Al Ebdaa Bank for Microfinance BSC (c)

FINANCIAL STATEMENTS

For the year ended

31 December 2012

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
Office	:	P.O. Box 18648, 3rd Floor, Exhibition tower Manama Kingdom of Bahrain
Auditors	:	KPMG Fakhro, Bahrain

Al Ebdaa Bank for Microfinance BSC (c)

FINANCIAL STATEMENTS
for the year ended 31 December 2012

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Al Ebdaa Bank for Microfinance BSC (c)

Chairman's report

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 2012. It was a challenging year for Ebdaa Bank with the new approaches the bank is adapting to. 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. We are looking for forward achievement. In addition to a tremendous progress in various areas including effective institutional building.

The Bank has firmly succeeded in establishing itself in the course of a small time as a solid microfinancing business as it has served 3151 clients with a total amount of BD 4,878,549 and a total of 1,914 clients from its managed portfolio's with a total amount of BD 6,400,244. 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 succeeded in reaching 17,755 families in Bahrain which benefited from the empowerment it offered 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. Worthy to mention that Ebdaa Bank has adapted Bahranization in the recruitment of its staff which equals to a 100%.

To conclude, I would like to convey my sincerest appreciation to the wise leadership of the Kingdom of Bahrain and stakeholders, 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, HRH Prince Talal Bin Abdul Aziz Al Saud, the special envoy of UNICEF and President of the Arab Gulf Program For the United Nations Development Organizations and HRH Princess Sabeeka bint Ibrahim Al Khalifa, Wife of His Majesty the King of Bahrain and President of the Supreme Council for Women; the Central Bank of Bahrain and other Government institutions for their continued guidance and cooperation, Tamkeen and UNIDO for their constant support to transform the Bank's vision and message into a reality in a way that would realize the objectives sought, our shareholders and clients for their loyalty and support; to our Sharia'a Supervisory Board for their advice and supervision; and to the Bank's management and staff for their highly-valued dedication and professionalism.

Ebrahim Bin khalifa Bin Ali Al Khalifa
Chairman

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
Al Ebdaa Bank for Microfinance BSC (c)
Manama, Kingdom of Bahrain

21 April 2013

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 2012, 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 2012, 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 Volume 1 of Central Bank of Bahrain (CBB) Rule Book, we report that the Bank has maintained proper accounting records and the financial statements are in agreement therewith; the financial information contained in the chairman's report is consistent with the financial statements; we are not aware of any violations during the year 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 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.

KPMG

KPMG Fakhro, a registered partnership under Bahrain law, is a member of KPMG International, a Swiss cooperative.

Al Ebdaa Bank for Microfinance BSC (c)

STATEMENT OF FINANCIAL POSITION
as at 31 December 2012

Bahraini Dinars

	Note	**31 December 2012**	31 December 2011
ASSETS			
Cash and cash equivalents	4	630,434	566,531
Deposits with banks		16,500	875,496
Loans and advances	5	1,480,573	970,235
Other assets	6	195,877	235,937
Equipment	7	86,579	81,698
Total assets		**2,409,963**	2,729,897
LIABILITIES AND EQUITY			
Liabilities			
Short term borrowing		4,835	10,630
Deposit from non-bank		1,000,000	1,000,000
Other liabilities	8	119,628	139,695
Total liabilities		**1,124,463**	**1,150,325**
Equity			
Share capital	9	1,885,000	1,885,000
Accumulated losses		(599,500)	(305,428)
Total equity (page 5)		**1,285,500**	1,579,572
Total liabilities and equity		**2,409,963**	2,729,897

The Board of Directors approved the financial statements consisting of pages 3 to 22 on 21 April 2013.

E. Khalifa

Ebrahim Bin Khalifa Bin Ali Al Khalifa
Chairman

Dr. Waheed A. Al Qassim
Chief Executive Officer

The accompanying notes 1 to 21 form an integral part of these financial statements.

