BAHRAIN COMMERCIAL FACILITIES COMPANY BSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016

Bahrain Commercial Facilities Company BSC

2016 CONSOLIDATED FINANCIAL STATEMENTS

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GENERAL INFORMATION

Bahrain Commercial Facilities Company BSC is a Bahraini Public Shareholding Company. Initially the Company was registered on 29 August 1983 as a B.S.C. (closed). In April 1993, the Company was registered as a Public Shareholding Company following the public offering of its shares.

The Company wholly owns National Motor Company WLL, which was established in March 1988, Tasheelat Insurance Services Company WLL, which was established in 1997, and Tasheelat Real Estate Service Company SPC, which was established in May 2002. In December 2013, the Group geographically expanded its presence and established Tasheelat for General Trading Company WLL in Erbil, Kurdistan, Iraq, to act as an exclusive distributor for Honda vehicles in Erbil, Kurdistan, Iraq. In March 2015, the company has incorporated Tasheelat Automotive Company in Bahrain.

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Board of Directors	: Abdulrahman Yusuf Fakhro - Chairman	
	Reyadh Yusuf Hasan Sater - Vice Chairman	
	Khalid Mohammed Ali Mattar	
	Ebrahim Abdulla Buhindi	
	Sayed Abdulghani Hamza Qarooni	
	Abdulkarim Ahmed Bucheery	
	Abdulaziz Abdulla A.Aziz Al-Ahmed	
	Dr. A. Rahman Ali Saif A. Rahman	
	Abdulla Mohamed Al-Mahmood	
	Mohammed Ahmed Al-Khaja	
Chief Executive Officer	: Dr. Adel Hubail	
Head of Credit & Marketing	: Fadhel Mahoozi	
Group Head of Finance	: Vishal Purohit	
General Manager - NMC	: Ramzi Barakat	
General Manager - TISCO	: Ali Al-Daylami	
General Manager - TGTC	: Mostafa El Berry	
Banks	: BBK BSC	National Bank of Bahrain
	Ahli United Bank	BNP Paribas
	Gulf International Bank	Standard Chartered Bank
	Arab Banking Corporation (BSC)	Arab Bank
	Ahli Bank SAOG	Al Salam Bank
	HSBC Bank	IDBI Bank
	Mashreq Bank	Ahli United Bank Limited
	IBL Bank, Erbil, Kurdistan	Bank of Baghdad, Erbil, Kurdistan
	Al Baraka Bank, Erbil, Kurdistan	
Auditors	: KPMG Fakhro	

REPORT OF THE CHAIRMAN

On behalf of the Board of Directors, it gives me great pleasure to present to you the Annual Report of Bahrain Commercial Facilities Company BSC, for the financial year ended 31 December 2016. The annual report includes the consolidated financial results of Bahrain Credit and the Company's subsidiaries: National Motor Company, Tas'heelat for General Trading and Cars (Kurdistan), Tas'heelat Real Estate Services Company, Tas'heelat Insurance Services Company and Tas'heelat Automotive Company.

2016 proved to be a rewarding year for the BCFC Group. In a challenging environment, your Company continued its outstanding performance and yet again recorded its highest profit. The Company has earned a net profit of BD 19.9 million for the year ended 31 December 2016, 14.37% ahead of the previous year (2015: BD 17.4 million). The results demonstrate the agility and effectiveness of our strong business model which continues to deliver a robust and sustainable growth. These earnings translates into a return on equity of 16% (2015: 15.6%). Your board recommends a cash dividend to shareholders at the rate of 50 fils per share (50%) (2015: 45 fils per share).

The global economic growth continues to remain volatile and uninspiring. The world economy expanded by meagre 2.2 percent in 2016, adversely affected by feeble pace of global investment, dwindling international trade, flagging productivity and high levels of debt. The geopolitical conflict and low oil price environment continue to weigh on economic prospects in our region and have forced the GCC countries to introduce wide range of harsh austerity measures. Our beloved country is no exception to this adverse current state of affairs. Bahrain economy had witnessed a decline in its sovereign rating, increase in government deficit, reduction in subsidies, increase in household expenditure and eroding household disposable income. Despite many challenges, the local business community remains resilient.

Bahrain Credit has achieved net profits of BD 14.5 million (2015: BD 12.2 million) and advanced new loans of BD 158 million (2015: BD 139 million). The Company's persistent strive to reinvent and refine its value chains to meet and surpass customers' expectations has resulted in an all-round growth in all the key product segments. The expansion in the branch network through the launch of two new branches during the year has further enhanced the Company's geographical reach to better serve new customer groups. Your Company has retained its leadership in its core product vehicle finance and strengthened its market share in mortgage and personal loans, and established itself as one of the top three providers in the local credit card market.

Your Company has registered a healthy growth in vehicle finance despite significant contraction in automotive market through fostering mutually rewarding relationships with the auto dealers and sub dealers. The mortgage lending continued to perform well in a resilient real estate market. Customers' demands on personal loans improved and achieved record new business volumes. The customer base of our imtiaz credit card has registered a substantial growth along with strong purchases. The introduction of new initiatives aimed at enhancing customer experience has attracted many new customers and improved active utilization of existing cards.

The Company continued its efforts to refine its prudent lending practices to reflect current market realities. This is through creating an efficient feedback loop between the lending departments on the one hand, and collection and recovery department on the other hand. The Company continues to update its risk management practices through various qualitative initiatives such as the completion of a thorough Risk Management Framework. The new business sourced was achieved without compromising on the asset quality; the nonperforming loans was controlled at 2.9% of the total loans portfolio.

National Motor Company has earned a net profit of BD 1.9 million (2015: BD 2.1 million). In Bahrain the new car sales had registered a severe 6% contraction during the year placing pressure on both stock inventories and profit margins in the whole automotive market. In such an environment, your Company has focused its energy and resources to become more lean and efficient in every aspect of its business model and achieved a net profit in Bahrain operations of BD 2.7 million. Despite the decrease in new vehicle sales volume for both General Motors and Honda, the Company was able to gain higher market share due to lower rate of reduction in its sales volumes when compared to overall market decline. The positive response on the new range of products launched by both General Motors and Honda is encouraging and bode well for the Company's future. The margins for both brands came under pressure and saw a reduction due to the excess supply of inventory available with most of the distributors. In aftersales, the Company focused its energy on customer retention through superior customer service to further enhance its overall customer base.

National Motor Company net profit is net of BD 876 thousand loss incurred in its Erbil, Kurdistan based wholly owned subsidiary Tas'heelat for General Trading and Cars W.L.L. The economic environment in Erbil continued to remain unstable and further deteriorated during the year. With no hope of revival in business confidence in near future, your board has commenced the process of winding down its operations. The Company has no inventory of vehicles on ground available for sale and has fully depreciated its investment in its Erbil facility.

