000**
Loans and advances to customers	**35,796**	**526,842**	**562,638**	**1,037,426**	**-**	**1,600,064**
Other assets	**-**	**97,221**	**97,221**	**-**	**-**	**97,221**
Equipment	**-**	**-**	**-**	**-**	**68,332**	**68,332**
	218,713	**1,124,063**	**1,342,776**	**1,037,426**	**73,762**	**2,453,964**
LIABILITIES						
Provision for employees' end of service benefits	**-**	**-**	**-**	**11,367**	**-**	**11,367**
Non-bank borrowing	**-**	**1,000,000**	**1,000,000**	**-**	**-**	**1,000,000**
Other liabilities	**-**	**87,423**	**87,423**	**-**	**-**	**87,423**
	-	**1,087,423**	**1,087,423**	**11,367**	**-**	**1,098,790**
Net liquidity gap	**218,713**	**36,640**	**255,353**	**1,026,059**	**73,762**	**1,355,174**

	31 December 2016					
	Up to 3 months BD	*3 months to 1 year BD*	*Total up to to 1 year BD*	*1 to 5 years BD*	*No specific maturity BD*	*Total BD*
ASSETS						
Cash and cash equivalents	650,115	-	650,115	-	11,229	661,344
Deposit with bank	-	400,000	400,000	-	-	400,000
Loans and advances to customers	183,671	483,120	666,791	334,473	-	1,001,264
Other assets	-	146,948	146,948	-	-	146,948
Equipment	-	-	-	-	66,015	66,015
	833,786	1,030,068	1,863,854	334,473	77,244	2,275,571
LIABILITIES						
Provision for employees' end of service benefits	-	-	-	7,807	-	7,807
Non-bank borrowing	-	1,000,000	1,000,000	-	-	1,000,000
Other liabilities	-	72,708	72,708	-	-	72,708
	-	1,072,708	1,072,708	7,807	-	1,080,515
Net liquidity gap	833,786	(42,640)	791,146	326,666	77,244	1,195,056

20 RISK MANAGEMENT (continued)

d) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The Bank has established a framework of policies and procedures to identify, assess, control, manage and report risks. The Bank's management employs clear internal policies and procedures to reduce the likelihood of any operational losses. Where appropriate, risk is mitigated by way of insurance.

e) Categories of financial instruments

Financial instruments consist of financial assets and financial liabilities. Financial assets include bank balances, deposit with bank, loans and advances and interest receivables. Financial liabilities include non-bank borrowing and interest payables.

	2017	*2016*
	BD	*BD*
Financial assets (at amortised cost):		
Bank balances	**182,917**	650,115
Deposit with bank	**500,000**	400,000
Loans and advances to customers	**1,600,064**	1,001,264
Interest receivable	**55,313**	31,938
	2,338,294	2,083,317
Financial liabilities (at amortised cost):		
Non-bank borrowing	**1,000,000**	1,000,000
Interest payable	**37,642**	32,642
	1,037,642	1,032,642

21 CAPITAL MANAGEMENT

Equity includes equity attributable to the owners of the Bank, which for capital management purposes, includes share capital, advance towards share capital and accumulated losses.

The primary objectives of the Bank's capital management processes are to ensure that the Bank maintains liquidity in order to support its business and to maximise equity. No changes were made in the objectives, policies and processes during the years ended 31 December 2017 and 31 December 2016. As discussed in note 2.1 the Bank is not in compliance with externally imposed capital requirements.

22 FAIR VALUE

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The Board of Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximated their fair values as at the reporting dates.

There are no financial assets or financial liabilities carried at fair value as at the reporting dates.

23 ISLAMIC BANKING ACTIVITIES

The Bank offers certain Sharia'a compliant loans to its customers. These activities are subject to supervision of Sharia'a Supervisory Scholar. As at 31 December 2017, Islamic loans comprise 0.72% (2016: 1.45%) of the Bank's total assets.

