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

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

31 DECEMBER 2020

الإبـداع
للتمويل متناهي الصغر
Ebdaa
For Microfinance

Chairwoman's Report

On behalf of the founding shareholders and members of the Board of Directors of Al Ebdaa Bank for Microfinance B.S.C. (c), I am pleased to report the annual results and the audited financial statements for the year ended 31 December 2020. This, in deed, has been a very challenging year on all aspects, and I am personally glad we managed to survive and at least nearly maintained status-quo, compared to hundreds of businesses that had to shut-down or has survived but it is suffering. Some of these businesses belong to clients of Ebdaa Bank for Microfinance.

As many of us expected, the outbreak of the Coronavirus (COVID-19) in China soon spread to every country around the globe. While many of these Countries were not prepared -and probably still not- to stand up for the pandemic, Bahrain was recognized as a world-class country in facing the outcomes of the pandemic. HRH the Crown Prince commenced leadership of the #Bahrain_team that led outstanding efforts to manage the crisis. The government introduced major short-term economic support initiatives that included nation-wide waiver of water and electricity charges for (3) months, subsidy of 100% of Bahraini employees salaries, and many other longer-term initiatives that are still active. Ebdaa Bank for Microfinance; like all other Bahraini companies; benefited from some of the short term initiatives, and that was helpful to keep the bank going. We will, forever, be indebted to the government of Bahrain for the outstanding leadership of the crisis.

Coupled with all the above measures, the Central Bank of Bahrain (CBB) issued a circular on regulatory concessionary measure in response to COVID-19 that included a FREE of charge deferment of all loans and financing repayments for 6 months between March an September 2020. This was followed by a second circular to request banks to offer further interest- waring deferment till the end of 2020. Sadly, these decisions were not coupled with a cash injection to compensate the liquidity shortfalls that resulted from such deferment. Therefore, the bank had to reduce the number and value of loans disbursed to be able to balance expenses and portfolio growth.

Furthermore, CBB introduced sudden caps on Administrative fees and Interest Rates charged by Ebdaa Bank that were far below the fees and interest the bank historically charged. Despite the continuous dialog with the CBB on issues related to sustainability vs. Cost, the CBB has not yet introduce any solution to help the bank compensate the lost income resulting from these caps. Therefore, the shareholders will be evaluating their options to see how can the bank continue to operate in such a difficult environment.

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Internally, the management continues to monitor the impact of the pandemic on repayment rates, and continues to evaluate the sufficiency of loan loss reserves to cover such risks. Therefore, a management overlay was recognized based on expected cycle of probability of default. A extra provision of BD 44,632 was booked in response for such risks.

In light of all what was mentioned earlier, Ebdaa Bank for Microfinance recorded a real operational income of BD 792,791 with a drop of 36.3% compare to last year (2019: 1,245,250). However, and as per the instructions of the Central Bank of Bahrain, another BD 204,904 were added to the overall operational income to settle at BD 997,695. This amount is a "virtual" income recognized against the free 6 months deferment. The same amount was deducted from the shareholders' equity in the balance sheet.

In terms of expenses, the management worked very hard to reduce staff costs and that resulted in a reduction of such costs by 11% to reach BD 541,269 (2019: 607,391). Other operational expenses were also pushed significantly down by 44% to BD 171,749 (2019: 307,130). The Bank received an amount of BD 60,325 being salaries subsidy from the Government for Bahraini staff contributed to cover 82% of overall staff and administration costs.

The portfolio outstanding grew by 8% to stand at BD 2,637,849 (2019: BD 2,443,729). No Bank Deposits were rolled over this year due to the shortage in liquidity due to the deferral. Total of cash and bank deposits dropped by 27%, which contributed to an overall drop in assets of 2% to reach BD 3,411,196 (2019: 3,492,272).

Overall, the bank recorded a net profit of BD 184,898, which is 25% lower that last year (2019: BD 247,697).

Despite the challenging economic environment amid the COVID 19 pandemic, shareholders are committed to continue to support the board and management's leadership of the team in addressing the current and potential challenges the bank is or might face. With this support, the shareholders are confident that the Bank will be able to progress to a stronger position to fulfill its objectives. However, this will always be contingent on the support of the Central Bank of Bahrain, and it's ability to understand the specific nature of Microfinance, an to revise it's most recent decision to cap interest rates and admin fees for Ebdaa Bank for Microfinance, or at least provide alternatives to support Microfinance Institutions' income and portfolio growth, similar to decisions taken by central banks across the MENA region.

هاتف: ١٧٣٨١٠٠٠ ٩٧٣+ | فاكس: ١٧٣٨١٠٠٥ ٩٧٣+ | ص.ب: ١٨٦٤٨ | المنامة، مملكة البحرين | info@ebdaabahrain.com

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, the Central Bank of Bahrain, and 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 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

Building a better working world

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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 2020, 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 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as modified by the Central Bank of Bahrain ("CBB").

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 these requirements and 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 2020 financial statements
Other information consists of the information included in the Chairwoman's Statement, set out on page 1 and 3 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 as modified by CBB, 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.

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 Audit Committee, 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 2020 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
17 March 2021
Manama, Kingdom of Bahrain

STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Note	2020 BD	2019 BD
ASSETS			
Cash and cash equivalents	6	**568,883**	235,590
Bank deposits	7	**-**	544,678
Loans and advances to customers	8	**2,637,849**	2,443,729
Other assets	9	**96,269**	128,110
Equipment	10	**108,195**	140,165
TOTAL ASSETS		**3,411,196**	3,492,272
LIABILITIES AND EQUITY			
Liabilities			
Borrowings	11	**1,120,000**	1,120,000
Deferred income	12	**214,574**	333,466
Provision for employees' end of service benefits		**31,430**	24,854
Other liabilities	13	**231,706**	240,786
Total liabilities		**1,597,710**	1,719,106
Equity			
Share capital	14	**2,209,720**	2,209,720
General reserve	15	**73,710**	55,220
Accumulated losses		**(469,944)**	(491,774)
Total equity		**1,813,486**	1,773,166
TOTAL LIABILITIES AND EQUITY		**3,411,196**	3,492,272

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

The attached explanatory notes 1 to 26 form part of these financial statements.

