Bahrain Commercial Facilities Company B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2021

Building a better
working world

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BAHRAIN COMMERCIAL FACILITIES COMPANY B.S.C.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Bahrain Commercial Facilities Company B.S.C. (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021 and the consolidated statements of profit or loss, comprehensive income, cash flows and changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as modified by the Central Bank of Bahrain ("CBB").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code")* together with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with these requirements and IESBA. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified audit opinion on those consolidated financial statements on 28 February 2021.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BAHRAIN COMMERCIAL FACILITIES COMPANY B.S.C. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key audit matters (continued)

1. Impairment of loans and advances	
Refer to notes 3, 4 & 10	
Key audit matter / risk	**How the key audit matter was addressed in the audit**
The process for estimating Expected Credit Loss (“ECL”) on credit risk associated with loans and advances in accordance with IFRS 9 – Financial Instruments (“IFRS 9”) is a significant and complex area. IFRS 9 requires use of the ECL model for the purposes of calculating loss allowances. The key areas of judgement applied by the management in the determination of the ECL include: • Determining whether the risk of default on a customer has increased significantly, specifically as a result of regulatory payment holidays due to COVID-19 provided by the Group; • Choosing appropriate models and assumptions for the measurement of ECL, including the changes in forward-looking macroeconomic variables; and • Qualitative adjustments (overlays) made to the ECL results to address model limitations or emerging risks and trends in the underlying portfolio which are inherently judgmental, especially considering the current impact of the COVID-19 pandemic.	Our approach included understanding the relevant processes for estimating the ECL and performing audit procedures on such estimates. We assessed the Group’s IFRS 9 based ECL policy including the Group’s determination of the significant increase in credit risk and its impact on the staging criteria with the requirements of IFRS 9 and regulatory guidelines issued in relation to COVID-19. We assessed the basis of determination of the management overlays considering the impact of the COVID-19 pandemic against the requirements of the Group’s ECL policy. For a sample of exposures, we checked the appropriateness of the Group’s staging. For Probability of Default (“PD”) used in the ECL calculations we checked the Through the Cycle (“TTC”) PDs with internal historical data and checked the appropriateness of conversion of the TTC PDs to Point in Time PDs. We checked the appropriateness of the Loss Given Default used by the Group’s management in the ECL calculations.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BAHRAIN COMMERCIAL FACILITIES COMPANY B.S.C. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key audit matters (continued)

1. Impairment of loans and advances (continued)	
Refer to notes 3, 4 & 10	
Key audit matter / risk	**How the key audit matter was addressed in the audit**
Due to the complexity of the requirements under IFRS 9, the significance of judgments and estimations applied in the ECL calculations, in addition to the impact of the COVID-19 pandemic and the Group's exposure to loans and advances, which account for 74% of the Group's total assets, the audit of ECL for loans and advances is a key area of focus. As at 31 December 2021, the Group's gross loans and advances amounted to BD 263.1 million and the related ECL amounted to BD 33.8 million, comprising BD 11.1 million of ECL against Stage 1 and 2 exposures and BD 22.7 million against exposures classified under Stage 3.	For a sample of exposures, we checked the appropriateness of determining Exposure at Default, including the consideration of repayments in the cash flows and the resultant arithmetical calculations. We checked the completeness of loans and advances to customers and credit related contingent items included in the ECL calculations as of 31 December 2021. We involved Financial Services Risk Management and Information System specialists to verify the appropriateness of the model. We evaluated the key management assumptions related to the determination of the future macroeconomic scenarios including forward looking information and assigning probability weights, incorporating management overlays for the impact of COVID-19. We considered the adequacy of the disclosures in the consolidated financial statements in relation to ECL on loans and advances as per the applicable financial reporting standards.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BAHRAIN COMMERCIAL FACILITIES COMPANY B.S.C. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Other information included in the Group's 2021 annual report
Other information consists of the information included in the Group's 2021 annual report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditor's report, we obtained the Chairman's Statement which will form part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as modified by the CBB and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BAHRAIN COMMERCIAL FACILITIES COMPANY B.S.C. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor’s responsibilities for the audit of the consolidated financial statements (continued)
As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.

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

- Conclude on the appropriateness of the Board of Directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BAHRAIN COMMERCIAL FACILITIES COMPANY B.S.C. (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 5), we report that:

a) the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;

b) the financial information contained in the Chairman's Statement consistent with the consolidated financial statements;

c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 5 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Company's memorandum and articles of association having occurred during the year ended 31 December 2021 that might have had a material adverse effect on the business of the Company or on its financial position; and

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

The partner in charge of the audit resulting in this independent auditor's report is Essa Al-Jowder.

Ernst + Young

Auditor's Registration No: 45
28 February 2022
Manama, Kingdom of Bahrain

Bahrain Commercial Facilities Company B.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	Note	*31 December 2021 BD '000*	*31 December 2020 BD '000*
ASSETS			
Cash and balances with banks		28,354	25,530
Loans and advances to customers	10	229,325	264,006
Trade receivables	11	3,569	4,495
Inventories	12	11,479	18,706
Investment properties	13	10,787	12,563
Property and equipment	14	24,945	27,650
Other assets		2,442	2,594
TOTAL ASSETS		**310,901**	355,544
LIABILTIES AND EQUITY			
LIABILITIES			
Trade and other payables	15	19,484	23,955
Bank term loans		156,497	205,956
TOTAL LIABILITIES		**175,981**	229,911
EQUITY			
Share capital	16	20,419	20,419
Treasury shares	16	(599)	(599)
Statutory reserve		10,210	10,210
Share premium		25,292	25,292
Other reserves		25,190	22,084
Retained earnings		54,408	48,227
TOTAL EQUITY		**134,920**	125,633
TOTAL LIABILITIES AND EQUITY		**310,901**	355,544

AbdulRahman Yusuf Fakhro	**Dr. AbdulRahman Ali Saif**	**Abdulla Abdulrazaq Bukhowa**
Chairman	Vice Chairman	Chief Executive Officer

The attached notes 1 to 32 form part of these consolidated financial statements.

Bahrain Commercial Facilities Company B.S.C.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

	Note	2021 BD '000	2020 BD '000
Interest income		28,915	34,366
Interest expense		(8,749)	(10,861)
Net interest income		**20,166**	23,505
Automotive revenue	17	43,408	39,855
Cost of sales		(38,020)	(35,964)
Gross profit on automotive revenue		**5,388**	3,891
Fee and commission income	18	6,357	5,276
Profit from sale of real estate inventory	19	156	220
Rental and evaluation income		595	888
Total operating income		**32,662**	33,780
Other income	20	1,129	1,027
Salaries and related costs		(7,001)	(7,730)
Operating expenses	21	(9,642)	(10,880)
Profit before allowance on financial instruments		**17,148**	16,197
Allowance on loans and receivables, net of recoveries	22	(10,967)	(20,472)
Profit / (loss) for the year		**6,181**	(4,275)
Basic and diluted earnings per 100 fils share	28	**31 fils**	(21) fils
Proposed cash dividend per 100 fils share		**25 fils**	-

AbdulRahman Yusuf Fakhro	**Dr. AbdulRahman Ali Saif**	**Abdulla Abdulrazaq Bukhowa**
Chairman	Vice Chairman	Chief Executive Officer

The attached notes 1 to 32 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	2021	*2020*
	BD '000	*BD '000*
Profit / (loss) for the year	**6,181**	(4,275)
Other comprehensive income:		
Items that are or may be reclassified to profit or loss		
Net change in cash flow hedge reserve	3,332	(3,723)
Total comprehensive income / (loss) for the year	**9,513**	(7,998)

The attached notes 1 to 32 form part of these consolidated financial statements.

Bahrain Commercial Facilities Company B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Share capital		*Reserves and retained earnings*						
					Other reserves				
	Share Capital BD '000	***Treasury shares BD '000***	***Statutory reserve BD '000***	***Share Premium BD '000***	***Cash flow hedge reserve BD '000***	***Donation reserve BD '000***	***General reserve BD '000***	***Retained earnings BD '000***	***Total equity BD '000***
As at 1 January 2021	20,419	(599)	10,210	25,292	(5,445)	529	27,000	48,227	125,633
Comprehensive income for the year:									
Profit for the year	-	-	-	-	-	-	-	6,181	6,181
Other comprehensive income:									
- Net change in cash flow hedge reserve	-	-	-	-	3,332	-	-	-	3,332
	20,419	(599)	10,210	25,292	(2,113)	529	27,000	54,408	135,146
Utilisation of donation reserve	-	-	-	-	-	(226)	-	-	(226)
At 31 December 2021	**20,419**	**(599)**	**10,210**	**25,292**	**(2,113)**	**303**	**27,000**	**54,408**	**134,920**

The attached notes 1 to 32 form part of these consolidated financial statements.

Bahrain Commercial Facilities Company B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Share capital		*Reserves and retained earnings*						
					Other reserves				
	Share Capital BD '000	*Treasury shares BD '000*	*Statutory reserve BD '000*	*Share Premium BD '000*	*Cash flow hedge reserve BD '000*	*Donation reserve BD '000*	*General reserve BD '000*	*Retained earnings BD '000*	*Total equity BD '000*
As at 1 January 2020	20,419	(599)	10,210	25,292	(1,722)	693	26,250	71,819	152,362
2019 appropriations (approved by shareholders):									
- Donations approved	-	-	-	-	-	300	-	(300)	-
- Dividend to equity holders declared	-	-	-	-	-	-	-	(5,036)	(5,036)
- Transfer to general reserve	-	-	-	-	-	-	750	(750)	-
Balance after appropriations	20,419	(599)	10,210	25,292	(1,722)	993	27,000	65,733	147,326
Comprehensive (loss) / income for the year:									
Loss for the year	-	-	-	-	-	-	-	(4,275)	(4,275)
Other comprehensive income:									
- Net change in cash flow hedge reserve	-	-	-	-	(3,723)	-	-	-	(3,723)
	20,419	(599)	10,210	25,292	(5,445)	993	27,000	61,458	139,328
Modification loss (Note 2.1(a))	-	-	-	-	-	-	-	(15,191)	(15,191)
Government grant	-	-	-	-	-	-	-	1,960	1,960
Utilisation of donation reserve	-	-	-	-	-	(464)	-	-	(464)
At 31 December 2020	20,419	(599)	10,210	25,292	(5,445)	529	27,000	48,227	125,633

The attached notes 1 to 32 form part of these consolidated financial statements.