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

Board profile and experience

1. **Mrs. Mona Yousef AlMoayed**
   Chairman
   Shareholder, Non-Executive

   Mona Yousef AlMoayed is the Chief Executive of YK AlMoayyed & Sons one of the oldest family businesses in Bahrain. She manages and oversees more than 1000 employees of different nationalities and around 100 brands of luxury goods household electronic appliances, heavy equipment and medical technologies.

   She was the first member women elected in the Chamber of Commerce and Industry of Bahrain in 2001. She was also the first women to be elected as a board member in a public company (Bahrain Maritime and International Trade B.S.C.). In addition, she contributed to the establishment of BMMI and later she became the Vice-Chairman of the Gulf Businesswomen Committee for the Federation of GCC Chambers and member of the Union of Arab women for women's Affairs.

   All these positions have drawn the attention of the Arab Forbes magazine, which she was ranked as the 12th most powerful women in the Arab world. Due to high concern to the social responsibility, she was ranked the 4th of the top 50 Bahrainis in the Bahraini Businessman magazine. She was also ranked 130 of the 500 most powerful women according to Arabian Business magazine in 2012. Again in 2013, she was placed the 3rd of the most influential Arab Women in family businesses according to Forbes Arabia magazine.

2. **Mr. Nasser AlQahtani**
   Deputy Chairman
   Shareholder, Non-Executive

   Mr. Nasser is a Master degree holder from Miami University, USA in 1989. He is the executive director of the Arab Gulf Program for Development (AGFUND) which was established in 1980 at the initiative of His Royal Highness Prince Talal Bin Abdul Aziz, and the cooperation of the leaders of the Gulf Cooperation Council (GCC), based in Riyadh, Saudi Arabia.
   He earned the trust of many executive boards in the development sector, and is one of the most influential leaders in this field in the Arab world by taking a number of executive and advisory positions and memberships of boards of directors. His aim was to build successful partnerships between institutions and private sector funding to serve developmental issues on the Arab and African level. He is a board member in number of organizations (Arab Open University, the Centre of Arab Women for Training and Research, the Arab Council for Childhood and Development and the Arab Network for NGOs).

3. **Mr. AbdulHameed Dawani**
   Board member
   Shareholder, Non-Executive

   Mr. AbdulHameed Dawani is a board member of Ebdaa Bank and the president of the Risk Committee. In addition to that he is an executive member in commercial companies in Bahrain such as Al-Jazeera Group and Manama Food Factory. He holds a university degree in civil engineering from Alexandria University, Egypt.

4. **Mrs. Samar Wessa Agaiby**
   Board member
   Shareholder, Non-Executive

   Mrs. Samar Wessa Agaiby is a board member in Ebdaa Bank. In addition to that she is Head of the financial institution and government programs of Eskan Bank since 2012. She has around 28 years of banking experience as she hold different managerial positions in Bahrain and Egypt. She is a (CMA) holder from Institute of Management Accountants, USA.

5. **Mr. Adel Mohamed Ali Bella**
   Board member
   Independent, Non-Executive

   Mr. Adel Bella is a board member of Ebdaa Bank and a member in the Risk Committee. Currently, he is the CEO and Board member of Ebdaa Bank in Sudan and a board member of Ebdaa Bank in Mauritania. Due to his banking experience, he held different managerial positions in microfinance institutions. He holds a Bachelor degree in Business Accounting from Khartoum University,

6. **Mrs. Dalal Ismaeel**
   Board member
   Shareholder, Non-Executive

   Mrs. Dalal Ismaeel is a board member at Ebdaa Bank and a member in Risk Committee. Currently, she is the Deputy General Manager – Retail Banking – in Bahrain Development Bank. She joined BDB in 2004 as a Head of Credit and Risk function. She holds a Bachelor degree in Business Administration from Bahrain University as well as several banking and financial studies from BIBF such as Diploma in Islamic Banking and Diploma in investment and treasury management.

