

**Al Ebdaa Bank for Microfinance BSC (c)**

**FINANCIAL STATEMENTS**

**For the year ended**

**31 December 2011**

Commercial registration : 72533

Board of Directors : Ebrahim Bin Khalifa Bin Ali Al Khalifa (*Chairman*)  
Mona Yousif Khalil Almoayyed  
Khalid Mohamed Kanoo  
Nasser Bakr M Alkahtani  
Muhammad Yunus  
Abdulhameed Mohamed Hasan Dawani  
Adnan Mahmood Ali Albalooshi

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Manama  
Kingdom of Bahrain

Auditors : KPMG Fakhro

**FINANCIAL STATEMENTS**  
**for the year ended 31 December 2011**

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**CHAIRMAN'S REPORT**  
**for the year ended 31 December 2011**

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On behalf of the founding Shareholders and the board of Directors of Ebdaa Bank, I am extremely privileged and honored to present the annual report and audited financial statements for the year ended 31 December 2011. It was a challenging year for Ebdaa Bank with the circumstances that has passed on to Bahrain and has made it difficult for clients to commit to their payments. Although a factor outside the realm of control, the bank continued to operate and to find solutions in order to remedy the loan repayments problems amidst a highly complicated and hard credit-based environment where loan-based and savings awareness is lacking. Furthermore, the bank has tackled situations where it found itself with low capital, an issue which has hindered the work progress and resulted in capital demand surpassing supply. Despite these conditions, the bank has recorded a tremendous progress in various areas including effective institutional building and recruiting of local young employees that have become a very strong support to the microfinance market.

Though recently established, the Bank has firmly succeeded in establishing itself in the course of a small time as a solid micro financing business as it has served 876 clients with a total amount of BD 970,235. We have developed the business concept of microfinance worldwide in order to cope with Bahrain's socio-economic strategies, and as a result created a "Bahraini Microfinance System". The Bank has empowered its clients on economic and cultural grounds by the means of providing them with financially appropriate services, consultancies, and training to enhance and develop them into becoming entrepreneurs and the introduction of banking dealings to the poor. As a result of the milestone steps achieved, several job opportunities were created which has secured the future of our beneficiaries and their children which will ultimately lead to the betterment of both the economic and political landscapes.

To conclude, I would like to convey my sincerest appreciation to the honorable and wise leadership of the Kingdom of Bahrain, stakeholders, and international agencies who saw in the rendition of their conviction to invest in Bahraini citizens, diversification of their income and expansion of the scope of the middle class in the society. I am most grateful for their generously noble support and it would be my pleasure to convey my deepest gratitude for what they have done and what they would do to enable the Bank to realize its strategic objectives and goals. I have the great pleasure to thank our clients for their continued loyalty and support and the Bank's management and staff for their highly-valued dedication and professionalism.



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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

### Al Ebdaa Bank for Microfinance BSC (c)

Manama, Kingdom of Bahrain

9 October 2012

#### Report on the financial statements

We have audited the accompanying financial statements of Al Ebdaa Bank for Microfinance BSC (c) (the "Bank"), which comprise the statement of financial position as at 31 December 2011, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### *Responsibility of the board of directors for the financial statements*

The board of directors of the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as the board of directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2011, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 1), we report that the Bank has maintained proper accounting records and the financial statements are in agreement therewith; the financial information contained in the directors' report is consistent with the financial statements; we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1, applicable provisions of Volume 6 and CBB directives), or the terms of the Bank's memorandum and articles of association having occurred during the year that might have had a material adverse effect on the business of the Bank or on its financial position; and satisfactory explanations and information have been provided to us by the management in response to all our requests.

**STATEMENT OF FINANCIAL POSITION  
as at 31 December 2011**

Bahraini Dinars

	Note	31 December 2011	31 December 2010
<b>ASSETS</b>			
Cash and cash equivalents	4	566,531	571,707
Deposits with banks		875,496	816,500
Loans and advances	5	970,235	1,107,595
Other assets	6	235,937	46,707
Equipment	7	81,698	65,776
<b>Total assets</b>		<b>2,729,897</b>	<b>2,608,285</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Short term borrowing		10,630	-
Deposit from non-bank		1,000,000	1,000,000
Other liabilities	8	139,695	10,733
<b>Total liabilities</b>		<b>1,150,325</b>	<b>1,010,733</b>
<b>Equity</b>			
Share capital	9	1,885,000	1,885,000
Accumulated losses		(305,428)	(287,448)
<b>Total equity (page 5)</b>		<b>1,579,572</b>	<b>1,597,552</b>
<b>Total liabilities and equity</b>		<b>2,729,897</b>	<b>2,608,285</b>

The Board of Directors approved the financial statements consisting of pages 3 to 19 on 9 October 2012.