T'asheelat Real Estate Services Company had an outstanding year and registered net profit of BD 2.6 million (2015: BD 2.1 million). The Company has managed three real estate projects simultaneously and sold 73 plots. Your Company remained committed to addressing the aspirations of our citizens for suitable and affordable housing. The Company made additional investments in similar projects during the year. All the Company's investment properties for rental income have maintained healthy occupancy rates and has generated steady and reliable yields.

Tas'heelat Insurance Services Company achieved a net profit of BD 1.1 million (2015: BD 1 million). Despite the contraction of the automotive sales in Bahrain, the Company has arranged more than twenty five thousand motor insurance policies which is 9% higher than last year. The Company continued to strengthen its leadership in motor insurance thriving on its well diversified ecosystem of dealers and sub dealers. The Company's strong relationships with insurance companies and the initiatives launched during the year has ensured high level of renewal rates from for the existing customers.

Tas'heelat Automotive Company has successfully completed its first full year of operations and has reported a net loss of BD 147 thousand. It is exciting to note that in such a short time, your Company is able to establish GAC Motor as number one amongst all the Chinese brands in terms of market share in Bahrain. The Company has successfully attracted wide range of customers through its high technology, reliable, fuel efficient and rightly priced cars. Your board will continue to invest into this business through the provision of new showrooms and after sale services to fully optimise the value offered by the new brand.

Your Company remained in a particularly strong and healthy liquidity position. The Company has a well-planned staggered maturity profile of its borrowings. During the year, the Company had successfully arranged a USD 80 million five year syndicated loan to fund the business expansion. The syndication received a strong support from the local and regional banks. The Group is operating at a low leverage that facilitates further expansion and growth plans.

During the year, the following were the changes in the composition of the Board of directors. Mr. Abdulkarim Ahmed Bucheery, the nominee of BBK, has retired as a vice Chairman from the board in March 2016 and reappointed as independent, non-executive director in April 2016 in place of the outgoing board member Mr. Ali Abdulla Ahmadi. Mr. Ahmadi served on the board since May 1996. The Board places on record its sincere thanks and appreciation to Mr. Ahmadi for his valuable contributions over the years. The Board welcomed Dr. Abdulrahman Ali Abdulrahman; who joined as nominee of BBK BSC effective April 2016.

In accordance with the requirement of Bahrain's Commercial Company Law 2001, we report the aggregate amount paid to directors during 2016 was BD 527 thousand (2015: BD 506 thousand) in respect of fees and subsidiary Board and Committees' attendance allowances. The total shareholding of the directors (Elected and Nominee) in the Company is 109.7 million shares (67.16% of paid up capital).

On behalf of the Board, I express our appreciation to our customers and shareholders for their continuing loyal support and confidence and to all our employees for their commitment and hard work that has resulted in this excellent performance.

REPORT OF THE CHAIRMAN

Finally, we also gratefully acknowledge the guidance of our nation's wise leadership and the continuing support and co-operation received from the government ministries and organizations of Bahrain, most particularly the Central Bank of Bahrain and the Ministry of Industry, Commerce and Tourism.

Abdulrahman Yusuf Fakhro
Chairman
28 February 2017

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Bahrain Commercial Facilities Company BSC
Kingdom of Bahrain

Report on the audit of the consolidated financial statements

Opinion
We have audited the accompanying consolidated financial statements of Bahrain Commercial Facilities Company BSC (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 2016. 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.

Impairment of loans and advances
(refer to the use of estimate and management judgement in note 6) impairment policy in note 3(e) and note 4 on disclosure of credit risk in the financial statements)

Description	How the matter was addressed in our audit
We focused on this area because: ▪ of the significance of loans and advances (representing 77% of total assets) and the related estimation of uncertainty to the financial statements; and ▪ the Group makes complex and significant judgments over both timing of recognition of impairment and the estimation of the amount of such impairment;	We understood and tested key controls and focused on: • past due ageing of the Group's loans; • the identification of impairment events; • the review and approval process that the Group has in place for the outputs of the Group's impairment model. ***<u>Specific impairment provision:</u>*** Our procedures included the following where specific impairment is calculated for individual loans: • understanding, assessing and challenging the key events and triggers used by the Group for identifying customers within the loan portfolio for specific impairment assessment; and • for a sample of exposures that were subject to specific impairment assessment and focusing on those with the most significant potential impact on the consolidated financial statements, specifically challenging the Group's assumptions on the expected future cash flows, including the value of the realizable collateral based on our own understanding and available market information.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

Collective impairment provision:

Our procedures included the following where impairment is calculated on a collective basis for portfolio of loans:

- understanding and assessing the appropriateness of the provisioning model for the Group's portfolio;
- testing the inputs sourced from underlying systems that are used in the model;
- testing ageing and credit classification of the loans on a sample basis;
- where modelling assumptions were based on prior historic data, we evaluated whether the output of the models are consistent with the historical payment performance. We then challenged the appropriateness of the Group's adjustments to reflect current market conditions, with reference to our own knowledge and to market and economic conditions.

We also assessed the adequacy of the Group's disclosure in relation to impairment of loans and advances by reference to the requirements of relevant accounting standards.

Provision on inventory (vehicles and spare parts)

Refer to Note 10 to the consolidated financial statements.

Description	**How the matter was addressed in our audit**
We focused on this area because: ▪ the Group has significant amount of inventory, and a broad range of car models and spare parts; and ▪ significant judgement and estimation is involved in the determination of the level of impairment needed to record the value of inventory at net realizable value, where such value is lower than cost.	Our audit procedures included: • testing the design and operating effectiveness of controls over the process of identification of slow moving items; • testing the ageing of cars and spare parts inventory on a sample basis; • testing sales subsequent to the year-end to check whether sale proceeds were sufficient to cover the net realisable value; • challenging the Group's assumptions to arrive at net realisable value by assessing historical data and available market information; and • evaluating the adequacy of the Group's disclosures related to provision on inventory by reference to the requirements of relevant accounting standards.

Impairment of trade receivables

Refer to Note 9 to the consolidated financial statements.

Description	***How the key audit matter was addressed in our audit***
We focused on this area because: ▪ the Group has significant receivables from customers in the automotive industry; and ▪ estimation of the recoverable amount and determining the level of impairment allowance involves judgement and estimation of uncertainty.	Our audit procedures included: • testing the design and operating effectiveness of controls over the process of collection of receipts and identification of doubtful debts; • testing the ageing of receivables on a sample basis; • focusing on those accounts with the most significant potential impact on the consolidated financial statements, and seeking confirmations, reconciliation of statement of accounts and testing receipts subsequent to the year-end; • challenging the Group's assumptions on the expected future cash flows considering the historical cash collection trends and available market information; and • evaluating the adequacy of the Group's disclosures related to impairment allowance in the consolidated financial statements.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

Other information

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the Chairman's report which forms 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 and will 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 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 that we have obtained prior to the date of this auditors' 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, 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.