STATEMENT PROFIT OR LOSS

For the year ended 31 December 2020

	Note	***2020 BD***	*2019 BD*
Interest income		**484,863**	528,007
Interest expense		**(6,630)**	(7,435)
Net interest income		**478,233**	520,572
Fee income	16	**431,828**	617,055
Other income	19	**87,634**	107,623
Total income		**997,695**	1,245,250
Staff costs	17	**541,269**	607,391
Depreciation on equipment	10	**35,994**	31,790
Depreciation on right-of-use assets	25	**19,153**	19,910
Expected credit loss provision	20	**44,632**	31,332
Other expenses	18	**171,749**	307,130
Total expenses		**812,797**	997,553
NET PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**184,898**	247,697

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Note	*Share capital BD*	*General reserve BD*	*Accumulated losses BD*	*Total BD*
Balance at 1 January 2019		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
Total comprehensive income for the year		-	-	184,898	184,898
Transfer to general reserve	15	-	18,490	(18,490)	-
Recognition of modification loss net of government grant	8	-	-	(144,578)	(144,578)
Balance at 31 December 2020		**2,209,720**	**73,710**	**(469,944)**	**1,813,486**

The attached explanatory notes 1 to 26 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	2020 BD	2019 BD
OPERATING ACTIVITIES			
Net profit for the year		**184,898**	247,697
Adjustments for non-cash items:			
Depreciation on equipment	10	**35,994**	31,790
Depreciation on right-of-use assets		**19,153**	19,910
Expected credit loss provision	20	**44,632**	31,332
Provision for employees' end of service benefits		**6,576**	7,415
Gain on sale of vehicle		**-**	(855)
Operating profit before changes in operating assets and liabilities		**291,253**	337,289
Changes in operating assets and liabilities:			
Bank deposits		**544,678**	(446,324)
Loans and advances to customers		**(383,330)**	(386,711)
Other assets		**12,688**	(48,449)
Deferred income		**(118,892)**	123,091
Other liabilities		**11,272**	77,723
End of service benefits paid		**-**	(2,379)
Net cash flows from (used in) operating activities		**357,669**	(345,760)
INVESTING ACTIVITIES			
Purchase of equipment	10	**(4,024)**	(57,105)
Proceeds from sale of vehicle		**-**	6,000
Net cash flows used in investing activities		**(4,024)**	(51,105)
FINANCING ACTIVITIES			
Payment of principal portion of lease liabilities		**(20,352)**	(16,008)
Net cash flows used in financing activities		**(20,352)**	(16,008)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR		**333,293**	(412,873)
Cash and cash equivalents at 1 January		**235,590**	648,463
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	6	**568,883**	235,590

The attached explanatory notes 1 to 26 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 customers 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 2020 were authorized for issue in accordance with a resolution of the Board of Directors dated 17 March 2021.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as modified by the CBB 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.

The financial statements of the Bank have been prepared in accordance with applicable rules and regulations issued by the CBB, including CBB circulars on regulatory concessionary measures in response to COVID-19. These rules and regulations, in particular CBB circular OG/226/2020 dated 21 June 2020, required the adoption of all International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), except for:

(a) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional interest, directly in equity instead of profit or loss as required by IFRS 9 - Financial Instruments ("IFRS 9"). Any other modification gain or loss on financial assets are recognised in accordance with the requirements of IFRS 9; and

(b) recognition of financial assistance received from the government and / or regulators in response to its COVID-19 support measures that meets the government grant requirement, directly in equity, instead of profit or loss. This is only to the extent of any modification loss recorded in equity as a result of (a) above, and the balance amount to be recognised in profit or loss. Any other financial assistance, if any, is recognised in accordance with the requirements of IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance ("IAS 20").

The above framework for basis of preparation of the financial statements is hereinafter referred to as "IFRS as modified by CBB", which has been applied retrospectively and did not result in any change to the financial information reported for the comparative year.

The accounting policies used in the preparation of audited financial statements of the Bank for the year ended 31 December 2019 were in accordance with IFRS as issued by IASB. However, except for the above mentioned modifications to accounting policies and in note 2.1, all other accounting policies remain the same and have been consistently applied in the preparation of these financial statements. The change in accounting policies, as explained above, did not result in any change to the financial information reported for the comparative year.

2 BASIS OF PREPARATION (continued)

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). Further, during the year and due to the COVID-19 situation, the Bank has increased the weightage of worst case scenario probability 50% (2019: 10%). Moreover, due to the unexpected current situation, the macroeconomic forecasts have increased the point-in-time probability of default in the IFRS 9 ECL model.

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 2020

The Bank applied for the first time certain standards, which are effective for annual periods beginning on or after 1 January 2020. 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:

- *Amendments to IFRS 3: Definition of a Business;*
- *Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform (Phase 1);*
- *Amendments to IAS 1 and IAS 8 Definition of Material;*
- *Conceptual Framework for Financial Reporting issued on 29 March 2018; and*
- *Amendments to IFRS 16 Covid-19 Related Rent Concessions.*

The above standards and interpretations and amendments to standards and interpretation were effective from 1 January 2020 and were adopted by the Bank. However, those had no impact on the financial statements of the Bank.

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: Classification of Liabilities as Current or Non-current;*
- *Reference to the Conceptual Framework – Amendments to IFRS 3;*

4 CHANGES IN ACCOUNTING POLICIES (continued)

4.2 New standards, interpretations and amendments issued but not yet effective (continued)

- *Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16;*
- *Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37; and*
- *IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities.*

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.

4.3 Novel Coronavirus (COVID-19)

COVID-19 pandemic has spread across various geographies globally, causing disruption to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment. In preparing the financial statements, significant judgments were made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were impacted by the potential impacts of the current economic volatility in determination of the reported amounts of the Bank's financial and non-financial assets and these are considered to represent management's best assessment based on available or observable information.

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 equipment	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').

(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:

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) Classification (continued)

- 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.

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

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'.

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 analysing 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)

(d) Impairment of financial assets (continued)

Significant Increase in Credit Risk (SICR) (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.

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Revenue recognition (continued)

Fee income

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

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, normally signified by actual receipt.

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 generally recognised in the statement of profit or loss over the same period over which such expenses are incurred. However, financial assistance received from the Government and/or regulators as COVID-19 support which meet the definition of government grant, are recognised in equity to the extent they offset modification losses on financial assets. Any balance financial assistance is recognised in the statement of profit or loss.

Grants related to assets are accounted for by deducting such grant from the carrying amount of the assets. Refer to note 2.1 and 4.3 for additional details.

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.

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Provision for employees' end of service benefits (continued)

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.

(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 (2019: nil) as the Bank continues to have accumulated losses as of 31 December 2020.

(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.

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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

	2020	*2019*
	BD	*BD*
Balances with banks	**573,998**	235,741
Less: Provision for credit losses (note 20)	**(5,115)**	(151)
	568,883	235,590

As of 31 December 2020 and 2019, the balances with banks are classified under stage 1 of the ECL model.