  
Ebrahim Bin Khalifa Bin Ali Al Khalifa  
Chairman

  
Dr. Waheed A. Al Qassim  
Chief Executive Officer

The accompanying notes 1 to 19 form an integral part of these financial statements.

**STATEMENT OF COMPREHENSIVE INCOME**  
for the year ended 31 December 2011

Bahraini Dinars

	Note	12 months ended 31 December 2011	12 August 2009 to 31 December 2010
Interest income on loans and advances		326,976	242,626
Interest income on deposits with banks		36,482	23,289
Interest expense		(6,005)	(2,186)
<b>Net interest income</b>		<b>357,453</b>	<b>263,729</b>
Donation	10	96,600	18,850
Fee income	11	166,123	183,519
Other income		30,038	8,626
<b>Total income</b>		<b>650,214</b>	<b>474,724</b>
Staff cost		376,875	435,589
Impairment allowance on loans and advances	5	24,977	78,937
Waiver of loans and advances		75,348	-
Other operating expenses	12	175,457	236,790
Depreciation	7	15,537	10,856
<b>Total expenses</b>		<b>668,194</b>	<b>762,172</b>
<b>Loss for the year</b>		<b>(17,980)</b>	<b>(287,448)</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>(17,980)</b>	<b>(287,448)</b>

  
Ebrahim Bin Khalifa Bin Ali Al Khalifa  
Chairman

  
Dr. Waheed A. Al Qassim  
Chief Executive Officer

The accompanying notes 1 to 19 form an integral part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY**  
for the year ended 31 December 2011

Bahraini Dinars

12 months ended 31 December 2011	Share capital	Accumulated losses	Total equity
At 1 January 2011	1,885,000	(287,448)	1,597,552
Total comprehensive income for the year	-	(17,980)	(17,980)
<b>Balance at 31 December 2011</b>	<b>1,885,000</b>	<b>(305,428)</b>	<b>1,579,572</b>

12 August 2009 to 31 December 2010	Share capital	Accumulated losses	Total equity
Capital introduced	1,885,000	-	1,885,000
Total comprehensive income for the period	-	(287,448)	(287,448)
<b>Balance at 31 December 2010</b>	<b>1,885,000</b>	<b>(287,448)</b>	<b>1,597,552</b>

The accompanying notes 1 to 19 form an integral part of these financial statements.

**STATEMENT OF CASH FLOWS**  
for the year ended 31 December 2011

Bahraini Dinars

	Note	12 months ended 31 December 2011	12 August 2009 to 31 December 2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss for the year		(17,980)	(287,448)
<i>Adjustments for:</i>			
- Depreciation		15,537	10,856
- Impairment allowance on loans and advances		24,977	78,937
<b>Profit for the year after adjustments</b>		<b>22,534</b>	<b>(197,655)</b>
<i>Change in assets and liabilities:</i>			
- Deposits with banks		(58,996)	(816,500)
- Loans and advances		112,383	(1,186,532)
- Other assets		(189,230)	(46,707)
- Other liabilities		128,962	10,733
<b>Net cash generated from / (used in) operating activities</b>		<b>15,653</b>	<b>(2,039,006)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of equipment		(31,459)	(76,632)
<b>Net cash used in investing activities</b>		<b>(31,459)</b>	<b>(76,632)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of ordinary share capital		-	1,885,000
Deposit from non-bank		-	1,000,000
Proceeds from short term borrowing		10,630	-
<b>Net cash generated from financing activities</b>		<b>10,630</b>	<b>2,885,000</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(5,176)</b>	<b>571,707</b>
Cash and cash equivalents at 1 January		571,707	-
<b>Cash and cash equivalents at 31 December</b>	4	<b>566,531</b>	<b>571,707</b>

The accompanying notes 1 to 19 form an integral part of these financial statements.