Auditors' 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 auditors' 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.

As part of an audit in accordance with ISAs, 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 auditors' 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 auditors' 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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

- 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 the board of directors 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.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and 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 the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended 31 December 2016 and are therefore the key audit matters. We describe these matters in our auditors' 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 regulatory requirements
As required by the Bahrain Commercial Companies Law and Volume 5 of the Central Bank of Bahrain (CBB) Rule Book, we report that:

a) the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b) the financial information contained in the chairman's report is consistent with the consolidated financial statements;
c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 5, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Company's memorandum and articles of association that would 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 engagement partner on the audit resulting in this independent auditors' report is Jaafar AlQubaiti.

KPMG

KPMG Fakhro
Partner registration number 83
28 February 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2016

Bahraini dinars thousands

	Note	**31 December 2016**	31 December 2015
Assets			
Cash and balances with banks		2,313	1,669
Loans and advances to customers	8	270,126	230,362
Trade receivables	9	8,642	8,066
Inventories	10	35,596	36,674
Investment properties	11	7,054	6,061
Property and equipment	12	24,424	19,859
Other assets		2,607	1,906
Total assets		**350,762**	304,597
Liabilities and equity			
Liabilities			
Bank overdrafts		1,073	1,411
Trade and other payables		15,363	22,155
Bank term loans	13	170,204	129,845
Bonds issued	14	39,829	39,766
Total liabilities		**226,469**	193,177
Equity			
Share capital	15	16,335	16,335
Treasury shares	15	(599)	(599)
Statutory reserve		33,542	33,542
Other reserves		22,854	20,840
Retained earnings		52,161	41,302
Total equity (page 12)		**124,293**	111,420
Total liabilities and equity		**350,762**	304,597

The Board of Directors approved the consolidated financial statements consisting of pages 9 to 42 on 28 February 2017 and signed on its behalf by:

Abdulrahman Yusuf Fakhro	**Reyadh Yusuf Hasan Sater**	**Dr. Adel Hubail**
Chairman	*Vice Chairman*	*Chief Executive Officer*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the year ended 31 December 2016

Bahraini dinars thousands

	Note	2016	2015
Interest income		30,020	24,301
Interest expense		(8,162)	(6,397)
Net interest income		**21,858**	17,904
Automotive sales		60,900	69,748
Cost of sales		(54,172)	(62,167)
Gross profit on automotive sales		**6,728**	7,581
Fee and commission income	16	8,501	6,795
Profit from sale of land inventory		2,599	1,876
Rental income		710	631
Total operating income		**40,396**	34,787
Salaries and related costs		(7,385)	(6,737)
Other operating expenses	18	(10,027)	(8,923)
Impairment allowance on loans and receivables, net of recoveries		(4,027)	(2,864)
Other income	17	953	1,146
Profit for the year		**19,910**	17,409
Basic and diluted earnings per 100 fils share	23	124 fils	108 fils
Proposed cash dividend per 100 fils share		50 fils	45 fils

Abdulrahman Yusuf Fakhro
Chairman

Reyadh Yusuf Hasan Sater
Vice Chairman

Dr. Adel Hubail
Chief Executive Officer

The consolidated financial statements consist of pages 9 to 42.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016 Bahraini dinars thousands

	2016	2015
Profit for the year	**19,910**	17,409
Other comprehensive income		
Items that are or may be reclassified to profit or loss		
Net change in cash flow hedge reserve	537	329
Total other comprehensive income for the year	**537**	329
Total comprehensive income for the year	**20,447**	17,738

The consolidated financial statements consist of pages 9 to 42.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

Bahraini dinars thousands

2016	Share capital		Reserves and retained earnings					Total equity
	Share capital	Treasury shares	Statutory reserve*	Cash flow hedge reserve	Donations reserve	General reserve	Retained earnings	
At 1 January 2016	16,335	(599)	33,542	(224)	814	20,250	41,302	111,420
2015 appropriations (approved by shareholders):								
- Donation declared for 2015	-	-	-	-	300	-	(300)	-
- Transfer to general reserve for 2015	-	-	-	-	-	1,500	(1,500)	-
Balance after 2015 appropriations	**16,335**	**(599)**	**33,542**	**(224)**	**1,114**	**21,750**	**39,502**	**111,420**
Comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	19,910	19,910
Other comprehensive Income								
- Net change in cash flow hedge reserve	-	-	-	537	-	-	-	537
Total comprehensive income for the year	-	-	-	537	-	-	19,910	20,447
Transactions with equity holders, recognised directly in equity								
Dividend declared for 2015	-	-	-	-	-	-	(7,251)	(7,251)
Total distributions to shareholders	-	-	-	-	-	-	(7,251)	(7,251)
Utilisation of donation	-	-	-	-	(323)	-	-	(323)
At 31 December 2016	**16,335**	**(599)**	**33,542**	**313**	**791**	**21,750**	**52,161**	**124,293**

*Includes BD 25,292 of share premium.

The consolidated financial statements consist of pages 9 to 42.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2015

Bahraini dinars thousands

2015	Share capital		Reserves and retained earnings					Total equity
	Share capital	Treasury shares	Statutory reserve*	Cash flow hedge reserve	Donations reserve	General reserve	Retained earnings	
At 1 January 2015	16,335	(599)	33,542	(553)	898	18,750	32,944	101,317
2014 appropriations (approved by shareholders):								
- Donation declared for 2014	-	-	-	-	300	-	(300)	-
- Transfer to general reserve for 2014	-	-	-	-	-	1,500	(1,500)	-
Balance after 2014 appropriations	16,335	(599)	33,542	(553)	1,198	20,250	31,144	101,317
Comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	17,409	17,409
Other comprehensive Income								
- Net change in cash flow hedge reserve	-	-	-	329	-	-	-	329
Total comprehensive income for the year	-	-	-	329	-	-	17,409	17,738
Transactions with equity holders, recognised directly in equity								
Dividend declared for 2014	-	-	-	-	-	-	(7,251)	(7,251)
Total distributions to shareholders	-	-	-	-	-	-	(7,251)	(7,251)
Utilisation of donation	-	-	-	-	(384)	-	-	(384)
At 31 December 2015	16,335	(599)	33,542	(224)	814	20,250	41,302	111,420

*Includes BD 25,292 of share premium.

