EBDAA MICROFINANCE COMPANY B.S.C. (C)
(FORMERLY AL EBDAA BANK FOR MICROFINANCE B.S.C. (C))

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

31 DECEMBER 2021

الإبـداع
للتمويل متناهي الصغر
Ebdaa
For Microfinance

Chairwoman's Report

On behalf of the founding shareholders and members of the Board of Directors of Ebdaa Microfinance Company B.S.C. (c) [Formerly known as Ebdaa Bank for Microfinance B.S.C. (c)] (the "Company" or "Ebdaa"), this is the annual report of the audited financial statements for the year ended 31 December 2021. This, indeed, has been a very challenging year on all aspects, and we glad we managed to survive and at least made a narrow profit margin, compared to hundreds of businesses that had to shut down or has survived but is suffering … Some of which belong to our clients.

On June 14, 2021, Ebdaa abandoned its long registered commercial name in line with the new regulatory requirements adopted by the Central Bank of Bahrain. In this context, Ebdaa could no longer be named a "bank", and had to switch to a status that indicates it is a lending institution yet does not mobilize savings. For that reason, Ebdaa Bank for Microfinance became Ebdaa Microfinance Company. Commercially, the Company adopted "Ebdaa for Microfinance" so that it does not create any sort of confusion to its clients.

The impact of the COVID-19 pandemic was still obvious in 2021. Although the Bahraini Government; led by HRH Prince Salman Bin Hamad Al-Khalifa displayed a world – class leadership of the crisis, the negative outcomes, and the impact on the economy of the Kingdom of Bahrain was hard, even on institutions involved in financials inclusion and supporting entrepreneurship like Ebdaa. This will be evident upon reading the coming few pages.

At the beginning of 2021, The Central Bank of Bahrain (CBB) extended the option of the interest-bearing deferral of all the loans and repayments for a period of six months (extended for another six months in June 2021). Although Microfinance institutions were excluded from this extension, Ebdaa could not but to offer a deferral option for clients heavily impact by the pandemic. Furthermore, and most importantly, Ebdaa had to significantly reduce new loan disbursements to new clients but offered refinancing to many of its existing micro-business owners to address the liquidity issues they were facing. This, beside the relative stability in collection rates; resulted in an increase in liquidity of almost 53.8% (BD 874,693 in 2021 vs. BD 568,883 in 2020).

The above was coupled with a sudden cap on interest and administrative fees imposed by the Central Bank of Bahrain (CBB). Not only those caps were way below what Ebdaa used to charge in previous years, but those caps were not even sustainable. This; beside the outcomes of the pandemic and the loan deferrals, resulted in a significant decrease in Ebdaa's net income, which dropped down to BD 6,787 compared to BD 184,898 in 2020.

For the year ended December 31, 2020 -and based on the assumption that default rates are highly likely to increase as a result of the Pandemic, the management decided to book an extra loan loss reserve. The management continued to monitor the impact of the pandemic on loan repayments and continued to evaluate the sufficiency of loan loss reserves to cover default risks. As the economic situation started to stabilize towards the end of the year 2021, the management decided to reverse that management overlay.

In light of all what was mentioned earlier, Ebdaa Microfinance Company recorded a real operational income of BD 660,794 with a drop of 34% compared to last year (2020: 997,695). In terms of expenses, the management worked very hard to reduce the company's personnel and administrative costs, and that resulted in a reduction of such costs by 20% to reach BD 654,007 (2020: 812,797). The portfolio outstanding dropped by 16% to stand at BD 2,225,214 (2020: BD 2,637,849), which contributed to an overall drop in assets of 3% to reach BD 3,298,441 (2020: 3,411,196).

Overall, Ebdaa recorded a net profit of BD 6,787 which is 96% lower than last year (2020: BD 184,898).

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 company is or might face. With this support, the shareholders are confident that the Company 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 its ability to understand the specific nature of Microfinance, and to revise its most recent decision to cap interest rates and admin fees for Ebdaa, or at least provide alternatives to support Microfinance Institutions' income and portfolio growth, similar to decisions taken by central banks across the MENA region.

