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

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

31 DECEMBER 2019

Chairwoman's Report

On behalf of the founding shareholders and the 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 ended 31 December 2019.

In 2019, Ebdaa Bank for Microfinance has continued its path towards success for the third year in a row. Despite the challenging economic situation, the Bank recorded an operational income growth of 25.3% to reach BD 1,245,250 (2018: 994,155). The portfolio outstanding grew by 17% to stand at BD 2,443,729 (2018: BD 2,088,350), which contributed to an overall growth in assets of 14.3% to reach BD 3,492,272 (2018: 3,054,733).

In line with this impressive growth in the portfolio size, the bank has successfully managed to maintain the portfolio quality at its best. This was mainly attributed to the outstanding efforts of the Credit team to disburse good loans to micro-businesses, and to the collection team that paid an outstanding effort to collect installments on time. However, and in response to the economic risks and challenges, the bank booked a movement of BD 31,332 provisions in 2019 in relation to calculate the expected credit loss as per IFRS9.

In terms of expenses, and due to the gradual reduction in Tamkeen's salary support benefits, and considering the increases in the minimum wage that were passed by the Ministry of Labor and Social Affairs, staff costs grew by 16% to reach BD 607,391 (2018: 524,228). Furthermore, Other operational expenses significantly increased by 62.5% to BD 307,130 (2018: 188,984) which were mainly attributed to few one-off costs that had to be born in 2019. These costs mainly include writing off a long-standing receivable and absorbing VAT on behalf of clients. In total, expenses grew by 45.1% to stand at BD 997,553 (2018: BD 687,269). Due to these one-off costs, net income slightly dropped to reach BD 247,697 (2018: 306,886).

In the second half of 2019, The Central Bank of Bahrain conducted an overall examination of the operations of Ebdaa Bank for Microfinance. As a result, the board of directors received an examination report that included a list of directions to ensure full compliance with the CBB's rulebook. The board and management are working together to reflect these directions on the bank's five years strategic plan (2020 – 2024) to understand its implications on the operations of the bank. The results of this work will be shared with CBB for the best course of action.

Despite the challenging economic environment, shareholders are committed to support the management leadership of the team in addressing the current and potential challenges the bank is or might face. With this support, 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".

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 under the regulations of Volume (5) of the regulations 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, Tamkeen, other government agencies, and stakeholders, for their invaluable assistance and guidance. I would like to convey a special thank you note to the Governor and the whole team of the Central Bank of Bahrain for their continuous support and understanding. 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 also need to specifically thank AGFUND for the application of their Microfinance Model and their continuous support and technical contributions, all of which has heavily contributed to the positive direction the bank took starting in 2014.

Finally, all of this could have not been achieved without the dedication, hard work, and loyalty of the Ebdaa team. I would like to 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 2019, and the statements of profit or loss, 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 2019, 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 Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Bahrain, 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 included in the Bank's 2019 financial statements*Other information consists of the information included in the Chairwoman's Statement, set out on page 1 and 2 other than the financial statements and our auditor's report thereon. The Bank's Board of Directors 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 Board of Directors for the financial statements

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.

Building a better working world

Report on the Audit of the Financial Statements (continued)

Responsibilities of Board of Directors for the financial statements (continued)
In preparing the financial statements, 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) 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 2019 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

Auditor's Registration No. 212
16 March 2020
Manama, Kingdom of Bahrain

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	**2019** **BD**	2018 BD
ASSETS			
Cash and cash equivalents	6	**235,590**	648,463
Bank deposits	7	**544,678**	98,354
Loans and advances to customers	8	**2,443,729**	2,088,350
Other assets	9	**128,110**	99,571
Equipment	10	**140,165**	119,995
TOTAL ASSETS		**3,492,272**	3,054,733
LIABILITIES AND EQUITY			
Liabilities			
Borrowings	11	**1,120,000**	1,120,000
Deferred income	12	**333,466**	210,375
Provision for employees' end of service benefits		**24,854**	19,818
Other liabilities	13	**240,786**	179,071
Total liabilities		**1,719,106**	1,529,264
Equity			
Share capital	14	**2,209,720**	2,209,720
General reserve	15	**55,220**	30,450
Accumulated losses		**(491,774)**	(714,701)
Total equity		**1,773,166**	1,525,469
TOTAL LIABILITIES AND EQUITY		**3,492,272**	3,054,733

