Al Ebdaa Bank for Microfinance BSC (c)

FINANCIAL STATEMENTS

For the year ended

31 December 2014

Commercial registration	: 72533
Board of Directors	: Ebrahim Bin Khalifa Bin Ali Al Khalifa *(Chairman)* 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 Adel Mohammed Ali
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 2014

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Al Ebdaa Bank for Microfinance BSC (c)

Chairman's statement

On behalf of the founding shareholders and Board of Directors of Al Ebdaa Bank for Microfinance BSC (c), I am pleased to present the annual report and audited financial statement for the year ending 31 December 2014.

During the year 2014, the Bank introduced changes to the management leadership team. With the new management leadership team officially taking over in April, the Bank has instituted transformational plans to improve the Bank's financial and operational performances.

For the financial year ending 31 December 2014, the Bank recorded a small increase in net interest income to BD 254,401 (2013: BD 247,656). Nevertheless, the Bank also recorded a reduction in fee income to BD 52,853 (2013: BD 110,333) due to the halt of project management activities for Tamkeen's fishermen's and farmers' programs that generated project management fees of BD 48,666 in 2013. The reduction of fee income contributed to the reduction of total income to BD 315,574 (2013: BD360,838).

The new management leadership team of the Bank has taken steps to improve staff efficiency and managed to record a reduction in staff cost to BD 352,934 (2013: BD 407,376). In addition, the Bank's loan recovery effort has resulted in reduction of collective impairment allowance to BD 298,443 (2013: BD 313,869. The reductions in staff cost and collective impairment allowance along with other cost rationalisation measures contributed towards the reduction of total expenses to BD 480,833 (2013: BD 601,778) and reduction of loss for the year to BD 165,260 (2013: BD240,940).

Despite the challenging environment, the Bank has continued to strive for enhancement of its overall efficiency, including through staff training and capacity building. The Bank will also continue to assess its operations and formulate strategies that can deliver growth.

The Board of Directors is committed to support the management leadership team in addressing the challenges faced by the Bank. With further support from the shareholders and other stakeholders of the Bank, the Board of Directors is confident that the Bank will be able to progress to a stronger position to fulfil its objectives.

On behalf of the founding shareholders and Board of Directors, I would like to convey our utmost gratitude to the wise leadership of the Kingdom of Bahrain, the Central Bank of Bahrain, other governmental institutions, and other stakeholders of the Bank, for their invaluable assistance and guidance. I would also like to record our appreciation to the customers of the Bank for their vital support, to the members of Shari'a Supervisory Board for their counsel and supervision, and to the management and staff of the Bank for their dedication and professionalism.

Ebrahim Bin Khalifa Al Khalifa
Chairman of Board of Directors

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

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 2014, 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 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 2014, and 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 5 of the Central Bank of Bahrain (CBB) Rule Book, we report that:

a) the Bank has maintained proper accounting records and the financial statements are in agreement therewith;
b) the financial information contained in the chairman's report is consistent with the financial statements;
c) The bank's paid up capital is below the minimum required by the Central Bank of Bahrain of BD 5 million. Except for this non-compliance, we are not aware of any other 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 of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG

KPMG Fakhro
Partner Registration No. 100
26 March 2015

Al Ebdaa Bank for Microfinance BSC (c)

STATEMENT OF FINANCIAL POSITION
as at 31 December 2014

Bahraini Dinars

	note	31 December 2014	31 December 2013
ASSETS			
Cash and cash equivalents	4	1,104,569	1,002,960
Deposits with banks		17,500	17,500
Loans and advances	5	720,637	898,417
Other assets	6	104,834	168,119
Equipment	7	60,708	62,551
Total assets		**2,008,248**	2,149,547
LIABILITIES AND EQUITY			
Liabilities			
Deposit from non-bank		1,000,000	1,000,000
Other liabilities	8	128,948	104,987
Total liabilities		**1,128,948**	1,104,987
Equity			
Share capital	9	1,885,000	1,885,000
Accumulated losses		(1,005,700)	(840,440)
Total equity (page 5)		**879,300**	1,044,560
Total liabilities and equity		**2,008,248**	2,149,547

The Board of Directors approved the financial statements consisting of pages 3 to 22 on 26 March 2015 and signed on its behalf by:

Mona Yousif Almoayyed	**Abdulhameed Dawani**	**Khaled Walid Al-Gazawi**
Vice Chairman	*Board member*	*Chief Executive Officer*