Ebdaa envisions Inclusive Financial Services for the whole population of the Kingdom of Bahrain. The purpose of the company 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".

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Ebdaa
For Microfinance

Ebdaa is the first financial institution of its kind in the Gulf region. The company 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 Company 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 company for their vital support. I also need to specifically thank AGFUND for the application of their Microfinance Model and their continuous support and technical contributions, all of which has heavily contributed to the positive direction the bank took starting in 2014.

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

Mona Yousif Khalil Almoayyed
Chairwomen of the Board of Directors

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Disclosure forms for the remuneration of members of the board of directors and the executive management in the report of the board of directors

First: Board of directors' remuneration details:

Name	Fixed remunerations				Variable remunerations				End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Others*	Total	Remunerations of the chairman and BOD	Incentive plans	Others**	Total			
First: Independent Directors:											
1- Mona Yousif Al-Moayyed	-	-	-	-	-	-	-	-	-	-	-
2- Prof. Badr Eldin Abdulrahim Ibrahim	-	-	-	-	-	-	-	-	-	-	-
Second: Non-Executive Directors:											
1- Abdulhameed Mohamed Hasan Dawani	-	-	-	-	-	-	-	-	-	-	-
Third: Executive Directors:											
1- Naser Bakr Al-Kahtani	-	-	-	-	-	-	-	-	-	-	-
2- Adel Mohamed Ali Balla	-	-	-	-	-	-	-	-	-	-	-
3- Samar Wissa Agaiby	-	-	-	-	-	-	-	-	-	-	-
4- Sanjeev Paul	-	-	-	-	-	-	-	-	-	-	-
Total											

Note: All amounts must be stated in Bahraini Dinars.

Other remunerations:

* **It includes in-kind benefits – specific amount - remuneration for technical, administrative and advisory works (if any).**

** **It includes the board member's share of the profits - Granted shares (insert the value) (if any).**

Second: Executive management remuneration:

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 20XX	Aggregate Amount
Top 6 remunerations for executives, including CEO* and Senior Financial Officer**	BHD 102,843.5	BHD 6,100.550	-	BHD108,944.050

Note: All amounts must be stated in Bahraini Dinars.

*** The highest authority in the executive management of the company, the name may vary: (CEO, President, General Manager (GM), Managing Director...etc).**
**** The company's highest financial officer (CFO, Finance Director, ...etc)**

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF EBDAA MICROFINANCE COMPANY B.S.C. (C) (FORMERLY 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 Ebdaa Microfinance Company B.S.C. (c) [formerly Al Ebdaa Bank for Microfinance B.S.C. (c)] (the "Company") which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, statement of changes in equity and statement of 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 Company as at 31 December 2021, 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 Company 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 Matter

The financial statements of the Company for the year ended December 31, 2020, were audited by another auditor who expressed an unmodified opinion on those statements on March 17, 2021.

Other Information

The Directors are responsible for the other information. The other information comprises the Chairwoman's statement, which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance or 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.

Deloitte.

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

Report on the Audit of the Financial Statements (continued)

Responsibilities of the Directors and Those Charged With Governance for the Financial Statements
The Directors are 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 Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company'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 Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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 Company's internal control.

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

Deloitte.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
EBDAA MICROFINANCE COMPANY B.S.C. (C)
(FORMERLY 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)

- Conclude on the appropriateness of the 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 Company'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 Company to cease to continue as a going concern.