Mona Yousif Al Moayyed	Abdulhameed Dawani	Khaled Walid Al-Gazawi
Chairwoman	Board member	Chief Executive Officer

STATEMENT PROFIT OR LOSS

For the year ended 31 December 2019

	Note	***2019*** ***BD***	*2018* *BD*
Interest income		**528,007**	334,719
Interest expense		**(7,435)**	(5,000)
Net interest income		**520,572**	329,719
Fee income	16	**617,055**	550,972
Other income	19	**107,623**	113,464
Total income		**1,245,250**	994,155
Staff costs	17	**607,391**	524,228
Depreciation on equipment	10	**31,790**	38,006
Depreciation on right-of-use assets		**19,910**	-
Expected credit loss provision (recovery)	20	**31,332**	(63,949)
Other expenses	18	**307,130**	188,984
Total expenses		**997,553**	687,269
NET PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**247,697**	306,886

Mona Yousif Al Moayyed Chairwoman	Abdulhameed Dawani Board member	Khaled Walid Al-Gazawi Chief Executive Officer

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Note	*Share capital BD*	*General reserve BD*	*Accumulated losses BD*	*Total BD*
Balance at 31 December 2017		2,209,720	-	(984,975)	1,224,745
Transition adjustment on adoption of IFRS 9		-	-	(6,162)	(6,162)
Restated balances at 1 January 2018		2,209,720		(991,137)	1,218,583
Total comprehensive income for the year		-	-	306,886	306,886
Transfer to general reserve	15	-	30,450	(30,450)	-
Balance at 31 December 2018		2,209,720	30,450	(714,701)	1,525,469
Total comprehensive income for the year		-	-	247,697	247,697
Transfer to general reserve	15	-	24,770	(24,770)	-
Balance at 31 December 2019		**2,209,720**	**55,220**	**(491,774)**	**1,773,166**

The attached explanatory notes 1 to 25 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	2019 BD	2018 BD
OPERATING ACTIVITIES			
Net profit for the year		**247,697**	306,886
Adjustments for non-cash items:			
Depreciation on equipment	10	**31,790**	38,006
Depreciation on right-of-use assets		**19,910**	-
Expected credit loss provision (recovery)	20	**31,332**	(63,949)
Provision for employees' end of service benefits		**7,415**	8,451
Gain on sale of vehicles		**(855)**	(749)
Operating profit before changes in operating assets and liabilities		**337,289**	288,645
Changes in operating assets and liabilities:			
Bank deposits		**(446,324)**	401,646
Loans and advances to customers		**(386,711)**	(424,337)
Other assets		**(48,449)**	(2,350)
Deferred income		**123,091**	79,946
Other liabilities		**77,723**	91,648
End of service benefits paid		**(2,379)**	-
Net cash flows (used in) from operating activities		**(345,760)**	435,198
INVESTING ACTIVITIES			
Purchase of equipment	10	**(57,105)**	(89,851)
Proceeds from sale of vehicle		**6,000**	931
Net cash flows used in investing activities		**(51,105)**	(88,920)
FINANCING ACTIVITIES			
Borrowings	11	**-**	120,000
Payment of principal portion of lease liabilities		**(16,008)**	-
Net cash flows (used) from financing activities		**(16,008)**	120,000
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR		**(412,873)**	466,278
Cash and cash equivalents at 1 January		**648,463**	188,347
Transition adjustment on adoption of IFRS 9		**-**	(6,162)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	6	**235,590**	648,463

The attached explanatory notes 1 to 25 form part of these financial statements.

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 three other branches in Hamad Town, Riyadat Mall and Saar branch within the Kingdom of Bahrain. The Bank is licensed as a microfinance institution 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 three other branches located in Hamad Town, Riyadat Mall and Saar.

Activities
The principal activities of the Bank are providing microfinance loans to cutomers 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 2019 were authorized for issue in accordance with a resolution of the Board of Directors dated 16 March 2020.

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.