Bahrain Commercial Facilities Company B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	2021	*2020*
	BD '000	*BD '000*
OPERATING ACTIVITIES		
Loan repayments, interest received and other credit related receipts	211,318	211,631
Cash receipts from automotive sales	44,731	42,097
Insurance commission received	713	924
Proceeds from sale of real estate inventory	2,302	2,158
Rental and evaluation income received	627	819
Loans and advances to customers	(152,638)	(146,970)
Payments to suppliers	(34,673)	(34,379)
Payments for operating expenses	(11,056)	(13,902)
Payment for real estate inventory	-	(578)
Directors' fees paid	(335)	(626)
Interest paid	(8,396)	(10,940)
Net cash generated from operating activities	**52,593**	50,234
INVESTING ACTIVITIES		
Capital expenditure on property and equipment	(2,093)	(2,956)
Addition to investment properties	-	(263)
Proceeds from sale of property and equipment	1,231	1,215
Proceeds from sale of investment properties	1,200	-
Net cash generated from / (used in) investing activities	**338**	(2,004)
FINANCING ACTIVITIES		
Bank term loans availed	2,000	169,283
Bank term loans paid	(52,170)	(193,279)
Dividends paid	(16)	(5,179)
Government grant received	347	1,960
Donations paid	(226)	(464)
Net cash used in financing activities	**(50,065)**	(27,679)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**2,866**	20,551
Cash and cash equivalents at 1 January	25,435	4,884
CASH AND CASH EQUIVALENTS AT 31 December	**28,301**	25,435
Cash and cash equivalents comprise:		
Cash and balances with banks	28,354	25,530
Less:		
Restricted cash	(53)	(95)
	28,301	25,435

1 REPORTING ENTITY

Bahrain Commercial Facilities Company BSC ("the Company") is a public shareholding company incorporated and registered in the Kingdom of Bahrain. It provides short-term, medium-term, long-term loans and issues credit cards. Since 26th June 2005, the Company has been licensed and regulated by the Central Bank of Bahrain ("the CBB"). The consolidated financial statements of the Group as at and for the year ended 31 December 2021 comprise the Company, its subsidiaries and its branches (together referred to as "the Group").

The consolidated financial statements of the Group comprise the results of the Company and its subsidiaries. Significant subsidiaries are set out below:

Name of subsidiary	Country of incorporation	% holding by Group	Principal activities
National Motor Company WLL	Bahrain	100%	Exclusive distributor for General Motors (GMC, Chevrolet and Cadillac) and Honda vehicles and represents Mack Defence in the Kingdom of Bahrain
Tasheelat Real Estate Company WLL	Bahrain	100%	Real estate related services
Tasheelat Insurance Services Company WLL	Bahrain	100%	Insurance brokerage services
Tasheelat for General Trading Company WLL	Kurdistan, Iraq	100%	Sale of Honda vehicles in Erbil, Kurdistan, Iraq (established through NMC)
Tasheelat Automotive Company WLL	Bahrain	100%	Exclusive distributor for GAC, Foton, Haval and Great Wall vehicles in the Kingdom of Bahrain
Tasheelat Car Leasing Company WLL	Bahrain	100%	Car rentals, long and short term leasing services

2 BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain ("CBB"). These rules and regulations require the application of all International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), except for:

a) recognition of modification losses on financial assets, arising from payment deferrals provided to customers impacted by COVID-19 without charging additional interest and fees, in statement of equity instead of the statement of profit or loss as required by IFRS 9: Financial Instruments. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of IFRS 9. For the current year, the Company has not recorded any modification loss (2020: BD 15.19 million).

b) recognition of financial assistance received from the government and/or regulators in response to COVID-19 that meets the government grant requirement, in statement of equity for 2020, instead of the statement of profit or loss as required by the International Accounting Standard (IAS 20): Government Grant, to the extent of any modification loss recognised in equity as a result of (a) above. In case this exceeds the modification loss, the balance amount is recognised in the profit or loss. In 2021, any financial assistance received from the Government of the Kingdom of Bahrain ("Government") has been recognised in the statement of profit or loss in accordance with the requirements IAS 20.

The above framework for basis of preparation of the consolidated financial statements is hereinafter referred to as 'IFRS as modified by the CBB'.

2 BASIS OF PREPARATION (continued)

2.1 Statement of compliance (continued)

For the purpose of these consolidated financial statements, the financial statements of subsidiaries has been adjusted to align with the above framework.

2.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments which are carried at fair value.

2.3 Functional and presentation currency

The consolidated financial statements are presented in Bahraini Dinars (“BD”), which is also the Group’s functional currency. All financial information presented in BD has been rounded to the nearest thousand, except when otherwise indicated.

2.4 New standards, interpretations and amendments

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2020, except for adoption of new standards or certain amendments to existing standards that have become applicable to the Group effective from 1 January 2021. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments and interpretations apply for the first time in 2021, but do not have any impact on the consolidated financial statements of the Group.

2.4.1 Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate ("IBOR") is replaced with an alternative nearly risk-free interest rate ("RFR").

These amendments had no impact on the consolidated financial statements of the Group. The Group intends to use the practical expedients in future periods if they become applicable.

2.5 New standards, interpretations and amendments issued but not yet effective

Standards, interpretations and amendments to existing standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group reasonably expects these issued standards, interpretations and amendments to existing standards to be applicable at a future date. The Group intends to adopt these standards, interpretations and amendments to existing standards, if applicable, when they become effective:

2.5.1 Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.The amendment applies to annual reporting periods beginning on or after 1 April 2021.

However, the Group has received Covid-19-related rent concessions, the Group hasn't early adopted the amendment and hence it has been treated as lease modification.

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These have been consistently applied by the Group to all periods presented in these consolidated financial statements except as described in Note 2.1.

3.1 Basis of consolidation

3.1.1 Subsidiaries:
'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

3.1.2 Loss of control:
When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in the statement of profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

3.1.3 Transactions eliminated on consolidation:
Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Revenue recognition

3.2.1 Interest income and expense
Interest income and expense is recognised in the statement of profit or loss, using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not Expected Credit loss ("ECL").

The calculation of the effective interest rate includes transaction costs and 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 financial liability. The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

Amortised cost and gross carrying amount
The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2 Revenue recognition (continued)

3.2.2 Income from sale of goods and provision of services
Revenue from sale of goods (motor vehicles and spare parts) is recognised at a point in time when the control of the goods is transferred to the customer, i.e. when the goods have been delivered to and accepted by the customer.

Revenue is measured at the fair value of the consideration received or receivable. Revenue comprises revenue from car maintenance and repair and warranty services. Revenue is recognised over time as the services are rendered, provided pervasive evidence of an arrangement exists, tariff / rates are fixed or are determinable and collectability is reasonably certain.

Revenue from investment property and cars leased out under an operating lease are recognised over the tenure of the lease / service agreement on a straight line basis over the term of the lease, except where the rentals are structured to increase in line with expected general inflation, and except where there is uncertainty of ultimate collection.

Specific criteria for each of the Group's activities are as follows:

a) income from sales of motor vehicles and spare parts is recognised when an invoice is raised, and the customer becomes entitled to take possession of the goods.
b) income from maintenance and repair services is recognised when the service is rendered.
c) revenue from warranty claims is recognised when these services have been rendered to the customers under warranty obligations.
d) rental income from car hire is recognised on a straight-line basis over the lease term.
e) Income from sale of land inventory is recognised when the customer becomes entitled to take possession of the land which is normally when the title deed passes to him; and
f) Rental income from investment property is recognised as revenue on a straight-line basis over the rental agreement term.

3.2.3 Income from maintenance and repairs
Revenue from car maintenance and repair and warranty services is recognised over time as the services are rendered, provided pervasive evidence of an arrangement exists, tariff / rates are fixed or are determinable and collectability is reasonably certain.

3.2.4 Fee and commission
Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Other fees and income is recognised when such services are performed.

Insurance commission income is recognised when the insurance cover is issued, and the customer becomes entitled to the insurance policy.

3.3 Foreign currency transactions
Transactions in foreign currencies are translated to Bahraini Dinars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at reporting date are retranslated to Bahraini Dinars at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for the effective interest and payments during the year and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Foreign currency transactions (continued)

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in foreign currency are translated using the exchange rate at the date of transaction.

Foreign currency differences arising on retranslation are recognised in the statement of profit or loss.

3.4 Financial instruments

3.4.1 Recognition and initial measurement

The financial instruments of the Group consist primarily of cash and balances with banks, loans and advances to customers, trade receivables, derivative financial instruments, trade and other payables, and bank term loans. The Group initially recognises loans and advances and trade receivables on the date on which they are originated. All other financial instruments are initially recognised on the trade date, which is the date when the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

3.4.2 Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt security; FVOCI – equity security; or FVTPL

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Financial instruments (continued)

3.4.2 Classification and subsequent measurement (continued)

Business model assessment (continued)

- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Assessment whether contractual cash flows are solely payments of principal and interest
For the purposes of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual interest rate, including variable-rate features; prepayment and extension features; and
- terms that limit the Group’s claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Modifications of financial assets
If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in the statement of profit or loss, except for modification of loans and advances due to the CBB concessionary measures where modification loss was recognised in equity (Note 2.1(a)).

Financial assets at amortised cost
These assets are subsequently measured at amortised cost using the effective interest rate method. The amortised cost is reduced by expected credit losses. Interest income, foreign exchange gains and losses and impairment are recognised in the statement of profit or loss. Any gain or loss on de-recognition is recognised in the statement of profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Financial instruments (continued)

3.4.3 De-recognition

Financial assets
The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities
The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On de-recognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in the statement of profit or loss.