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

Al Ebdaa Bank for Microfinance BSC (c)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2014

Bahraini Dinars

	note	31 December 2014	31 December 2013
Interest income		259,401	252,834
Interest expense		(5,000)	(5,187)
Net interest income		**254,401**	247,656
Fee income	10	52,853	110,333
Other income		8,319	2,849
Total income		**315,574**	360,838
Staff cost	11	352,934	407,376
(Reversal)/ charge impairment on loans	5	(15,420)	29,299
Depreciation	7	19,367	25,847
Other operating expenses	12	123,952	139,256
Total expenses		**480,833**	601,778
Loss for the year		**(165,260)**	(240,940)
Other comprehensive income		-	-
Total comprehensive income for the year		**(165,260)**	(240,940)

Mona Yousif Almoayyed
Vice Chairman

Abdulhameed Dawani
Board member

Khaled Walid Al-Gazawi
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 2014

Bahraini Dinars

2014	**Share capital**	**Accumulated losses**	**Total equity**
At 1 January 2014	1,885,000	(840,440)	1,044,560
Total comprehensive income for the year	-	(165,260)	(165,260)
Balance at 31 December 2014	**1,885,000**	**(1,005,700)**	**879,300**

2013	Share capital	Accumulated losses	Total equity
At 1 January 2013	1,885,000	(599,500)	1,285,500
Total comprehensive income for the year	-	(240,940)	(240,940)
Balance at 31 December 2013	1,885,000	(840,440)	1,044,560

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

Al Ebdaa Bank for Microfinance BSC (c)

STATEMENT OF CASH FLOWS
for the year ended 31 December 2014

Bahraini Dinars

	note	2014	2013
OPERATING ACTIVITIES			
Loss for the year		(165,260)	(240,940)
Adjustments for:			
- Depreciation	7	19,367	25,846
- Impairment allowance on loans and advances	5	(15,420)	29,299
Loss for the year after adjustments		**(161,313)**	(185,795)
Change in assets and liabilities:			
- Deposits with banks		-	(1,000)
- Loans and advances		193,200	552,859
- Other assets		63,605	27,785
- Other liabilities		23,961	(14,642)
Net cash generated from operating activities		**119,453**	379,179
INVESTING ACTIVITIES			
Purchase of equipment		(17,844)	(1,819)
Net cash used in investing activities		**(17,524)**	(1,819)
FINANCING ACTIVITIES			
Repayment of short term borrowing		-	(4,835)
Net cash used in financing activities		-	(4,835)
Net increase in cash and cash equivalents during the year		**101,609**	372,526
Cash and cash equivalents at 1 January		**1,002,960**	630,434
Cash and cash equivalents at 31 December	4	**1,104,569**	1,002,960

The accompanying notes 1 to 22 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) Going concern assumption

As at 31 December 2014, the Bank had accumulated losses of BD 1,005,700 representing 53% of its capital. Further, the Bank's paid up capital is below the minimum required by the Central Bank of Bahrain of BD 5 million. These conditions indicate the existence of material uncertainties that may cast significant doubt about the Bank's ability to continue as a going concern. The Bank's ability to continue as a going concern is dependent upon its ability to generate sufficient profits from its operations and continued financial support of the shareholders.

The board of directors in its meeting of 19th November 2014 resolved to increase the paid up capital subject to the approval of shareholders by BD 450,000. Subsequent to the year-end, BD 306,000 of this increase has been received.

The Board of directors has assessed the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future based on the support of shareholders. The Board of Directors has reviewed the Bank's future plans and is satisfied with the appropriateness of the going concern assumption for preparation of the financial statements.

(c) 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.

(d) 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.

2 *Basis of preparation (continued)*

(e) Standards, amendments and interpretations effective from 1 January 2014

The following standards, amendments and interpretations, which became effective as of 1 January 2014 are relevant to the Bank.

- **Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities**

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'. The amendments have been applied retrospectively.

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

- **Annual improvements to IFRSs 2010-2012 cycle and 2011-2013 cycle**

The annual improvements to IFRSs to 2010-2012 and 2011 -2013 cycles include a number of amendments to various IFRSs. Most amendments will apply prospectively for annual periods beginning on or after 1 July 2014; earlier application is permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

There were no significant changes to the current accounting policies of the Bank as a result of these amendments.

(f) 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 2015, and have not been applied in preparing these financial statements. Those which are relevant to the Bank are set out below.