Al Ebdaa Bank for Microfinance BSC (c)

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2012 Bahraini Dinars

	Note	**31 December 2012**	31 December 2011
Interest income on loans and advances		320,161	326,976
Interest income on deposits with banks		19,740	36,482
Interest expense		(6,290)	(6,005)
Net interest income		**333,611**	357,453
Donation	10	3,700	96,600
Fee income	11	151,750	185,886
Other income		3,871	10,275
Total income		**492,932**	650,214
Staff cost	12	402,358	376,875
Impairment allowance on loans and advances	5	105,308	100,325
Depreciation	7	22,709	15,537
Other operating expenses	13	256,629	175,457
Total expenses		**787,004**	668,194
Loss for the year		**(294,072)**	(17,980)
Other comprehensive income		-	-
Total comprehensive income for the year		**(294,072)**	(17,980)

Ebrahim Bin Khalifa Bin Ali Al Khalifa
Chairman

Dr. Waheed A. Al Qassim
Chief Executive Officer

The accompanying notes 1 to 21 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2012 Bahraini Dinars

2012	**Share capital**	**Accumulated losses**	**Total equity**
At 1 January 2012	1,885,000	(305,428)	1,579,572
Total comprehensive income for the year	**-**	(294,072)	(294,072)
Balance at 31 December 2012	**1,885,000**	**(599,500)**	**1,285,500**

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)
Balance at 31 December 2011	1,885,000	(305,428)	1,579,572

The accompanying notes 1 to 21 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
for the year ended 31 December 2012 Bahraini Dinars

	Note	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year		(294,072)	(17,980)
Adjustments for:			
- Depreciation	7	22,709	15,537
- Impairment allowance on loans and advances	5	105,308	100,325
Loss for the year after adjustments		**(166,055)**	97,882
Change in assets and liabilities:			
- Deposits with banks		858,996	(58,996)
- Loans and advances		(615,648)	37,035
- Other assets		40,062	(189,230)
- Other liabilities		(20,067)	128,962
Net cash generated from/ (used in) operating activities		**97,288**	(15,653)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of equipment		(27,590)	(31,459)
Net cash used in investing activities		**(27,590)**	(31,459)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Repayment) / proceeds from short term borrowing		(5,795)	10,630
Net cash (used in) / generated from financing activities		**(5,795)**	10,630
Net increase / (decrease) in cash and cash equivalents		63,903	(5,176)
Cash and cash equivalents at 1 January		**566,531**	571,707
Cash and cash equivalents at 31 December	4	**630,434**	566,531

The accompanying notes 1 to 21 form an integral part of these financial statements.

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.

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 from 1 January 2012

The following standards, amendments and interpretations, which became effective as of 1 January 2012 are relevant to the Bank.

IFRS 7 (amendment) – Disclosures: Transfer of financial assets
The amendments to IFRS 7 introduce new disclosure requirements about transfers of financial assets 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 adoption this amendment had no significant impact on the Bank's financial statements

2 Basis of preparation (continued)

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2012, and have not been applied in preparing these financial statements. Those which are relevant to the Bank are set out below.

- **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.

- **IAS 19 – Employee benefits (2011)**
  IAS 19 (2011) changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two. For defined benefit plans, removal of the accounting policy choice for recognition of actuarial gains and losses is not expected to have any impact on the Bank. However, the Bank may need to assess the impact of the change in measurement principles of the expected return on plan assets. IAS 19 (2011) is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

  The Bank is not expecting a significant impact from the adoption of this amendment

- **Amendments to IFRS 7 and IAS 32 on offsetting financial assets and financial liabilities (2011)**
  Disclosures – Offsetting Financial Assets and Financial Liabilities (amendments to IFRS 7) introduces disclosures about the impact of netting arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. Based on the new disclosure requirements the Bank will have to provide information about what amounts have been offset in the statement of financial position and the nature and extent of rights of set off under master netting arrangements or similar arrangements.

  Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32) clarify the offsetting criteria IAS 32 by explaining when an entity currently has a legally enforceable right to set off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Earlier application is permitted.

The Bank is not expecting a significant impact from the adoption of these amendments.

2 *Basis of preparation (continued)*

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

- **IFRS 9 – Financial Instruments**
  The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables.

  The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

  IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

  IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues. The Bank has commenced the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed.

  Given the nature of the Bank's operations, this standard is expected to have a significant impact on the Bank's financial statements.

- **IFRS 13 – Fair value measurement**
  IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. Although many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Bank to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorised in Level 3.

  IFRS 13 is effective for annual periods beginning on or after 1 January 2013. The Bank is currently reviewing its methodologies for determining fair values

- **Improvements to IFRSs (2011)**
  Improvements to IFRS issued in 2011 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. There were no significant changes to the current accounting policies of the Company as a result of these amendments.

(f) Early adoption of standards

The Bank did not early adopt new or amended standards in 2012.

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:

(i) Donations relating to income are recognised as deferred income until such time as the conditions are met, at which point they are recognised as income.

(ii) Donations relating to fixed assets are recognised by deducting the grant from the asset's carrying amount when the Bank has reasonable assurance that the conditions are being met.