3.4.4 Offsetting
Financial assets and liabilities are set off and the net amount presented in the statement of financial position, when and only when, the Group currently has a legally enforceable right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

3.4.5 Impairment
The Group recognises loss allowances for ECLs on financial assets measured at amortised cost. The Group measures loss allowances at an amount equal to lifetime ECLs, unless there has been no SICR since origination in which case the allowance is based on 12 months ECL.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment including forward-looking information.

Based on the CBB directives, the Group has assumed that the credit risk on a financial asset has increased significantly if it is more than 74 days past due for the loan portfolio.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is 90 days or more past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Financial instruments (continued)

3.4.5 Impairment (continued)

Measurement of ECLs- Loans and advances
ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

The key inputs into the measurement of ECL are the term structure of the following variables:
- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

Measurement of ECLs- Trade receivables (simplified approach):
The Group uses an allowance matrix to measure the ECLs of trade receivables from individual customers, which comprise a very large number of small balances.

Loss rates are calculated using a ‘roll rate (Net-flow)’ method based on the probability of a receivable progressing through successive stages of delinquency to the loss bucket. Recovery from the loss bucket is also considered for computing the historical loss rates. Roll rates are calculated separately for exposures based on the customer’s common credit risk characteristics.

Loss rates are based on actual credit loss experience over the past five years. These rates are adjusted to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and group view of economic conditions over the expected lives of the receivables. The forward looking adjustment of the loss rates is based on a qualitative score card which factors the management’s view on the future economic and business conditions.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Financial instruments (continued)

3.4.5 Impairment (continued)

Credit-impaired financial assets
At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is considered 'credit-impaired' when one or more events, that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties; and
- Liquidation of collaterals.

Stage 1, 2 and 3 - Collectively assessed loans
The Group applies a three-stage approach to measure expected credit losses (ECL) on financial assets carried at amortised cost. Financial assets migrate through the following three stages based on the change in credit quality since initial recognition:

- Stage 1: 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date;
- Stage 2 lifetime ECLs - not credit impaired: these are ECLs that result from all possible default events over the expected life of a financial instrument. Includes financial assets that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment; and
- Stage 3 lifetime ECLs - credit impaired: these are ECLs that result from all possible default events over the expected life of a financial instrument. Includes financial instruments that have objective evidence of impairment at the reporting date.

Stage 3 – Specifically assessed loans
- The Group considers evidence of impairment for all individually significant loans and advances which are assessed for impairment on a specific basis.

Presentation of allowance for ECL in the statement of financial position
Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off
The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

3.5 Trade and other receivables
Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less expected credit loss.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6 Inventories

Vehicle inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis for spare parts and on a specific identification basis for motor vehicles. Cost includes purchase price, freight, customs duty and other incidental expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Land and property inventory is stated at the lower of cost and net realisable value. A property is subsequently reclassified from inventory to investment property if there is an actual change in use and reclassified from inventory to property and equipment upon change in use or vice versa.

3.7 Property, equipment and right of use assets

Recognition:
Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its residual amount if the carrying amount of the asset is greater than its estimated recoverable amount.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability.

Depreciation
Depreciation is charged to the statement of profit or loss on a straight-line basis over the estimated useful life of items of property and equipment. No depreciation is charged on freehold land. The estimated useful life are as follows:

Buildings	15 to 35 years
Furniture, fixture and equipment	3 to 6 years
Owned Vehicles	4 to 6 years
Leased Vehicle	4 to 6 years
Right of Use	Over lease period

3.8 Investment properties

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost less depreciation and impairment if any.

Rental income from investment property is recognised on a straight-line basis over the term of the lease.

Depreciation
Depreciation on investment property is charged to the statement of profit or loss on a straight-line basis over the estimated useful life of property. The land component is not depreciated. The estimated useful life of the investment is as follows:

Buildings	15 to 35 years
Furniture, fixture and equipment	3 to 6 years

3.9 Borrowing costs

Borrowing cost directly attributable to the acquisition, construction or production of a qualifying asset is capitalised. Other borrowing cost is recognised in the statement of profit or loss in the year in which it arises.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Dividends

Dividends and other proposed appropriations are recognised as a liability in the period in which they are approved by the shareholders.

3.11 Statutory reserve

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

3.12 General reserve

In accordance with the Company's Articles of Association and the recommendations of the Board of Directors, specific amounts are transferred to the general reserve. The reserve carries no restriction on its distribution.

The appropriations are subject to the approval of the shareholders at the Annual General Meeting.

3.13 Donations reserve

Based on the recommendations of the Board of Directors, an amount is transferred from the profit for the year to this reserve. The reserve represents the uncommitted amount of the donations and charities approved by the Shareholders.

3.14 Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

Treasury shares

Where the Company purchases its own equity share capital, the consideration paid, including any attributable transaction costs, are deducted from total equity and recorded as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any gain or loss is included in equity.

3.15 Cash flow hedges

The Group uses interest rate swaps and foreign exchange forward contracts to hedge its exposures to the variability of future cash flows. Derivative financial instruments are contracts, the value of which, are derived from one or more underlying financial instruments or indices, and include foreign exchange contracts, forwards and swaps in the interest rate and foreign exchange markets. All derivative financial instruments are initially recognised at cost, being the fair value at contract date, and are subsequently re-measured at their fair values. Changes in the fair value of the derivative financial instruments that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to the hedged risk are recognised in other comprehensive income and presented in a hedge reserve as a separate component of equity. The corresponding effect of the unrealised gains or losses recognised in other comprehensive income is recognised as other assets or other liabilities in the statement of financial position. The effective portion of the gain or loss on derivative instruments recognised in other comprehensive income is removed and included in statement of profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of comprehensive income as the hedged item. Any gains or losses arising from changes in fair value on derivative instruments that do not qualify for hedge accounting or are determined to be ineffective are recognised directly in the statement of profit or loss. Fair value gains and losses on trading derivatives are recognised in the statement of profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15 Cash flow hedges (continued)

The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects the statement of profit or loss.

If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in the statement of profit or loss. In other cases, the amount recognised in other comprehensive income is transferred to the statement of profit or loss in the same period that the hedged item affects the profit or loss.

3.16 Impairment of non-financial assets

The carrying amounts of the Group's assets other than financial assets (Note 3.4) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated, and an impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. Impairment losses are recognised in the statement of profit or loss.

3.17 Retirement benefits cost

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

Expatriate employees on limited-term contracts are entitled to leaving indemnities payable under the Bahrain Labour Law, based on length of service and final remuneration. Provision for this unfunded commitment which represents a defined benefit plan under International Accounting Standard 19 – Employee Benefits, has been made by calculating the notional liability had all such employees left at the reporting date.

3.18 Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost.

3.19 Lease Liability

At the date of initial application, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

3.20 Bank term loans

Interest bearing bank term loans and bonds are initially measured at fair value plus any transaction costs and subsequently measured at their amortised cost using the effective interest rate method.

3.21 Cash and balances with banks

Cash and balances with banks comprise cash on hand, unrestricted balances and deposits with banks with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value. For the purpose of the consolidated statement of cash flows, cash and cash equivalents are presented net of restricted cash and bank overdrafts.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.22 Earnings per share
The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the parent company by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.23 Segment reporting
An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenues and expenses that relate to transactions with any of the other components of the Group. All operating results of the operating segments are regularly reviewed by the executive management to make decisions about resource allocation and assess its performance, and for which discrete financial information is available.

3.24 Provision
A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle such obligation.

4 USE OF JUDGEMENTS AND ESTIMATES

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's 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 estimates are recognised prospectively.

4.1 Judgements

4.1.1 Classification of financial assets
Assessment of the business model within which the assets are held and assessment of whether contracted terms of the financial asset are SPPI and the principal amount outstanding (Note 3.4.2).

4.1.2 Classification of derivative financial instruments
In the process of applying the Group's accounting policies, management decides on the transaction date the purpose of the derivative financial instrument acquired and based on the management purpose the accounting treatment is determined in accordance with the IFRS 9.

4.1.3 Potential impact of COVID-19
COVID-19 was declared a worldwide pandemic by the World Health Organisation in March 2020. COVID-19 and related measures to slow the spread of the virus, have since had a significant impact on the local and global economy, supply chains and financial markets.

The Group has considered the impact of COVID-19 and related market volatility in preparing these consolidated financial statements. The methodologies and assumptions applied in the measurement of various items within the consolidated financial statements remain unchanged from those applied in the 2020 consolidated financial statements, as well as the process of making the required estimates and assumptions involved further challenges due to the prevailing uncertainties arising from COVID-19 and required use of management judgements.

Expected credit Losses
The economic uncertainties caused by COVID-19, and the volatility in oil prices impacting the Middle East economic forecasts have required the Group to update the inputs and assumptions used for the determination of expected credit losses ("ECLs").

4 USE OF JUDGEMENTS AND ESTIMATES (continued)

4.1 Judgements (continued)

Expected credit Losses (continued)

Scenario analysis has been conducted taking into consideration various expected changes as a result of COVID-19 that can impact all model parameters i.e. probability weighting of economic scenarios, macroeconomic factors, probability of default, loss given default, exposure at default, rating downgrades, staging migrations and period of exposure. Management judgement is used in determining the probability weighting assigned to each scenario.

In relation to COVID-19, judgements and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different industries, along with the associated impact on the global economy. Accordingly, the Group's ECL estimates are based on judgement and, as a result, actual results may differ from these estimates.

Significant increase in credit risk (SICR)

Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporation, forward looking information into measurement of ECL and selection and approval of models used to measure ECL (Note 3.4.5).

Judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a financing facility, which would result in the financial asset moving from 'stage 1' to 'stage 2'. The Group continues to assess borrowers for other indicators of unlikeliness to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of COVID-19 or longer term.

During the year, and in accordance with the CBB relief measures, the Group has granted a total of 12 months loan deferral to its eligible customers, with fees and interest. The Group considers both qualitative and quantitative information in the assessment of significant increase in credit risk. The utilisation of a payment deferral program was considered for affected customer segments due to the pandemic as a trigger for a significant increase in credit risk ("SICR") or a staging migration for the purposes of calculating ECL.

Reasonableness of forward-looking information

Judgement is involved in determining which forward looking information variables are relevant for particular financing portfolios and for determining the sensitivity of the parameters to movements in these forward-looking variables.