- 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 those charged with governance, 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 of 2001 and Volume 5 of the Central Bank of Bahrain ("the CBB") Rule Book, we report that:

a) the Company 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 of 2001, the Central Bank of Bahrain and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book (Volume 5, and the CBB directives and regulations (as contained in Volume 5 of the CBB Rulebook)) and the CBB directives or the terms of the Company's memorandum and articles of association during the year ended 31 December 2021 that might have had a material adverse effect on the business of the Company or on its financial position; and

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

Deloitte & Touche,

Deloitte & Touche – Middle East
Partner registration no. 157
Manama, Kingdom of Bahrain
April 18, 2022

EBDAA MICROFINANCE COMPANY B.S.C. (C)
(FORMERLY AL EBDAA BANK FOR MICROFINANCE B.S.C. (C))

STATEMENT OF FINANCIAL POSITION
As at 31 December 2021

	Note	***2021 BD***	*2020 BD*
ASSETS			
Cash and cash equivalents	6	**874,693**	568,883
Loans and advances to customers	7	**2,225,214**	2,637,849
Other assets	8	**69,251**	96,269
Equipment	9	**129,283**	108,195
TOTAL ASSETS		**3,298,441**	3,411,196
LIABILITIES AND EQUITY			
Liabilities			
Borrowings	10	**1,120,000**	1,120,000
Deferred income	11	**97,906**	214,574
Provision for employees' end of service benefits		**37,110**	31,430
Other liabilities	12	**180,961**	231,706
Total liabilities		**1,435,977**	1,597,710
Equity			
Share capital	13	**2,209,720**	2,209,720
General reserve	14	**74,389**	73,710
Accumulated losses		**(421,645)**	(469,944)
Total equity		**1,862,464**	1,813,486
TOTAL LIABILITIES AND EQUITY		**3,298,441**	3,411,196

Mona Yousif Al Moayyed
Chairwoman

Samar Wissa Agaiby
Board member

Khaled Walid Al-Gazawi
Chief Executive Officer

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

STATEMENT OF COMPREHENSIVE INCOME

As at 31 December 2021

	Note	2021 BD	2020 BD
Interest income		**363,781**	484,863
Interest expense		**(7,631)**	(6,630)
Net interest income		**356,150**	478,233
Fee income	15	**249,821**	431,828
Income from Tamkeen support programs		**21,236**	33,864
Other income	18	**33,587**	53,770
Total income		**660,794**	997,695
Staff costs	16	**462,344**	541,269
Depreciation on equipment	9	**21,700**	35,994
Depreciation on right-of-use assets	24	**18,441**	19,153
Expected credit loss provision	19	**(30,853)**	44,632
Other expenses	17	**182,375**	171,749
Total expenses		**654,007**	812,797
Net profit for the year		**6,787**	184,898
Other comprehensive income		**-**	-
Total comprehensive income for the year		**6,787**	184,898

Mona Yousif Al Moayyed
Chairwoman

Samar Wissa Agaiby
Board member

Khaled Walid Al-Gazawi
Chief Executive Officer

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

STATEMENT OF CHANGES IN EQUITY

As at 31 December 2021

	Note	Share capital BD	General reserve BD	Accumulated losses BD	Total BD
Balance at 1 January 2020		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		-	-	(144,578)	(144,578)
Balance at 31 December 2020		2,209,720	73,710	(469,944)	1,813,486
Fixed assets reclassification adjustment	9	-	-	42,191	42,191
Revised balance at 1 January 2021		2,209,720	73,710	(427,753)	1,855,677
Total comprehensive income for the year		-	-	6,787	6,787
Transfer to general reserve	14	-	679	(679)	-
Balance at 31 December 2021		**2,209,720**	**74,389**	**(421,645)**	**1,862,464**

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

EBDAA MICROFINANCE COMPANY B.S.C. (C)
(FORMERLY AL EBDAA BANK FOR MICROFINANCE B.S.C. (C))