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 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 financial instruments
Incorporating forward-looking information increases the level of judgment as to how changes in these macroeconomic factors will affect the ECL applicable to the stage 1 and stage 2 exposures which are considered as performing (Stage 3 are the exposures under default category and subject to specific impairment provision).

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.

4 CHANGES IN ACCOUNTING POLICIES

4.1 New and amended standards and interpretations effective as of 1 January 2019

The Bank applied for the first time certain standards, which are effective for annual periods beginning on or after 1 January 2019. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each new standard is described below:

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces *IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives* and *SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The application of IFRS 16 will mainly impact the accounting for leased premises from which the Bank operates.

Transition impact assessment disclosures of IFRS 16

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Bank recognised right-of-use assets and lease liabilities of BD 69 thousand on 1 January 2019. If IFRS 16 had not been adopted, the statement of profit or loss for the year ended 31 December 2019 would have been impacted by an increase in net profit of BD 4 thousand.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

Assets	
Operating lease commitments as at 31 December 2018 (in BD)	94,980
Weighted average incremental borrowing rate as at 1 January 2019	4.25%
Discounted operating lease commitments as at 1 January 2019 (in BD)	87,671
Less:	
Commitments relating to short-term lease (in BD)	(18,486)
Lease liabilities as at 1 January 2019 (in BD)	**69,185**

4 CHANGES IN ACCOUNTING POLICIES (continued)

4.2 New standards, interpretations 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:

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The new standards, interpretations and amendments issued but not yet effective is not expected to have a significant impact on the Bank's financial statements.

5 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 profit or loss when the asset is derecognised.

(b) Financial instruments - initial recognition and subsequent measurement

Financial instruments comprise financial assets and financial liabilities.

Financial assets and financial liabilities carried on the statement of financial position mainly include cash and bank balances, bank deposits, loans and advances and interest and other receivables. Financial liabilities include borrowings and interest payables.

(i) Initial recognition and measurement of financial instruments

IFRS 9 requires all financial assets to be classified and subsequently measured at either amortised cost or fair value on the basis of the entity's business model for managing the assets and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

Transition disclosures of IFRS 9

The impact of this change in accounting policy as at 1st January 2018 has resulted in a decrease in 'Accumulated losses' by BD 6,162 as follows:

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments - initial recognition and subsequent measurement (continued)

(ii) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(1) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, current account balances with locally incorporated banks.

(2) Loans and advances to customers

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, these are subsequently measured at amortised cost using the effective interest rate method, less impairment charge for credit losses and any amounts written off. The losses arising from impairment are recognised in the statement of profit or loss under 'provision for credit losses'. Any subsequent recoveries are recognised in the statement of profit or loss as 'recoveries of provision for credit losses'.

(3) Deposits with banks

These are stated at amortised cost, net of provision for credit losses and amounts written off, if any.

(c) Derecognition of financial assets and financial liabilities

Financial assets

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

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

Financial liabilities

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

(d) Impairment of financial assets

Impairment

The Bank assesses on a forward-looking basis, the ECL associated with its debt instruments carried at amortised cost and against the exposure arising from loan commitments and financial guarantee contracts. The Bank recognises an ECL for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Impairment of financial assets (continued)

Measurement of the expected credit loss provision (ECL)
The measurement of the ECL for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions, credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses), estimation of the amount and timing of the future cash flows and collateral values. These estimates are driven by a number of factors, changes in which can result in different levels of allowances, as described below:

- Internal credit rating model, which assigns probability of defaults (PDs) to the individual ratings;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PD, exposure at default (EAD) and loss given default (LGD); and
- Selection and relative weightings of forward-looking scenarios to derive the economic inputs into the ECL models.

The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. Loans and advances together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to recoveries of credit losses in the other income.

The key inputs into the measurement of ECL are the following variables:

- Probability of Default (PD);
- Loss Given Default (LGD); and
- Exposure At Default (EAD).

These parameters are generally derived from internally developed models and other historical data. These are adjusted to reflect forward-looking information as described below.

Definition of default
The Bank considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as liquidating collateral; or the borrower is past due more than 90 days or any credit obligation to the Bank. In assessing whether a borrower is in default, the Bank considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on another obligation of the same issuer to the Bank.