Due to macro economic variables being not statistically acceptable, the Group has used Vasicek-Merton single factor model for conversion of TTC PD to PIT PD instead of the regression methodology as per the Group's approved policy. Vasicek Based Analysis method has been used to forecast the forward-looking PIT PDs by developing composite index oil price as macro-economic variables. The Oil price for base scenario has been considered.

Probability weights

Management judgement is involved in determining the probability weighting of each scenario considering the risks and uncertainties surrounding the base case scenario. Considering the current uncertain economic environment, the Group has continued the scenario weighting to reflect the impact of current uncertainty in measuring the estimated credit losses for the year ended 31 December 2021.

The increase in the downturn weighting of the macro economic scenario and the management overlays result in an additional ECL for the Group. The impact of such uncertain economic environment is judgmental and the Group will continue to reassess its position and the related impact on a regular basis.

4 USE OF JUDGEMENTS AND ESTIMATES (continued)

4.2 Estimates

4.2.1 Impairment of financial instruments

- Determining inputs into the ECL measurement models, including incorporation of forward looking information (Note 5.1).
- Key assumptions used in estimating recoverable cash flows.

4.2.2 Impairment on trade receivables

The Group measures expected credit loss for trade receivables using a 'roll rate' (net flow) method based on the probability of a receivable progressing through successive stages of delinquency to the loss bucket. The Group estimates the loss rates based on historical loss experience, which are adjusted to reflect future economic and business conditions (Note 3.4.5 and Note 11).

4.2.3 Provision on inventory

The Group reviews the carrying amounts of the inventories at each reporting date to determine whether the inventories have been impaired. The Group identifies the inventories, which have been impaired based on the age of the inventory and their estimate of the future demand for the inventory. If any impairment indication exists, the inventories recoverable amount is estimated based on past experience relating to disposal of such inventory (Note 3.6 and Note 12).

5 FINANCIAL RISK MANAGEMENT

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

- credit risk;
- liquidity risk; and
- market risk

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

Risk management framework

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

5.1 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The Group is principally exposed to credit risk on cash and cash equivalents, loans and advances to customers, and trade receivables. The maximum credit risk is the carrying value of the assets.

COVID-19 impact

The uncertainties due to COVID-19 and resultant economic volatility has impacted the Group's financing operations and is expected to affect most of the customers and sectors to some degree. Although it is difficult to assess at this stage the degree of impact faced by each sector, the main industries impacted are hospitality, tourism, leisure, airlines/transportation and retailers. In addition, some other industries are expected to be indirectly impacted such as contracting, real estate and wholesale trading.

Considering this evolving situation, the Group has taken pre-emptive measures to mitigate credit risk by adopting more cautious approach for credit approvals thereby tightening the criteria for extending credit to impacted sectors. Installments deferral have been extended to customers, including private and SME sector, in line with the instructions of the CBB. These measures has led to lower disbursement of financing facilities, resulting in lower net financing income and decrease in other revenue.

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

COVID-19 impact (continued)
The risk management department has also enhanced its monitoring of financing portfolio by reviewing the performance of exposures to sectors expected to be directly or indirectly impacted by COVID-19 to identify potential SICR on a qualitative basis.

The Group has updated its inputs and assumptions for computation of ECL (Note 4).

Management of credit risk
The Group's credit risk management framework includes:

- Authorisation structure and limits for the approval and renewal of credit facilities;
- Reviewing and assessing credit exposures in accordance with authorisation structure and limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process;
- Diversification of lending activities; and
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties and reviewing limits in accordance with risk management strategy and market trends.

5.1.1 Loans and advances to customers
All loans and advances are with local individuals and locally incorporated entities. The credit risk on these loans and advances 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 which includes the Credit Bureau report, financial position of the customer, market position, tangible security where applicable. The Group is also subject to single obligor limits as specified by the CBB.

Regular Credit review procedures are in place to identify at early stage exposures which require more detailed monitoring and review. Appropriate remedial procedures for follow-up and recovery (including recourse to legal action) are in place to monitor the credit risk on loans and advances.

Exposure to credit risk
The Group 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. Regular audits of business units and the Group credit processes are undertaken by the Internal Audit department.

The Group measures its exposure to credit risk by reference to the gross carrying amount of financial assets less interest suspended and impairment losses, if any. The maximum credit risk exposure of the loans and advances is the carrying value amount net of the deferred income and net of impairment allowance reported at year end.

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts:

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.1 Loans and advances to customers (continued)

	31 December 2021 BD'000	*31 December 2020 BD'000*
Stage 3 – Specifically assessed		
Gross amount	9,124	7,925
Expected credit loss	(3,834)	(3,103)
Net amount	**5,290**	4,822
Stage 1, 2 and 3 - Collectively assessed loans		
Stage 1 - 12 month	130,236	186,819
Stage 2 - lifetime - not credit impaired	88,248	65,943
Stage 3 - lifetime - credit impaired	35,507	38,016
Expected credit loss	(29,956)	(31,594)
Net amount	**224,035**	259,184
Net loans and advances to customers	**229,325**	264,006

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime probability of default (PD) as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Monitoring of credit risk

Generating the term structure of PD
Ageing buckets based on days past due ("Ageing buckets") are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by type of product and borrower as well as by ageing buckets.

The Group employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark interest rates, unemployment and oil prices. Considering the extra ordinary circumstances and the variations in the forward looking data for this variables, the company has used Vasicek- Merton methodology using oil prices as a factor to determine the PDs.

Based on consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts to adjust its estimates of PDs.

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.1 Loans and advances to customers (continued)

Monitoring of credit risk (continued)

Generating the term structure of PD (continued)
The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

Using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. For the purpose of calculating ECL for the year ended 31 December 2021, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 74 days as against 30 days, in line with the CBB concessionary measures. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 74 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy.

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities'") to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.1 Loans and advances to customers (continued)

Monitoring of credit risk (continued)

Generating the term structure of PD (continued)
Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit impaired. A customer needs to demonstrate consistently good payment behaviour over a period of 3 months before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL based on regulatory guidance.

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on economic experts and consideration of a variety of external actual and forecast information, the Group formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

The base case represents a most-likely outcome and is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes.

Past due but not impaired loans and advances include those for which contractual interest and principal payments are past due, but the Group believes that impairment is not appropriate on the basis of level of security and collateral available and/ or in the process of collecting the amounts owed to the Group.

Aging analysis of loans and advances to customers as follows:

2021	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
	BD'000	***BD'000***	***BD'000***	***BD'000***
Current	118,160	77,779	11,082	**207,021**
Past due:				
1-30 days	8,162	4,772	2,165	**15,099**
31-60 days	3,618	3,589	2,089	**9,296**
61-89 days	296	2,108	1,816	**4,220**
90 days – 1 year	-	-	12,578	**12,578**
1 year – 3 years	-	-	13,337	**13,337**
More than 3 years	-	-	1,564	**1,564**
Expected credit loss	(3,912)	(7,201)	(22,677)	**(33,790)**
Carrying value	**126,324**	**81,047**	**21,954**	**229,325**

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.1 Loans and advances to customers (continued)

Monitoring of credit risk (continued)

2020	*Stage 1* *BD'000*	*Stage 2* *BD'000*	*Stage 3* *BD'000*	*Total* *BD'000*
Current	156,973	49,599	10,257	216,829
Past due:				
1-30 days	17,022	2,837	2,356	22,215
31-60 days	11,359	2,243	1,558	15,160
61-89 days	1,465	11,264	1,264	13,993
90 days – 1 year	-	-	22,114	22,114
1 year – 3 years	-	-	7,686	7,686
More than 3 years	-	-	706	706
Expected credit loss	(5,668)	(5,522)	(23,507)	(34,697)
Carrying value	181,151	60,421	22,434	264,006

2021	***Retail*** ***BD'000***	***Corporate*** ***BD'000***	***Total*** ***BD'000***
Current	191,495	15,526	207,021
Past due:			
1-30 days	14,364	735	15,099
31-60 days	8,482	814	9,296
61-89 days	4,022	198	4,220
90 days – 1 year	10,881	1,697	12,578
1 year – 3 years	11,897	1,440	13,337
More than 3 years	1,010	554	1,564
Gross loans and advance	**242,151**	**20,964**	**263,115**
Collectively assessed ECL	(28,292)	(1,664)	(29,956)
Specifically assessed ECL	(2,032)	(1,802)	(3,834)
Net loans and advances	**211,827**	**17,498**	**229,325**

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.1 Loans and advances to customers (continued)

Monitoring of credit risk (continued)

2020	*Retail* *BD'000*	*Corporate* *BD'000*	*Total* *BD'000*
Current	199,486	17,343	216,829
Past due:			
1-30 days	20,251	1,964	22,215
31-60 days	13,496	1,664	15,160
61-89 days	12,947	1,046	13,993
90 days – 1 year	20,007	2,107	22,114
1 year – 3 years	6,643	1,043	7,686
More than 3 years	706	-	706
Gross loans and advance	273,536	25,167	298,703
Collectively assessed ECL	(29,788)	(1,806)	(31,594)
Specifically assessed ECL	(2,000)	(1,103)	(3,103)
Net loans and advances	241,748	22,258	264,006

The company's exposure to customers who are less than 90 days at the reporting date are related to customer accounts which are either serving their cooling off period, the customers where collateral offered at the time of original underwriting has been liquidated or customers which are having financial difficulties which may lead them to default. The company has classified them in Stage 3 on a conservative basis.

Credit risk concentration

All loans are made to borrowers that are Bahraini residents. Credit risk concentration of loans at the reporting date represents 92% (2020: 92%) retail loans and 8% (2020: 8%) to corporate customers.

By geographical region

All loans and advances are geographically located in Bahrain.

The unutilised credit limit for credit cards at 31 December 2021 amounted to BD 27,140 thousand (2020: BD 30,145 thousand). Off balance sheet exposures are converted into on balance sheet equivalents by applying a credit conversion factor (CCF). During the year ended 31 December 2021, the average gross credit exposure for loans and advances to customers is BD 240,265 thousand (2020: BD 287,332 thousand) and average unutilised credit limit is BD 28,557 thousand (2020: BD 31,243 thousand). Such amounts are calculated based on the average of last four quarterly results.

