

Al Ebdaa Bank for Microfinance BSC (c)

FINANCIAL STATEMENTS

For the year ended

31 December 2013

Commercial registration	: 72533
Board of Directors	: Ebrahim Bin Khalifa Bin Ali Al Khalifa (<i>Chairman</i>) Mona Yousif Khalil Almoayyed (Vice chairman) Nasser Bakr M Alkahtani Sabah Khalil Almoayyed Dalal Ismail Ahmed Khalid Mohamed Kanoo Abdulhameed Mohamed Hasan Dawani Ahmed R. Tayara Hashim Hussain Ahmed Azzam
Office	: P.O. Box 18648, 3 rd Floor, Exhibition tower Manama Kingdom of Bahrain
Auditors	: KPMG Fakhro, Bahrain

**FINANCIAL STATEMENTS
for the year ended 31 December 2013**

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Al Ebdaa Bank For Microfinance BSC (c)

Chairman's Report

It is my pleasure to endorse the annual report and the audited financial statements for year ended 2013. This has been an exceptional year on all aspects and the outcomes could have impacted the bank much more if it was not for the leadership of the board and the management team especially in tightening expenditures as well as motivating better productivity despite the difficult local credit environment.

The microfinance industry in Bahrain is relatively new, and for such an industry to reach out to the maximum number of beneficiaries, more attention and support is required from all government and semi-government agencies to further support specialized Microfinance Banks; among which Ebdaa bank is, and develop more understanding of its special requirements and differentiate between what commercial banks do and what Microfinance Banks are capable of. Within the past 10 years, many Arab countries have adopted special laws to support the creation of microfinance banks as an effective tool to alleviate poverty. Many Central Banks went further and instructed commercial banks to allocate not less than 15% of its outstanding portfolios to support Microfinance; either by directly lending to the Low-Income, or favorably by lending to specialized microfinance vehicles that knows how to deal with the productive Low-Income. In Bahrain, we are very proud of the support and close monitoring of the Central Bank of Bahrain that has kept the financial sector intact despite the financial crisis around the world. We are hoping to continue working with the Central Bank to adopt flexible monitoring tools that will respond better to the special nature of Micro-Banking.

Since its inception in 2009, Ebdaa Bank has disbursed 3,461 loans worth BD 5,436,175 and has served over 1,600 grantees that received a total of over BD 8 million in grant funding from "Tamkeen". This grant program; although not favorable by Microfinance best practices; has been managed exceptionally in a way that did not negatively influence our day to day operations.

Furthermore, the bank has made a remarkable progress in developing all the internal policies and procedures including corporate governance in line with the requirements of the special license to operate a microfinance bank. Finally, the Bank is in its final stages to migrate to a new Management Information System to secure an efficient operation and quicker loan processing.

My promise; on behalf of the Board of Directors; is to continue to lead the market by example and to take the necessary decisions to further improve efficiency and operate towards

sustainability, in light of Bahrain's Economic vision. That will be done by empowering our clients; specially women; financially and technically by providing them with a wide range of financial and non-financial services to build their entrepreneurship skills.

To conclude, I take this opportunity to thank HRH Princess Sabeeka Bint Ebrahim Al Khalifa for her continuous support and vision; without which, none of our noble targets would have ever been set. My thanks are also due to HRH Prince Talal Bin Abdulaziz Al Saud, the special envoy of UNICEF and President of Arab Gulf Fund for Development. Finally, much appreciation and gratefulness to the Central Bank of Bahrain, Ministry of Industry & Commerce, Tamkeen and all other local and international organization for their continuous support to translate the bank's vision into reality.

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**

27 February 2014

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 2013, the statements of profit or loss and other 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 2013, 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.

STATEMENT OF FINANCIAL POSITION
as at 31 December 2013

Bahraini Dinars

	note	31 December 2013	31 December 2012
ASSETS			
Cash and cash equivalents	4	1,002,960	630,434
Deposits with banks		17,500	16,500
Loans and advances	5	898,417	1,480,573
Other assets	6	168,119	195,877
Equipment	7	62,551	86,579
Total assets		2,149,547	2,409,963
LIABILITIES AND EQUITY			
Liabilities			
Short term borrowing		-	4,835
Deposit from non-bank		1,000,000	1,000,000
Other liabilities	8	104,987	119,628
Total liabilities		1,104,987	1,124,463
Equity			
Share capital	9	1,885,000	1,885,000
Accumulated losses		(840,440)	(599,500)
Total equity (page 5)		1,044,560	1,285,500
Total liabilities and equity		2,149,547	2,409,963

The Board of Directors approved the financial statements consisting of pages 3 to 22 on 27 February 2014 and signed on its behalf by:


Ebrahim Bin Khalifa Bin Ali Al Khalifa
Chairman


Sabah Khalil Almoayyed
Acting Chief Executive Officer

The accompanying notes 1 to 22 form an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2013

Bahraini Dinars

	note	31 December 2013	31 December 2012
Interest income on loans and advances		252,834	320,161
Interest income on deposits with banks		-	19,740
Interest expense		(5,187)	(6,290)
Net interest income		247,656	333,611
Donation	10	-	3,700
Fee income	11	110,333	151,750
Other income		2,849	3,871
Total income		360,838	492,932
Staff cost	12	407,376	402,358
Impairment allowance on loans and advances	5	29,299	105,308
Depreciation	7	25,847	22,709
Other operating expenses	13	139,256	256,629
Total expenses		601,778	787,004
Loss for the year		(240,940)	(294,072)
Other comprehensive income		-	-
Total comprehensive income for the year		(240,940)	(294,072)


Ebrahim Bin Khalifa Bin Ali Al Khalifa
Chairman


Sabah Khalil Almoayyed
Acting Chief Executive Officer

The accompanying notes 1 to 22 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2013

Bahraini Dinars

2013

At 1 January 2013
 Total comprehensive income for the year
Balance at 31 December 2013

Share capital	Accumulated losses	Total equity
1,885,000	(599,500)	1,285,500
-	(240,940)	(240,940)
1,885,000	(840,440)	1,044,560

2012

At 1 January 2012
 Total comprehensive income for the year
 Balance at 31 December 2012

Share capital	Accumulated losses	Total equity
1,885,000	(305,428)	1,579,572
-	(294,072)	(294,072)
1,885,000	(599,500)	1,285,500

The accompanying notes 1 to 22 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
for the year ended 31 December 2013

Bahraini Dinars

	note	2013	2012
OPERATING ACTIVITIES			
Loss for the year		(240,940)	(294,072)
<i>Adjustments for:</i>			
- Depreciation	7	25,846	22,709
- Impairment allowance on loans and advances	5	29,299	105,308
Loss for the year after adjustments		(185,795)	(166,055)
<i>Change in assets and liabilities:</i>			
- Deposits with banks		(1,000)	858,996
- Loans and advances		552,859	(615,648)
- Other assets		27,785	40,062
- Other liabilities		(14,642)	(20,067)
Net cash generated from operating activities		379,179	97,288
INVESTING ACTIVITIES			
Purchase of equipment		(1,819)	(27,590)
Net cash used in investing activities		(1,819)	(27,590)
FINANCING ACTIVITIES			
Repayment of short term borrowing		(4,835)	(5,795)
Net cash used in financing activities		(4,835)	(5,795)
Net increase in cash and cash equivalents		372,526	63,903
Cash and cash equivalents at 1 January		630,434	566,531
Cash and cash equivalents at 31 December	4	1,002,960	630,434

The accompanying notes 1 to 22 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2013

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.

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 2013

The following standards, amendments and interpretations, which became effective as of 1 January 2013 are relevant to the Bank.

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 adoption this amendment had no significant impact on the Bank's financial statements

2 *Basis of preparation (continued)*

(d) *Standards, amendments and interpretations effective from 1 January 2013*

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.

The adoption this amendment had no significant impact on the Bank's financial statements.

Amendments to IFRS 7 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. Based on the new disclosure requirements the Bank has 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.

The adoption this amendment had no 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. It unifies the definition of fair value as 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. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7.

As a result, the Bank has included additional disclosures in this regard. Please refer to notes 20. In accordance with the transitional provisions of IFRS 13, the Bank has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Bank's assets and liabilities.

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 Bank as a result of these amendments.

(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 2014, and have not been applied in preparing these financial statements. Those which are relevant to the Bank are set out below.

Amendments to IAS 32 on offsetting financial assets and financial liabilities (2011)

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

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions to the standard relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

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 mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalised. However, application of IFRS 9 is 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.

Amendments to IAS 19R: Employee Benefits

IAS 19 Employee Benefits (Amendments to IAS 19R) apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service.

The amendments are effective for annual periods beginning on or after 1 January 2014. Early application is permitted.

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

Amendments to IAS 36 on recoverable amount disclosures for non-financial assets

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36) have expanded disclosures of recoverable amounts when the amounts are based on fair value less costs of disposals and impairment is recognized.

The amendments are effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted. An entity shall not apply those amendments in periods (including comparative periods) in which it does not also apply IFRS 13. The Bank is not expecting a significant impact from the adoption of these amendments.

2 Basis of preparation (continued)

(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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013

Bahraini dinars

3. *Significant accounting policies (continued)*

(d) *Loans and advances (continued)*

(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 portfolio of loans 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 recognized.