**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2011**

Bahraini dinars

**1 STATUS AND PRINCIPAL ACTIVITIES**

Al Ebdaa Bank for Microfinance BSC (c) (the "Bank") was incorporated in the Kingdom of Bahrain on 12 August 2009 as a closed shareholding company under commercial registration (CR) number 72533 issued by the Ministry of Industry and Commerce. The Bank is licensed as a Retail bank by the Central Bank of Bahrain ("CBB") and accordingly is subject to the regulations and supervision of the CBB.

The principal activities of the Bank comprise the provision of microfinance 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 window activities.

Previous period was for 15 months from 12 August 2009 to 31 December 2010 hence may not be comparable to the current period of 12 months ended 31 December 2011.

**2 BASIS OF PREPARATION**

**(a) Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of Bahrain Commercial Companies Law 2001.

**(b) Basis of measurement**

The financial statements of the Bank are presented in Bahraini Dinar (BHD) which is also the functional currency of the Bank. The financial statements have been prepared on the historical cost basis.

**(c) Use of estimates and judgments**

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

Information about significant areas of estimation and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are principally limited to the determination of impairment provisions for loans and estimation of useful life of equipment which are described in detail in note 3 (d) and (f) respectively.

**(d) Standards, amendments and interpretations effective on or after 1 January 2011**

The following standards, amendments and interpretations, which became effective in 2011 are relevant to the Bank.

**IAS 24 (Revised) 'Related party disclosures'**

The revised standard was issued in November 2009. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The adoption of the revised standard did not have any significant impact on the related party disclosure of the Bank.

**Improvements to IFRS (2010)**

Improvements to IFRS issued in 2010 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for the Bank's 2011 annual financial statements with earlier adoption permitted. No material changes to accounting policies are expected as a result of these amendments.

2 *Basis of preparation (continued)*

(e) **New Standards, amendments and interpretations issued but not yet effective**

The following standards and interpretations have been issued and are expected to be relevant to the Bank but not yet effective for the year ended 31 December 2011.

• **IAS 1 (amendment) - Presentation of items of other comprehensive income**

The amendments to IAS 1 require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendment is effective for annual periods beginning on or after 1 July 2012.

The application of this amendment will have no significant impact on the financial statements of the Bank.

• **IFRS 7 (amendment) – Disclosures**

The amendments to IFRS 7 introduce new disclosure requirements;

***Transfer of financial assets:***

Transfers of financial assets are required to be disclosed including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. The amendments are effective for annual periods beginning on or after 1 July 2011, but entities are not required to provide the disclosures for any period presented that begins before the date of initial application of the amendments.

***Offset of financial assets and liabilities:***

Disclosures are required for financial assets and financial liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments to IFRS are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The amendments are to be applied retrospectively.

• **IFRS 9 'Financial Instruments'**

***Standard issued November 2009***

IFRS 9 "Financial Instruments" issued in November 2009 is the first standard issued as part of a wider project to replace IAS 39 "Financial instruments: recognition and measurement". IFRS 9 retains and simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment and hedge accounting continues to apply. The 2009 standard did not address financial liabilities.

***Standard issued October 2010***

IFRS 9 adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities to the version issued in November 2009. It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 "Reassessment of Embedded Derivatives"

The Bank is yet to assess IFRS9's full impact. Given the nature of the Bank's operations, this standard is expected to have a pervasive impact on the Bank's financial statements. Adoption of IFRS 9 is mandatory from 1 January 2015. The Bank is considering the implications of the standard, the impact and timing of its adoption.

2 *Basis of preparation (continued)*

(e) New Standards, amendments and interpretations issued but not yet effective *(continued)*

• **IFRS 13 - Fair value measurement**

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

The standard is effective for annual periods beginning on or after 1 January 2013.

(f) **Early adoption of standards**

The Bank did not early adopt new or amended standards in 2011.

3 **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) **Revenues**

**Interest income** and expense is recognised using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes all fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

**Fee income** from services provided by the Bank is recognised when the related services are provided.

**Donations without conditions** are recognised immediately as income when the right to receive is established.

**Donations with conditions** are recognised as deferred income until such time as the conditions are met, at which point they are recognised as income.