Probability of default (PD)
Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by credit risk grading for corporate and days-past-due for retail portfolio. The Bank employs statistical models for analysing the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the Bank has taken exposures. For most exposures, the key macro-economic indicators include gross domestic product (GDP) growth, inflation, real interest rates, unemployment, domestic credit growth, oil prices, central government revenue as a percentage to GDP and central government expenditure as a percentage to GDP.

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Impairment of financial assets (continued)

Definition of default (continued)

Incorporation of forward - looking information
The Bank employs statistical models to incorporate macro-economic factors on historical default rates. In case none of the macro-economic parameters are statistically significant or the results of forecasted PDs are significantly deviated from the present forecast for the economic conditions, quantitative PD overlay shall be used by the management after analyzing the portfolio as per the diagnostic tool.

Incorporating forward-looking information increases the level of judgment as to how changes in these macroeconomic factors will affect the ECL applicable to the stage 1 and stage 2 exposures which are considered as performing (Stage 3 are the exposures under default category). The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically.

Loss Given Default (LGD)
LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties, based on historical data using both internal and external factors. The LGD is estimated using below factors:

Cure Rate: Defined as the ratio of accounts which have fallen to default and have managed to move backward to the performing accounts.

Recovery Rate: Defined as the ratio of liquidation value to market value of the underlying collateral at the time of default would also account for expected recovery rate from a general claim on the individual's assets for the unsecured portion of the exposure.

Discounting Rate: Defined as the opportunity cost of the recovery value not being realized on the day of default adjusted for time value.

Exposure At Default (EAD)
EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For financing commitments and financial guarantees, the EAD is converted to statement of financial position equivalents.

Significant Increase in Credit Risk (SICR)
When determining whether the risk of default on a financial contracts has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment including forward-looking information.

The criteria for determining whether credit risk has increased significantly vary on a portfolio level and include quantitative and qualitative factors, including days past due and risk rating.

Restructured loans and advances
Where possible, the Bank seeks to restructure loans and advances rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new conditions. Once the terms have been renegotiated any impairment is measured using the effective interest rate before the modification of terms of the financing contract and is no longer considered past due. Management continuously reviews renegotiated financing contracts to ensure that all criteria are met and that future payments are likely to occur. Financing contracts continue to be subject to an individual or collective impairment assessment, calculated using the original effective interest rate.

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Write-offs

The Bank's accounting policy for write offs under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

(f) Bank deposits

Bank deposits mainly comprise of inter-bank deposits, which have a maturity of more than 90 days and are stated at their amortised cost less impairment.

(g) 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.

Impairment losses are recognised in the statement of profit or loss 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.

(h) 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.

(i) 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.

(j) 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, 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 profit or loss.

Fee income

i. Administration fees

Administration fees earned in connection with granting of loans are recognised over the tenor of the loan.

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Revenue recognition (continued)

Fee income (continued)

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 6 on each overdue day. These fees are recognized only upon receipt when earned, normaly signified by actual reciept.

Deferred income
i. Administration fees
Administration fees are deferred over the loan tenor and recognised in the statement of profit or loss over the period till loan maturity. The unrecognised fee is disclosed as a liability under deferred income.

ii. Grants
Grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

Grant which are gratuitous and therefore do not warrant compliance with any conditions or obligations are recognised in the statement of profit or loss in the year in which such grant is received. Where conditions or obligations are attached to grants, they are recognised in the statement of profit or loss as such conditions are satisfied.

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

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

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

(k) 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.

(l) Provision for employees’ end of service benefits
The Bank makes contributions to the Social Insurance Organisation, 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.

(m) 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.

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) 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 (2018: nil) as the Bank continues to have accumulated losses as of 31 December 2019.

(o) Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

ii) Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects the Bank exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

(p) 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 profit or loss.

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.

(q) 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.

6 CASH AND CASH EQUIVALENTS

	2019	*2018*
	BD	*BD*
Balances with banks	**235,741**	649,376
Less: Provision for credit losses	**(151)**	(913)
	235,590	648,463

As of 31 December 2019, the balances with banks are classified under stage 1 of the ECL model.