The consolidated financial statements consist of pages 9 to 42.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2016

Bahraini dinars thousands

	Note	2016	2015
Cash flow from operating activities			
Loan repayments, interest received and credit card related receipts		230,566	180,223
Receipts from automotive sales		60,878	69,059
Insurance commission received		1,325	1,059
Proceeds from sale of land inventory		9,122	7,524
Rental received		697	624
Loans and advances to customers disbursed		(237,066)	(185,006)
Payments to automotive suppliers		(58,320)	(62,733)
Payment for land held as inventory		(10,500)	(7,528)
Payments for operating expenses		(13,881)	(12,864)
Directors' fees paid		(350)	(325)
Interest paid		(8,711)	(7,123)
Net cash used in operating activities		**(26,240)**	(17,090)
Cash flows from investing activities			
Capital expenditure on property and equipment		(5,899)	(5,328)
Purchase of investment properties		(1,446)	(1,843)
Proceeds from sale of property and equipment		769	1,001
Proceeds from sale of an investment property		822	1,287
Net cash used in investing activities		**(5,754)**	(4,883)
Cash flows from financing activities			
Bank term loans availed - Net		40,642	28,225
Dividends paid		(7,250)	(7,252)
Donations paid		(323)	(384)
Net cash generated from financing activities		**33,069**	20,589
Net increase /(decrease) in cash and cash equivalents		**1,075**	(1,384)
Cash and cash equivalents at 1 January		(158)	1,226
Cash and cash equivalents at 31 December		**917**	(158)

	2016	2015
Cash and cash equivalents comprise:		
Cash and balances with banks	2,313	1,669
Less:		
Restricted cash	(323)	(416)
Bank overdrafts	(1,073)	(1,411)
	917	(158)

The consolidated financial statements consist of pages 9 to 42.

1. REPORTING ENTITY

Bahrain Commercial Facilities Company BSC ("the Company") is a public shareholding company incorporated and registered in Kingdom of Bahrain. It provides short-term, medium-term, long-term loans and issue credit card. 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 Company as at and for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as "the Group").

The consolidated financial statements of the Group comprise the financial statements of the Company and its fully owned subsidiaries mentioned below:

Name of subsidiary	Country of incorporation	% holding by Group	Principal activities
National Motor Company WLL (NMC)	Bahrain	100%	Exclusive distributor for General Motors (GMC, Chevrolet and Cadillac), Honda and Mack Defence vehicles in the Kingdom of Bahrain
Tasheelat Real Estate Company SPC	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%	Exclusive distributor for Honda vehicles in Erbil, Kurdistan, Iraq (established through NMC)
Tasheelat Automative Company	Bahrain	100%	Exclusive distributor for GAC vehicles

2. BASIS OF PREPARATION

a) Statement of compliance

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

b) 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.

c) 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.

d) New standards, amendments and interpretations effective from 1 January 2016

The following standards, amendments and interpretations, which became effective as of 1 January 2016, are relevant to the Group:

(i) Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).

The amendments to IAS 16 prohibits entities from using a revenue based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted if the intangible asset is expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

2. Basis of preparation (continued)

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Early adoption is permitted

The adoption of this amendment had no significant impact on the consolidated financial statements

(ii) Annual Improvements to IFRSs 2012–2014 Cycle – various standards.
The annual improvements to IFRSs to 2012-2014 cycles include a number of amendments to various IFRSs. Most amendments will apply prospectively for annual periods beginning on or after 1 January 2016; earlier application is permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

The following are the key amendments in brief:

- IFRS 7 – specific guidance for transferred financial assets to help management determine whether the terms of a servicing arrangement constitute 'continuing involvement' and, therefore, whether the asset qualifies for derecognition

- IFRS 7 – that the additional disclosures relating to the offsetting of financial assets and financial liabilities only need to be included in interim reports if required by IAS 34

- IAS 19 – that when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important and not the country where they arise

- IAS 34 – what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report' and adds a requirement to cross-reference from the interim financial statements to the location of that information.

(iii) Disclosure Initiative (Amendments to IAS 1).

The amendments to IAS 1 Presentation of Financial Statements are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments provide clarifications on a number of issues, including:

- Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.
- Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.
- Notes – confirmation that the notes do not need to be presented in a particular order.
- OCI arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments.

The adoption of these amendments had no significant impact on the consolidated financial statements.

2 Basis of preparation (continued)

e. New standards, amendments and interpretations issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016 and earlier application is permitted; however, the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

(i) Disclosure Initiative (Amendments to IAS 7)

The amendments require disclosures that enable users of (consolidated) financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.
The Group has not early adopted Disclosure Initiative (Amendments to IAS 7) in its consolidated financial statements for the year ended 31 December 2016.

(ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is currently performing an initial assessment of the potential impact of the adoption of IFRS 15 on its consolidated financial statements.

(iii) Transition

The Group plans to adopt IFRS 15 in its consolidated financial statements for the year ending 31 December 2018, using the retrospective approach. As a result, the Group will apply all of the requirements of IFRS 15 to each comparative period presented and adjust its consolidated financial statements.

(iv) IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Company/ Group currently plans to apply IFRS 9 initially on 1 January 2018.

The actual impact of adopting IFRS 9 on the Group's consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Company/ Group holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standard will require the Group to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete.

2 Basis of preparation (continued)

f. Early adoption of standards
The Group did not early adopt new or amended standards in 2016.

g. Use of estimates and judgements
The preparation of these consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are described in note 6

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

a. Basis of consolidation

(i) 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.

(ii) 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 profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iii) 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.

b. Revenue recognition

(i) Interest income and expense
Interest income and expense is recognised on an accrual basis, 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 asset or liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. The application of the effective interest rate method has the effect of recognizing interest income and interest expense evenly in proportion to the amount outstanding over the period to maturity or repayment. In calculating the effective interest rate, cash flows are estimated taking into consideration all contractual terms of the financial instrument but excluding future credit losses.

3. Significant accounting policies (continued)

(ii) Income from sale of goods and provision of services
Revenue is measured at the fair value of the consideration received or receivable, net of discounts, and represents amounts receivable for goods supplied or services performed. The Group recognises revenues when significant risk and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. 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; and
c) revenue from warranty claims is recognised when these services have been rendered to the customers under warranty obligations.

(iii) 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 commission income – including loan administration and account servicing fees – are recognised as the related services are performed.

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

(iv) Sale of land
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.

(v) Rental income
Rental income from investment property is recognised as revenue on a straight line basis over the term of the rental agreement.

c. Foreign currencies 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 amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and payments during the year and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

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 generally recognized in profit or loss.

d. Financial assets and financial liabilities

(i) Recognition

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

3. Significant accounting policies (continued)

A financial asset or financial liability is measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue

(ii) Classification
The Group classifies its financial assets as 'loans and advances' and are measured at amortised cost. The Group classifies its financial liabilities as measured at amortised cost except derivatives, which are measured at fair value and categorised as at fair value through profit or loss.

(iii) De-recognition
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. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

(iv) 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.

(v) Amortised cost measurement
The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate.

(vi) Identification and measurement of impairment
At each reporting date and periodically during the year, the Group assesses whether there is objective evidence that financial assets carried at amortised cost are impaired. A financial asset is impaired when objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

e. Loans and advances to customers

Classification
Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group does not intend to sell immediately or in the near term. Loans and advances are initially recognised at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method, less provision for impairment.

Recognition
Loans and advances are recognised when cash is advanced to a borrower.