STATEMENT OF CASH FLOWS

As at 31 December 2021

	Note	***2021*** ***BD***	*2020* *BD*
OPERATING ACTIVITIES			
Net profit for the year		**6,787**	184,898
Adjustments for non-cash items:			
Depreciation on equipment	9	**21,700**	35,994
Depreciation on right-of-use assets	24	**18,441**	19,153
Expected credit loss provision	19	**(30,853)**	44,632
Provision for employees' end of service benefits		**5,680**	6,576
Gain on sale of vehicle		**(429)**	-
Operating profit before changes in operating assets and liabilities		**21,326**	291,253
Changes in operating assets and liabilities:			
Bank deposits		**-**	544,678
Loans and advances to customers		**443,488**	(383,330)
Other assets		**8,577**	12,688
Deferred income		**(116,668)**	(118,892)
Other liabilities		**(32,795)**	11,272
End of service benefits paid		**-**	(2,379)
Net cash flows from operating activities		**323,928**	355,290
INVESTING ACTIVITIES			
Purchase of equipment	9	**(998)**	(4,024)
Proceeds from sale of vehicle		**830**	-
Net cash flows used in investing activities		**(168)**	(4,024)
FINANCING ACTIVITIES			
Payment of principal portion of lease liabilities		**(17,950)**	(20,352)
Net cash flows used in financing activities		**(17,950)**	(20,352)
INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR		**305,810**	333,293
Cash and cash equivalents at 1 January		**568,883**	235,590
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	6	**874,693**	568,883

Non-cash transactions:

During the year 2021, non-cash transaction of recognised right-of-use assets amounting to BD 12,825 and lease liability amounting to BD 11,161 have not been included in the cash flow statement.

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

1 INCORPORATION AND ACTIVITIES

Incorporation

Ebdaa Microfinance Company B.S.C. (c) (formerly Al Ebdaa Bank for Microfinance B.S.C. (c)) (the "Company") 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 ("MOICT"). The Company is operating through the Head office and three other branches in Hamad Town, Riyadat Mall and Saar branch within the Kingdom of Bahrain. The Company is licensed as a microfinance institution under Volume 5 issued by the Central Bank of Bahrain ("CBB") and accordingly is subject to the regulations and supervision of the CBB. The Company 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 Company are providing microfinance loans to cutomers and related advisory services. The Company 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 Company for the year ended 31 December 2021 were authorized for issue in accordance with a resolution of the Board of Directors dated April 17, 2022.

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") and the CBB and Financial Institutions Law, the CBB Rule Book (Volume 5) and the relevant CBB directives.

The financial statements of the Company 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".

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 Company's functional and presentation currency.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Company'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 Company's directors have made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company 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 Company'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
In determining impairment provision on financial instruments, judgment is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether credit risk on the financial contract has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses ("ECL").

The economic uncertainties caused by COVID-19 have required the Company to update the inputs and assumptions used for the determination of ECL as at 31 December 2021. ECL were estimated based on a range of forecast economic conditions available as at latest available date.

Useful lives of equipment
The Company'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. During the year, the management decided to extend the useful life of software to 10 years based on future forecasted benefits.

4 CHANGES IN ACCOUNTING POLICIES

4.1 New and amended standards and interpretations effective as of 1 January 2021
The accounting policies adopted by the Company are consistent with those of the previous financial year, except for the following IASB's new standard adopted by the Branch as of 1 January 2021.

- *Phase 2 amendments to Interest Rate Benchmark Reform in IFRS 9, IFRS 7, IAS 39, IFRS 4 and IFRS 16;*
- *Amendments to IFRS 16 Leases relating to COVID-19-Related Rent Concessions beyond 30 June 2021;*
- *Amendments to Reference to the Conceptual Framework in IFRS Standards: The amendments include consequential amendments to affected Standards so that they refer to the new Framework. The Standards which are amended are IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32;*
- *Amendments to IFRS 3 Definition of a business;*
- *Amendments to IAS 1 and IAS 8 Definition of material;*

The above standards and interpretations and amendments to standards and interpretation were effective from 1 January 2021 and were adopted by the Company. However, those had no impact on the financial statements of the Company.