7 BANK DEPOSITS

Bank deposits represent medium term deposits with an investment grade bank incorporated in the Kingdom of Bahrain. The deposits earn an effective annual interest rate of 3.93% (2018: 3.95%) and have maturities between 21 March 2020 and 19 September 2020.

	2019	*2018*
	BD '000	*BD '000*
Bank deposits	**550,000**	100,000
Less: Provision for credit losses	**(5,322)**	(1,646)
	544,678	98,354

Bank deposits are classified under stage 1 of the ECL model as of 31 December 2019.

8 LOANS AND ADVANCES TO CUSTOMERS

	2019	*2018*
	BD	*BD*
Gross loans and advances	**2,668,739**	2,284,942
Less: Provision for credit losses	**(225,010)**	(196,592)
	2,443,729	2,088,350

Movement in the provision for credit losses is as follows:

	2019	*2018*
	BD	*BD*
At 1 January	**196,592**	282,618
Transition adjustment upon adoption of IFRS 9	**-**	4,736
	196,592	287,354
Charge for the year	**88,806**	75,325
Recoveries	**(60,388)**	(140,407)
Net expected credit loss provision (recovery) - (note 20)	**28,418**	(65,082)
Amounts written off during the year	**-**	(25,680)
At 31 December	**225,010**	196,592

8 LOANS AND ADVANCES TO CUSTOMERS (continued)

The table below shows the credit quality based on the Bank's credit rating system:

	31 December 2019			
	Stage 1: 12-month ECL BD	***Stage 2: Lifetime ECL not credit-impaired BD***	***Stage 3: Lifetime ECL credit-impaired BD***	***Total BD***
Loans and advances	**2,433,937**	**47,093**	**187,709**	**2,668,739**
Less: Provision for credit losses	**(18,272)**	**(23,547)**	**(183,191)**	**(225,010)**
Carrying amount	**2,415,665**	**23,546**	**4,518**	**2,443,729**

	31 December 2018			
	Stage 1: 12-month ECL BD	*Stage 2: Lifetime ECL not credit-impaired BD*	*Stage 3: Lifetime ECL credit-impaired BD*	*Total BD*
Loans and advances	2,065,531	60,677	158,734	2,284,942
Less: Provision for credit losses	(13,023)	(33,103)	(150,466)	(196,592)
Carrying amount	2,052,508	27,574	8,268	2,088,350

During the year, the Bank has rescheduled 12 loans of BD 30,077 (2018: 3 loans amounted BD 12,847). Also, during the year the Bank has also recovered BD 2,710 against loans previously written off (2018: BD 1,165).

9 OTHER ASSETS

	2019 BD	*2018 BD*
Right of use assets	**54,861**	-
Prepayments	**32,119**	34,468
Interest receivable	**12,300**	19,398
Receivable from Tamkeen programs	**-**	19,328
Other receivables	**28,830**	26,377
	128,110	99,571

10 EQUIPMENT

	Furniture BD	*Computer and equi-pment BD*	*Software BD*	*Vehicle BD*	*Office improve-ments BD*	***2019 Total BD***	*2018 Total BD*
Cost							
At 1 January	30,849	95,717	84,149	53,290	35,749	**299,754**	213,103
Additions	1,046	5,789	17,732		32,538	**57,105**	89,851
Disposal	-	-	-	(16,601)	-	**(16,601)**	(3,200)
At 31 December	**31,895**	**101,506**	**101,881**	**36,689**	**68,287**	**340,258**	299,754
Depreciation							
At 1 January	19,440	71,376	58,647	18,785	11,511	**179,759**	144,771
Charge for the year	2,889	11,589	7,812	5,878	3,622	**31,790**	38,006
Disposal	-	-	-	(11,456)	-	**(11,456)**	(3,018)
At 31 December	**22,329**	**82,965**	**66,459**	**13,207**	**15,133**	**200,093**	179,759
Net book value							
2019	**9,566**	**18,541**	**35,422**	**23,482**	**53,154**	**140,165**	119,995
2018	11,409	24,341	25,502	34,505	24,238	119,995	119,995

11 BORROWINGS

Borrowings mainly comprise BD 1 million of loan from the Supreme Council for Women repayable unless renewed annually. This loan carries a subsidised interest rate of 0.5% (2018: 0.5%).