Management estimates the fair value of collaterals and other security enhancements held against individually impaired customers loans are reasonably sufficient to cover the value of such loans at the reporting date. The Group monitors concentrations of credit risk by product.

At the reporting date, the loans and advances to customers represent 37% vehicle (2020: 39%), 20% mortgage (2020: 20%), 33% personal loan (2020: 30%) and 10% credit card lending (2020: 11%).

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.1 Loans and advances to customers (continued)

Monitoring of credit risk (continued)

Impaired loans and advances
Impaired loans and advances are financial assets for which the Group 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 Group's exposure to credit risk from loans and trade receivables is influenced mainly by the individual characteristics of each customer. Loans which are past due 90 days are considered as non-performing.

At 31 December 2021, the total gross amount of non-performing loans as defined by the CBB, as accounts with days past due 90 days or more, was BD 27,479 thousand (2020: BD 30,506 thousand). The stage 3 accounts were BD 44,631 thousand (2020: BD 45,941 thousand). In compliance with the CBB requirements, interest on stage 3 is suspended and is accounted for on a cash basis.

Loans with renegotiated terms and the Group's forbearance policy
Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position, where the Group has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Group has provided initially. The Group implements forbearance policy in order to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis in situation where the debtor is currently in default on its debt, or where there is a high risk of default, there is evidence that the debtor made all the reasonable effort to pay under the original contractual terms and it is expected to be able to meet the revised terms.

The revised terms usually include extending maturity, changing timing of interest payments and amendments to the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. During the year ended 31 December 2021, loans and advances amounting to BD 5,978 thousand (2020: BD 11,605 thousand) were restructured.

Collateral
The Group generally holds collateral against loans which may be in the form of mortgage interests over property with custody of title deeds, joint registration of vehicles and personal guarantees.

As at 31 December 2021, loans amounting to BD 105,433 thousand (2020: BD 128,545 thousand) were fully collateralised and loans amounting to BD 46,155 thousand (2020: BD 45,414 thousand) were partly collateralised with a collateral value of BD 29,908 thousand (2020: BD 35,215 thousand).

5.1.2 Credit risk related to trade receivables
Credit risk related to trade receivables arises from the potential for a counterparty to default from repayment of their dues. The Group has established an appropriate authorisation structure with limits for the approval and renewal of credits.

During the year ended 31 December 2021, the average gross exposure for trade and other receivables is BD 3,674 thousand (2020: BD 5,826 thousand). Such amounts are calculated based on the average of last four quarterly results.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Geographically the concentration of credit risk is in the Kingdom of Bahrain as majority of the Group's customers are based in Bahrain.

5 FINANCIAL RISK MANAGEMENT (continued)

5.1 Credit risk (continued)

5.1.3 Credit risk related to cash and cash equivalents

Credit risk from cash and cash equivalents is managed by the Group's finance department in accordance with the Group's policy. Placement of surplus funds are made only with approved banks and within credit limits assigned to each bank. The Group's cash and cash equivalents are placed with banks of good credit ratings, therefore, are considered to be low credit risk placements.

During the year ended 31 December 2021, the average gross credit exposure for cash and balances with banks is BD 27,565 thousand (2020: BD 19,474 thousand). Such amounts are calculated based on the average of last four quarterly results.

5.1.4 Settlement risk

The Group'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.

5.1.5 Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive market value of instruments that are favourable to the Group which are included in other assets. The positive market value is also referred to as the "replacement cost" since it is an estimate of what it would cost to replace transactions at prevailing market rates if a counterparty defaults. The Group's derivative contracts are entered into with other financial institutions.

5.2 Liquidity risk

Liquidity risk is the risk that the Group 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 Group.

Management of liquidity risk

The Group's approach to managing liquidity risk is to ensure that the Group secures funding significantly larger than present and future requirements. The Group continuously monitors the extent to which contractual receipts exceed contractual payments and the levels of new advances are correlated to the levels of liquidity. Liquidity risks are closely monitored by the risk management and finance departments and reported to the Assets and Liabilities Committee (ALCO) and the Board.

The Group monitors CBB requirements for liquidity ratios and ensures that those ratios remain within the CBB limits.

COVID-19 impact

The effects of COVID-19 on the liquidity and funding risk profile of the banking system are evolving and are subject to ongoing monitoring and evaluation. The CBB has announced various measures to combat the effects of COVID-19 and to ease liquidity in banking sector. The instalment deferments for 12 months during 2021 to eligible customers as per the CBB instructions have an impact on the liquidity risk of the Group.

The management has enhanced its monitoring of the liquidity and funding requirements. Board and senior management meetings are convened more frequently in order to carry out granular assessment of funding requirements with the objective to explore available lines of funding and to drawdown the existing funding lines as and when necessary to maintain enough liquidity at a reasonable cost of funding.

The Group continues to calibrate stress testing scenarios to current market conditions in order to assess the impact on the Group in current extreme stress environment. As at the reporting date, the liquidity and funding position of the Group remains strong and is well placed to absorb and manage the impacts of this disruption.

5 FINANCIAL RISK MANAGEMENT (continued)

5.2 Liquidity risk (continued)

COVID-19 impact (continued)

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.

2021	***Carrying amount***	***Gross contractual cash flows***	***Within 1 Year***	***1 year to 5 years***	***Over 5 years***
Assets	***BD '000***	***BD '000***	***BD '000***	***BD '000***	***BD '000***
Cash and balances with banks	28,354	28,354	28,354	-	-
Loans and advances to customers	229,325	372,931	97,360	191,948	83,623
Trade receivables	1,775	1,775	1,775	-	-
Other assets	1,794	1,794	1,794	-	-
	261,248	**404,854**	**129,283**	**191,948**	**83,623**
Liabilities					
Trade and other payables	13,345	13,345	13,345	-	-
Derivative financial instruments	2,113	2,113	430	1,683	-
Lease liabilities	1,163	1,315	524	626	165
Bank term loans	156,497	166,704	40,889	125,815	-
	173,118	**183,477**	**55,188**	**128,124**	**165**
Unutilised credit limits	27,140	27,140	27,140	-	-

2020	*Carrying amount*	*Gross contractual cash flows*	*Within 1 Year*	*1 year to 5 years*	*Over 5 years*
Assets	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Cash and balances with banks	25,530	25,600	25,600	-	-
Loans and advances to customers	264,006	408,150	108,387	222,413	77,350
Trade receivables	4,495	4,495	4,495	-	-
Other assets	763	763	635	128	-
	294,794	439,008	139,117	222,541	77,350
Liabilities					
Trade and other payables	8,553	8,553	8,553	-	-
Derivative financial instruments	5,537	5,537	100	5,437	-
Lease liabilities	1,801	1,822	600	977	245
Bank term loans	205,956	224,413	51,483	172,930	-
	221,847	240,325	60,736	179,344	245
Unutilised credit limits	31,487	31,487	31,487	-	-

5 FINANCIAL RISK MANAGEMENT (continued)

5.3 Market risk

Market risk is the risk that the Group'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 risk management and finance departments and reported to the Assets and Liabilities Committee (ALCO) and the Board.

Interest rate risk

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

At 31 December	***Fixed rate***		***Floating rate***		***Non-interest earning***		***Total***	
	2021 BD '000	*2020 BD '000*	***2021 BD '000***	*2020 BD '000*	***2021 BD '000***	*2020 BD '000*	***2021 BD '000***	*2020 BD '000*
ASSETS								
Cash and balances with banks	25,648	19,914	-	-	2,706	5,616	28,354	25,530
Loans and advances to customers	228,940	263,617	-	-	385	389	229,325	264,006
Trade receivables	-	-	-	-	3,569	4,495	3,569	4,495
Other assets	-	-	-	-	1,794	764	1,794	764
	254,588	283,531	**-**	-	**8,454**	11,264	**263,042**	294,795
LIABILITIES								
Trade and other payables	-	-	-	-	13,345	8,553	13,345	8,553
Derivative financial instruments	-	-	1,955	5,537	158	-	2,113	5,537
Lease liabilities	1,163	1,801	-	-	-	-	1,163	1,801
Bank term loans	-	-	156,497	205,956	-	-	156,497	205,956
	1,163	1,801	**158,452**	211,493	**13,503**	8,553	**173,118**	221,847

The unhedged portion of the floating rate borrowing is sensitive to changes in the interest rates. As at 31 December 2021 a change in variable rate financial instruments by 100 basis points will increase/ (decrease) net profits by BD 679 thousand (2020: BD 1,098 thousand).

Bank term loans extended have floating interest rates, which are subject to re-pricing on a quarterly or half-yearly basis. The effective interest rate on term loans inclusive of the effect of the interest rate swaps and FX hedge contracts was 4.85% p.a. (2020: 4.92% p.a.).

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Group has exposure to IBORs on its financial instruments and interest rate swaps that will be reformed as part of this market-wide initiative. The Group is in the process of amending or preparing to amend contractual terms in response to IBOR reform, and there is still uncertainty over the timing and the methods of transition.

The Company currently having long term borrowings amounting to BD 87,841 thousand which shall be maturing beyond June 2023. The Company have IRS contracts of BD 39,858 thousand maturing beyond June 2023. The Company is currently working with the relationship banks and loan agencies to include the appropriate fall back language into the existing agreements. The Company don't see any major impact on its interest cost or contractual maturities due to this reform.

5 FINANCIAL RISK MANAGEMENT (continued)

5.4 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Group had the following significant net exposures denominated in foreign currency as of 31 December.

	2021 ***BD '000***	*2020* *BD '000*
US Dollars	**136,985**	145,795

The Bahraini Dinar is effectively pegged to the US Dollar.

The Company has entered into BD 40 million forward rate contracts (2020: BD 45 million) to hedge against any future changes in the peg rate.

5.5 Capital management

The Group's policy is to maintain a strong capital base. The Central Bank of Bahrain sets and monitors capital requirements for the Group. The conventional financing company license granted by the Central Bank of Bahrain limits borrowings to five times the capital and reserves (shareholders' equity) of the Company. Such rate for the Group was 1.3 as at 31 December 2021 (2020: 1.8).