7 BANK DEPOSITS

	2020	*2019*
	BD '000	*BD '000*
Bank deposits	**-**	550,000
Less: Provision for credit losses (note 20)	**-**	(5,322)
	-	544,678

As of 31 December 2020 the Bank had no deposits. As of 31 December 2019, the Bank had deposits with an investment graded bank in the Kingdom of Bahrain. The deposits earned an effective annual interest rate of 3.93% and matured on 21 March 2020 and 19 September 2020.

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

8 LOANS AND ADVANCES TO CUSTOMERS

	2020	*2019*
	BD	*BD*
Gross loans and advances	**2,907,849**	2,668,739
Less: Provision for credit losses (note 20)	**(270,000)**	(225,010)
	2,637,849	2,443,729

Movement in the provision for credit losses is as follows:

	2020	*2019*
	BD	*BD*
At 1 January	**225,010**	196,592
Charge for the year	**84,427**	88,806
Recoveries	**(39,437)**	(60,388)
Net expected credit loss provision (note 20)	**44,990**	28,418
At 31 December	**270,000**	225,010

8 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	31 December 2020			
	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	**2,610,745**	**132,715**	**164,389**	**2,907,849**
Less: Provision for credit losses	**(31,732)**	**(73,879)**	**(164,389)**	**(270,000)**
Carrying amount	**2,579,013**	**58,836**	**-**	**2,637,849**

	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

During the year, the Bank has not rescheduled any loans (2019: 12 loans amounting to BD 30,077). Also, during the year the Bank has also recovered BD 5,116 against loans previously written off (2019: BD 2,710). Refer note 19.

COVID-19 pandemic has spread across various geographies globally, causing disruption to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment. In preparing the financial statements, significant judgments were made by management in applying the Bank’s accounting policies and the key sources of estimation uncertainty were impacted by the potential impacts of the current economic volatility in determination of the reported amounts of the Bank’s financial and non-financial assets and these are considered to represent management's best assessment based on available or observable information.

During the current year, based on a regulatory directive issued by the CBB (refer note 2) as concessionary measures to mitigate the impact of COVID-19, the one-off modification losses amounting to BD 204,902 arising due to the 6-month payment holidays provided to financing customers without charging additional interest has been recognized directly in equity. The modification loss has been calculated as the difference between the net present value of the modified cash flows calculated using the original effective interest rate and the current carrying value of the financial assets on the date of modification.

Further, as per the regulatory directive, financial assistance amounting to BD 60,324 (representing specified reimbursement of a portion of staff costs and utilities) received from the government, in response to its COVID-19 support measures, has been recognized directly in equity. Thus the net amount from the modification loss and government assistance amounted to BD 144,578.

9 OTHER ASSETS

	2020	*2019*
	BD	*BD*
Right-of-use assets (note 25)	**35,708**	54,861
Prepayments	**13,678**	32,119
Interest receivable	**13,842**	12,300
Other receivables	**33,041**	28,830
	96,269	128,110

10 EQUIPMENT

	Furniture	***Computer and equi-pment***	***Software***	***Vehicle***	***Office improve-ments***	***2020 Total***
	BD	***BD***	***BD***	***BD***	***BD***	***BD***
Cost						
At 1 January	**31,895**	**101,506**	**101,881**	**36,689**	**68,287**	**340,258**
Additions	**206**	**2,873**	**945**	**-**	**-**	**4,024**
Disposal	**-**	**-**	**-**	**-**	**-**	**-**
At 31 December	**32,101**	**104,379**	**102,826**	**36,689**	**68,287**	**344,282**
Depreciation						
At 1 January	**22,329**	**82,965**	**66,459**	**13,207**	**15,133**	**200,093**
Charge for the year	**2,564**	**10,626**	**11,027**	**5,241**	**6,536**	**35,994**
Disposal	**-**	**-**	**-**	**-**	**-**	**-**
At 31 December	**24,893**	**93,591**	**77,486**	**18,448**	**21,669**	**236,087**
Net book value						
2020	**7,208**	**10,788**	**25,340**	**18,241**	**46,618**	**108,195**

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

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% (2019: 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. As of 31 December 2020 the lenders did not demand repayment.

12 DEFERRED INCOME

	2020	*2019*
	BD	*BD*
Administration fees	**132,184**	251,076
Deferred grant	**75,277**	75,277
Other	**7,113**	7,113
	214,574	333,466

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

	2020	*2019*
	BD	*BD*
As at beginning of the year	**333,466**	210,375
Amounts received during the year	**76,399**	291,294
Recognised in the statement of profit or loss	**(195,291)**	(168,203)
	214,574	333,466

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

13 OTHER LIABILITIES

	2020	*2019*
	BD	*BD*
Interest payable	**52,642**	47,642
Lease liability (note 25)	**36,974**	55,696
VAT payables	**34,732**	20,196
Accrued expenses	**24,127**	21,074
Employee related accruals	**28,245**	19,209
Other liabilities	**54,986**	76,969
	231,706	240,786

14 SHARE CAPITAL

	2020	*2019*
	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 4,592 (2019: BD 24,770) to the general reserve. The reserve is not available for distribution until approved by the Bank's shareholders.

16 FEE INCOME

	2020 ***BD***	*2019* *BD*
Processing fees	**380,194**	532,801
Penalty fees	**31,015**	57,577
Application and other fees	**20,619**	26,677
	431,828	617,055

17 STAFF COSTS

	2020 ***BD***	*2019* *BD*
Salaries and allowances	**381,408**	451,080
Incentives	**40,461**	55,483
Bonus	**19,040**	-
Social insurance expenses	**31,758**	31,563
Other benefits	**68,602**	69,265
	541,269	607,391

18 OTHER EXPENSES

	2020 ***BD***	*2019* *BD*
Rent, utilities and maintenance	**31,941**	33,869
Professional fees	**59,244**	48,369
Communication expenses	**11,217**	10,926
Marketing expenses	**9,080**	8,601
Travel expenses	**2,774**	11,455
Other expenses	**57,493**	193,910
	171,749	307,130

19 OTHER INCOME

	2020 ***BD***	*2019* *BD*
Income from Tamkeen support programs	**33,864**	70,377
Other income	**31,255**	10,000
Income from bank deposits	**17,355**	7,215
Recoveries from loans written off	**5,116**	2,710
Training income	**44**	16,466
Gain on sale of vehicle	**-**	855
	87,634	107,623