(b) **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and balances with banks. Cash and cash equivalents are carried at amortised cost.

(c) **Deposits with bank**

Deposits with banks mainly comprise inter-bank deposits, which are for short-term and are stated at their amortised cost less impairment.

(d) **Loans and advances**

(i) *Initial recognition and subsequent measurement*

Loans and advances are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. Loans and advances are recognised when cash is advanced to a borrower. The Bank derecognises loans and advances when the contractual rights to the cash flows from the loans and advances expire, or when it transfer the loans and advances or in which the Bank neither transfer nor retains substantially all the risks and reward of ownership and it does not retain control of the loans and advances. They are initially recognised at fair value plus any directly attributable

3 *Significant accounting policies (continued)*  
(d) *Loans and advances (continued)*

transaction costs and are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

(ii) *Impairment of loans and advances*

Losses for impaired loans are recognised when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances are calculated on individual loans and on s of loans assessed collectively. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans in the statement of financial position is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

The Bank considers evidence of impairment, for loans and other financial assets carried at amortised cost, at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All individually significant loans found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. The Bank considers expected cash flows from the portfolio, timing of recoveries, the amount of loss incurred etc in assessing collective impairment allowance.

(e) **Inventories**

Inventories are stated at the lower of cost and estimated net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated selling expenses. The cost of inventory is based on specific identification basis. The cost includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

(f) **Equipment**

Equipments are stated at cost less depreciation and impairment losses. Depreciation is calculated on original cost on a straight-line basis using rates that will reduce the assets to their residual values over their estimated useful lives as follows:

Computer and software	-	4 years
Office equipments	-	10 years

All depreciation is charged to income statement.

(g) **Provision**

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities, which include certain guarantees, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Bank; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the interim financial information but are disclosed unless the probability of settlement is remote.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2011

Bahraini dinars

3 *Significant accounting policies (continued)*(h) **Statutory reserve**

In accordance with the Bank's Articles of Association and in compliance with the Bahrain Commercial Companies Law 2001, a minimum of 10% of the profit is appropriated to a statutory reserve, until it reaches 50% of the paid-up share capital. This reserve is not normally distributable, except in the circumstances stipulated in the Bahrain Commercial Companies Law 2001.

(i) **Employee benefits**

Pensions and other social benefits for Bahraini employees are covered by the Social Insurance Organization scheme to which employees and the Bank contribute monthly on a fixed-percentage-of-salaries basis. The Bank's contribution to this scheme, which represents a defined contribution scheme under International Accounting Standard 19 – Employee Benefits, is expensed as incurred.

4 **CASH AND CASH EQUIVALENTS**

	2011	2010
Cash on hand	103	80
Balances with banks	566,428	571,627
	<b>566,531</b>	<b>571,707</b>

5 **LOANS AND ADVANCES**

	2011	2010
Gross loans and advances	1,074,149	1,186,532
Less: collective impairment allowance	(103,914)	(78,937)
Net loans and advances	<b>970,235</b>	<b>1,107,595</b>

Movement on impairment allowance is as follows:

	2011	2010
At 1 January	78,937	-
Charge for the year	24,977	78,937
At 31 December	<b>103,914</b>	<b>78,937</b>

6 **OTHER ASSETS**

	2011	2010
Interest receivable	6,729	9,938
Management fee receivable	24,300	5,340
Inventories*	172,563	-
Prepayments	1,285	31,129
Advance towards purchase of vehicles	16,850	-
Other receivables	14,210	300
	<b>235,937</b>	<b>46,707</b>

\* Inventories comprise vehicles purchased under the transportation project (refer note 10).

NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2011

Bahraini dinars

## 7 EQUIPMENT

	Furniture	Computers	Equipments	Software	2011 Total	2010 Total
<b>Cost</b>						
At 1 January	16,716	21,176	18,816	19,924	76,632	76,632
Additions during the year	1,289	2,700	1,123	26,347	31,459	-
<b>At 31 December</b>	<b>18,005</b>	<b>23,876</b>	<b>19,939</b>	<b>46,271</b>	<b>108,091</b>	<b>76,632</b>
<b>Depreciation</b>						
At 1 January	(664)	(5,381)	(1,176)	(3,635)	(10,856)	-
Charge for the year	(1,728)	(10,313)	(2,477)	(1,019)	(15,537)	(10,856)
<b>At 31 December</b>	<b>(2,392)</b>	<b>(15,694)</b>	<b>(3,653)</b>	<b>(4,654)</b>	<b>(26,393)</b>	<b>(10,856)</b>
<b>Net book value</b>						
At 31 December 2011	15,613	8,182	16,286	41,617	81,698	65,776
<b>Net book value</b>						
At 31 December 2010	16,052	15,796	17,640	16,289	81,698	65,776