6 DERIVATIVES AND HEDGING

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments.

The notional amount is that of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are not indicative of either market or credit risk.

At 31 December 2021 interest rate risk attributable to the term loans of BD 88.6 million (USD 235 million) (2020: BD 96.14 million ,USD 255 million) has been hedged. The fair value of this hedge instruments is BD 1,956 thousand liability (2020: BD 5,537 thousand liability).

At 31 December 2021 foreign exchange forwards attributable to the term loans of BD 40 million (2020: BD 45 million) has been hedged. The fair value of this hedge instruments are BD 157 thousand liability (2020: BD 92 thousand liability).

Derivatives are carried at fair value using valuation techniques based on observable market inputs.

Derivative product types

Foreign exchange forwards are contractual agreements to either buy or sell a specified currency at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Interest rate swaps are contractual agreements between two parties to exchange interest based on a specific notional amount. Counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Group. The majority of the Group's derivative contracts are entered into with other financial institutions and there is no significant concentration of credit risk in respect of contracts with positive fair value with any individual counterparty at the date of the consolidated statement of financial position.

6 DERIVATIVES AND HEDGING (continued)

Derivatives held or issued for hedging purposes

The Group has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange rates (currency risk) and interest rates through asset and liability management. It is the Group's policy to reduce its exposure to currency and interest rate risks to acceptable levels as determined by the Board of Directors. The Board has established levels of currency risk by setting limits on currency position exposures. Positions are monitored on an ongoing basis and hedging strategies used to ensure positions are maintained within established limits. The Board has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods. Interest rate gaps are reviewed on an ongoing basis and hedging strategies are used to reduce the interest rate gaps within the limits established by the Board of Directors.

The Group uses forward foreign exchange contracts to hedge against specifically identified currency risks. In addition, the Group uses interest rate swaps to hedge against the interest rate risk arising from specifically identified borrowings bearing floating interest rates. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as hedges.

The Group's instalment loans receivables are predominantly of a fixed rate nature (the Group has, however, reserved the right under the terms of the agreement with customers to vary the rate at its discretion after giving a customer one month notice) while its bank borrowings are of a floating rate nature. To hedge this risk, the Group uses interest rate swap contracts to convert floating rate of interest on bank term loans to fixed rate of interest.

Only the interest rate risk element is hedged and therefore other risks, such as credit risk, are managed but not hedged by the Group. The interest rate risk component is determined as the change in fair value of the fixed rate loans and advances arising solely from changes in floating rate benchmark. Such changes are usually the largest component of the overall change in fair value. This strategy is designated as a cash flow hedge and its effectiveness is assessed by hypothetical derivative method and comparing the changes in the fair value of the hedging instrument against the changes in fair value of the hedged item attributable to the hedged risk.

There is an economic relationship between the hedged item and the hedging instrument as the terms of the interest rate swap match the terms of the bank term loans (i.e., notional amount, maturity, payment and reset dates). The Group has established a portfolio hedge for the hedging relationships as the underlying risk of the interest rate swap is identical to the hedged risk component. Possible sources of ineffectiveness are as follows:

- Different interest rate curve applied to discount the hedged item and hedging instrument;
- Differences in timing of cash flows of the hedged item and hedging instrument; and
- The counterparties' credit risk differently impacting the fair value movements of the hedging instrument and hedged item.

The hedge relationships have been assessed to be fully effective, accordingly, fair value changes of the interest rate swaps and forward contracts are recognised in equity (pages 12-13).

The following table sets out the maturity profile of the hedging instruments used in the Group's hedging strategies:

	Within 1 month	*1 - 3 months*	*3 - 6 months*	*6 - 12 months*	*1 - 5 years*	*Total*
	BD'000	*BD'000*	*BD'000*	*BD'000*	*BD'000*	*BD'000*
Notional						
2021	**27,540**	**10,000**	**15,080**	**21,310**	**54,665**	**128,595**
2020	-	7,540	-	15,000	118,595	141,135

7 OPERATIONAL RISKS

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, fraud 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 Group's operations and are faced by all business entities.

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

The Group manages the operational risk by policies and procedures to identify, assess, control, manage and report risks. Additionally, prior to the implementation of new products and services, it's reviewed and assessed for operational risks. The Group's risk management division employs clear internal policies and procedures and the Risk Control Self-Assessment (RCSA) methodology to reduce the likelihood of any operational losses. Where appropriate, risk is mitigated by way of insurance.

COVID-19 impact

In response to COVID-19 outbreak, there were various changes in the working model, interaction with customers, digital modes of payment and settlement, customer acquisition and executing contracts and carrying out transactions with the customers. The management of the Group has enhanced its monitoring to identify risk events arising out of the current situation and the changes in the way business is conducted.

8 MATURITY PROFILE

The maturity profile of the Group's financial assets and liabilities based on the expected repayment arrangements is given below. The contractual maturities of assets and liabilities are not significantly different from the expected repayment dates.

At 31 December	*Within 1 Year*		*1 year to 5 years*		*5 year to 10 years*		*More than 10 years*		*Total*	
	2021	*2020*	***2021***	*2020*	***2021***	*2020*	***2021***	*2020*	***2021***	*2020*
	BD '000	*BD '000*	***BD '000***	*BD '000*	***BD '000***	*BD '000*	***BD '000***	*BD '000*	***BD '000***	*BD '000*
ASSETS										
Cash and balances with banks	28,354	25,530	-	-	-	-	-	-	**28,354**	25,530
Loans and advances to customers	73,985	95,099	110,154	133,042	38,293	32,850	6,893	3,015	**229,325**	264,006
Trade receivables	3,569	4,495	-	-	-	-	-	-	**3,569**	4,495
Other assets	1,794	764	-	-	-	-	-	-	**1,794**	764
	107,702	125,888	**110,154**	133,042	**38,293**	32,850	**6,893**	3,015	**263,042**	294,795
LIABILITIES										
Trade and other payables	13,345	8,553	-	-	-	-	-	-	**13,345**	8,553
Derivative financial instruments	430	100	1,683	5,437	-	-	-	-	**2,113**	5,537
Lease liabilities	477	561	563	967	83	231	40	42	**1,163**	1,801
Bank term loans	35,071	42,485	121,426	163,471	-	-	-	-	**156,497**	205,956
	49,323	51,699	**123,672**	169,875	**83**	231	**40**	42	**173,118**	221,847

The maturity profile is monitored by the management to ensure adequate liquidity is maintained.

9 FAIR VALUE AND CLASSIFICATION OF FINANCIAL INSTRUMENTS

The Group's financial assets and financial liabilities are measured at amortised cost except for derivative financial instruments, which are carried at 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 Group has access at that date. The fair value of a liability reflects its non-performance risk.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

Except for derivative instruments which are classified as at fair value, all of the Group's other financial assets and liabilities are classified as at amortised cost.

Fair value hierarchy

The Group measures fair values of financial instruments using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. ask prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes instruments where the valuation technique includes inputs not based on market observable data.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets and liabilities measured at fair value

The fair value of the derivatives, which are not exchange traded, is estimated at the amount the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current credit worthiness of the counterparties. The Group's exposure to derivatives, whose fair value as of 31 December 2021 is BD 2,113 thousand (2020: BD 5,445 thousand) are categorised under Level 2. There were no transfers between Level 1 and Level 2 during 2021.

Financial assets and liabilities not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value analysed by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December.

2021	***Level 1***	***Level 2***	***Level 3***	***Total fair value***	***Total Carrying value***
	BD '000	***BD '000***	***BD '000***	***BD '000***	***BD '000***
Loans and advances to customers	-	-	229,325	**229,325**	**229,325**
Bank term loans	-	-	156,497	**156,497**	**156,497**

9 FAIR VALUE AND CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

Financial assets and liabilities not measured at fair value (continued)

2020	*Level 1*	*Level 2*	*Level 3*	*Total fair value*	*Total Carrying value*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Loans and advances to customers	-	-	264,006	264,006	264,006
Bank term loans	-	-	205,956	205,956	205,956

In case of loans and advances to customers, 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.

The fair value of bank term loans and bonds issued approximate their carrying value since they are at floating interest rates.

The fair values of all other financial instruments approximated their respective book values due to their short-term nature.

10 LOANS AND ADVANCES TO CUSTOMERS

(a) Exposure by staging

	31 December 2021			
	Stage 1	***Stage 2***	***Stage 3***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Loans and advances	130,236	88,248	44,631	263,115
Less: expected credit loss	(3,912)	(7,201)	(22,677)	(33,790)
Loans and advances	**126,324**	**81,047**	**21,954**	**229,325**

	31 December 2020			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Loans and advances	186,819	65,943	45,941	298,703
Less: expected credit loss	(5,668)	(5,522)	(23,507)	(34,697)
Loans and advances	181,151	60,421	22,434	264,006

During 2020, the initial modification loss recorded by the Group amounted to BD 16,125 thousand, of which BD 934 thousand was reversed to equity due to early settlements of loans and repayment of credit card balances for the year ended 31 December 2020 (2021: NIL).

During 2020, the modification loss has been calculated for the loan portfolio as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the current carrying value of the financial assets on the date of modification. The modification loss for credit card is calculated as normal interest at applicable rate for the six months holiday given from repayment of credit card balances. The Group provided Installments deferral on financing exposures amounting to BD 281,906 thousand as part of its support to impacted customers during the initial deferral required by the CBB from March to September 2020.