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 Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards (where applicable) when they become effective:

- *IFRS 17 Insurance Contracts (effective from 1 January 2023);*
- *Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date not yet decided);*
- *Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (effective from 1 January 2023);*

4 CHANGES IN ACCOUNTING POLICIES (continued)

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

- *Amendments to IFRS 3 Business Combinations: Reference to the Conceptual Framework (effective from 1 January 2022);*
- *Amendments to IAS 16 Property, Plant and Equipment related to proceeds before intended use (effective from 1 January 2022);*
- *Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets related to Onerous Contracts—Cost of Fulfilling a Contract (effective from 1 January 2022);*
- *Annual Improvements to IFRS Standards 2018-2020: The Annual Improvements include amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards (effective from 1 January 2022), IFRS 9 Financial Instruments (effective from 1 January 2022), IFRS 16 Leases (effective date not yet decided) and IAS 41 Agriculture (effective from 1 January 2022);*
- *Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements: Related to disclosure of accounting policies (effective from January 1, 2023);*
- *Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates and Errors (effective from January 1, 2023); and*
- *Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective from January 1, 2023).*

The new standards, interpretations and amendments issued but not yet effective is not expected to have a significant impact on the Company'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 Company'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 Company'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 Company 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 Company 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	10 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.

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 Company balances, Company 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.

- 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 and 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 comprehensive income under 'expected credit loss provision'. Any subsequent recoveries are recognised in the statement of comprehensive income as 'recoveries from loans written off'.

(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 Company 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 Company 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.

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Impairment of financial assets

Impairment
The Company 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 Company 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.

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 Company. 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 Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as liquidating collateral; or the borrower is past due more than 90 days or any credit obligation to the Company. In assessing whether a borrower is in default, the Company 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 Company.

Probability of default (PD)
Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Company 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 Company 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 Company 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)

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

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

Loss Given Default (LGD)
LGD is the magnitude of the likely loss if there is a default. The Company 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 Company 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 Company 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 Company'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 Company 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.

(e) Write-offs
The Company'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 Company 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.

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 comprehensive income.

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, normaly signified by actual reciept.

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Revenue recognition (continued)

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 comprehensive income in the year in which such grant is received. Where conditions or obligations are attached to grants, they are recognised in the statement of comprehensive incomeas such conditions are satisfied.

Grants received as compensation for any expenditure, are recognised in the statement of comprehensive income over the period such expenses are incurred. Except for financial assistance received from the government and / or regulators in response to its COVID-19 support measures that meets the government grant requirement, recognised directly in equity, instead of statement of comprehensive income. 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 statement of comprehensive income. 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").

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

Interest expense

Interest expense is recognised using the effective yield method.

(k) Provision

Provisions are recognised when the Company 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 Company makes contributions to the Social Insurance Organisation, for its national employees, calculated as a percentage of the employees' salaries. The Company's obligations are limited to these contributions, which are expensed when due.

The Company 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 Company are classified as equity. The Company 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.

5 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Leases

The Company 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.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company 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 Company 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 Company 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 Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

(p) Foreign currency translation

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

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

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

(q) Contingent assets and liabilities

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

6 CASH AND CASH EQUIVALENTS

	2021	*2020*
	BD	*BD*
Balances with banks	**884,210**	573,998
Less: Provision for credit losses (note 19)	**(9,517)**	(5,115)
	874,693	568,883

As of 31 December 2021 and 2020, the balances with banks are classified under stage 1 of the ECL model.

7 LOANS AND ADVANCES TO CUSTOMERS

	2021 **BD**	*2020* *BD*
Gross loans and advances	**2,407,942**	2,907,849
Less: Provision for credit losses (note 19)	**(182,728)**	(270,000)
	2,225,214	2,637,849

Movement in the provision for credit losses is as follows:

	2021 **BD**	*2020* *BD*
At 1 January	**270,000**	225,010
Net expected credit loss provision - (note 19)	**(35,255)**	44,990
Amounts written-off during the year	**(52,017)**	-
At 31 December	**182,728**	270,000

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

	31 December 2021			
	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	**2,230,943**	**36,693**	**140,306**	**2,407,942**
Less: Provision for credit losses	**(24,077)**	**(18,345)**	**(140,306)**	**(182,728)**
Carrying amount	**2,206,866**	**18,348**	**-**	**2,225,214**

	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

During the year, the Company has not rescheduled any loans (2020: Nil). Also, during the year the Company has also recovered BD 10,993 against loans previously written-off (2020: BD 5,116). Refer note 18.