## 8 OTHER LIABILITIES

	2011	2010
Interest payable	7,500	2,500
Accrued expenses	28,162	8,233
Deferred income (refer note 10)	95,000	-
Other liabilities	9,033	-
	<b>139,695</b>	<b>10,733</b>

## 9 SHARE CAPITAL

	2011	2010
<b>Authorized share capital</b> 5,000,000 (2010: 5,000,000) shares of 377 fills each	<b>1,885,000</b>	<b>1,885,000</b>
<b>Issued and fully paid</b> 5,000,000 (2010: 5,000,000) shares of 377 fills each	<b>1,885,000</b>	<b>1,885,000</b>
	<b>1,885,000</b>	<b>1,885,000</b>

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

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2011

Bahraini dinars

**10 DONATION**

The Bank receives two types of donations as follows:

*(i) Donation without condition*

During the year the Bank has received multiple donations without conditions amounting to BD 96,600 which has been recognised as income.

*(ii) Donation with conditions*

During the year, the Bank has participated in a microfinance program initiated by Supreme Council of Women ("SCW") called "Transportation Project (the Program)". Under the Program the Bank is mandated to facilitate purchase, registration and transfer of vehicles to 80 women in a phased out manner over the period of 2 years. The beneficiary will receive 50% of the cost of the vehicle as donation from SCW and the remaining 50% of the cost (subject to a maximum of BD 5,000 each) will be financed by the Bank.

As of 31 December 2011, under phase I of the Program, the Bank has received an amount of BD 95,000 towards purchase of 18 vehicles, however the Bank is still in the process of carrying out registration and transfer of the vehicles. The amount has been recognized as deferred income until such time it is utilised as per the terms of the program (refer note 8).

**11 FEE INCOME**

	2011	2010
Loan administration fee	35,667	65,615
Management fee	61,330	88,530
Other administration fee	69,126	29,374
	<b>166,123</b>	<b>183,519</b>

**12 OTHER OPERATING EXPENSES**

	2011	2010
Rent and utilities	66,290	53,008
Travel expense	15,956	11,430
Professional fee	23,962	68,734
Telecommunication expense	8,870	3,132
Marketing expense	8,160	11,961
Other expenses	52,219	88,525
	<b>175,457</b>	<b>236,790</b>

**13 RELATED PARTIES**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Bank exercises significant influence, major shareholders, directors and executive management of the Bank.

The significant related party balances and transactions included in the financial statement are as follows:

## 13 Related parties (continued)

	2011	2010
Bank balances held with a shareholder	124,429	169,814
	<b>124,429</b>	<b>169,814</b>

*Transactions with key management personnel*

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. The key management personnel comprise members of the Board of Directors, the Chief Executive Officer, and the executive management of the Bank.

	2011	2010
Salaries and short term employee benefits	78,191	119,245
	<b>78,191</b>	<b>119,245</b>

## 14 EMPLOYEE BENEFITS

The Bank's obligations to defined contribution pension plans for employees who are covered by the social insurance pension scheme is recognized as an expense in the income statement. The Bank's contribution for 2011 amounted to BD 9,120 (2010: BD 8,453).

## 15 ASSETS UNDER MANAGEMENT

The Bank provides administration services to entities. Assets that are held in such capacity are not included in these financial statements. At the statement of financial position date, the Bank had assets under management of BD 396,795 (2010: BD 29,113). During the year, the Bank has charged management fees amounting to BD 61,330 (2010: BD 88,530) for the administration of these assets.

## 16 COMMITMENTS AND CONTINGENCIES

The Bank in its normal course of business has issued performance guarantees for BD 33,000 (2010: BD 16,500).