10 LOANS AND ADVANCES TO CUSTOMERS (continued)

(b) Expected credit loss movement

2021	***Stage 1 BD '000***	***Stage 2 BD '000***	***Stage 3 Collectively assessed BD '000***	***Stage 3 Specifically assessed BD '000***	***Total BD '000***
Expected credit loss at 1 January 2021	5,668	5,522	20,404	3,103	**34,697**
Net transfer between stages	(1,000)	627	(176)	549	**-**
Net reversal / charge for the year	(756)	1,052	12,149	395	**12,840**
Write off during the year	-	-	(13,534)	(213)	**(13,747)**
Expected credit loss at 31 December 2021	**3,912**	**7,201**	**18,843**	**3,834**	**33,790**

2020	*Stage 1 BD '000*	*Stage 2 BD '000*	*Stage 3 Collectively assessed BD '000*	*Stage 3 Specifically assessed BD '000*	*Total BD '000*
Expected credit loss at 1 January 2020	3,282	4,923	13,197	1,984	23,386
Net transfer between stages	1,315	(36)	(3,063)	1,784	-
Charge for the year	1,071	635	19,807	46	21,559
Write off during the year	-	-	(9,537)	(711)	(10,248)
Expected credit loss at 31 December 2020	5,668	5,522	20,404	3,103	34,697

11 TRADE RECEIVABLES

	31 December 2021 BD '000	*31 December 2020 BD '000*
Trade receivables	5,608	6,221
Less: expected credit loss	(2,039)	(1,726)
	3,569	4,495

Expected credit loss movement

	2021 BD '000	*2020 BD '000*
At beginning of the year	1,726	1,489
Net charge for the year	391	237
Write off during the year	(78)	-
At end of the year	**2,039**	1,726

12 INVENTORIES

	31 December 2021 BD '000	*31 December 2020 BD '000*
Automotive stock:		
-Vehicles	3,030	9,940
-Spare parts	5,875	4,641
Real Estate inventory	3,325	5,195
	12,230	19,776
Provision on vehicles and spare parts	(751)	(1,070)
	11,479	18,706

Movement on provisions (vehicles and spare parts)

	2021 BD '000	*2020 BD '000*
At beginning of the year	1,070	655
Net charge for the year	123	646
Utilisation	(442)	(231)
At end of the year	**751**	1,070

13 INVESTMENT PROPERTIES

	31 December 2021 BD '000	*31 December 2020 BD '000*
Cost		
At 1 January	14,536	14,273
Additions during the year	-	263
Disposal during the year	(1,152)	-
Transfer from investment property to inventory	(360)	-
At 31 December	**13,024**	14,536

Accumulated depreciation and impairment losses

	2021 BD '000	*2020 BD '000*
At 1 January	1,973	1,632
Charge for the year	289	316
Reversal / charge of impairment provision	(25)	25
At 31 December	**2,237**	1,973
Net book value at 31 December	**10,787**	12,563

The fair value of investment properties as at 31 December 2021 is BD 12,917 thousand (2020: BD 14,764 thousand) were determined by independent external property valuers with the appropriate recognised qualification and experience in the location and category of the property being valued. All such valuers are approved by the Bahrain Real Estate Regulatory Authority to carry out such valuations. The fair value was determined based on sales comparison approach that reflect recent transaction prices for similar properties and accordingly categorised as level 3 in fair value hierarchy.

14 PROPERTY AND EQUIPMENT

	Land and buildings	***Furniture, fixtures & equipment***	***Vehicles***	***Work in Progress***	***Right of Use***	***2021 Total***	*2020 Total*
	BD '000	***BD '000***	***BD '000***	***BD '000***	***BD '000***	***BD '000***	*BD '000*
Cost							
At 1 January	26,463	10,909	8,459	342	4,018	50,191	49,734
Additions	7	122	1,354	303	307	2,093	2,956
Disposals	(89)	(67)	(2,106)	(2)	(715)	(2,979)	(2,499)
Reclassified	12	392	-	(404)	-	-	-
At 31 December	**26,393**	**11,356**	**7,707**	**239**	**3,610**	**49,305**	50,191
Depreciation							
1 January	8,884	9,384	2,949	-	1,324	22,541	20,142
Charge for the year	492	944	1,130	-	596	3,162	3,672
Disposals	(17)	(22)	(964)	-	(340)	(1,343)	(1,273)
At 31 December	**9,359**	**10,306**	**3,115**	**-**	**1,580**	**24,360**	22,541
Net book value							
At 31 December 2021	**17,034**	**1,050**	**4,592**	**239**	**2,030**	**24,945**	
At 31 December 2020	17,579	1,525	5,510	342	2,694		27,650

The cost of fully depreciated assets still in use at 31 December 2021 was BD 10,743 thousand (2020: BD 9,368 thousand).

15 TRADE AND OTHER PAYABLES

	31 December 2021	*31 December 2020*
	BD '000	*BD '000*
Derivative financial instruments	2,113	5,537
Lease liabilities (note 15.1)	1,163	1,801
Others	16,208	16,617
	19,484	23,955

15.1 Lease liabilities

	31 December 2021		*31 December 2020*	
	Minimum lease payments	***Present value of lease payments***	*Minimum lease payments*	*Present value of lease payments*
	BD '000	***BD '000***	*BD '000*	*BD '000*
Within one year	**523**	**478**	625	561
After one year but not more than five years	**626**	**563**	1,085	967
More than five years and less than 10 years	**94**	**83**	252	232
More than 10 years	**72**	**39**	75	41
Total minimum lease payments	**1,315**	**1,163**	2,037	1,801
Less: finance charges	**(152)**		(236)	
Net lease liability	**1,163**	**1,163**	1,801	1,801

15 TRADE AND OTHER PAYABLES

15.1 Lease liabilities (continued)

The movement in lease liabilities is as follows:

	2021	*2020*
	BD '000	*BD '000*
Lease liabilities as at 1 January	1,801	1,725
Additions	281	779
Termination	(340)	(114)
Finance cost	69	103
Payments made	(648)	(692)
Lease liabilities as at 31 December	**1,163**	1,801

16 SHARE CAPITAL

	31 December 2021	*31 December 2020*
	BD '000	*BD '000*
Authorised share capital		
500,000,000 (2020: 500,000,000) shares of 100 fils each	**50,000**	50,000
Issued and fully paid		
204,187,500 (2020: 204,187,500) shares of 100 fils each		
At 1 January	20,419	20,419
At 31 December	**20,419**	20,419

	31 December 2021	*31 December 2020*
	BD '000	*BD '000*
Treasury shares 2,759,029 shares (2020: 2,759,029 shares)	**599**	599

The Company's memorandum of association allows it to hold up to 10% of its own issued shares as treasury shares.

Additional information on shareholding pattern

i. Names and nationalities of the major shareholders and the number of equity shares held in which they have an interest of 5% or more of issued and fully paid shares.

	Nationality	***No. of shares***	***% holding***
Social Insurance Organisation*	Bahrain	63,165,039	30.93%
Bank of Bahrain and Kuwait	Bahrain	47,023,363	23.03%
National Bank of Bahrain	Bahrain	22,910,775	11.22%

* Shareholding under Social Insurance Organisation represents holding of shares by Social Insurance Organisation (GOSI) and Social Insurance Organisation (Pension) which is a government organization.

ii. The Company has only one class of equity shares and the holders of these shares have equal voting rights. Out of the total shareholders, 98% are Bahraini individuals or corporates and 2% are other nationalities.

16 SHARE CAPITAL (continued)

iii. The shareholding of Directors, other than nominee directors representing major shareholders, is 945,449 shares (2020: 801,718 shares).

iv. Distribution schedule of equity shares, setting out the number of holders and percentage in the following categories:

2021

Categories*	***Number of Shares***	***Number of shareholders***	***% of total issued shares***
Less than 1%	47,292,684	1,265	23.16%
1% up to less than 5%**	23,795,639	7	11.65%
5% up to less than 20%	22,910,775	1	11.22%
20% up to less than 50%	110,188,402	2	53.96%
Total	**204,187,500**	**1,275**	**100.00%**

2020

Categories*	***Number of Shares***	***Number of shareholders***	***% of total issued shares***
Less than 1%	47,922,264	1,286	23.47%
1% up to less than 5%**	23,166,059	7	11.35%
5% up to less than 20%	22,910,775	1	11.22%
20% up to less than 50%	110,188,402	2	53.96%
Total	204,187,500	1,296	100.00%

* Expressed as a percentage of total issued and fully paid shares of the Company
** Includes 2,759,029 treasury shares (2020: 2,759,029 shares)

17 AUTOMOTIVE REVENUE

	2021 BD '000	*2020 BD '000*
Sale of cars and accessories	37,764	34,343
Car repair and maintenance services	4,050	3,626
Car leasing revenue	1,594	1,886
	43,408	39,855

18 FEE AND COMMISSION INCOME

	2021 BD '000	*2020 BD '000*
Loan administration and other credit card related fees	5,662	4,438
Insurance commission income	695	838
	6,357	5,276

19 PROFIT FROM SALE OF REAL ESTATE INVENTORY

	2021	*2020*
	BD ’000	*BD ’000*
Revenue	2,392	2,131
Cost of Sales	(2,236)	(1,911)
Profit from sale of real estate inventory	**156**	220

20 OTHER INCOME

	2021	*2020*
	BD ’000	*BD ’000*
Incentives from automotive principals	521	508
Miscellaneous income	608	519
	1,129	1,027

21 OPERATING EXPENSES

	2021	*2020*
	BD ’000	*BD ’000*
General and administration costs	5,426	5,214
Depreciation	2,504	2,777
Selling and promotion costs	1,419	1,784
Operating expenses relating to investment properties	91	174
Allowances for inventory	123	646
Allowances for investment properties	(25)	25
Automotive finance cost	104	260
	9,642	10,880

22 ALLOWANCE ON LOANS AND RECEIVABLES , NET OF RECOVERIES

	2021	*2020*
	BD ’000	*BD ’000*
Allowances on loans and advances to customers, net (Note 10 (b))	12,840	21,559
Allowances on trade receivables, net (Note 11)	391	237
Recoveries from written off balances	(2,264)	(1,324)
	10,967	20,472

23 DISTRIBUTION OF ASSETS AND LIABILITIES

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

24 SEGMENTAL INFORMATION

For management purposes, the Group is organised into four operating segments based on products and services as follows:

- Customer Lending - principally providing consumer loans and credit card facilities;
- Automotive - trading in motor vehicles and spares and the provision of after sales services and leasing services;
- Real estate - include buying, selling and renting of properties and providing property evaluation services; and
- Insurance - provision of insurance brokerage services.

24 SEGMENTAL INFORMATION (continued)

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the consolidated financial statements. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2021 and 2020. The following table presents income and profit and certain asset and liability information regarding the Group's operating segments.