8 OTHER ASSETS

	2021 **BD**	*2020* *BD*
Right-of-use assets (note 24)	**23,095**	35,708
Prepayments	**16,637**	13,678
Interest receivable	**13,937**	13,842
Other receivables	**15,582**	33,041
	69,251	96,269

9 EQUIPMENT

2021	*Furniture* *BD*	*Computer and equi-pment* *BD*	*Software* *BD*	*Vehicle* *BD*	*Office improve-ments* *BD*	*2021 Total* *BD*
Cost						
At 1 January	32,101	104,379	102,826	36,689	68,287	344,282
Reclassification adjustment (note 9.1)	23,821	9,106	(11,068)	(3,019)	(18,840)	-
Revised balance at 1 January	55,922	113,485	91,758	33,670	49,447	344,282
Additions		598		-	400	998
Disposal	-	-	-	(3,820)	-	(3,820)
At 31 December	55,922	114,083	91,758	29,850	49,847	341,460
Depreciation						
At 1 January	24,893	93,591	77,486	18,448	21,669	236,087
Reclassification adjustment (note 9.1)	12,688	(25,124)	(21,727)	(5,576)	(2,451)	(42,191)
Revised balance at 1 January	37,581	68,467	55,759	12,872	19,218	193,896
Charge for the year	1,754	6,255	5,787	3,653	4,251	21,700
Disposal	-	-	-	(3,419)	-	(3,419)
At 31 December	39,334	74,722	61,546	13,105	23,469	212,177
Net book value						
At 31 December 2021	16,588	39,361	30,212	16,745	26,378	129,283

2020	*Furniture* *BD*	*Computer and equi-pment* *BD*	*Software* *BD*	*Vehicle* *BD*	*Office improve-ments* *BD*	*2020 Total* *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						
At 31 December 2020	7,208	10,788	25,340	18,241	46,618	108,195

9.1 Reclassification adjustment

During 2021, the Company utilised a new fixed assets management system to replace the old manually maintained fixed asset register. The management performed a comprehensive exercise to transfer the existing information to the new fixed asset management system and as a result of the process, certain fixed assets were reclassified to their appropriate categories and given useful life.

The effect of reclassification adjustment is reflected in the opening retained earnings as at January 1, 2021. The management is of the view that the above error is not material, accordingly, the financial statements for the prior years have not been restated in this respect.

10 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% (2020: 0.5%).

In addition in 2018, the Company 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 Company's initiative to assist micro and small businesses in the Kingdom of Bahrain. These amounts are repayable after one year from any payment request made by the respective lenders. As of 31 December 2021 the lenders did not demand repayment.

11 DEFERRED INCOME

	2021 BD	*2020 BD*
Administration fees	**15,516**	132,184
Deferred grant	**75,277**	75,277
Other	**7,113**	7,113
	97,906	214,574

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

	2021 BD	*2020 BD*
As at beginning of the year	**214,574**	333,466
Amounts received during the year	**-**	76,399
Recognised in the statement of comprehensive income	**(116,668)**	(195,291)
	97,906	214,574

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

12 OTHER LIABILITIES

	2021 BD	*2020 BD*
Interest payable	**57,640**	52,642
Lease liability (note 24)	**24,578**	36,974
VAT payables	**39,844**	34,732
Accrued expenses	**12,768**	24,127
Employee related accruals	**8,192**	28,245
Other liabilities	**37,939**	54,986
	180,961	231,706

13 SHARE CAPITAL

	2021 BD	*2020 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 Company has only one class of equity shares and the holders of these shares have equal voting rights.