In addition in 2018, the Bank had received BD 100,000 from Fawaz Al Gosaibi Holding W.L.L. and BD 20,000 from Ms Mayan Jaafar as funding to support the Bank's initiative to assist micro and small business in the Kingdom of Bahrain. These amounts are repayable after one year from any payment request made by the lenders. During 2019 the lenders did not demand repayment.

12 DEFERRED INCOME

	2019 BD	*2018 BD*
Administration fees	**251,076**	197,963
Deferred grant	**75,277**	-
Other	**7,113**	12,412
	333,466	210,375

Movements in the deferred income during the year is as follows:

	2019 BD	*2018 BD*
As at beginning of the year	**210,375**	130,429
Amounts received during the year	**291,294**	171,701
Recognised in the statement of profit or loss	**(168,203)**	(91,755)
	333,466	210,375

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

13 OTHER LIABILITIES

	2019	*2018*
	BD	*BD*
Employee related accruals	**19,209**	46,559
Lease liability	**55,696**	-
Interest payable	**47,642**	42,642
VAT payables	**20,196**	-
Accrued expenses	**21,074**	23,030
Other liabilities	**76,969**	66,840
	240,786	179,071

14 SHARE CAPITAL

	2019	*2018*
	BD	*BD*
Authorised, issued and fully paid up capital		
5,861,326 (2018: 5,861,326) shares of USD 1 each		
(equivalent to BD 0.377 each)	**2,209,720**	2,209,720

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

15 GENERAL RESERVE

The general reserve is a voluntary reserve created in accordance with the provisions of the Bank's articles of association. During the year, the Board of Directors proposed a transfer of BD 24,770 (2018: BD 30,450) to the general reserve. The reserve is not available for distribution until approved by the Bank's shareholders.

16 FEE INCOME

	2019	*2018*
	BD	*BD*
Processing fees	**532,801**	456,300
Penalty fees	**57,577**	68,110
Application and other fees	**26,677**	26,562
	617,055	550,972

17 STAFF COSTS

	2019	*2018*
	BD	*BD*
Salaries and allowances	**451,080**	357,129
Incentives	**55,483**	44,424
Bonus	**-**	33,000
Social insurance expenses	**31,563**	45,945
Other benefits	**69,265**	43,730
	607,391	524,228

18 OTHER EXPENSES

	2019	*2018*
	BD	*BD*
Professional fees	**48,369**	41,830
Rent, utilities and maintenance	**33,869**	49,884
Travel expenses	**11,455**	21,582
Communication expenses	**10,926**	10,898
Marketing expenses	**8,601**	12,018
Other expenses	**193,910**	52,772
	307,130	188,984

19 OTHER INCOME

	2019	*2018*
	BD	*BD*
Income from Tamkeen support programs	**70,377**	71,361
Training income	**16,466**	10,996
Other income	**10,000**	20,963
Income from bank deposits	**7,215**	8,230
Recoveries from loans written off	**2,710**	1,165
Gain on sale of vehicle	**855**	749
	107,623	113,464

20 EXPECTED CREDIT LOSS PROVISION (RECOVERY)

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and stage classification. The amounts presented are gross of credit losses allowances.

	31 December 2019			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
	BD	***BD***	***BD***	***BD***
Balances with banks	**235,741**	**-**	**-**	**235,741**
Bank deposits	**550,000**	**-**	**-**	**550,000**
Loans and advances to customers	**2,433,937**	**47,093**	**187,709**	**2,668,739**
	3,219,678	**47,093**	**187,709**	**3,454,480**

	31 December 2018			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
	BD	*BD*	*BD*	*BD*
Balances with banks	649,376	-	-	649,376
Bank deposits	100,000	-	-	100,000
Loans and advances to customers	2,065,531	60,677	158,734	2,284,942
	2,814,907	60,677	158,734	3,034,318

20 EXPECTED CREDIT LOSS PROVISION (RECOVERY) (continued)

An analysis of the changes in ECL allowances, is as follows:

	31 December 2019			
	Stage 1: 12-month ECL BD	***Stage 2: Lifetime ECL not credit-impaired BD***	***Stage 3: Lifetime ECL credit-impaired BD***	***Total BD***
Balance at 1 January 2019 of IFRS 9				
Balances with banks	913	-	-	913
Bank deposits	1,646	-	-	1,646
Loans and advances to customers	13,023	33,103	150,466	196,592
	15,582	33,103	150,466	199,151
(Reversal) / charge during the year - net				
Balances with banks	(762)	-	-	(762)
Bank deposits	3,676	-	-	3,676
Loans and advances to customers	5,249	(9,556)	32,725	28,418
	8,163	(9,556)	32,725	31,332
Balance at 31 December 2019				
Balances with banks	151	-	-	151
Bank deposits	5,322	-	-	5,322
Loans and advances to customers	18,272	23,547	183,191	225,010
As at 31 December 2019	**23,745**	**23,547**	**183,191**	**230,483**

	31 December 2018			
	Stage 1: 12-month ECL BD	*Stage 2: Lifetime ECL not credit-impaired BD*	*Stage 3: Lifetime ECL credit-impaired BD*	*Total BD*
Restated balance at 1 January on adoption of IFRS 9				
Balances with banks	139	-	-	139
Deposit with bank	1,287	-	-	1,287
Loans and advances to customers	10,719	17,568	259,067	287,354
	12,145	17,568	259,067	288,780
(Reversal) / charge during the year - net				
Balances with banks	774	-	-	774
Deposit with bank	359	-	-	359
Loans and advances to customers	2,304	15,535	(82,921)	(65,082)
	3,437	15,535	(82,921)	(63,949)
Write off during the year				
Loans and advances to customers	-	-	(25,680)	(25,680)
Balance at 31 December 2018				
Balances with banks	913	-	-	913
Deposit with bank	1,646	-	-	1,646
Loans and advances to customers	13,023	33,103	150,466	196,592
As at 31 December 2018	15,582	33,103	150,466	199,151

20 EXPECTED CREDIT LOSS PROVISION (RECOVERY) (continued)

The movement in ECL on assets subject to ECL is as follows:

	2019			
	Stage 1: 12-month ECL	***Stage 2: Lifetime ECL not credit-impaired***	***Stage 3: Lifetime ECL credit-impaired***	***Total ECL***
	BD	***BD***	***BD***	***BD***
Balance at 1 January	**15,582**	**33,103**	**150,466**	**199,151**
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12 month ECL	**3,871**	**(3,871)**	**-**	**-**
Transfer to lifetime ECL not credit impaired	**(4,780)**	**8,792**	**(4,012)**	**-**
Transfer to lifetime ECL credit impaired	**(25,553)**	**(1,558)**	**27,111**	**-**
Net remeasurement of loss allowance	**28,885**	**3,003**	**59,832**	**91,720**
Recoveries / write-backs	**(8,655)**	**(13,303)**	**(38,430)**	**(60,388)**
Balance at end of year	**9,350**	**26,166**	**194,967**	**230,483**

	2018			
	Stage 1: 12-month ECL	*Stage 2: Lifetime ECL not credit-impaired*	*Stage 3: Lifetime ECL credit-impaired*	*Total ECL*
	BD	*BD*	*BD*	*BD*
Balance at 1 January - on adoption of IFRS 9	12,145	17,568	259,067	288,780
Changes due to financial assets recognised in opening balance that have:				
Transfer to 12 month ECL	-	1,767	(1,767)	-
Transfer to lifetime ECL not credit impaired	(10,160)	10,160	-	-
Transfer to lifetime ECL credit impaired	(43,727)	(1,690)	45,417	-
Net remeasurement of loss allowance	61,949	15,049	(540)	76,458
Recoveries / write-backs	(4,625)	(9,751)	(126,031)	(140,407)
Amounts written off during the year	-	-	(25,680)	(25,680)
Balance at end of year	15,582	33,103	150,466	199,151

21 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:

	2019	*2018*
	BD	*BD*
Bank balances held with a shareholder	**6,702**	4,316
Deferred grant from a shareholder	**75,277**	-
Other liabilities	**5,560**	3,375

21 RELATED PARTY TRANSACTIONS (continued)

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

	2019	*2018*
	BD	*BD*
Rent expenses	**7,392**	7,392

Compensation of the key management personnel is as follows:

	2019	*2018*
	BD	*BD*
Salaries and short term employee benefits	**72,000**	72,000
Provision for employees' end of service benefits	**19,308**	14,811
	91,308	86,811

No remuneration was paid to directors during the year (2018: nil).