Objective evidence that financial assets are impaired include significant financial difficult of the borrower or issuer, default or delinquency of a borrower, the restructuring of a loan or advance by the Bank on terms the Bank would not consider otherwise, indicators that a borrower or issuer will enter bankruptcy or the disappearance of an active market for a security.

The Bank considers evidence of impairment, for loans and other financial assets carried at amortised cost, at collective level. All loans with similar characteristics are grouped together and collectively assessed for impairment. 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 recognised value. Net recognised 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 financial statements but are disclosed unless the probability of settlement is remote.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013

Bahraini dinars

4. *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

	2013	2012
Cash on hand	1,127	2,865
Balances with banks	1,001,833	627,569
	1,002,960	630,434

5 LOANS AND ADVANCES

	2013	2012
Gross loans and advances	1,212,286	1,765,144
Less: collective impairment allowance	(313,869)	(284,570)
Net loans and advances	898,417	1,480,574

Movement on impairment allowance is as follows:

	2013	2012
At 1 January	284,570	179,262
Charge for the year	29,299	105,308
At 31 December	313,869	284,570

6 OTHER ASSETS

	2013	2012
Interest receivable	50,423	50,418
Management fee receivable	77,850	45,030
Inventories*	10,000	31,143
Prepayments	21,920	23,391
Advance towards purchase of vehicles	-	20,467
Other receivables	7,926	25,428
	168,119	195,877

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013

Bahraini dinars

7 EQUIPMENT

	Furniture	Computers	Equipments	Software	2013 Total	2012 Total
Cost						
At 1 January	18,005	28,262	26,814	62,600	135,681	108,091
Additions / (disposals) during the year	100	4,479	(2,760)	-	1,819	27,590
At 31 December	18,105	32,741	24,054	62,600	137,500	135,681
Depreciation						
At 1 January	(4,481)	(21,828)	(6,272)	(16,521)	(49,102)	(26,393)
Charge for the year	(2,094)	(7,451)	(3,146)	(13,156)	(25,847)	(22,709)
At 31 December	(6,575)	(29,279)	(9,418)	(29,677)	(74,949)	(49,102)
Net book value At 31 December 2013	11,530	3,462	14,636	32,923	62,551	86,579
Net book value At 31 December 2012	13,524	6,434	14,267	52,354	-	86,579

8 OTHER LIABILITIES

	2013	2012
Interest payable	17,642	12,500
Accrued expenses	5,750	10,800
Deferred income (refer note 10)	33,416	5,000
Employee related accruals	13,522	40,879
Other liabilities	34,656	50,449
	104,986	119,628

9 SHARE CAPITAL

	2013	2012
Authorized share capital 5,000,000 (2012: 5,000,000) shares of 377 fills each	1,885,000	1,885,000
Issued and fully paid 5,000,000 (2012: 5,000,000) shares of 377 fills each	1,885,000	1,885,000
	1,885,000	1,855,000

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 not received any donations without conditions.

(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 four phases comprising 20 vehicles in each phase. 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.

Up to 31 December 2013, the Bank has completed phase I of the Program by executing the registration and transfer of total 20 vehicles. Under phase II of the Program, the Bank amounts received the Bank received donation of BD 115 thousand towards the purchase of vehicles.

The donation relating to 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 14 vehicles (2012: 19 vehicles) and accordingly recognised the proportionate share of the deferred income.

11 FEE INCOME

	2013	2012
Loan administration fee	45,267	35,348
Projects administration fee	48,666	105,945
Other administration fee	16,400	10,457
	110,333	151,750

12 STAFF COST

	2013	2012
Salaries and allowances	316,633	313,169
Social insurance expenses	59,979	75,360
Other benefits	30,764	13,829
	407,376	402,358

13 OTHER OPERATING EXPENSES

	2013	2012
Rent and utilities	50,249	65,369
Travel expenses	7,831	11,681
Professional fee	26,992	33,398
Communication expenses	2,943	8,052
Marketing expenses	3,586	7,689
Other expenses	47,655	130,440
	139,256	256,629

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:

	2013	2012
Bank balances held with a shareholder	211,918	116,096
	211,918	116,096

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.

	2013	2012
Salaries and short term employee benefits	118,936	110,816
	118,936	110,816

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 2013 amounted to BD 59,979 (2012: BD 75,360) - (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 759,105 (2012: BD 19,692). During the year, for managing the projects, the Bank has charged administration fees amounting to BD 48,666 (2012: BD 105,945).

17 COMMITMENTS AND CONTINGENCIES

The Bank in its normal course of business has issued performance guarantees for BD 17,500 (2012: BD 16,500).