14 STATUTORY RESERVE

Under the provisions of the Bahrain Commercial Companies Law, an amount of at least 10% of the Company's net profit should be transferred to a non-distributable statutory reserve until such time as minimum of 50% of the issued share capital is set aside. The Company made a net profit during the year, accordingly, a transfer of BD 679 was made to statutory reserve for the year ended December 31, 2021 (2020: 18,490).

15 FEE INCOME

	2021	*2020*
	BD	*BD*
Processing fees	**182,747**	380,194
Penalty fees	**42,312**	31,015
Application and other fees	**24,762**	20,619
	249,821	431,828

16 STAFF COSTS

	2021	*2020*
	BD	*BD*
Salaries and allowances	**348,998**	381,408
Incentives	**25,788**	40,461
Bonus	**-**	19,040
Social insurance expenses	**31,083**	31,758
Other benefits	**56,475**	68,602
	462,344	541,269

17 OTHER EXPENSES

	2021	*2020*
	BD	*BD*
Rent, utilities and maintenance	**34,036**	31,941
Professional fees	**45,648**	59,244
Communication expenses	**14,398**	11,217
Marketing expenses	**6,847**	9,080
Travel expenses	**1,677**	2,774
Others	**79,769**	57,493
	182,375	171,749

18 OTHER INCOME

	2021	*2020*
	BD	*BD*
Income from bank deposits	**2,736**	17,355
Recoveries from loans written-off	**10,993**	5,116
Gain on sale of vehicle	**429**	-
Others	**19,429**	31,299
	33,587	53,770

19 EXPECTED CREDIT LOSS PROVISION

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

	31 December 2021			
	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 2021				
Balances with banks	5,115	-	-	5,115
Loans and advances to customers	31,732	73,879	164,389	270,000
	36,847	73,879	164,389	275,115
Charge / (reversal) during the year - net				
Balances with banks	4,402	-	-	4,402
Loans and advances to customers	(7,655)	(55,534)	27,934	(35,255)
	(3,253)	(55,534)	27,934	(30,853)
Write-offs during the year				
Loans and advances to customers	-	-	(52,017)	(52,017)
Balance at 31 December 2021				
Balances with banks (note 6)	9,517	-	-	9,517
Loans and advances to customers (note 7)	24,077	18,345	140,306	182,728
	33,594	**18,345**	**140,306**	**192,245**

	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
Deposit with bank	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
(Reversal) / charge during the year - net				
Balances with banks	4,964	-	-	4,964
Deposit with bank	(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 (note 6)	5,115	-	-	5,115
Deposit with bank	-	-	-	-
Loans and advances to customers (note 7)	31,732	73,879	164,389	270,000
	36,847	73,879	164,389	275,115

19 EXPECTED CREDIT LOSS PROVISION (continued)

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

	2021			
	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	**36,847**	**73,879**	**164,389**	**275,115**
Transfer to Stage 1	**3,740**	**(3,740)**	**-**	**-**
Transfer to Stage 2	**(45)**	**45**	**-**	**-**
Transfer to Stage 3	**(264)**	**(22,818)**	**23,082**	**-**
Net remeasurement of loss allowance	**1,964**	**(6,221)**	**87,353**	**83,096**
Recoveries / write-backs	**(8,648)**	**(22,800)**	**(82,501)**	**(113,949)**
Amount written-off	**-**	**-**	**(52,017)**	**(52,017)**
Balance at end of year	**33,594**	**18,345**	**140,306**	**192,245**

	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

20 RELATED PARTY TRANSACTIONS

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

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

	2021 BD	*2020 BD*
Deferred grant from a shareholder	**75,277**	75,277
Other liabilities	**1,915**	2,464

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

	2021 BD	*2020 BD*
Rent expenses	**3,960**	3,432

Compensation of the key management personnel is as follows:

	2021 BD	*2020 BD*
Salaries and short term employee benefits	**72,000**	72,000
Provision for employees' end of service benefits	**28,314**	23,805
	100,314	95,805

No remuneration was paid to directors during the year (2020: nil).