## 17 FINANCIAL RISK MANAGEMENT

## a. Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk.



17 *Financial risk management (continued)*

*Risk management framework*

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly, on an ongoing basis, to reflect changes in market conditions, products and services offered.

The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework. The audit committee is assisted in these functions by the Internal Audit, which undertakes both regular and adhoc reviews of risk management control and procedures, the results of which are reported to the Audit Committee and to management.

**b. Credit risk**

Credit risk represents the potential financial loss as a consequence of a customer's inability to honour the terms and conditions of a credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items.

*Management of credit risk*

The Bank's credit risk management framework includes:

- Establishment of authorisation structure and limits for the approval of credit facilities;
- Reviewing and assessing credit exposures in accordance with authorisation structure and limits, prior to facilities being committed to customers.

All loans are with local individuals. The credit risk on these loans is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures. The creditworthiness of each borrower is evaluated prior to lending and with a comprehensive review of information. Appropriate procedures for follow-up and recovery are in place to monitor the credit risk on loans.

*Exposure to credit risk*

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 Bank measures its exposure to credit risk by reference to the gross carrying amount of financial assets less impairment losses, if any. The maximum credit risk exposure of the loans is the carrying value amount net of the deferred income and net of impairment allowance.

	2011	2010
<b>Loans</b>		
<b>Past due loans</b>		
Overdue loans	289,283	221,877
Collective impairment allowance	(103,914)	(78,937)
Carrying amount	185,369	142,940
<b>Neither past due nor impaired</b>		
Gross amount	784,866	964,655
Collective impairment allowance	-	-
Carrying amount	784,866	964,655
<b>Carrying amount</b>	<b>970,235</b>	<b>1,107,595</b>

17 *Financial risk management (continued)*  
b. *Credit risk (continued)**Impaired loans*

Impaired loans are financial assets for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the agreements. The Bank's exposure to credit risk from loans is influenced mainly by the individual characteristics of each customer.

*Allowances for impairment*

The Bank establishes an allowance for collective impairment losses that represents its estimate of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment

*Collateral*

The Bank does not hold any collateral security against the loans.

*Credit risk concentration*

All loans are made to individuals who are Bahraini citizens.

*Settlement risk*

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counter party to honour its obligations to deliver cash, securities or other assets as contractually agreed.

c. **Maturity and Liquidity risk****Maturity profile**

The maturity profile of the Bank's assets and liabilities based on the contractual repayment arrangements is given below. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date.

2011	Within 1 Year	1 year to 5 years	Total
<b>ASSETS</b>			
Cash and cash equivalents	566,531	-	566,531
Deposits with banks	875,496	-	875,496
Loans and advances	277,423	692,812	970,235
Other assets	235,937	-	235,937
Equipment	-	81,698	81,698
	<b>1,955,387</b>	<b>774,510</b>	<b>2,729,897</b>
<b>LIABILITIES</b>			
Short term borrowing	10,630	-	10,630
Deposit from non-bank	-	1,000,000	1,000,000
Other liabilities	37,195	102,500	139,695
	<b>47,825</b>	<b>1,102,500</b>	<b>1,150,325</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2011

Bahraini dinars

17 *Financial risk management (continued)*  
c. *Maturity and liquidity risk (continued)*

2010	Within 1 Year	1 year to 5 years	Total
<b>ASSETS</b>			
Cash and cash equivalents	571,707	-	571,707
Deposits with banks	816,500	-	816,500
Loans and advances	276,899	830,696	1,107,595
Other assets	46,707	-	46,707
Equipment	-	65,776	65,776
	1,711,813	896,472	2,608,285
<b>LIABILITIES</b>			
Deposit from non-bank	-	1,000,000	1,000,000
Other liabilities	10,733	-	10,733
	10,733	1,000,000	1,010,733

The maturity profile is based on contractual repayment arrangements. The maturity profile is monitored by the management to ensure adequate liquidity is maintained.

**Liquidity risk**

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Bank.

*Management of liquidity risk*

The Bank's approach to managing liquidity risk is to ensure that the Bank secures funding significantly larger than present and future requirements. The Bank continuously monitors the

extent to which contractual receipts exceed contractual payments and the levels of new advances are correlated to the levels of liquidity.

The residual future contractual maturity of financial assets and liabilities are summarised in the table below. The future contractual undiscounted cash flows of financial assets and financial liabilities have been disclosed at the carrying value and prevailing interest rates at the reporting date until their final maturities.