20 EXPECTED CREDIT LOSS PROVISION

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

	31 December 2020			
	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 2020				
Balances with banks	151	-	-	151
Bank deposits	5,322	-	-	5,322
Loans and advances to customers	18,272	23,547	183,191	225,010
	23,745	23,547	183,191	230,483
Charge / (reversal) during the year - net				
Balances with banks	4,964	-	-	4,964
Bank deposits	(5,322)	-	-	(5,322)
Loans and advances to customers	13,460	50,332	(18,802)	44,990
	13,102	50,332	(18,802)	44,632
Balance at 31 December 2020				
Balances with banks	5,115	-	-	5,115
Bank deposits	-	-	-	-
Loans and advances to customers	31,732	73,879	164,389	270,000
As at 31 December 2020	**36,847**	**73,879**	**164,389**	**275,115**

	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
Deposit with bank	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)
Deposit with bank	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
Deposit with bank	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

20 EXPECTED CREDIT LOSS PROVISION (continued)

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

	2020			
	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	**23,745**	**23,547**	**183,191**	**230,483**
Transfer to Stage 1	**8,283**	**(8,283)**	**-**	**-**
Transfer to Stage 2	**(653)**	**7,328**	**(6,675)**	**-**
Transfer to Stage 3	**(39)**	**(4,876)**	**4,915**	**-**
Net remeasurement of loss allowance	**18,617**	**64,530**	**6,244**	**89,391**
Recoveries / write-backs	**(5,515)**	**(15,958)**	**(23,286)**	**(44,759)**
Balance at end of year	**44,438**	**66,288**	**164,389**	**275,115**

	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
Transfer to Stage 1	3,871	(3,871)	-	-
Transfer to Stage 2	(4,780)	8,792	(4,012)	-
Transfer to Stage 3	(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

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:

	2020	*2019*
	BD	*BD*
Bank balances held with a shareholder	**-**	6,702
Deferred grant from a shareholder	**75,277**	75,277
Other liabilities	**2,464**	5,560

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:

	2020	*2019*
	BD	*BD*
Rent expenses	**3,432**	7,392

Compensation of the key management personnel is as follows:

	2020	*2019*
	BD	*BD*
Salaries and short term employee benefits	**72,000**	72,000
Provision for employees' end of service benefits	**23,805**	19,308
	95,805	91,308

No remuneration was paid to directors during the year (2019: 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:

	2020	*2019*
	BD	*BD*
Bank balances	**573,998**	235,741
Loans and advances to customers	**2,907,849**	2,668,739
Interest receivable	**13,842**	12,300
Bank deposits	**-**	550,000
	3,495,689	3,466,780

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 (continued)

(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 2020 and 31 December 2019 based on contractual undiscounted payment obligation:

	31 December 2020			
	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	**52,372**	**71,706**	**146,690**	**270,768**
Commitments	**6,162**	**12,324**	**-**	**18,486**
	58,534	**1,209,030**	**146,690**	**1,414,254**

	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

The Bank is defendant in a legal suit involving a former employee. The maximum liability that the Bank is contingently liable is BD 8,491 plus interest. Based on legal opinion received, management anticipates that no liability will arise when the case is concluded.

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 2020 and 31 December 2019:

	31 December 2020					
	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	**568,883**	**-**	**568,883**	**-**	**-**	**568,883**
Loans and advances to customers	**218,474**	**286,029**	**504,503**	**2,133,346**	**-**	**2,637,849**
Other assets	**13,842**	**45,675**	**59,517**	**36,752**	**-**	**96,269**
Equipment	**-**	**-**	**-**	**-**	**108,194**	**108,194**
	801,199	**331,704**	**1,132,903**	**2,170,098**	**108,194**	**3,411,195**
LIABILITIES						
Provision for employees' end of service benefits	**-**	**31,430**	**31,430**	**-**	**-**	**31,430**
Borrowings	**-**	**1,120,000**	**1,120,000**	**-**	**-**	**1,120,000**
Other liabilities	**24,127**	**28,245**	**52,372**	**54,986**	**124,348**	**231,706**
	24,127	**1,179,675**	**1,203,802**	**54,986**	**124,348**	**1,383,136**
Net liquidity gap	**777,072**	**(847,971)**	**(70,899)**	**2,115,112**	**(16,154)**	**2,028,059**

	31 December 2019					
	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	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

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 2020 and 31 December 2019.

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 2020 and 31 December 2019.

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 LEASES

Amounts recognised in the statements of financial position and comprehensive income:

	Right-of-use assets	***Lease liability***
	BD	***BD***
As at 1 January 2020	**54,861**	**55,696**
Depreciation	**(19,153)**	**-**
Interest expense	**-**	**1,630**
Rental payments	**-**	**(20,352)**
As at 31 December 2020	**35,708**	**36,974**
As at 1 January 2019	74,771	69,269
Depreciation	(19,910)	-
Interest expense	-	2,435
Rental payments	-	(16,008)
As at 31 December 2019	54,861	55,696

26 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 2020, Islamic loans comprise 0.15% (2019: 0.15%) 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*

Corporate Governance Report 2020

Ebdaa Bank for Microfinance

Kingdom of Bahrain

Ebdaa Bank was established in 2009 as the first microfinance bank in the Kingdom of Bahrain thanks to the support of H.R.H Princess Sabeeka Bint Ibrahim Al Khalifa, the wife of the King of Bahrain and the President of the Supreme Council for Women, may God protect her, as well as the Late Prince Talal Bin Abdul Aziz Al Saud, the President of the Arab Gulf Programme for Development (AGFUND).

The bank’s prime objective is to support low-income families and contribute to socio-economic empowerment by providing microcredit opportunities to low-income Bahrainis.

Ebdaa Bank serves as a resort for families in need, to improve their overall quality of life. The bank's focus is to assist Bahraini women and youth to ensure their dreams and ideas turn into successful micro-projects.

The bank also manages the special portfolio of H.R.H. Princess Sabeeka Bint Ibrahim Al Khalifa to support and empower women, in cooperation with the Supreme Council for Women and the Labor Fund "Tamkeen".

Ebdaa Bank disburses its loans using both Sharia Compliant and Conventional approaches based on each client's preference. In May of 2017, Ebdaa Bank won the “Best Women Empowerment” Award in Dubai in recognition of Ebdaa’s role in supporting and empowering Bahraini women.

Ebdaa was established as a microfinance bank in Bahrain with the prime objective of contributing to alleviating poverty and promoting socio-economic empowerment of the Bahraini community. We serve our society through the provision of sustainable financial services to those in need.

The corporate governance of Ebdaa Bank in line with the Central Bank of Bahrain and Ministry of Industry and Commerce Corporate Governance and subsequent amendments by CBB to avoid any corporate failure and to ensure consistency and transparency across business and shareholders.

The purpose of the Corporate Governance policy is to ensure a conceptually sound Corporate Governance framework for Ebdaa Bank, which is implemented with integrity in accordance with the regulatory environment.