21 RISK MANAGEMENT

Risk is inherent in the Company'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 Company's continuing profitability. The Company 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 Company 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 Company is in the Kingdom of Bahrain. The assets and liabilities of the Company are not concentrated in any particular industry sector.

21 RISK MANAGEMENT (continued)

a) Credit risk (continued)

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

	2021	*2020*
	BD	*BD*
Balances with banks	**874,693**	568,883
Loans and advances to customers	**2,225,214**	2,637,849
Interest receivable	**13,937**	13,842
	3,113,844	3,220,574

b) Market risk

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

(i) Currency risk

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

As the Company's financial assets and financial liabilities are denominated in Bahraini Dinars, the management does not perceive the Company 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 Company's term deposits and borrowings are fixed. Hence, the Company is not exposed to interest rate risk.

c) Liquidity risk

Liquidity risk is defined as the risk that the Company 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 Company 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 Company's future commitments.

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2021 and 31 December 2020 based on contractual undiscounted payment obligation:

	31 December 2021			
	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	**12,768**	**8,192**	**160,001**	**180,961**
Commitments	**1,800**	**5,400**	**-**	**7,200**
	14,568	**1,138,592**	**160,001**	**1,313,161**

21 RISK MANAGEMENT (continued)

c) Liquidity risk (continued)

	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	24,127	28,245	179,334	231,706
Commitments	6,162	12,324	-	18,486
	30,289	1,165,569	179,334	1,375,192

The table below summarises the expected maturity profile of the Company's assets and liabilities as at 31 December 2021 and 31 December 2020:

	31 December 2021					
	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	874,693	-	874,693	-	-	874,693
Loans and advances to customers	106,617	897,911	1,004,528	1,220,686	-	2,225,214
Other assets	13,937	16,637	30,574	38,677	-	69,251
Equipment	-	-	-	-	129,283	129,283
	995,247	914,548	1,909,795	1,259,363	129,283	3,298,441
LIABILITIES						
Provision for employees' end of service benefits	-	37,110	37,110	-	-	37,110
Borrowings	-	1,120,000	1,120,000	-	-	1,120,000
Other liabilities	12,768	8,192	20,960	94,169	65,832	180,961
	12,768	1,165,302	1,178,070	94,169	65,832	1,338,071
Net liquidity gap	982,479	(250,754)	731,725	1,165,194	63,451	1,960,370

21 RISK MANAGEMENT (continued)

c) Liquidity risk (continued)

	31 December 2020					
	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	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	-	-	-	-	108,195	108,195
	801,199	331,704	1,132,903	2,170,098	108,195	3,411,196
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	(16,153)	2,028,060

d) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company'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 Company's operations and are faced by all business entities.

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

The Company has established a framework of policies and procedures to identify, assess, control, manage and report risks. The Company'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 balances with banks, 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 2021 and 31 December 2020.

22 CAPITAL MANAGEMENT

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

The primary objectives of the Company's capital management processes are to ensure that the Company 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 2021 and 31 December 2020.

23 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 Company 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.

24 LEASES

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

	Right-of-use assets BD	*Lease liability BD*
As at 1 January 2021	**35,708**	**36,974**
Reduction during the year	**(6,997)**	**(6,990)**
Additions during the year	**12,825**	**11,161**
Depreciation	**(18,441)**	**-**
Interest expense	**-**	**1,383**
Rental payments	**-**	**(17,950)**
As at 31 December 2021	**23,095**	**24,578**
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

25 ISLAMIC BANKING ACTIVITIES

The Company offers certain Sharia'a compliant loans to its customers. These activities are subject to supervision of Sharia'a Supervisory Scholar. As at 31 December 2021, the Company did not have any outstanding Islamic loans (2020: 0.15% of the Company's total assets).

26 Comparative figures

Comparative figures for the previous year have been reclassified/re-arranged wherever necessary to conform with the presentation in the current year's financial statements.