7. **Prof. Bader Eldin A.Ibrahim**
   Board member
   Independent, Non-Executive

   Professor Ibrahim was educated at Khartoum University (B.Sc. Eco. Honors) and Manchester (M.A. Econ. & Ph.D. Econ.) University, UK. He is a Board member of different microfinance institutions and microfinance banks in Sudan for the period 2012 – 2016 including the Family Bank and Watania microfinance institution, Graduate Portfolio, Sudan, Rural Development Company, in addition to Ebdaa bank Sierra Leone, Mauritania, Sudan and Bahrain. Previously, he was a President of the Microfinance Unit of the Central Bank of Sudan. He was a Dean of the Modern College of Business and Science in Oman (fully affiliated with the University of Missouri St. Louis, USA).

The Board Responsibilities

The Board of Directors is collectively and individually responsible for achievement of the corporate objectives of the Bank and to ensure that Bank functioning does not contravene any legal or regulatory requirements. The Board is also responsible to ensure that the Senior Management and other staff of the Bank functions effectively under its supervision and control.

The Board Composition

The Board has seven members, comprising from the public sector and private sector. All the shareholders are Bahraini except one is Saudi. And two of the board members are from governmental sector.

The Board Committees

The Board of Directors has constituted three Committees with specific delegated authorities:

	Committee	Members		Primary responsibilities
1	Governor Committee	Mrs. Mona AlMoayed	Head	• Reviewing the performance of executive management. • Determining acceptable levels of risk. • Monitoring the implementation of strategy by management. • Approving budgets and reviewing performance against those budgets and key performance indicators.
		Mr. Nasser AlQahtani	Member	
		Mr. AbdulHameed Dawani	Member	
2	Audit Committee	Mrs. Mona AlMoayed	Head	• Financial Audit Reporting. • Internal Audit. • External Audit. • Compliance.
		Prof. Bader AlDin Ibrahim	Member	
		Mrs. Samar Wessa	Member	
3	Risk Committee	Mr. Adel Bella	Head	• Anti-Money Laundering. • Risk Management. • Policies related to risk management.
		Mrs. Dalal Ismaeel	Member	
		Mrs. Samar Wessa	Member	
4	Nomination & Remuneration Committee	Mr. Nasser AlQahtani	Head	• Human Resources. • Administration. • Corporate Governance. • Compensation and incentives.
		Mr. AbdulHameed Dawani	Member	
		Mr. Adel Bella	Member	
5	Technical Committee	Mr. Adel Bella	Head	• Advising. • Evaluating the work outcomes. • Reviewing the new products.
		Prof. Bader AlDin Ibrahim	Member	
		Mr. Ahmed AlDaeej	Member	

All the above Committees are reported to the Board of Directors. The Board meetings and its committees are held as and when required but in accordance with the Regulations. The Board meets at least once a quarter.

The Board of Directors and its committees receive regular reports on various aspects of the Bank's business from senior management as well as from Internal Audit, Risk Management, Financial Control, and Operations Departments.