Impairment
The Group regards a loan and advance as impaired when there is objective evidence that a loss event has occurred since initial recognition and the loss event has an impact on future estimated cash flows from the asset. Objective evidence that loans and advances are impaired can include significant financial difficulty of a borrower, default or delinquency by a borrower, restructuring of a loan and indications that a borrower will enter into a bankruptcy.

The Group considers evidence of impairment for loans and advances both at specific asset and collective level. All individually significant loans and advances are assessed for specific impairment.

3. Significant accounting policies (continued)

Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not identified.

Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar credit risk characteristics.

In assessing collective impairment, the Group uses modelling of historical trends of the probability of default, timing of recovery and amount of loss incurred, adjusted for management's judgement as to whether current economic credit conditions are such that actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate.

Impairment losses on loans and advances are measured as the difference between the carrying amount of the financial asset and present value of estimated future cash flows discounted at the asset's original effective interest rates. Impairment losses are recognised in profit or loss and reflected in an allowance against loans and advances.

When there is no longer a realistic prospect of recovery, the loan is written off against the related allowance for loan impairment. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the profit or loss.

f. Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. Specific impairment allowance for losses is made based on a review of individual balances.

g. 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 inventory is stated at the lower of cost and net realisable value.

h. Property and equipment

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.

Depreciation:

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

Buildings	15 to 20 years
Furniture, fixture and equipment	3 to 6 years
Vehicles	4 years

3. Significant accounting policies (continued)

i. 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.

Depreciation:

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

Buildings	20 years
Furniture, fixture and equipment	4 years

j. 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 profit or loss in the year in which it arises.

k. Dividends

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

l. Statutory reserve and share premium

In accordance with the parent company’s Articles of Association and in compliance with the Bahrain Commercial Companies Law 2001, 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 certain circumstances.

In accordance with the Bahrain Commercial Companies Law 2001 the share premium of BD 4,282 collected as part of public floatation in 1993 and BD 21,010 net of expenses collected as a part of rights issues in October 2009, had been merged with statutory reserve.

m. General reserve

In accordance with the parent 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.

n. 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.

o. Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized 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. Significant accounting policies (continued)

p. Cash flow hedges

The Group uses interest rate swaps 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 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 profit or loss. Fair value gains and losses on trading derivatives are recognised in the 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. 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 profit or loss. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognised.

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

q. Impairment of non-financial assets

The carrying amounts of the Group's assets other than financial assets (note 3e) 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 profit or loss.

r. 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.

s. Employee saving plan

The Group provides a voluntary saving plan for its Bahraini employees that meet certain criteria. The Group contributes a matching amount limited to 8% of the employee salary to each employee's savings contribution. Annual interest rate of 3% is currently accrued on cumulative savings amount. In case of leaving, retirement or death, an employee receives his/her full contribution and the share of Group's contribution and all earned interest based on years of service.

3. Significant accounting policies (continued)

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

u. Bank term loans and bonds issued
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.

v. Cash and cash equivalents
Cash and cash equivalents 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.

w. 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.

x. 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 Chief Executive Officer to make decisions about resource allocation and assess its performance, and for which discrete financial information is available.

y. 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 the obligation.

z. Repossessed property
In certain circumstances, property is repossessed following the foreclosure on loans and advances that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within ‘other assets’.

4. FINANCIAL RISK MANAGEMENT

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

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

This note presents information about the 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.

Risk management policies and systems are reviewed regularly, on an ongoing basis, to reflect changes in market conditions, products and services offered.

4. Financial risk management (continued)

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

a. 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, trade receivables and other assets. The maximum credit risk is the carrying value of the assets.

Management of credit risk

The Group's credit risk management framework includes:

- Establishment of 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;
- 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.

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. The Group is also subject to single obligor limits as specified by the Central Bank of Bahrain. Credit review procedures are in place to identify at an early stage exposures which require more detailed monitoring and review. Appropriate 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 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.

	31 December 2016	31 December 2015
Specifically provided loans		
Gross amount	1,055	1,427
Impairment allowance	(632)	(689)
Net amount	**423**	738
Collectively provided loans and advances		
Current	230,718	203,583
Past due but not impaired	39,412	26,255
Past due and impaired	7,956	6,081
Impairment allowance	(8,383)	(6,295)
Net amount	**269,703**	229,624
Net loans and advances to customers	**270,126**	230,362

4. Financial risk management (continued)

Specific impairment
The Group considers evidence of impairment for all individually significant loans and advances which are assessed for impairment on a specific basis.

Collective impairment
A collective loan loss allowance is established for groups of homogeneous assets which have not been specifically assessed for impairment or assessed individually and found not to be impaired; in respect of losses that have been incurred but have not been identified,

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 past due loans and advances to customers as follows:

	Past due but not impaired		Past due and impaired		Total past due loans 2016	Total past due loans 2015
	Retail	Corporate	Retail	Corporate		
1-30 days	16,880	1,126	-	-	**18,006**	10,343
31-60 days	11,926	474	-	113	**12,513**	9,394
61-89 days	8,231	775	294	-	**9,300**	6,740
90 days – 1 year	-	-	5,834	289	**6,123**	4,128
1 year – 3 years	-	-	1,433	86	**1,519**	1,937
More than 3 years	-	-	859	-	**859**	636

	Bahrain	Kurdistan	2016
1-30 days	18,004	2	**18,006**
31-60 days	12,507	6	**12,513**
61-89 days	9,290	10	**9,300**
90 days – 1 year	5,884	239	**6,123**
1 year – 3 years	1,468	51	**1,519**
More than 3 years	859	-	**859**

At 31 December 2016, the total gross amount of non-performing loans as defined by the CBB was BD 8,501 (2015: 6,701) against which BD 5,438 (2015: BD 4,519) was the impairment allowance. In compliance with the CBB requirements, interest on non-performing loans is suspended and is accounted for on a cash basis. Suspended interest income relating to such past due loans is not material to the Group's net income.

During the year ended 31 December 2016, the average gross credit exposure for cash and balances with banks is BD 3,099 (2015: BD 3,448), loans and advances to customers is BD 257,902 (2015: BD 218,567), trade and other receivables is BD 8,747 (2015: BD 7,797) and unutilised credit limit is BD 18,625 (2015: BD 13,514). Such amounts are calculated based on the average of last four quarterly results.

At the reporting date, the loans and advances to customers represent 53% vehicle (2015: 55%), 21% mortgage (2015: 22%), 18% unsecured lending (2015: 17%) and 8% credit card lending (2015: 6%).

4. Financial risk management (continued)

The below table show the geographic distribution of exposure as of 31 December 2016:

	Bahrain	Kurdistan	**Total**
Cash and balances with banks	2,300	13	2,313
Loans and advances to customers	269,886	240	270,126
Trade receivables	8,292	350	8,642
Total	**280,478**	**603**	**281,081**
Unutilised credit limit	21,303	-	21,303

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.