The corporate governance framework is outlined with the purpose to promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.

Board Profile and Experience

All directors must understand the board's role and responsibilities under the Commercial Companies Law, Ebdaa Bank Corporate Governance Policy and any other laws or regulations that may govern their responsibilities from time to time.

Mrs. Mona Yousif AlMoayyed
Chairman
Independent Director

Mrs. Al Moayyad is a Bahraini Senator. She serves as the Chairwoman of Ebdaa Bank since mid-2016. Mona is currently the CEO of Y.K. Almoayyad & Sons, one of the Bahraini’s leading family businesses. She provides leadership and mentoring; both directly and indirectly to over 1,000 employees of various nationalities and about a hundred of luxury goods' brands that varies between home electronic appliances, heavy equipment and medical technologies.

Mrs. Al Moayyed was elected as the first woman Board Member at the Bahraini Chamber of Commerce & Industry in 2001. Furthermore, Mona was the first woman to be elected as a board member of a public company (BMMI), to chair the Business Women Committee at Bahrain Chamber, and later to become the Vice-Chairwoman of the Businesswomen Committee of the Federation of GCC Chambers, and a member in the Arab Union Committee for Women.

Voted the third most influential Arab Women’s List in the MENA region by Forbes Middle East for 2013, Mona is well known for her charity work and always speaks about the role of women in building a better society today. Mona was voted the fourth most powerful figures among 50 in Bahrain, the 130th among the 500 most powerful women by Arabian Business for 2012, the 74th among 100 most powerful women list by Arabian Business.

Mona was elected as the chairwoman of Bahrain Business Women Committee from 2006 to 2012. She also contributed to the establishment of Expatriates Protection Association (MWPS) and chaired the association between 2005 and 2011. She is currently chairing Al Muntada Society, a Bahrain society set up by academics, journalists and businessmen to promote liberalism in the Kingdom.

Ms. Al Moayyad has been a founding shareholder of Ebdaa Bank, in partnership with AGFUND and the private sector to provide sustainable credit opportunities to low-income people.

Mr. Nasser Al-Kahtani
Deputy Chairman
Executive Director

Mr. Al-Kahtani is the Chief Executive Officer of the Arab Gulf Programme for Development – AGFUND, a regional organization based in Riyadh, which was established in 1980 upon the initiative of His Royal Highness, Late Prince Talal Bin Abdul Aziz Al Saud with the support of leaders of the Gulf Cooperation Council Countries.

Under Mr. Al-Kahtani's leadership, AGFUND has funded 1,472 development projects in 133 countries, established nine microfinance banks and four regional organizations for women empowerment, early childhood development, civil society empowerment and open higher education.

Al-Kahtani holds a master degree from the University of Miami since 1989. He is currently a member of the Board of Trustees of the Arab Open University, the Center for Arab Women for Training and Research (CAWTAR), The Arab Council for Childhood and Development (ACCD) and the Arab Network for NGOs, in addition to his Chairmanship of two Microfinance banks and seven memberships in Arab World and Africa boards.

He played leading roles and has bold contributions in the development and upgrading of micro, small and medium finance institutions. He is considered to be one of the most distinguished Arab leaders in the field of international development. Assuming a number of advisory positions and membership of several boards in both public and private sectors, Mr. Al-Kahtani has won the confidence and high esteem of various executive councils functioning in human development and became well known as one of the most influential development leaders in the Arab world. He served as a Director at Gulf Navigation Holding PJSC until January 14, 2016.

Mr. Abdul-Hameed Dawani
Board member
Non-Executive Director

Mr. Abdul-hameed is a member of the Risk Committee and a board member at Ebdaa Bank. He is also a board member of many Bahraini companies and is currently an executive member of Al-Jazira Group and a board member of Manama Food Factory. Dawani holds a degree in Civil Engineering from Alexandria University.

Mrs. Samar Wessa Agaibi
Board member
Non-Executive Director

Mrs. Agaibi has over 25 years of experience in the financial sector. She holds a BA degree in Economics from the American University in Cairo (1988), CMA from the United States In 1998, a Certified Diploma in Accounting and Finance from the United Kingdom (CDIPAF, 1995), various Certificates from Bahrain Institute of Banking and Finance (BIBF), and a number of other high qualifications.

At the ESKAN Bank; one of Ebdaa Bank's shareholders; Mrs. Agaibi has held several positions throughout her career including risk management, quality, finance, project management and strategic business development. She is also a member of the audit committee. Ms. Agaibi has served on the boards of numerous companies and is currently focusing on major projects alongside relevant government agencies to develop and implement sustainable and affordable housing financial services at the Kingdom. A project that brings the public and private sectors together for the first time.

Mr. Adel Mohamed Ali Bella
Board member
Executive Director

Mr. Adel is the head of the Risk Committee, a member in the Technical Committee and a board member at Ebdaa Bank. He currently serves as the Director General of Ebdaa Bank for Microfinance in Sudan, and a board member of different AGFUND banks in the region including Jordan, Syria, Lebanon, Mauritania, and Sierra-Leone. Mr. Bella has extensive experience in the microfinance field, where he held many positions in various microfinance institutions in Sudan. Mr. Adel holds a bachelor's degree in business accounting since 1987 from the University of Khartoum.

Mr. Sanjeev Paul
Board member
Non-Executive Director

Mr. Sanjeev Paul was appointed as Group Chief Executive Officer of Bahrain Development Bank B.S.C (BDB) in May of 2018. BDB is a specialized Bank focused on the financing and development of small and medium businesses in addition to encouraging and supporting the entrepreneurship activities in the Kingdom of Bahrain. BDB adopts a dynamic and effective strategy for stimulating entrepreneurial activity in implementing its plans for financing & advising small and medium businesses.

Mr. Paul also serves as the Chairman and Non-Executive Director of the Board of Directors of Standard Chartered Bank Vietnam Ltd, since June of 2016. He is also a member of the governance committee associated with the Board of Directors.

Prior to being appointed as Group CEO at BDB, Mr. Paul accumulated over 30 years of experience as a senior banker at Standard Chartered Bank and was a member of Standard Chartered Bank's global leadership team based out of Singapore. He served as Managing Director and Regional Head for Commercial Banking for ASEAN and South Asia. Before that, he led Standard Chartered Bank's Local Corporates segment globally as its Global Head. The Local Corporate business of Standard Chartered spans over 30 countries including Bahrain and houses the bulk of Standard Charterer's corporate client base.