- **IFRS 9 - Financial Instruments**

IFRS 9 published in July 2014, replaces the existing IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 9.

- **IFRS 15 – Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.
IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

- **Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation**

The amendments to IAS 16 prohibits entities from using a revenue based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted if the intangible asset is expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.
The amendments apply prospectively for annual periods beginning on or after 1 January 2016.
The above amendments will not have any material impact on the financial statements of the Bank.

2 *Basis of preparation (continued)*

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

- **Amendments to IAS 19 Defined Benefit Plans: Employee Contributions**

The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties to define benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognize the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees periods of service using the project unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees periods of service.

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

(f) Early adoption of standards

The Bank did not early adopt new or amended standards in 2014.

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.

3 Significant accounting policies (continued)

(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 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.

(d) 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.

(e) Equipment

Equipment are carried at cost or valuation less accumulated depreciation and any 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
Vehicle	-	5 years
Office equipments	-	10 years

All depreciation is charged to income statement.

3. *Significant accounting policies (continued)*

(f) 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.

(g) 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.

(h) 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

	2014	2013
Cash on hand	3,275	1,127
Balances with banks	1,101,294	1,001,833
	1,104,569	1,002,960

5 LOANS AND ADVANCES

	2014	2013
Gross loans and advances	1,019,086	1,212,286
Less: collective impairment allowance	(298,449)	(313,869)
Net loans and advances	**720,637**	898,417

Movement on impairment allowance is as follows:

	2014	2013
At 1 January	313,869	284,570
(Release) / charge for the year	(15,420)	29,299
At 31 December	**298,449**	313,869

6 OTHER ASSETS

	2014	2013
Interest receivable	12,167	50,423
Management fee receivable	77,850	77,850
Inventories*	-	10,000
Prepayments	8,867	21,920
Other receivables	5,950	7,926
	104,834	168,119

* Inventories comprise vehicles purchased under the transportation project (refer note 13).

7 EQUIPMENT

	Furniture	Computers	Software	Equipment	Vehicle	2014 Total	2013 Total
Cost							
At 1 January	18,105	32,741	62,600	24,054	-	137,500	135,681
Additions / (disposals) during the year	315	120	280	198	16,611	17,524	1,819
At 31 December	**18,420**	**32,861**	**62,880**	**24,252**	**16,611**	**155,024**	137,500
Depreciation							
At 1 January	(6,575)	(29,279)	(29,677)	(9,418)	-	(74,949)	(49,102)
Charge for the year	(2,117)	(2,457)	(10,580)	(2,280)	(1,933)	(19,367)	(25,847)
At 31 December	**(8,692)**	**(31,736)**	**(40,257)**	**(11,698)**	**(1,933)**	**(94,316)**	(74,949)
Net book value At 31 December 2014	**9,728**	**1,125**	**22,623**	**12,554**	**14,678**	**60,708**	-
Net book value At 31 December 2013	11,530	3,462	32,923	14,636	-	-	62,551

8 OTHER LIABILITIES

	2014	2013
Interest payable	22,642	17,642
Accrued expenses	8,302	5,750
Deferred income (refer note 13)	11,563	33,416
Employee related accruals	12,262	13,522
Other liabilities	74,179	34,657
	128,948	104,987

9 SHARE CAPITAL

	2014	2013
Authorized share capital		
5,000,000 (2013: 5,000,000) shares of 377 fils each	**1,885,000**	1,885,000

	2014	2013
Issued and fully paid		
5,000,000 (2013: 5,000,000) shares of 377 fils each	1,885,000	1,885,000
	1,885,000	1,885,000

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

10 FEE INCOME

	2014	2013
Loan administration fee	50,653	45,267
Projects administration fee	-	48,666
Other administration fee	2,200	16,400
	52,853	110,333

11 STAFF COST

	2014	2013
Salaries and allowances	268,206	316,633
Social insurance expenses	39,679	59,979
Other benefits	45,049	30,764
	352,934	407,376

12 OTHER OPERATING EXPENSES

	2014	2013
Rent and utilities	41,688	50,249
Travel expenses	13,041	7,831
Professional fee	18,220	22,162
Communication expenses	5,187	2,943
Marketing expenses	3,783	3,586
Other expenses	42,033	52,485
	123,952	139,256

13 DONATIONS

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.

13 Donations (Continued)

As of 31 December 2014, 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 has registered and transferred 18 vehicles to the beneficiaries.

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 4 vehicles (2013: 14 vehicles) and accordingly recognised the proportionate share of the deferred income.