The Group has established policies and procedures under which each customer is analyzed individually for creditworthiness. At the year end, trade receivables of BD 3,230 (2015: BD 3,049) were past due against which BD 494 (2015: BD 415) was the impairment allowance. Substantially all commercial past due receivables are less than one year.

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. The Group Audit Committee regularly review reports on forbearance activities. During the year ended 31 December 2016, loans and advances amounting to BD 1,929 (2015: BD 1,187) were restructured.

Write-off policy
The Group writes off any loans (and any related allowances for impairment) when the loans are deemed to be uncollectible.

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/or additionally post dated cheques/promissory notes and personal guarantees.

As at 31 December 2016, loans amounting to BD 185,986 (2015: BD 172,407) were fully collateralized and loans amounting to BD 20,274 (2015: BD 9,546) was partly collateralized with a collateral value of BD 18,285 (2015: BD 8,991).

Management estimates the fair value of collaterals and other security enhancements held against individually impaired loans are reasonably sufficient to cover the value of such loans at the reporting date. The Group monitors concentrations of credit risk by product. As at 31 December 2016, the Group

4. Financial risk management (continued)

obtained assets of BD 784 by taking possession of collateral held as security against loans and advances.

Credit risk concentration
All loans are made to borrowers that are Bahraini residents. Credit risk concentration of loans at the reporting date represents 90% retail loans and 10% to corporate customers and trade receivables represent mainly corporate customers.

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.

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.

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.

b. 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.

4. Financial risk management (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.

2016	**Carrying amount**	**Gross contractual cash flows**	**Within 1 Year**	**1 year to 5 years**	**Over 5 years**
Assets					
Cash and balances with banks	2,313	2,313	2,313	-	-
Loans and advances to customers	270,126	365,253	111,350	206,711	47,192
Trade receivables	8,642	8,642	8,642	-	-
	281,081	**376,208**	**122,305**	**206,711**	**47,192**
Liabilities					
Bank overdrafts	1,073	1,079	1,079	-	-
Trade and other payables	15,363	15,363	15,363	-	-
Bank term loans	170,204	190,700	87,166	103,534	-
Bonds	39,829	43,969	1,678	42,291	-
	226,469	**251,111**	**105,286**	**145,825**	**-**
Unutilised credit limits	21,303	21,303	21,303	-	-

2015	Carrying amount	Gross contractual cash flows	Within 1 Year	1 year to 5 years	Over 5 years
Assets					
Cash and balances with banks	1,669	1,669	1,669	-	-
Loans and advances to customers	230,362	309,786	89,183	179,959	40,644
Trade receivables	8,066	8,066	8,066		
	240,097	319,521	98,918	179,959	40,644
Liabilities					
Bank overdrafts	1,411	1,420	1,420	-	-
Trade and other payables	22,155	22,155	22,155	-	-
Bank term loans	129,845	142,120	36,108	106,012	-
Bonds	39,766	45,120	1,565	43,555	-
	193,177	210,815	61,248	149,567	
Unutilised credit limits	14,911	14,911	14,911	-	-

4. Financial risk management (continued)

c. Market risks

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, bank overdrafts, bonds 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**	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
ASSETS								
Cash and balances with banks	-	-	-	-	2,313	1,669	2,313	1,669
Loans and advances to customers	269,809	230,087	-	-	317	275	270,126	230,362
Trade receivables	-	-	-	-	8,642	8,066	8,642	8,066
	269,809	230,087	**-**	-	**11,272**	10,010	**281,081**	240,097
LIABILITIES								
Bank overdrafts	-	-	1,073	1,411	-	-	1,073	1,411
Trade and other payables	-	-	-	-	15,363	22,155	15,363	22,155
Bank term loans	2,000	-	168,204	129,845	-	-	170,204	129,845
Bonds issued	-	-	39,829	39,766	-	-	39,829	39,766
	2,000	-	**209,106**	171,022	**15,363**	22,155	**226,469**	193,177

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 swaps and caps to reduce exposure to fluctuations of interest rates. At 31 December 2016 interest rate risk attributable to the term loans of USD 210 million (BD: 79.2 million) (2015: USD 190 million, BD 71.6 million) has been hedged. The fair value changes of the interest rate swaps are recognised in equity (pages 12-13). The Group does not enter into derivative financial instruments other than for economic hedging purposes.

The unhedged portion of the floating rate borrowing is sensitive to changes in the interest rates. As at 31 December 2016 a change in variable rate financial instruments by 100 basis points will increase/ (decrease) net profits by BD 1,299 (2015: BD 994).

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.

	2016	2015
US Dollars	**149,813**	128,145

The Bahraini Dinar is effectively pegged to the US Dollar.

4. Financial risk management (continued)

d. 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, 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 has established a framework of policies and procedures to identify, assess, control, manage and report risks. The Group's risk management division employs clear internal policies and procedures to reduce the likelihood of any operational losses. Where appropriate, risk is mitigated by way of insurance.

e. 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 1.82 as at 31 December 2016 (2015:1.74).

5. 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**		**10 year to 20 years**		**Total**	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
ASSETS										
Cash and balances with banks	2,313	1,669	-	-	-	-	-	-	2,313	1,669
Loans and advances to customers	97,099	77,679	145,600	127,795	26,684	23,987	743	901	270,126	230,362
Trade receivables	8,642	8,066	-	-	-	-	-	-	8,642	8,066
	108,054	87,414	**145,600**	127,795	**26,684**	23,987	**743**	901	**281,081**	240,097
LIABILITIES										
Bank overdrafts	1,073	1,411	-	-	-	-	-	-	1,073	1,411
Trade and other payables	15,363	22,155	-	-	-	-	-	-	15,363	22,155
Bank term loans	79,149	31,250	91,055	98,595	-	-	-	-	170,204	129,845
Bonds issued	-	-	39,829	39,766	-	-	-	-	39,829	39,766
	95,585	54,816	**130,884**	138,361	**-**	-	**-**	-	**226,469**	193,177

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

6. USE OF ESTIMATES AND JUDGEMENTS

In the process of applying the Group's accounting policies management has made certain estimates and judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements. Actual results may differ from these estimates.

(i) Specific impairment charge on loans
Impairment losses are evaluated as described in accounting policy 3(e). The Group evaluates impairment on loans on an ongoing basis and a comprehensive review on a monthly basis to assess whether an impairment charge should be recognised in the profit or loss. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment charge required. In estimating these cash flows, management makes judgements about counterparty's financial situation and other means of settlement and the net realizable value of any underlying collateral. Such estimates are based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such impairment charges.

(ii) Collective impairment charge on loans
In addition to specific impairment charge against individually significant loans, the Group also maintains a collective impairment allowance against portfolios of loans with similar economic characteristics which have not been specifically identified as impaired. In assessing the need for collective impairment charge, management considers concentrations, credit quality, portfolio size and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical and current economic conditions.