Sanjeev was also the Global Head for Structured Trade Finance (STF) and was instrumental in building the Bank's Structured Trade Finance into a major global revenue stream for the Bank. Prior to his STF role, he was the Managing Director and Regional Head for Local Corporates business for South Asia. He set-up the Bank's middle market business in India for banking small and medium sized corporates. Mr. Paul also served as a senior risk approver for Standard Chartered Bank for 5 years.

Mr. Paul holds a Bachelor's degree in Engineering from Delhi College of Engineering and an MBA in Finance and Marketing from the University of Delhi in India.

Prof. Bader Eddin A.Ibrahim
Board member
Independent Director

Prof. Badr Eddin received his second honorary degree in economics at the University of Khartoum. He received his master's and doctorate degrees in economics from the University of Manchester in England in the early 1990s.

Professor Ibrahim is President of the Arab Open University in Bahrain and is currently a member of the Arab Gulf Development Program Advisory Committee (AGFUND) in Saudi Arabia, a member of the Technical Committee of the Program, a member of the technical committees of Ebdaa Banks for Microfinance Mauritania, Chairman of the Technical Committee and a Board member of Ebdaa Bank in Sierra Leone. He is a former board member of different microfinance institutions, including the Family Bank for Microfinance in Sudan, the Sudan Rural Development Foundation and the National Foundation for Microfinance, Sudan.

Professor Ibrahim has extensive experience and authored a collection of books in the field microfinance, financial inclusion and micro-enterprises that were printed in England, America, Germany, Saudi Arabia and Sudan. He also has a large portfolio of papers that were published in international magazines in England, Germany, Canada, Egypt, India, Pakistan and Sudan.

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. Specifically, following are the roles and responsibilities of the Board of directors:

1. The adoption and annual review of strategy (Business Plan);
2. The adoption and review of management structure and responsibilities;
3. The adoption and review of the systems and controls framework;
4. Monitoring the implementation of strategy by management;
5. Determining acceptable levels of risk;
6. Monitoring the preparation of the financial statements that accurately disclose the bank's financial position;
7. Assessing the adequacy of capital to support the business risk of the bank;
8. Setting performance objectives;
9. Reviewing the performance of executive management;
10. Overseeing major capital expenditures, divestitures and acquisition;
11. Overseeing succession planning and replacing key executive when necessary, and ensuring appropriate resource are available, and minimizing reliance on key individuals;
12. Reviewing the remuneration and incentive packages of the Chief Executive Officer;
13. Approving the Yearly Compensation Program as prepared and presented by Human Capital in accordance with the corporate values and the strategy of the bank;
14. Approving budgets and reviewing performance against those budgets and key performance indicators.

Board Level Committees

The Board of Directors has constituted five Committees with specific delegated authorities; All the 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.

Audit and Risk Committee:

Ebdaa Bank has an Audit Committee. The committee members must have sufficient technical expertise to enable the committee to perform its functions effectively. The Committee comprises of three directors; the majority of the members should be independent and/or non-executive directors. Such members must have no conflict of interest with any other duties they have for the bank.

The Committee may meet without any other director or any officer of the bank present. The Committee may invite any director, executive, external auditor or other person to attend any meeting(s) of the Committee as it may from time to time consider desirable to assist the Committee in the attainment of its objectives.

The Committee shall meet with such frequency and at such times as it may determine. However, it shall meet at least four times a year. The committee must meet with the external auditor at least twice per year, one of which in the absence of any members of executive management.

The committee shall assist the Board to ensure that the bank has rigorous controls for financial audit and reporting, internal control, and compliance with applicable law. The Committee shall acts as the oversight function on behalf of the Bank’s Board of Directors in respect of those activities throughout the Group that give rise to credit, market, liquidity, and interest rate, operational or reputational risk.

	Members	Primary Responsibilities
1	Mrs. Mona AlMoayed - Head	•Financial Audit Reporting. •Internal Audit. •External Audit. •Compliance. •Risk Management. •AML.
2	Prof. Bader AlDin Ibrahim - Member	
3	Mrs. Samar Wessa - Member	

Remuneration, Nomination committee:

Ebdaa Bank should have Remuneration; Nomination Committee to consider the human resources policies and procedure for the bank and the remuneration policy for senior executives whose appointment requires Board approval. The Committee shall comprise not less than three independent non-executive directors. The Chairman of the Committee shall be appointed by the Board.

The Committee may invite any director, executive or other person to attend any meeting(s) of the Committee as it may from time to time consider desirable to assist the Committee in the attainment of its objective. The Committee shall be supported by the Chief Executive Officer, Human Capital and by the Committee Secretary who shall produce such papers and minutes of the Committee's meetings as are appropriate and circulate them to all members of the Committee.

The committee shall identify board members qualified to fill vacancies on any committee of the board and recommend to the board that such person appoint the identified person(s) to such committee; and Identify persons qualified to become Chief Executive Officer, Chief Financial Officer, Corporate Secretary and any other officers of the bank considered appropriate by the Board, with the exception of the appointment of the internal auditor which shall be the responsibility of the Audit Committee.

Also their responsibilities to review and recommend new or amended salary scale and incentive bonus for the Company and its subsidiaries which are substantial in their cost and impact on a significant proportion of employees;

	Members	Primary Responsibilities
1	Mr. Nasser AlQahtani - Head	•Human Resources. •Administration. •Compensation and incentives.
2	Mr. AbdulHameed Dawani - Member	
3	Mr. Adel Bella - Member	

Technical Committee:

The Technical Committee shall be comprised of a minimum of three directors, all of whom shall be non-executive directors and a majority of whom shall be independent directors. The primary purpose of the Committee is to assist the Board in fulfilling its oversight responsibilities on specific technical matters which are beyond the scope or expertise of non-technical Board members. The Committee shall oversee and advise the Board and the Corporation's management team in relation to the development and advancement of the Corporation's mining assets.

Also, reviewing and reporting to the Board on the sufficiency of financial, operational and human resources to ensure proper and timely development and advancement of the Corporation's exploration, project and mining operations; and reviewing and reporting to the Board on the sufficiency of financial, technical and human resources to ensure proper and timely development and advancement of the Corporation's exploration, project and mining operations (having regard to the Corporation's strategy); and any additional matters delegated to the Committee by the Board.

The Committee shall meet with such frequency and at such times as it may determine. However, it shall meet at least four times a year.

	Members	Primary Responsibilities
1	Mr. Adel Bella - Head	•Advising. •Evaluating the work outcomes. •Reviewing the new products.
2	Prof. Bader AlDin Ibrahim - Member	
3	Mohammed Al Saleem - Member	

Corporate Governance Committee:

Ebdaa Bank has a Governance Committee. The committee Identify individuals qualified to become members of the Board of Directors, consistent with criteria approved by the Board, and recommend to the Board of Directors the director-nominees either for election at the next annual meeting of stockholders or to fill any vacancy or newly-created directorship on the Board; they also develop and recommend to the Board the bank's Corporate Governance Guidelines, including criteria for the selection of new directors to serve on the Board of Directors, taking into account at a minimum all applicable laws, rules, regulations and listing standards, desirable and diverse experience and areas of expertise and other factors relative to the overall composition of the Board; and oversee the evaluation of the Board and management.