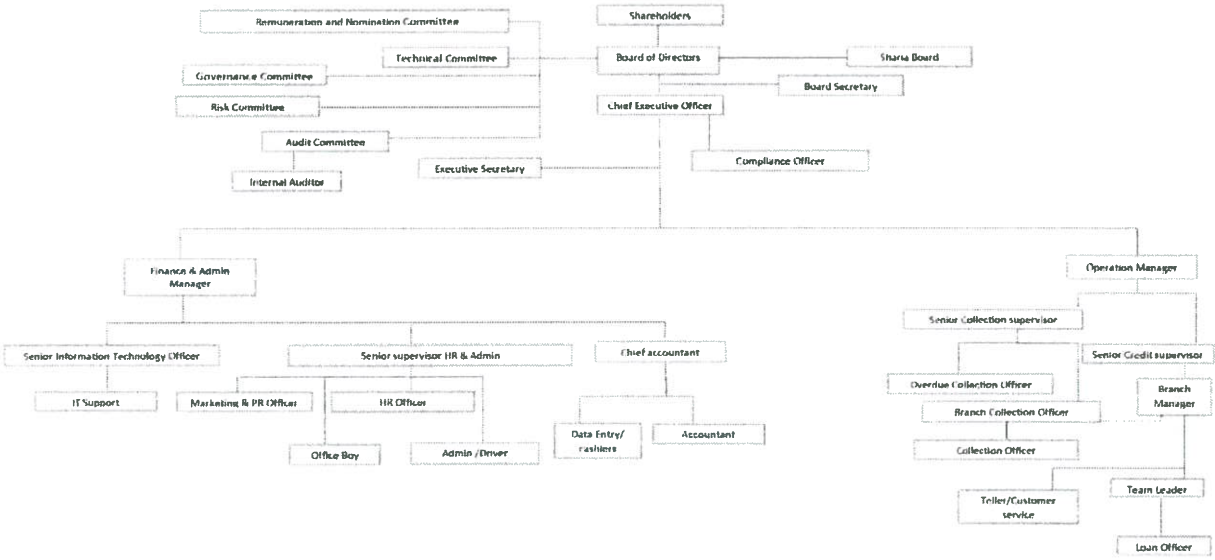
Management committees

The Board of Directors delegates the authority for day-to-day management of the business to the Chief Executive Officer (CEO) who is responsible for implementing the Bank's strategic plan. The CEO manages the Bank through the following management committees:

Committee	Primary Responsibilities
Purchasing Committee	Budget, Administration issues.
Human Resource Committee	Discuss all HR issues and recommend actions.
Credit Committee	Approve loans, monitor loans, review risk and provisions.

Organizational chart

Set out below is the Bank's organization chart, which outlines the different committees and the lines of reporting.



Management

Dr. Khaled Walid Al-Gazawi
CEO

Dr. Khaled Al-Gazawi joined Ebdaa Bank for Microfinance as the Chief Executive Officer early 2014. During the previous 15 months, Dr. Al-Gazawi served at Grameen – Jameel Microfinance LTD (GJ) as the General Manager. Khaled has more than 16 years of experience in micro-finance, plus an extensive experience in banking, marketing, and business consultancy.

Previously in his career, Khaled served as a Resident Advisor for the Arab Gulf fund for development (AGFUND) in Lebanon, and led the efforts to create the newest AGFUND's microfinance bank in Lebanon; Ebdaa; which was functional in less than 70 days from commencing setup. Between 2007 and early 2012, Khaled worked for the First Microfinance Foundation – Egypt (FMF-E) as the Chief Executive Officer. FMF-E is the local affiliate of the Aga Khan Agency for Microfinance (AKAM). Beside the extensive microfinance consultancy work Khaled did, he was among the founding team and served as the CEO of the Jordan Micro Credit Company (Tamweelcom), the leading Jordanian Microfinance institution in Jordan, owned by the Noor Hussein Foundation and funded by United States Agency for International Development (USAID).

Khaled is a certified Trainer in various fields of microfinance, such as business planning, delinquency management, interest rate setting, accounting, operational risks management and financial analysis. Khaled holds a PhD. degree in International Management from the US, and an MBA from Jordan.

Mrs. Fatema Mohammed Salman
Finance Manager

Mrs. Fatima Salman holds a bachelor degree in Accounting with honors from the University of Bahrain and a certificate of Higher Diploma in Islamic finance from the Bahrain Institute for Banking and Financial Studies, Also she is a holder of the executive professional master in Islamic finance from the CIBAFI. Before joining the Bank, she was an accountant at Arcapita Bank. Later in 2013, she joined Ebdaa Bank was promoted in a short period due to her outstanding work to senior accountant then in the first quarter to Finance Manager.

Ms. Eman Abdulla Bufarsan
Acting Compliance Officer

Ms. Eman Bufarsan joined Ebdaa Bank as loan officer in March 2010. Due to her ability to work under pressure, she gradually promoted within the same department until she became the head of the Operation Department in 2014. In January 2018 she became the compliance officer. She holds a bachelor degree in Business Administration from Arab Open University and other certificated in the microfinance field, Also she is a holder of the executive professional master in Islamic finance from the CIBAFI.