2011	Carrying amount	Contractual undiscounted cash flows	Within 1 Year	1 year to 5 years
<b>Liabilities</b>				
Short term borrowing	10,630	10,875	10,875	-
Deposit from non-bank	1,000,000	1,015,000	-	1,015,000
Other liabilities	139,695	139,695	37,195	102,500
	1,150,325	1,165,570	48,070	1,117,500

NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2011

Bahraini dinars

17 *Financial risk management (continued)*  
c. *Maturity and liquidity risk (continued)*

2010	Carrying amount	Contractual undiscounted cash flows	Within 1 Year	1 year to 5 years
Liabilities				
Deposit from non-bank	1,000,000	1,020,000	-	1,020,000
Other liabilities	10,733	10,733	8,233	2,500
	1,010,733	1,030,733	8,233	1,022,500

The Bank manages its liquidity requirements mainly with cash flows from maturities of assets and short term deposits from non bank as per requirement.

d. **Market risks**

Market risk is the risk that the Bank's income and / or value of a financial instrument will fluctuate because of changes in market prices such as interest rates.

*Management of market risks*

Market risks are closely monitored by the management and reported to the Board.

*Interest rate risk*

Interest rate risk is the risk that the Bank's earnings will be affected as a result of movements in interest rates. The Bank's interest rate exposures arise from its interest earning assets and interest-bearing liabilities i.e. loans and deposits. The distribution of financial instruments between interest rate categories is summarised below:

2011	Fixed Rate	Floating Rate	Non-interest Earning	Total
<b>ASSETS</b>				
Cash and cash equivalents	-	-	566,531	566,531
Deposits with banks		875,496	-	875,496
Loans	970,235	-	-	970,235
Other assets	-	-	63,374	63,374
	970,235	875,496	629,905	2,475,636
<b>LIABILITIES</b>				
Short term borrowing	10,630	-	-	10,630
Deposit from non-bank	1,000,000	-	-	1,000,000
Other liabilities	-	-	44,695	44,695
	1,010,630	-	44,695	1,055,325

2010	Fixed Rate	Floating Rate	Non-interest Earning	Total
<b>ASSETS</b>				
Cash and cash equivalents	-	-	571,707	571,707
Deposits with banks		816,500	-	816,500
Loans	1,107,595	-	-	1,107,595
Other assets	-	-	46,707	46,707
	1,107,595	816,500	618,414	2,542,509
<b>LIABILITIES</b>				
Deposit from non-bank	1,000,000	-	-	1,000,000
Other liabilities	-	-	10,733	10,733
	1,000,000	-	10,733	1,010,733

17 *Financial risk management (continued)*e. **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.

f. **Capital management**

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Bank is not subject to externally imposed capital requirements.

18 **DISTRIBUTION OF ASSETS AND LIABILITIES**

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

19 **ACCOUNTING CLASSIFICATION AND FAIR VALUE**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The following table provides disclosure of the accounting classification and estimated fair value of financial instruments, for which it is practical to estimate fair value:

Assets	2011		2010	
	Total carrying amount	Fair value	Total carrying amount	Fair value
Cash and cash equivalents	566,531	566,531	571,707	571,707
Deposits with banks	875,496	875,496	816,500	816,500
Loans and advances	970,235	970,235	1,107,595	1,107,595
Other assets	235,937	235,937	46,707	46,707
Equipment	81,698	81,698	65,776	65,776
<b>Total assets</b>	<b>2,729,897</b>	<b>2,729,897</b>	<b>2,608,285</b>	<b>2,608,285</b>
<b>Liabilities</b>				
Short term borrowings	10,630	10,630	-	-
Deposit from non-bank	1,000,000	1,000,000	1,000,000	1,000,000
Other liabilities	139,695	139,695	10,733	10,733
<b>Total liabilities</b>	<b>1,150,325</b>	<b>1,150,325</b>	<b>1,010,733</b>	<b>1,010,733</b>

All financial assets of BD 2,729,897 (2010: BD 2,608,285) are categorised under 'loans and receivables' and are measured at amortised cost. All the financial liabilities of 1,150,325 (2010: BD 1,010,733) are measured at amortised cost.