At 31 December	***Customer Lending***		***Automotive***		***Real estate***		***Insurance***		***Total***	
	2021	*2020*	***2021***	*2020*	***2021***	*2020*	***2021***	*2020*	***2021***	*2020*
	BD '000	*BD '000*	***BD '000***	*BD '000*	***BD '000***	*BD '000*	***BD '000***	*BD '000*	***BD '000***	*BD '000*
Operating income	**25,814**	27,932	**5,402**	3,902	**751**	1,108	**695**	838	**32,662**	33,780
Inter segment revenue	**(18)**	97	**325**	404	**213**	290	**115**	161	**635**	952
Operating costs	**(10,260)**	(10,726)	**(3,891)**	(4,995)	**(704)**	(1,034)	**(659)**	(828)	**(15,514)**	(17,583)
Impairment, net of recoveries	**(10,579)**	(20,239)	**(282)**	(203)	**(106)**	(30)	**-**	-	**(10,967)**	(20,472)
Inter segment expenses	**(520)**	(675)	**(18)**	(36)	**(97)**	(241)	**-**	-	**(635)**	(952)
Profit for the year	**4,437**	(3,611)	**1,536**	(928)	**57**	93	**151**	171	**6,181**	(4,275)
Assets (Liabilities)										
Cash and balances with banks	**13,203**	21,259	**14,993**	4,051	**4**	93	**154**	127	**28,354**	25,530
Loans and advances to customers	**229,325**	264,006	**-**	-	**-**	-	**-**	-	**229,325**	264,006
Trade and other receivables	**140**	19	**2,972**	4,126	**91**	122	**366**	228	**3,569**	4,495
Intercompany balances	**(2,429)**	1,844	**(174)**	(300)	**(1,047)**	(4,896)	**3,650**	3,352	**-**	-
Inventories	**-**	-	**8,153**	13,511	**3,326**	5,195	**-**	-	**11,479**	18,706
Investment properties	**-**	-	**-**	-	**10,787**	12,563	**-**	-	**10,787**	12,563
Property and equipment	**9,029**	9,675	**15,916**	17,975	**-**	-	**-**	-	**24,945**	27,650
Other assets	**228**	264	**2,202**	2,287	**11**	44	**1**	-	**2,442**	2,595
Trade and other payables	**(11,529)**	(16,990)	**(7,300)**	(6,423)	**(162)**	(253)	**(493)**	(290)	**(19,484)**	(23,956)
Bank term loans	**(156,497)**	(205,956)	**-**	-	**-**	-	-	-	**(156,497)**	(205,956)
Equity	**81,470**	74,121	**36,762**	35,227	**13,010**	12,868	**3,678**	3,417	**134,920**	125,633
Capital expenditure	**491**	901	**1,602**	2,055	-	-	-	-	**2,093**	2,956
Depreciation charge for the property and equipment	**1,097**	1,203	**2,065**	2,469	**-**	-	**-**	-	**3,162**	3,672

25 BALANCES AND TRANSACTIONS WITH RELATED AND ASSOCIATED PARTIES

Related parties comprise major shareholders, directors, and key management personnel of the Company and entities owned or controlled, jointly controlled or significantly influenced by them and companies affiliated by virtue of shareholding in common with that of the Company.

The Group has banking relationships and obtains term borrowings and has unutilised credit facilities with certain of its shareholder banks (Bank of Bahrain and Kuwait and National Bank of Bahrain). All such transactions are in the ordinary course of business and on terms agreed between the parties.

	2021	*2020*
	BD '000	*BD '000*
Major shareholders:		
As at 31 December		
Term loans	**29,753**	50,160
Bank balances	**1,129**	1,302
For the year ended 31 December		
Interest expense	**1,413**	2,086

Key management personnel:
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. The key management personnel comprise members of the Board of Directors, the Chief Executive Officer, the Managing Director, the President, the General Managers and the Senior Vice Presidents.

	2021	*2020*
	BD '000	*BD '000*
As at 31 December		
Loans and advances to customers	**904**	339
For the year ended 31 December		
Salaries and short term employee benefits	**1,738**	1,833
End of service benefits	**77**	595
Directors remuneration and attendance fees	**335**	626
Sales, service and lease of vehicles	**108**	70
Purchase of materials	**6**	20

An impairment loss of BD 160 thousand (2020: BD 59 thousand) have been recorded against balances outstanding during the period with related parties.

26 RETIREMENT BENEFITS COST

The Group's contributions in respect of Bahraini for the year amounted to BD 678 thousand (2020: BD 698 thousand) respectfully. The Group's provision for expatriate employees' leaving indemnities at 31 December 2021 was BD 970 thousand (2020: BD 1,053 thousand). The Group employed 764 staff at 31 December 2021 (2020: 849).

26 RETIREMENT BENEFITS COST (continued)

The movement in the employees end of service benefits is as follows:

	2021	*2020*
	BD '000	*BD '000*
At 1 January	1,053	1,457
Provided during the year	306	347
Paid during the year	(389)	(751)
At 31 December	**970**	1,053

27 STAFF SAVING SCHEME

The scheme is contribution saving fund between the Company and the employees of the Company. The objective is to provide employees with cash benefit upon resignation, retirement or death. Participation is discretionary and employee can contribute any amount up to 10% of the salary. The Company contribute the same percentage.

The Employee becomes eligible for the full amount of the Company's contribution once the employee has completed 10 years of service. Otherwise, it will be calculated proportionately based on number of year of services.

As at 31 December 2021, the total contribution of the Group under saving plan stand at BD 2,482 thousand (2020: BD 2,486 thousand). The Fund is invested within reputable bank in Bahrain.

28 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares outstanding during the year, excluding the average number of ordinary shares purchased by the Company and held as treasury shares, as follows:

	2021	*2020*
	BD '000	*BD '000*
Profit / (loss) for the year	6,186	(4,275)
Weighted average number of equity shares (in 000's) (note 16)	201,429	201,429
Basic earnings per share	**31 fils**	(21) fils

Diluted earnings per share is same as basic earnings per share as the Group does not have any potential dilutive instruments in issue.

29 OUTSTANDING COMMITMENTS

As at reporting date, the Group has standby letters of credit issued in the normal course amounting to BD 8,862 thousand (2020: BD 8,800 thousand) and unutilised credit limits of BD 27,140 thousand (2020: BD 31,487 thousand) to its customers.

30 RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASH FLOWS ARISING FROM FINANCING ACTIVITIES

	Liabilities		*Derivatives (assets) / liabilities borrowings*	*Equity*			
	Trade and other payables BD '000	*Bank Term loans BD '000*	*Interest rate swap and forward exchange contracts used for hedging – liabilities BD '000*	*Share capital BD '000*	*Reserves BD '000*	*Retained earnings BD '000*	*Total BD '000*
Balance at 1 January 2021	**18,418**	**205,956**	**5,537**	**19,820**	**57,586**	**48,227**	**355,544**
Proceeds from loans and borrowings	-	2,000	-	-	-	-	2,000
Repayment of borrowings	-	(52,170)	-	-	-	-	(52,170)
Dividend paid	(16)	-	-	-	-	-	(16)
Donation paid	-	-	-	-	(226)	-	(226)
Total changes from financing cash flows	**(16)**	**(50,170)**	**-**	**-**	**(226)**	**-**	**(50,412)**
Changes in fair value	-	-	(3,424)	-	3,332	-	(92)
Other changes	-	-	-	-	-	6,181	6,181
Liability-related changes	(1,384)	-	-	-	-	-	(1,384)
Borrowing upfront cost	-	711	-	-	-	-	711
Interest expense	8,749	-	-	-	-	-	8,749
Interest paid	(8,396)	-	-	-	-	-	(8,396)
Total liability-related other changes	**(1,031)**	**711**	**(3,424)**	**-**	**-**	**-**	**(3,744)**
Total equity-related other changes	**-**	**-**	-	-	**3,332**	**6,181**	**9,513**
Balance at 31 December 2021	**17,371**	**156,497**	**2,113**	**19,820**	**60,692**	**54,408**	**310,901**

31 PROPOSED APPROPRIATIONS

The board of directors has proposed the following appropriations for 2021. These appropriations are subject to approval by the shareholders at the Annual General Meeting.

	2021	*2020*
	BD '000	*BD '000*
Proposed dividends	5,036	-
Donations	150	-
General reserve	500	-
	5,686	-

32 COMPARATIVES

The corresponding figures have been reclassified where necessary to conform to the current year's presentation. The reclassified did not affect previously reported profit for the year or total equity.

Unaudited Supplementary Information
Impact of COVID-19

As per the Central Bank of Bahrain ('the CBB') directions through their circular OG/259/2020 dated 14th July 2020 with the objective to maintain transparency amidst the current implications of Coronavirus (COVID-19), the BCFC Group is providing following additional information in relation to the financial impact of COVID-19 on its financial statements.

The coronavirus ("COVID-19") outbreak earlier in 2020 has had multiple implications on the Group, from stressed market conditions, significant reduction in sales of its product and services, reduction in cashflows from the loan book and disruption of its normal operations due to social distancing norms and restricted commercial activities.

The table below summarizes the impact of the various measures and market conditions on the Group as at 31 December 2021:

	Net Profit	Total Equity (Excluding Net Profit)	Total Assets
Estimated balances at 31 December 2021 excluding COVID-19 impact	**15,277**	**134,920**	**317,045**
Impact due to Changed Market Conditions:			
Additional impairment provisions due to Covid-19	(6,144)	-	(6,144)
Lower income from lending activities	(1,360)	-	-
Lower income in automotive businesses	(941)	-	-
Lower income in insurance services business	(242)	-	-
Lower income in real estate business	(409)	-	-
	(9,096)	-	(6,144)
Closing balances as per the financial statements	**6,181**	**134,920**	**310,901**

The above information is prepared based on certain assumptions and should not be considered as an indication of the results of the full year or relied upon for any other purposes. Since the unfolding of events due to Covid-19 is uncertain and is still evolving, the above impact is as of the date of preparation of this information. Circumstances may change which may result in this information to be not relevant. In addition, this information does not represent a full comprehensive assessment of Covid-19 impact on the Group. This information has not been subject to a formal review by external auditors.