Ebdaa Bank
for Microfinance

EBDAA BANK FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DEC 2017

STATEMENT OF FINANCIAL POSITION
AS at 31st December 2017

	31 Dec 2017 BD	31 Dec 2016 BD
ASSETS		
Cash and cash equivalents	188,347	661,344
Deposits with banks	500,000	400,000
Loans and advances	1,600,064	1,001,264
Other assets	97,221	146,948
Equipment	68,332	66,015
Total assets	**2,453,964**	**2,275,571**
LIABILITIES AND EQUITY		
Liabilities		
Short term borrowing	0	0
Deposit from non-bank	1,000,000	1,000,000
Other liabilities	229,219	144,828
Total liabilities	**1,229,219**	**1,144,828**
Equity		
Share capital	2,209,720	1,885,000
Advanced toward Share Capital	0	324,720
Accumulated losses	(948,975)	(1,078,977)
Total equity	**1,224,745**	**1,130,743**
Total liabilities and equity	**2,453,964**	**2,275,571**

STATEMENT OF CHANGES IN EQUITY
AS at 31st December 2017

	Share capital BD	Advance Toward Share Capital BD	Accumulated losses BD	Total equity BD
Balance at 1 January 2017	**2,209,720**		**(1,078,977)**	**1,130,743**
Advance toward share capital	-	-		-
Total comprehensive income for the year			94,002	94,002
Balance at 31 December 2017	**2,209,720**	**-**	(984,975)	**1,224,745**
Balance at 1 January 2016	**1,885,000**		**(1,080,497)**	**804,503**
Advance toward share capital		324,720		324,720
Total comprehensive income for the year			1,520	1,520
Balance at 31 December 2016	**1,885,000**	**324,720**	**(1,078,977)**	**1,130,743**

STATEMENT OF COMPREHENSIVE INCOME
AS at 31st December 2017

	31 Dec 2017 BD	31 Dec 2016 BD
Interest income on loans and advances	272,766	299.974
Interest income on deposits with banks	15,009	0
Interest expense	(5000)	(5000)
Net interest income	**282,775**	**294,974**
Donation	0	0
Fee income	386,200	192,178
Other income	45,434	22,912
Total income	**714,409**	**510,064**
Staff cost	410,599	345,701
Impairment allowance on loans and advances	964	(11,278)
Depreciation	17,413	15,102
Other operating expenses	191,431	159,028
Total expenses	**620,407**	**508,544**
Loss for the year	**94,002**	**1,520**
Other comprehensive income		
Total comprehensive income for the year	**94,002**	**1,520**

STATEMENT OF CASH FLOWS
AS at 31st December 2017

	31 Dec 2017 BD	31 Dec 2016 BD
OPERATING ACTIVITIES		
Loss for the year	94,002	1,520
Adjustments for:		
Depreciation	17,413	15,102
Impairment allowance on loans and advances	964	(11,287)
Deposits with banks	(100,000)	(400,000)
Loans and advances	(599,764)	(85,025)
Other assets	49,727	(21,327)
Other liabilities	14,715	(14,311)
Deferred Income	66,116	(1620)
Provision for Employees “End of service benefits”	3,560	2,818
CASH FLOWS (USED IN) FROM Operating ACTIVITIES	**(453,267)**	**(514,130)**
INVESTING ACTIVITIES		
Purchase of equipment	(19,730)	(19,419)
Net cash from (used in) investing activities	**(19,730)**	**(19,419)**
FINANCING ACTIVITIES		
Advanced toward Share Capital	0	0
Net cash (used in) / generated from financing activities	0	**0**
Net increase / (decrease) in cash and cash equivalents	**(472,997)**	**(533,549)**
Cash and cash equivalents at 1 January	**661,344**	**1,194,893**
Cash and cash equivalents at 31 December	**188,347**	**661,344**

The Financial statements were extracted from the audited financial statements on which Ernest & Young issued as unqualified opinion dated 6 March 2018.

The financial statements were authorized for issue in accordance with approval of Board of Directors on 6 March 2018.

Mona Yousif Khalil Almoayyed	**Khaled Walid Al-Gazawi**
Chairman	*Chief Executive Officer*

For full financial information details, please visit our website: www.ebdaabank.com

Ebdaa Bank is a Conventional Micro-finance Institution licensed by the CBB with CR 72533