The committee primary role is to review the Corporate Governance Guidelines on an annual basis, or more frequently if appropriate, and recommend changes, as necessary, to the Board.

The Committee shall meet as frequently as circumstances dictate, but not less than twice annually. The Secretary of the Board, the Chairperson the Chairperson of the committee may call meetings of the Committee. The Committee may invite to its meetings any director, member of management of the bank.

	Members	Primary Responsibilities
1	Mr. Nasser AlQahtani - Head	•Reviewing the performance of executive management. •review the Corporate Governance Guidelines. •Monitoring the implementation of strategy by management.
2	Mr. AbdulHameed Dawani - Member	
3	Mr. Sanjeev Paul - 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.

Share Holders of Ebdaa Bank:

Shareholder	Paid-up Capital (BD)	% of Ownership
AGFUND	934,720	42.30 %
BDB	467,000	21.13 %
ESKAN BANK	377,000	17.06 %
Mr. AbdulHameed Dawani	186,800	8.45 %
Mr. Khaled Kanoo	150,800	6.83 %
Mrs. Mona AlMoayed	93,400	4.23 %
Total Capital	**BHD 2,209,720**	**100 %**

Attendance of the Board Meetings:

Individual board members should attend at least 75% of all board meetings in a given year to enable the board to discharge its responsibilities effectively. Attendance proxies for board meeting are prohibited at all times.

Board Members	Meetings Dates			
	29/1/2020	28/4/2020	13/7/2020	31/12/2020
Mrs. Mona AlMoayyed	√	√	√	√
Mr. Nasser Al-Kahtani	√	√	√	√
Mr. Abdul-Hameed Dawani	√	√	√	√
Mrs. Samar Agaibi	√	√	√	√
Mr. Adel Bella	√	√	√	√
Mr. Sanjeev Paul	×	√	√	√
Prof. Bader Eddin Ibrahim	×	√	√	√

Management:

Dr. Khaled Al-Gazzawi
CEO

Since 01/04/2014, Dr. Khaled Al-Gazzawi is serving as the CEO of Ebdaa Microfinance Bank in Bahrain. He came in with over 19 years of experience in microfinance and more than eight years of experience in the financial and banking sector.

Dr. Al-Gazzawi holds an Occupational PhD in International Business from the United States and a Master's and Bachelor's Degree in Business Administration and Finance from Jordan. He is a certified trainer in several areas of Microfinance, such as Business Planning, Impairment Management, Interest Rate setting, Accounting, Operational Risk Management And financial analysis.

Prior to joining the Family of Ebdaa Bank, Dr. Al-Gazzawi served as the General Manager of Grameen-Jameel for Microfinance in Dubai, United Arab Emirates. Prior to that, he served as a resident advisor to the Arab Gulf Programme for Development (AGFUND) in Lebanon, where he led efforts to launch Ebdaa Company for Microfinance in Lebanon and managed to train and build the capacity of employees and launch the Bank's financing activities for the poor in less than 90 days.

Between 2009 and 2012, Khaled served as CEO of the First Microfinance Foundation in Egypt, which is affiliated to the Aga Khan Microfinance Agency in Geneva, Switzerland, and a consultant to the Quality Finance International, which operated out of Cairo between 2007 and 2009.

From early 2006 until the middle of 2007, Khaled operated out of Washington, DC as Director of the Greater Middle East Program at the World Village Banks (FINCA). Immediately before, between 1999 and 2005, Dr. Al-Gazzawi was one of the founders and the CEO of Jordan Microcredit Company (Tamweelcom), one of the leading microfinance companies in Jordan, fully owned by Queen Noor Al Hussein Foundation and funded by the US Agency for International Development. During his tenure, Tamweelcom became one of the leading providers of microfinance services in Jordan and has won prestigious international awards on various occasions for its transparency and dedication to poverty reduction and good governance.

Ghaith Al Munem
Operation Manager

Mr. Al-Munem has been working in the microfinance arena since early 2011 when he joined the Ebdaa Microfinance Bank in Syria on April 1, 2011. He has held several positions until he became a Branch Manager in the beginning of 2016. He later moved to Ebdaa Bank in Bahrain due to the tragic war in Syria.

Ghaith started his career in the bank as a loan officer and was soon promoted to a group leader in the bank's branch at Riyadat mall in Aali area when it was still under construction. He then took charge of the Branch when it was officially launched late 2016, and finally took over the position of Regional Manager responsible for the Riyadat and Hamad Town branches in December of 2017, before he was finally promoted to the Operations Manager position Mid of 2018.

Hana Salman
Acting Senior Credit Officer

Ms. Hana Salman holds a Bachelor’s degree in Business Administration from the Arab Open University. She joined Ebdaa Bank as a loan officer in 2016, and then she held several leadership positions, including a team leader in 2017 and Riyadat branch Manager in 2018, and was appointed as a Senior Credit Officer in 2019. Ms. Hanaa has also attended multiple microfinance courses.

Mashael Saleh
Acting Finance Manager

Ms. Mashael holds a Bachelor's degree in Accounting from Bahrain Polytechnic University. She worked for Citi Islamic Investment Bank for two years before joining Ebdaa Bank as an accountant. Ms. Saleh attended several courses in banking, financial management and financial planning.

Ahmed AlAradi
Risk and Compliance Officer & Acting MLRO

Ahmed has extensive experience in risk management. Prior to joining Ebdaa Bank, he worked in S2M Transaction GCC as Risk and Corporate Governance Officer. He also held the position of Risk Officer at Bahrain National Insurance Company (BNI) from 2015 until 2019. Mr. Ahmed Al-Aradi holds a Bachelor's degree in Banking finance from Bahrain Polytechnic. Ahmed is a Professional Risk Manager (PRM) candidate, Associate Professional Risk Manager and the Foundation of Financial Risk professional certificate holder.

Ali Mohamed
IT Senior Officer

Mr. Ali Mohamed joined Ebdaa Bank in 2018 as an IT support officer before he was promoted to an IT senior Officer in 2019. Prior to joining Ebdaa Bank, Ali worked for Solidarity and Almoayyed Contracting Group. Mr. Ali supervises the bank's technical infrastructure and develops plans to ensure the Bank's continued operations.