(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 recognized when cash is advanced to a borrower. The Bank recognised 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 recognized at fair value plus any directly attributable 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 portfolio of loans collectively. Impairment losses are recorded as charges to the income

4. Significant accounting policies (continued)

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 recognized.

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 recongnised value. Net recongnised 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 recongnised 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 recongnised 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 recongnised in the financial statements but are disclosed unless the probability of settlement is remote.

(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.

4. Significant accounting policies (continued)

(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

	2012	2011
Cash on hand	2,865	103
Balances with banks	627,569	566,428
	630,434	**566,531**

5 LOANS AND ADVANCES

	2012	2011
Gross loans and advances	1,765,144	1,149,497
Less: collective impairment allowance	(284,570)	(179,262)
Net loans and advances	**1,480,574**	970,235

Movement on impairment allowance is as follows:

	2012	2011
At 1 January	179,262	78,937
Charge for the year	105,308	100,325
At 31 December	**284,570**	179,262

6 OTHER ASSETS

	2012	2011
Interest receivable	50,418	6,729
Management fee receivable	45,030	24,300
Inventories*	31,143	172,563
Prepayments	23,391	1,285
Advance towards purchase of vehicles	20,467	16,850
Other receivables	25,428	14,210
	195,877	235,937

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

7 EQUIPMENT

	Furniture	**Computers**	**Equipments**	**Software**	**2012 Total**	2011 Total
Cost						
At 1 January	18,005	23,876	19,939	46,271	108,091	76,632
Additions during the year	-	4,386	600	22,604	27,590	31,459
At 31 December	**18,005**	**28,262**	**20,539**	**68,875**	**135,681**	108,091
Depreciation						
At 1 January	(2,392)	(15,694)	(3,653)	(4,654)	(26,393)	(10,856)
Charge for the year	(2,089)	(6,134)	(2,619)	(11,867)	(22,709)	(15,537)
At 31 December	**(4,481)**	**(21,828)**	**(6,272)**	**(16,521)**	**(49,102)**	(26,393)
Net book value At 31 December 2012	**13,524**	**6,434**	**14,267**	**52,354**	**86,579**	-
Net book value At 31 December 2011	15,613	8,182	16,286	41,617	-	81,698

8 OTHER LIABILITIES

	2012	2011
Interest payable	12,500	7,500
Accrued expenses	10,800	14,800
Deferred income (refer note 10)	5,000	95,000
Employee related accruals	40,879	13,362
Other liabilities	50,449	9,033
	119,628	139,695

9 SHARE CAPITAL

	2012	2011
Authorized share capital		
5,000,000 (2011: 5,000,000) shares of 377 fills each	**1,885,000**	1,885,000

	2012	2011
Issued and fully paid		
5,000,000 (2011: 5,000,000) shares of 377 fills each	1,855,000	1,885,000
	1,855,000	1,885,000

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

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 3,700 which has been recognised as income.

(ii) Donation with conditions relating to income

During 2011, the Bank 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 2 year period. The beneficiary receives 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) is financed by the Bank.

Under phase I of the Program, amounts received towards the purchase of vehicles which were still in the process of being registered and transferred to the beneficiaries were recognized as deferred income (refer note 8). During the year, the Bank completed the process of registration and transfer of 19 vehicles (2011: Nil) and accordingly recognised the proportionate share of the deferred income. During the year, the Bank did not receive any further donation under the program.

11 FEE INCOME

	2012	2011
Loan administration fee	35,348	55,430
Projects administration fee	105,945	61,330
Other administration fee	10,457	69,126
	151,750	185,886

12 STAFF COST

	2012	2011
Salaries and allowances	313,169	301,041
Social insurance expenses	75,360	44,145
Other benefits	13,829	31,689
	402,358	376,875

13 OTHER OPERATING EXPENSES

	2012	2011
Rent and utilities	65,369	66,290
Travel expenses	11,681	15,956
Professional fee	33,398	23,962
Communication expenses	8,052	8,870
Marketing expenses	7,689	8,160
Other expenses	130,440	52,219
	256,629	175,457

14 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 statements are as follows:

	2012	2011
Bank balances held with a shareholder	116,096	124,429
	116,096	124,429

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.

	2012	2011
Salaries and short term employee benefits	110,816	78,191
	110,816	78,191

15 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 2012 amounted to BD 75,360 (2011: BD 44,142) - (refer note 13).

16 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 19,692 (2011: BD 396,795). During the year, for managing the projects, the Bank has charged administration fees amounting to BD 105,945 (2011: BD 61,330).