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:

	2014	2013
Bank balances held with a shareholder	186,959	211,918
	186,959	211,918

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.

	2014	2013
Salaries and short term employee benefits	69,106	118,936
	69,106	118,936

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 2014 amounted to BD 39,679 (2013: BD 59,979) - (refer note 11).

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 404,043 (2013: BD 759,105). During the year, for managing the projects, the Bank has charged administration fees amounting to BD nil (2013: BD 48,666).

17 COMMITMENTS AND CONTINGENCIES

The Bank in its normal course of business has issued performance guarantees for BD 17,500 (2013: BD 17,500).

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 BD 720,637 (2013: 898,417) net of the deferred income and net of impairment allowance, balances with Banks BD 1,101,294 (2013: 1,001,833) and deposits with Banks BD 17,500 (2013: 17,500).

18. Financial risk management (continued)

b. Credit risk (continued)

2014	**Gross loan amount**	**Collective impairment allowance**	**Net loan amount**
Current	655,273	6,553	648,720
Past due:			
0-30 days	45,574	4,557	41,017
31-60 days	19,841	4,960	14,881
61-90 days	14,504	7,252	7,252
91-180 days	35,073	26,306	8,767
181 days and above	248,821	248,821	-
	1,019,086	**(298,449)**	**720,637**

2013	Gross loan amount	Collective impairment allowance	Net loan 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
181 days and above	271,058	271,058	-
	1,212,286	(313,869)	898,417

As at 31 December 2014 the bank had a receivable of BD 77,850 (2013: 77,850) past due for 360 days. Management considers this amount as recoverable hence, no provision has been created as at 31 December 2014.

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.

18 *Financial risk management (continued)*

b Credit risk (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.

2014	Within 1 Year	1 year to 5 years	Total
ASSETS			
Cash and cash equivalents	1,104,569	-	1,104,569
Deposits with banks	17,500	-	17,500
Loans and advances	285,256	435,381	720,637
Other assets	95,967	-	95,967
	1,503,292	**435,381**	**1,938,673**
LIABILITIES			
Deposit from non-bank	1,000,000	-	1,000,000
Other liabilities	30,944	12,262	43,206
	1,030,944	**12,262**	**1,043,206**

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.

18. Financial risk management (continued)

c. Maturity and liquidity risk (continued)

2013	Within 1 Year	1 year to 5 years	Total
ASSETS			
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			
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

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.

2014	**Carrying amount**	**Contractual undiscounted cash flows**	**Within 1 Year**	**1 year to 5 years**
Liabilities				
Deposit from non-bank	1,000,000	1,022,642	1,022,642	-
Other liabilities	43,206	43,206	20,564	22,642
	1,043,206	**1,065,848**	**1,043,206**	**22,642**

2013	Carrying amount	Contractual undiscounted cash flows	Within 1 Year	1 year to 5 years
Liabilities				
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

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.

18 *Financial risk management (continued)*

c. Market risk (continued)

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:

2014	**Fixed Rate**	**Floating Rate**	**Non-interest Earning**	**Total**
ASSETS				
Cash and cash equivalents	-	-	1,104,569	1,104,569
Deposits with banks	-	-	17,500	17,500
Loans	720,637	-	-	720,637
Other assets	95,967	-	-	95,967
	816,604	-	**1,122,069**	**1,938,673**
LIABILITIES				
Deposit from non-bank	1,000,000	-	-	1,000,000
Other liabilities	-	-	43,206	43,206
	1,000,000	-	**43,206**	**1,043,206**

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				
Deposit from non-bank	1,000,000	-	-	1,000,000
Other liabilities	-	-	36,914	36,914
	1,000,000	-	36,914	1,036,914

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 VALUES

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

	2014		
Assets	**Loans and receivables**	**Others at amortised cost**	**Total**
Cash and cash equivalents	1,104,569	-	1,104,569
Deposits with banks	17,500	-	17,500
Loans and advances	720,637	-	720,637
Other assets	95,967	-	95,967
Total assets	**1,938,673**	-	**1,938,673**
Liabilities			
Deposit from non-bank	-	1,000,000	1,000,000
Other liabilities	-	43,206	43,206
Total liabilities	-	**1,043,206**	**1,043,206**

	2013		
Assets	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

20 Accounting classification and fair values (Continued)

(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.

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 2014, 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 2014, Islamic loans comprise of 7% (2013: 13%) 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.