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)

2013

	Gross amount	Collective impairment allowance	Net amount
Current	834,325	8,343	825,982
Past due:			
0-30 days	55,326	5,533	49,793
31-60 days	17,140	4,285	12,855
61-90 days	4,708	2,354	2,354
91-180 days	29,729	22,296	7,433
180 days and above	271,058	271,058	-
	1,212,286	313,869	898,417

2012

	Gross amount	Collective impairment allowance	Net amount
Current	1,279,996	-	1,279,996
Past due:			
0-30 days	147,684	14,768	132,916
31-60 days	43,333	10,833	32,500
61-90 days	33,043	16,521	16,522
91-180 days	74,570	55,930	18,640
180 days and above	186,518	186,518	-
	1,765,144	284,570	1,480,574

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.

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18. Financial risk management (continued)

The Bank writes off a loan balance (and any related allowances for impairment losses) when Bank determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower financial position such that the borrower can no longer pay the obligation.

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.

2013
ASSETS

Cash and cash equivalents
 Deposits with banks
 Loans and advances
 Other assets

	Within 1 Year	1 year to 5 years	Total
Cash and cash equivalents	1,002,960	-	1,002,960
Deposits with banks	17,500	-	17,500
Loans and advances	136,074	762,343	898,417
Other assets	136,199	-	136,199
	1,292,733	762,343	2,055,076
LIABILITIES			
Short term borrowing			
Deposit from non-bank	1,000,000	-	1,000,000
Other liabilities	27,402	9,512	36,914
	1,027,402	9,512	1,036,914

2012
ASSETS

Cash and cash equivalents
 Deposits with banks
 Loans and advances
 Other assets

	Within 1 Year	1 year to 5 years	Total
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

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.

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for the year ended 31 December 2013

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18. *Financial risk management (continued)*

c. *Maturity and liquidity risk (continued)*

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.

2013

	Carrying amount	Contractual undiscounted cash flows	Within 1 Year	1 year to 5 years
Liabilities				
Short term borrowing	-	-	-	-
Deposit from non-bank	1,000,000	1,017,642	1,017,642	-
Other liabilities	36,914	36,914	27,402	9,512
	1,036,914	1,054,556	1,045,044	9,512

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

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.

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18 *Financial risk management (continued)*

The distribution of financial instruments between interest rate categories is summarised below:

2013	Fixed Rate	Floating Rate	Non-interest Earning	Total
ASSETS				
Cash and cash equivalents	-	-	1,002,960	1,002,960
Deposits with banks	-	-	17,500	17,500
Loans	898,417	-	-	898,417
Other assets	136,199	-	-	136,199
	1,034,616	-	1,020,460	2,055,076
LIABILITIES				
Short term borrowing	-	-	-	-
Deposit from non-bank	1,000,000	-	-	1,000,000
Other liabilities	-	-	36,914	36,914
	1,000,000	-	36,914	1,036,914

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

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.

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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 VALUES

- (i) The following table provides disclosure of the accounting classification of financial assets and liabilities:

Assets	2013		
	Loans and receivables	Others at amortised cost	Total
Cash and cash equivalents	1,002,960	-	1,002,960
Deposits with banks	17,500	-	17,500
Loans and advances	898,417	-	906,760
Other assets	136,199	-	136,199
Total assets	2,055,076	-	2,055,076
Liabilities			
Deposit from non-bank	-	1,000,000	1,000,000
Other liabilities	-	36,914	36,914
Total liabilities	-	1,036,914	1,036,914

Assets	2012		
	Loans and receivables	Others at amortised cost	Total
Cash and cash equivalents	630,434	-	630,434
Deposits with banks	16,500	-	16,500
Loans and advances	1,480,573	-	1,480,573
Other assets	121,807	-	121,807
Total assets	2,249,314	-	2,249,314
Liabilities			
Short term borrowings	-	4,835	4,835
Deposit from non-bank	-	1,000,000	1,000,000
Other liabilities	-	52,139	52,139
Total liabilities	-	1,056,974	1,056,974

(ii) 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 in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk. When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument.

20. Accounting classification and fair values (continued)

(ii) Fair value (continued)

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Loans to customers are classified as level 3, as the average interest rate of the loan portfolio is in line with current market rates for similar facilities and hence after consideration of adjustment for prepayment risk and impairment charges it is expected that the carrying value would not be materially different to fair value of these assets.

As at 31 December 2013, the carrying value of other financial assets and financial liabilities approximate their fair value because of their short term nature.

21 Islamic Banking activities

The Bank offers certain Sharai'ah compliant loans to its customers. These activities are subject to supervision of Shari'ah Supervisory Scholar. As at 31 December 2013, Islamic loans comprise of 13% (2012: 30%) of its total assets.

22 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.