17 COMMITMENTS AND CONTINGENCIES

The Bank in its normal course of business has issued performance guarantees for BD 16,500 (2011: BD 33,000).

18 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.

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 Board of Directors 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 Board 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 Board 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 Bank is loans and advances as which the carrying value amount is net of the deferred income and net of impairment allowance, balances with Banks BD 706,793 (2011: 566,428) and deposits with Banks BD 16,500 (2011: 875,496).

18 Financial risk management (continued)

b. Credit risk (continued)

Loans	**2012**	2011
Past due loans but not individually impaired		
0-30 days	147,684	72,008
31-60 days	43,333	147,217
61-90 days	33,043	37,713
91-180 days	74,570	31,549
180 days and above	111,170	76,144
	409,800	364,631
Collective impairment allowance	(284,570)	(179,262)
Carrying amount	***125,230***	185,369
Neither past due nor impaired		
Gross amount	1,355,343	784,866
Collective impairment allowance	-	-
Carrying amount	***1,355,343***	784,866
Total carrying amount	**1,480,573**	970,235

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 financial 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.

18 Financial risk management (continued)

c. Maturity and liquidity risk (continued)

2012	**Within 1 Year**	**1 year to 5 years**	**Total**
ASSETS			
Cash and cash equivalents	630,434	-	630,434
Deposits with banks	16,500	-	16,500
Loans and advances	498,250	982,323	1,480,573
Other assets	121,807	-	121,807
	1,266,991	**982,323**	**2,249,314**
LIABILITIES			
Short term borrowing	4,835	-	4,835
Deposit from non-bank	1,000,000	-	1,000,000
Other liabilities	40,108	12,031	52,139
	1,044,943	**12,031**	**1,056,974**

2011	Within 1 Year	1 year to 5 years	Total
ASSETS			
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	44,939	-	44,939
	1,764,389	692,812	2,457,201
LIABILITIES			
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
	1,047,825	102,500	1,150,325

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.

18 Financial risk management (continued)

c. Maturity and liquidity risk (continued)

2012	**Carrying amount**	**Contractual undiscounted cash flows**	**Within 1 Year**	**1 year to 5 years**
Liabilities				
Short term borrowing	4,835	4,887	4,887	-
Deposit from non-bank	1,000,000	1,013,750	1,013,750	-
Other liabilities	52,139	52,139	40,108	12,031
	1,056,974	**1,070,776**	**1,058,745**	**12,031**

2011	Carrying amount	Contractual undiscounted cash flows	Within 1 Year	1 year to 5 years
Liabilities				
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

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:

2012	**Fixed Rate**	**Floating Rate**	**Non-interest Earning**	**Total**
ASSETS				
Cash and cash equivalents	-	-	630,434	630,434
Deposits with banks	-	-	16,500	16,500
Loans	1,480,573	-	-	1,480,573
Other assets	-	-	121,807	121,807
	1,480,573	**-**	**768,741**	**2,249,314**
LIABILITIES				
Short term borrowing	4,835	-	-	4,835
Deposit from non-bank	1,000,000	-	-	1,000,000
Other liabilities	-	-	52,139	52,139
	1,004,835	**-**	**52,139**	**1,056,974**

18 Financial risk management (continued)

2011	Fixed Rate	Floating Rate	Non-interest Earning	Total
ASSETS				
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
LIABILITIES				
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

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.

19 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.

20 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:

20 Accounting classification and fair value (continued)

	2012		2011	
Assets	**Total carrying amount**	**Fair value**	Total carrying amount	Fair value
Cash and cash equivalents	630,434	630,434	566,531	566,531
Deposits with banks	16,500	16,500	875,496	875,496
Loans and advances	1,480,573	1,480,573	970,235	970,235
Other assets	121,807	121,807	44,939	44,939
Total assets	**2,249,314**	**2,249,314**	2,457,201	2,457,201
Liabilities				
Short term borrowings	4,835	4,835	10,630	10,630
Deposit from non-bank	1,000,000	1,000,000	1,000,000	1,000,000
Other liabilities	52,139	52,139	139,695	139,695
Total liabilities	**1,056,974**	**1,056,974**	1,150,325	1,150,325

All financial assets of BD 2,249,314 (2011: BD 2,457,201) are categorised under ‘loans and receivables’ and are measured at amortised cost. All the financial liabilities of 1,056,974 (2011: BD 1,150,325) are measured at amortised cost.

21 Comparatives

Certain prior period amounts have been regrouped to conform to current period’s presentation. Such regrouping did not affect previously reported profit or equity.