22 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.

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:

	2019	*2018*
	BD	*BD*
Bank balances	**235,741**	649,376
Bank deposits	**550,000**	100,000
Loans and advances to customers	**2,668,739**	2,284,942
Interest receivable	**12,300**	19,398
Receivable from Tamkeen programs	**-**	19,328
	3,466,780	3,073,044

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.

22 RISK MANAGEMENT (continued)

b) Market 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 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 2019 and 31 December 2018 based on contractual undiscounted payment obligation:

	31 December 2019			
	1-3 months BD	***3 months to 1 year BD***	***More than 1 year BD***	***Total BD***
Liabilities and commitments				
Borrowings	**-**	**1,125,000**	**-**	**1,125,000**
Other liabilities	**6,962**	**205,976**	**27,848**	**240,786**
Commitments	**6,162**	**12,324**	**-**	**18,486**
	13,124	**1,343,300**	**27,848**	**1,384,272**

	31 December 2018			
	1-3 months BD	*3 months to 1 year BD*	*More than 1 year BD*	*Total BD*
Liabilities and commitments				
Borrowings	-	1,125,000	-	1,125,000
Other liabilities	-	179,071	-	179,071
Commitments	10,500	31,500	52,980	94,980
	10,500	1,335,571	52,980	1,399,051

22 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 2019 and 31 December 2018:

	31 December 2019					
	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	**235,590**	**-**	**235,590**	**-**	**-**	**235,590**
Bank deposits	**-**	**544,678**	**544,678**	**-**	**-**	**544,678**
Loans and advances to customers	**45,070**	**730,552**	**775,622**	**1,668,107**	**-**	**2,443,729**
Other assets	**5,856**	**90,819**	**96,675**	**31,435**	**-**	**128,110**
Equipment	**-**	**-**	**-**	**-**	**140,165**	**140,165**
	286,516	**1,366,049**	**1,652,565**	**1,699,542**	**140,165**	**3,492,272**
LIABILITIES						
Provision for employees' end of service benefits	**-**	**24,854**	**24,854**	**-**	**-**	**24,854**
Borrowings	**-**	**1,120,000**	**1,120,000**	**-**	**-**	**1,120,000**
Other liabilities	**-**	**240,786**	**240,786**	**-**	**-**	**240,786**
	-	**1,385,640**	**1,385,640**	**-**	**-**	**1,385,640**
Net liquidity gap	**286,516**	**(19,591)**	**266,925**	**1,699,542**	**140,165**	**2,106,632**

	31 December 2018					
	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	648,463	-	648,463	-	-	648,463
Bank deposits	-	98,354	98,354	-	-	98,354
Loans and advances to customers	33,937	531,646	565,583	1,522,767	-	2,088,350
Other assets	-	99,571	99,571	-	-	99,571
Equipment	-	-	-	-	119,995	119,995
	682,400	729,571	1,411,971	1,522,767	119,995	3,054,733
LIABILITIES						
Provision for employees' end of service benefits	-	19,818	19,818		-	19,818
Borrowings	-	1,120,000	1,120,000	-	-	1,120,000
Other liabilities	-	66,840	66,840	-	-	66,840
	-	1,206,658	1,206,658	-	-	1,206,658
Net liquidity gap	682,400	(477,087)	205,313	1,522,767	119,995	1,848,075

22 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, bank deposits, loans and advances, receivable from Tamkeen programs and interest receivables. Financial liabilities include borrowings and interest payables. All financial instruments are carried at amortised cost as at 31 December 2019 and 31 December 2018.

23 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 2019 and 31 December 2018. As discussed in note 2.1 the Bank is now in compliance with externally imposed capital requirements.

24 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.

25 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 2019, Islamic loans comprise 0.15% (2018: 0.95%) of the Bank's total assets.