(iii) Impairment allowance on trade receivables
The Group reviews the carrying amounts of the receivables at each reporting date to determine whether the receivables are impaired. Specific evaluation is made for each receivable balance and the recoverable amount is estimated based on past experience with each customer and estimated cash flows.

(iv) 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

(iii) Contingent liability arising from litigations
Due to the nature of its operations, the Group may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance.

(iv) Classification of derivatives financial instrument
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 IAS 39.

7. FAIR VALUE

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.

7. Fair value (continued)

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.

All financial assets of BD 281,081 (2015: BD 240,097) are categorised under ‘loans and receivables’ and are measured at amortised cost. All the financial liabilities of BD 223,336 (2015: BD 189,708) are measured at amortised cost except derivatives which are measured at fair value and categorised as at fair value through profit or loss.

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.

(i) 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 2016 is BD 313, are categorised under Level 2.

(ii) 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 and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised as at 31 December.

2016	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Total Carrying value**
Loans and advances to customers	-	-	270,126	270,126	270,126
Bank term loans	-	170,204	-	170,204	170,204
Bonds issued	-	39,829	-	39,829	39,829

2015	Level 1	Level 2	Level 3	Total fair value	Total Carrying value
Loans and advances to customers	-	-	230,362	230,362	230,362
Bank term loans	-	129,845	-	129,845	129,845
Bonds issued	-	39,766	-	39,766	39,766

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.

7. Fair value (continued)

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.

(iii) Non-financial assets not measured at fair value but where the fair value is disclosed
The fair value of the Group's investment property as at 31 December 2016 and 31 December 2015 has been arrived at on the basis of a valuation carried out on the respective dates. The fair value was determined based on market comparable approach that reflects recent transaction prices for similar properties. There has been no change to the valuation technique during the year.

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2016 are as follows:

2016	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Total Carrying value**
Investment properties	-	8,199	-	8,199	7,054

2015	Level 1	Level 2	Level 3	Total fair value	Total Carrying value
Investment properties	-	6,596	-	6,596	6,061

8. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2016	31 December 2015
Gross loans	279,141	237,346
Provision for impairment	(9,015)	(6,984)
Net loans and advances to customers	**270,126**	230,362

The table below shows the movements in allowances for loans and advances during the period:

Provision for impairment

	2016	2015
Specific allowance for impairment		
Balance at 1 January	689	521
Charge for the year	19	206
Loans written off, net of recoveries	(76)	(38)
Balance at 31 December	**632**	689
Collective allowance for impairment		
Balance at 1 January	6,295	4,518
Charge for the year	4,473	3,303
Loans written off, net of recoveries	(2,385)	(1,526)
Balance at 31 December	**8,383**	6,295
Total allowance for impairment	**9,015**	6,984

8. Loan and advances to customers (continued)

The Average effective interest rates on loans and advance to customer is 11.62% p.a. (2015: 11.01% p.a.).

9. TRADE RECEIVABLES

	31 December 2016	31 December 2015
Trade receivables	9,136	8,481
Provision for impairment	(494)	(415)
	8,642	8,066

Movement on impairment provisions	**2016**	2015
At 1 January	415	383
Net charge for the year	79	32
At 31 December	**494**	415

10. INVENTORIES

	31 December 2016	31 December 2015
Automotive stock:		
-Vehicles	20,014	21,174
-Spare parts	3,340	3,805
Land inventory	12,592	11,973
	35,946	36,952
Provision on vehicles and spare parts	(350)	(278)
	35,596	36,674

Movement on provisions (vehicle and spare parts)	**2016**	2015
At 1 January	278	375
Net charge for the year	79	109
Written off	(7)	(206)
At 31 December	**350**	278

During the year 2016, the Group purchased one plot of land with the objective of subdividing it into smaller plots for resale. The unsold plots at reporting date have been classified as an inventory and carried at the lower of cost and net realisable value.

11. INVESTMENT PROPERTIES

	2016	2015
Cost		
At 1 January	6,633	5,824
Purchases	1,446	1,843
Transfer from Inventories	444	-
Disposal	(693)	(1,034)
At 31 December	**7,830**	6,633
Accumulated depreciation		
At 1 January	572	462
Depreciation for the year	327	288
Disposal	(123)	(178)
At 31 December	**776**	572
Net book value		
At 31 December	**7,054**	6,061

The fair value of all the investment properties as at 31 December 2016 is BD 8,199 determined by an independent property valuer with the appropriate qualification and experience

12. PROPERTY AND EQUIPMENT

	Land and buildings	**Furniture, fixtures & equipment**	**Vehicles**	**Work in Progress**	**2016 Total**	2015 Total
Cost						
At 1 January	19,683	6,899	5,702	1,215	33,499	29,668
Additions	55	674	2,250	2,920	5,899	5,324
Transfer during the year	2,154	(134)	-	-	2,020	-
Disposals and retirements	-	(172)	(1,304)	-	(1,476)	(1,493)
At 31 December	**21,892**	**7,267**	**6,648**	**4,135**	**39,942**	33,499
Depreciation						
1 January	6,732	5,400	1,508	-	13,640	11,689
Charge for the year	863	630	1,105	-	2,598	2,444
Disposals and retirements	-	(124)	(596)	-	(720)	(493)
At 31 December	**7,595**	**5,906**	**2,017**	**-**	**15,518**	13,640
Net book value						
At 31 December 2016	**14,297**	**1,361**	**4,631**	**4,135**	**24,424**	19,859
At 31 December 2015	12,951	1,499	4,194	1,215		19,859

The cost of fully depreciated assets still in use at 31 December 2016 was BD 6,001 (2015: BD 5,699).

13. BANK TERM LOANS

	31 December 2016	31 December 2015
Repayable within one year	79,149	31,250
Repayable after one year	91,055	98,595
	170,204	129,845

Bank term loans 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 (note 4) was 4.4% p.a. (2015: 4.2% p.a.).

14. BONDS ISSUED

	31 December 2016	31 December 2015
Face value	39,981	39,981
Less: Unamortised cost of issue	(152)	(215)
	39,829	39,766

Movement on bonds during the year	**2016**	2015
At 1 January	39,981	39,981
Add: Issued during the year	-	-
At 31 December	**39,981**	39,981

On 26 December 2013, the Company issued 200,000 bonds with a face value of BD 100 each. The principal terms of the bonds issued are as follows:

Period:	Five years
Interest rate:	2.5% over BIBOR for 3 months deposit in Bahrain Dinars. Interest is payable three months in arrears from the date of issue.
Security:	Unsecured
Redemption:	26 December 2018

On 26 October 2014, the Company issued 106 bonds with a face value of USD 500,000 (BD: 188,500) each. The principal terms of the bonds issued are as follows:

Period:	Five years
Interest rate:	3.2% over LIBOR for 6 months. Interest is payable six months in arrears from the date of issue.
Security:	Unsecured
Redemption:	14 Oct 2019

15. SHARE CAPITAL

	31 December 2016	31 December 2015
Authorised share capital		
500,000,000 (2015: 500,000,000) shares of 100 fils each	**50,000**	50,000

	2016	2015
Issued and fully paid		
163,350,000 (2015:163,350,000) shares of 100 fils each		
At 1 January	16,335	16,335
At 31 December	**16,335**	16,335
Treasury shares 2,206,891 shares (2015: 2,206,891 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	50,532,033	30.93%
BBK BSC	Bahrain	37,618,691	23.03%
National Bank of Bahrain	Bahrain	18,328,620	11.22%

* Shareholding under Social Insurance Organisation represents holding of shares by Social Insurance Organisation (GOSI) and Social Insurance Organisation (Pension).