Yousif Qamber
HR & Administrative Affairs Manager

Mr. Yousif Qamber has been a member of the Ebdaa Bank team nearly since its establishment. He joined the bank in July 2009 as an Administrative Coordinator in the Human Resources and Administrative Affairs Department. In July 2011, he was appointed as Executive Secretary of the CEO and Board of Directors. Mr. Yousif has demonstrated outstanding skills and continued to gradually upgrade in positions until he was appointed Senior Supervisor of Human Resources and Management at the Bank in April of 2016.

Mr. Yousif holds a specialized diploma from the Bahrain Training Institute and Bachelor's degree in Business Administration from the Arab Open University. He also attended several conferences and professional courses and received many certificates in microfinance and specialized certificates in human resources and administrative affairs.

Hamzeh Qteshat
Senior Collection Officer

Mr. Hamzeh Qteshat has been working at Ebdaa Bank since March 2015, and has served in several positions until he became the senior first officer - collections at the beginning of 2018.
Hamzeh began his career in the bank as a loan officer and was then transferred to the collection department as a Delinquent Clients' Collection Officer. He showed outstanding skills and received a promotion to become the Collection Officer in the Aali branch and was then promoted to Senior First Officer - Collection. He has also attended numerous conferences and professional courses and has received many certificates in microfinance.

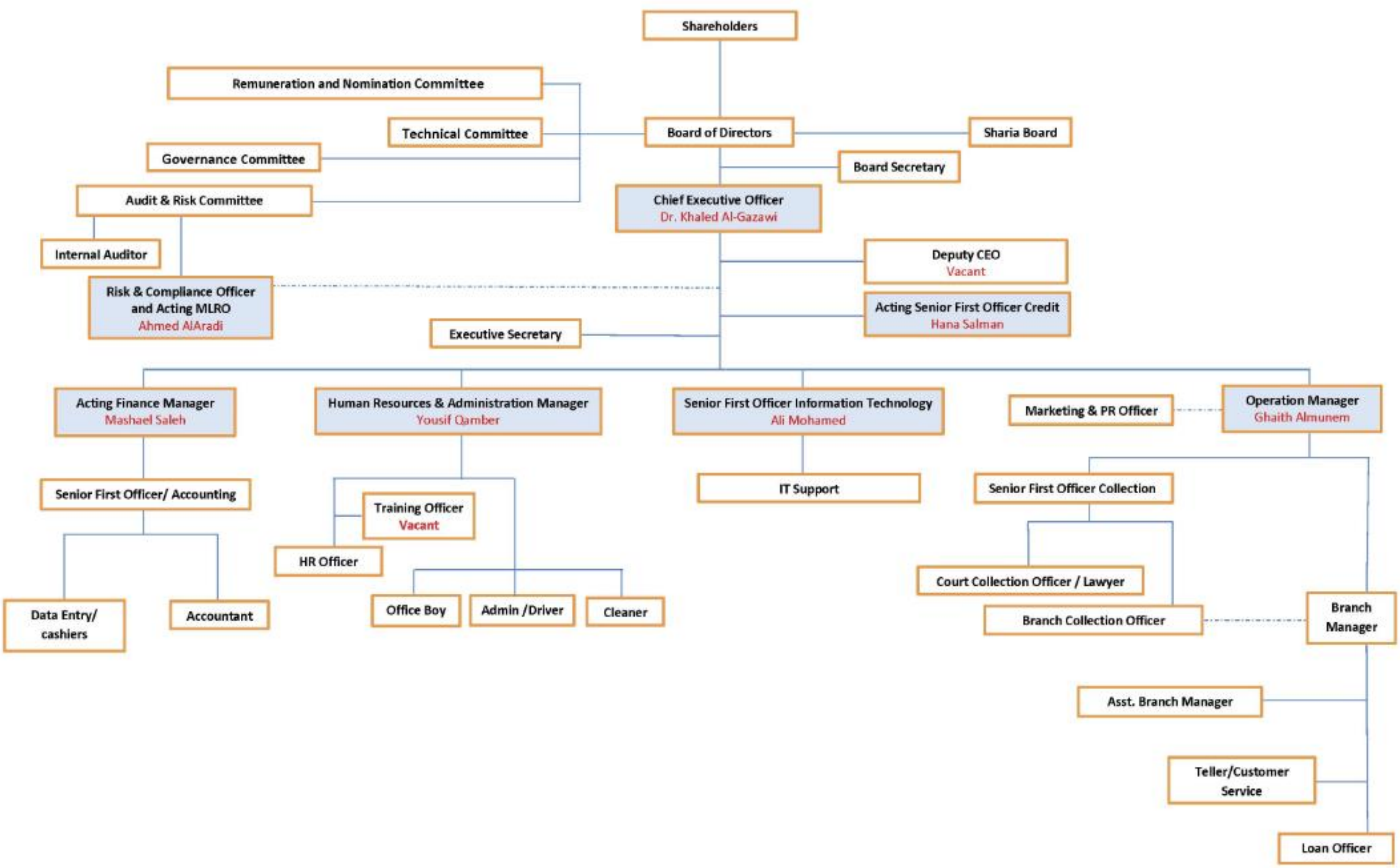
Management committees

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:

Ebdaa Bank shall have Organization Structure clearly define the main departments, senior management, their duties, functions and reporting line. The Organization Structure and any amendments should be approved by the Board of Directors.



Conflict of Interest:

The policy is established to be distributed to board members and management, this policy is for the identification, reporting, disclosure, prevention, or strict limitation of potential conflicts of interest. It is senior management's responsibility to implement these policies.

As per CBB requirements, any decisions to enter into transactions, under which approved persons would have conflicts of interest that are material, should be formally and unanimously approved by the full Board. Best practice would dictate that an approved person must:

a) Not enter into competition with the bank;
b) Not demand or accept substantial gifts from the bank for himself or his associates;
c) Not misuse the bank's assets;
d) Not use the bank licensee's privileged, information or take advantage of business opportunities to which the bank licensee is entitled, for himself or his associates; and
e) Absent themselves from any discussions or decision-making that involves a subject where they are incapable of providing objective advice or which involves a subject or (proposed) transaction where a conflict of interest exists.

Each approved person must inform the entire board of conflicts of interest in their activities with, and commitments to other organizations as they arise and abstain from voting on the matter in accordance with the relevant provisions of the Company Law. This disclosure must include all material facts in the case of a contract or transaction involving the approved person. The approved persons must understand that any approval of a conflicted transaction is effective only if all material facts are known to the authorizing persons and the conflicted person did not participate in the decision.

In any case, all approved persons must declare in writing all of their other interests in other enterprises or activities to the Board on an annual basis.