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.

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

Categories*	**Number of Shares**	**Number of shareholders**	**% of total issued shares**
Less than 1%	36,388,928	1,289	22.27%
1% up to less than 5%**	20,481,728	8	12.54%
5% up to less than 10%	-	-	-
10% up to less than 20%	18,328,620	1	11.22%
20% up to less than 50%	88,150,724	2	53.97%
Total	**163,350,000**	**1,300**	**100.00%**

* Expressed as a percentage of total issued and fully paid shares of the Company
** Includes 2,206,891 treasury shares

16. FEE AND COMMISSION INCOME

	2016	2015
Loan administration and other credit card related fees	7,192	5,604
Insurance commission income	1,309	1,191
	8,501	6,795

17. OTHER INCOME

	2016	2015
Incentives from automotive principal	569	573
Gain on sale of investment property	252	431
Foreign exchange gains	89	46
Other income	43	96
	953	1,146

18. OTHER OPERATING EXPENSES

	2016	2015
General and administration costs	5,360	4,901
Depreciation	2,187	2,136
Selling and promotion costs	1,946	1,492
Impairment provision for inventory	79	100
Automotive finance cost	455	294
	10,027	8,923

19. 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.

20. SEGMENTAL INFORMATION

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

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

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 2016 or 2015. The following table presents income and profit and certain asset and liability information regarding the Group's operating segments.

20. Segmental information (continued)

At 31 December	Lending		Automotive		Real estate		Insurance		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Operating income	**29,020**	23,442	**6,758**	7,646	**3,309**	2,508	**1,309**	1,191	**40,396**	34,787
Inter segment revenue	74	86	471	159	-	-	234	222	780	467
Operating costs	(10,276)	(8,300)	(5,233)	(5,584)	(487)	(227)	(463)	(403)	(16,459)	(14,514)
Impairment, net of recoveries	(3,845)	(2,825)	(182)	(39)	-	-	-	-	(4,027)	(2,864)
Inter segment expenses	(471)	(159)	(110)	(120)	(198)	(188)	-	-	(780)	(467)
Profit for the year	**14,502**	12,244	**1,704**	2,062	**2,624**	2,093	**1,080**	1,010	**19,910**	17,409
Assets (Liabilities)										
Cash and balances with banks	1,418	870	544	503	184	28	167	268	2,313	1,669
Loans and advances to customers	269,886	229,964	240	398	-	-	-	-	270,126	230,362
Trade and other receivables	119	-	7,964	7,413	22	4	537	649	8,642	8,066
Intercompany balances	13,136	6,057	(8,182)	(521)	(8,289)	(8,239)	3,335	2,703	-	-
Inventories	-	-	23,004	24,701	12,592	11,973	-	-	35,596	36,674
Investment properties	-	-	-	-	7,054	6,061	-	-	7,054	6,061
Property and equipment	7,389	4,602	17,035	15,257	-	-	-	-	24,424	19,859
Other assets	518	129	2,089	1,777	-	-	-	-	2,607	1,906
Overdrafts	(1,073)	(1,411)	-	-	-	-	-	-	(1,073)	(1,411)
Trade and other payables	(9,692)	(9,817)	(5,329)	(10,946)	(51)	(939)	(291)	(453)	(15,363)	(22,155)
Bonds	(39,829)	(39,766)	-	-	-	-	-	-	(39,829)	(39,766)
Bank term loans	(167,481)	(123,101)	(2,723)	(6,744)	-	-	-	-	(170,204)	(129,845)
Equity	**(74,391)**	(67,527)	**(34,642)**	(31,838)	**(11,512)**	(8,888)	**(3,748)**	(3,167)	**(124,293)**	(111,420)
Capital expenditure	**3,038**	1,636	**4,881**	3,688	-	-	-	-	**7,919**	5,324
Depreciation charge for the property and equipment	**250**	191	**1,937**	2,253	**-**	-	**-**	-	**2,187**	2,444

21. TRANSACTIONS WITH RELATED AND ASSOCIATED PARTIES

The Group has banking relationships and obtains term borrowings and has unutilized credit facilities with certain of its shareholders. All such transactions are in the ordinary course of business and on commercial terms.

	2016	2015
Shareholders:		
As at 31 December		
Term loans	27,810	17,848
Bank overdrafts	1,073	1,411
Bank balances	893	863
For the year ended 31 December		
Interest expense	1,097	1,531

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 Senior Vice Presidents and the General Managers.

	2016	2015
For the year ended 31 December		
Salaries and short term employee benefits	1,184	1,041
Directors remuneration and attendance fees	527	506
Credit card receivables	19	15

No impairment losses have been recorded against balances outstanding during the period with related parties, and no specific allowance has been made for impairment losses on balances with related parties at the year end.

22. RETIREMENT BENEFITS COST

The Group's contributions in respect of Bahraini employees for the year amounted to BD 684 (2015: BD 715). The Group's provision for expatriate employees' leaving indemnities at 31 December 2016 was BD 876 (2015: BD 1,136). The Group employed 746 staff at 31 December 2016 (2015: 757).

As at 31 December 2016, the total liability of the Group to its employees under Saving Plan was BD 1,389 (2015: BD 1,140).

23. 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:

	2016	2015
Profit for the year	19,910	17,409
Weighted average number of equity shares (in 000's)	161,143	161,143
Basic earnings per share	**124 fils**	108 fils

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

24. OUTSTANDING COMMITMENTS

As at reporting date, the Group has contingent liabilities for standby letters of credit issued in the normal course amounting to BD 10,381 (2015: BD 11,346) and unutilised credit limits of BD 21,303, (2015: BD 14,911) to its customers.

The Group's capital commitment for the construction of a Company's new office is BD 729 as at 31 December 2016.

25. PROPOSED APPROPRIATIONS

The board of directors has proposed the following appropriations for 2016. These appropriations are subject to approval by the shareholders at the Annual General Meeting.

	2016	2015
Proposed dividends	8,057	7,251
Donations	300	300
General reserve	1,500	1,500
	9,857	9,051

26. COMPARATIVES

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